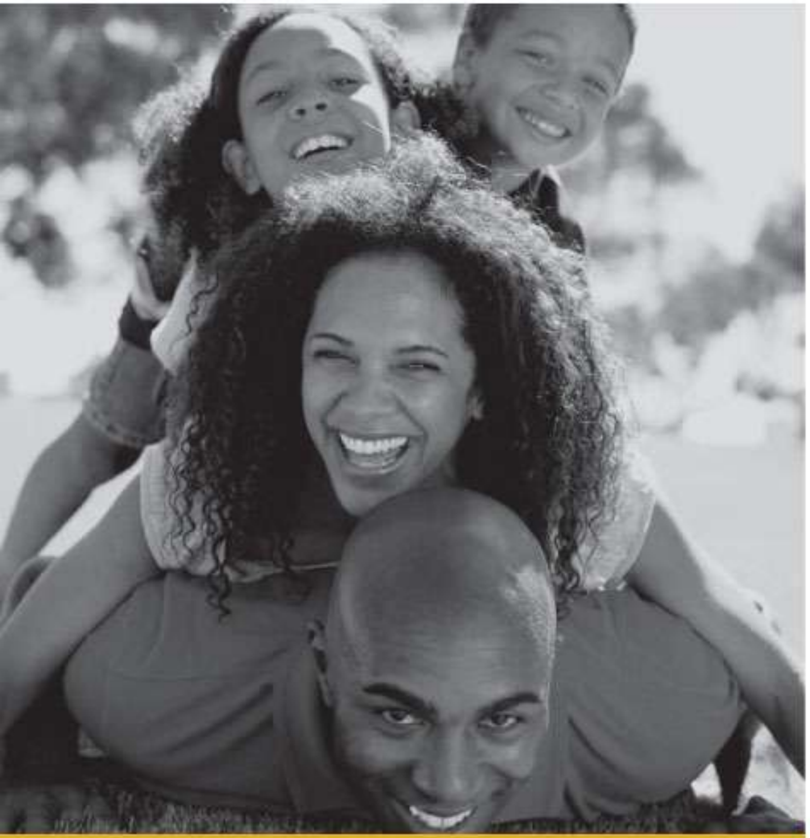
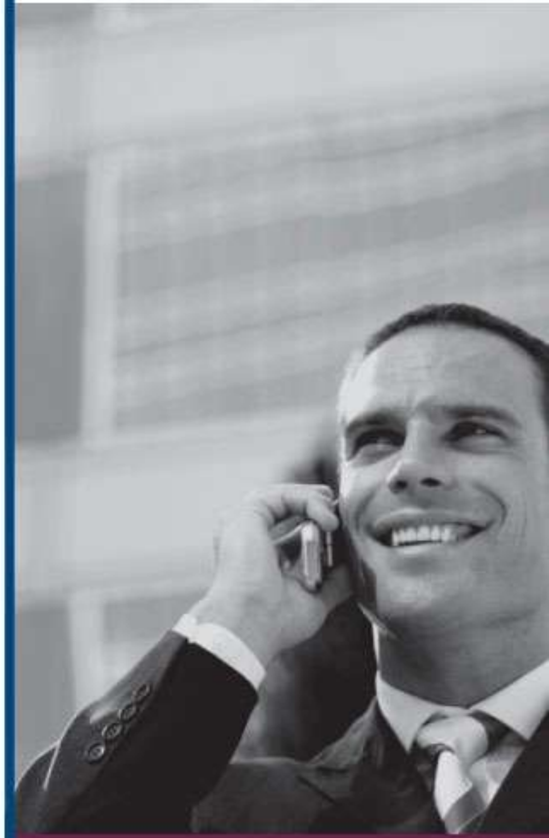
Liberty Group





Russell Harte – Group CFO

Capital Management

Group Professional Services

EVRM & Financing the Liberty growth agenda

Group Professional Services

Group Professional Services (GPS)

- Financial Planning and Communic-ations
- Group Governance and Secretarial
- Group Statutory Actuary
- Group Financial Reporting
- Group Risk & Capital Analytics (GRaCA)
- Group Legal Services
- Group Internal Audit Services
- Group Risk and Compliance
- Group Tax
- Group Market and Credit Risk

Introducing the CARAT programme

CARAT
2014
cApital And Risk Analysis TrAnsformation

Three Manager Model and GRACA

Three Manager Model

Group Risk & Capital Analytics (GRaCA)

Liability Management

Strategic Balance Sheet Management

Asset Management

Group Professional Services

Group Professional Services (GPS)

- Financial Planning and Communications
- Group Governance and Secretarial
- Group Statutory Actuary
- Group Financial Reporting
- Group Risk & Capital Analytics (GRaCA)
- Group Legal Services
- Group Internal Audit Services
- Group Risk and Compliance
- Group Tax
- Group Market and Credit Risk

Three Manager Model

- Liability Management
- Group Risk & Capital Analytics (GRaCA)
  - Strategic Balance Sheet Management
- Asset Management

Group Risk and Capital Analytics - GRaCA

- Risk policy and appetite
- Economic Capital and risk-adjusted profitability framework development and required calculations
- Risk quantification, analysis and oversight
- Capital allocation & Limit setting
- Cost of capital & hurdle rates
- Develops, owns and maintains the economic profit and loss and performance measurement methodology

Why has Liberty gone towards the EVRM and the 3 manager model?

Convergence of measurement used by regulators, published accounts and shareholder value

- CFO Forum

Market Consistent Embedded Value

- CRO Forum
- European Commission
- CEIOPS
- IAIS

- IASB
- Increasing convergence globally *(US acceptance)*

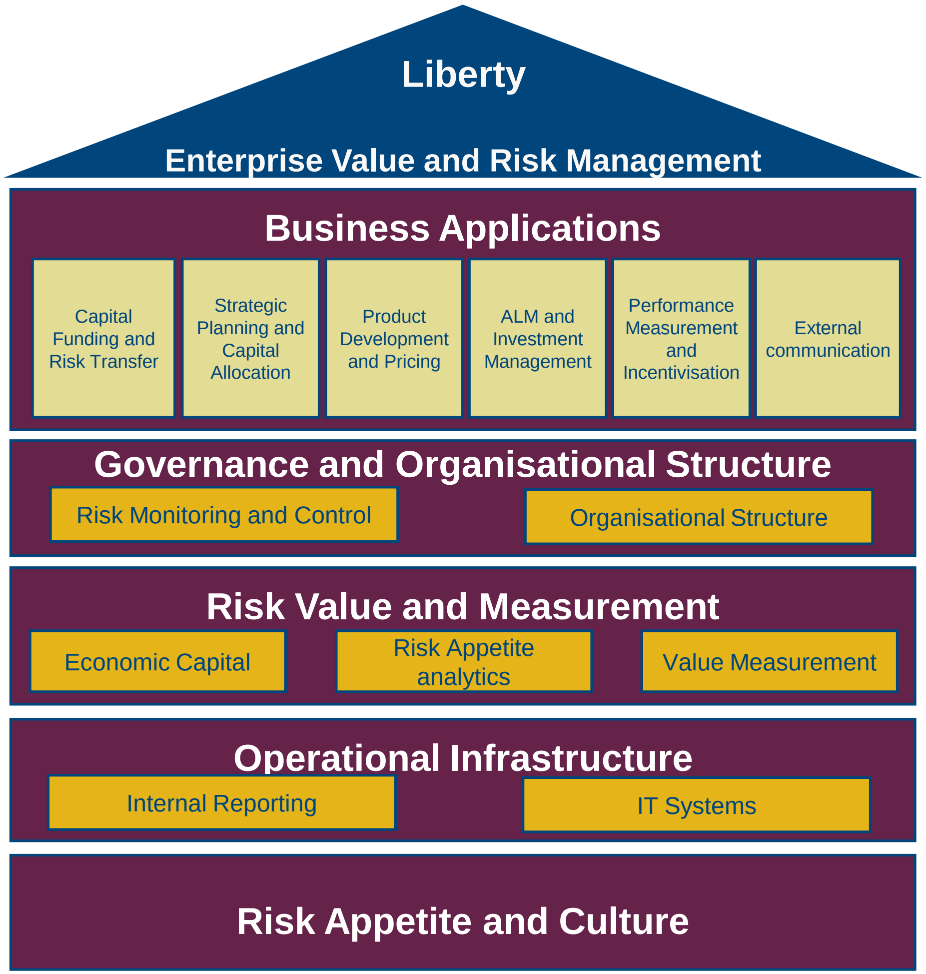
There will be differences but the fundamental principles are expected to be the same…our value measurement will be at this convergence point

Enterprise Value and Risk Management

- EVRM Core principles

Core principles of Enterprise Value and Risk Management include:

- Clear accountability for management of risks arising from value creation activities
- Consistent risk-adjusted performance measurement across the group
- Risk appetite tracked at group level
- Three lines of defence risk organisational and governance structure
- Identification and separation of risks to enable management
- Quantification and measurement of risks in business units
- Risk limits and monitoring by second line of defence
- Group-wide aggregation of similar risks and creation of centres of excellence to manage them (e.g. LibFin)



Risk Appetite

Dimension definitions

Old	**Target** of **1.7** times regulatory CAR, **Minimum** of **1.5** times regulatory CAR
New	In a **1-in-25** event, **regulatory CAR coverage** should not fall below **X**

Comprehensive Earnings

In a **1-in-10** event, annual **comprehensive earnings, normalised for the BEE transaction,** should not fall more than a set percentage from long-term rate of return expectations

Regulatory CAR

Return on Embedded Value (RoEV)

Available **economic capital** should be sufficient to cover required economic capital at a specific **confidence level**

Economic Capital

In a **1-in-10** event, annual **return on embedded value, normalised for the BEE transaction,** should not fall more than a set percentage from long-term rate of return expectations

Move to broader capital management dimensions does not mean we need more or less capital

Old

Target of 1.7 times regulatory CAR

Target set in 2004

- Liberty was on TCAR → CAR was relatively stable

E.g. TCAR

- Embedded derivative not yet mark-to-market → Earnings were more stable
- OCAR not subject to mark-to-market embedded derivatives resilience test
- OCAR made no allowance for credit or operational risk

New

Current environment

- Liberty is currently on OCAR → CAR is therefore volatile to market movements

TCAR → OCAR

2004 Now

Why the move from TCAR to OCAR?

Business written by Liberty Life in recent years is TCAR un-intensive (Excelsior 1000 written through Liberty Active and Protector reserves zeroised on regulatory basis)

Mark-to-market embedded derivatives subject to asset resilience test

Credit risk and operational risk now allowed for

↓

TCAR

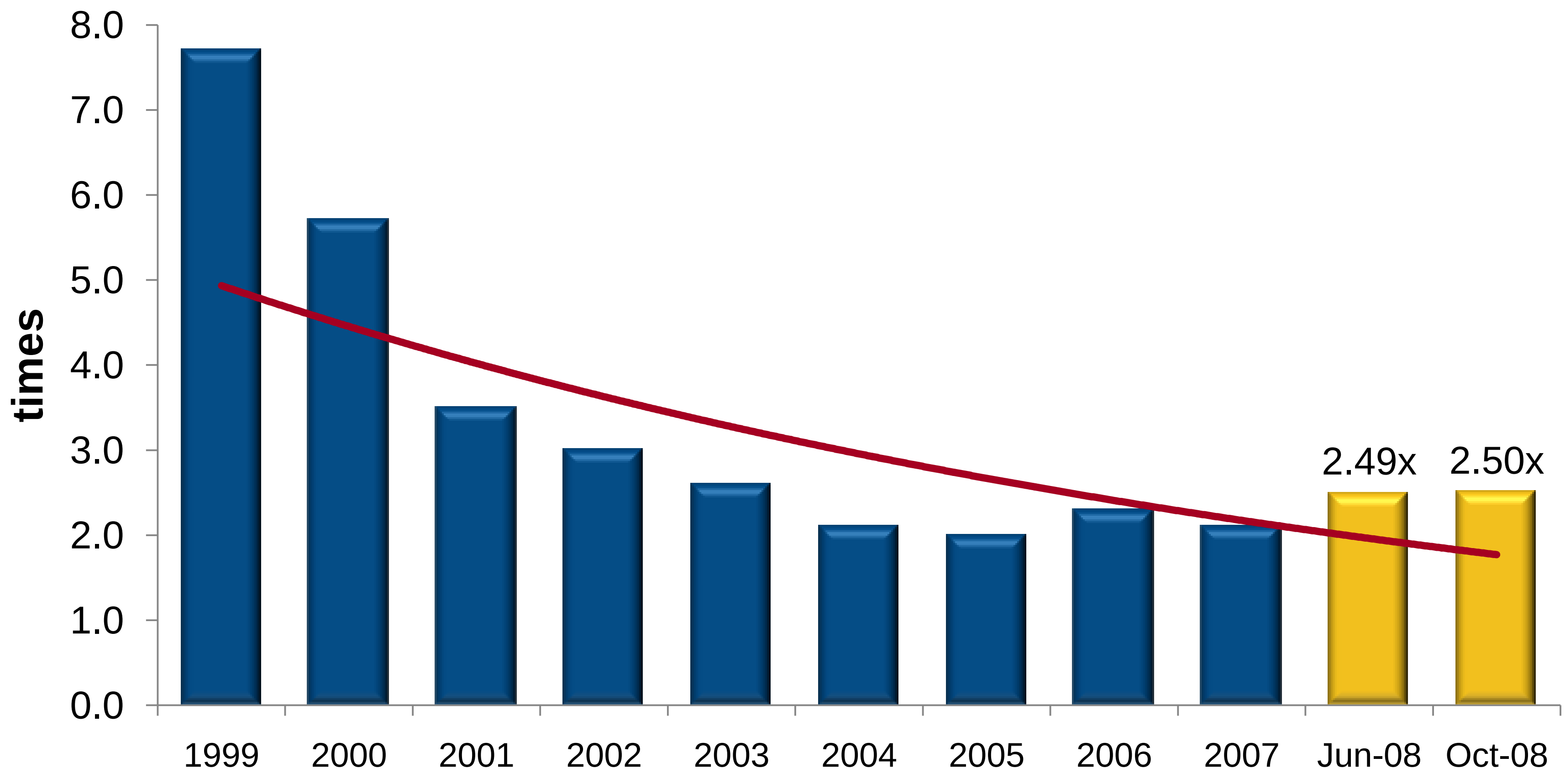
Future Target

Why do we want to move to TCAR?

Moving onto TCAR will improve the stability of a regulatory CAR

We will review reducing market, credit and operational risk exposure to achieve this outcome

Capital Management: Where have we come from?



Improved capital efficiency through utilisation of excess capital and introduction of debt

Funding Liberty's growth strategy

Funding options	R bn
Historical operational cash flows over normal dividend (assuming long term returns are achieved)	**1.0 - 1.5**
Potential introduction of additional non-equity facilitated by holding company restructure (LibHold)	**1.0 – 1.5**
Regulatory capital release through reduction in market risk	**??**

Various funding options available

Identified opportunities

Opportunity	2008	2009
Health	190	10
Africa-Non Health		700
Other	20	80

- Capacity exists to fund currently planned M&A from internal resources
- Any additional spend will require de-risking, alternative sources of funding or a combination
- Acquisitions will need to give appropriate returns on investment before approval

Conclusion

- EVRM & Risk Appetite – a far more disciplined approach to group wide risk and capital management
- A more robust capital framework
- Ability to fund Liberty growth initiatives with internal resources.
- Additional funding options available for the future