

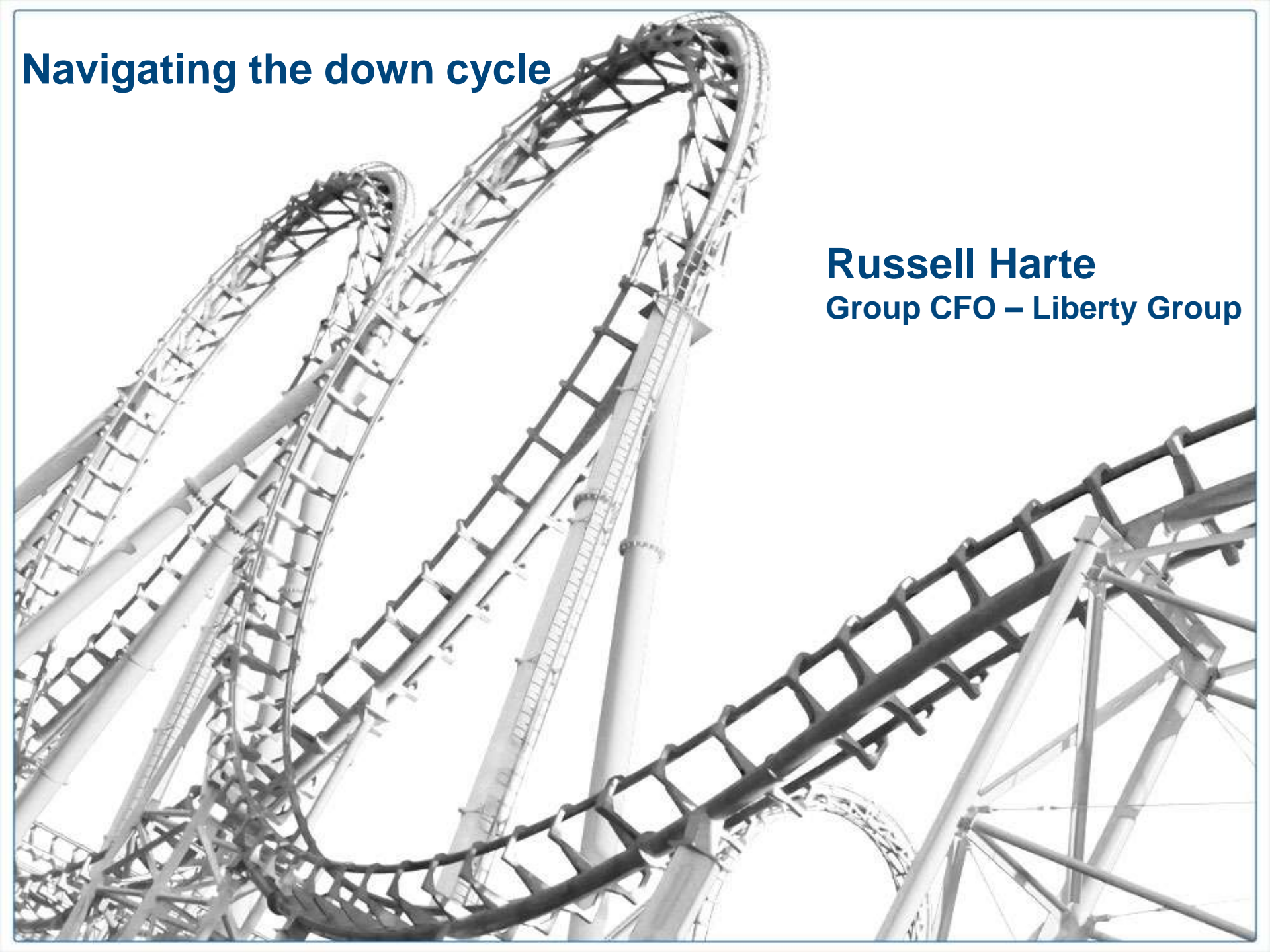


UBS's 11th Annual Financial Services Conference

14th October 2008 Cape Town

Navigating the down cycle

Russell Harte
Group CFO – Liberty Group





Points of focus

- Global and capital markets perspective
- The time of the risk managers!
- Macro environment
- Liberty's vision

A black and white photograph of a man in a suit, smiling and looking upwards while holding a yellow paper airplane. The image is overlaid with several overlapping circles in blue, purple, and yellow. The text 'Global and capital markets perspective' is written in white on the blue circle.

Global and capital markets perspective



Global and capital markets perspective

Global issues

- Sub-prime crisis and impact on global growth
- Liquidity concerns
- Recession

South African issues

- High interest rates, high inflation, pressure on disposable income
- Financial markets impacted by global crisis
- Political uncertainty
- Skills shortage
- FX rate volatility

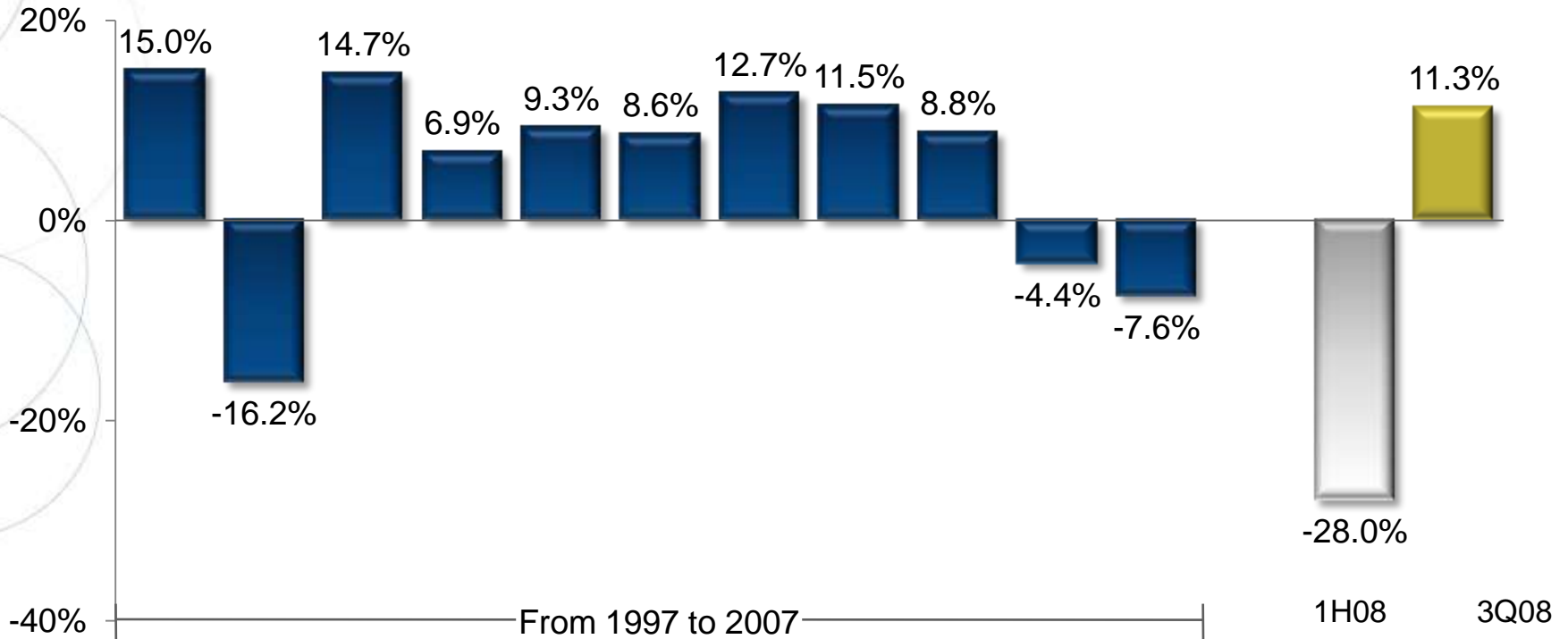


Global and capital markets perspective

South Africa should weather the storm

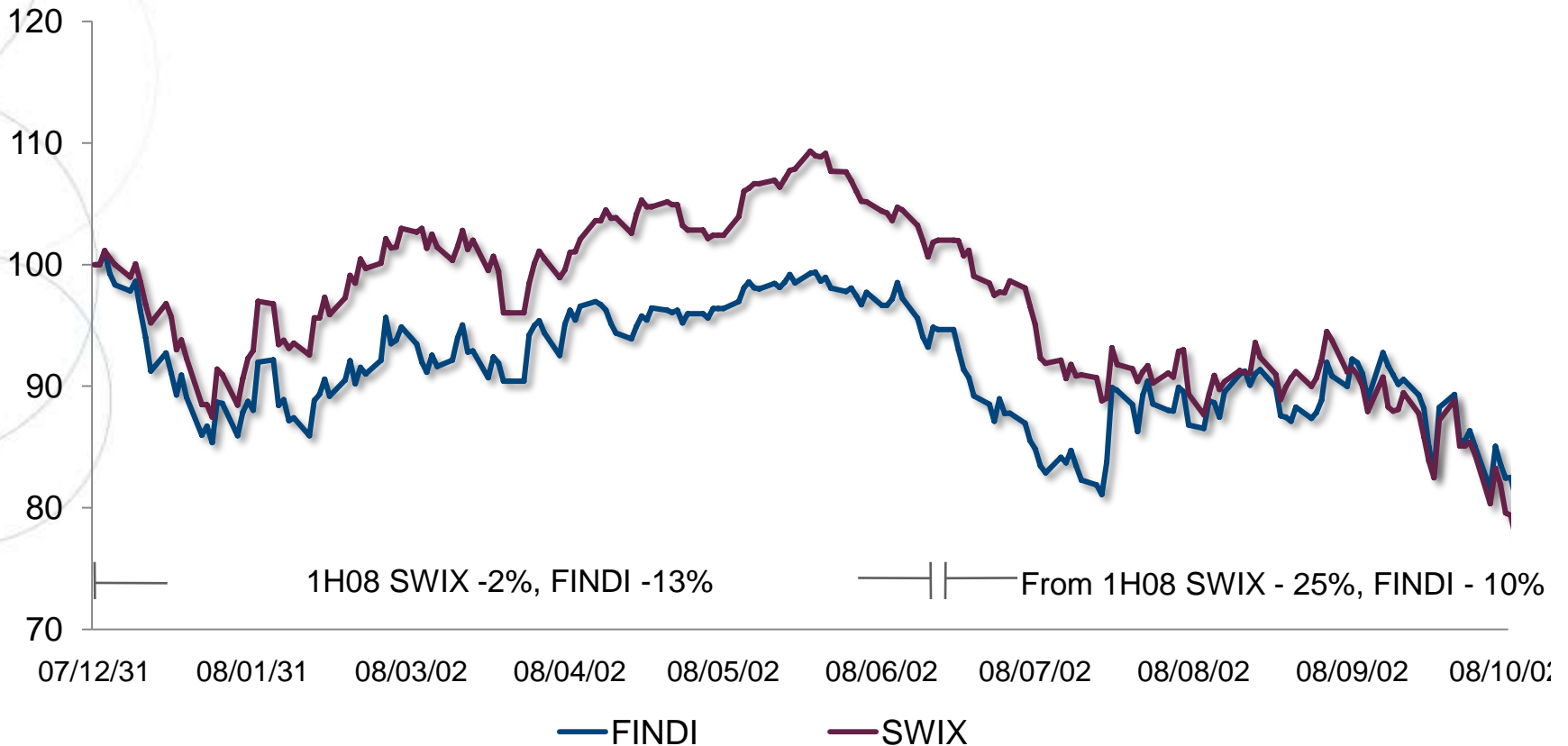
- Impact of sub-prime lower in SA - at present
- To date insurance industry appears less affected than banking
- GDP growth prospects still relatively promising in SA
- Interest rates and inflation appear to have peaked
- NCA has had the required impact of slowing down access to credit and curbing rising debt
- Recent political changes had a short-lived minor impact on markets as global events take centre stage

Bond market- capital returns



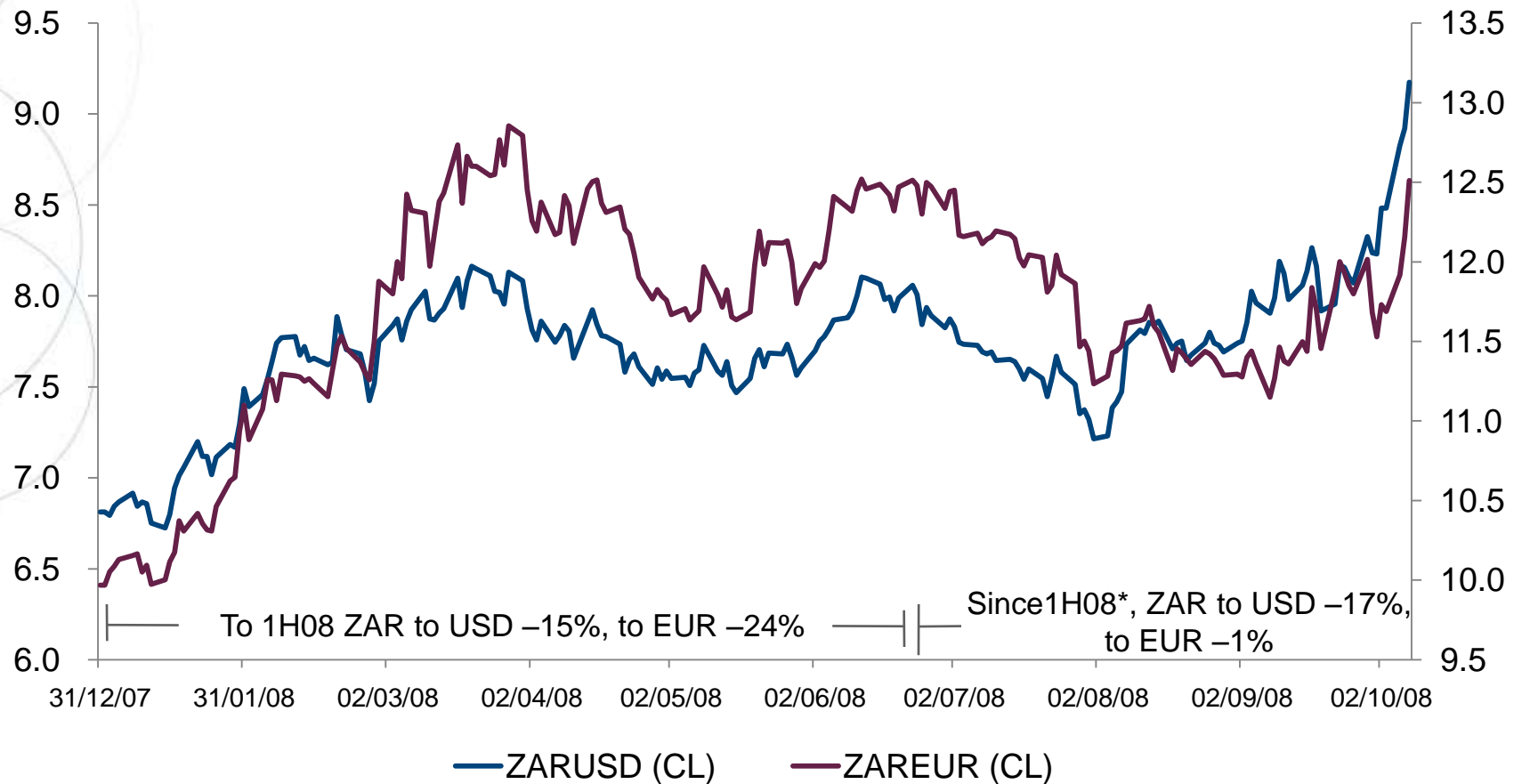
Extreme movements in bond market in 1H 2008
and volatility has continued since June 2008

Equity markets- index returns



Significant equity volatility –divergent sector performance

Foreign exchange returns



Extreme currency volatility in the last few months

Source: INET

* From 30 June 2008 to 8 October 2008

Liberty keeps the customer informed

A local perspective on the global economic crisis

Date of print: 6 October 2008



The impact of global economic events on South Africa has been limited. South African companies have not been as exposed to securities linked to the subprime mortgage market to the extent that companies in Europe and Asia have been.

The current rate of **domestic investment bodes well for future economic growth in this country.**

The economy is still in an upward cycle and Liberty Life is poised to continue on the solid performance which characterised it in the past.

The resignation of Thabo Mbeki has caused some jitters in the market but news that **the minister of finance will continue serving, despite having also resigned, has stabilised the market**

The **current global financial turmoil has its roots in the sub-prime mortgage crisis in the US.**

This has affected large US companies, notably the investment banks Bear Stearns and Lehman Brothers and the insurance and financial services company, American International Group (AIG).

Two other investment banks, Morgan Stanley and Goldman Sachs, will convert to being traditional banks under the close supervision of national bank regulators. The US Federal Reserve Bank has assisted AIG with an emergency loan.

A bill was passed in the US on 3 October which will allow **a \$700 billion bailout package by the US Treasury. This package is intended to ease the credit crunch and would hopefully see financial** institutions lending to each other again. The bill includes tax breaks, increased federal insurance on bank deposits, curbs on executive pay and increased regulation and supervision for banks.

A man in a dark pinstriped suit and tie is sitting on a bench, looking thoughtfully to the right. The background is a wall with several round wall clocks. Three of the clocks are visible, each with a different colored frame (blue, yellow, and purple) and a label below it. The labels read 'Lagos', 'Johannesburg', and 'Nairobi'. The wall is light-colored with a dark horizontal band. In the foreground, there are several overlapping circles in various colors (blue, purple, yellow, orange, green) that partially obscure the man and the wall.

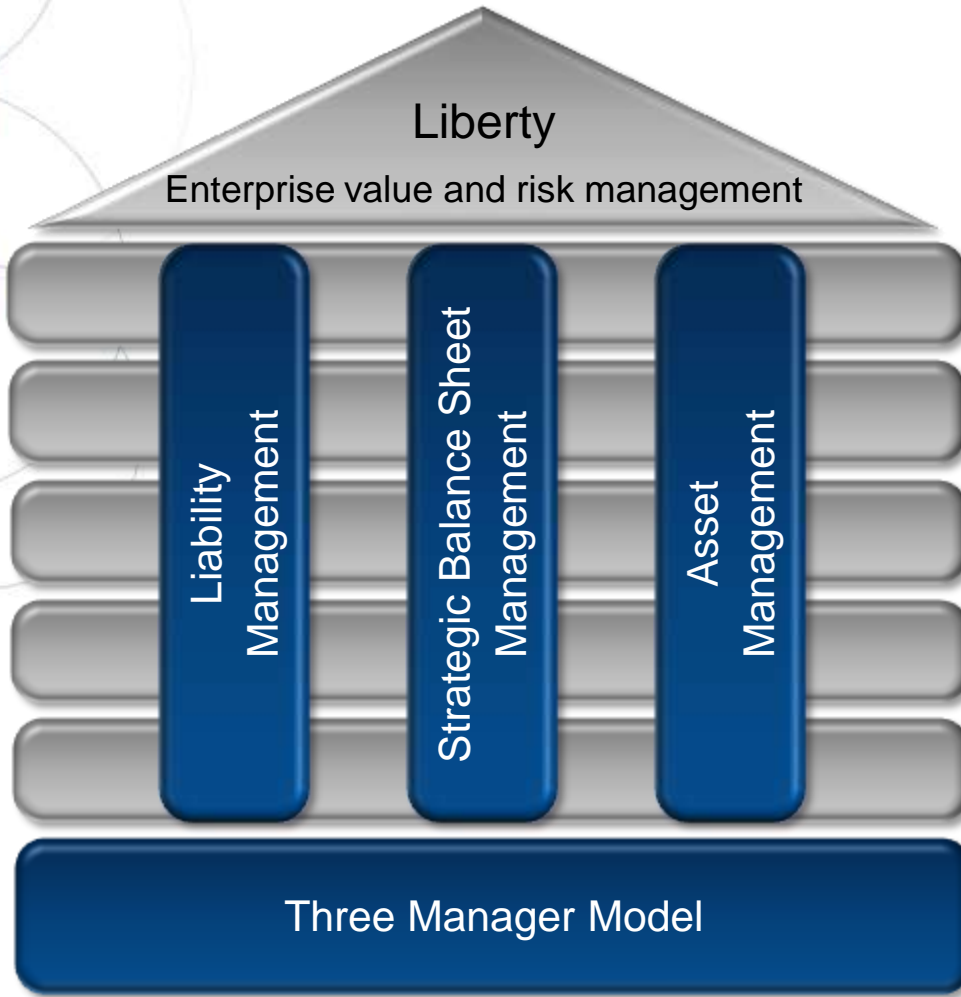
Lagos

Johannesburg

Nairobi



The time of the
risk managers!

Three manager model- what is this?



The Three Manager Model facilitates

- Understanding the value chain and associated risks
- Clarity of accountability
- Focused value creation and risk management in each BU across the value chain
- Creating and separating centres of excellence
- Across the business through:
 - Liability management (Life BU)
 - Strategic Balance Sheet Management (LibFin)
 - Asset Management (STANLIB)

 Link to Three Manager Model  Core EVRM components

Impact of market movements as at 1H 2008

- LibFin managing market risk

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

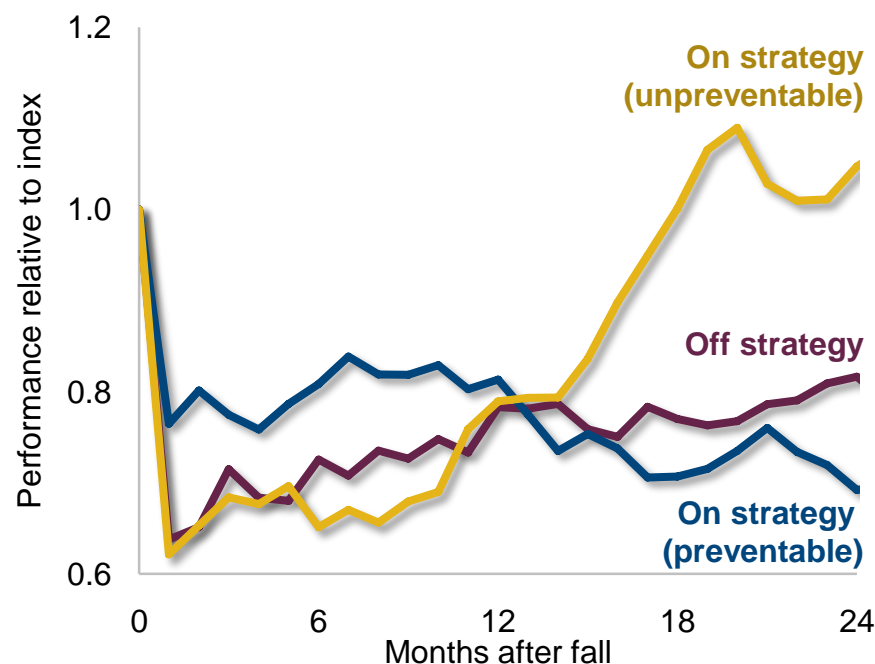
The market shows “zero tolerance” to lapses in risk management

Causes of share price shocks
(>20% fall in one month)

Classification	Drivers of falls
On strategy – unpreventable	<ul style="list-style-type: none"> • General market situation (31)
On strategy – preventable/controllable	<ul style="list-style-type: none"> • Profit warnings (18) • Concentrations (17) • Loss of confidence in financial strength (6) • Dividend cut (3)
Off strategy	<ul style="list-style-type: none"> • Operational risk (5) • Losses in off-strategy markets (2)

Source: Oliver Wyman analysis on 82 financial institutions who suffered 20% or greater drop in share price relative to the index in one month

Impact of share price “shocks”

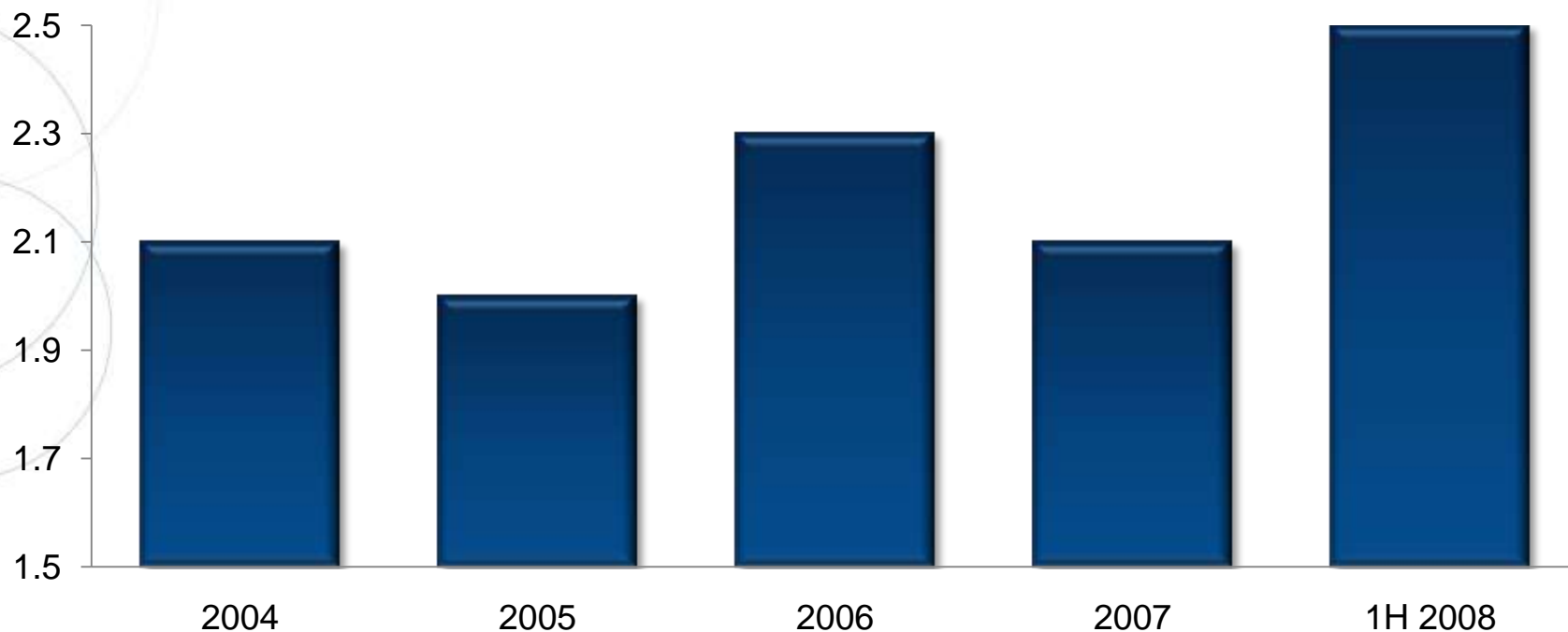


Source: Oliver Wyman analysis on leading financial institutions around the globe for last ten years

A risk and capital management framework helps Liberty to understand and manage volatility and hence avoid such shocks

Capital management –a strong focus

Liberty's CAR cover



- Actively managed capital
 - Corporate activity (CAL, STANLIB -R3.5bn in total)
 - Special dividends (R1bn in June 2006)
 - Share buy back (R500m in 2H 2007)
- Further de-risking of balance sheet alluded to at group's interim results



Capital management

- the move to Solvency II

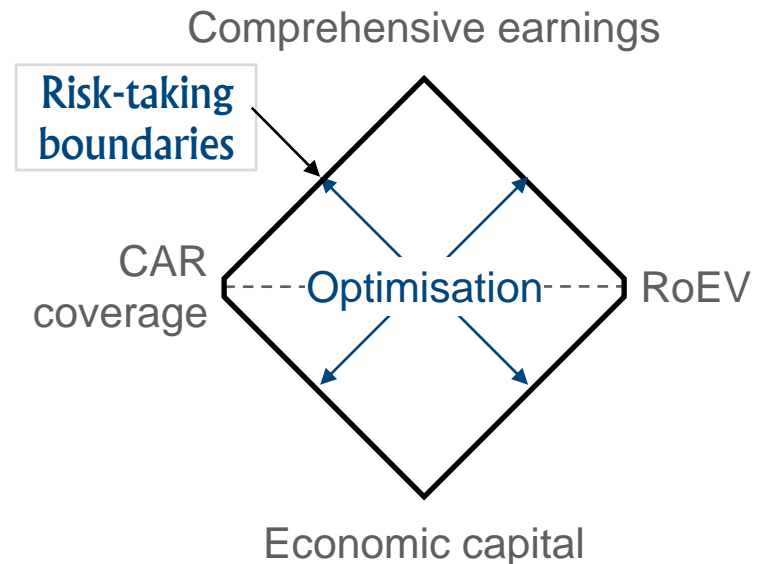
Moving from
regulatory driven capital management framework
to a risk based capital management framework

At the heart of the risk based capital framework
is Group wide Enterprise Value and Risk Management (EVRM)

Risk Appetite – the starting point

- Liberty management recognises that value creation is driven through risk-taking activities and balances the upside from higher return with the downside of taking risks
- Risk appetite defines the maximum amount of risk Liberty is willing to take on across various dimensions
- Risk appetite set by Board, taking into account strategic management objectives and stakeholder expectations
- Risk appetite statement needs to be translated into limits at BU and overall group level

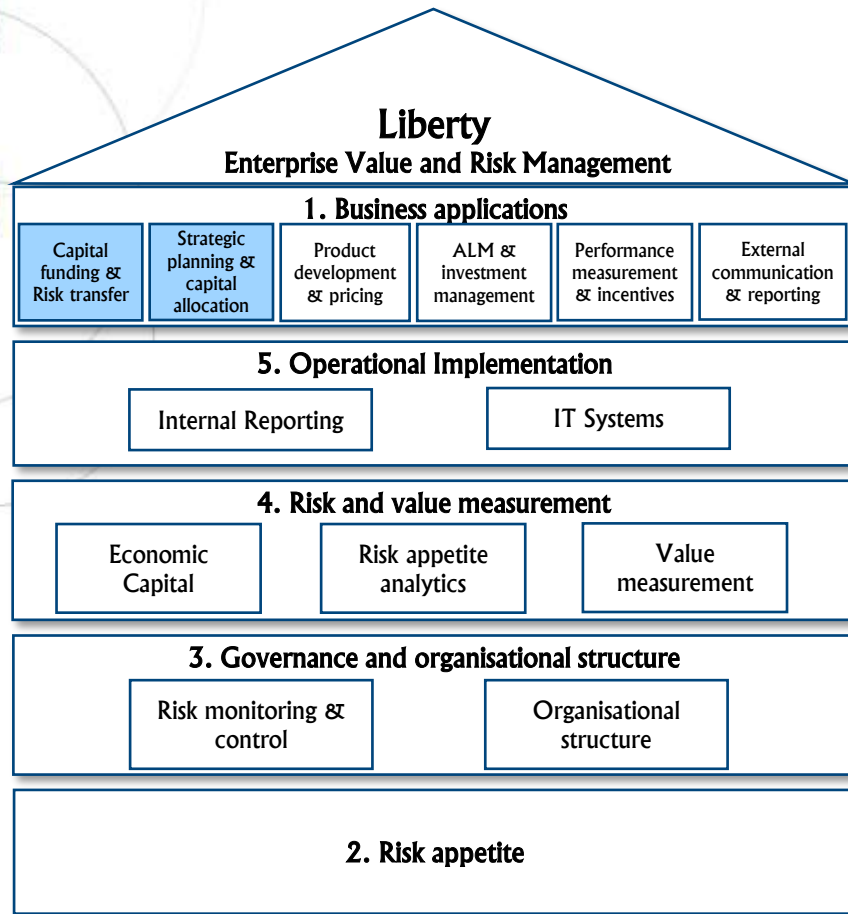
Risk appetite dimensions



Liberty risk exposure is being managed to fall within risk appetite over time

EVRM Core enablers

Overview






Five core enablers are discussed:

1. Business applications - integration of framework in core business processes
2. Risk appetite - maximum amount of risk Liberty is willing to take on
3. Governance and organisational structure - assurance, management and oversight structure to ensure governance within risk appetite
4. Risk and value measurement - tools to quantify risk adjusted profitability and diversification benefits
5. Operational implementation - reporting and IT systems to support the framework demands



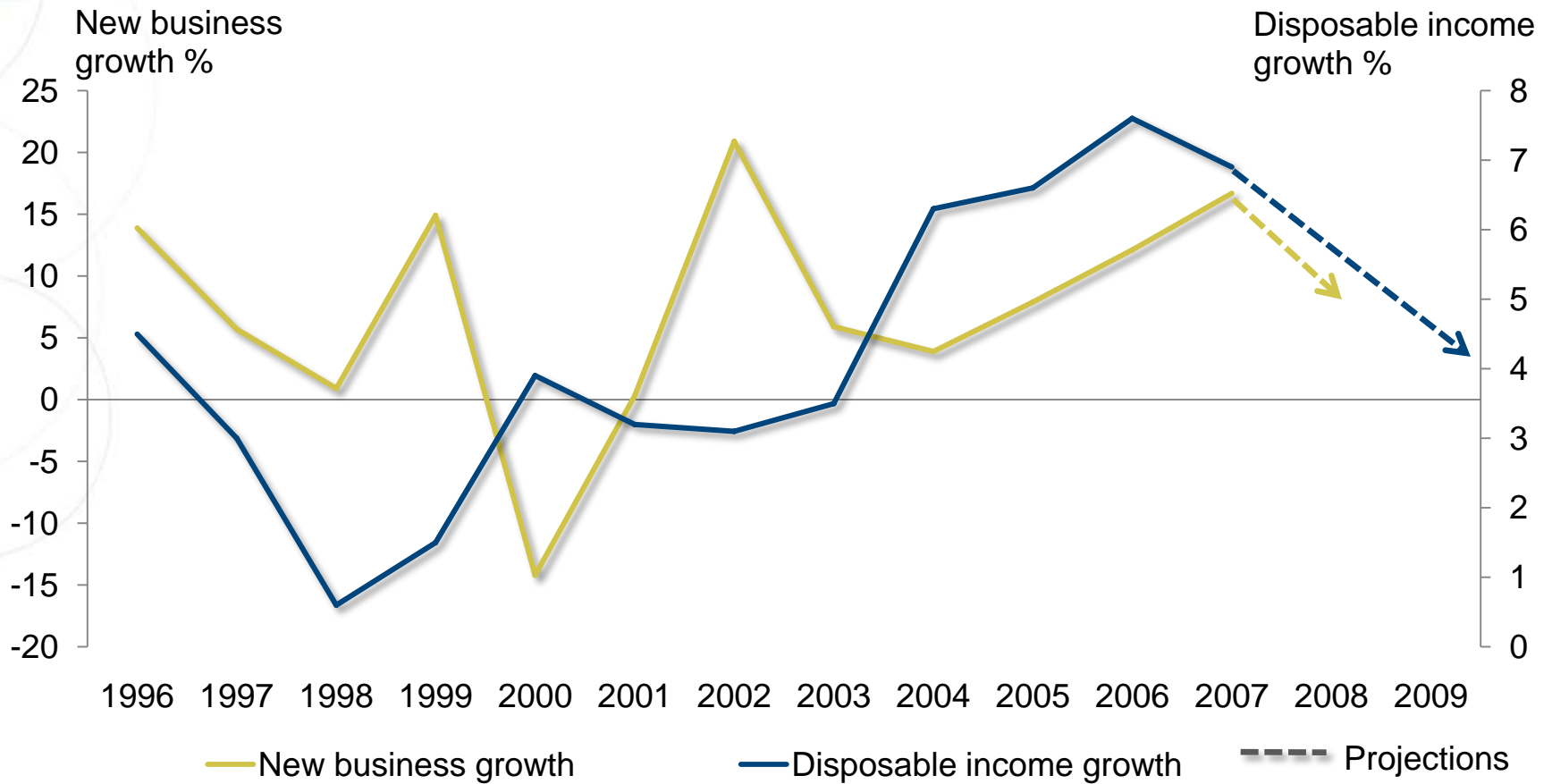
Macro environment

Key economic expectations

Macro-economic factor	2007 ^A	2008 ^F	2009 ^F
GDP %	5.10	3.30	3.00
Growth (%) in household disposable income	6.90	3.80	4.00
Household debt as % of disposable income	76.50	75.00	70.00
Debt servicing cost as % of disposable income	10.00	12.50	11.60
Prime overdraft rate %	14.50	15.50	14.50
CPIX	6.50	7.30	6.00
Market return (ALSI) %	15.9	?	?
Overall economic environment			

Economic overview

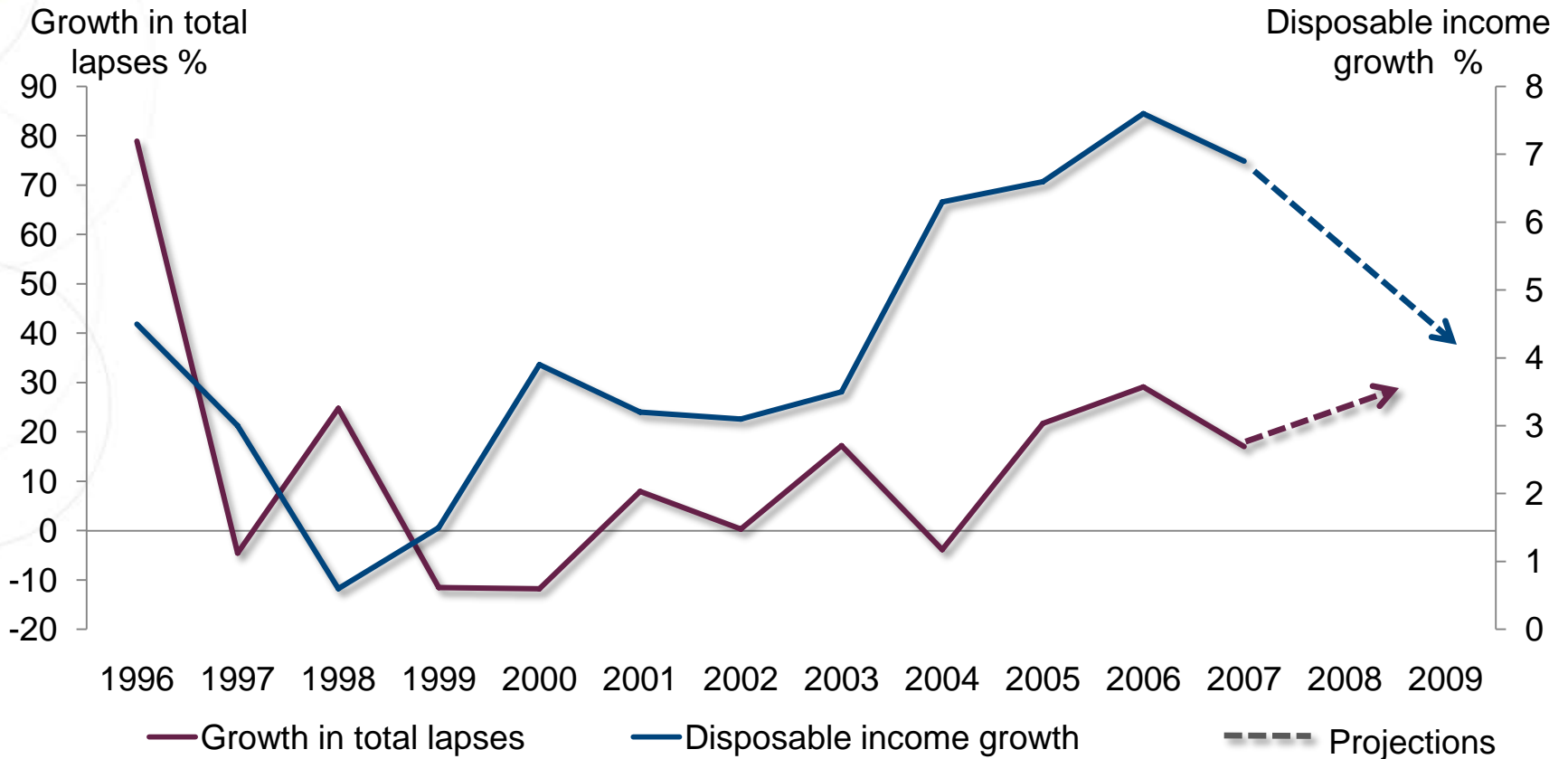
- Growth in household disposable income vs new business



Pressure on disposable income will place pressure on new business

Economic overview

- Growth in household disposable income vs lapses



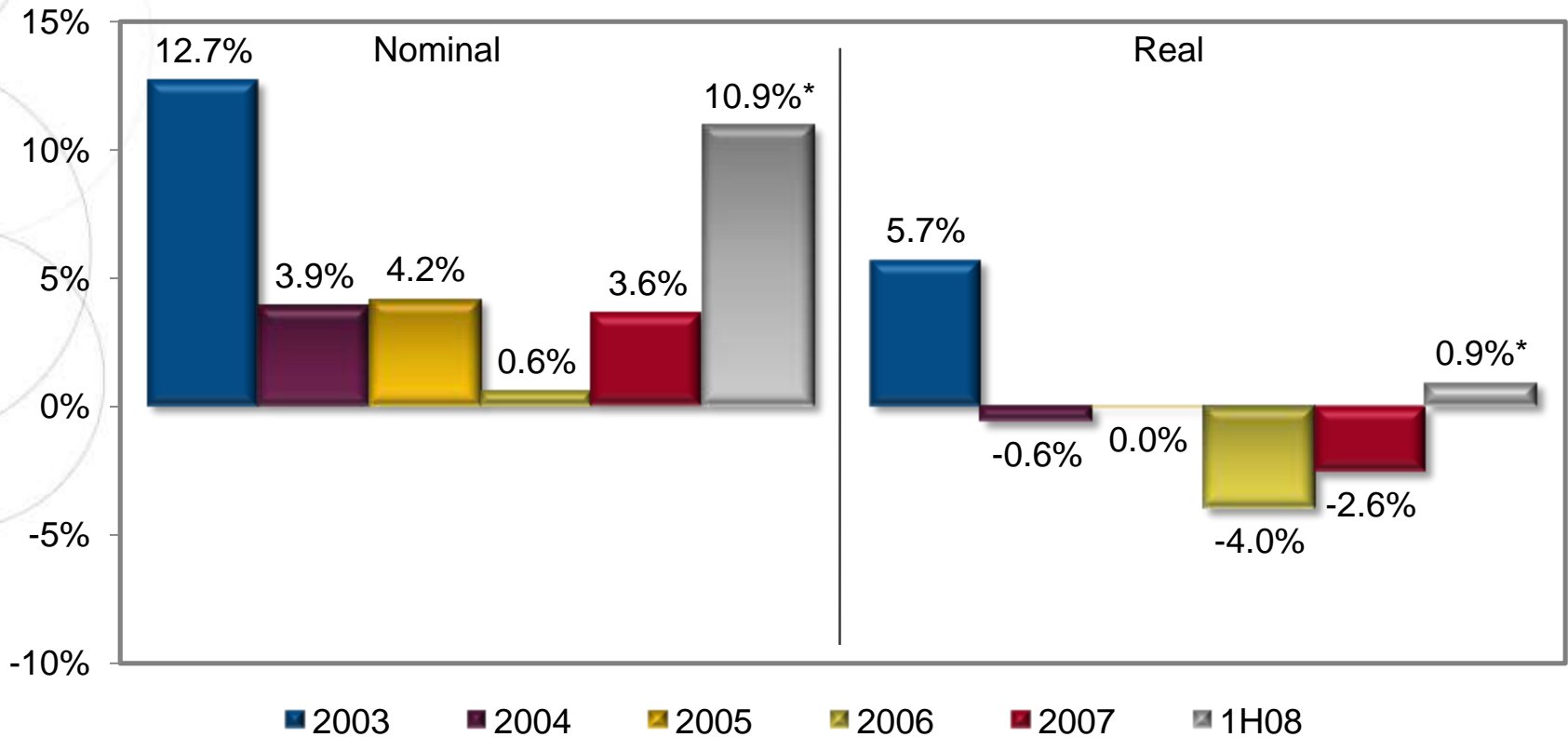
Pressure on disposable income will place pressure on lapses



Cost savings initiatives

- Business as usual (BAU): The focus is to keep costs below inflation:
 - budget process
 - non-essential projects curtailed
 - driving value from projects
 - hiring freeze in select areas
- Extend and grow initiatives remain important to the Liberty strategy and will continue
- Lean 6-sigma
- Outsourcing opportunities
- Review separate strategies for open/closed books

Costs – business as usual



Cost focus has been a strong management discipline

* Recurring Individual life cost growth is 13.8% consisting of 10.9% "business as usual" and 2.9% "leverage and grow"

A young girl with dark hair is looking through colorful goggles. The goggles have a lens with overlapping yellow, green, and orange circles. Her hands are raised to her face, holding the goggles. The background is a white brick wall. In the foreground, there is a graphic overlay of several overlapping circles in various colors: a large blue circle on the left, a purple circle in the center, and a yellow circle at the bottom left. The text "Liberty's Vision" is written in white, sans-serif font across the middle of the image, partially overlapping the blue and purple circles.

Liberty's Vision



Delivery on strategic vision

We are a market leading
wealth management company
in Africa and other select emerging markets

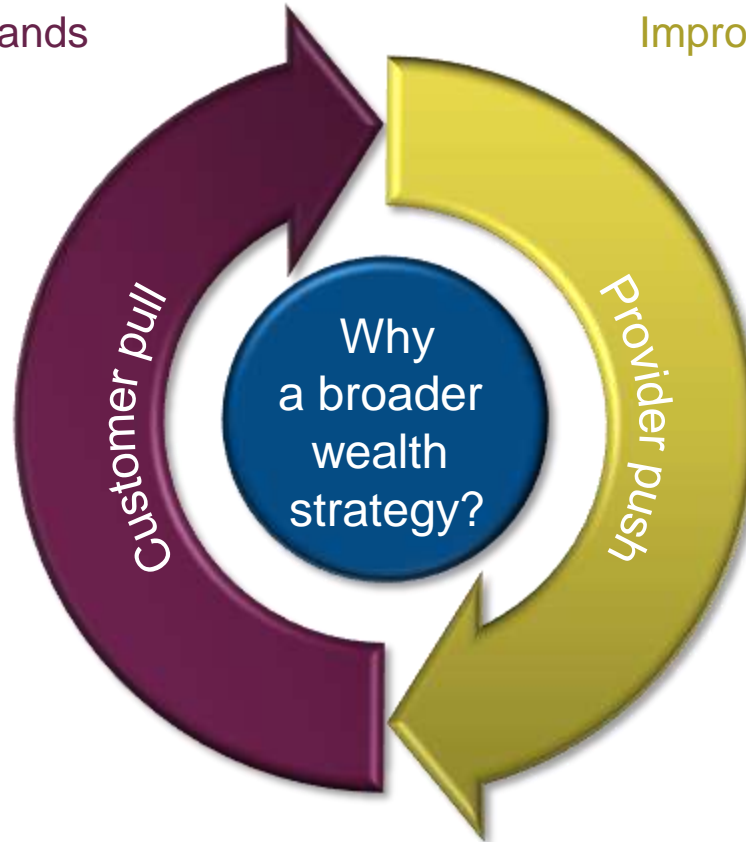
We are a family
of specialised businesses and partnerships
informed by customers needs

Liberty's strategy

- a response to changing customer demands

Changing customer demands

- Varying wealth management needs over lifetime
- Convenience of a one-stop shop
- Wealth management solutions vs standalone products
- Attractively priced product bundles

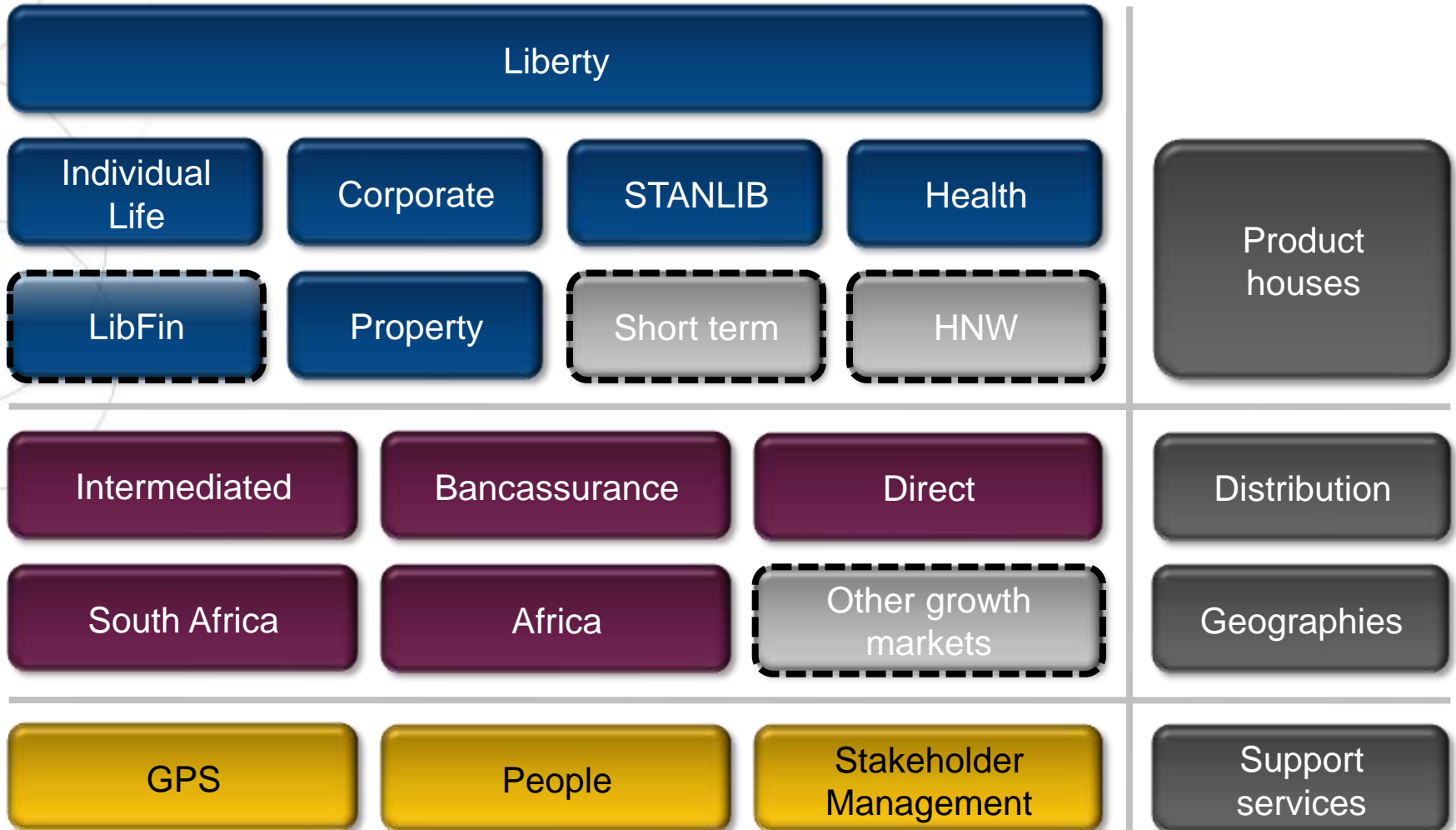


Improved company performance

- Revenue synergies
 - Cost synergies
- Capital efficiencies
- Improved persistency
 - Risk and earnings diversification
- Strategic flexibility

Financial services providers are pursuing integrated wealth management strategies in order to meet changing customer demands and improve company performance

While we have broadened our wealth offering over the past year, several gaps remain



People strategy

Building the foundation for today's business whilst designing and implementing an architecture for tomorrow's business

Building the architecture of HR to partner with a global business

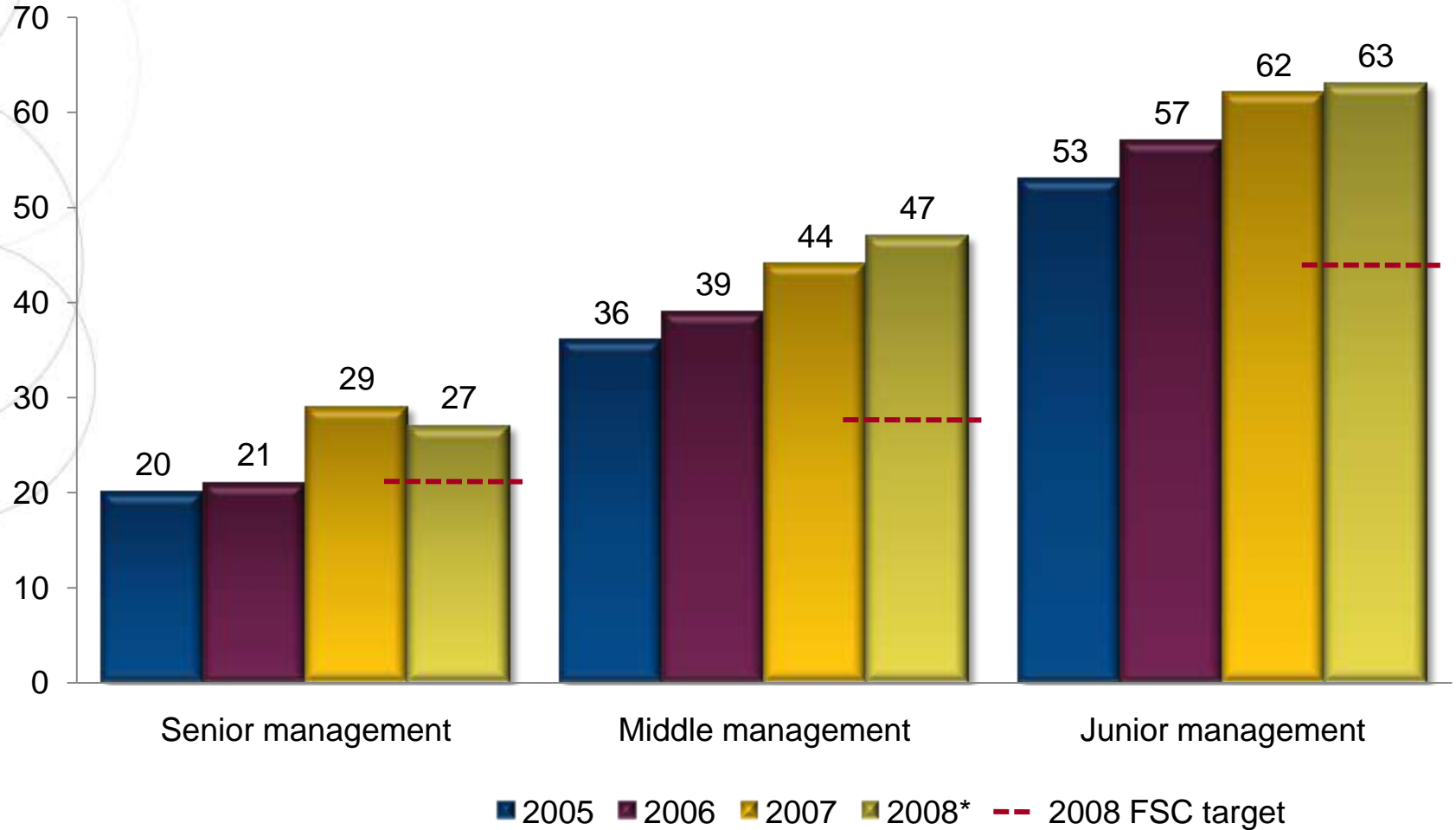
Capitalising on the power of specialisation and the strength of the collective group

Organisational/leadership effectiveness interventions

Mobilising and sustaining the Liberty wealth strategy

Key objective for 2008 and 2009 is to move from "enlistment" to "mobilisation" for hard delivery and performance management

Transformation has been improving



* As at August 2008

Source: FSC audited scorecard (to 2007)



Key success factors are in place

- Strong, energetic management team
- Strategic advantage with Standard Bank
- Diversified strategy
- Pre-eminent, balanced distribution
- Strong cash flow from existing business
- Significant focus on risk management



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Questions?