Report of the statutory actuary

for the year ended 31 December 2008

1. Statement of assets, liabilities, excess assets and capital requirements

Published reporting basis at 31 December	2008 Rm	2007 Rm
Assets		
Total assets as per balance sheet	**166 044**	179 682
Less liabilities	**153 422**	167 715
Liabilities under insurance contracts	**93 253**	104 430
Liabilities under investment contracts with discretionary participation features	**2 648**	3 353
Liabilities under investment contracts	**46 732**	49 776
Other liabilities	**10 789**	10 156
Excess of assets over liabilities	**12 622**	11 967

Statutory basis at 31 December	2008 Rm	Restated 2007 Rm
Assets		
Total assets	**151 200**	165 617
Less liabilities	**143 173**	157 278
Policyholder liabilities	**137 181**	152 286
Other liabilities	**5 992**	4 992
Excess of assets over liabilities	**8 027**	8 339
Represented by:		
Shareholders' funds	**8 027**	8 339
Capital adequacy requirement	**3 020**	4 102
Capital adequacy requirement: times covered	**2,66**	2,03

In regard to the financial position of the long-term insurance subsidiaries of Liberty Group Limited, reliance has been placed on the actuarial investigations performed by the statutory actuaries of those companies. They have certified that assets are sufficient to meet the liabilities that will emerge under existing policies, and to cover the capital adequacy requirement of those companies.

I have conducted an investigation into the financial position of Liberty Group Limited at 31 December 2008. I certify that the actuarial valuation was carried out on the basis described below in accordance with the guidance notes issued by the Actuarial Society of South Africa (including PGN 103, PGN 104 and PGN 110). In my opinion, the company was financially sound on the statutory basis at the valuation date and is likely to remain financially sound for the foreseeable future.

PA Lancaster BSc, FIA, FASSA
Statutory actuary

Johannesburg
25 February 2009

Report of the statutory actuary *(continued)*
for the year ended 31 December 2008

2. Reconciliation of statutory basis to published reporting basis

Reconciliation of excess assets between published reporting basis and statutory basis	2008 Rm	Restated 2007 Rm
Excess of assets over liabilities – statutory basis	8 027	8 339
Excess of assets over liabilities – published reporting basis	12 622	11 967
Difference	(4 595)	(3 628)
Items of difference	(4 595)	(3 628)
CAR requirements of subsidiaries	(1 507)	(1 403)
Write-up of subsidiaries from cost to NAV	(2 158)	(1 961)
Debt instruments	2 000	2 000
Differences between statutory and published valuation methodology	(2 695)	(1 976)
Inadmissable assets	(235)	(288)

For purposes of the published accounts, long-term insurance subsidiaries are held at cost. For purposes of the statutory basis, long-term insurance subsidiaries are held at net asset value, less capital requirements of the subsidiary.

The amounts of R(2 695) million and R(1 976) million relate mainly to the elimination of negative rand reserves on Lifestyle protector business on the statutory valuation basis.

Inadmissible assets consist of prepaid commissions and the defined benefit pension fund employer surplus.

3. Analysis of change in excess assets (published reporting basis)

Analysis of change in excess assets Published reporting basis	2008 Rm	2007 Rm
Excess assets at the end of the year	12 622	11 967
Excess assets as at the beginning of the year	11 967	9 158
Change in excess assets over the year	655	2 809
This change in excess assets is due to the following items:		
Investment return generated by shareholders' funds		
Investment income	(123)	553
Capital appreciation	140	149
Total investment return	17	702
Operating profit	1 628	1 294
Changes in valuation bases/methods/assumptions	(349)	391
Distribution from unincorporated property partnerships	481	417
Shareholders' tax	59	18
Management expenses	(126)	(38)
Total earnings	1 710	2 784
Capital reduction	(768)	(416)
BEE preference dividends	113	98
Subscription for shares		846
Dividends paid	(474)	(642)
Share-based payments	54	53
Owner-occupied properties	20	86
Total change in excess assets	655	2 809

Report of the statutory actuary *(continued)*
for the year ended 31 December 2008

4. Description of published reporting valuation basis

Assets

Investments have been valued as set out in the accounting policies.

Insurance contracts and investment contracts with discretionary participation features

Provision has been made for the best estimate of future experience, plus compulsory margins as required in terms of guidance note PGN 104 issued by the Actuarial Society of South Africa. In addition, selected discretionary margins are held.

The best estimate assumptions relating to future mortality, morbidity, withdrawals and maintenance expenses were derived from and are consistent with recent experience. Detailed experience investigations were carried out during 2008 and reflect the experience of policies up to 30 September 2008. Assumptions were then set in line with the Group's assumption setting policy after consultation with the Liberty Group Limited Audit and Actuarial Committee. Allowance was made in the assumptions for persistency losses in excess of the long term best estimate assumptions in the short term. Future maintenance expenses have been set according to the Liberty Group cost per policy basis. In setting the assumptions, provision was made for the expected increase in AIDS-related claims and for the effect of future inflation in maintenance expenses at 4,5% p.a. (2007: 5,00% p.a.) or 4,95% p.a. after the addition of the prescribed margin.

Future investment returns were related to the medium-term government stock interest rate prevailing at the valuation date and were set at 9,55% p.a. (2007: 10,0% p.a.) taking into account the asset mix of the fund. The before-tax discount rates were set at the same rates. Future tax and tax relief were allowed for at rates and on bases applicable to Section 29A of the Income Tax Act and full allowance has been made for capital gains tax. Provision was made for capital gains tax on unrealised gains at the valuation date at the full undiscounted value.

The best estimate assumptions were strengthened by the addition of compulsory margins. Further discretionary margins were added so that the shareholders' participation in profits emerges in the year in which it is earned, and that profit emerges in line with product design. These discretionary margins include:

- An allowance for the shareholders' participation in the reversionary and terminal bonus expected to be declared each year in respect of with profits business;
- An allowance for the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market related business;
- For certain classes of business where limited experience is available for the purpose of setting best estimate assumptions, prudent assumptions have been set for mortality and withdrawal rates.

Individual market related policies are policies where benefits are dependent on the performance of underlying investment portfolios (including business with smoothed bonuses). Liabilities for such policies were calculated as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the 'unit reserve'), less a 'rand reserve' which is calculated on a policy by policy cash flow basis. The 'rand reserve' is the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses.

Reversionary bonus and the major non-profit classes of policies were valued by discounting the expected future cash flows at a market related rate of interest reduced by an allowance for investment expenses and the relevant compulsory margin.

Policyholder reasonable benefit expectations have been allowed for as follows:

- In respect of reversionary bonus business by allowing for future bonus at the latest declared rates;
- In respect of market related business by assuming a bonus rate supported by the investment returns assumed in the valuation; and
- Taking into account expectations created by legislation, marketing literature, actual past practice and industry norms.

Report of the statutory actuary *(continued)*
for the year ended 31 December 2008

4. Description of published reporting valuation basis (continued)

In respect of with-profit business where bonuses are smoothed, bonus stabilisation reserves are held arising from the past difference between the after-tax investment performance of the assets net of the relevant management fees and the quantum of bonuses declared. The total of the stabilisation reserves amounted to R1 513 million as at 31 December 2008 (2007: R2 981 million). No bonus stabilisation reserve for any class of business was more negative than -7,5% of corresponding liabilities at the valuation date.

Investment contracts without discretionary participation features

All financial liabilities included in investment contract liabilities without discretionary participation features were held at fair value in accordance with IAS 39.

Minimum investment return guarantees

A reserve for minimum investment return guarantees is held, calculated on a stochastic basis using Monte Carlo simulation techniques in accordance with PGN 110.

Using the simulated investment returns, the prices and implied volatilities of the following instruments are as follows:

Vanilla options

Maturity	Strike	Underlying	Price %	Implied volatilities %
1	Spot	FTSE/JSE TOP 40 Index	10,33	35,17
1	0,8* Spot	FTSE/JSE TOP 40 Index	3,38	35,01
1	Forward	FTSE/JSE TOP 40 Index	13,63	35,15
5	Spot	FTSE/JSE TOP 40 Index	13,60	33,21
5	(1,04^5)* Spot	FTSE/JSE TOP 40 Index	21,71	33,09
5	Forward	FTSE/JSE TOP 40 Index	25,63	33,01
20	Spot	FTSE/JSE TOP 40 Index	8,26	29,76
20	(1,04^20)* Spot	FTSE/JSE TOP 40 Index	29,57	29,57
20	Forward	FTSE/JSE TOP 40 Index	29,46	29,58

"Other" options

Maturity	Strike	Underlying	Price %
5	(1,04^5)* Spot	60% TOP 40 Index, 40% Bond Index with annual rebalancing	10,45
20	Forward	Simulated 5 year spot rate in 20 years time	0,40

The zero coupon yield curve used in the asset projections was as follows:

Yield curve

Maturity	Yield (NACA)
1 year	9,27
2 years	8,41
3 years	8,18
4 years	8,08
5 years	8,04
10 years	7,80
15 years	7,23
20 years	6,68
25 years	6,32
30 years	6,10
35 years	5,93
40 years	5,82
45 years	5,74
50 years	5,69

Report of the statutory actuary *(continued)*
for the year ended 31 December 2008

5. Capital adequacy

Investigations were carried out to determine the amount of the capital adequacy requirement (CAR), which provides for adverse variations in experience, including an allowance for deterioration in mortality experience arising from the AIDS pandemic. These investigations were carried out in terms of the guidance notes issued by the Actuarial Society of South Africa.

In the calculation of the investment resilience element of the capital adequacy requirement, it was assumed that equity asset values would decline by 26%, property values by 15% and fixed interest asset values would rise by an amount consistent with a fall in yields of 25% of the yield at the valuation date.

In calculating the TCAR, allowance has been made for the investment guarantee reserve to be released when policies surrender. In addition, it is assumed that only 50% of commission is recovered from intermediaries on surrender.

In calculating the OCAR, the resilience requirement includes the effect of the asset shocks described above on the investment guarantee reserve held in accordance with the latest PGN110 guidance. In addition, allowance has been made for credit risk and operational risk in accordance with the latest version of PGN104.

In calculating the capital adequacy requirement it has been assumed that, in the event that the bonus stabilisation reserve of one book of with-profits business falls below -7,5% of the liabilities, terminal bonuses would be reduced.

I certify that the management action assumed above has been approved by specific resolution by the board of directors and that I am satisfied that this action would be taken if solvency were to be threatened.

In the calculation of CAR, the Termination capital adequacy requirement (OCAR) exceeded the ordinary capital adequacy requirement (TCAR), and thus the capital adequacy requirement has been based on the TCAR calculation.

I am satisfied that the excess of assets over liabilities is sufficient to meet the capital adequacy requirement which amounted to R3 020 million at 31 December 2008 (2007: R4 102 million).

6. Material changes in valuation basis since the previous valuation

Modelling and other changes were made to the valuation to re-align valuation assumptions with expected future experience. There changes resulted in a net increase in reserves of R1 580 million compared to a decrease of R391 million in 2007.

Basis/assumption change	Rm
Adoption of revised PGN 107	151
Changes to economic assumptions	(286)
Assumption changes in respect of PGN 110 reserves	1 654
Revised in expense assumptions	129
Demographic assumption changes	(794)
Future AIDS related death assumptions	74
Withdrawal assumption changes	566
Other modelling changes	86
	1 580

Rentmeester Assurance Limited
for the year ended 31 December 2008

1.1 Statement of excess assets, liabilities and capital requirements

Published reporting basis at 31 December	**2008** **R**	2007 R
Assets		
Total assets as per balance sheet	**941 759 516**	963 672 926
Less liabilities	**582 477 015**	630 580 526
Liabilities under insurance contracts	**269 542 566**	323 270 052
Liabilities under investment contracts	**262 011 913**	261 378 591
Current liabilities	**48 699 098**	43 516 373
Deferred revenue liability	**2 223 438**	2 415 510
Excess of assets over liabilities	**359 282 501**	333 092 400

Statutory reporting basis at 31 December	**2008** **R**	2007 R
Assets		
Total assets on the statutory basis	**899 383 093**	906 299 544
Less liabilities	**644 536 634**	680 469 158
Liabilities in respect of policies	**595 837 536**	636 952 785
Current liabilities	**48 699 098**	43 516 373
Excess of assets over liabilities	**254 846 459**	225 830 386
Capital adequacy requirements	**44 979 085**	42 280 392
Ratio of excess assets to capital adequacy requirement	**5,7**	5,3

1.2 Certification of Financial Soundness

I hereby certify that:

- the valuation on the statutory basis of Rentmeester Assurance Limited as at 31 December 2008, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, the applicable Actuarial Society of South Africa Professional Guidance Notes; and

- the company was financially sound on the statutory basis as at the valuation date and in my opinion is likely to remain financially sound for the foreseeable future.

Anthony Jones BSc(Hons), FFA, FASSA
Statutory actuary

Johannesburg
25 February 2009

Rentmeester Assurance Limited *(continued)*
for the year ended 31 December 2008

1.3 Reconciliation of statutory basis to published reporting basis

Reconciliation of excess assets between published reporting basis and statutory basis	**2008 R**	2007 R
Excess of assets over liabilities – published reporting basis	**359 282 501**	333 092 400
Excess of assets over liabilities – statutory reporting basis	**254 846 459**	225 830 386
Difference	**(104 436 042)**	(107 262 014)
The reasons for this difference are as follows:		
– Elimination of negative reserves	**(96 856 143)**	(77 044 833)
– Rand reserves on universal investment business	**7 131 968**	–
– Remove deferred tax asset	**(1 451 354)**	(14 115 883)
– Remove deferred acquisition costs	**(3 492 715)**	(4 241 527)
– Remove deferred revenue liabilities	**2 223 438**	2 415 510
– Remove intangible asset	**(11 991 236)**	(14 275 281)
	(104 436 042)	(107 262 014)

2. Analysis of change in excess assets (published reporting basis)

Analysis of change in excess assets Published reporting basis	**2008 Rm**	2007 Rm
The excess of the value of assets over the value of liabilities has changed as follows over the year:		
Excess assets as at the end of the year	**359 282 501**	333 092 400
Excess assets as at the beginning of the year	**333 092 400**	257 472 897
Change in excess assets over the period	**26 190 101**	75 619 503
This change in excess assets is due to the following items:		
Investment return generated by shareholder funds		
Investment income	**1 508 754**	41 159 670
Capital appreciation	**–**	–
Investment profits	**14 421 163**	18 154 609
Total investment return	**15 929 917**	59 314 279
Deferred tax income	**(12 664 529)**	5 763 012
Operating profit	**12 788 277**	23 224 448
Changes in valuation bases/methods/assumptions	**10 136 436**	(12 682 236)
Total earnings	**26 190 101**	75 619 503
Capital raised/(returned)	**–**	–
Adjustments to non distributable reserves	**–**	–
Total change in excess assets	**26 190 101**	75 619 503

Rentmeester Assurance Limited *(continued)*
for the year ended 31 December 2008

3. Description of published reporting valuation basis, notes & comments

Valuation basis for actuarial value of assets

All assets have been valued at fair value as set out in the accounting policies. The assets include an asset of R12,0 million being the amortised carrying value of business recaptured from Swiss Re., and represent the present value of future margins on these recaptured policies.

Valuation basis for actuarial liabilities

Insurance contracts have been valued using the Statutory Valuation Method (SVM). Investment contracts have been valued in terms of IAS39.

Insurance contracts

In general, provision was made for the best estimate of future experience, plus prescribed margins as required in terms of PGN104 issued by the Actuarial Society of South Africa, plus second-tier margins.

The best estimate assumptions relating to future mortality, morbidity, withdrawals and maintenance expenses were derived from and consistent with recent experience observed from detailed investigations conducted during 2008. Provision has been made for the expected increase in the occurrence of AIDS-related claims.

The best estimate assumption for maintenance expenses are determined at a Liberty Group level as Rentmeester is functionally integrated into Liberty. Future inflation is allowed for at 4,0% p.a. (December 2007: 5,0% p.a.). For Liberty Life and the other group companies future inflation at 4,5% p.a. has been allowed for in the valuation. A provision for the additional 0,5% future inflation in Rentmeester has been made at the group level but not at the Rentmeester licence level. In the future Rentmeester will adopt the same inflation assumption as the other companies in the group.

For non-profit annuities, liabilities have been calculated by discounting expected future annuity payments and expenses at interest rates based on the zero-coupon bond yield curve at the valuation date.

A discount rate, before allowance for prescribed and second-tier margins and tax, of 8,8% p.a. (December 2007: 9,0% p.a.) has been used for other non-profit business taking into account the asset mix and asset management fees levied.

The best estimate assumptions were strengthened by the addition of compulsory margins. Further discretionary margins were added so that shareholders' participation in profits emerges in the year that it is earned. These margins are:

- A limitation on fund charges on smoothed bonus business: R33,9m (December 2007: R24,5 million).
- An allowance on funeral business relating to the uncertainty in mortality experience: R21,1 million (December 2007: R25,5 million).

In addition, a newly established Treating Customers Fairly (TCF) reserve of R39,3 million represents a second tier margin.

For market related and smoothed bonus contracts, reserves were taken as the aggregate of the policies investment value (smoothed bonus contracts comprised both vesting and non-vesting accounts) and Rand reserves. Rand reserves are equal to the excess of the present value of future risk benefits and expenses over the present value of the expected future charges. For these contracts, future investment returns were related to the medium-term government bond yield prevailing at the valuation date and was set at 9,2% p.a. (December 2007: 9,4% p.a.) taking into account the asset mix. It was assumed that the company's policyholder fund is in a tax loss position for the foreseeable future. The same rate was used to place a value on the present value of future cash flows.

It was assumed that future bonuses on smoothed bonus contracts will be consistent with future investment returns. Bonus stabilisation reserves are held to equate the liabilities to the market values of the corresponding assets.

For conventional with-profit policies that participate in reversionary and terminal bonuses, reserves were calculated by discounting future cash flows allowing for future bonuses at the latest declared rates and terminal bonuses supported by assumed investment returns. A discount rate, before allowance for prescribed and second-tier margins and tax, of 8,8% p.a. (December 2007: 9,0% p.a.) has been used. Bonus stabilisation reserves are held to equate the liabilities to the market values of the corresponding assets.

Rentmeester Assurance Limited *(continued)*
for the year ended 31 December 2008

3. Description of published reporting valuation basis, notes & comments (continued)

Embedded investment derivatives

The embedded investment derivatives were valued approximately with reference to the one year change in the reserve for the most similar class of liabilities in the parent company (Capital Alliance). This will not have a material impact on the quality of the valuation results since these liabilities are small (est. <R2 million).

The embedded investment derivatives in Capital Alliance are valued on a market consistent basis using the Barrie & Hibbert calibrations. The data was grouped into homogeneous groups and run on 2000 simulations. This model has been calibrated to market conditions as at 31 December 2008. Section 8 of PGN110 requires the disclosure of various pieces of information and the values of a range of instruments which have been priced using the simulated investment returns. These are presented below:

Paragraph	Description	Price %	Implied volatilities %
8.1	If the actuary used closed-form methods (as opposed to Monte Carlo simulation techniques) to quantify the liability in respect of embedded investment derivatives	Monte-Carlo	
8.2	Prices and implied volatilities on the following put options on FTSE/JSE Top 40 Index:		
	1 yr: Strike = Spot	10,33	35,17
	1 yr: Strike = 0,8 * Spot	3,38	35,01
	1 yr: Strike = Forward	13,63	35,15
	5 yr: Strike = Spot	13,60	33,21
	5 yr: Strike = (1,04^5) * Spot	21,71	33,09
	5 yr: Strike = Forward	25,63	33,01
	20 yr: Strike = Spot	8,26	29,76
	20 yr: Strike =(1,04^20) * Spot	29,57	29,57
	20 yr: Strike = Forward	29,46	29,58
8.3	Price of a 5 yr put with strike price equal to (1,04)^5 of spot, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these weights to take place annually	10,45%	
8.4	Price of a 20 yr put option based on an interest rate with a strike equal to the present 5 year forward rate as at maturity of the put option, which pays out if the 5 year interest rate at the time of maturity (20 years) is lower than this strike	0,40%	
8.5	The zero coupon yield curve used in the asset projection	See table below	
8.6	Where the stochastic model used in the calculations was calibrated at a date other than the reporting date	Reporting date	
8.7	If the actuary opted to calculate the reserves at a different date, the effective date should be disclosed	Reporting date	

The TOP 40 index here is a capital returns index whereas the ALBI is a total returns index. Spot refers to the value of the index as market close on 31 December 2008. At-the-money means that the strike value of the option is equal to the spot.

Rentmeester Assurance Limited *(continued)*
for the year ended 31 December 2008

3. Description of published reporting valuation basis, notes & comments (continued)

The zero coupon yield curve used in the asset projection is as follows:

Maturity	Yield (NACA) %
1 year	9,27
2 years	8,41
3 years	8,18
4 years	8,08
5 years	8,04
10 years	7,80
15 years	7,23
20 years	6,68
25 years	6,32
30 years	6,10

Policyholder reasonable expectations

Policyholder reasonable expectations have been allowed for as follows:

- For with-profit business, bonus rates have been allowed for at the latest declared rates and supportable by future investment returns.
- For market related and smoothed bonus business, by assuming a bonus rate supportable by future investment returns.
- Taking into account expectations created by legislation, marketing literature and industry norms.

Bonus stabilisation reserves for smoothed bonus policies are calculated as the difference between the earned asset share and the investment value (including both vesting and non-vesting accounts). For with-profit business, the bonus stabilisation reserve is the difference between the earned asset share and the discounted cash flow reserve. The earned asset share is accumulated at the net investment return earned on the portfolios of assets supporting each of these categories of business. Negative bonus stabilisation reserves are held at 31 December 2008 however these are more positive than – 7,5% of the corresponding liabilities. The bonus stabilisation reserve for smoothed bonus business is – 3,8% of corresponding liabilities and for the conventional reversionary bonus business the bonus stabilisation reserve is – 5,8%.

The Treating Customers Fairly reserve described above may be used for the benefit of shareholders or policyholders, or as temporary support for the currently negative bonus stabilisation reserve. An investigation into policyholder reasonable expectations will be conducted during 2009 however I believe that more than sufficient steps towards meeting PRE have been taken in the last few years for this amount to potentially be released to shareholders.

Investment contracts

In the calculation of liabilities for investment contracts, the account balances have been held as the value of the liability. No Rand reserves have thus been held for these contracts.

Rentmeester Assurance Limited *(continued)*

for the year ended 31 December 2008

3. Description of published reporting valuation basis, notes & comments (continued)

Statutory capital adequacy requirements (CAR)

- The Statutory CAR has been calculated in accordance with section 6 of PGN104 v7.
- The following main assumptions have been used to calculate the investment resilience capital adequacy requirement:
  - That a decline of 26,1% in equity asset values, 15% in property values, and 13,8% increase in fixed interest asset values (as a result of a decrease of 25% in fixed-interest yields) will occur, in accordance with PGN 104.
  - That 70% of accumulated non-vested bonuses would be removed should asset values decline to this extent and not subsequently recover within a few months. This assumption reduced the capital adequacy requirements by R41,7 million (after grossing up).
- For the purpose of grossing up the intermediate ordinary CAR (IOCAR) to determine the ordinary CAR (OCAR), it has been assumed that the assets backing the CAR are invested 75% in equities and 25% in fixed interest assets.

I certify that the off-setting management actions assumed above have been approved by specific resolution by the Board of Directors, and that I am satisfied that these actions would be taken if the corresponding risks were to materialise.

The OCAR exceeded the termination CAR (TCAR), and thus the CAR has been based on the OCAR.

Capital Alliance Life Limited

for the year ended 31 December 2008

1. Statement of excess of assets over liabilities

Published reporting basis at 31 December	Paragraph	2008 R'000	2007 R'000
Total assets per the statement of financial position		**19 458 563**	20 260 112
Liabilities		**(17 684 720)**	(18 345 704)
Policy liabilities	5	**(16 639 312)**	(17 271 018)
Derivative liabilities		**(2 640)**	(1 459)
Current liabilities		**(934 199)**	(987 289)
Deferred taxation		**(108 569)**	(85 938)
Excess of assets over liabilities		**1 773 843**	1 914 408

Statutory reporting basis	Paragraph	31 Dec 2008 R'000	31 Dec 2007 R'000
Total assets per the statement of financial position	6	**18 816 400**	19 558 778
Liabilities		**(17 561 403)**	(17 792 899)
Policy liabilities	5	**(16 611 480)**	(16 792 752)
Current and other liabilities as per the statement of financial position		**(949 923)**	(1 000 147)
Excess of assets over liabilities		**1 254 997**	1 765 879
Capital adequacy requirements	7	**885 852**	1 116 362
Ratio of excess assets to capital adequacy requirements		**1,42**	1,58

I hereby certify that:

– The valuation on the statutory basis of Capital Alliance Life Limited as at 31 December 2008, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance notes; and

– The company was financially sound on the statutory basis at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

M Drutman BSc, FIA, FASSA
Statutory actuary

Johannesburg
25 February 2009

Capital Alliance Life Limited *(continued)*
for the year ended 31 December 2008

2. Reconciliation of statutory basis to published reporting basis

Reconciliation of excess assets at 31 December	**2008 R'000**	2007 R'000
Excess of assets over liabilities – published basis	**1 773 843**	1 914 408
Excess of assets over liabilities – statutory basis	**1 254 997**	1 765 879
Difference	**518 846**	148 529
Items of difference		
Adjustments to assets	**642 163**	363 325
Reinsurance assets and investment policies with intergroup insurers	**359 832**	352 652
Deferred acquisition cost asset	**21 892**	47 660
Revaluation of subsidiaries	**52 192**	(138 248)
Prepaid reassurance and expenses	**22 360**	30 281
Deferred tax assets	**185 887**	70 980
Adjustments to liabilities	**(123 317)**	(214 796)
Reinsurance liability	**(359 832)**	(352 652)
Increase in statutory life fund due to valuation methodologies	**319 127**	195 728
Remove prepaid commission	**12 873**	12 710
Deferred tax liabilities	**(95 485)**	(70 582)
Total adjustments	**518 846**	148 529

3. Analysis of change in excess assets (published reporting basis)

	Dec 2008 R'000	Dec 2007 R'000
Excess assets at the start of the period	**(1 914 408)**	(1 571 309)
Excess assets at the end of the period	**1 773 843**	1 914 408
Change in excess assets over the period	**(140 565)**	343 099
The change in the excess assets over the period may be analysed as follows:		
Investment return generated by shareholder's funds	**49 176**	131 070
Capital appreciation	**(362 390)**	72 444
Investment income	**413 198**	140 839
Expenses and tax	**(1 632)**	(82 213)
Change in valuation methods or assumptions	**(54 713)**	(74 604)
New business strain	**(190 123)**	(83 673)
Other life fund operating surplus	**55 095**	190 306
Total Earnings	**(140 565)**	163 099
Capital raised	**–**	180 000
Change in excess assets over the period	**(140 565)**	343 099

Capital Alliance Life Limited *(continued)*
for the year ended 31 December 2008

4. Changes in published reporting valuation methods or assumptions of assets or liabilities

A correction was made to the modeling of the Ithala funeral product which increased reserves by R17 million.

The main changes to the valuation basis was a change in annuitant mortality which increased reserves by R68 million, offset by a change in mortality on non-annuity business of R31 million, and a change in allocation of expenses to CAL based on the Liberty Group expense allocation basis which increased liabilities by R20 million.

A change was made in the valuation of the offshore Eskom bonds from the use of external market prices to the use of an internal model; this change was made because the external basis was no longer deemed to be fair value given the illiquidity of the market.

5. Published reporting liability valuation methods

5.1 Insurance contracts and investment contracts with discretionary participation features

The liabilities in respect of insurance contracts and investment contracts with discretionary participation features were valued in accordance with Professional Guidance Note (PGN) 104 of the Actuarial Society of South Africa, using best estimates of future experience, with an allowance for compulsory margins as specified in the guidance plus the addition of discretionary margins.

Discretionary margins are held in respect of:

- A reduction in the fund charge on a portion of the unitised individual business;
- A reduction in the premiums in respect of individual funeral business;
- Uncertainty on claims and lapse experience for ELM business.

Assumptions

The best estimate assumptions relating to mortality, morbidity, withdrawal rates and maintenance expenses were derived from and are consistent with recent experience. These assumptions were derived from detailed investigations conducted in 2008.

Expenses are determined on a per policy basis at a Liberty Group wide level as Capital Alliance is functionally integrated within Liberty.

Provision is made for deteriorating AIDS mortality using the AIDS models produced by the Actuarial Society of South Africa (ASSA).

For non-annuity business, future investment returns were set related to the 10 year government bond, which was 7,5% as at 31 December 2008, and adjustments were made for the various asset classes, namely:

Equities: plus 3,5% (revised in 2008 for the implementation of the new PGN107)

Property: plus 1,0%

Cash: less 1,5%

These future investment returns are then adjusted for management fees and taxation. These returns (before tax and charges) are also used to discount the future cashflows.

Expense inflation is set at the bond rate less 3,5%, which equated to 4,0% as at 31 December 2008.

For non-profit annuity business, future investment returns are related to a yield curve which is a blend of the BEASSA curve and a curve related to Eskom bonds held to back part of the liabilities. Offshore Eskom bonds are now valued using a spread over corresponding local Eskom bonds.

Bonus declaration rates have been determined in accordance with the Principles and Practices of Financial Management for CAL (PPFM). Bonus stabilisation reserves (BSR's) on a number of classes of business are slightly negative owing to poor market performance in 2008. However, bonus rates have been reduced and the deficits should be recoverable in 2009.

Capital Alliance Life Limited *(continued)*
for the year ended 31 December 2008

5. Published reporting liability valuation methods (continued)

5.1 Insurance contracts and investment contracts with discretionary participation features (continued)

Methodology

For individual market-related contracts, including smoothed bonus contracts, the published reserve comprises a unit reserve plus a rand reserve, determined as the discounted value of expected future risk and expense charges over the present value of expected future risk benefits and expenses. Voluntary premium increases are not allowed for.

In addition, for contracts with discretionary participation features (DPF), we hold a bonus stabilisation reserve (BSR) as part of the actuarial liability, being the undistributed surplus on these contracts. We allow for future bonus rates on smoothed bonus policies on a basis consistent with future investment return assumptions. For conventional reversionary bonus business, future bonus rates are allowed for on a sustainable bonus rate basis.

The published reserve for conventional reversionary bonus and non-profit contracts is determined as the discounted value of future benefits and expenses less future premiums.

The published reserve for annuity and PHI in payment contracts is determined as the discounted value of future benefits and expenses. The yields used to discount the cash flows are determined from a yield curve underlying the assets held to back the liabilities.

The published reserve for group risk active business is determined as an IBNR.

The published reserve for group pension business is determined as the value of investment accounts. Business with discretionary participation features also includes a BSR.

5.2 Investment contracts

Investment contracts are valued in terms of IAS39, which broadly involves holding contract values at unit values without allowance for rand reserves. Unamortised costs are allowed for by setting up a deferred acquisition cost (DAC) asset, which is then amortised over a number of years.

Capital Alliance Life Limited *(continued)*
for the year ended 31 December 2008

5. Published reporting liability valuation methods (continued)

5.3 A reserve is held for embedded derivatives, on a market-consistent basis in accordance with PGN110 of ASSA.

As required by PGN110 v2 (applicable for all year-ends on or after 31 December 2007), Capital Alliance Life Limited holds a reserve for minimum investment guarantees, including guaranteed annuity options and smoothed bonus funding shortfalls (if any), which are calculated using a market consistent Monte-Carlo simulation model. This model has been calibrated to market conditions as at 31 December 2008. Section 8 of the guidance note requires the disclosure of certain relevant information and the values of a range of instruments which have been priced using the simulated investment returns. These are presented below:

Paragraph	Description	Price %	Implied volatilities %
8.1	If the actuary used closed-form methods (as opposed to Monte Carlo simulation techniques) to quantify the liability in respect of embedded investment derivatives	**Monte-Carlo**	
8.2	Prices and implied volatilities on the following put options on FTSE/JSE Top 40 Index:		
	1 yr: Strike = Spot	**10,33**	35,17
	1 yr: Strike = 0,8 * Spot	**3,38**	35,01
	1 yr: Strike = Forward	**13,63**	35,15
	5 yr: Strike = Spot	**13,60**	33,21
	5 yr: Strike = (1,04^5) * Spot	**21,71**	33,09
	5 yr: Strike = Forward	**25,63**	33,01
	20 yr: Strike = Spot	**8,26**	29,76
	20 yr: Strike =(1,04^20) * Spot	**29,57**	29,57
	20 yr: Strike = Forward	**29,46**	29,58
8.3	Price of a 5 yr put with strike price equal to (1,04)^5 of spot, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these weights to take place annually	**10,45**	
8.4	Price of a 20 yr put option based on an interest rate with a strike equal to the present 5 year forward rate as at maturity of the put option, which pays out if the 5 year interest rate at the time of maturity (20 years) is lower than this strike	**0,40**	
8.5	The zero coupon yield curve used in the asset projection	**See table below**	
8.6	Where the stochastic model used in the calculations was calibrated at a date other than the reporting date	**Reporting date**	
8.7	If the actuary opted to calculate the reserves at a different date, the effective date should be disclosed	**Reporting date**	

The TOP 40 index here is a capital returns index whereas the All Bond Index (ALBI) is a total returns index. Spot refers to the value of the index at market close on 31 December 2008. At-the-money means that the strike value of the option is equal to the spot.

Capital Alliance Life Limited *(continued)*
for the year ended 31 December 2008

5. Published reporting liability valuation methods (continued)

5.3 A reserve is held for embedded derivatives, on a market-consistent basis in accordance with PGN110 of ASSA. (continued)

The zero coupon yield curve used in the asset projection is as follows:

Maturity	Yield (NACA) %
1 year	9,27
2 years	8,41
3 years	8,18
4 years	8,08
5 years	8,04
10 years	7,80
15 years	7,23
20 years	6,68
25 years	6,32
30 years	6,10

The “input” and “output” curves differ due to statistical sampling error.

6. Published reporting asset valuation methods and assumptions

Assets were valued at fair value in accordance with the accounting policies of the company.

7. Statutory capital adequacy requirements

The Statutory capital adequacy requirements have been calculated in accordance with PGN104 of the Actuarial Society of South Africa.

A number of management actions have been allowed for, which have been approved by the Capital Alliance Life Board, namely:

– Removal of non-vested bonus in the event of the resilience scenario occuring implementation of hedging strategy on the annuity book to reduce mismatch risk.

– Offsetting of the TCAR with certain reserves which would no longer be utilized in the event of the run on the bank occurring.

– The management action has been approved by the Board and I am satisfied that these actions would be taken if the corresponding risks were to materialise.

For the purpose of grossing up the intermediate ordinary capital adequacy requirements(IOCAR) to determine the ordinary capital adequacy requirements(OCAR), it has been assumed that the assets backing the CAR are invested 75% in equities and 25% in bonds.

The TCAR exceeded the OCAR and the capital requirement is now based on TCAR.

Liberty Active

for the year ended 31 December 2008

1. Statement of excess assets, liabilities and capital adequacy requirement

Published reporting basis at 31 December	2008 Rm	2007 Rm
Assets		
Total assets as per balance sheet	**17 514,2**	15 512,8
Less liabilities	**16 950,1**	14 743,9
Liabilities under insurance contracts	**13 415,4**	11 255,1
Liabilities under investment contracts	**2 251,3**	2 139,5
Other liabilities	**1 283,4**	1 349,3
Excess of assets over liabilities	**564,1**	768,9

Statutory reporting basis at 31 December	2008 Rm	2007 Rm
Assets		
Total assets	**15 803,1**	14 206,2
Less liabilities	**15 206,0**	13 461,3
Liabilities under insurance contracts	**13 922,6**	12 115,1
Other liabilities	**1 283,4**	1 346,2
Excess of assets over liabilities	**597,1**	744,9
Represented by:		
Shareholders' funds	**597,1**	744,9
Less inadmissible assets		
Assets available to cover capital adequacy requirement	**597,1**	744,9
Capital adequacy requirements	**404,5**	264,3
Capital adequacy requirement: times covered	**1,5**	2,8

In regard to the financial position of Liberty Life Namibia Limited, a wholly owned long term insurance subsidiary of Liberty Active Limited, reliance has been placed on the actuarial investigation performed by the statutory actuary of that company. The statutory actuary of Liberty Life Namibia Limited has certified that assets are sufficient to meet the liabilities that will emerge under existing policies, and to cover the capital adequacy requirement of that company.

I have conducted an investigation into the financial position of Liberty Active Limited at 31 December 2008. I certify that the actuarial valuation was carried out on the basis described below in accordance with the professional guidance notes issued by the Actuarial Society of South Africa (including PGN 103, PGN 104 and PGN 110). In my opinion, the company was financially sound on the statutory basis at the valuation date and is likely to remain financially sound for the foreseeable future.

Paul Lancaster BSc, FIA, FASSA
Statutory actuary

Johannesburg
25 February 2009

Liberty Active *(continued)*
for the year ended 31 December 2008

2. Reconciliation of excess assets between published reporting basis and statutory basis

	2008 Rm	2007 Rm
Excess of assets over liabilities – statutory basis	**597,1**	744,9
Excess of assets over liabilities – published reporting basis	**564,1**	768,9
Difference	**33,0**	(24,0)
Items of difference	**33,0**	(24,0)
Valuation of long term insurance subsidiaries	**44,9**	23,8
Differences between statutory and published valuation methodology	**14,0**	(2,0)
Inadmissible assets	**(25,9)**	(45,8)

For purposes of the published accounts, long term insurance subsidiaries are held at cost. For purposes of the statutory basis, long term insurance subsidiaries are held at net asset value, less capital requirements of the subsidiary.

The valuation of liabilities in respect of investment contracts on the statutory basis results in a difference of R5,8 million (2007: R1,4 million) from the published basis, which is calculated at fair value. The valuation methodology is described below.

Inadmissible assets consist largely of prepaid expenses.

3. Analysis of change in excess assets published reporting basis

	2008 Rm	2007 Rm
Excess assets as at end of the year	**564,1**	768,9
Excess assets as at beginning of the year	**768,9**	670,6
Change in excess assets over the year	**(204,8)**	98,3
This change in excess assets is due to the following items:		
Investment return generated by shareholders' funds		
Investment income	**68,3**	36,5
Capital appreciation	**(30,0)**	62,3
Total investment return	**38,3**	98,8
Operating profit	**162,2**	299,7
Changes in valuation bases/methods/assumptions	**(30,2)**	29,3
Shareholders' tax	**(21,0)**	(36,6)
Management expenses	**(46,6)**	(18,9)
Preference dividend	**(307,5)**	(274,0)
Total earnings	**(204,8)**	98,3
Dividends paid		–
Total change in excess assets	**(204,8)**	98,3

Liberty Active *(continued)*
for the year ended 31 December 2008

4. Description of published reporting valuation basis

Assets

Investments have been valued as set out in the accounting policies.

Insurance contracts and investment contracts with discretionary participation features

Provision has been made for the best estimate of future experience, plus compulsory margins as required in terms of guidance note PGN 104 issued by the Actuarial Society of South Africa. In addition, selected discretionary margins are held.

The best estimate assumptions relating to future mortality, morbidity, withdrawals and maintenance expenses were derived from and are consistent with recent experience. Detailed experience investigations were carried out during 2008, and reflect the experience of the policies up to September 2008. Assumptions were then set in line with the Group's assumption setting policy after consultation with the Liberty Active Internal Review Committee. Allowance was made in the assumptions for persistency losses in excess of the long-term best estimate assumptions in the short term. Future maintenance expenses have been set according to the Liberty Group cost per policy basis. In setting the assumptions, provision was made for the expected increase in AIDS-related claims and for the effect of future inflation in maintenance expenses at 4,5% p.a. (2007: 5,0% p.a.) or 4,95% p.a. after the addition of the prescribed margin.

Future investment returns were related to the medium-term government stock interest rate prevailing at the valuation date and were set at 10,63% p.a. (2007: 9,89% p.a.) taking into account the asset mix of the fund. The before-tax discount rates were set at the same rates. Future tax and tax relief were allowed for at rates and on bases applicable to Section 29A of the Income Tax Act and full allowance has been made for capital gains tax. Provision was made for capital gains tax on unrealised gains at the valuation date at the full undiscounted value.

The best estimate assumptions were strengthened by the addition of compulsory margins. Further discretionary margins were added so that the share-owners' participation in profits emerges in the year in which it is earned, and that profit emerges in line with product design. These discretionary margins include:

– An allowance for the share-owners' participation in the reversionary and terminal bonus expected to be declared each year in respect of with profit business;

– An allowance for the share-owners' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market related business;

– For certain classes of business, where limited experience is available for the purpose of setting best estimate assumptions, prudent assumptions have been set for mortality rates and withdrawal rates.

Individual market related policies are policies where benefits are dependent on the performance of underlying investment portfolios (including business with smoothed bonuses). Liabilities for such policies were calculated as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the 'unit reserve'), less a 'Rand reserve' which is calculated on a policy by policy cash flow basis. The 'Rand reserve' is the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses.

Reversionary bonus and the major non-profit classes of policies were valued by discounting the expected future cash flows at a rate of 9,53% p.a. (2007: 9,16% p.a.), being a market related rate of interest reduced by an allowance for investment expenses and the relevant compulsory margin.

Policyholder reasonable benefit expectations have been allowed for as follows:

– In respect of reversionary bonus business by allowing for future bonus at the latest declared rates;

– In respect of market related business by assuming a bonus rate supported by the investment returns assumed in the valuation; and

– Taking into account expectations created by legislation, marketing literature, actual past practice and industry norms.

Liberty Active *(continued)*
for the year ended 31 December 2008

4. Description of published reporting valuation basis

Assets (continued)

In respect of with-profit business where bonuses are smoothed, bonus stabilisation reserves are held arising from the past differences between the after-tax investment performance of the assets net of the relevant management fees and the rate of bonus declared. The total of the stabilisation reserves amounted to R5,3 million at 31 December 2008 (R60,9 million at 31 December 2007). No bonus stabilisation reserve for any class was more negative than -7,5% of corresponding liabilities at the valuation date.

Investment contracts without discretionary participation features

All financial liabilities included in investment contract liabilities without discretionary participation features were held at fair value in accordance with IAS 39.

5. Capital adequacy

Investigations were carried out to determine the amount of the capital adequacy requirement (CAR), which provides for adverse variations in experience including an allowance for deterioration in mortality experience arising from the AIDS pandemic. These investigations were carried out in terms of the guidance notes issued by the Actuarial Society of South Africa.

In the calculation of the investment resilience element of the capital adequacy requirement, it was assumed that equity asset values would decline by 26%, property values by 15%, and fixed interest asset values would rise by an amount consistent with a fall in yields of 25% of the yield at the valuation date.

In calculating the TCAR, allowance has been made for the investment guarantee reserve to be released when policies surrender. In a addition, it is assumed that only 50% of commission is recovered from intermediaries if policies surrender.

In calculating the OCAR, the resilience requirement includes the effect of the asset shocks described above on the investment guarantee reserve held in accordance with the latest PGN 110 guidance. In addition, allowance has been made for credit risk and operational risk in accordance with the latest version of PGN 104. In calculating the credit CAR, concentration risk has been allowed for by reducing the credit rating of all instruments issued by Standard bank and Investec Bank

In calculating the capital adequacy requirement it has been assumed that, in the event that solvency is threatened, 80% of the discretionary margins held in respect of Decreasing Term Assurance and Funeral products would be released. This assumption reduced the Capital Adequacy Requirement by R132,7 million.

In the calculation of CAR, the ordinary capital adequacy requirement (OCAR) exceeded the terminal capital adequacy requirement (TCAR), and thus the capital adequacy requirement has been based on the OCAR calculation.

I am satisfied that the excess of assets over liabilities is sufficient to meet these capital adequacy requirements which amounted to R404,5 million at 31 December 2008 (R264,3 million at 31 December 2007).

6. Material changes in statutory valuation basis since the previous report

Modelling and other changes were made to the valuation to re-align valuation assumptions with expected future experience. These changes resulted in a net increase in reserves of R184,8 million (see table below). The major item was the adoption of the revised PGN107 guidence notes which decreased reserves by R139,9 million.

	Rm
Adoption of revised PGN 107	(139,9)
Move to higher level of economic assumptions	50,1
Assumption changes in respect of PGN110 reserves	123
Other	23,8
Demographic assumption changes	127,8
Modelling and other basis changes	**184,8**

Liberty Active *(continued)*
for the year ended 31 December 2008

7. Disclosure under PGN110

A reserve for minimum investment return guarantees is held, calculated on a stochastic basis using Monte Carlo simulation techniques in accordance with PGN 110.

Using the simulated investment returns, the prices and implied volatilities of the following instruments are as follows:

	2008	
	Price	**Volatility**
A 1-year at-the-money spot put on the FTSE/JSE TOP 40 index	**10,33%**	**35,17%**
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	**3,38%**	**35,01%**
A 1-year forward on the FTSE/JSE TOP 40 index	**13,63%**	**35,15%**
A 5-year at-the-money spot put on the FTSE/JSE TOP 40 index	**13,60%**	**33,21%**
A 5-year put with a strike price equal to 1,045 of spot on the FTSE/JSE TOP 40 index	**21,71%**	**33,09%**
A 5-year forward on the FTSE/JSE TOP 40 index	**25,63%**	**33,01%**
A 5-year put with a strike price equal to 1,045 of spot, on an underlying index constructed as 60% FTSE/JSE TOP 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	**10,45%**	**N/A**
A 20-year at-the-money spot put on the FTSE/JSE TOP 40 index	**8,26%**	**29,76%**
A 20-year put with a strike price equal to 1,0420 of spot on the FTSE/JSE TOP 40 index	**29,57%**	**29,57%**
A 20-year forward on the FTSE/JSE TOP 40 index	**29,46%**	**29,58%**
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike	**0,40%**	**N/A**

The zero coupon yield curve used in the projection is as follows (rates expressed in NACC):

Model Output Yield Curve	**2008**	2007
1	**9,27%**	10,56%
2	**8,41%**	10,25%
3	**8,18%**	9,97%
4	**8,08%**	9,71%
5	**8,04%**	9,48%
10	**7,80%**	8,58%
15	**7,23%**	7,98%
20	**6,68%**	7,57%
25	**6,32%**	7,27%
30	**6,10%**	7,06%
35	**5,93%**	6,89%
40	**5,82%**	6,77%
45	**5,74%**	6,67%
50	**5,69%**	6,58%