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Liberty continues to preserve value despite challenging operating environment

Management takes active steps to address some of the shorter term challenges

Financial Highlights

- Normalised headline earnings per share up 904.5 cents
- Capital adequacy ratio strong at 2.95 times statutory requirement
- Net customer cash inflows are R7.7 billion
- Normalised return on equity 11.5%
- Normalised operating earnings down 37%
- Assets under management (AUM) of R676 billion
- The Shareholder Investment Portfolio gross return of 5.7%

Commenting on the results, Thabo Dloti Liberty Group CEO said: *"Liberty is focused on protecting the intrinsic value of the business for all its stakeholders in a tough and complex operating environment while continuing to invest in our long term growth to ensure future success. Despite short term challenges, we are managing the business to model, and we remain profitable, well capitalised and ready to meet promises made to our customers."*

Overview

Liberty has preserved Group Equity Value despite a challenging consumer environment, volatile and lower financial markets. The capital position of the company in relation to regulatory capital requirement remains strong. Second half sales and cash flows improved whilst margins remained under pressure.

Normalised headline earnings for the financial year 2016 year of R2 527 million were 39% lower, representing a 37% decline in normalised operating earnings and a 42% decline in earnings from the shareholder investment portfolio (SIP). Normalised return on equity was 11.5% (31 December 2015: 19.5%) due to the lower earnings in 2016.

The group was managed within the board approved risk appetite throughout 2016 and the capital position of the group's main long-term insurance licence, Liberty Group Limited, remained strong with the capital adequacy ratio at 2.95 (31 December 2015: 3.03) times the regulatory minimum.

Group sales improved in the second half of 2016 with indexed new business growth improving by 5%. Various new and enhanced product offerings, including the Guaranteed Investment Product, a more competitive offshore investment product offering
and the launch of the Bold living annuity, supported this result.

Management has taken active steps to address some of the shorter term challenges and improve execution of the group's strategy and to ensure that key initiatives are prioritised.

Management is continuing to execute on growth and geographic expansion strategies. Liberty is in the advanced stages of acquiring a life licence in Nigeria.

Liberty successfully listed Liberty Two Degrees (L2D) in December 2016, providing additional offerings to customers and raising R2.8 billion of new capital.

Normalised earnings

The main items contributing to the decrease in normalised headline earnings between 2015 and 2016 were:

- Strengthening of assumption sets in the SA insurance business reduced earnings by R572 million from the prior year;
- The impact of lower investment returns on the earnings of the SIP amounted to R569 million;
- STANLIB earnings were R267 million lower than 2015 due to continued low market returns and higher once-off costs; and
- New business strain increased by R219 million in 2016, driven primarily by the geared effects of lower volumes, the introduction of the new risk tax fund.

New Business Sales

In the group's long-term insurance operations, indexed new business was 5% higher at R7 892 million. Recurring premium business increased by 4%. Single premium investment business was up 7%. Management continues to actively address the priorities highlighted in the half year financial review. This improved Individual Arrangements second half indexed new business by 15% on the first half.

Management action

Management has taken active steps to address some of the shorter term challenges and made a number of executive management changes to improve the execution of the group's strategy and to ensure that key initiatives are prioritised. The steps taken are as follows:

- The Own Your Life Rewards program was terminated;
- The South African Health operations were scaled down and repositioned support the growth in the rest of Africa markets;
- The DFS business was scaled down and repositioned for growth support affinity partners;
- Liberty and STANLIB LISPs have been combined;
- More acquisitions were completed to increase the insurance footprint and product capability in sub-Saharan Africa;
- The sales and distribution capability has been aligned across the group for effeciencies and increased capacity; and
- The customer facing units leadership teams have been strengthened to increase management bandwidth and accelerate execution of the group strategy

2016 final dividend

In line with the group's dividend policy, the board has approved and declared a gross final dividend of 415 cents per ordinary share, which means the full year dividend has been maintained in line with the 2015 dividend.

Dloti concluded: *"We have taken firm steps to address the short term challenges affecting our performance: we are aligning the management behind the opportunities in the business and finding the best placed people to deliver our strategy, we continue to provide innovative first-to-market solutions, while improving our customer experience, and leveraging our assets to create greater value for shareholders.".*