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Research Update:

South African Life Insurer Liberty Group Ltd. 'zaAA+' South Africa National Scale Rating Affirmed

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Overview

- Liberty Group's weakened earnings in 2017 reflect a challenging operating environment and various operational shortcomings, which Liberty continues to address.
- For 2018-2019, our base-case scenario is that the group is likely to post earnings broadly in line with 2016-2017 levels.
- The group's solid balance sheet--as reflected by its solid regulatory solvency ratios and at least strong risk-based capital (measured using our model)--mitigates weaker earnings prospects when compared with historic levels.
- We are therefore affirming our South Africa National Scale rating on Liberty at 'zaAA+'.

Rating Action

On Feb. 19, 2018, S&P Global Ratings affirmed its long-term 'zaAA+' and short-term 'zaA-1+' South Africa National Scale ratings on Liberty Group Ltd. (LGL).

Rationale

S&P Global Ratings bases the ratings on LGL on the group credit profile of its parent, Liberty Holdings Ltd. (the group). We consider LGL to be core to the group, as LGL makes up the majority of the group's revenue, earnings, and capital.

For year-end 2017, the group is likely to report earnings broadly in line with 2016. This mostly reflects the challenging operating environment and some operational challenges that the group continues to face in executing its strategy. Recognizing this, the group continues to take corrective action to address the operational challenges. In particular, the group's short- to medium-term priorities are managing expenses, improving the value of new business and related margins for the insurance operations, and improving fund performance for the asset management business.

The group's less diversified earnings profile compared with its local peers makes it more difficult for the group to navigate the challenging market conditions, in our view.

The group's strong balance sheet--reflected by its solid regulatory solvency ratios and at least strong risk-based capital (measured using our model)--mitigates weaker earnings in 2016-2017. We believe that the group's dominant market position in affluent segments positions it well to post earnings to support its sound balance sheet strength. For 2018-2019, our base-case scenario is that the group is likely to post earnings broadly in line with 2016-2017 levels. At the same time, we forecast that the group's risk-based capital is likely to remain at least at strong levels over 2018-2019.

Our ratings reflect our assessment of the group's sound business risk profile, built on a strong competitive position, and solid financial risk profile, supported by its at least strong risk-based capital and reasonable levels of earnings.

Furthermore, the group's liability profile is largely loss-absorbing. This would allow the group to withstand the stress associated with a foreign currency sovereign default. However, we limit the ratings on LGL to the local currency ratings on South Africa because the group's asset and liability concentration in the domestic economy makes it susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default, in our view.

Over the next 12 months, the most likely trigger for further rating actions, positive or negative, would be a similar action on the sovereign. Furthermore, we could also lower the rating if we see signs that the group is unsuccessful in tackling its operational and market challenges, which could have a continuing adverse impact on earnings.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General: Enterprise Risk Management, May 7, 2013
- General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7,

2010

- General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Liberty Group Ltd.

Counterparty Credit Rating

South Africa National Scale

Subordinated

Subordinated

zaAA+/--/zaA-1+

zaA

zaAA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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