“The company I founded almost 42 years ago has prospered far beyond my wildest hopes and expectations”

Group Chairman's statement

"Looking back on Liberty Life's achievements over four decades, the fun and satisfaction I have personally enjoyed in developing Liberty Life to its present status has been totally and undeniably absorbing"

Donald Gordon
Chairman

INTRODUCTION

I write this Chairman's review at the end of my career at the helm of Liberty Life, the company I founded almost 42 years ago, which has prospered far beyond my wildest hopes and expectations at the time of its formation in September 1957. I am privileged to have seen the Group evolve into a major international financial institution which has a worldwide reputation for innovation, high quality operations and dedicated management, and providing enviable returns to its investors and policyholders over many years. As you can imagine, retirement has been a decision which I took only after great deliberation and assessment and in the knowledge of the rapid approach of my seventieth year. However, I am pleased that Liberty Life, by design, will be left in sound hands and well placed to face the future, however challenging that may be.

Looking back on Liberty Life's achievements over four decades, the fun and satisfaction I have personally enjoyed in developing Liberty Life to its present status has been totally and undeniably absorbing. I doubt whether anyone has enjoyed a business challenge more than I have done at Liberty Life. It has been gratifying in every way and I cannot believe my good fortune in being pointed at the right time into this particular field of enterprise. For me, perhaps, it was more than the achievement of the impossible dream.

Apart from the tumultuous years of the Second World War spanning the 1939 – 1945 period, the current era of great uncertainty, change and confusion through which the world is passing is probably unmatched in modern economic history. Such is the great divide that we cannot even agree on the date of the end of the millennium, which is undoubtedly 31 December 2000, but for reasons of expediency or otherwise, the consensus seems to have adopted 31 December 1999 as the relevant date. In effect, we have now created a gap year, which is neither in the second nor the third millennium. This intervening year, given the uncertainty of global economics, could present a special opportunity to prepare for the twenty-first century by seriously addressing factors which are currently major disruptive influences on global equilibrium.

Group Chairman's statement (continued)

The world is now unarguably driven, to an unhealthy degree, by markets and mighty corporations which are far more powerful than any government. Markets themselves have been stimulated by the advances in sophisticated technology, providing instantaneous communication through networks of satellite connected computers enabling audio, video and electronic links to take place between financial participants around the world. These undreamt of communication developments have spurred the ability of mammoth corporations and financial institutions to move vast capital sums around the globe, far in excess of the requirements of world trade, market liquidity or long-term investment. Some of the behemoths involved, including many of the world's largest banks and financial institutions, are individually far more powerful and certainly better resourced than the majority of most of the emerging countries in the world, which in any event are unable to cope with the sophistication of the intruders. This wave of liquidity and speculative capital movements, supported by the evolution of the insidious derivative and stock lending industries, has the capability to overwhelm and devastate both small and ultimately also large economies and their capital markets. These capital flows in tandem with speculators and arbitrageurs have been at the heart of the virtual demise and economic destruction of many reasonably solid emerging market countries and developing economies, more recently adding to the problems of major countries such as Russia, China, Japan, Brazil and now threatening the whole of Latin America.

Many of my deeply held views and fears concerning the fragility of international capital and investment markets expressed in my Chairman's statements of recent years have proven to be justified and are slowly being played out. In my review last year I stated that "1997 was perhaps the most significant year in recent economic history", little thinking that 1997 would be seriously upstaged by the events of 1998. The trauma of August and September 1998 was described by eminent American financial leaders as the worst financial crisis for fifty years. For the moment, this assessment by high level insiders has tended to fade into economic history.

The Asian crisis, which commenced in Thailand in 1997, continued and contagion became a new word in our financial vocabulary as the problem reached South Africa amongst many other emerging economies. The now familiar sharp downturn dramatically affected and devastated the Rand and South African financial market and investor confidence in 1997 and 1998. Similar situations and events seemed to be expanding inexorably across the globe by the second half of 1998. However, the leading stock markets in the United States of America and Europe quickly recovered their composure to reach record highs by the year-end and into the first quarter of 1999 when the Dow Industrial Index topped the 9700 mark for the first time on 5 March 1999, having risen by 427 points in the first week of the month; a movement of some 4,5% in five days. This also represents a 29% improvement on the low for 1998 on 31 August of that year.

International investment and speculative cash flows may initially have been welcomed by both politicians and businessmen in smaller countries in particular, when they have been directed inwards into capital hungry markets. They are often erroneously portrayed as the means by which the wealth of the developed world countries is helping to promote the economic development of emerging countries by exporting capital. But when the flow is reversed at a pace unsustainable by the underlying economy, it has become apparent that the speculators and arbitrageurs have nobody's interests but their own profits in mind. The resulting volatility has caused the long-term cost of capital and interest rates to escalate exponentially, thus stultifying the ability of smaller countries to develop and sustain free market principles, with interest rates propelled to catastrophic high levels as some governments seek to protect their currencies and so avoid devaluation. Indonesia, with a relatively large population and economy, was an early casualty, losing 85% of the value of its currency with significant consequential social unrest, causing the loss of at least a thousand lives with raw hunger becoming endemic. Irresponsible speculative activity driven by arbitrageurs and speculators emanating largely from mature economies perpetuated and enlarged the gap between the rich and poor countries of the world rather than the reverse.

The role of some of the international commercial and investment banking community and securities houses in the turbulent financial and capital markets of the recent past in my view demands urgent enquiry and correction, particularly where their activities are not trade related or with a solid business motivation. The world's leading countries must appreciate that prosperity must be shared and new solutions found to rebalance the world economic equilibrium if vital global stability is to be sustained. At the very least, destabilising activity of this kind by the large players should be publicly stigmatised as anti-social activity at a level equivalent to money laundering and other unacceptable behaviour which degrades the reputation of free market principles as seen from the perspective of weak unprotected nations.

For the moment, two areas, the United States and Western Europe, remain relatively immune from the ravages of the times, but they too could be overwhelmed by the backwash caused by the massive power of world markets, which have provided the opportunity to speculators, hedge fund players, currency, stock and equity market arbitrageurs to extract unseemly profits from relatively unsophisticated countries. The recent withdrawal of support for the United States treasury bond market by certain Japanese institutions caused some panic in United States financial circles and resulted in the United States and the Group of Seven reluctantly accepting a lower Japanese Yen exchange rate, which has made Japanese exporters even more competitive. In spite of its problems and the severe recessionary conditions prevailing, Japan still remains by far the major creditor of the United States and the United States remains the world's largest debtor nation; and so the stand-off continues with Japanese prime interest rates now approaching zero compared with interest rates on long-term United States treasury bonds moving higher.

All of this is reflected in the almost desperate strategy of major financial institutions and other global businesses to become larger and larger by merger or otherwise, if only to survive as larger units in the face of the power and competitive nature of other pools of capital. This trend could remain a major disruptive force in the early years of the new millennium. Only the most powerful countries can still seek to deflect the adverse impact of these financial developments which could have major political consequences in due course.

Returns offered by leading stock and equity market prices at their current levels in the developed western world are much lower than historic returns, and this has serious consequences for savers, and particularly those who are saving for their retirement. Lower interest rates have already caused many pensioners and prospective pensioners to forsake the fixed interest markets in the hope that future returns on the stock market will repeat the levels of the past. A recent survey showed that over 50% of American investors believed that the stock market would return over 20% in 1999 and beyond. This redirection of investment funds into the stock market has become a self fulfilling prophecy in the short run, as the volume of buyers outweighs the sellers; but this only compounds the problems for the future.

My own view, now shared by many, has been to warn of the certain serious consequences of a likely severe downturn in western stock markets as individual investors become more and more oblivious of the risks inherent in ballooning stock exchange activity. But the experience of the Japanese stock market should remind us that, although the flywheel of current United States stock market performance seems to produce an inevitable momentum towards unlimited future prosperity, economic reality will eventually prevail. Ten years ago explanations abounded as to why the Japanese stock market

Group Chairman's statement (continued)

was able to sustain inexplicably low returns: national work ethic, long-term thinking, powerful central government planning, effective management technique, and so on were proffered as irrefutable logic. Today, as we look at a severely downgraded Japanese economy and the devastated Nikkei Dow Index hovering around 14 000, from its peak at over 39 000 in 1990, and with Japanese financial institutions in total disarray, there is the same inexplicability about the United States stock market, and all investors should remain very vigilant cautious and humble in these not dissimilar conditions.

My experience over almost 50 years has convinced me that with few exceptions only proven and quality investments deliver sustained good performance, and that although timing is always difficult, an approach that is based on a clear and sound understanding of fundamental principles always prevails in the long term. No doubt, the irrationalities of the current market will correct in due course, as they have always done in the past.

THE SOUTH AFRICAN SCENE

The inexorable march of time will see South Africa's second multi-racial democratic general election taking place in early June 1999 and with it the smooth transition of power from President Nelson Mandela to President-designate Thabo Mbeki, both of whom I hold in high regard. To President Mandela, I should like to add my warm personal tribute for his dedication to the reconciliation process in the New South Africa and the lustre which he has brought to his office and the good standing of South Africa in international circles. His official presence will be greatly missed on both the local and international stages. Nonetheless, of great importance for the health of the democratic process will be the emergence of a credible and responsible political opposition in order to stimulate political debate and policy alternatives.

The current government is to be congratulated on moving its stance during its initial period of office towards a much more flexible free-market orientated position thereby winning the increasing trust and confidence of the core international business and investment communities. The fragility of that trust and confidence in an increasingly competitive and unforgiving world environment cannot be under-estimated if South Africa is to realise its full potential as the powerhouse of the sub-continent.

The recent spate of labour legislation, although possibly laudable in its intentions of redressing past discrimination, cannot but contribute further harm to an inflexible and over-regulated labour market established over decades on the basis of western practice in sophisticated economies. Such drastic legislation does not meet the needs of an emerging market economy in which job creation must be the most important social and political objective. I strongly urge the prospective new government to review as soon as possible after the general election its whole approach to labour legislation and its impact on meeting the needs and aspirations of the unacceptably high numbers who are unemployed.

Given this background it is little wonder that the levels of serious crime and violence in South Africa have in some areas reached endemic proportions and become a major subject of international attention and focus. The direct and indirect cost of crime must run into countless billions of rands and presents a serious handicap in terms of local business cost structures and international competitiveness. Making decisive inroads into the levels of crime and the insidious growth of graft and corruption is now a paramount national imperative.

Economically South Africa did not fare well in 1998 with a broadly-based contraction in business activity resulting in recessionary conditions with a barely positive real growth rate of 0,7% for the year. The outlook for at least the early part of 1999 is far from promising as South Africa's economy suffers from stagnant commodity markets and a struggling manufacturing base. Some of this affliction can justifiably claim to have been externally sourced from the Asian contagion, the reverberations of the Russian debacle and the resulting impact on world financial and capital markets. In comparison with practically all other emerging markets, South Africa has generally weathered the economic storm relatively well with its solid fiscal and monetary policies securely in place. However, this strength can act as a magnet for international (and local) speculators and arbitrageurs to ply their questionable trade.

In spite of a substantial depreciation of the Rand during 1998, partially reversed over the past six months, the impact on the South African inflation rate has been relatively benign against a background of worldwide deflationary pressures. Recent inflation has peaked at some 9% and is forecast to generally decline during 1999, thus exacerbating the economic and social burden of real interest rates which are clearly too high.

In the aftermath of the Russian crisis South African prime interest rates rose to a high of 25,5% and to date have fallen to 20% as local and international markets have stabilised. Today's interest levels are significantly higher, nonetheless, than they were a year ago at which time interest rates were expected to fall by some 2 – 3% during 1998. Available data on the growth of money supply and the extension of credit and diminishing inflationary pressures would seem to indicate that a lower interest rate platform is justified notwithstanding the fears for the stability of the Rand. Interest rates currently standing at 20% are a serious drag on economic activity and confidence and a major deterrent to inward capital investment and ultimately significant job creation.

In my view a number of opportunities in the recent past to eliminate exchange controls have been passed over and their retention, albeit with diminishing rigour, constitutes an ongoing impediment to South Africa's full and confident participation in world political and economic developments. The evolution of the so-called asset swaps mechanism which allows institutions to invest abroad has been a serious set-back for liquid and blue chip counters of corporate South Africa as they have served to sharply contract and denude the capacity of local institutional investors to fulfil their normal role of providing a solid equity base to absorb and hold equities in core South African corporations. More than 50% of this core equity base could well have been reallocated or sold off into an unwilling market for the purpose of participating in the headlong frenzy of completing asset swaps to achieve the permitted 15% ceiling of foreign asset holdings as soon as possible. This, together with the related stock lending process and speculative activity, has driven the South African blue chip share valuations to extremely low levels and created a two-tier market differentiating vastly between larger liquid blue chip stocks and illiquid smaller company valuations, with adverse and negative implications for the blue chip counters concerned. This lies behind some of South Africa's leading companies seeking to relocate their primary listing to the London market.

However, further elimination of exchange controls will require more rigid disclosure standards and proper systems of checks and balances introduced to regulate activities such as stock lending, asset swaps and the burgeoning derivatives market. Also, legislation to enable companies to repurchase their own shares remains an important and urgent priority.

LIBERTY LIFE GROUP RESULTS FOR 1998

Against the backdrop of a challenging economic environment, highly volatile investment markets in both South Africa and internationally, punitive local interest rates and a declining public ability and propensity to invest in long-term savings contracts, the Liberty Life Group emerged from its

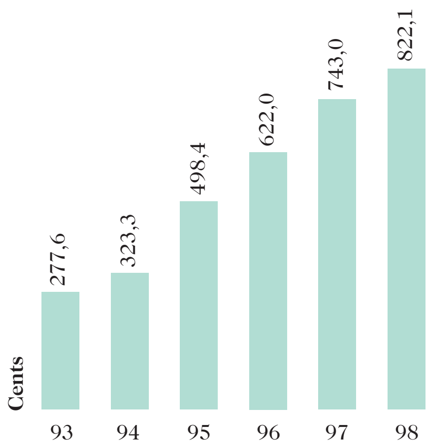
Group Chairman's statement (continued)

1998 financial year relatively unscathed. Inevitably the state of the investment markets impacted on the interests of shareholders, policyholders and unitholders alike but Liberty Life has been fortunate in being able to draw strength from its highly secure and powerful capital base.

Liberty Life's new business inflow at R5,91 billion for 1998 including single premiums, while marginally less buoyant than the R6,26 billion achieved in 1997, was especially notable for the increase in the more important recurring premium income to a new record level of R1,32 billion, up some 9% on the previous year's R1,21 billion and giving rise to a pleasing enhanced market share. This reflects on the commitment and professionalism of the Company's sales and marketing personnel.

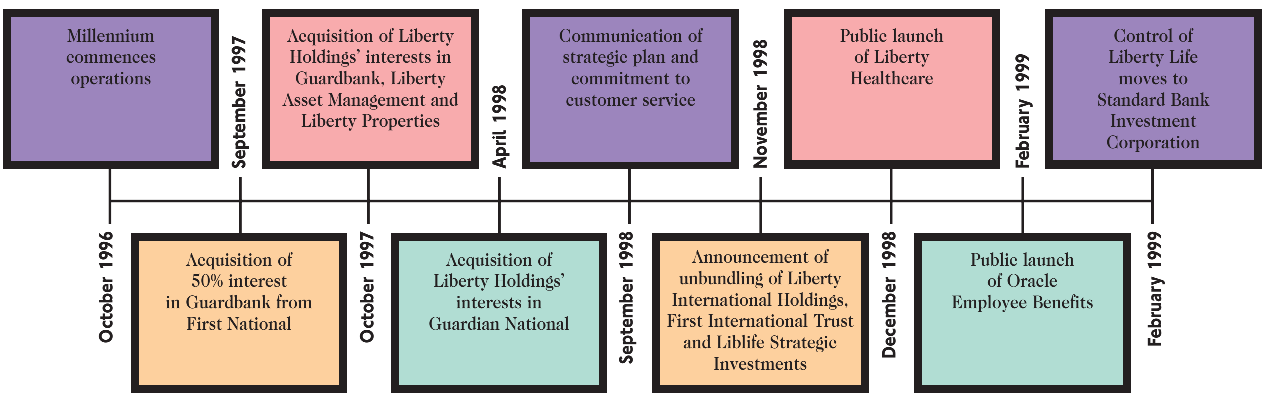
Following extensive internal restructuring, Liberty Life is now the parent company for a wide range of financial services activities in South Africa other than life insurance and showed a highly satisfactory 16,3% increase in taxed headline earnings from R1,88 billion in 1997 to R2,19 billion in 1998. These core headline earning numbers now exclude capital movements on shareholders' funds and after adjusting for the additional shares issued during 1998, headline earnings per share increased by 10,6% from 743,0 cents in 1997 to 822,1 cents in 1998.

Headline earnings per share



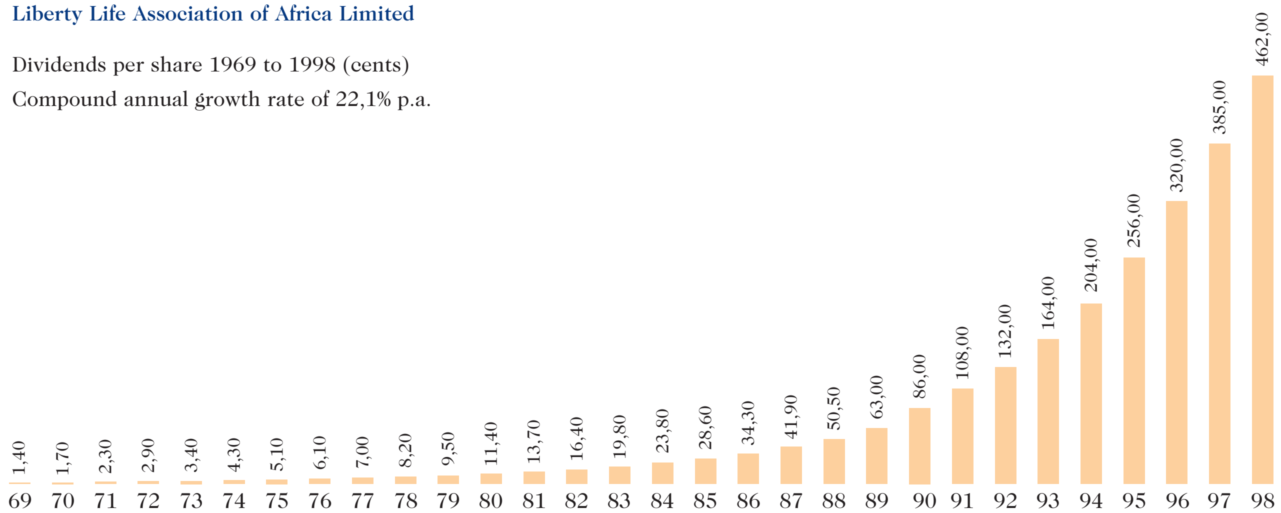
In line with Liberty Life's stated intention of maintaining a stable dividend policy linked to medium-term trends, total normal dividends for 1998 have been increased by 20% to 462 cents per share as compared with 385 cents in 1997. It will be recalled that in 1997 a special anniversary dividend of 40 cents per share was also paid to celebrate Liberty Life's fortieth year of operations dating back to October 1958. Over the past two decades, the increase in Liberty Life's annual dividend has never fallen below 20% in any year and has averaged a 22,7% increase over that period compared to 22,1% achieved over a longer thirty-year time frame. This implies an increase in the dividend itself from an effective 1,4 cent dividend in 1969 to a level of 462 cents for 1998. I would like to believe that this consistency of long-term performance has not been matched by any listed company anywhere in the western world.

Development of financial services operations



Liberty Life Association of Africa Limited

Dividends per share 1969 to 1998 (cents)
Compound annual growth rate of 22,1% p.a.



In 1998 the rand-hedge qualities of Liberty Life's overseas investments came very much to the fore supporting an increase of 12,5% in total assets to R113,7 billion at the end of 1998 as compared with R101,1 billion at the end of the previous year. Contributing factors include additional investments in and valuation surpluses arising from fixed properties as well as the growing wholesale pension fund business being undertaken by Liberty International in the United Kingdom.

Liberty Life's total shareholders' funds grew during 1998 by R1,1 billion to R18,3 billion while total capital employed, including minority interests but excluding contingency and other reserves held within the life fund, totalled R34,1 billion at the end of 1998, an increase of R4,6 billion over the level of 12 months earlier of R29,5 billion. This powerful augmentation has been derived mainly from minority shareholders' participation in a R3 billion increase resulting from an aggregate £309 million valuation surplus arising from the United Kingdom shopping centre and commercial property portfolios during 1998.

A feature of Liberty Life's annual financial statements in 1998 is the publication of an embedded value of R25,4 billion which includes a value placed on the life business in force at the end of 1998 of R4,73 billion. Also disclosed is the value of new business written in 1998 of R290 million which represents the heavily discounted value of the projected stream of after-tax profits from that block of one year's business. These and other additional disclosures in Liberty Life's annual financial statements place the Company, I believe, in the forefront of financial reporting standards in the South African life insurance industry.

It is hoped that one benefit that will emerge from the publication of Liberty Life's embedded value for the first time at the end of 1998 and also the value of new business written in 1998 will be a greater understanding amongst the investment community of the disparity between Liberty Life's inherent worth and its relatively low market capitalisation. The embedded value calculation is not directly related to the economic valuation of a life company as such but establishes a conservative benchmark figure which denotes the discounted future value of profitability based on the assumption that interest rates and other factors remain essentially unchanged for the entire life of the portfolio. The embedded value and the value of one year's new business or a multiple thereof is only one aspect in the determination of the economic valuation of a life insurance company.

Group Chairman's statement (continued)

A great deal of time and effort in 1998 has been expended on focusing on the strategic direction of Liberty Life and its satellite operations. I am pleased to record that significant initiatives have been put in place to strengthen and extract superior performance in these vital areas, amongst others, of investment management, customer service, product innovation and distribution and human resources training and development while taking advantage of technological advances such as our Blueprint proprietary sales and servicing software.

A new Liberty Life subsidiary, Liberty Healthcare, was launched in December 1998, building on the past success of our existing Medical Lifestyle product, but directed towards the corporate market and its particular needs with a newly developed product called ProVia. The initial reaction to ProVia has been highly gratifying. A further development in the last quarter of 1998 was the establishment of the Oracle Employee Benefits consultancy unit which will offer asset management and actuarial consulting services to the larger employer market.

Liberty Holdings is now a pure holding company for Liberty Life following its disposal in April 1998 of its then 45,4% interest in Guardian National Insurance Company to Liberty Life for a total consideration of R632 million. Liberty Holdings, which holds 149,7 million shares or a 55,9% interest in Liberty Life, has accordingly developed largely into a mirror image of Liberty Life and reflects that Company's underlying results and trends.

Total headline profit attributable to the shareholders of Liberty Holdings after allowing for minority interests and preference dividends rose by 13,2% to R1,23 billion in 1998 from R1,09 billion in the previous year while headline earnings per ordinary share, reflecting a marginal increase in ordinary shares in issue during 1998, increased by 12,7% to 2 509,9 cents per ordinary share from the previous year's 2 228 cents. Benefiting from Liberty Life's stable dividend policy, dividends per ordinary share in Liberty Holdings increased by 20,4% to 1 355 cents for 1998 as compared with 1 125 cents in 1997. The 1998 dividend of 1 355 cents per share gives an effective yield of 6,9% based on the market value of R197,80 net of the R8 per share final dividend at the end of the 1998 year. This is an exceptional return for a prime blue chip company with a dividend record of consistent strong growth over a period of three decades. Although off a lower current yield basis of 5,9% similar factors apply in the case of Liberty Life shares.

The results of Libsil for 1998 have been impacted in various degrees by the unbundling and restructuring activities of Libsil's underlying investments, in particular The Premier Group. Net income attributable to shareholders up 12,8% for 1998 at R830,2 million as compared with R736,3 million for 1997 translates into an increase in headline earnings of only 5,7% at R834,1 million for 1998 compared with the level of R789,2 million for 1997 after taking account of exceptional items incurred in Libsil's underlying investments. Since there was no change in Libsil's issued share capital in either 1997 or 1998 the headline earnings per share at 132,9 cents for 1998 reflect an identical 5,7% increase over the 125,8 cents achieved in 1997. As a result of an uneven income flow from The Premier Group from its unbundling process, Libsil has found it necessary to restrict its total dividend declaration for 1998 to 47 cents per share, a marginal increase on the 46 cents declared in 1997.

As has been stated elsewhere in my Chairman's statement, Libsil's investments, with the exception of its holding in Stanbic, will be unbundled to its shareholders in the second quarter of 1999.

The results of First International Trust ("Fit") reflect the underlying performance of its investment in Liberty International Holdings and the rand-hedge quality of its sterling based assets. After adjusting for the impact of exceptional items in 1997, net income attributable to shareholders at R225,0 million in 1998, as compared with R172,3 million in 1997 converted into headline earnings growth of 30,6%. After making allowance for the marginal increase in average shares in issue during 1998, headline earnings per share grew by 30,0% to 118,9 cents in 1998 from the level of 91,4 cents in 1997. Total dividends for 1998 amounted to 55 cents per share as compared with 47 cents in 1997, the increase of 17,0% being limited by the need to conserve cash resources in order to minimise offshore borrowings.

Liberty International has now established itself as a prominent and fast-growing force in the United Kingdom property and financial services sectors. Liberty International's major 72% owned listed subsidiary, Capital Shopping Centres, has now advanced since its listing on the London Stock Exchange in March 1994 into the third largest listed property company in the United Kingdom by market capitalisation and the leading player in the highly specialised regional shopping centre industry in Europe. Liberty International's regional shopping centre and other commercial property interests which are now valued in excess of £3 billion or some R30 billion will be augmented by new shopping centre developments at Braehead, Glasgow and at Uxbridge on the western outskirts of London. The Glasgow development which will be the largest of its kind in Scotland is due to open in September 1999. Total property revaluation surpluses for 1998 in the United Kingdom totalled £309 million or over R3 billion of which Fit's attributable share amounted to some R800 million.

Liberty International's interests in the financial services sector are still in the formative stage of development but nonetheless funds under management in its various asset and pension fund management and investment management activities grew to over £3 billion (or R30 billion) during 1998. A number of projects and negotiations were entered into concerning possible major acquisitions in the financial services sector but none of these initiatives met Liberty International's rigorous quality and risk/return hurdles. The Board of Liberty International has stated that the company will not compromise on their quality and risk/return criteria by committing to opportunities at an inappropriate time and are strongly averse to entering precipitately into overpriced investments with the near certainty of adverse implications for years to come.

Liberty International's financial results for 1998, in view of the proposed unbundling of Liberty Life's and Fit's shareholding in this company, will have heightened interest for Fit, Liberty Life and Liberty Holdings' shareholders who will become the direct holders of Liberty International shares once the unbundling has been accomplished. In an extremely low inflationary environment headline earnings per share grew by 8,3% to 24,74 pence. Net asset value per share increased by 12,2% to 589 pence and the total return for shareholders for 1998, based on the growth in net asset value and net dividend declarations, was an impressive 16%. Liberty International, when listed on the Johannesburg Stock Exchange as part of the Liberty Life and Fit unbundling process, will represent an outstanding and unique pure rand-hedge investment for the South African market.

CONTROL OF THE LIBERTY LIFE GROUP

Long-standing shareholders of the Liberty Life Group will recall that in 1983 an agreement was entered into between the Gordon family interests and Stanbic concerning the eventual disposition of control of the Liberty Life Group on my retirement or demise. The ongoing relevance of this arrangement to the joint control of the Liberty Life Group was frequently communicated to the public at large

"A great deal of time and effort in 1998 has been expended on focusing on the strategic direction of Liberty Life and its satellite operations"

Group Chairman's statement (continued)

and all shareholders in the Liberty Life Group. In my Chairman's statement for 1993, and on numerous other occasions, I recorded my intention to continue as Group Chairman for a further period not exceeding five years and certainly not beyond the age of seventy.

The onerous burden of chairing eight large listed companies and serving two others as Deputy Chairman, and bearing the ultimate responsibility for such a diverse and complex range of South African and international interests, coupled with the emotional bond of being the Liberty Life Group's founder, has given me little time to reflect on my own business affairs, to foster outside interests and to acknowledge the legitimate demands of family life. As I approach my seventieth year I have become convinced that the above arrangements which were anticipated in 1983 and 1993 should now be put into place.

Consequently, on 5 February I announced my intention to retire as Chairman of the Liberty Life Group during 1999 and intimated that negotiations were being undertaken regarding the future of Liberty Investors ("Libvest"), the company through which the Gordon family hold the majority of their interest in the Liberty Life Group. I shall also retire from the Stanbic Board and have already done so from the South African Breweries Board. A further announcement on 9 February 1999 indicated that Stanbic had agreed to acquire Libvest's 50% interest in Liblife Controlling Corporation ("LCC"), the ultimate holding company of the Liberty Life Group, for a purchase consideration of around R5,6 billion, to add to Stanbic's existing shareholding in LCC, acquired partially in 1978 and increased to 50% in 1983. LCC owns 54,8% of Liberty Holdings which in turn owns 55,9% of Liberty Life. Accordingly, and subject only to the completion of certain formalities, Stanbic will own 100% of LCC and acquire overall control of the Liberty Life Group.

In a separate but logical extension of the Libvest/Stanbic transaction, I understand that Stanbic intends to pursue a further rearrangement of interests with a view to the banking and life assurance operational activities of the enlarged Stanbic/Liberty grouping being held within distinct wholly-owned subsidiaries of a single listed holding company. The current identity of Liberty Life as a leading, innovative force in the South African life insurance and related financial services markets will be maintained while ensuring that the cross-pollination of opportunities, products and services within the wider Standard Bank and Liberty Life Groups brings forth greater benefits for policyholders, staff, sales intermediaries and shareholders within the enlarged organisation. The declared intention is to focus on revenue enhancement and on this basis the prospects for senior management, staff and Liberty Life's own career sales force within the wider Stanbic/Liberty family of companies must be exciting indeed.

Liberty Life has an approximate 21% interest in Libvest held on behalf of policyholders and following completion of the transaction a significant benefit of some R600 million will accrue to these policyholders since the effective consideration translating into approximately R24 per Libvest share compares with the closing price of R13 per share ruling on 31 December 1998.

For my own part I shall retain my passionate interest in the affairs of the Liberty Life Group as Honorary Life

Group Chairman's statement (continued)

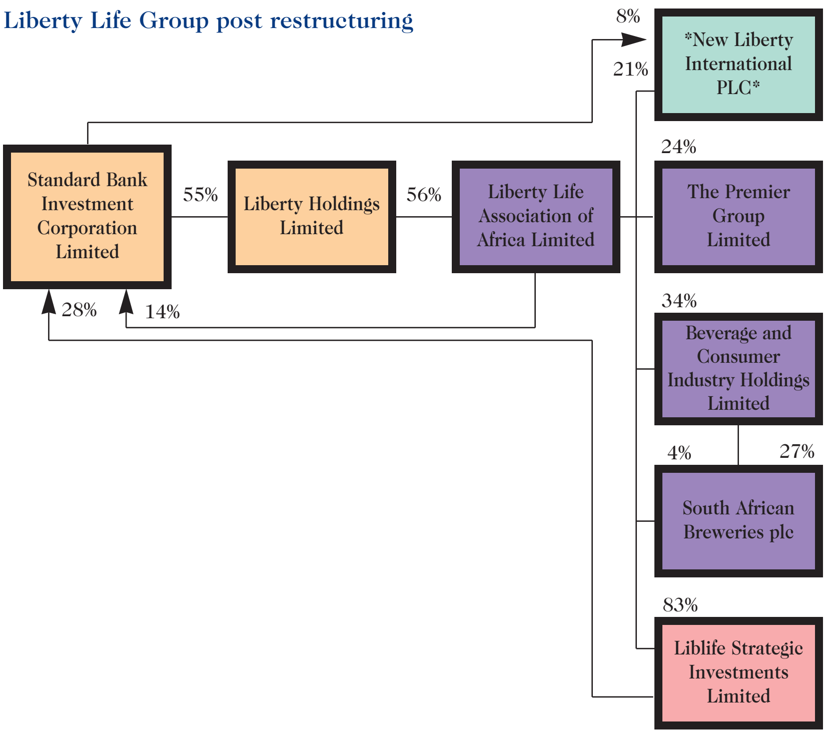
President of Liberty Life and will remain Chairman of the listed United Kingdom based companies, Liberty International Holdings PLC and Capital Shopping Centres PLC, which will become associates of Liberty Life under the unbundling arrangements referred to below.

"UNBUNDLING" OF LIBSIL AND FIT

For some time the Liberty Life Group has been investigating the means by which it could simplify its complex corporate structure, thereby reducing the number of listed companies and investor entry points in the Group while at the same time eliminating asset value discounts within the corporate chain to the advantage of both shareholders and policyholders.

The ongoing success of the Liberty Life Group's long-term investment strategy in holding strategic stakes in Stanbic, Liberty International and The South African Breweries plc is readily apparent in the accumulated value of Liberty Life's disclosed capital base of R34 billion at the end of 1998.

Liberty Life Group post restructuring



On 30 November 1998 it was announced that the appropriate Boards of Directors within the Liberty Life Group had recommended that the investment holdings held by Libsil and likewise the holdings of Liberty Life and Fit in Liberty International would be the subject of an "unbundling" exercise in terms of South African enabling legislation.

At the time of taking the decision to distribute and unbundle their investments and to subsequently delist both Libsil and Fit it was felt that a distribution of certain investment holdings held within the Liberty Life Group should in due course increase the value of these investments when held directly in the hands of the relevant underlying shareholders without inhibiting the ability of the Group to respond to and take advantage of future market opportunities. These moves are consistent with the general restructuring of the South African corporate environment to accord with greater operational efficiencies and international investment norms.

The unbundling of Libsil's investment portfolio and the Liberty Life Group's interest in Liberty International were originally conceived and announced prior to the advent of the Libvest/Stanbic transaction. These objectives should assist generally in the completion of the consequential merger negotiations between Liberty Life and Stanbic since the unbundling process will reduce Liberty Life's capital base and thereby reduce its aggregate market capitalisation.

Nonetheless, in view of the impending merger negotiations between the Liberty Life and Standard Bank groups, it has been agreed by the Boards of Directors of both Liberty Life and Libsil that it would be neither practical nor advisable or in the best interests of Libsil's shareholders to proceed with the unbundling of Libsil's interest in Stanbic.

At 31 December 1998 Liberty Life owned 82,5% of Libsil and is not intending to distribute to its own shareholders the investments it receives pursuant to the unbundling of Libsil's investment portfolio which for the greater part comprise major holdings in Stanbic and The South African Breweries (now South African Breweries plc following the establishment of its primary listing on the London Stock Exchange), held either directly or indirectly by way of Beverage and Consumer Industry Holdings, the dominant 26,6% shareholder in The South African Breweries. Other investments being unbundled by Libsil include the Premier Group, Edgars Stores, Metro Cash and Carry and Adcock Ingram.

The total value of Libsil's investment portfolio at 31 December 1998 amounted to R10,4 billion and its net asset value per share based on the underlying market value of its investment portfolio amounted to R16,27 per share as compared with the market value per Libsil share of R13,75. This represented a discount to net asset value of 15,5% at that date.

It is also proposed that Liberty Life's direct 33% shareholding in Liberty International will be distributed to its shareholders which includes Liberty Life's immediate holding company, Liberty Holdings, which in turn will distribute its receipt of Liberty International shares to its own shareholders, including LCC, the Liberty Life Group's unlisted ultimate holding company. Thus all shareholders in Liberty Holdings and Liberty Life will own shares both in the original company but supplemented by ownership of a direct shareholding in Liberty International.

Fit, which is a 60,9% owned subsidiary of Liberty Life, is proposing to distribute its 41,5% interest in Liberty International to its shareholders including Liberty Life. Liberty Life will, retain its pro-rata entitlement of Liberty International shares from this source which are held approximately two-thirds on account of policyholders and one-third on account of shareholders.

The South African Reserve Bank has indicated its approval to the listing of Liberty International's shares on the Johannesburg Stock Exchange in addition to its primary listing in London and this coupled with the enhanced liquidity of the shares will do much to increase the inherent attractions of Liberty International both in South Africa and the United Kingdom with consequential benefits flowing through to new direct shareholders and Liberty Life's policyholders. For Liberty International itself the new ownership structure will enhance its ability to be more active in seeking acquisitions on the international stage unencumbered by the implied restrictions imposed by being controlled by an overseas company. Following the completion of this transaction Liberty Life will have an approximate 21% interest in Liberty International and appropriate Board representation.

Group Chairman's statement (continued)

CHANGES IN DIRECTORATE

On 14 May 1998 Michael Jackson, who had previously been Managing Director of Charter Life Insurance Company, was appointed an Executive Director of Liberty Life. His initial responsibilities for the Group human resources function were extended in October 1998 to include the day-to-day operations of the life insurance activities of Liberty Life and its related financial services operations. Michael Jackson, who has had 25 years of service with the Liberty Life Group, brings to his new role and responsibilities a broad range of experience in the sales, marketing, administration and human resources functions of the organisation.

On 10 March 1999 Carmen Maynard, Managing Director of Liberty Asset Management, was appointed to the Board of Liberty Life as the Executive Director responsible for the overall investment management, excluding property investments, of Liberty Life's policyholders' funds, the Guardbank suite of unit trusts and funds managed on behalf of external pension fund clients. Carmen Maynard, who joined the Liberty Life Group in July 1998, has a well-established reputation in the South African investment management field earned over a period of some twenty years.

On 26 March 1999 Yves D'Halluin will retire as an Executive Director of Liberty Life after 33 years of service with Liberty Life and Manufacturers Life, the South African operations of which were absorbed into Liberty Life in 1972. Appointed to the Board of Liberty Life in 1989 Yves D'Halluin has had a distinguished career in the South African life insurance industry mainly in sales management and marketing and latterly as the Executive Director responsible for the operational aspects of Liberty Life and its related financial services, a role now to be assumed by Michael Jackson.

Tim Curtis, a non-Executive Director of Liberty Life, Liberty Holdings, First International Trust and Liblife Strategic Investments, has indicated his wish to stand down as a Director of the Liberty Life Group of companies at the forthcoming annual general meetings to be held on 29 April 1999. Tim Curtis has served the Group well since 1994 as a member and Chairman of the Audit Committee and I personally wish to thank him for his contribution and commitment to Liberty Life in his period of office.

I should like to take this opportunity of wishing Michael Jackson and Carmen Maynard every success in the future and to thank Yves D'Halluin for his invaluable contribution to the Liberty Life Group's growth and reputation over many years.

CONCLUSION

In making these concluding remarks I am deeply conscious that my last official function as Chairman of the Liberty Life Group will be to preside over the annual general meetings of the Group's South African listed companies on 29 April 1999.

This will draw to a close an association of almost forty-two years with Liberty Life as founder, Chairman and ultimate custodian of its values and uncompromising standards of integrity and professionalism. I derive an immense degree of personal satisfaction from having seen and participated in the growth of Liberty Life from its truly modest capital base in 1958 of

R100 000 to the giant it has become with a capital base and market capitalisation of R34 billion and R22 billion respectively at the end of 1998, notwithstanding the recent significant inroads into capital and investment valuations emanating from the most unpredictable markets which I have seen in my business career.

It is perhaps fitting that as we approach the new millennium with all its exciting possibilities, the custody of the Liberty Life flame should be entrusted to an organisation whose roots in South Africa go back to 1862. Stanbic is a substantial and vital player in the South African economy and its overall contribution can only be further augmented by the financial strength and inherent dynamism of the Liberty Life Group. I extend my best wishes to the combined management, staff and business associates of the new Stanbic/Liberty Life grouping in their future endeavours.

I remain convinced of the virtues of the life insurance proposition in assisting and uplifting the economically emerging and developing peoples of South Africa and elsewhere to procure personal security, wealth creation and financial and disability protection from the vicissitudes of life. South Africa is indeed fortunate in possessing a vibrant financial services sector unparalleled in worldwide emerging markets. I believe strongly that the Liberty Life Group has contributed immensely to the national wellbeing and will continue to do so as an independent entity within the combined Stanbic and Liberty Life Group.

The work of The Donald Gordon Foundation, created by the Gordon family in 1971, whose resources will be augmented to around R300 million by the Libvest/Stanbic transaction, will continue to promote educational, social and other charitable objectives within South Africa.

My successors will doubtless wrestle with the problems of speculative world capital flows seeking to satisfy the exciting prospects for the development of a New South Africa. I am confident that Liberty Life's strong foundations and talented team will sail powerfully through the inevitably stormy waters. I look forward to observing their progress from my vantage point as Honorary Life President and wish the Company and its staff every success.

During these forty-two years at the pinnacle of the Liberty Life Group I have been fortunate in having been associated with Board colleagues, executives and staff of the highest calibre and dedication. To them and to the many personal supporters, policyholders, shareholders, professional advisors and sales personnel and other stakeholders of Liberty Life, I offer my most grateful thanks for their goodwill and contributions to the long-term success of the Group. Above all I owe a significant debt of gratitude to my family for their forbearance and understanding in often difficult and stressful circumstances but always against the background of stimulating and exciting times.

DONALD GORDON

Johannesburg
11 March 1999