LIBERTY LIFE

PERSONAL BENEFITS
With-profit policies

Investment in with-profit policies

Investment returns are smoothed to reduce the effect of market ups and downs

With-profit policies are designed to smooth investment returns over the lifetime of the policy.

Policyholders' investments are pooled together

In with-profit policies, the money of all the policyholders is pooled into an investment portfolio. We track the performance of the underlying investment and use this to work out how much of the growth we should give the policyholders. We refer to this as a bonus. We use some assumptions when we do the bonus calculation, so bonuses are, to a certain extent, at our discretion.

We add bonuses to each policyholder's investment

We declare bonuses regularly, usually once a year. A portion of the bonus is allocated to each policyholder's investment.

This is different to a market-related policy

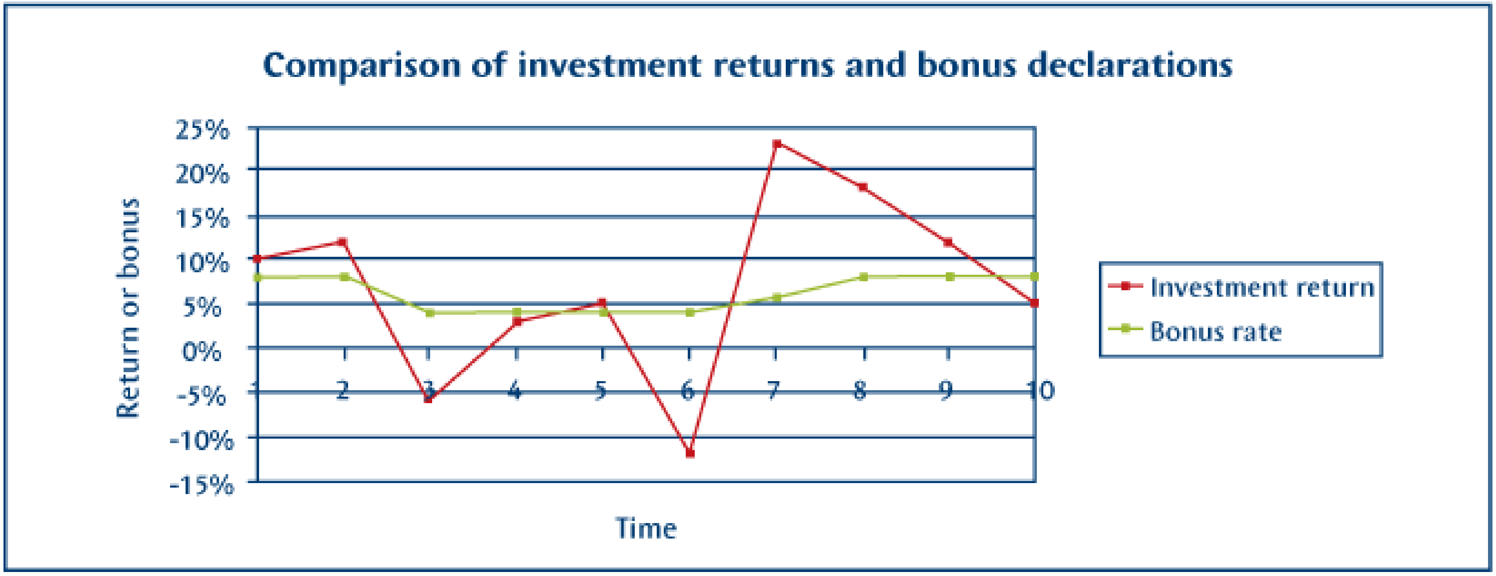
This is different to a market-related policy where the value of the investment goes up and down in line with the market and policyholders share immediately in the performance of the underlying investment.

However, the intention is that in the long run you would get the same payout from a with-profit policy as a market-related policy, just with fewer ups and downs along the way.

Smoothing reduces short-term volatility.

In a period when returns are high, we may declare a lower bonus than the actual return for that period. On the other hand, when returns are low or negative we would declare a higher bonus than the actual return for the period. (We never declare a negative bonus, so with-profit policies can never go down in value – this is different to market-related policies which can go up or down in value.)

The bonus rates we declare reflect a smoothing of the actual underlying investment returns over time. This reduces the volatility of returns over the lifetime of the policy. The graph shows the comparison of actual investment returns and bonus declarations over time.



Investment growth is shared with a pool of investors

This means that the earnings on your policy do not reflect the performance of the underlying investment exactly (as earnings of market-related policies do). Instead, it shares the investment growth over time with a pool of investors.

How the bonus works

How the bonus is calculated, when it is paid and the guarantees all depend on the type of with-profit policy you have.

With-profit policies (i.e. policies that have smoothed investments)	**If you have a smoothed bonus product:**	**The bonus takes into account** the premiums you have paid, the investment growth and past bonuses we have declared (less charges for risk benefits and expenses).	The bonus is usually paid once a year.	**Guarantees:** There is a portion that is guaranteed as soon as we have declared it. There is also a portion that is not guaranteed. The reason that we do not guarantee the whole bonus is to keep the investment flexible. We may remove non-guaranteed bonuses in exceptional circumstances if market conditions are much poorer than expected.
	If you have a conventional bonus product (also called a reversionary bonus product)	**The bonus takes into account** the initial sum assured and past bonuses.	The bonus is usually paid once a year.	**Guarantees:** Regular (or reversionary) bonuses are guaranteed as soon as we have declared them (usually once a year). Final (or terminal) bonuses are only declared at the maturity date, so are not guaranteed until claim stage.
	If you have a with-profit annuity	**The bonus takes into account** the amount invested, the investment growth and past bonuses we have declared (less charges for risk benefits and expenses).	The bonus is paid as part of the regular annuity payments.	**Guarantees:** The bonus is guaranteed as soon as it's declared. An amount is added to each annuity payment made.

More about the three types of with-profit policies:

Smoothed bonus policy	This is a smoothed investment policy where a policyholder's premiums (less charges) are invested into a fund account and the policy value grows by bonuses added at regular points in time. It works like a bank account with interest being added to it.
Conventional bonus policy	This is a smoothed investment policy where bonuses are declared through regular (or reversionary) bonuses and final (or terminal) bonuses. The bonus is declared on the original sum assured of the policy and the accumulated bonus to date.
With-profit annuities	This is a smoothed investment policy where bonuses are declared yearly, and then an amount is added to each annuity payment made.

What affects the size of the bonus?

How the investment performs

The most important factor in the size of the bonus is how the underlying investment performs. We invest your money in a mix of quality assets:

• Listed equities (local and offshore) • Fixed interest stocks, property and cash.

The mix depends on the product you have and the mandate given to the asset manager.

The decisions we make on how to best manage the investment

Other factors affecting the size of the bonus include how we decide to smooth the investment to reduce short-term volatility. We look at the bonuses we have given in the past to ensure that the investment remains fair to all investors and that it is in line with their policy conditions. We also take current bonus rates declared by our competitors into account.

Distributions to shareholders and tax and fee deductions

The bonus rate is also affected by the portion of the returns that are distributed to shareholders, and any deductions for tax and management fees.

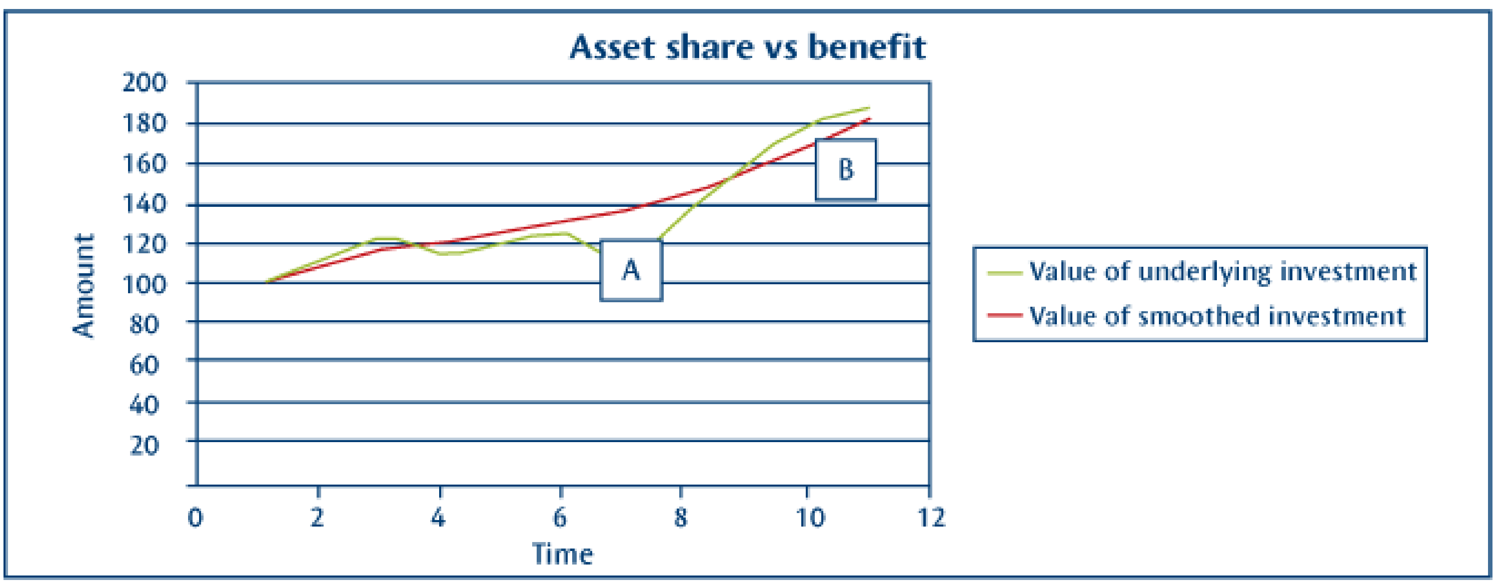
If you withdraw early

Your policy is designed for your contributions to stay invested until the maturity date. If you choose to withdraw your investment early, you may get a lower value. This may be due to two reasons:

1. We may recover expenses that you have not yet paid

Each contribution you make across the term of the policy includes a small portion to pay for the upfront expenses of the policy (such as the commission we paid to the financial adviser). If you withdraw early, we have to recover the expenses that have not yet been paid for.

2. We may adjust the payout in poor market conditions



We may adjust the payout if the value of the underlying investment is lower than the value of the smoothed investment (as shown at Point A). In this case, we would adjust the payout so that it reflects the value of the underlying investment rather than the value of the smoothed investment.

This is to protect the remaining policyholders. If too many policyholders are taking advantage of the higher smoothed investment amounts when the underlying investments are doing poorly, then this would affect the pool of money available for other policyholders' investments.

This adjustment is called a market value adjustment.

If market conditions are better (shown at Point B), the early withdrawer would receive the value of the smoothed investment rather than that of the underlying investment.

Contact us if you have any questions or need help

It is important to us that you understand how your with-profit policy works. This brochure gives you a broad overview but you can get detailed information from any of the following:

• Visit www.liberty.co.za, go to 'Fund Performance' on the bar at the top of the page and then to 'How with-profit policies work' • Contact your financial adviser • Phone our contact centre

This information as well as the more detailed document on www.liberty.co.za provide information required by current legislation, that is Directive 147 of the Financial Services Board (FSB) which governs the regulation of with-profit policies.

Explanations of common terms

Annuity	**A financial product where an investment is paid out in regular payments over a period of years.**
Asset manager	**The person who makes decisions on how to invest the assets in any investment.**
Final (or terminal) bonus	**A bonus declared at claim stage and added to the final payout value.**
Market value adjustment	**An adjustment made to a claim so that it reflects the value of the underlying investment.**
Regular bonus	**A bonus usually declared each year while the policy is in force.**