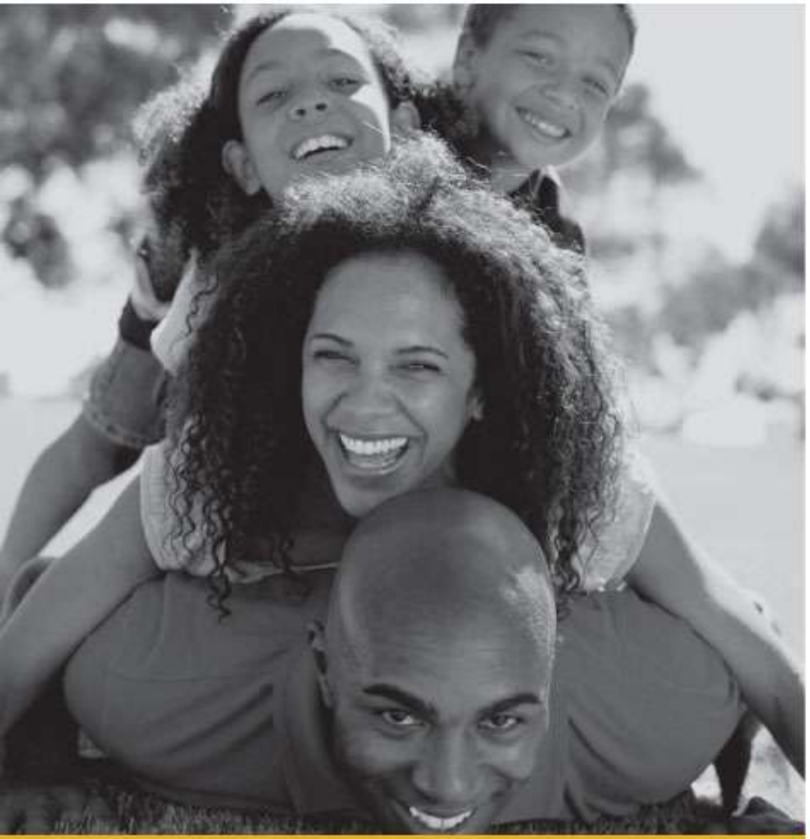
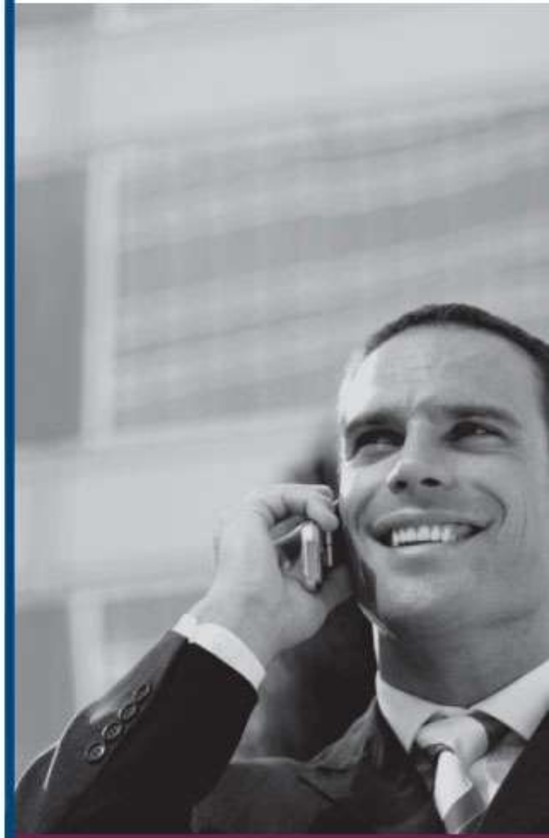
Liberty Group





Giles Heeger – CEO

LibFin

LibFin strategy: Summary

- The key strategic objectives for LibFin in 2008/2009 are to:
  - Provide earnings protection, generate additional P&L and assist GRACA and Finance within approved risk appetite framework and move closer to the 3 manager model
  - Assume responsibility for all market risk exposures
  - Implement systems and controls necessary to support activities
  - Complete staffing unit up – generate capacity to tackle its mandate

LibFin strategy: Summary

- We will attain our objectives by:
  - Leveraging our understanding of the earnings drivers and balance sheet components, including understanding sensitivities of Balance Sheet components to market movements (FX rates, interest rates and equity indices)
  - Forming market view base case and alternative(s)
  - Executing approved strategies to enhance or protect returns
  - Develop balance sheet management capability

LibFin mission

Mission:

Our mission is to extract the maximum possible value for accepted risk from global markets for both policyholders and shareholders through multi-disciplinary use of investment banking and long-term insurance skills

- We will attain our mission by:
  - Building a centre of excellence to manage all market, credit and liquidity risks
    - Asset / Liability management
    - Strategic and tactical asset allocation
    - Long-dated illiquid market risk
  - Accessing all possible components of financial markets including:
    - Asset origination
    - Regulatory, tax and accounting structuring
  - Interface with capital markets and banks
  - Set, monitor and manage asset manager mandates
  - Provide support to liability generating business units
    - Product generation, pricing and structuring

Environmental analysis of the Industry

"3 Manager Model"

Liability Manager	Balance Sheet Manager	Asset Manager
▪ Charged with product development and liability gathering and servicing	▪ Charged with managing market risk and ensuring capital efficiency across the entire balance sheet	▪ Charged with alpha generation within clear mandates

Balance Sheet Manager split into two units, one with a profit motive (LibFin), and the other with a central control objective (GRACA)

Liberty’s implementation of the 3 Manager Model

Liability BU

- Product development and pricing towards policyholder
- Servicing
- Management of insurance risks (unhedgeable)
- Transfer of market risk to SBSM
- Operates within allocated capital and risk limits
- Accountability for P&L arising from difference in policyholder pricing and SBSM transfer price and from insurance risk management

GRACA

- Risk policy and appetite
- Economic Capital and risk-adjusted profitability framework development
- Risk quantification, analysis and oversight
- Capital allocation
- Limit setting
- Cost of capital and hurdle rates

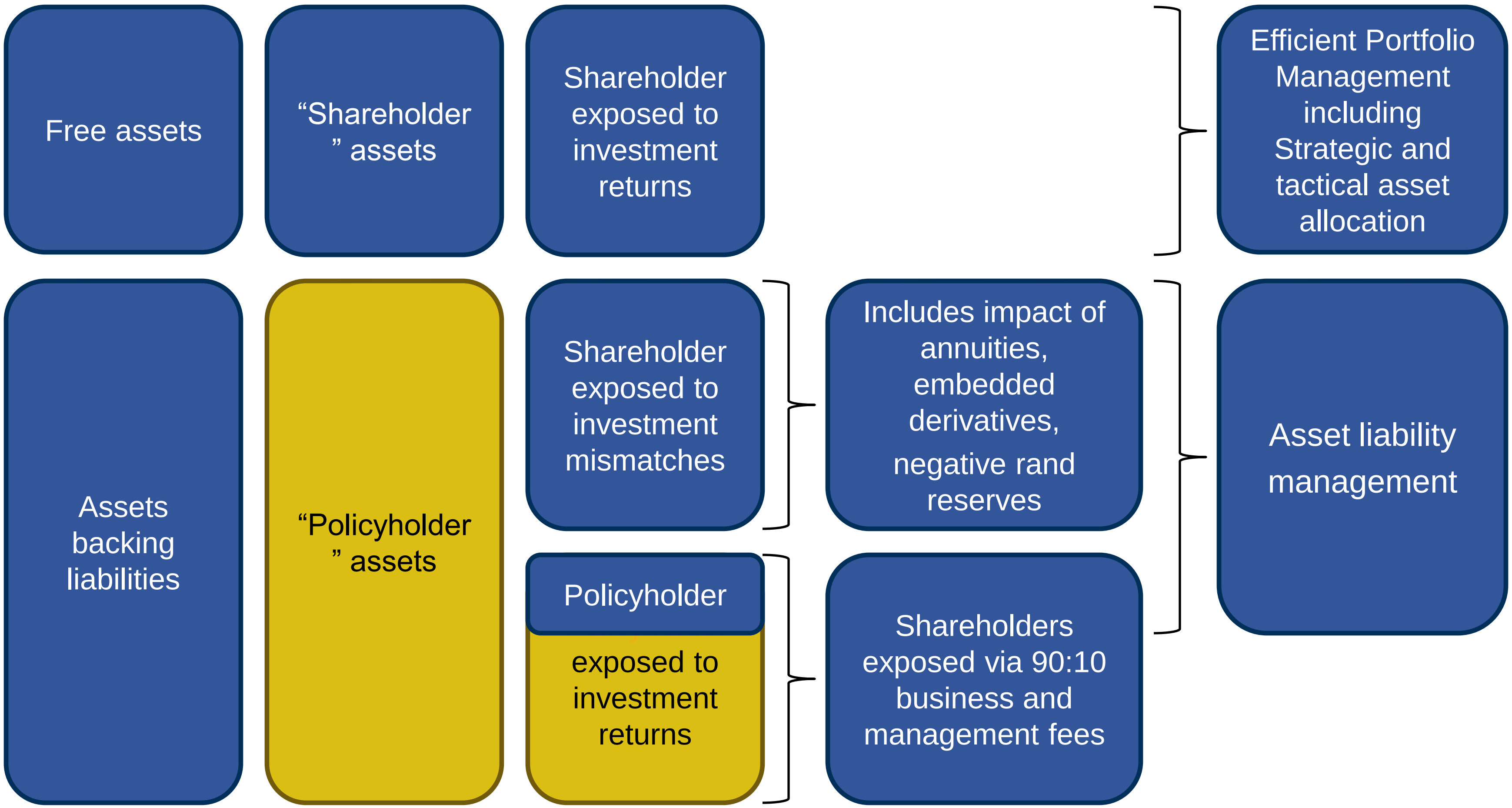
LibFin

- Centre of excellence for management of market, credit and liquidity risk
- Executes within allocated capital and risk appetite/limits
- Determines Risk Minimising Portfolio (sign off by GRACA)
- Determines SAA
- Manages shareholder assets
- Sets and monitors asset mgmt mandates
- Funding of balance sheet

Asset Management BU

- Manages assets according to mandate
  - Alpha generation
  - Stock selection
  - Liability Driven Investment
  - Passive
- Provides “consultancy service” to assist in constructing mandates/ products

Sources of market risk



Strategy to be implemented during the next financial year cntd.

- Asset / Liability Management (“ALM”)
  - Immediate focus (or phase one) for the LibFin unit is market risk position management and capital optimisation
  - The outcome of this process is important for the following reasons:
    - Critically important for the better management of earnings and capital
    - Focuses energies and attention on making sure that capital is being effectively deployed
    - Moves the organisation from passive risk acceptance to active risk management, ensuring risk accepted is not only appropriate but also appropriately priced
  - Styled as Asset / Liability Management (“ALM”) since bulk of risk arises from mismatches between asset base and commitments made to policyholders
  - Also includes a component of reducing the significance of any possible risk of capital losses on the shareholders investment portfolio

Strategy to be implemented during the next financial year cntd.

- Asset / Liability Management (“ALM”) cntd.
  - Management of shareholder exposure arising from commitments to policyholders
    - Currently annuities, guaranteed annuity options and guaranteed maturity value products
    - Largely interest rate and equity price risk, including both linear (delta) and non-linear (gamma) exposures
  - Overall objective
    - Capture “hedgeable” market risk profits arising from the sale of products to policyholders as they occur
    - Minimising the potential for loss arising from “unhedgeable” market risk
  - Position management
    - Market risk arising through sales process (past and present)
    - Capital management
    - Better management of IFRS earnings arising from shareholder commitments

Finished result biased towards a reduction in risk and an increase in sustainability and consistency of earnings rather than any significant P&L uplift

Market risk results – LibFin 1H 2008

Rm	**Jun 2008**	Jun 2007	% Δ
Insurance	**83**	284	-71
Excess 10% bonus participation	**(76)**	159	n/a
Mark-to-market investment guarantees (PGN110)	**590**	196	>100
Allocated tail loan	**(122)**	(37)	n/a
Mismatch and tail earnings	**296**	46	>100
Change in economic assumptions	**(605)**	(80)	n/a
Shareholders' assets	**(23)**	489	n/a
Interest and dividends	**332**	367	-10
Interest and preference dividend	**(89)**	(98)	+9
Related income taxation	**(60)**	(36)	-67
Capital (losses)/gains	**(311)**	289	n/a
STC	**(17)**	(70)	+76
Allocated tail loan	122	37	>100

The nature of all life companies
- A tale of two balance sheets

Balance sheet 1 –*shareholder assets*

- Shareholder investment of surplus assets
  - For example, the FINI portfolio, tails, preference shares, Ermitage hedge funds etc
  - Its a very conservative portfolio

Balance sheet 2- *insurance market risk*

- Synthetic or derivative type exposures (Impact on 1H 2008 earnings)
  - 90 : 10 book is effectively a forward contract on the SWIX (-R76m)
  - Embedded derivatives are a written put option on (largely) equities and interest rates (R590m)
  - Mismatch on tail earnings due to long dated bonds not available in size (R296m)
  - Negative Rand Reserves act as a partial hedge earnings of the short bond position in the embedded derivatives as the cash flow behaviour is analogous to long bond position (most of R605m)

Volatile market conditions have a significant earnings impact

Summary

	1H 2008	FY2007	FY2006
	R m	R m	R m
Total BEE normalised headline earnings	**913**	3 129	2 589
Potential volatile items:	**-272**	624	**1 191**
- 90/10 book	**54**	325	681
- Embedded derivatives	**590**	117	-105
- Shareholder capital gains	**-311**	281	705
- Negative rand reserves	**-605**	-99	-90
Potential volatile items as % of BEE normalised headline earnings	**-30%**	+20%	+46%

Potential volatility due to significant market risk

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