

4 August 2011

## **LIBERTY HOLDINGS ANNOUNCES STRONG INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011**

*Liberty has delivered good operational and financial performance in the first half of 2011, with the delivery of quality, sustainable value remaining the key focus for the group*

### **Salient Features**

- Operational strategies delivering on objectives and generating value across the Group
- Core South African insurance operation delivering real progress, with policyholder retention objectives successfully achieved and new business sales and margins improving.
- Balance-sheet management continues to provide positive results for policyholders and shareholders
- New STANLIB operating model delivering early wins, including a positive impact on investment performance
- Growth cluster on track to business case, in particular Africa operations which are now contributing positively to bottom line earnings.

### **Financial Summary**

- BEE normalised headline earnings of R1,180 million up 17.2%
- BEE normalised group equity value per share of R93.79 (31 December 2010: R91.01)
- Capital adequacy cover remains strong at 2.88 times statutory requirements
- Total indexed sales from Retail Channels of R2.7 billion, up 10% on 2010
- Capital reduction out of share premium of 182 cents per ordinary share in lieu of an interim dividend in terms of a new dividend policy.

**Commenting on the results Liberty CEO, Bruce Hemphill said:** “The first six months of 2011 have continued to demonstrate that the key operational strategies implemented over the past two years are achieving their objectives. In particular, in the Retail Insurance business the persistency turnaround is now well entrenched, and has served as a springboard for the delivery of quality and sustainable value for customers, that will serve us well into the future. Sales from our retail channels have made a good recovery from the 2010 performance and it is pleasing to see increased support from our broker channels. The new multi-specialist operating model in STANLIB is demonstrating early wins, with strong performance across the majority of funds. LibFin continues to serve the business well in volatile market conditions, providing returns in excess of benchmark.”

**He added:** “Within our growth cluster, aimed at diversifying Liberty’s geographical spread and client and product base we have seen good results from Africa this year, with headline earnings substantially exceeding targets, as well as healthy growth in Liberty Health’s risk sales. Our new direct insurance operation Frank.net continues to progress well, while our bancassurance agreement with Standard Bank continues to deliver significant value to both parties.”

### **OPERATIONAL OVERVIEW**

#### **Strengthening the insurance business**

##### **RETAIL SA**

The improvement in policyholder retention has been sustained and is now an integral part of Liberty’s business as usual practice. Significant developments in products and distribution have taken place. A revised set of risk products have been launched with both enhanced and innovative benefit designs. The Financial Intermediary Association recently recognised Liberty’s flagship risk product “Lifestyle Protector” as the best product in the long term insurance risk product category. We have implemented a new value proposition to financial advisors which recognises the important balance between persistency, book size and quality of new business. Further initiatives in sales and distribution are planned. Management continues to focus on cost containment and is confident that these actions will lead to better quality sales and achieve the critical objective of improving the value of new business and new business margin.

The considerable improvement in persistency and improved mortality claims experience helped increase indexed new business (excluding contractual increases) by 6.4% to R1.976 million (2010: R1.857 million).

Excluding entry level market indexed new business increased by 11%. Good growth was recorded in retirement savings products, credit life and guaranteed capital bonds. The new business margin improved to 1.5% from the 1.3% achieved in 2010. Net cash flows were positive at R1.408 million for the period (2010: R418 million). This followed an increase in single premiums of 15.7% and a relatively low increase of 1.2% in claims and withdrawals. Policy service costs are within acceptable levels.

## **INSTITUTIONAL CLUSTER**

### **STANLIB**

Progress has been made at STANLIB in embedding the operating model of the multi-specialist franchise system. The majority of funds are reflecting improved investment performance and there have been increased cash flows into non-money market products. The Balanced Fund performance moved to the top quartile for the one and two year rolling period to June 2011. STANLIB will continue to entrench investment processes and disciplines to ensure short term improvements in investment performance are sustained over the longer term.

STANLIB's headline earnings of R190 million (2010: R164 million) are reflective of higher average assets under management and improved performance fees. STANLIB net cash outflows (excluding inter group flows) for the period were R1.1 billion (2010: net inflow R6.5 billion). As anticipated, the gradual increase in appetite for higher risk assets led to a net outflow in money market funds of R2.9 billion. Positive flows totalling R1.8 billion were achieved across the other portfolios. As a result total assets under management (including inter-company life funds) were maintained at R355 billion.

### **Corporate**

Liberty Corporate continues to improve cost efficiencies and product development. Management is in the process of revising the strategy for this business in light of the anticipated changes in consumer needs, tax regulations and the SA Government's implementation of its widely debated retirement reform policies. Corporate earnings of R47 million are lower compared to 2010 (R65 million). A 6.9% increase in indexed new business was achieved. In a challenging market net cash outflows for the period were R323 million, however these are improved from the equivalent 2010 net outflow of R742 million.

### **Properties**

Liberty Properties continues to return excellent investment performance on the policyholder property portfolio, as evidenced by 27 consecutive years of double digit returns. We recently secured a property asset management contract in Botswana and our property development activities have been extended to the successful execution of externally owned property development mandates in Zambia and Swaziland. This is in addition to the successful delivery of extensive developments at the Group's flagship Eastgate and Sandton City shopping centre complexes. Liberty Properties' earnings after taxation increased to R44 million, driven mostly by increased property development fees.

## **DIVERSIFICATION AND GROWTH CLUSTER**

### **Africa**

The acquisition of a 57% shareholding in CfC Insurance Holdings Limited (CfC) for R199 million was completed and was effective 1 April 2011. CfC is an established short and long term insurer, based in East Africa and listed on the Nairobi Stock Exchange. The estimated operational results for CfC's half year are satisfactory with growth in earnings and new business. CfC contributed R6 million to the group's headline earnings for the three months since acquisition.

Liberty Africa's asset management operations continued to attract positive net cash inflows of R1.1 billion for the period (2010: R5.3 billion) bringing assets under management to R30.7 billion. Attributable headline earnings of R16 million are substantially up (2010: R2 million) reflecting the CfC contribution as well as the pleasing improvement in overall cost control and asset management fees.

### **Health**

Progress has been made in addressing Liberty Health's operational challenges and pleasing growth in sales of our flagship medical expense risk products throughout Africa have been achieved, with the in-force book now at 59 000 lives (December 2010: 33 000). The rate of membership attrition in the SA business has slowed and cost management has improved. Health management continues to focus on improving margins through reduced costs and improved pricing for risk.

### **Frank.net**

Frank.net, which commenced business in November 2010 provides simple life cover products through an alternative direct distribution channel, Additional product offerings will soon be launched.

### **Bancassurance**

Liberty has benefitted significantly from the commercial bancassurance joint venture relationship with Standard Bank and the recently agreed revised terms broaden the available distribution channels, product sets and geographies. Plans are well advanced to implement joint strategies that will optimise growth opportunities to the benefit of both joint venture parties. The governance forums and agreements around the joint venture are overseen by both management and Liberty's independent directors.

## **BUILDING EXCELLENCE IN CAPITAL AND BALANCE SHEET MANAGEMENT**

### **LibFin**

LibFin continues to deliver its mandate to manage risk on the balance sheet. Over the period under review, the low-risk shareholder investment portfolio returned 2.7% pre taxation reflecting the low investment return environment. However, the return was ahead of benchmark and demonstrated Libfin's ability to manage within prescribed risk limits. LibFin Markets continued to improve its ability to manage market risk exposures to a narrow net range of exposure. Headline earnings of R70 million flowed mainly from improving credit margins on assets backing annuities and guaranteed capital bonds. LibFin is placing increased emphasis on the support of investment product design for the insurance business.

## **FINANCIAL OVERVIEW**

Strong operational earnings from the group's core operations, namely Retail SA and STANLIB, have resulted in an increase in the group's BEE normalised headline earnings to R1.180 million, 17.2% up on the 2010 comparative period.

Total assets under group management are R449 billion.

BEE normalised headline earnings per ordinary share are 412.5 cents (2010: 351.9 cents).

The BEE normalised group equity value per share at 30 June 2011 is R93.79 compared to R91.01 at 31 December 2010. Positive operating variances, the removal of the allowance for STC following tax legislation announcements, and the improvements in core operations, more than offset the final dividend of R832 million paid in April 2011.

The capital adequacy cover of Liberty Group Limited remains strong at 2.88 times the statutory requirement (31 December 2010: 2.67 times). All the group subsidiary life licences are well capitalised.

The directors have reviewed the group's existing dividend policy and decided to replace it with a new dividend policy which is as follows:

The group's dividend is set with reference to underlying core operating earnings taking cognisance of the need to i) balance capital and legislative requirements, ii) retain earnings and cash flows to support future growth, and iii) provide a sustainable dividend for shareholders. Subject to the consideration of the above, the targeted dividend cover based on underlying core operating earnings is between 2.0 and 2.5 times. The interim dividend is targeted as 40% of the previous year's full dividend.

In terms of the general authority granted to the directors at the 2011 annual general meeting, the directors have approved a capital reduction out of share premium of 182 cents per ordinary share in lieu of an interim dividend. This is in accordance with the new dividend policy and is 40% of the 2010 full distribution.

The impact of the capital reduction on the company as at 30 June 2011 is a reduction of share premium attributable to ordinary shareholders and cash and cash equivalents of R521 million.

## **PROSPECTS**

Ongoing volatility in the South African investment market, in which the group mainly operates, will continue to affect the returns achieved on the shareholders' investment portfolio. However, the group's improved balance sheet management process coupled with the enhancements in the core operating businesses should help mitigate some of this impact. Our focus remains on increasing new business sales and margins, delivering the business case within our growth cluster, as well as continuing delivery of superior investment returns in our asset management business

### **Concluding, Bruce Hemphill CEO said:**

"Liberty had a good first half, with all major initiatives on track. Liberty Retail SA has successfully resolved the persistency and entry level market issues, and is delivering improved sales growth. Libfin is delivering excellence in the management of the balance sheet, STANLIB's new operating model is delivering improved investment performance, Properties continues to deliver excellent returns for policyholders and our growth and diversification cluster is on course to help Liberty tap into the potential of new markets. Overall Liberty is well positioned to further strengthen the core businesses and grow market share, whilst continuing delivery of its long-term growth and diversification objectives."