

Notes

LIBERTY



LIBERTY'S PURPOSE

Improving people's lives
by making their financial freedom possible

Liberty has a broad range of products that deliver for a large and loyal customer base



Too many new efforts layered in complexity and distracted from core capabilities



Customer experience and service to financial advisers needs attention



Some products have become uncompetitive and difficult for advisers to deliver customer value



Poor investment performance from asset management operations


Operating in a challenging macro environment with increased competitor activity

Challenges led to pressure on margins and the ability to generate value from new business


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Addressing the immediate priorities in the next two years




1 Value of new business margin
1% - 1.5% range



2 Growth in embedded value
that exceeds 12%



3 RoE 15% - 18% range



4 Maintain robust capital
within our target range 2.5 - 3.0 times

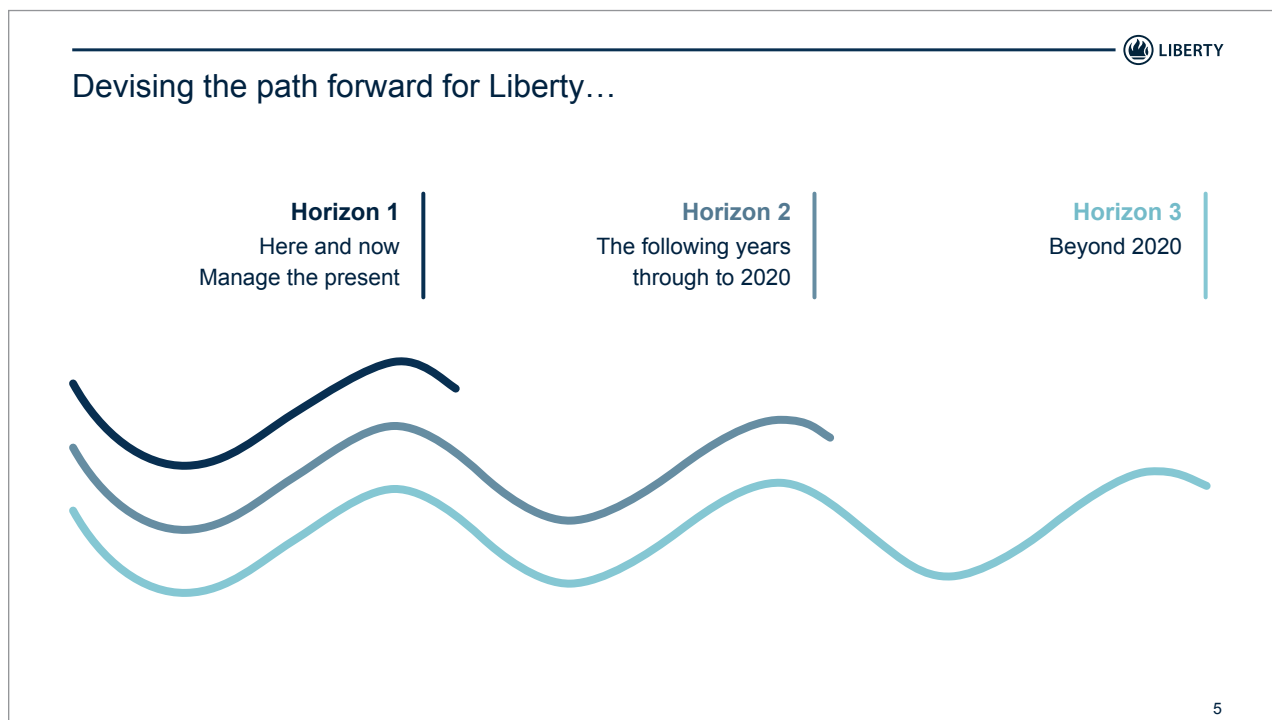
This can be achieved by;


- Increasing sales volumes
- Reduction in acquisition and maintenance costs
- Managing to better than assumptions and models
- Efficient management of capital

A journey that will take time and hard work – prioritising the right actions

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Immediate priorities for the leadership team – horizon 1

- Simplification program
 - › Improve customer service, reduce complexity and simplify processes for our clients and financial advisers
 - › Reduce costs and improve efficiencies and effectiveness through intelligent automation
- Modernise and improve reporting systems and processes
- Enhance the risk and control environment
- Improve investment performance in asset management operations

Initiatives to improve short- to medium-term performance reflect early signs of progress

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Immediate priorities for the leadership team – horizon 1 *continued*

- Restore financial performance
 - › Sales force effectiveness
 - › Margins
 - › Product and portfolio rationalisation
 - › Expense management
- Working with Liberty Two Degrees management to assess alternatives to the existing structure
- Terminated the intended acquisition in Nigeria
- Optimise outcomes from Liberty Africa Insurance, Liberty Health and the Short-term insurance joint venture with Standard Bank Group

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Looking at our time frame to 2020 – horizon 2

- Evolve our strategy
 - › Understand and anticipate the changing market and evolving customer needs
 - › Leverage unique data sets and invest in technology to shape customer engagement
- Identify opportunities to grow
 - › Maximise our relationship with Standard Bank Group, leverage capacity and resources to increase access to customers
 - › Digitisation, improve the way we support clients and advisers and prioritise existing initiatives
 - › Modernise Liberty through culture, people and brand

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Financial results review

Liberty Holdings Limited

Yuresh Maharaj, Financial Director



Group financial highlights

<i>Rm (unless stated otherwise)</i>	Dec 17	Dec 16	% Δ
Normalised headline earnings	2 719	2 527	8
Long-term insurance net customer cash flows	1 634	1 119	46
Long-term insurance indexed new business	8 018	7 892	2
Total assets under management (Rbn)	720	676	7
Shareholder Investment Portfolio (SIP) – gross of tax return (%)	8.5	5.7	
Liberty Group Limited capital adequacy cover (times covered)	2.92	2.95	
Dividend per share (cents)	691	691	

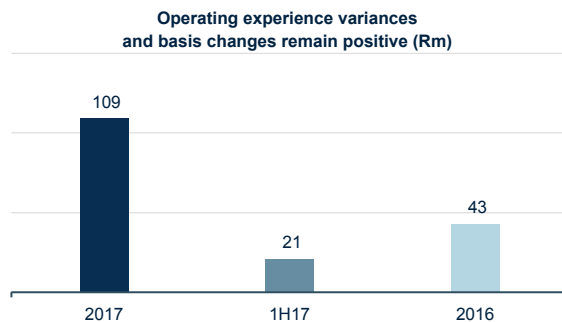
Improved normalised headline earnings, higher investment returns and strong capital position

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SA insurance operations



SA covered business net worth (Rm)	Dec 17	Dec 16
Expected transfer to net worth	4 112	4 217
Operating experience variances and basis changes	110	264
Development expenses	(55)	(45)
Change in allowance for fair value share rights	(3)	28
Actual net of tax transfer to net worth	4 164	4 464
Performance in line with expectation (%)	101	106

- Continued positive risk, persistency and credit variances partially offset by:
 - Basis changes to better reflect the expectation of future cash flows given policy terms, conditions and regulatory landscape
- SA covered business embedded value maintained R34 billion, generating a return of 8.2%

5 year track record since 2013 of consistently managing insurance operations to model

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Capital position at 31 December 2017

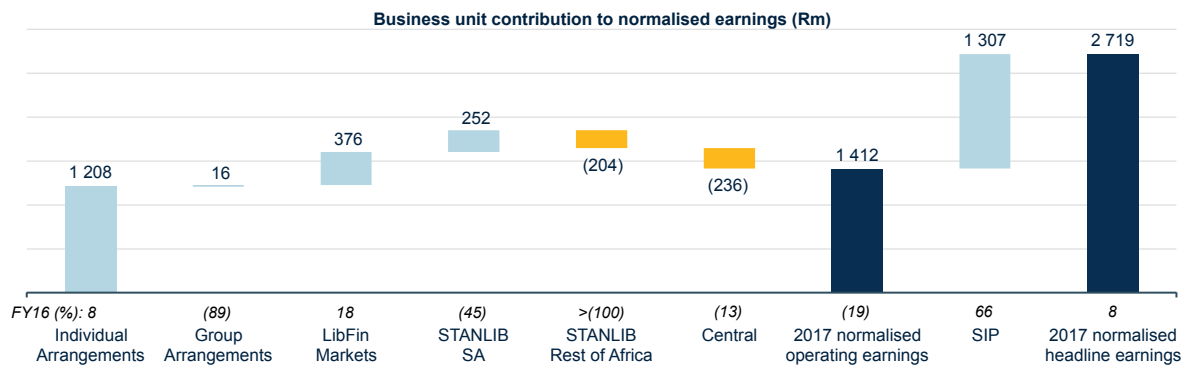
Rm (unless stated otherwise)	Liberty Holdings Limited	Liberty Group Limited
IFRS		
IFRS shareholder equity	22 444	18 412
BEE preference shares	123	123
Liberty Two Degrees normalisation	(340)	-
Normalised shareholder equity	22 227	18 535
Regulatory capital		
Shareholder assets	19 144	15 700
Regulatory capital requirement	6 022	5 378
Surplus above regulatory requirement	13 122	10 322
Risk appetite capital coverage ratio	1.50	1.50
Capital buffer in excess of risk appetite	10 111	7 633
Capital ratio at period end (times covered)	3.18	2.92

Capital levels remain strong post the sovereign credit ratings downgrade

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Business unit earnings



- Individual Arrangements earnings largely driven by positive risk variances
- Group Arrangements had increased IPP claims experience and once-off Nigeria acquisition termination costs
- STANLIB SA impacted by margin pressure from less favourable sales mix and increased costs
- Remediation program in STANLIB Rest of Africa continued, with risk of further operational losses significantly reduced

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Insurance operations



Key performance indicators (Rm unless stated otherwise)	2H17	1H17	2017	2016	% Δ
Value of new business	147	86	233	483	(52)
New business margin (%)	0.5	0.4	0.5	1.1	
Indexed new business	4 088	3 930	8 018	7 892	2
Individual Arrangements	3 365	3 205	6 570	6 639	(1)
Group Arrangements	723	725	1 448	1 253	16
Net customer cash flows	2 299	(665)	1 634	1 119	46
Individual Arrangements	2 072	774	2 846	1 948	46
Group Arrangements	227	(1 439)	(1 212)	(268)	>(100)
STANLIB Multi-manager*				(561)	

- Improved persistency in Individual Arrangements risk business, retention initiatives having positive impact on withdrawals and maturities
- Increased new recurring premium sales offset by umbrella scheme outflows in Liberty Corporate

* Arrangement terminated in 2016, no flows are recorded for 2017 and going forward

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Asset management operations

South African operations

- Improved non-money market inflows:
 - › Fixed income, property, absolute return funds and LISP
- Ongoing initiatives to address investment performance and financial control

AUM and cash flows	Dec 17	Dec 16	% Δ
Assets under management (Rbn)	609	586	4
STANLIB SA	556	535	4
STANLIB Rest of Africa	53	51	4
Net customer cash flows (Rm)	4 251	5 764	(26)
STANLIB SA	4 731	2 801	69
STANLIB Rest of Africa	(480)	2 963	>(100)

Rest of Africa operations

- Strengthened control environment in East Africa
- Curtailment of cash mandate business
- Other territories performed to expectation

Remediation of operations remains an immediate priority for the new leadership at STANLIB

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Financial performance – focus areas remain

- Value of new business and margins are priorities for the insurance operations:
 - › Focus on meaningful cost efficiencies with prudent expense management
 - › Continue to innovate on new higher margin products
 - › Product enhancements to improve margin – risk, critical illness, investment builder
 - › Retention initiatives

Committed to deliver on short-term performance targets

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In closing

Liberty Holdings Limited

David Munro, Group Chief Executive



We have diagnosed the challenges and put plans in place to restore Liberty

- Financial advisers and distribution partners are critical to success
- Renewed sense of optimism in the organisation
- Focused on delivering exceptional client and adviser experience
- Critical capabilities have been replaced
- Strategy workstreams are driving high levels of engagement
- Emerging confidence and sentiment in South Africa again

Early signs of progress are emerging

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Liberty has all the ingredients for success

<p>1 We have been trusted partners to our clients and advisers for over 60 years</p> <div> <div> <p>More than 2.5 million in-force policies Paid R8.7bn in death and disability claims</p> </div> <div> <p>We administer over 10 000 retirement schemes, and 500 000 individual and institutional investment customers</p> </div> </div> <p>Largest provider of long-term insurance solutions to the SA retail affluent market</p>	<p>4 An integral part of Standard Bank Group with a meaningful bancassurance arrangement</p> <p>5 Staffed by more than 6 000 people who are passionately committed to the organisation</p>
<p>2 A diversified multichannel distribution capability</p> <p>More than 3 500 tied financial advisers</p>	<p>6 A strong capital base, a unique ability to manage risk, and disciplined cost management</p>
<p>3 We have a track record of pioneering financial solutions in South Africa</p> <div> <div> <p>First</p> <p>Retirement Annuity offering</p> </div> <div> <p>Insurer to build shopping malls</p> </div> <div> <p>JSE-listed Life assurer</p> </div> <div> <p>Insurer to introduce Nurses on the Road</p> </div> <div> <p>To introduce Umbrella Funds</p> </div> </div>	<div> <div> <p>Liberty Group Limited CAR cover 2.92 times the statutory requirement</p> </div> <div> <p>LibFin facilitates differentiating features in product offerings</p> </div> </div>

Source: 2017 Integrated Annual Report

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Questions

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[illegible]