

# Liberty Holdings Limited

## Interim results

For the six months ended 30 June 2011



LIBERTY

*Own your life*

# Strategic highlights

Strengthen the insurance business

Excellence in balance sheet management

Diversification

- Persistency objectives achieved
- Sales and margins moving in the right direction
- Product receiving industry recognition for quality and delivery from financial advisers
- Market first risk benefits launched
- Reduced balance sheet exposure to volatility
- SIP ahead of benchmark
- STANLIB operating model being implemented and strong investment performance in key funds
- Africa, Health, Frank.net gaining traction

Quality and sustainability underpinning strong first half financial performance; interim dividend increased

# ■ Financial review

Casper Troskie



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## Group financial summary – half year

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
BEE normalised headline earnings	<b>1 180</b>	1 007	17
BEE normalised group equity value per share (R)	<b>93.79</b>	84.62	11
Value of long-term insurance new business	<b>144</b>	115	25
Indexed long-term insurance new business	<b>2 289</b>	2 135	7
Net customer cash flows	<b>1 127</b>	11 468	(90)
LGL CAR cover (times covered)	<b>2.88</b>	2.79	3
Interim capital reduction distribution (cents per share)	<b>182</b>	164	11
BEE normalised RoGEV (%) <sup>1</sup>	<b>13.0</b>	7.8	67
BEE normalised RoE (%) <sup>1</sup>	<b>18.1</b>	17.1	6

## Business unit BEE normalised headline earnings

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
Retail SA	650	472	38
Corporate	47	65	(28)
LibFin Investments	275	164	68
LibFin Markets	70	194	(64)
STANLIB	190	164	16
Liberty Properties	44	43	2
Liberty Africa	16	2	>100
Liberty Health	(10)	(11)	9
Frank.net	(18)	(14)	(29)
Centre	(84)	(72)	(17)
<b>BEE normalised headline earnings</b>	<b>1 180</b>	<b>1 007</b>	<b>17</b>
BEE normalised headline earnings per share (cents)	<b>412.4</b>	351.9	17

## Changes in key assumptions

- Risk discount rate increased 30bps to 11.37% (Dec 10: 11.07%)
- Strengthening of certain annuitant mortality assumptions ((R122m) earnings and (R5m) VIF impact)
- An improved estimate of the illiquidity premium of annuity and guaranteed investment products (R135m earnings and (R80m) VIF impact)
- Business and policy changes positively impacted Retail SA value of new business
- No material persistency or expense assumption changes

## Sources of BEE normalised group equity value profit

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
Value of long-term insurance new business	144	115	25
Expected return on SA covered business	825	749	10
Variances/changes in operating assumptions	265	110	>100
Headline earnings of other businesses	222	184	21
<b>Operational equity value earnings</b>	<b>1 456</b>	<b>1 158</b>	<b>26</b>
Investment return on net worth and investment variances	(122)	(277)	56
Changes in economic assumptions - SA covered business	(115)	38	(>100)
Increase in fair value adjustment on value of other businesses	209	163	28
Change in STC allowance	257	(72)	>100
Other movements	(48)	(89)	46
<b>Group equity value earnings</b>	<b>1 637</b>	<b>921</b>	<b>78</b>
RoGEV - annualised return (%)	13.0	7.8	67

## Retail SA Insurance – headline earnings

Rm	Jun 11	Jun 10	% Δ
Expected profit	840	787	7
Variances and assumption changes	207	(227)	>100
Premium escalations	171	161	6
New business strain	(230)	(215)	(7)
Non-recurring and other non CPP expenses	(101)	(65)	(55)
Other	(60)	46	(>100)
Taxation	(198)	(55)	(>100)
<b>Earnings before bancassurance</b>	<b>629</b>	<b>432</b>	<b>46</b>
Liberty share of credit life bancassurance (net of all taxes)	58	55	5
Complex bancassurance preference dividend including STC <sup>1</sup>	(37)	(15)	(>100)
<b>Headline earnings</b>	<b>650</b>	<b>472</b>	<b>38</b>

1. Represents the payment to Standard Bank in respect of complex business in which the bank shares 50% of cumulative embedded value earnings



## Retail SA Insurance – key performance measures

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
Gross sales	6 903	6 048	14
Indexed new business	1 976	1 857	6
Net customer cash flows	1 408	418	>100
Value of new business <sup>1</sup>	134	105	28
New business margin (%)	1.5	1.3	15
%	Jun 11	Jun 10	
Margin at beginning of the year	1.3	1.5	
Impact of economic changes	-	0.3	
Impact of costs, business and policy changes	0.2	(0.6)	
Other	-	0.1	
<b>Margin at end of the period</b>	<b>1.5</b>	<b>1.3</b>	

## LibFin – headline earnings

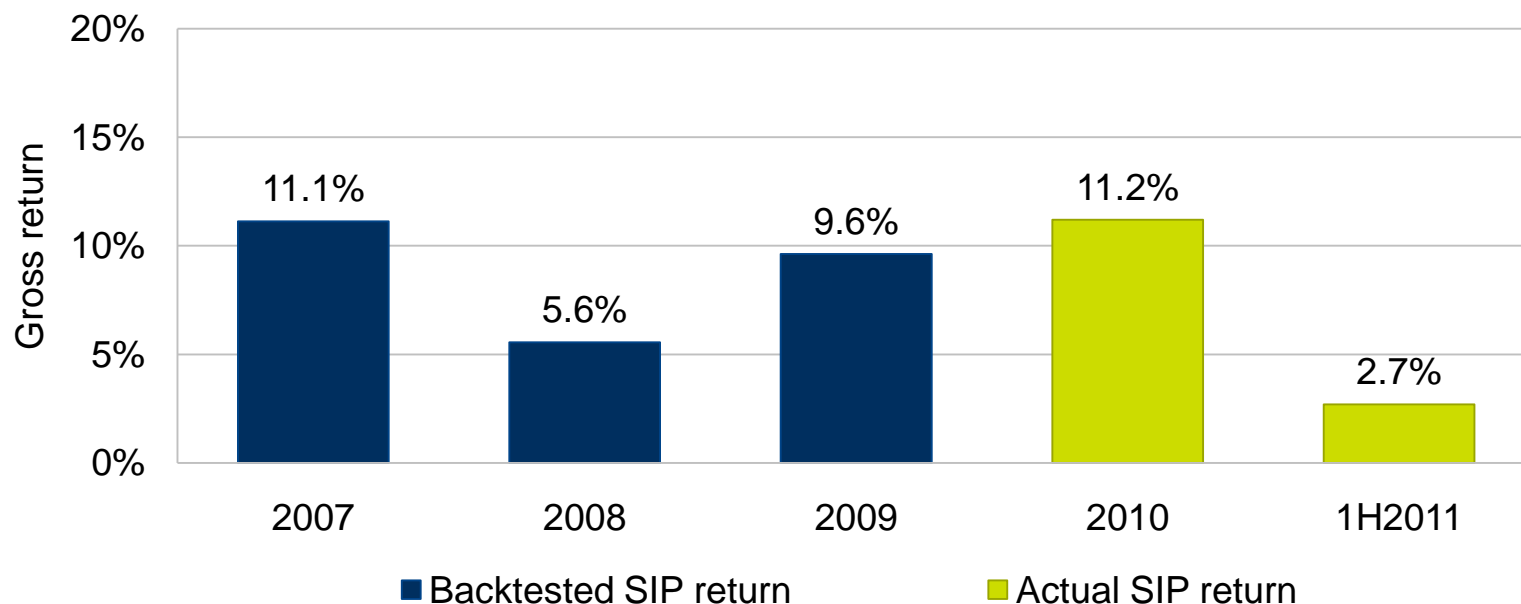
Rm	Jun 11	Jun 10	% Δ
LibFin			
LibFin Investments	275	164	68
LibFin Markets	70	194	(64)
<b>Total</b>	<b>345</b>	<b>358</b>	<b>(4)</b>

## LibFin – Shareholders’ Investment Portfolio

Rm	Jun 11	%	Dec 10	%
Local equities	2 943	17	3 952	23
Local bonds	4 147	23	4 053	23
Local cash	3 435	19	3 445	20
Local preference shares	1 595	9	1 617	9
Local property	2 222	13	1 654	10
Foreign assets <sup>1</sup>	3 437	19	2 606	15
<b>Total</b>	<b>17 779</b>	<b>100</b>	<b>17 327</b>	<b>100</b>
Assets backing capital	9 341	53	9 043	52
Assets backing life funds	4 698	26	4 457	26
90:10 exposure	3 740	21	3 827	22

1. The 4% increase in the foreign asset allocation has been predominantly in respect of foreign equities

## LibFin: illustrative and actual return on Shareholders' Investment Portfolio



Selection of indices	Gross return (%)				
	2007	2008	2009	2010	1H2011
SWIX	18.1	(21.7)	29.9	20.9	<b>0.6</b>
ALBI	4.2	17.0	(1.0)	15.0	<b>2.2</b>
STEFI	9.4	11.7	9.1	6.9	<b>2.8</b>
R/\$ exchange	3.5	(26.6)	(26.4)	11.6	<b>2.1</b>

## Liberty Corporate – headline earnings

Rm	Jun 11	Jun 10	% Δ
Gross contribution	400	400	-
Underwriting margin	173	165	5
Fee income	200	182	10
Pension businesses and other income	27	53	(49)
Expenses	(306)	(281)	(9)
Amortisation of previously acquired business	(29)	(29)	-
Pre-tax operating profit	65	90	(28)
Taxation	(18)	(25)	28
<b>Headline earnings</b>	<b>47</b>	<b>65</b>	<b>(28)</b>

## Liberty Corporate – key performance measures

<i>Rm (unless stated otherwise)</i>	<b>Jun 11</b>	Jun 10	% Δ
Gross sales	<b>644</b>	676	(5)
Indexed new business	<b>264</b>	247	7
Net customer cash flows	<b>(323)</b>	(742)	56
Value of new business	<b>(7)</b>	1	(>100)
New business margin (%)	<b>(0.3)</b>	0.1	(>100)

## STANLIB – headline earnings

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
Net fee income	577	520	11
Base fees	566	529	7
Performance fees	11	(9)	>100
Operating expenses	(336)	(316)	(6)
Profit before investment income	241	204	18
Other income	17	20	(15)
Preference dividends	-	(2)	
Pre-tax profit	258	222	16
Taxation	(68)	(59)	(15)
Headline earnings	190	163	17
<b>Attributable to Liberty</b>	<b>190</b>	<b>164</b>	<b>16</b>
Headline earnings	190	163	17
Preference shares	-	1	
Cost to income ratio (%)	56.6	58.5	3

## STANLIB – key performance measures

Rm – net client cash flows <sup>1</sup>	Jun 11	Jun 10	% Δ
<b>Retail</b>	<b>3 481</b>	2 723	28
Collective investments	<b>1 938</b>	324	>100
LISP	<b>1 330</b>	991	34
Multi-manager	<b>909</b>	(186)	>100
Money Market	<b>(696)</b>	1 594	(>100)
<b>Institutional</b>	<b>(4 593)</b>	3 727	(>100)
Segregated funds	<b>(3 280)</b>	(7 546)	57
Multi-manager	<b>924</b>	1 563	(41)
Money Market	<b>(2 237)</b>	9 710	(>100)
<b>Total</b>	<b>(1 112)</b>	<b>6 450</b>	<b>(&gt;100)</b>



## STANLIB – key performance measures

Rm – assets under management (AUM)	Jun 11	Dec 10	% Δ
Retail	145 494	146 618	(1)
Institutional	93 697	86 076	9
Liberty intergroup	115 895	122 478	(5)
<b>Total</b>	<b>355 086</b>	<b>355 172</b>	-
Average AUM	359 904	331 214	9
Average margin (%)	0.32	0.31	3
Movement	(86)	37 335	(>100)
Net cash flows - external	(1 112)	15 699	(>100)
- Liberty intergroup	(9 454)	(4 884)	(94)
Market movement	10 480	26 520	(60)

## Liberty Properties – headline earnings

Rm	Jun 11	Jun 10	% Δ
Gross profit	123	105	17
Property management	69	62	11
Asset and hotel management	21	19	11
Property development	33	24	38
Investment and other income	3	3	-
Operating expenses	(71)	(55)	(29)
Pre-tax operating profit	55	53	4
Taxation	(15)	(15)	-
Headline earnings	40	38	5
Fountainhead (net of taxation)	4	5	(20)
<b>Total headline earnings</b>	<b>44</b>	<b>43</b>	<b>2</b>

## Liberty Africa – headline earnings

Rm	Jun 11	Jun 10	% Δ
Headline earnings before acquisition amortisation	45	18	>100
Amortisation of acquisition intangibles under IFRS	(10)	(8)	(25)
Headline earnings	34	10	>100
<b>Attributable to Liberty<sup>1</sup></b>	<b>16</b>	<b>2</b>	<b>&gt;100</b>
Long-term insurance	9	4	>100
Short-term insurance	3	-	
Asset management	11	3	>100
Health	1	1	-
Amortisation of acquisition intangibles under IFRS	(8)	(6)	(33)

1. Includes contribution from CfC of R6 million

## Liberty Africa – key performance measures

Rm ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
<b>Asset management</b>			
Net cash flows	<b>1 070</b>	5 283	(80)
Assets under management	<b>30 743</b>	28 629	7
<b>Insurance operations</b>			
Long-term			
Indexed new business	<b>36</b>	31	16
Net cash flows	<b>82</b>	55	49
Short-term			
Premiums	<b>62</b>	n/a	
Claims loss ratio (%)	<b>55</b>	n/a	

## Liberty Health – earnings

Rm	Jun 11	Jun 10	% Δ
Revenue	270	253	7
Operating expenses	(266)	(245)	(9)
Indirect costs	(66)	(54)	(22)
Direct costs	(200)	(191)	(5)
EBITDA	4	8	(50)
Amortisation and depreciation	(17)	(17)	-
Operating loss	(13)	(9)	(44)
<b>Headline earnings attributable to Liberty</b>	<b>(10)</b>	<b>(11)</b>	<b>9</b>
Headline loss	(4)	(6)	33
Tax differential on intergroup interest	(6)	(5)	(20)

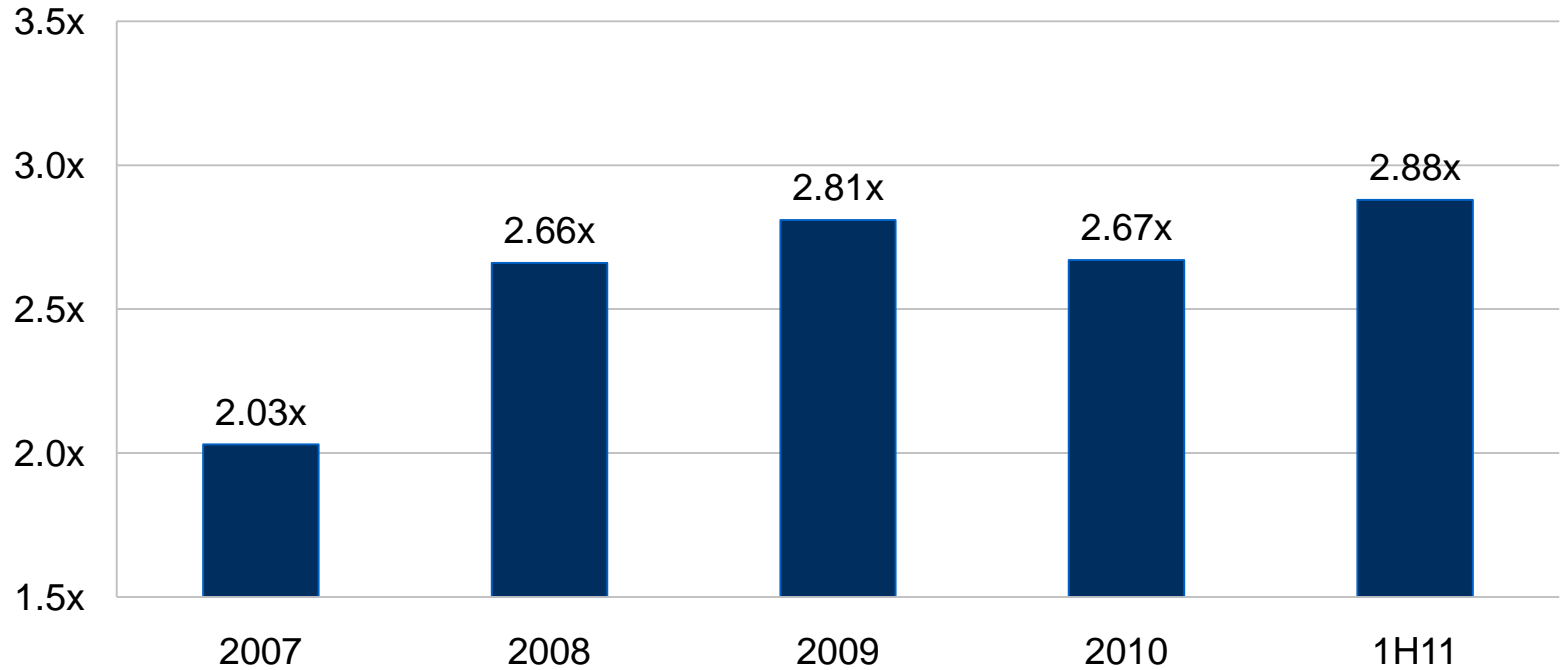
## Liberty Health – key performance measures

Thousands ( <i>unless stated otherwise</i> )	Jun 11	Jun 10	% Δ
Risk claims loss ratio – Africa (%)	92	97	5
Risk lives – Africa	59	26	>100
Administration lives	515	561	(8)
South Africa	229	299	(23)
Africa	54	36	50
Africa subsidiaries/joint ventures	232	226	3
IT lives	1 081	1 101	(2)
South Africa	621	681	(9)
Africa	460	420	9

## Centre

Rm	Jun 11	Jun 10	% Δ
Shareholder expenses and sundry income	(104)	(109)	5
BEE preference shares income	34	39	(13)
Development expenses	(14)	(2)	(>100)
<b>Total</b>	<b>(84)</b>	<b>(72)</b>	<b>(17)</b>

## Liberty Group Limited CAR cover



LGL TCAR	3 510	3 020*	2 542*	2 532	2 546*
LGL OCAR	4 102*	2 204	2 413	2 688*	2 404

\* Applicable CAR



## Distributions

Per cycle – cents per share	2011	2010
Interim	182	164
Final	n/a	291
<b>Total</b>	<b>n/a</b>	<b>455</b>

## Dividend policy

The group's dividend is set with reference to underlying core operating earnings, taking cognisance of the need to

- Balance capital and legislative requirements
- Retain earnings and cash flows to support future growth
- 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

## Solvency II, SAM and IFRS 4 developments

Liberty is well positioned to meet emerging SAM requirements

- Capabilities based detailed gap analysis completed
- Existing initiatives in data management and models very well advanced and aligned to new requirements
- Investments in market and credit risk management capability (LibFin) provide an advantage
- Participating in SA QIS 1
- Economic capital models recalibrated and updated; comfortable with resulting capital position

IFRS 4

- Revised standard postponed to 2012
- Effective date no earlier than 1 January 2015
- Considerable debate and uncertainty remain on key aspects (residual margin, transition, unbundling, disclosure)
- Unable to determine impact to Liberty at this stage

# Financial performance dashboard

## Earnings

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Operational earnings



Shareholders' Investment Portfolio



Insurance sales, new business strain



Assets under management



Dividends

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## Group equity value

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Expected return  $\pm$  variances,  
assumption changes



Return on NAV, investment variances,  
economic assumption changes



Value of new business



Value of non-life subsidiaries

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# ■ Business review

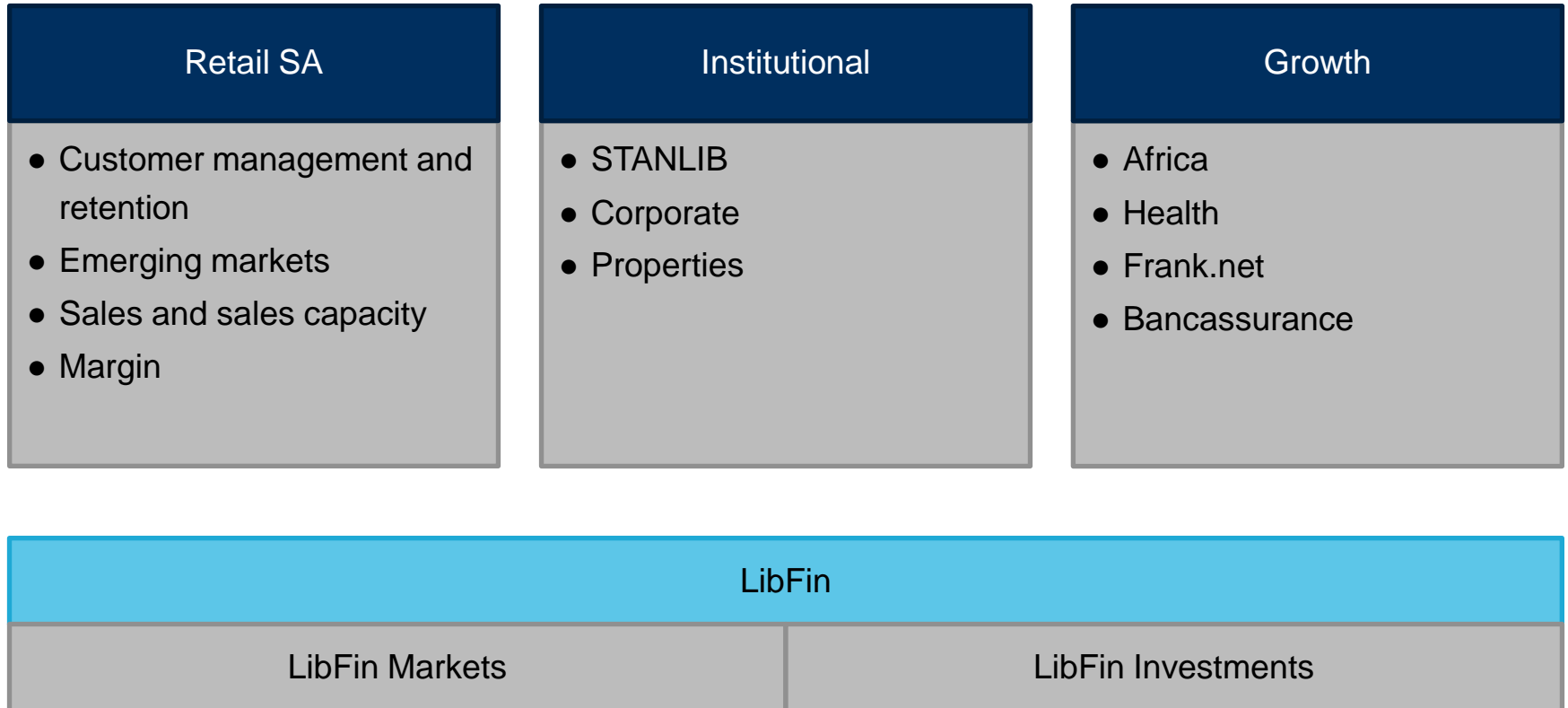
Bruce Hemphill



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# Business review



## Business review – Retail SA

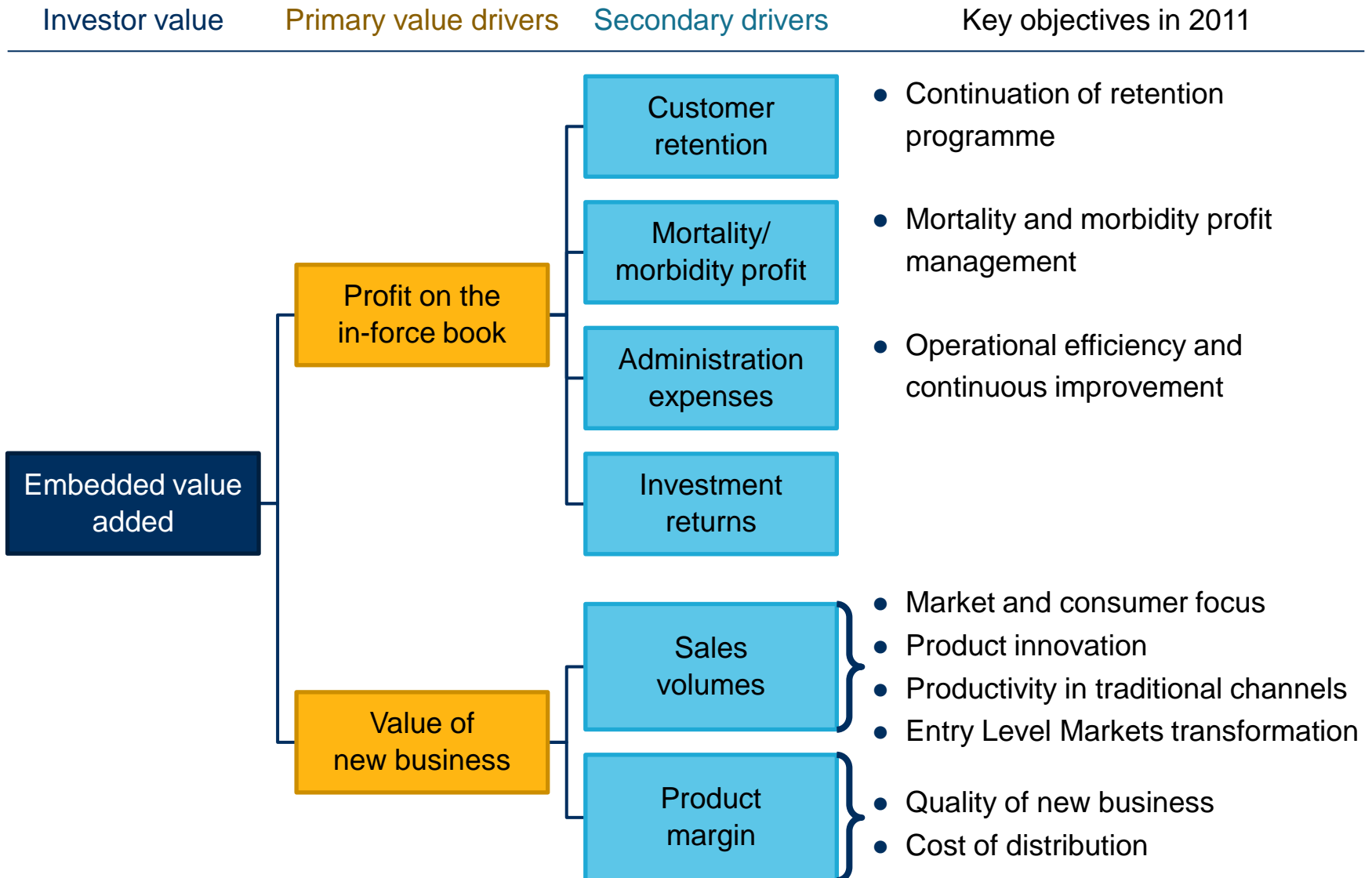
### Retail SA

- Customer management and retention
- Emerging markets
- Sales and sales capacity
- Margin

### Providing quality and value for customers

- Largest market share of risk new business sales since 2004
- Lifestyle Protector further strengthened by the addition of market first benefits in 1H2011
- Voted best risk product provider in South Africa by the FIA, represented by over 15 000 licensed financial advisers
- Trusted to pay claims – over R2bn paid in risk claims in 1H2011
- Broadest range of investment product guarantees and one of the largest providers of unlisted property investments in South Africa

# Retail SA – key objectives are aligned to shareholder value creation



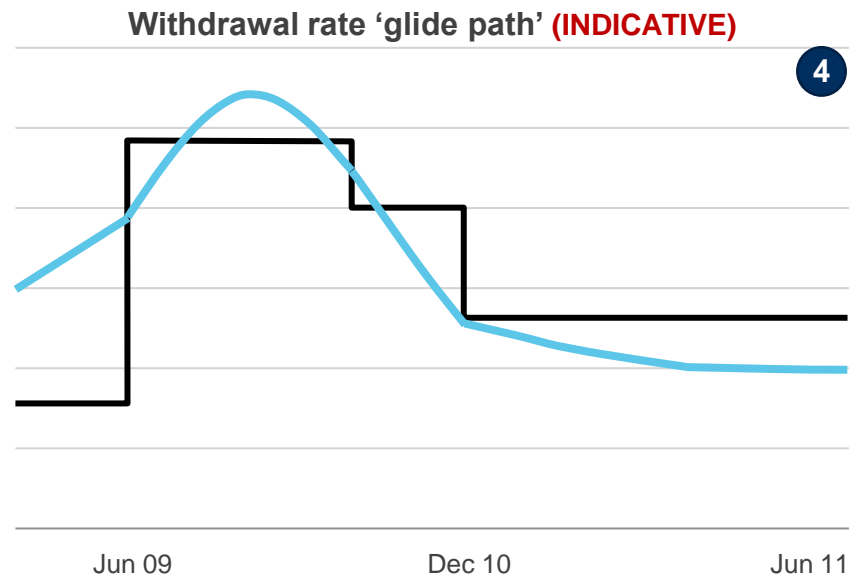
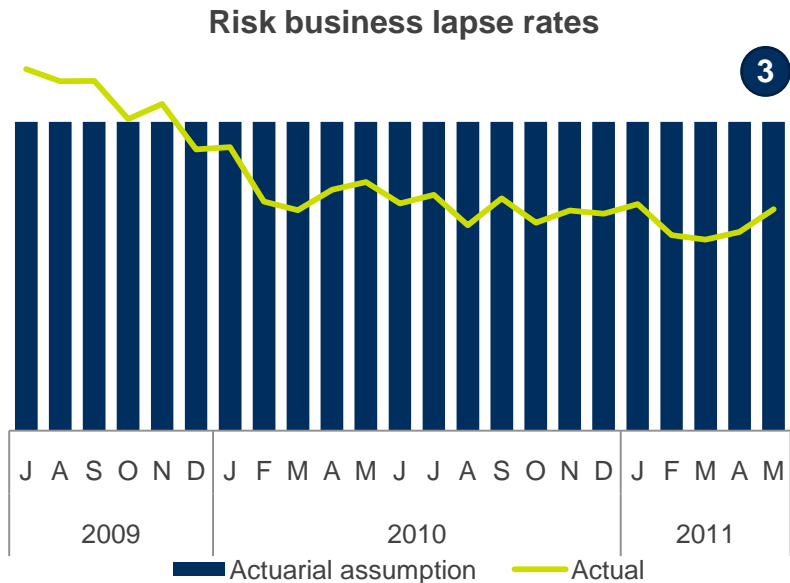
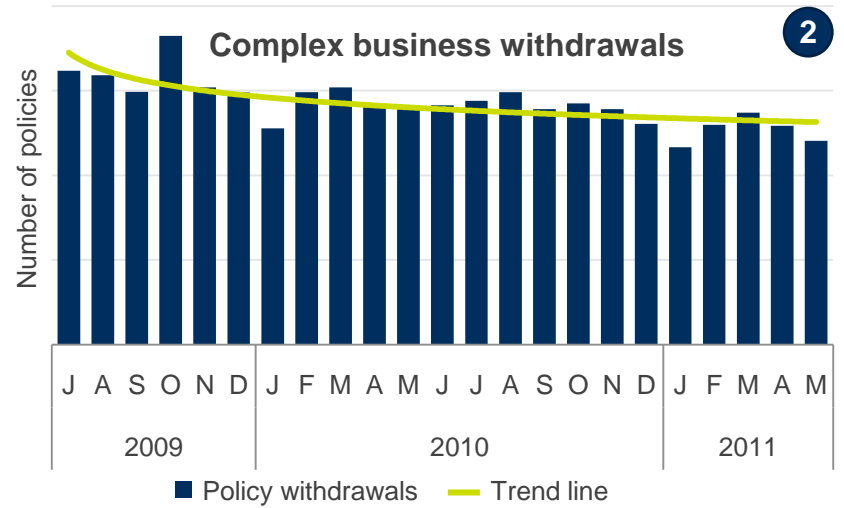
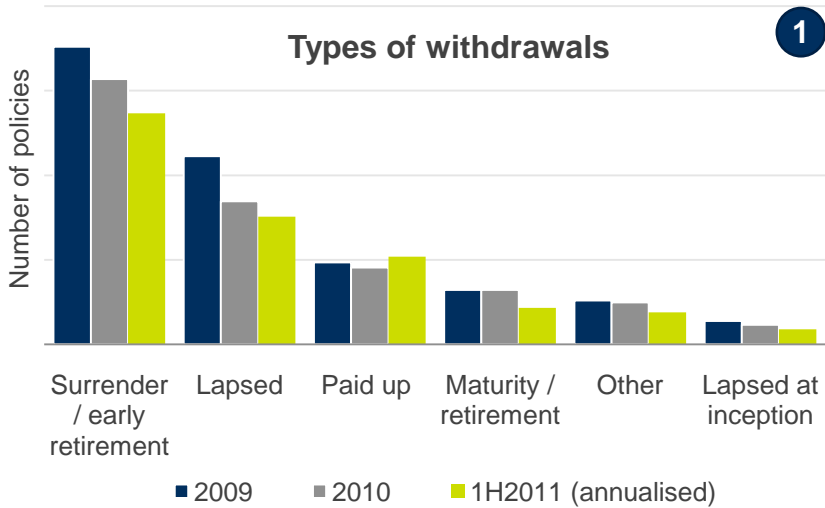


# Progress against our transition to a customer centric business



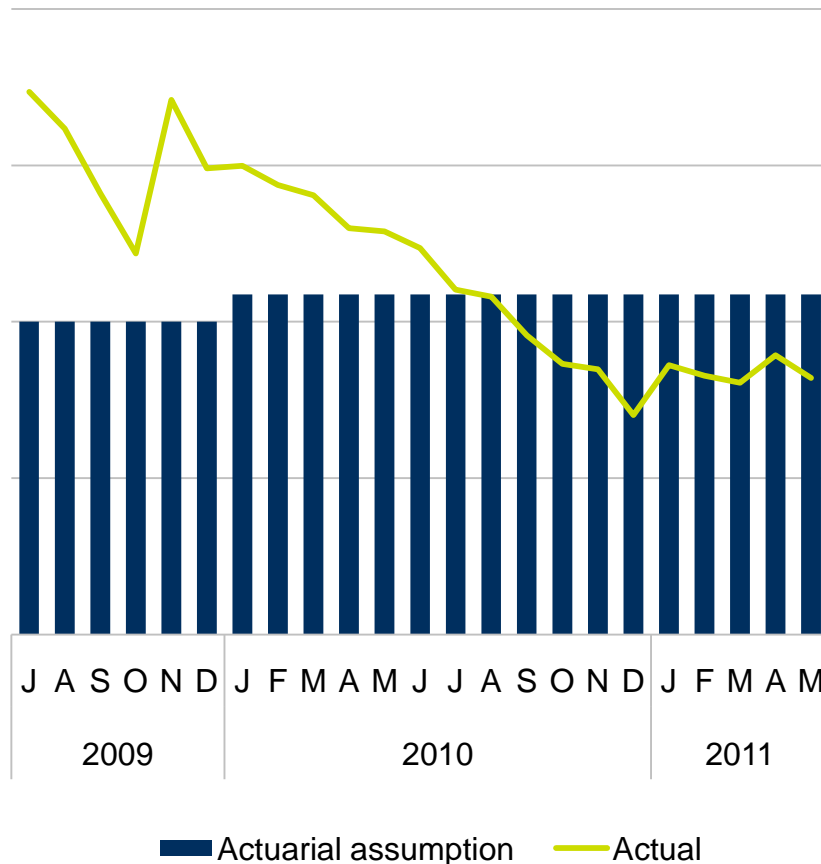
The retail business continues to invest in customer focused competencies

# Customer management programme a success across the board



# Emerging markets business

First year lapse rates



## Entry Level Markets (ELM) channel

- ELM call centre issue resolved
  - Improved premium collection rates and policy lapse rates
  - Increase in average premium size
  - Improved margins in 1H2011
- Product development
  - Enhancements to the current funeral range
  - Re-designed Investment Plan launched

Credit life bancassurance continues to deliver excellent growth and profitability

Emerging market strategy revised

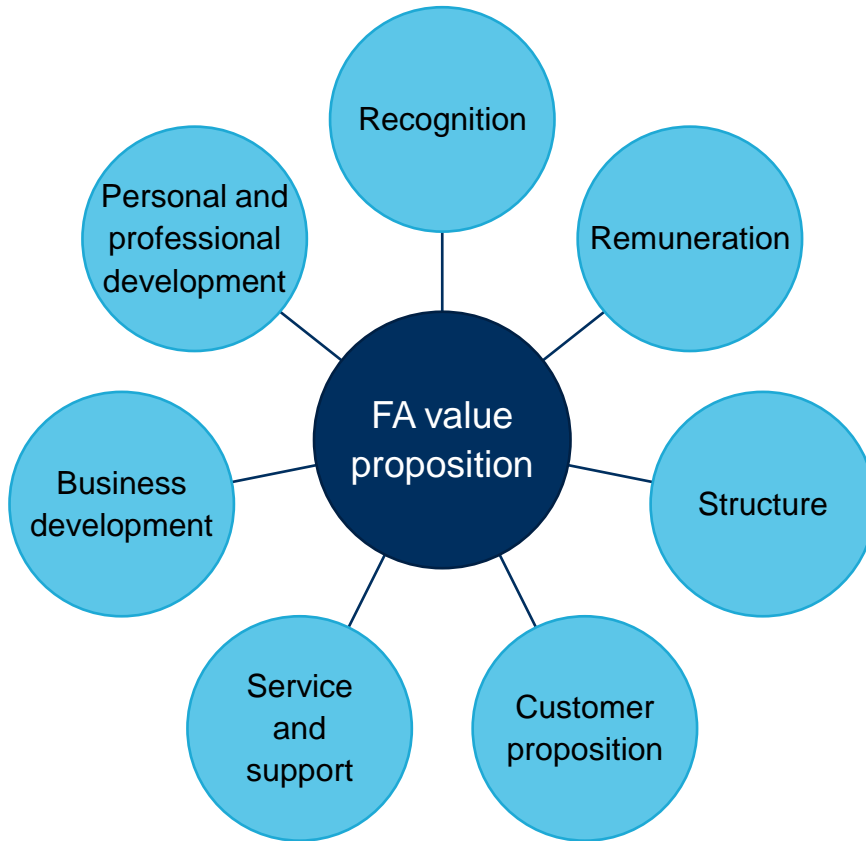
## New business sales

Rm – indexed premium	Jun 11	Jun 10	% Δ
Retail SA Insurance (excluding ELM)	1 891	1 704	11
ELM	85	153	(44)
Total Retail SA Insurance	1 976	1 857	6
STANLIB ‘off balance sheet’ sales	684	570	20
<b>Total retail indexed sales</b>	<b>2 660</b>	<b>2 427</b>	<b>10</b>

- Good sales result, despite anticipated ELM reduction
- Broker support increasing significantly
- Focus on productivity in tied channels bearing fruit
- New head of SBFC sales channel appointed
- Continued property and Guaranteed Capital Bond capacity, FAVP, new product releases and increased visibility - good platform for sales growth

Continued focus on quality and rebuilding sales capacity

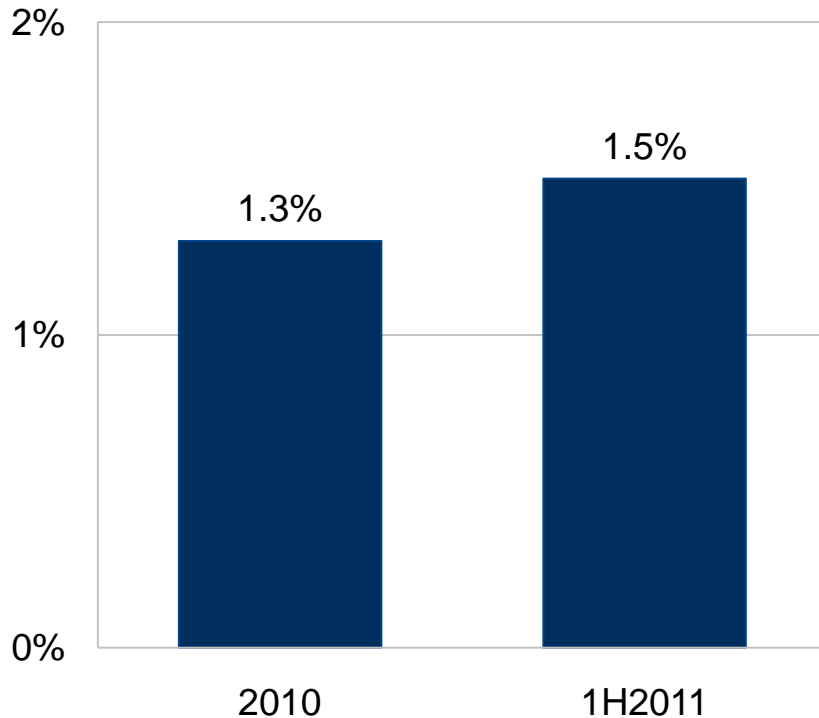
# Sales capacity and productivity – financial adviser value proposition



- Multi-faceted proposition designed to provide ‘contract of choice’
- Differentiated by the experience and life stage of the adviser
- The value of the proposition to the adviser is aligned to the profitability of the book of business
  - Differential product pricing offered
  - Additional earnings based on the value of assets under management and customer retention rates achieved

Financial adviser value proposition designed to ensure quality of business, adviser retention and growth of distribution capacity

## Retail SA new business margin



- Margin improved due to
  - Product development and re-pricing
  - Changes in business practicesdespite pressure caused by fixed acquisition costs
- Significantly improved withdrawal experience across all products; withdrawal assumptions on target for review in 2H2011

Management focused on margin uplift and increasing sales volumes in the medium-term

## Retail SA – conclusion

- Balance sheet, customer retention, ELM performance and product profitability on track
- Focus areas
  - Continue to place the customer at the centre of our thinking
  - Product innovation and delivery
  - Sales capacity and productivity
  - Cost efficiencies
  - Profitable growth of emerging market business

Future objectives clear. Focus is on execution excellence

# Business review





## Business review - STANLIB

### Institutional

- STANLIB
- Corporate
- Properties

- Leading Listed Property Fund; largest Money Market Fund; consistent delivery in fixed income
- STANLIB has presence in seven African countries
- Largest unit trust provider; third largest asset manager
- Retail Investment Product Supplier of the Year – FIA Awards

# STANLIB

## Business objective

- Expand from a distribution-led captive investment house to an investment-led third party asset manager

## Business update

- Focus on embedding new operating model
- Multi-specialist franchise approach
  - Provides long-term direct economic participation in asset team profits, which will align fund manager, customer interests and shareholder interests
  - Gives autonomy, identity and participation to the investment teams
  - Provides clarity of scope and focus
- Financial performance positive
- New capabilities have been attracted into the business
- Continued investment performance improvement
  - Balanced funds' performance moved to top quartile over 1 and 2 year rolling periods to June 2011

## Investment performance to end June 2011

<b>Core Retail funds</b>	6	12	3 year			<b>Institutional funds</b>	3	12	3 year		
Fund name	month	month	(pa)			Fund name	month	month	(pa)		
STANLIB SA Equity	1	1	4			Large Manager – Global	1	1	4		
STANLIB Equity	1	1	4			Full Global Mandate	1	1	4		
STANLIB Growth	4	3	4			Large Manager – Domestic	1	1	4		
STANLIB Value	3	4	4			Domestic Only Mandate	1	1	4		
STANLIB Balanced	1	1	4			Money Market	4	3	2		
STANLIB Balanced Cautious	1	1	n/a			STANLIB Core Bond	3	2	2		
STANLIB Managed Flexible	4	3	4			STANLIB Core Equity	1	1	4		
STANLIB Inflation Plus 3%	3	3	4			STANLIB Growth Equity	1	2	4		
STANLIB Bond	1	1	1			STANLIB Enhanced Index	2	4	4		
STANLIB Income	1	1	1			STANLIB Research	4	4	4		
Standard Bank Money Market	3	2	2			STANLIB Value	1	4	3		
STANLIB Flexible Income	2	1	1			STANLIB Small Cap Equity	3	4	4		
STANLIB Property Income	3	1	1			STANLIB Institutional Property Fund	3	2	1		
STANLIB Dynamic Return	1	2	1								
STANLIB Aggressive Income	3	1	1								

Continue to focus on ensuring that short-term performance is sustained over the long-term

# Business review – Institutional: Corporate and Properties

Institutional
<ul style="list-style-type: none"><li>● STANLIB</li><li>● Corporate</li><li>● Properties</li></ul>

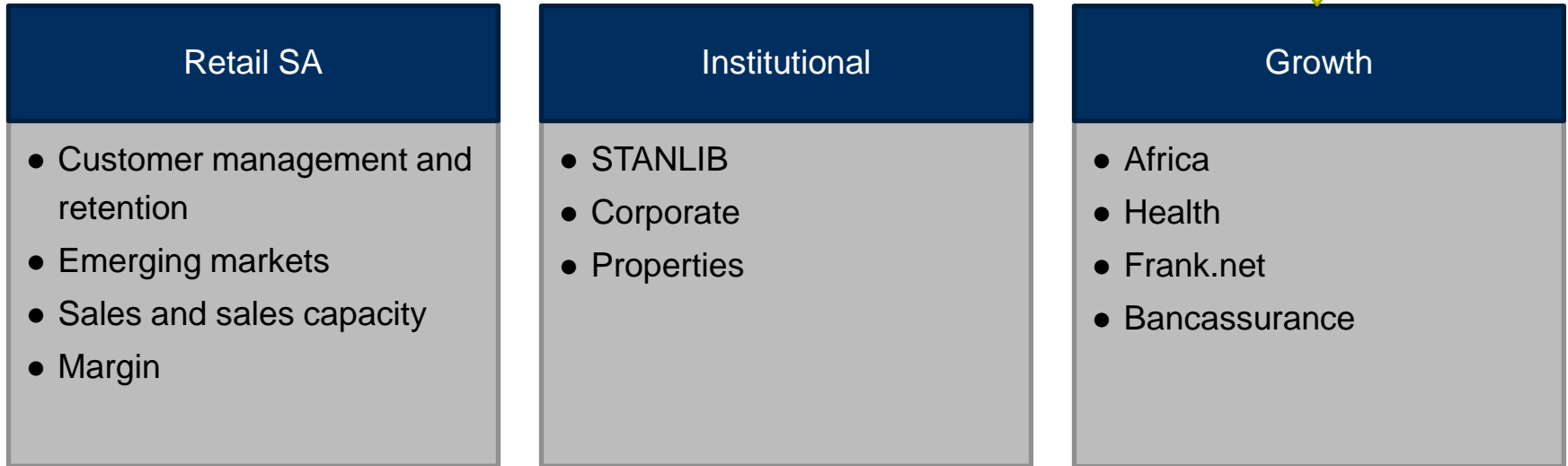
## Liberty Corporate

- Decrease in earnings largely attributable to lower fees on surplus apportionment valuations
- Indexed new business up 7% due to increased umbrella fund sales
- Strategy is to dominate umbrella fund market and leverage LibFin and actuarial capabilities in the large fund market

## Liberty Properties

- Important contributor to Retail SA
- 27 years of positive double digit returns for policyholders
- Key skills now being expanded to capture Africa market – Botswana, Swaziland and Zambia underway

# Business review



# Growth

## Africa

- In a good position to leverage opportunities in Africa
- CfCIH listing well received in the Kenyan market
- All business lines have performed well with significantly increased headline earnings
- Asset management volumes 176% higher than target

## Health

- Opportunity is twofold: the provision of health solutions to corporates in Africa and medical scheme consolidation in South Africa
- Liberty Blue is a first-to-market pan-African product - 80% increase in membership in 1H2011, bringing total lives to 59 000
- Medical loss ratios within acceptable parameters
- South Africa lives under administration decreased, largely due to the success of GEMS

## Frank.net

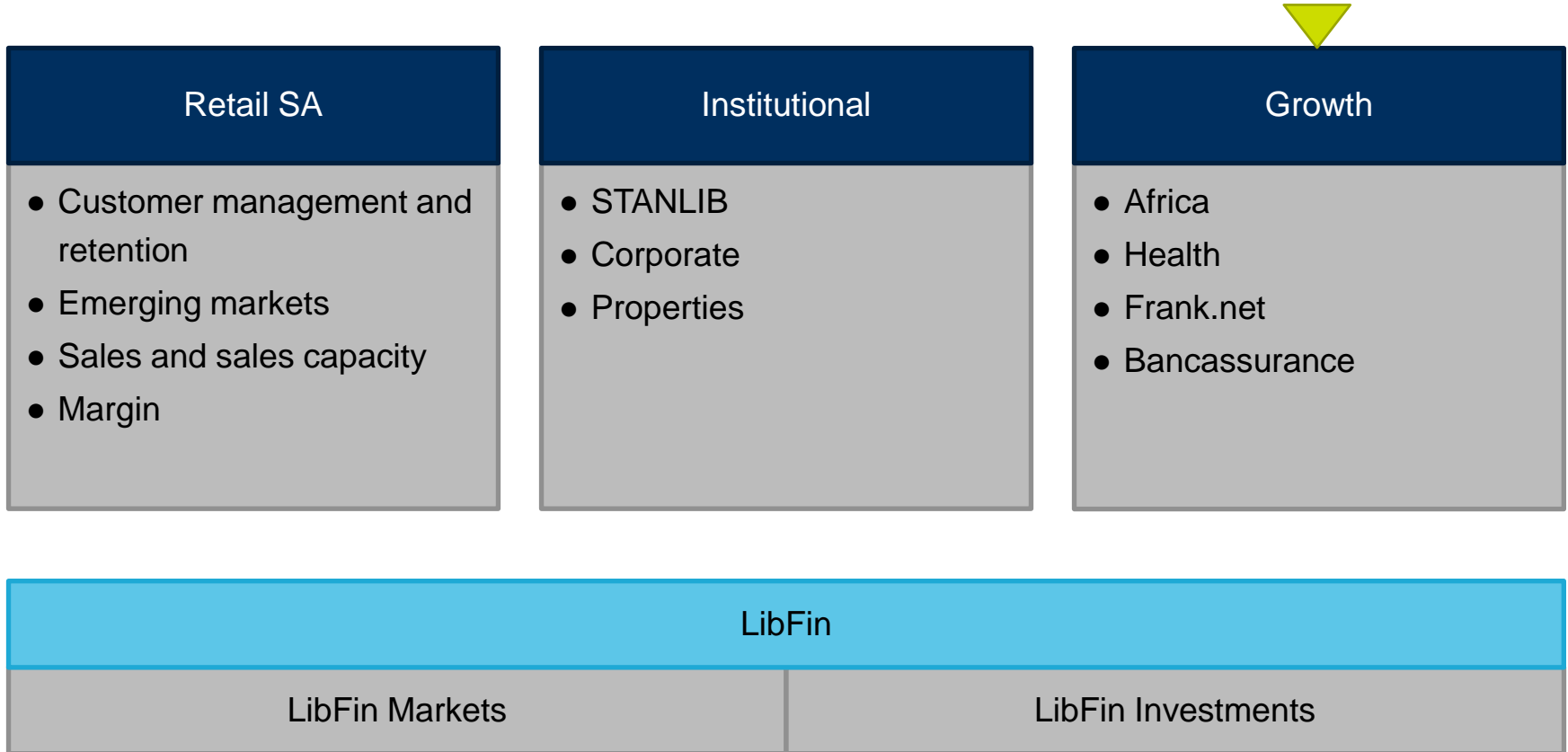
- Launched November 2010
- Aims to provide non-advice markets with straightforward life and investment solutions

# Bancassurance

Standard Bank relationship a major strategic advantage to Liberty as it enables us to

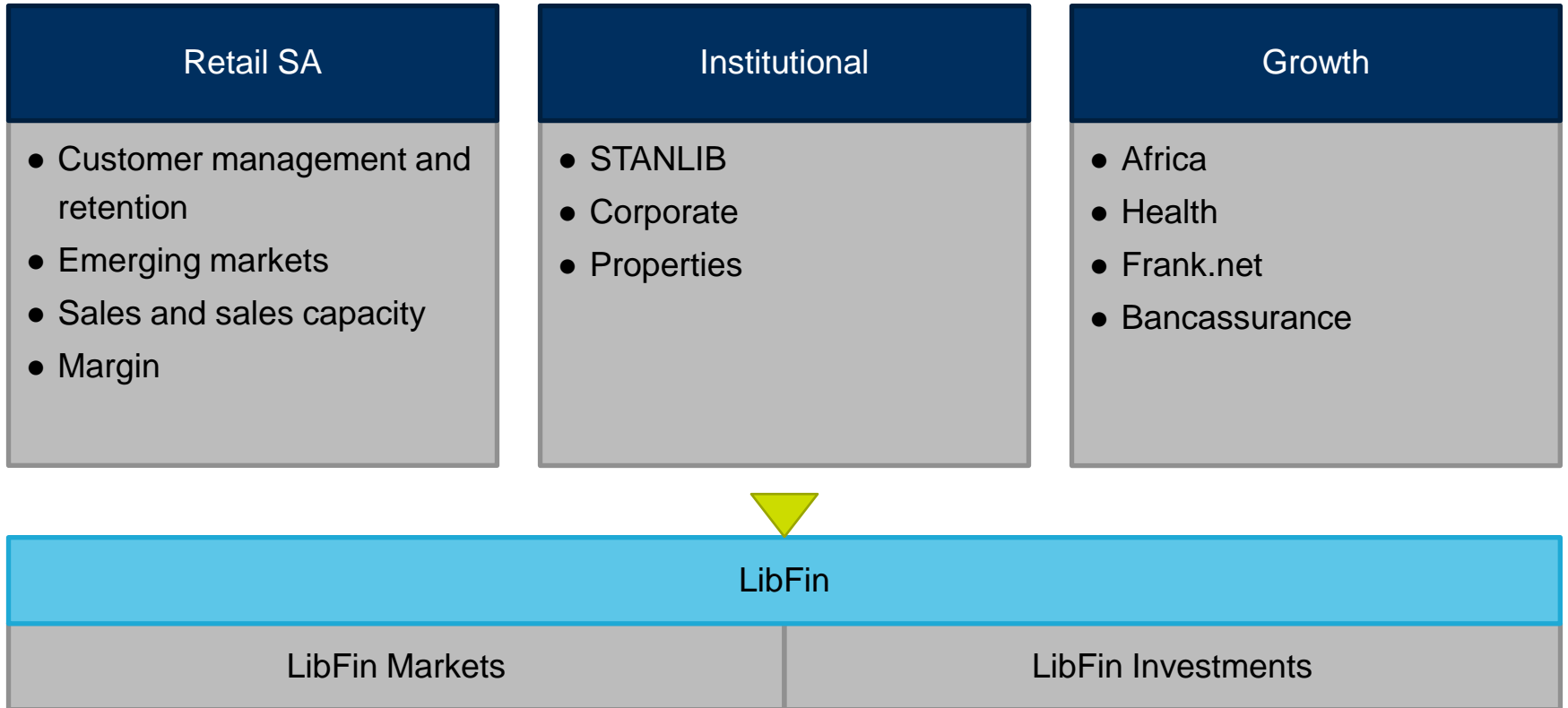
- Leverage cost and operational synergies
- Attract and retain scarce talent by providing extended career opportunities
- Entered into bancassurance agreement, giving access to retail and corporate clients, in South Africa and Africa
  - Already contributes  $\frac{1}{3}$  of Liberty's new business sales (R2 288m)
  - $\pm 20\%$  of STANLIB's cash flows originate from Standard Bank channels
  - $\pm 35\%$  of funds under management in STANLIB were contributed by Standard Bank channels
  - Extended agreement enables us to grow further sales and cash flows, accelerate growth of health and corporate business and leverage direct business
  - Governance framework in place; overseen by non-executive directors
  - Profit shares fairly reflect each party's contribution

# Business review

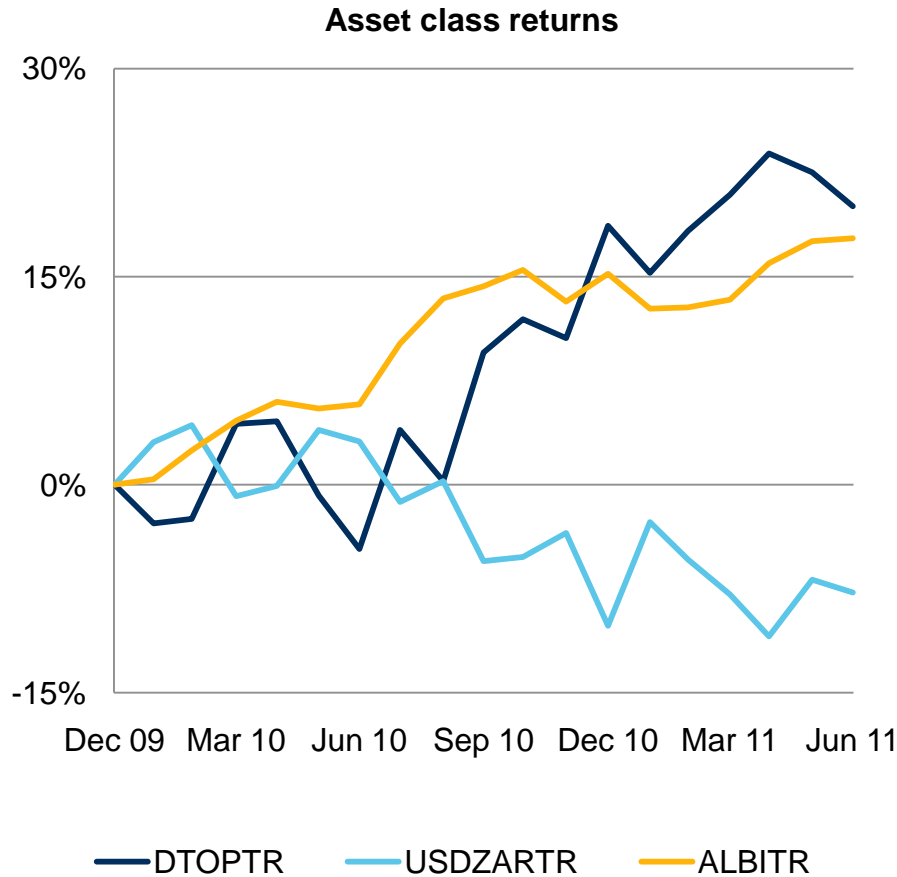




# Business review - LibFin



# LibFin



## LibFin Markets

- Reduced earnings volatility in respect of asset liability management (risk management portfolio)
- Continued to grow stable earnings from credit portfolios backing annuity and GCB reserves

## LibFin Investments

- Continued to focus on generating through the cycle (5-7 year) performance from the SIP. Despite volatile markets, the SIP delivered returns in excess of benchmark for the first half
- Continuing to build a solid track record for delivery of appropriate risk adjusted returns to policyholders and shareholders

# Conclusion

Strengthen the insurance business

Excellence in balance sheet management

Diversification

## 1H2011 delivery

- Persistency issue reversed and used as a springboard for customer-centricity
- Balance sheet management objectives delivering reducing balance sheet exposure and SIP is ahead of benchmark
- STANLIB operating model implemented and strong investment performance in key funds
- Africa, Health, Frank.net, bancassurance gaining impetus
- Obtained Level 2 BBBEE Status

Quality and sustainability underpinning strong first half financial performance

# ■ Questions