



LIBERTY

60  
years

Liberty Holdings Limited

Integrated report

For the year ended 31 December

2017

# ABOUT OUR 2017 INTEGRATED REPORT

Although this integrated report is primarily addressed to our shareholders, as the providers of financial capital, all stakeholders are invited to review it. This report illustrates how Liberty creates, delivers and safeguards value for all its stakeholders and how we deliver on our purpose of

“improving people’s lives by making their financial freedom possible”

## Scope and boundary

Our integrated report is published annually. This integrated report covers the performance of Liberty Holdings Limited and its subsidiaries for the year ended 31 December 2017. Any material events up to the board approval date on 26 March 2018 are also included. Liberty is a South African company with a presence in sub-Saharan Africa. As most of our operations are conducted in South Africa, these make up the majority of this report.

## Materiality

We focus on reporting material aspects that impact our ability to be commercially viable and socially relevant in the communities in which we operate. Material aspects are defined as our material focus areas and any significant developments that would influence an assessment of Liberty’s performance or opportunities. Capital resources are consumed in achieving our vision. We report on our allocation of the various capital resources and our ability to replenish them. This is done through qualitative commentary, supported by key indicators.

## Frameworks and other reports

This report is prepared under the guidance of the International Integrated Reporting Framework (<IR> Framework) as adopted by the board. It conforms with the requirements of the Companies Act No. 71 of 2008 and the Johannesburg Stock Exchange (JSE) Listings Requirements. This report provides an entry point for more detailed information contained in other reports which comprise our annual reporting suite.

### These reports and the symbols used to cross-reference to them from the integrated report are:

-  Governance at Liberty
-  Remuneration report
-  Annual financial statements  
(incorporating risk management)
-  Report to society
-  King IV report

Our management reporting processes and our suite of reports are aligned with the reporting principles of the King IV report on corporate governance for South Africa 2016 (King IV). Our integrated thinking is reflected in our targets and key performance indicators that cover financial and non-financial performance as well as strategy, risks and how we deliver value to stakeholders.

60  
years

OF WORKING  
EVERY DAY FOR  
**YOUR ONE DAY**

NORMALISED HEADLINE EARNINGS

R2,7bn   
8%

NORMALISED RETURN ON IFRS EQUITY

12,3%   
(2016: 11,4%)

LONG-TERM INSURANCE  
INDEXED NEW BUSINESS

R8,0bn   
2%

NORMALISED GROUP  
EQUITY VALUE PER SHARE

R140,31   
4%

LIBERTY GROUP LIMITED CAR COVER

2,92x   
(2016: 2,95x)

GROUP ASSETS UNDER MANAGEMENT

R720bn   
7%

WE ARE FULLY  
COMMITTED  
TO GENERATING  
COMPETITIVE  
SUSTAINABLE VALUE  
FOR OUR  
SHAREHOLDERS

WE UNDERSTAND  
THAT THIS REQUIRES  
MUTUALLY BENEFICIAL  
PARTNERSHIPS WITH KEY  
STAKEHOLDERS

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AVAILABLE IN PRINT  OR ONLINE   
AS A PDF

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Place customer at the heart of our business decisions
Attract, develop and retain quality employees and financial advisers
Enhance social relationships
Provide responsible financial services
Deliver sustainable financial results
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*This integrated report is also available online as a PDF and references additional information contained in either the annual financial statements and supporting information for the year ended 31 December 2017, other reports in our reporting suite or other online supplementary information.*

## NAVIGATION WITHIN THIS REPORT

Additional information to the integrated report has been referenced as follows:



Directs readers to the page in the integrated report with supplementary information.



Refers to more detailed information available online at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)

**Throughout this report** - Liberty Holdings Limited and its subsidiaries is referred to as 'Liberty' or the 'group'. Liberty Holdings Limited is referred to as the 'company'. Standard Bank Group Limited and any subsidiary (excluding Liberty) is referred to as 'Standard Bank Group'

## ASSURANCE AND APPROVAL

### Assurance

The board, in conjunction with the group audit and actuarial committee, is ultimately responsible for Liberty's system of internal control. Liberty applies a combined assurance approach, ensuring that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and its external reports.

PwC issued an unmodified audit opinion on the group's annual financial statements and an unmodified assurance opinion on the group equity value report and checked the accuracy of these extracts included throughout this report. In addition, PwC provided a limited assurance report on selected other information contained in this report. The various levels of assurance received on reported information has been indicated in the **partnerships and performance** section and the **integrated performance review** as follows:

- A** **Full assurance** provided by PwC
- L** **Limited assurance** expressed over selected key performance indicators provided by PwC
- V** **Broad-Based Black Empowerment** information verified by Empowerdex Economic Empowerment Rating Agency (Empowerdex) (South African operations only)

### Directors' approval

The board acknowledges its responsibility to ensure that reports issued by Liberty enable stakeholders to make informed assessments of its performance and its short, medium and long-term prospects. It also acknowledges its responsibility to ensure the integrity of Liberty's external reports, including the 2017 integrated report. The board believes it has fulfilled these responsibilities. The board further believes that the integrated report is presented in compliance with the <IR> Framework.

The directors have applied their judgement to the disclosure of Liberty's strategic plans and ensured that these disclosures do not place Liberty at a competitive disadvantage.

The board unanimously approved this report and authorised its release on 26 March 2018.

**JH Maree**  
*Chairman*

**DC Munro**  
*Group chief executive*

## VALUE CREATION THROUGH PARTNERSHIPS

We value the partnerships we have with our stakeholders. It is through these partnerships, their establishment, preservation and enrichment, that Liberty creates value for its customers and other stakeholders.

Partnerships require each partner to contribute to the relationship. Successful partnerships are those where each partner believes it is receiving value from the other equal to or greater than their own contribution. This report examines the contributions from stakeholders and the value derived through these partnerships.

What Liberty gives and what Liberty receives are the inputs and the outputs of our business model. We strive to ensure that the outcomes from our business activities are positive - enabling financial freedom for our customers, delivering sustainable financial results for our shareholders, developing a motivated and committed workforce, growing national savings, and building trust in the Liberty brand. Where outcomes are negative or anticipated to be negative, and after considering the trade-off of positive and negative outcomes, we take appropriate remedial action to minimise or eliminate such outcomes.

Liberty considers financial, human, intellectual as well as social and relationship (brand trust) capitals as the most significant resources. Liberty is not a significant consumer of natural resources, however, we are committed through our investment criteria to promote responsible utilisation of natural resources.

All stakeholder groups provide Liberty with capital - a variety of financial, physical and intangible resources. The allocation, utilisation and continuous replenishment of these capitals in a sustainable manner is fundamental to our ability to deliver on our purpose of "improving people's lives by making their financial freedom possible".


## MATERIAL FOCUS AREAS

For each of our key partnerships we have identified a material focus area:

<p>Place customers at the heart of our business decisions</p>	<p>Attract, develop and retain quality employees</p>	<p>Provide responsible financial services</p>	<p>Enhance social relationships</p>	<p>Deliver sustainable financial results</p>
				
<p><b>CUSTOMERS</b></p>	<p><b>OUR PEOPLE</b></p>	<p><b>REGULATORS</b></p>	<p><b>COMMUNITIES</b></p>	<p><b>INVESTORS</b></p>
<p>Customers purchase our products and services. Our financial advisers support these purchase decisions by providing relevant and responsible advice</p>	<p>Our people supply the necessary skills and expertise to deliver on our promises to stakeholders</p>	<p>Regulators govern financial stability and market conduct for our industry (Regulators include government agencies and industry associations)</p>	<p>Communities provide us with our social relevance, future customers and employees</p>	<p>Investors provide our financial capital</p>


### LIBERTY PRIORITISES ONGOING SUSTAINABILITY ABOVE SHORT-TERM MAXIMISATION OF PROFITS

These material focus areas support our thought and reporting processes, our governance and strategy development. Each focus area impacts on the group's ability to create value in the short, medium and long term.

 Refer to the Report to society for more details of the process undertaken in reviewing and confirming Liberty's material focus areas

Each material focus area is composed of several smaller but important issues that are relevant to stakeholders. These issues are identified through ongoing stakeholder engagement facilitated by Liberty's stakeholder engagement unit and are aligned with Liberty's organisational purpose, brand ethos, values and strategy. The frequency of engagement varies according to each stakeholder group and the issue at hand. Liberty is proactive in identifying and responding to its stakeholders' legitimate expectations, concerns and conflicts.

Liberty's customer facing units engage directly with customers and potential customers in each of the areas and identify customer concerns and take appropriate action. A centralised approach to stakeholder engagement is used to manage investors, employees, regulators and communities. The board of directors is kept apprised of engagement activities, concerns raised and mitigating action taken through the social, ethics and transformation committee. We focus on ensuring that the right relationship owners are in place in each business area and that engagements are held at the right levels, with the content of engagements being mutually beneficial.

 Refer to Governance at Liberty for more details of the activities of our stakeholder team in 2017

Our bi-annual stakeholder sentiment survey aims to determine stakeholders' perceptions of Liberty, our products and services and the overall way we conduct the business. This survey enables us to better understand the needs and expectations of our key stakeholders. The latest survey, performed in 2016 was reported on in the 2016 integrated report. The next survey will be conducted in 2018.

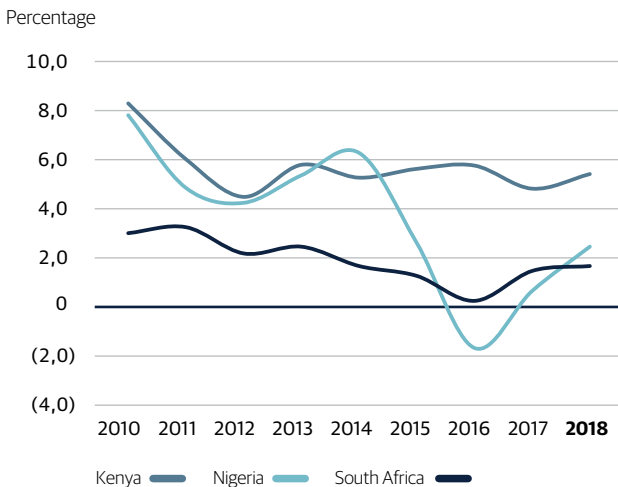
# EXTERNAL ENVIRONMENT – ITS IMPACT ON OUTCOMES AND MATERIAL FOCUS AREAS

Each of the three regions in which Liberty operates – southern, east and west Africa, need their dominant economies – South Africa, Kenya and Nigeria, to perform well to generate regional growth.

These key economies are all facing challenges – some external, but many internal. Addressing these internal challenges will provide the foundation necessary to achieve long-term, sustained economic growth.

The steep decline in commodity prices (especially oil) in late 2014 demonstrated that many of the sub-Saharan economies had failed to implement promised reforms, diversify their economies away from commodities, broaden the tax base, or benefit from growing regional trade. Both the West African economy, centred on Nigeria, and the East African economy centred on Kenya have not yet fully recovered from the decline in commodity prices.

## GDP ANNUAL GROWTH



Source: World Bank

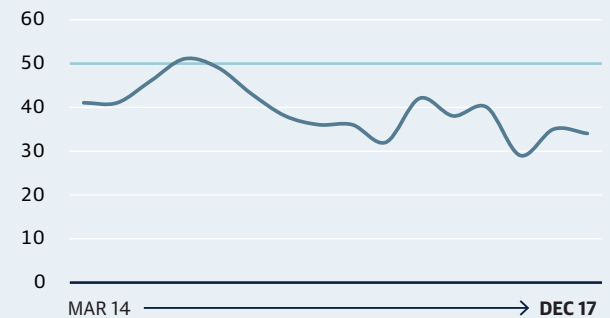
Economically, politically and socially South Africa experienced a very difficult 2017. The country's gross domestic product (GDP) growth rate approximated 1%. Despite a bumper agricultural season and firmer commodity prices, the South African economy continued to be held back by its internal dynamics, not least of which were the low levels of consumer and business confidence.

## BER\* CONSUMER CONFIDENCE INDEX



Except for one quarter in June 2014, the BER Consumer Confidence Index has remained in negative territory for over four years, pointing to a low willingness of consumers to spend.

## BER\* BUSINESS CONFIDENCE INDEX



Similarly, except for the December 2014 quarter, the BER Business Confidence Index has remained below the "neutral" position of 50 for several years.

\* Bureau for Economic Research

It is estimated that this lack of confidence reduced the annual growth rate by some 1,5% as consumers and businesses alike are reluctant to access credit, invest in capital items and replacement capital expenditure. Unlike many economies where lower consumer confidence leads to higher savings levels, this is not the case in South Africa. It is estimated that an annual growth

## EXTERNAL ENVIRONMENT – ITS IMPACT ON OUTCOMES AND MATERIAL FOCUS AREAS (CONTINUED)

rate of at least 2% is required to generate jobs and grow GDP per capita, encouraging savings and generating new business for the savings industry.

Difficult economic conditions impact on all stakeholders: results for shareholders; confidence and disposable income for customers and employees alike; and generally more difficult times for society.

Increased confidence will see businesses invest in both expansion projects and the renewal and replacement of existing capacity. As the government's fiscal position deteriorates and state-owned enterprise's infrastructure spend is curtailed, these investments can only be completed by the private sector.

An improved performance by the South African equity markets in the fourth quarter of 2017, was driven by increasing confidence in global economic growth and positive political developments.

In the short term it is hoped that government will focus on improving the fiscal position in many of the large state-owned enterprises, including Eskom, as well as strengthening key institutions such as National Treasury and the South African Revenue Services. Under these circumstances it is possible for the country to avoid any further rating downgrades. Moody's remains the only major credit rating agency to assign South Africa an investment grade rating for both its long-term foreign debt as well as its long-term domestic debt.



### RAND/DOLLAR



In the beginning of 2018 the South African Reserve Bank (SARB) revised its 2018 and 2019 forecast for gross domestic product up to 1,4% and 1,6% respectively, from 1,2% and 1,5% previously.

The sharp improvement in the rand exchange rate, which appears sustainable in the short to medium term, has led to a more positive inflation outlook. Consumer inflation is expected to remain well inside the target of 3,0% to 6,0% during 2018 and is forecast to average less than 5,0% for the year as a whole, down from an average of 5,3% in 2017 and 6,3% in 2016. The latest downward revision to the inflation forecast coupled with still subdued economic growth could open the door for the SARB to cut interest rates modestly into the middle of 2018, after which interest rates could then remain unchanged into 2019.

## CHAIRMAN'S REVIEW



JACKO MAREE - Chairman

“I am confident that initiatives to address our immediate challenges and a refreshed strategy will guide us to success.”

### The year in review

2017 was a year of significant change at Liberty and saw the appointment of a new group chief executive, David Munro, in May. The board spent many hours deliberating on the change of leadership and then engaging with David and his team on the way forward.

Actions were immediately taken to urgently start addressing Liberty's short-term challenges. These are clearly set out as the triage initiatives on page 12.

Eight workstreams were then established to refresh the long-term strategy required to grow the business sustainably. These are well articulated on pages 9 to 11.

As you read the group chief executive's review and the pages that follow, I hope that you will gain a sense of confidence that we are back on the right track, but with a long journey ahead. Liberty's 2017 financial performance reflected a marginal improvement over the previous year although the value of new business and margin were well below expectation. The group's capital position has remained strong and the dividend has been maintained.

I am encouraged by our renewed focus on our customers and financial advisers, making our product offerings more relevant to their changing needs and simplifying their experiences whenever and however they engage with us. I am confident that the initiatives to address our immediate challenges and a refreshed strategy will guide us to success. The board will support management but also challenge them and closely monitor progress in their endeavours.

### Board composition and governance

On 30 May 2017, Thabo Dloti resigned as chief executive as part of a mutual separation agreement. Thabo left Liberty following a difference of opinion with the board on the immediate focus of the company at a time when the organisation was facing tough operational and environmental challenges.

David Munro was appointed as a non-executive director on 15 February 2017 and assumed the role of group chief executive of Liberty on 30 May 2017. Peter Moyo and Mike Ilsley resigned from the board on 3 April and 31 July 2017 respectively. Casper Troskie, the financial director, resigned on 31 December 2017. These directors made important contributions during their time at Liberty and it was

therefore disappointing that they all chose to join one of our major competitors. We nevertheless thank them and wish them well.

We welcomed Nooraya Khan to the board as an independent director on 15 December 2017 and look forward to the additional perspectives she will bring to board deliberations. We were also pleased to announce the appointment of Yuresh Maharaj as financial director on 12 February 2018.

We remain conscious of the need to enhance board diversity and accordingly the board reviewed and updated its diversity policy to clearly articulate our approach. The board is committed to maintaining the percentage of female representation on the board above 30%.

The directors' affairs committee reviewed progress with the implementation of the King IV Report on Corporate Governance for South Africa. A separate report in response to the disclosures proposed in the King IV Report is available on the company's website.

### Appreciation

We are working hard to place our customers and financial advisers at the heart of everything that we do. My thanks go to them for their continued support and faith in Liberty.

I would like to sincerely thank all our people for their hard work and commitment during a challenging year. Their ongoing efforts will enable us to build a more successful future. Following a year of change, my thanks go to my fellow board members who have been called upon and made themselves available, at short notice and at times beyond the normal call of duty, to support the group chief executive and executive committee in strengthening Liberty and enhancing its competitiveness.

To our investors, I greatly appreciate your patience. Following the actions taken to improve profitability and place the group on a sound strategic footing, I am confident that Liberty will emerge with significantly greater potential to grow shareholder value.

*Jacko Maree*

JH Maree  
Chairman

26 March 2018

## GROUP CHIEF EXECUTIVE'S REVIEW



“Liberty has all the ingredients for success. It's an incredibly exciting time to be part of this journey. It is up to us as the Liberty team to deliver this success, and we are determined to do so.”

DAVID MUNRO - Group chief executive

### A year of review and reflection

During the nine months that I have served as Liberty's group chief executive, I have endeavoured to understand the business of Liberty, the role we play in the lives of our customers and their financial advisers and the challenges that our industry faces. I have met with both tied and independent financial advisers, with our customers and engaged with many team members from across Liberty's operations to understand our business and challenges. I have sought to build relationships with our board, shareholders and regulators.

It is clear to me that Liberty has a fantastic core franchise, staffed by experienced and passionate people and served by a huge team of financial advisers all of whom want to see Liberty succeed. It is also clear that, over the last few years, Liberty has tried to do too many new things, all of which have added complexity to our business and distracted us from serving our customers and financial advisers.

The choices that Liberty made in 2014, when it set out to achieve Strategy 2020, were informed by the context prevailing at that time. Three fundamental changes in our operating environment forced us to adjust our plans. These changes were the weak economic performance of our key markets, our own disappointing performance and Standard Bank Group embarking on a plan to become an integrated Universal Financial Services organisation.

Accordingly, Liberty has refreshed its strategy and renewed its focus:

- We must restore our ability to successfully run a retail insurance business and STANLIB in South Africa
- We must put our customers and financial advisers back at the heart of everything that we do, and

- We will play an integral role in delivering Standard Bank Group's ambition of becoming the leading Universal Financial Services organisation in, for and across Africa.

More details as to how we propose to achieve the above are provided in the refreshed strategy section of this report.

### Financial overview

Weak economic growth in South Africa, an uncertain political environment leading to sovereign rating downgrades and a lack of employment creation during 2017 resulted in low consumer and business confidence. The year ended on a more optimistic note as evidenced by the local bond and stock market performance and significant rand strengthening in late December 2017.

The group remained resilient during the year, maintaining the capital position of the group's main long-term insurance licence, Liberty Group Limited, with a capital adequacy ratio of 2,92 times the regulatory minimum. This remains at the upper end of the target range and underpins our commitment to continue to fulfil our promises to policyholders and other stakeholders.

The group's South African covered insurance business continued to deliver positive operating variances and be managed to better than model supporting the core assumptions underlying the insurance book. The South African covered business embedded value was preserved, maintaining embedded value earnings of R2,8 billion compared to the prior year and generating a return of 8,2%. The value of new business (VoNB) and new business margin ended the year well below expectation. The improvement in VoNB in the second half of 2017, despite lower volumes, shows signs that the focused initiatives commenced in early 2017 are starting to deliver the desired outcome.

Group equity value per share was lower at R140,31 (31 December 2016: R145,86). The lower group equity value per share was attributable to weaker earnings from the group's non-covered

businesses, particularly within the STANLIB businesses and the resultant capitalised impact of reduced earnings.

Long-term insurance indexed new business sales grew marginally to R8 billion. Competitive retail market pricing and the tough economic environment continued to place significant pressure on retail sales volumes.

The bancassurance agreement with Standard Bank Group, which is applicable across the group's asset management and insurance operations, continues to make a positive contribution to new business volumes and earnings. The total indexed new business premiums sold under the agreement increased by 7% to R3,3 billion for the year.

Normalised headline earnings for the year ended 31 December 2017 of R2 719 million were 8% up on 2016, supported by a higher contribution of R1 307 million (2016: R787 million) from the shareholder investment portfolio (SIP). The improved earnings contribution from Individual Arrangements was offset by the lower underwriting result from Liberty Corporate. STANLIB's earnings continued to be impacted by margin pressure due to a less favourable sales mix, costs associated with the termination of the institutional administration outsourcing programme, the launch of new franchises and operational write-offs.

Normalised return on equity was 12,3% (2016: 11,4%).

### Key priorities and goals for 2018

In the light of these financial results, our priority is to improve the performance of the South African retail insurance business. Most critical to this is for us to work with our distribution force and partners to improve their ability to lift sales volumes dramatically. To do this we will need to continuously improve the quality of our product, the margin and mix within what we sell, and the service we provide to both customers and advisers. The key measure of our success will be growth in the VoNB.

Secondly, we must ensure that STANLIB delivers improved investment returns for its customers. This will be evidenced by improving quartile rankings of the largest franchises.

Thirdly, we will implement a revised operating model that addresses the existing shortcomings of how Liberty is currently structured. We will also optimise the outcomes for each of the group's existing growth initiatives, namely Liberty Africa Insurance, Liberty Health, and our recently launched short-term insurance joint initiative with Standard Bank Group.

Finally, we need to maximise our relationship with Standard Bank Group, contributing to its growth while leveraging off the capacity and resources at its disposal.

Actions to achieve these goals have already been set in motion. Employee morale has seen a considerable improvement, the political and economic outlook for South Africa is brighter now

than anytime in the past five years, our financial advisers and distribution partners truly want to see Liberty succeed, and our strategy workstreams are working quickly towards implementable recommendations.

Measurement of our progress is clearly critical, and we have adopted three financial performance metrics against which we will track our progress over the short to medium term. These are a VoNB margin range of between 1% and 1,5%, a normalised return on equity between 15% and 18% and a return on group equity value in excess of 12%.

In summary, we have diagnosed the challenges, and introduced plans to address them and restore Liberty. We must now focus on executing these plans and with some good fortune, tough decisions and good timing, we should start to see our business turnaround. The 2018 year will be the workbench for this effort and hopefully by June we will begin to see some early fruits, and more evidence or progress by year end. The real evidence of our efforts will only be reflected in our 2019 and 2020 performance.

It is up to us as the Liberty team to deliver this success, and we are determined to do so!

### Appreciation

I would like to thank our staff and intermediaries for the warm welcome I received on my arrival at Liberty and for all your support and understanding during this trying time in our proud history. You deserve the greatest thanks for your continued commitment to our customers and your desire to improve the customer experience. I truly believe the next 60 years will see Liberty continue to fulfil its purpose – improving peoples lives by making their financial freedom possible.



**D Munro**

*Group chief executive*

26 March 2018

## WHO WE ARE

Liberty is a financial services group that offers an extensive, market-leading range of products and services to help customers build and protect their wealth and lifestyle.

Products include life, short-term and health related insurance, investment management and financial support for retirement. Liberty's financial advisers expertly equip customers with knowledge to make decisions that add value throughout their various life stages. Liberty is listed on the JSE and is part of the Standard Bank Group, which owns 53,6% of the issued ordinary share capital.

### Our brands



### Our purpose

Improving people's lives  
by making their  
financial freedom possible

### Largest provider of long-term insurance solutions to South Africa's retail affluent market

**Bancassurance** business agreements with **Standard Bank Group**, Africa's largest financial services organisation

### Strong capital base

> **6 000 full-time employees**

> **3 500 tied financial advisers** in a diversified multi-channel distribution network

> **2 500 000 retail policies** in-force in South Africa

> **500 000 individual and institutional investment customers**

> **10 000 corporate retirement schemes** administered

> **R8,7 billion** in death and disability claims paid in 2017

Represented in **25 African countries**

### OUR PROUD HISTORY OF FIRSTS

- 1960 Liberty Life introduces the first retirement annuity products in South Africa
- 1962 Liberty Life is the first life assurance company to be listed on the Johannesburg Stock Exchange
- 1965 Liberty Life introduces South Africa's first life insurance benefits linked to unit trusts
- 1971 Liberty Life introduces the Liberty Property Bond series of policies
- 1980 Liberty Life introduces South Africa's first non racial share incentive scheme
- 1991 Liberty's Medical Lifestyle health policy, the first of its kind, is introduced
- 1995 Liberty Life introduces Blueprint, the first computer-based financial needs analysis in the industry
- 2010 STANLIB launches the first Inflation Plus Fund
- 2012 Liberty launches the Evolve product range with investment growth sharing
- 2015 Liberty launches the Agile product range which provides certainty of retirement income

# LIBERTY'S REFRESHED STRATEGY

We remain resolute in developing competitive value propositions for our customers, driving efficiency through simplifying our operations, managing risk appropriately, deploying capital effectively and pursuing profitable growth opportunities over the long term.

Liberty's purpose and vision have been aligned with those of Standard Bank Group

Our long-term strategy is to play an active role in the achievement of Standard Bank Group's vision

Our immediate strategy is focused on delivering on two fronts

Addressing existing challenges within the operations

Structuring the business for future growth



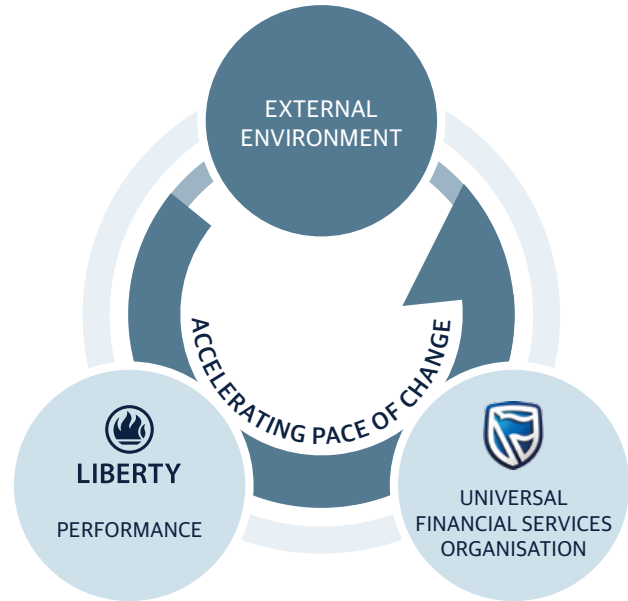
More details of the above initiatives are provided on page 12

<p><b>PURPOSE</b> Africa is our home, we drive her growth</p>		<p><b>REFRESHED PURPOSE</b> Improving people's lives by making their financial freedom possible</p>
<p><b>VISION</b> To be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.</p>	<p><b>OUR CUSTOMERS ARE AT THE CENTRE OF WHAT WE DO</b></p>	<p><b>REFRESHED VISION</b> Transform Liberty to be the trusted leader in South Africa and chosen markets by delivering superior value through exceptional client and adviser experiences.</p>

## LIBERTY'S REFRESHED STRATEGY (CONTINUED)

### THE CASE FOR CHANGE

The accelerating pace of change in several aspects of our chosen markets, the appointment of new leadership and our close association with Standard Bank Group has seen our strategy refreshed during 2017.



Liberty's Strategy 2020 was developed in 2014 and underwent a refocus in 2016. However, the pace of change and Liberty's performance demanded that management undertake a comprehensive review of our strategy. The four drivers of this refresh are:

1

The economic fortunes of Africa have not continued on the rising trajectory anticipated. Growth momentum in the key sub-Saharan African region remains fragile.

2

Liberty's performance over the past two years has been disappointing. Poor investment performance from STANLIB, the group's reliance on earnings from the shareholder investment portfolio and the lower value of new business all need to be addressed.

3

The closer relationship with Standard Bank Group places Liberty as an integral part of a universal financial services organisation focused on delivering exceptional customer experiences and superior value across Africa.

4

The world around us is changing at an accelerating pace, driven in the main by the digital wave, and ongoing regulatory and governance developments.

## STRATEGY EXECUTION

During the refresh process we identified areas that require immediate action, areas where we need to adjust our focus and areas where we need to achieve significant changes to achieve long-term sustainable growth.

The immediate actions were termed our “trriage initiatives” and ran for several months in 2017 and will continue through 2018.

 *These short-term initiatives are described on page 12.*

Our transformation journey will begin with the confirmation of our principles and values. This exercise is expected to be completed during the first quarter of 2018. With these in place, creating the Liberty of the future will commence in earnest.

The development of Liberty’s long-term strategy is being accomplished through eight workstreams which will recommend and develop firm proposals for the implementation of detailed strategic initiatives across the group, in customer facing units and support functions. The workstreams report fortnightly to the strategic oversight committee, which in turn reports to the executive committee monthly and the board quarterly.






We are developing our long-term strategy through eight workstreams:



## LIBERTY'S REFRESHED STRATEGY (CONTINUED)

### TRIAGE INITIATIVES

Our triage initiatives have been identified to address the “here and now” challenges faced by the group. While the successful execution of our long-term strategy will ensure Liberty achieves its purpose we must also meet our customers', shareholders' and other stakeholders' immediate expectations. Short-term or triage strategic initiatives, designed to address immediate operational and customer service challenges are:

STRATEGIC PRIORITY	CONTEXT	OBJECTIVES
	<p>The investment landscape has evolved, resulting in a change in customer buying behaviour and asset manager business models. STANLIB has strong fixed income and listed property capabilities, but needs to build capacity in the higher margin and critical market share areas of asset allocation and equity.</p>	<ul style="list-style-type: none"> <li>• Attract and retain investment professionals in an increasingly competitive market for talent</li> <li>• Implement a shared services platform to deliver operational efficiencies and scalability</li> <li>• Ensure we offer the right set of investment propositions for customers that produce sustainable shareholder earnings through cycles</li> <li>• Enhance the business and operating model to be more agile and less vulnerable to the impact of unfavourable external factors, and</li> <li>• Foster an investment-led culture.</li> </ul>
	<p>The current engagement model needs enhancement. In certain instances, there is duplicated effort, fragmented processes, limited transparency across processes and a large amount of manual intervention.</p>	<ul style="list-style-type: none"> <li>• Improve customer experiences and enable advisers</li> <li>• Drive business efficiency, and</li> <li>• Design the group architecture for the future.</li> </ul>
	<p>Over the years, the growth efforts of Liberty have increased the complexity and inherent risks within the business, which requires strengthening of the financial and actuarial control environments.</p>	<ul style="list-style-type: none"> <li>• Reduce the significant number of investment portfolios to simplify Liberty's operational processes, create efficiencies and provide clarity to customers</li> <li>• Provide holistic capabilities to improve controls and enhance delivery and governance of financial operations</li> <li>• Manage and maintain control over the outcomes delivered during a product's various life stages and reduce complexity, and</li> <li>• Deliver on IFRS reporting requirements whilst optimising the balance sheet for the transition to IFRS 17 Insurance Contracts standards.</li> </ul>
	<p>A focused “Risk and Compliance Enhancement Programme (RCEP)” is in place to assist with effective and efficient implementation of the risk and compliance frameworks and enable the enhanced identification, measurement, treatment, monitoring and reporting of risk and controls.</p>	<ul style="list-style-type: none"> <li>• Ensure the execution of strategy</li> <li>• Ensure the group is managed in a sustainable manner to deliver on its promise to the customer</li> <li>• Facilitate compliance with all relevant legislation, regulation and acceptable market practice</li> <li>• Meet the expectations of the board and management in the execution of their responsibilities, and</li> <li>• Operate in a robust, effective and efficient manner on a continuous basis, ensuring compliance with internal controls, policies and procedures.</li> </ul>
	<p>The core businesses of Liberty (Individual Arrangements, STANLIB South Africa and Liberty Corporate) are under significant strain. While operating variances remain positive overall, Liberty's value of new business and margins are at historic lows.</p>	<ul style="list-style-type: none"> <li>• Reduce complexity</li> <li>• Business management</li> <li>• Revisit product design and pricing</li> <li>• Improve sales and distribution effectiveness</li> <li>• Improve expense management, and</li> <li>• Develop brand and marketing strategies.</li> </ul>

## PRINCIPAL RISKS ASSOCIATED WITH LIBERTY'S STRATEGIC OBJECTIVES

Risks from both the external and internal environments have continued to emerge, with the most recent risks noted below together with our strategic responses:

	SPECIFIC RISKS	STRATEGIC RESPONSE
EXTERNAL	Increased instability in the SA socio-political and economic environment.	<p>Liberty maintains a strong capital position, offers offshore investment alternatives to policyholders and manages its asset liability matching position within risk limits.</p> <p>Liberty undertook stress scenario tests in anticipation of the sovereign downgrade and the political events in December 2017 and clear actions were put in place to manage the possible outcomes.</p>
	Slow growth in chosen markets.	<p>Liberty continues to create platforms for future growth in South Africa and chosen markets.</p> <p>Liberty will optimise the bancassurance agreement and leverage off its relationship with Standard Bank.</p>
INTERNAL EXECUTION	Complexity of the business due to wide range of products, systems, processes and organisational structures.	<p>Liberty has specifically structured its businesses to deal with this risk by formally defining strategic and financial goals. Particular focus areas are:</p> <ul style="list-style-type: none"> <li>• Delivering a connected experience for customers and advisers.</li> <li>• Leveraging technologies to be able to perform tasks normally requiring human intelligence.</li> </ul>
	Inability to adapt the business model in response to the changing environment, including the lack of a commercially viable credible customer value proposition and the digital technology to respond to a disruptive, changing, competitive and tough economic environment.	<p>Liberty is building an agile capability to meet customer needs and reduce time to market. This includes continuously creating new customer propositions and enhancements to distribution channels.</p> <p>Liberty is concentrating on improving investment performance and ensuring that product development, client servicing and distribution are well resourced.</p>
	Lack of key capabilities to execute on the strategy.	<p>Liberty is continuously refining and building new capabilities including people skills and continues to create partnerships to execute strategy. A sub-component of this risk includes the strengthening of the operational practices, processes and controls. Liberty has hence initiated a "risk and compliance enhancement programme".</p>
	Poor investment performance relative to customer expectations	<p>Liberty continues to enhance investment capabilities particularly in STANLIB. Clear management actions have been put in place for key portfolios that are not performing according to expectation.</p>
	Not taking full advantage of opportunities to optimise the value of the group	<p>Various programmes which aim to drive collaboration and alignment have been implemented within the group and with the holding company, Standard Bank Group.</p>
	Inadequate cyber-security and resilience	<p>Liberty continues to invest in and rollout the group's information security and cyber-security frameworks and related policies.</p>
	Ineffective group operating model/group governance framework to manage businesses outside the core areas	<p>The group is in the process of enhancing the target operating model for the rest of Africa, including providing a clear governance structure to the subsidiary businesses.</p>
	Inability to adequately respond to new and emerging regulation.	<p>Liberty continues to develop strategic responses to new and emerging regulation. Furthermore, Liberty is in the process of enhancing the regulatory engagement models to better coordinate its responses and interactions with the regulator. The Retail Distribution Review, Recovery and Resolution Planning, anti-money laundering requirements in terms of the Financial Intelligence Centre Act and the Solvency Assessment and Management requirements are particularly noteworthy.</p>

## OUR BUSINESS MODEL

Our business model is to sustainably utilise and grow available capital resources to create value by providing solutions to individuals (or represented groups of individuals) to meet their insurance risks and investment needs. In return we charge an appropriate fee or derive underwriting profits

through pooling similar insurable risks, enhanced by optimising offsetting risks. We maximise our ability to generate revenue and deliver on our customer promise by producing innovative product solutions supported by effective distribution and servicing.

### ENTITY VALUE CREATION


For many of our customers, Liberty's promise is everything. We make promises today that we may only need to honour 60 years from now.


We could also be asked to fulfil that promise at any time. Consequently, the sustainable creation, preservation and growth of Liberty's entity value is central to our capacity to deliver on our purpose - "improving people's lives by making their financial freedom possible".


**Delivering sustainable financial results** is a material focus area for Liberty and the most critical. We acknowledge the important role all our partners play in achieving this goal, without which Liberty could not continue to fulfil its promises to customers, employees and other stakeholders. The creation of value for other stakeholders is either a by-product or a key input to creating, preserving and growing our entity value.

### VALUE IS CREATED FROM THREE MAIN ACTIVITIES

INSURANCE UNDERWRITING PROFIT	+		+	ASSET MANAGEMENT PROFIT
<p>Contracted premium income for risks insured, less claims and related acquisition and service expenses (actual and expected over contract duration).</p> <p>Liberty provides insurance products for a variety of risk events and investment needs.</p>				<p>Performance and asset based fees earned for managing and administering customer mandates, less related acquisition and service expenses.</p> <p>STANLIB offers a range of products for individuals, families, groups and funds to invest for retirement. Products are also available for those customers that wish to invest either a lump sum or smaller amounts regularly.</p>

 Details of the value drivers impacting on the insurance underwriting profit appear on page 36.

 Details of the value drivers impacting on the investment income appear on page 36.

 Details of the value drivers impacting on the asset management profit appear on page 36.

## ORGANISATIONAL STRUCTURE

To optimise our ability to achieve Liberty's strategic goals, our organisational structure focuses on our chosen customer segments and leverages group shared capabilities.



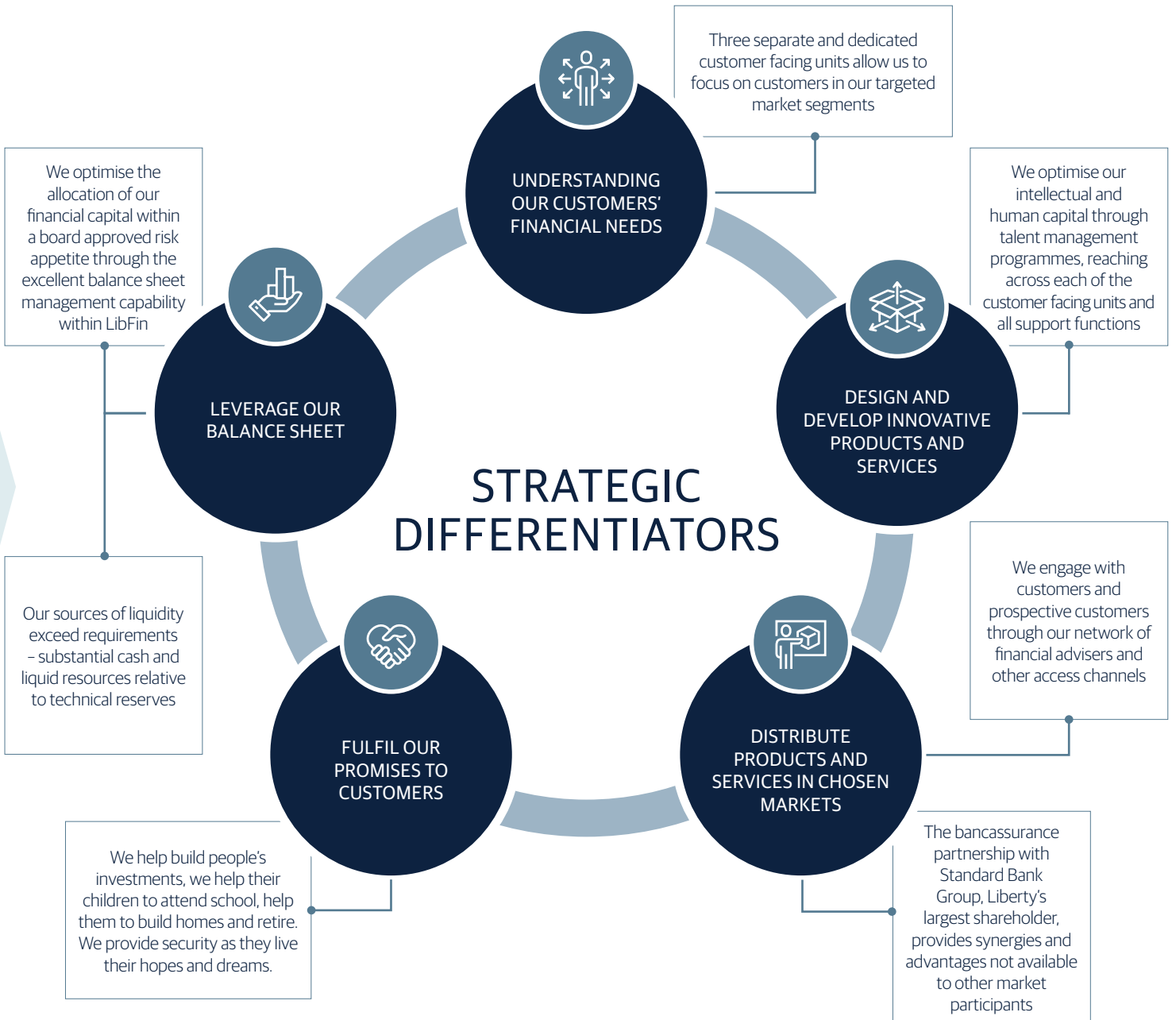
# OUR VALUE CHAIN

	CAPITAL	INPUTS	PARTNERSHIPS
<b>FINANCIAL</b>	<p>The group's share capital, accumulated reserves and debt funding</p>	<p><b>R22,4 billion</b> OF EQUITY CAPITAL</p> <hr/> <p><b>R5,6 billion</b> OF DEBT CAPITAL</p>	<p><b>R17,3 billion</b> OF RESERVES</p> <hr/> <p><b>R59,7 billion</b> OF CURRENT YEAR PREMIUMS AND INVESTMENTS RETURNS</p>
<b>INTELLECTUAL</b>	<p>Liberty's institutional knowledge, product development capability, systems, processes and practices</p>	<p>EXPERIENCED BOARD AND EXECUTIVES</p> <hr/> <p>TALENTED, SKILLED AND TRAINED WORKFORCE</p> <hr/> <p>BANCASSURANCE PARTNERSHIP</p>	<p>BALANCE SHEET MANAGEMENT</p> <hr/> <p>CUSTOMISED SOFTWARE</p> <hr/> <p>A COMPLIANT FINANCIAL SERVICES PROVIDER</p>
<b>BRAND</b>	<p>The trusted relationships and collaborations with our customers, regulators, communities and other stakeholders</p>	<ul style="list-style-type: none"> <li>• Strong brand with 60-year history</li> <li>• Subsidiary of Standard Bank Group, Africa's largest financial services organisation by brand value and number of retail customers</li> <li>• Recognised as specialists in markets we serve</li> <li>• Increasing brand loyalty as measured by independent survey</li> <li>• Ongoing commitment to transformation</li> </ul>	
<b>HUMAN</b>	<p>Liberty's workforce of employees and tied agents</p>	<p><b>&gt; 6 000</b> FULL-TIME EMPLOYEES AND</p> <hr/> <p>&gt; 3 500 TIED FINANCIAL ADVISERS IN A MULTI-CHANNEL DISTRIBUTION NETWORK</p>	<p><b>225</b> STUDENT AND QUALIFIED ACTUARIES</p> <hr/> <p><b>117</b> CHARTERED ACCOUNTANTS</p>
<b>NATURAL</b>	<p>Renewable and non-renewable natural resources</p>	<p><b>27GW</b> OF ELECTRICITY CONSUMED</p> <hr/> <p><b>117ML</b> OF WATER CONSUMED</p>	<p><b>94kL</b> OF DIESEL CONSUMED IN GENERATORS</p> <hr/> <p><b>146 926m<sup>2</sup></b> OF OCCUPIED OFFICE SPACE</p>

# LIBERTY'S BUSINESS PROCESS

## CORPORATE GOVERNANCE

Liberty has adopted and implemented effective governance structures and processes that provide for sound and prudent management and oversight of its business and adequately recognise and protect the interests of its policyholders and other stakeholders.



## RISK MANAGEMENT

To ensure appropriate risk prioritisation and mitigation we identify the internal and external events (including stress and scenario tests, often in conjunction with Standard Bank Group and regulators) that may affect our strategies and potentially impact our results, capital and reputation.

## Governance approach

Liberty's governance structures and processes provide for sound and prudent management and oversight of the group's businesses in the interests of customers, shareholders and other stakeholders. The structures and processes support and enhance the ability of those responsible for the governance of Liberty (the board, senior management and heads of key functions) to manage Liberty's businesses effectively.

## Liberty's governance structures and processes add value for all our stakeholders by:

- 1 Enhancing our **understanding of the risks** faced by the business
- 2 Ensuring the upside from higher return opportunities is **balanced** with appropriate recognition of the cost of taking risks
- 3 Ensuring that capital and resources are **strategically focused** on activities that generate the greatest value

## Board accountability and delegation

The board is ultimately accountable for the effective governance of Liberty. It is the responsibility of the board to ensure that clearly defined roles and responsibilities for its various committees, subsidiary boards, the group chief executive (supported by the group executive committee) and key functions are in place.

The performance of the board and its committees is evaluated periodically against their respective mandates and the results are collated by independent assurance providers. Feedback is provided to the directors' affairs committee and thereafter to the board.

## Code of ethics

The board subscribes to the highest levels of professionalism and integrity in conducting Liberty's business and in dealing with stakeholders. All Liberty employees and representatives are expected to act in a manner that inspires trust and confidence from the public. The board has approved a formal code of ethics that prescribes the group's approach to business ethics and its obligations to customers, shareholders, employees, representatives, suppliers, the public and authorities. Management is tasked with ensuring compliance with this code.

## The company secretary

The company secretary, currently JM Parratt, is required to provide the directors of the company, collectively and individually, with guidance on their duties, responsibilities and powers. She is also required to ensure that all directors are aware of legislation relevant to, or affecting, the company and to report at any meetings of the shareholders of the group or of the company's directors any failure to comply with such legislation, including the JSE Listings Requirements.

The company secretary is required to ensure that minutes of all shareholders' meetings, directors' meetings and the meetings of any committees of the board are properly recorded and that all required returns are lodged in accordance with the requirements of the Companies Act.

In compliance with section 3.84(j) of the JSE Listings Requirements the board has considered and has satisfied itself that the company secretary is competent, appropriately qualified and experienced to fulfil her role as company secretary of the group. Furthermore, the board is satisfied that the company secretary maintains an arm's length relationship with the board of directors. The company secretary is not a director of the company.

## Statement of going concern

The board concluded and expressed in its responsibility statement of the 2017 annual financial statements, that the group is a going concern. The 2017 interim and annual financial statements were prepared on this basis.

OUTPUTS		OUTCOMES	RESULTING CAPITALS
<p><b>R720 billion</b> AUM</p> <p>Capital adequacy ratio <b>2,92x</b></p> <p>Cost of debt <b>7,9%</b></p> <p>Cost of equity <b>12,1%</b></p> <p>Death &amp; disability claims <b>&gt; R8,7 billion</b></p> <p>Other benefits paid - claim statistics</p> <p>STANLIB manages savings for more than <b>500 000 customers</b></p>		<ul style="list-style-type: none"> <li>• Financial leverage</li> <li>• Enhanced access to financial and human capital</li> <li>• Competitive and risk-adjusted returns</li> <li>• Confidence in Liberty's ability to meet contractual obligations</li> <li>• Resilient capital position</li> </ul>	<p><b>ENHANCED FINANCIAL, BRAND, INTELLECTUAL AND HUMAN CAPITAL</b></p>
<p>Business operated within risk appetite</p> <p>Indexed new business R8,0 billion</p> <p>New business margin of 0,5%</p> <p>Enhanced financial needs analysis</p> <p>Responsible financial advice</p>		<ul style="list-style-type: none"> <li>• Long-term customer contract insurance persistency</li> <li>• Responsible advice on financial needs</li> <li>• Fair outcomes for customers</li> <li>• Excellent customer service</li> <li>• Customer satisfaction and peace of mind</li> <li>• Over six million lives insured</li> </ul>	
<p>Financial literacy education programmes reached 17 441 adults</p> <p>R41 million CSI spend in South Africa</p> <p>Security at Liberty premises and shopping centres</p> <p>Comprehensive stakeholder engagement</p> <p>Regulatory compliance</p>		<ul style="list-style-type: none"> <li>• Socio-economic upliftment through education</li> <li>• Broader inclusion and economic participation</li> <li>• Reduced regulatory fines and penalties</li> <li>• Understanding the needs, concerns and priorities of our stakeholders</li> <li>• A trusted industry participant</li> </ul>	
<p><b>R4,1 billion</b> paid in salaries to full-time employees</p> <p><b>R15,2 million</b> invested in upskilling</p> <p>Skills and career development</p> <p>Comprehensive value-added benefits for employees</p>		<ul style="list-style-type: none"> <li>• Motivated and skilled workforce</li> <li>• Lower risk of fraud and poor productivity</li> <li>• Transformation</li> <li>• Reduced employee turnover</li> </ul>	
<p><b>43 899 tCO<sub>2</sub>e</b> of emissions</p> <p><b>34%</b> of waste recycled across the group, including shopping centres</p> <p>Energy and water efficiency programmes</p>		<ul style="list-style-type: none"> <li>• Enhanced environmental awareness</li> <li>• Reduced environmental footprint</li> <li>• Environmental influencer at investment properties</li> </ul>	<p><b>REDUCED NATURAL AND FINANCIAL CAPITALS</b></p>

## GOVERNANCE AT LIBERTY

We believe effective corporate governance creates and preserves value

### 2017 governance highlights

Implementation of the King IV Report on Corporate Governance for South Africa 2016 (King IV) was a key focus in 2017. Existing governance practices at Liberty were compared to the principles and desired outcomes contained in King IV and enhanced as necessary. Evidence of the application of King IV is included in the suite of reports published by Liberty. Enhancements to further improve delivery of the desired governance outcomes continue to be sought.

The board updated its gender diversity policy to more specifically articulate Liberty's approach to the promotion of diversity on the group's South African boards of directors.



For further, detailed information on governance at Liberty please refer to the full Governance at Liberty report available at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)

### Statement of compliance

The board subscribes to full compliance with applicable laws and regulations in the jurisdictions in which it operates.

The board has embraced King IV. As recommended by King IV, Liberty has provided a narrative based report, referencing each of the King IV principles and an explanation of the practices employed to apply the principles. This report is available at



[www.libertyholdings.co.za/investors](http://www.libertyholdings.co.za/investors)

King IV was applied in its entirety except for a single practice that was not adopted. This is detailed below:

During 2017, Liberty was compliant in all material respects with the requirements of the Companies Act No. 71 of 2008, the Companies Act Regulations, the FSB board notice 158 of 2014 "Governance and Risk Management Framework for Insurers" and the Listings Requirements of the JSE Limited.

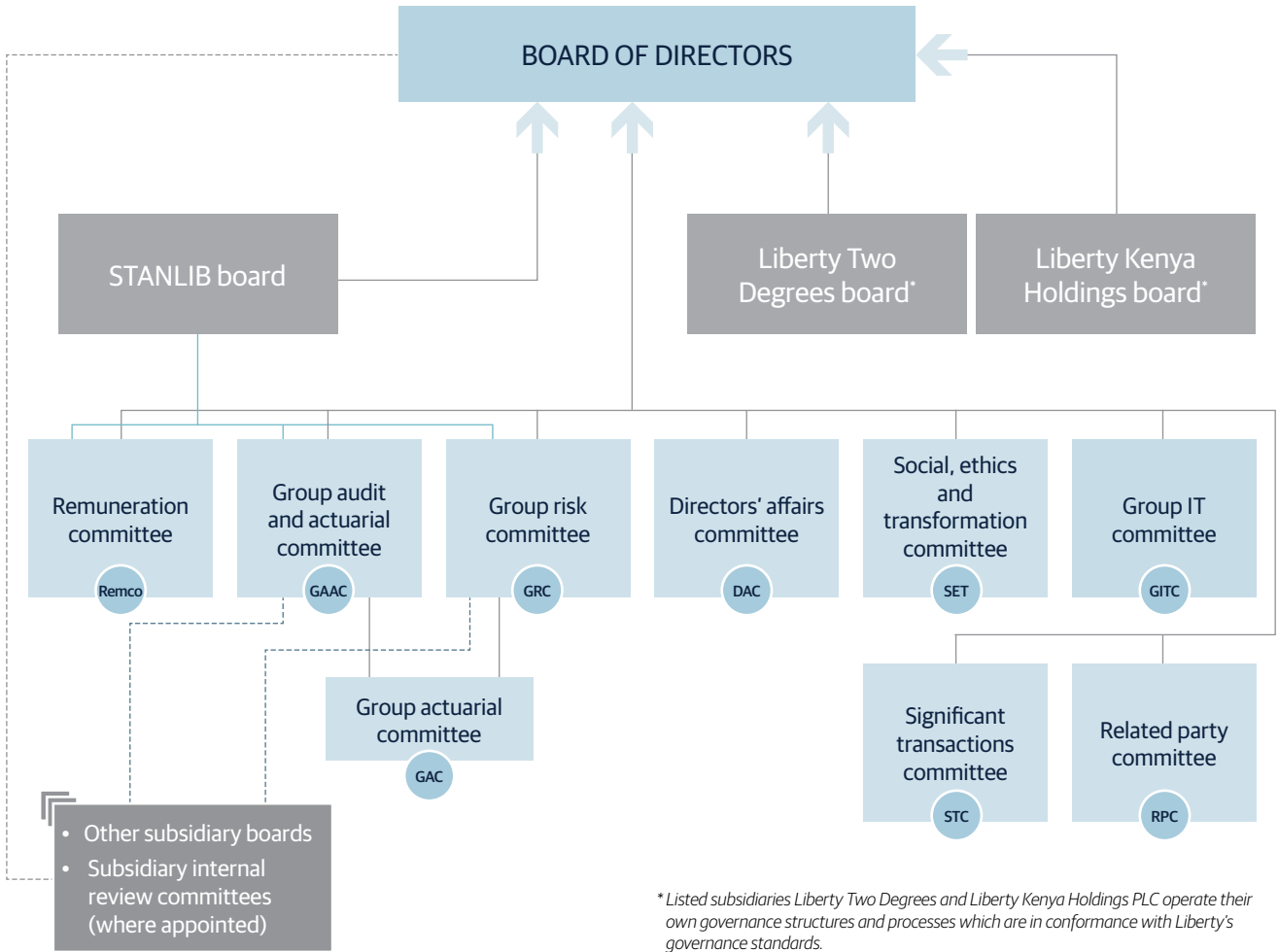
Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture and imperative to achieving our strategy. The board delegates responsibility for compliance to management and monitors this through the compliance control function. The compliance management committee assesses the impact of proposed legislation and regulation and any other material regulatory issues are escalated to the group control and risk oversight committee and thereafter the group risk committee.

During 2017, no material breaches were identified that require separate disclosure.

KING IV RECOMMENDED PRACTICE	LIBERTY'S RESPONSE
<p>The chair of the governing body may be a member of the social and ethics committee but should not be its chair.</p> <p>Principle 7, Note 36(e)</p>	<p>At this stage the board believes that the chairman of the board is the most qualified person to chair the social, ethics and transformation committee due to his experience in the matters considered by the committee.</p>

# GOVERNANCE STRUCTURES AT LIBERTY

The board applies responsible governance in managing the business within the approved risk appetite through various committees and subsidiary boards to provide an appropriate level of assurance for the proper control and conduct of the group's affairs. The boards and standing committees depicted below are appointed under the guidance of the group directors' affairs committee.



The functions and responsibilities of each of the committees reflected above are documented and governed by official mandates.

 These mandates are available at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)

## External auditors

For 2017, PricewaterhouseCoopers Inc. (PwC) was Liberty's lead independent firm of external auditors, appointed to LHL and many of the group's subsidiaries. Certain of the group's subsidiaries are audited by SizweNtsalubaGobodo or in certain African territories by KPMG Inc.

The group audit and actuarial committee (GAAC) is satisfied with the continued independence of PwC and the audit partner and will recommend to shareholders at the May 2018 annual general meeting that PwC is re-appointed as the group's lead external audit firm for 2018.

# GOVERNANCE STRUCTURES AT LIBERTY (CONTINUED)

## BOARD OF DIRECTORS (at 1 March 2018)



### Jacko Maree (62)

BComm (Stellenbosch), MA (Oxford),  
PMD (Harvard)

#### NON-EXECUTIVE CHAIRMAN

Appointed January 2015

**Areas of expertise and contribution:**  
Banking, insurance, governance, HR and remuneration, sub-Saharan Africa.

**Other directorships of listed entities:**  
Standard Bank Group Limited (Deputy Chairman).

2 2

REMCO DAC SET STC GITC



### Angus Band (65)

BA, BAcc (Wits), CA(SA)

#### LEAD INDEPENDENT DIRECTOR

Appointed November 2008

**Areas of expertise and contribution:**  
Management, governance, insurance, finance and remuneration.

**Other directorships of listed entities:**  
Liberty Two Degrees (Chairman)<sup>1</sup>

9 14

REMCO GAAC DAC SET STC RPC



### Santie Botha (53)

BEcon (Hons) (Stellenbosch)

#### INDEPENDENT DIRECTOR

Appointed August 2013

**Areas of expertise and contribution:**  
Marketing, sales, strategy, business intelligence, governance.

**Other directorships of listed entities:**  
Curro Holdings Limited (Chairman)<sup>1</sup>,  
Famous Brands Limited (Chairman)<sup>1</sup>,  
Telkom Limited<sup>1</sup>.

4 4

REMCO SET DAC GITC



### Tony Cunningham (62)

MA (Cambridge)

#### INDEPENDENT DIRECTOR

Appointed February 2009

**Areas of expertise and contribution:**  
Actuarial science, international liability management, strategic and liability driven investment, transaction liability management, property investing.

8 8

GAAC GAC GRC



### Monhla Hlahla (54)

BA (Honours) (Pomona College), MA (UCLSA),  
AMP (INSEAD)

#### INDEPENDENT DIRECTOR

Appointed August 2012

**Areas of expertise and contribution:**  
Negotiation, budgeting, business planning and operations management.

5 5

SET



### Nooraya Khan (48)

BComm (Natal), BCompt (Honours) (Unisa),  
CA(SA)

#### INDEPENDENT DIRECTOR

Appointed 15 December 2017

**Areas of expertise and contribution:**  
Financial structuring, risk management, project finance, private equity and venture capital.

**Other directorships of listed entities:**  
Delta Property Fund Limited<sup>1</sup>

<1 <1

GAAC GRC



### Yuresh Maharaj (40)

BComm (Honours) (Natal), CA(SA)

#### FINANCIAL DIRECTOR

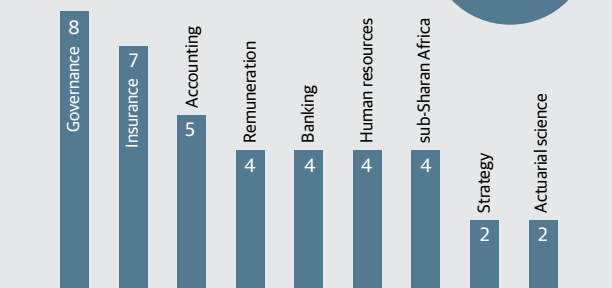
Appointed 12 February 2018

**Areas of expertise and contribution:**  
Accounting, insurance, governance and financial reporting.

<1 <1

GRC

### BOARD AREAS OF EXPERTISE



68  
YEARS OF LIBERTY  
EXPERIENCE

REMCO Remuneration committee

GAAC Group audit and actuarial committee

GAC Group actuarial committee  
The GAC is a sub-committee of the GAAC

GRC Group risk committee

DAC Directors' affairs committee

SET Social, ethics and transformation committee

GITC Group IT committee

STC Significant transactions committee

RPC Related party committee

Chairman ● Completed years of service Liberty Holdings Limited board ○ Completed years of service Liberty Group Limited board



**David Munro (46)**

*BCom PDGA (UCT), CA(SA), AMP (Harvard)*

**GROUP CHIEF EXECUTIVE**

Appointed 15 February 2017\*

**Areas of expertise and contribution:** Insurance, banking, law, governance, sub-Saharan Africa.

Appointed to the board on 15 February 2017 and became the group chief executive on 30 May 2017

<1 <1

SET GITC



**Carol Roskrugre Cele (45)**

*MSc (KZN), MBL (Unisa SBL)*

**INDEPENDENT DIRECTOR**

Appointed 1 December 2016

**Areas of expertise and contribution:** Supply chain, procurement, strategy, commercial and governance.

2 2

SET



**Sibusiso Sibisi (62)**

*BSc (Imperial College, London), PhD (Cambridge)*

**INDEPENDENT DIRECTOR**

Appointed November 2008

**Areas of expertise and contribution:** Management, insurance, mathematical and computational modelling.

9 14

GRC DAC GITC



**Yunus Suleman (60)**

*BCom (Atg) UDW, BCompt (Hons) (Unisa), CA(SA)*

**INDEPENDENT DIRECTOR**

Appointed August 2015

**Areas of expertise and contribution:** Accounting, banking, fast moving consumer goods and telecoms in Africa.

**Other directorships of listed entities:** Tiger Brands Limited<sup>1</sup>, Gold Fields Limited<sup>2</sup>.

3 3

GAAC GAC GRC STC



**Jim Sutcliffe (61)**

*BSc (UCT), FIA*

**INDEPENDENT DIRECTOR**

Appointed September 2009

**Areas of expertise and contribution:** Actuarial science, asset management, insurance, HR and remuneration, governance.

8 8

REMCO GAAC GAC GRC RPC



**Sim Tshabalala (50)**

*BA LLB (Rhodes), LLM (Notre Dame USA), HDip Tax (Wits), AMP (Harvard)*

**NON-EXECUTIVE DIRECTOR**

Appointed April 2013

**Areas of expertise and contribution:** Insurance, banking, law, HR and remuneration, governance, sub-Saharan Africa.

**Other directorships of listed entities:** Standard Bank Group Limited<sup>1</sup>.

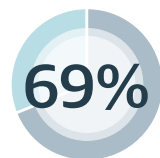
4 4

REMCO DAC STC

NUMBER OF DIRECTORS

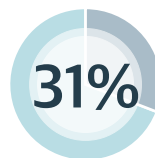


INDEPENDENT DIRECTORS



9 INDEPENDENT DIRECTORS

GENDER BALANCE



4 FEMALE  
9 MALE

DIVERSITY



7 DIRECTORS ARE BLACK

AVERAGE AGE



<sup>1</sup> Listed on the JSE.

<sup>2</sup> Listed on the JSE, the New York Stock Exchange and the Swiss Exchange. (\*\* ) Denotes age as at 31 December 2017

## GOVERNANCE STRUCTURES AT LIBERTY (CONTINUED)

### Changes to the board of directors

Peter Moyo and Mike Ilsley resigned from the board on 3 April 2017 and 31 July 2017 respectively. Thabo Dloti resigned as chief executive as part of a mutual separation agreement on 30 May 2017 and David Munro, who was appointed to the board as a non-executive director on 15 February 2017, was appointed as group chief executive in his stead. Nooraya Khan was appointed to the board on 15 December 2017. Casper Troskie resigned as financial director on 31 December 2017. Yuresh Maharaj was appointed in his stead on 12 February 2018.

### Boards of directors of subsidiary companies

Apart from Liberty Group Limited, whose board of directors is the same as that of Liberty Holdings Limited, all other subsidiaries have their own boards of directors. The directors' affairs committee considers the appointment of directors on all material or significant boards while the group chief executive appoints the Liberty representative directors to the boards of smaller subsidiary companies. The role of these boards involves participating in discussions on and maintaining the progress of strategic direction and policy, operational performance, approval of major capital expenditure, consideration of significant financial matters, risk management, compliance, succession planning and any other matters that do or may impact materially on the subsidiary companies' activities.

#### Liberty Group Limited (LGL)

LGL is a wholly-owned subsidiary of LHL and is the group's main South African registered long-term insurance licenced entity. From a materiality perspective most of the group's business and associated risks reside in this entity. Consequently, the boards and standing committees of LHL and LGL are constituted with the same directors and, as far as possible, function as an integrated unit. Both boards have the same non-executive chairman, lead independent director, group chief executive, executive and non-executive directors. The board meetings of these companies are combined meetings, resulting in improved efficiency and information sharing.

#### STANLIB Limited (STANLIB)

STANLIB is the group's wholly-owned asset manager. Due to the importance of governance over investors' funds managed and administered by the group its board includes three non-executive directors. These directors are Tony Cunningham, Monhla Hlahla and Jim Sutcliffe. These directors are also members of the LHL and LGL boards. Derrick Msibi was appointed as chief executive and to the STANLIB board on 1 May 2017. Thabo Dloti resigned from the STANLIB board on 30 May 2017 and David Munro was appointed to the board and as chairman on the same date. Seelan Gobalsamy and Casper Troskie resigned from the STANLIB board on 16 August 2017 and 31 December 2017 respectively.

### Liberty Two Degrees

Liberty Two Degrees was constituted as a REIT and listed on the JSE on 6 December 2016. Liberty held 63,1% of the REIT at 31 December 2017. The REIT is a Collective Investment Scheme in Property established in terms of the Collective Investment Schemes Control Act and is managed by STANLIB REIT Fund Managers (RF) Proprietary Limited, a wholly-owned subsidiary of Liberty Holdings Limited. The directors of the board are Angus Band (independent chairman), Wolf Cesman (independent), Lynette Ntuli (independent), Amelia Beattie (chief executive) and José Snyders (financial director).

#### Liberty Kenya Holdings PLC (LKH) (name changed from Liberty Holdings Kenya Limited on 1 September 2017)

Liberty holds 57,7% of LKH, which is listed on the Nairobi Stock Exchange. LKH conducts the group's long-term insurance operation in Kenya and is the investment holding company for the group's short-term insurance businesses in East Africa. The directors of the board are Susan Mboya-Kidero (chairman), Philip Odera (independent), Peter Gethi (independent), Gayling May (independent), Jeff Hubbard (non-executive) and Mike du Toit (executive).

### Gender diversity policy

The JSE Listings Requirements specifically require companies to consider the promotion of gender diversity. To this end, the board is committed to maintaining the percentage of female representation on the board above 30%. In February 2018, the directors' affairs committee reviewed the diversity policy which articulates Liberty's approach regarding the promotion of diversity on its boards of directors, in line with King IV.

In executing its mandate relating to director appointments, the directors' affairs committee:

- Annually reviews the composition of the board considering the balance of skills, experience, background, culture, race and gender of the board
- Continuously evaluates the progress and effect of efforts made in promoting diversity on the board, and
- Evaluates the criteria for nomination and appointment of directors to the Liberty boards.

### The chairman and lead independent director

The chairman, Jacko Maree, is not classified as independent in terms of governance best practice criteria due to him currently holding the position of deputy chairman of Standard Bank Group Limited and thus, as recommended by King IV and in compliance with the JSE Listings Requirements Regulation 3.84(c), Angus Band continues in the role of lead independent director.

The board recognises that the function of the lead independent director is to provide leadership and advice to the board when the chairman has a conflict of interest without detracting from or undermining the authority of the chairman.

## BOARD STANDING COMMITTEES AND MEMBERSHIP

### REMUNERATION COMMITTEE (REMCO)

Responsible for formulating remuneration strategies and policies for approval by the board and for monitoring the implementation of such policies.

Membership at 31 December 2017

Angus Band (chairman) Santie Botha Jim Sutcliffe	3	Independent directors
Jacko Maree Sim Tshabalala	2	Non-executive directors

### GROUP AUDIT AND ACTUARIAL COMMITTEE (GAAC)

As the statutory audit committee, the GAAC is also the audit and actuarial committee of LGL and the audit committee of STANLIB. Key responsibilities include governance and regulatory compliance, interaction with assurance providers and oversight of external reporting. Consideration of actuarial matters has been delegated to the group actuarial committee.

Membership at 31 December 2017<sup>1</sup>

Yunus Suleman (chairman) Angus Band Tony Cunningham Jim Sutcliffe	4	Independent directors
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### GROUP ACTUARIAL COMMITTEE (GAC)

The GAC is a sub-committee of the GAAC established to assist the GAAC with its responsibilities relating to capital adequacy, the review of actuarial guidance, the discharge of its actuarial compliance related obligations and the review of material statutory reporting to the FSB. The GAC also receives reports on insurance risk and escalates concerns to the GRC.

Membership at 31 December 2017

Tony Cunningham (chairman) Yunus Suleman Jim Sutcliffe	3	Independent directors
--	---	-----------------------

### GROUP RISK COMMITTEE (GRC)

The GRC is also the risk committee of LGL and STANLIB and is responsible for providing the board with oversight relating to risk and control matters. The GRC reviews Liberty's risk and control philosophy, strategy, policies and processes recommended by the group executive committee. Additional responsibilities include scrutinising management actions, ensuring compliance with risk policies and reviewing the overall risk profile of the group as well as sufficiency of capital.

Membership at 31 December 2017<sup>2</sup>

Jim Sutcliffe (chairman) Tony Cunningham Sibusiso Sibisi Yunus Suleman	4	Independent directors
Casper Troskie (Resigned 31 December 2017)	1	Executive director

### DIRECTORS' AFFAIRS COMMITTEE (DAC)

Manages, oversees and reviews the composition, structure and effectiveness of the board and its committees. The DAC is also responsible for determining and evaluating the adequacy, efficiency and appropriateness of the Liberty governance structure, practices and processes in line with regulatory requirements.

Membership at 31 December 2017

Angus Band (chairman) Santie Botha Sibusiso Sibisi	3	Independent directors
Jacko Maree Sim Tshabalala	2	Non-executive directors

<sup>1</sup> On 8 March 2018 Nooraya Khan was appointed to the GAAC

<sup>2</sup> On 8 March 2018 Nooraya Khan and Yuresh Maharaj were appointed to the GRC

## BOARD STANDING COMMITTEES AND MEMBERSHIP (CONTINUED)

SOCIAL, ETHICS AND  
TRANSFORMATION COMMITTEE (SET)

Manages Liberty's stance on transformation, social and economic development, ethical conduct, good corporate citizenship, sustainability and stakeholder management.

Membership at 31 December 2017

Jacko Maree (chairman)	1	Non-executive director
Angus Band Santie Botha Monhla Hlahla Carol Roskrugre Cele	4	Independent directors
David Munro	1	Executive director

## GROUP INFORMATION TECHNOLOGY COMMITTEE (GITC)

Reviews, monitors and provides guidance on matters related to the group's IT strategy, governance, technology and digitalisation, operations, policies and controls. The GITC reviews and provides guidance on the group's assessment of risks associated with disaster recovery, business continuity and IT security.

Membership at 31 December 2017

Sibusiso Sibisi (chairman) Santie Botha	2	Independent directors
Jacko Maree	1	Non-executive director
David Munro	1	Executive director

## GROUP RELATED PARTY COMMITTEE (RPC)

Oversees transactions between Liberty, Standard Bank Group and other related parties and ensures the rights of non-controlling shareholders are considered and protected.

Membership at 31 December 2017

Angus Band (chairman) Jim Sutcliffe	2	Independent directors
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GROUP SIGNIFICANT  
TRANSACTIONS COMMITTEE (STC)

Evaluates significant acquisitions, disposals, investments, credit arrangements and related party transactions.

Membership at 31 December 2017

Jacko Maree (chairman) Sim Tshabalala	2	Non-executive directors
Angus Band Yunus Suleman	2	Independent directors

## Group executive committee (Exco)

The Exco is made up of the chief executives and other selected executives heading significant business units and functions. The group chief executive is the chairman of the Exco. The committee's role is both strategic and operational in nature, being the custodian of the group strategy as approved by the board. The committee monitors the implementation of strategy and adherence to the group governance and policy framework.

The purpose of the Exco is to assist the group chief executive to manage, direct, control and co-ordinate the business activities and affairs of the group, subject to statutory limits and the board's limitations on delegation of authority to the group chief executive, to achieve sustainable growth within the approved risk profile.

Members of the Exco at 31 December 2017<sup>1</sup> were:

David Munro: *Group chief executive*

Pumeza Bam: *Group HR executive*

Giles Heeger: *Executive – Asset Management*

Jeff Hubbard: *Executive – Group Arrangements*

David Jewell: *Group executive – Individual Arrangements*

Benjamin Marais: *Chief information officer*

John Maxwell: *Chief executive – Individual Arrangements*

Sydney Mbhele: *Chief marketing officer*

Johan Minnie: *Group executive – Sales, distribution and bancassurance*

Berlina Moroole: *Chief risk officer*

Derrick Msibi: *Chief executive – STANLIB*

Thiru Pillay: *Group executive – Shared services*

Casper Troskie: *Financial director (Resigned 31 December 2017)*

<sup>1</sup> On 12 February 2018 Yuresh Maharaj was appointed to the Exco

# RISK MANAGEMENT

The business of insurance is the assumption and spreading of risk to mitigate the risk of adverse financial consequences to policyholders. The board is committed to increasing customer and shareholder value through the prudent management of risks, mindful of the interests of all stakeholders.

As well as establishing the key governance functions, Liberty has adopted an enterprise risk management (ERM) approach to focus on and address all relevant and material risks. Consideration of risk is a focal point in business activities and enables Liberty to make informed decisions and manage expected returns by selecting the risks it is willing to assume.

The board is ultimately accountable for the effective governance of risk management. The board delegates its oversight and responsibilities in terms of the three lines of defence risk governance model set out below.

Liberty has identified major risk categories that are significant from a group perspective. These are also set out below.

RISK CATEGORIES	RISK GOVERNANCE						
STRATEGIC AND BUSINESS	<table border="1"> <tr> <td><b>FIRST LINE OF DEFENCE</b> Business unit management</td> <td> <ul style="list-style-type: none"> <li>• Manage day-to-day risk origination and management in accordance with risk policy and strategy</li> <li>• Identify and assess risks and implement management's response</li> <li>• Report and escalate material risks and issues to governance bodies</li> <li>• Track losses and implement remedial actions</li> </ul> </td> </tr> <tr> <td><b>SECOND LINE OF DEFENCE</b> Heads of compliance, risk and actuarial control functions and statutory actuaries</td> <td> <ul style="list-style-type: none"> <li>• Provide oversight of and challenge to the first line of defence</li> <li>• Propose risk policy and strategy</li> <li>• Champion implementation of risk policy on strategy</li> <li>• Provide assurance to board and regulators</li> </ul> </td> </tr> <tr> <td><b>THIRD LINE OF DEFENCE</b> Independent assurance providers - internal and external audit</td> <td> <ul style="list-style-type: none"> <li>• Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy of effectiveness of the ERM framework</li> </ul> </td> </tr> </table>	<b>FIRST LINE OF DEFENCE</b> Business unit management	<ul style="list-style-type: none"> <li>• Manage day-to-day risk origination and management in accordance with risk policy and strategy</li> <li>• Identify and assess risks and implement management's response</li> <li>• Report and escalate material risks and issues to governance bodies</li> <li>• Track losses and implement remedial actions</li> </ul>	<b>SECOND LINE OF DEFENCE</b> Heads of compliance, risk and actuarial control functions and statutory actuaries	<ul style="list-style-type: none"> <li>• Provide oversight of and challenge to the first line of defence</li> <li>• Propose risk policy and strategy</li> <li>• Champion implementation of risk policy on strategy</li> <li>• Provide assurance to board and regulators</li> </ul>	<b>THIRD LINE OF DEFENCE</b> Independent assurance providers - internal and external audit	<ul style="list-style-type: none"> <li>• Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy of effectiveness of the ERM framework</li> </ul>
<b>FIRST LINE OF DEFENCE</b> Business unit management		<ul style="list-style-type: none"> <li>• Manage day-to-day risk origination and management in accordance with risk policy and strategy</li> <li>• Identify and assess risks and implement management's response</li> <li>• Report and escalate material risks and issues to governance bodies</li> <li>• Track losses and implement remedial actions</li> </ul>					
<b>SECOND LINE OF DEFENCE</b> Heads of compliance, risk and actuarial control functions and statutory actuaries		<ul style="list-style-type: none"> <li>• Provide oversight of and challenge to the first line of defence</li> <li>• Propose risk policy and strategy</li> <li>• Champion implementation of risk policy on strategy</li> <li>• Provide assurance to board and regulators</li> </ul>					
<b>THIRD LINE OF DEFENCE</b> Independent assurance providers - internal and external audit		<ul style="list-style-type: none"> <li>• Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy of effectiveness of the ERM framework</li> </ul>					
OPERATIONAL							
INSURANCE							
MARKET							
LIQUIDITY							
CREDIT							
CONCENTRATION							

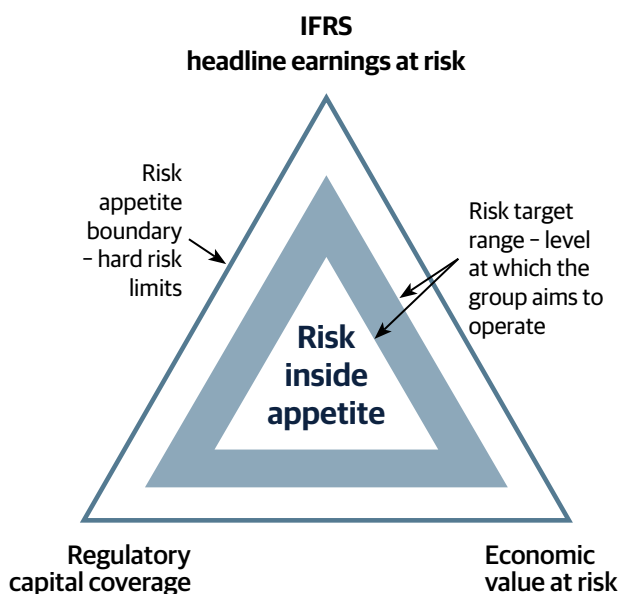
## RISK MANAGEMENT (CONTINUED)

Systems to quantify insurance, market, liquidity and credit risk are in place. Operational risks are difficult to measure quantitatively and are addressed through mitigating controls and analysis of any control breakdowns. Concentration risk is included and addressed in the other risk categories.

Risk processes consider both internal and external environments and their financial and reputational impact.

The group continues to make good progress on formalising processes which ensure that finance and risk matters are considered in the determination of remuneration and that incentives discourage excessive risky behaviour.

Risk appetite is defined as the maximum amount of risk that the group is prepared to accept in pursuit of its business objectives. As such, risk appetite defines the group's willingness and capacity to accept high or low levels of exposure to specific risks or groups of risks.



### Combined assurance

Combined assurance is the adoption of a co-ordinated approach to attaining assurance on the management of risk. The recent focus on the concept of combined assurance requires a more formalised approach to a practice that has been successfully applied within organisations for a number of years. Combined assurance is built on the adoption of a robust risk management process, in Liberty's case the ERM process and the three lines of defence risk governance model. Combined assurance simply provides the board with comfort that the ERM and risk governance model are operating efficiently and effectively to manage risk within Liberty.

Liberty has an approved combined assurance model, aligned to the roles and responsibilities as articulated in the three lines of defence risk governance model. There is regular communication between:

- Business unit management (the first line of defence – responsible for day to day operations)
- Heads of compliance, risk and actuarial control functions and statutory actuaries (the second line of defence), and
- Independent assurance providers, including internal and external audit (the third line of defence).

Assurance on the management of the key risks is provided to the board on a regular basis, through the above assurance functions. Assurance is provided monthly, quarterly and annually depending on the provider of the assurance and together results in efficient and effective combined assurance.



## SUMMARY OF REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS

Liberty's approach to remuneration is to promote the achievement of the strategic objectives, while considering the management of risk, capital and liquidity of the company and encouraging individual performance through the setting and administration of a group policy that articulates and gives effect to fair, responsible and transparent remuneration.

### Internal and external factors that influenced remuneration for 2017

The 2017 financial year was challenging for the Remco, which had to balance a difficult year from a performance perspective with the need to retain key people. The group remained resilient during 2017 with competitive retail market pricing and the tough economic environment continuing to place significant pressure on retail sales volumes, partially offset by growth in Liberty Corporate recurring premiums during the year. Normalised headline earnings increased by 8% supported by improving SA retail insurance earnings and higher returns from investment markets. The improved earnings contribution from Individual Arrangements was offset by the lower underwriting result from Liberty Corporate and STANLIB SA's earnings, which continued to be impacted by margin pressure due to a less favourable sales mix and operational losses.

The weighted group financial performance result against set financial targets relating to the short-term incentive scheme only delivered 31% of the full target. During the course of 2017 a number of new businesses were introduced into the Liberty group including Liberty Short-Term Insurance, Group Investment Platform, Insurance Centre of Excellence and growth in various Africa operations which resulted in an increase in participation in the senior management and specialist incentive schemes. The lower financial performance was offset by the higher number of employees eligible to participate in the incentive schemes, which resulted in a similar aggregate short-term incentive award for 2017 compared to 2016. The main reasons for the increase of 2.7% in the short term incentive awards for 2017 compared 2016 can be attributed to the increase in participation in the schemes together with a decline in aggregate STANLIB short-term incentives coupled with the improvement in performance in LibFin and Individual Arrangements as compared to 2016.

The cumulative financial performance condition imposed on the Liberty long-term incentive scheme was not achieved and this has resulted in significant share forfeitures in respect of the final vesting tranche for 2013, the second vesting tranche of the 2014 award as well as the first vesting tranche of the 2015 award.

In response to these circumstances, the Remco has in summary acted as follows:

- No conceptual changes have been made to the short-term incentive scheme, except that from 2018 any outperformance above a threshold will be placed in a pool to be paid on a discretionary basis as motivated by the group chief executive to the Remco.
- Some changes to the long-term incentive vesting conditions have been made to align them to GDP movement and the slope of vesting has been moderated with effect from 2017.

- The long-term incentive awards are up by 35% primarily as a result of more eligible people considered for long-term incentive awards.
- The Remco took the decision to make a once off Equity Growth Scheme award to a group of key people which is aimed at driving them to deliver on the new strategy as outlined by the new group chief executive and act as a retention mechanism. These options are subject to the existing financial performance conditions. The total value of all long-term incentives being issued is however less than those that are being forfeited.
- Salary increases were in line with market for junior staff and aligned to inflation at the senior staff levels.

The separate remuneration report provides comprehensive coverage of all the key issues.

### Interest of directors, including their families, in the share capital of Liberty

	NUMBER OF SHARES	
	2017	2016
<b>Direct beneficial interests</b>		
<i>Executive directors</i>		
T Dloti <sup>1</sup>		242 677
DC Munro	48 306	
CG Troskie <sup>2</sup>	75 554	59 669
	<b>123 860</b>	<b>302 346</b>
<i>Non-executive directors</i>		
SL Botha	5 335	5 335
JH Maree	100 000	
MP Moyo <sup>3</sup>		4 858
JH Sutcliffe	4 000	4 000
SK Tshabalala	43 000	
	<b>152 335</b>	<b>14 193</b>
	<b>276 195</b>	<b>316 539</b>

<sup>1</sup> T Dloti resigned as group chief executive on 30 May 2017.

<sup>2</sup> CG Troskie resigned as financial director on 31 December 2017.

<sup>3</sup> MP Moyo resigned as an independent director on 3 April 2017.

By virtue of either directorships in or material shareholdings held directly or indirectly by Standard Bank Group Limited's 53,6% (2016: 53,6%) in the issued ordinary share capital of Liberty, JH Maree and SK Tshabalala being directors of both Liberty and Standard Bank Group Limited had in aggregate an indirect beneficial and non-beneficial interest of 153 461 712 (2016: 153 461 712) ordinary shares in Liberty at 31 December 2017.



A full remuneration report is available at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)

## SUMMARY OF REMUNERATION OF DIRECTORS AND PRESCRIBED OFFICERS (CONTINUED)

### Executive directors' remuneration

Remuneration and benefits paid and payable and approved in respect of 2017 for executive directors were as follows. The determination of the values in the following table is in accordance with King IV.

SINGLE FIGURE DISCLOSURE	2017			2016	
R'000	DC Munro	T Dloti <sup>7</sup>	CG Troskie <sup>8</sup>	T Dloti <sup>7</sup>	CG Troskie <sup>8</sup>
<b>Fixed remuneration<sup>1</sup></b>	<b>4 394</b>	<b>4 348</b>	<b>4 397</b>	<b>6 250</b>	<b>3 868</b>
Cash portion of package	3 919	3 767	3 915	5 405	3 444
Other benefits	88	214	93	353	89
Retirement contributions	387	367	389	492	335
<b>Variable remuneration awards<sup>2,3</sup></b>	<b>4 125</b>			<b>3 091</b>	<b>2 053</b>
Cash	3 187			2 464	1 737
Restricted share plan (deferred shares) <sup>2</sup>	938			627	316
<b>Long-term awards<sup>4</sup></b>		<b>1 531</b>	<b>1 662</b>	<b>4 090</b>	<b>3 657</b>
Liberty rights under option					
Restricted share plan (LTIP)			385	1 515	2 376
Dividends		1 531	1 276	2 575	1 281
Separation payment		19 096			
<b>Total remuneration</b>	<b>8 519</b>	<b>24 975</b>	<b>6 059</b>	<b>13 431</b>	<b>9 578</b>

For the purposes of completeness and comparability we provide below the executive directors' remuneration in a manner consistent with previous periods. The presentation of the remuneration components appropriately reflects the award values in respect of the performance period to which they relate.

ADDITIONAL DISCLOSURE	2017			2016	
R'000	DC Munro <sup>9</sup>	T Dloti <sup>7</sup>	CG Troskie <sup>8</sup>	T Dloti	CG Troskie
<b>Fixed remuneration<sup>1</sup></b>	<b>4 394</b>	<b>4 348</b>	<b>4 397</b>	<b>6 250</b>	<b>3 868</b>
Cash portion of package	3 919	3 767	3 915	5 405	3 444
Other benefits	88	214	93	353	89
Retirement contributions	387	367	389	492	335
<b>Variable remuneration awards<sup>2,3,6</sup></b>	<b>4 125</b>			<b>3 091</b>	<b>2 053</b>
<b>Long-term awards</b>	<b>33 400</b>			<b>10 000</b>	<b>6 000</b>
Value of restricted shares granted <sup>5,10</sup>	9 000			10 000	6 000
Equity participation rights granted <sup>11</sup>	24 400				
Separation payment		19 096			
<b>Total</b>	<b>41 919</b>	<b>23 444</b>	<b>4 397</b>	<b>19 341</b>	<b>11 921</b>
Accrued and settled	7 581	23 444	4 397	8 714	5 605
Deferred in terms of short-term incentive policy <sup>2</sup>	938			627	316
Deferred in terms of long-term incentive policy <sup>5</sup>	33 400			10 000	6 000

<sup>1</sup> Fixed remuneration includes all guaranteed amounts and value of benefits granted only conditional to services rendered to Liberty. Generally fixed remuneration is adjusted annually for inflation and market conditions effective 1 April each year.

<sup>2</sup> Variable awards are performance based and referenced to the guaranteed package in the month of the award being granted. Deferred portions of awards are allocations of restricted shares under the conditions of the restricted share deferred bonus scheme.

<sup>3</sup> Short-term incentives were approved based on the group results for the 2017 financial year and payable in the 2018 financial year. Incentives are calculated as a percentage of total guaranteed package as at 31 December 2017. Comparatives for 2016 have been calculated on the same basis.

<sup>4</sup> Long-term incentives for the 2017 financial year represent the number of shares subject to 2017 corporate performance targets x corporate performance target achievement (2017) x closing share price on 29 December 2017. Comparatives for 2016 have been calculated on the same basis.

<sup>5</sup> Long-term incentive awards, at the election of the individual executive, can be taken up to 50% as share rights in the equity growth scheme with the balance being allocated to the restricted share plan (long-term plan).

<sup>6</sup> In order to align reporting of incentive awards to the relevant performance, the amounts granted, as reported above, relate to the respective periods reviewed.

<sup>7</sup> Mr T Dloti was the chief executive until 30 May 2017 when he resigned from the Liberty board. Mr T Dloti was awarded a separation payment to the value of R19 095 856.

<sup>8</sup> Mr CG Troskie resigned from the board on 31 December 2017, with a three month notice period.

<sup>9</sup> Appointed as chief executive on 30 May 2017. Mr DC Munro was awarded share rights in the equity growth scheme with a Black Scholes value of R16 198 750 upon his appointment which has been included in long-term awards.

<sup>10</sup> The award value of restricted shares is the number of restricted shares granted times by the share price at award date. The awards are subject to performance conditions and service duration. The value granted refers to the award approved by the Remco in February 2018 and 2017 in order to align to the performance periods of 2017 and 2016, respectively.

<sup>11</sup> Rights granted are valued using option pricing methodology and are subject to performance conditions as well as service duration. The award includes the sign-on award noted under 9 above and an additional award approved by the Remco in February 2018, with a Black Scholes value of R8 201 250.

## Directors' remuneration (single figure disclosure)

Directors <sup>1</sup> (R'000)	Executive directors of LHL and LGL	Non-executive directors of LHL and LGL	Committee fees	Ad hoc fees	Directors of STANLIB Limited	Directors of STANLIB REIT Fund Managers	Total Liberty group	Other Standard Bank Group <sup>2</sup>	Total remunera- tion
<b>2017</b>									
JH Maree <sup>3</sup> (chairman)		2 760					2 760	1 447	4 207
AWB Band (lead independent director)		890	576	124		313	1 903		1 903
SL Botha		330	389				719		719
AP Cunningham <sup>4</sup>		2 130					2 130		2 130
T Dloti (resigned 30 May 2017)	24 975						24 975		24 975
MW Hlahla		330	97		172		599		599
MG Ilsley (resigned 31 July 2017)		220	654	50		332	1 256		1 256
MP Moyo (resigned 3 April 2017)		82	176			188	446		446
DC Munro (appointed 15 February 2017) <sup>5,6</sup>	8 519						8 519	57 107 <sup>7</sup>	65 626
CL Roskrugé Cele		330	73				403		403
SP Sibisi		330	511				841		841
YGH Suleman		330	605	99			1 034		1 034
JH Sutcliffe <sup>8</sup>		2 571					2 571		2 571
CG Troskie (resigned 31 December 2017)	6 059						6 059		6 059
SK Tshabalala <sup>6</sup>								55 115	55 115
<b>Total</b>	<b>39 553</b>	<b>10 303</b>	<b>3 081</b>	<b>273</b>	<b>172</b>	<b>833</b>	<b>54 215</b>	<b>113 669</b>	<b>167 884</b>

<sup>1</sup> Ms NY Khan was appointed to the board of directors on 15 December 2017 and did not receive any directors fees in the current year.

<sup>2</sup> Other Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty and is paid by Standard Bank Group.

<sup>3</sup> The chairman of the board received a composite fee in lieu of committee fees for his services as a director of Liberty Holdings Limited and Liberty Group Limited.

<sup>4</sup> Mr AP Cunningham is an international director and received a composite fee of £121 317 in 2017 as a member of the board, committees and subsidiary boards. 2017 rand equivalent of director's foreign currency fees paid is R2 129 611.

<sup>5</sup> Mr DC Munro was appointed as chief executive on 30 May 2017.

<sup>6</sup> Mr SK Tshabalala, a non-executive director of Liberty, was a full time employee of the Standard Bank Group and therefore did not receive directors' fees or other remuneration from Liberty. Mr DC Munro, also a full time employee of the Standard Bank Group, was a non-executive director of Liberty from 15 February 2017 to 30 May 2017, and therefore did not receive directors' fees or other remuneration from Liberty during this period.

<sup>7</sup> Detailed disclosure of the single figure remuneration for Mr DC Munro is available in the Standard Bank Group 2017 governance and remuneration report. The amount has been proportioned based on his appointment to the Liberty board from 15 February 2017. Included in the amount is a deferred R20 million cash award conditional on service to Liberty, 50% of which will be delivered after three years and 50% of which will be delivered after five years.

<sup>8</sup> Mr JH Sutcliffe is an international director and received a composite fee of £148 300 in 2017 as a member of the board, committees, subsidiary boards and chairman of a committee. 2017 rand equivalent of director's foreign currency fees paid is R2 571 290.

## Remuneration structures

Liberty's remuneration structures are designed to attract and retain talent at all staff levels, with an appropriate mix between fixed and variable pay. Remuneration packages are geared to the employee's level of influence and role complexity. The balance between guaranteed and variable pay is appropriately structured and does not reward risk taking outside the board approved risk mandates.

All employees have some level of variable pay. No long-term service agreements are entered into at senior management level and notice periods do not exceed three months.

## Minimum shareholding for executive directors

With effect from February 2015, executive directors were required to achieve and maintain vested shareholdings with a value of at least at the average of their last three years' total remuneration.

From 2017, the shareholding requirement was changed to a multiple of guaranteed package where executive directors and key executives are required to achieve the following levels of holdings:

Role	Shareholding multiple of annual guaranteed package
Group chief executive	3,0 times
Other key executives	2,0 times

Executives have a phase-in period to align to the above holding requirement. Any vested shares are required to be held until these minimum holding levels are met.

Due to the changes in leadership during 2017 the shareholding requirement was not extended to key executives but will be implemented during 2018.



# INVESTORS – PROVIDE OUR FINANCIAL CAPITAL

We are the stewards of our investors' financial capital and we value their trust and confidence.

## OUR VALUE-CREATING PARTNERSHIP WITH INVESTORS



### INVESTOR VALUE

### LIBERTY VALUE

### CUSTOMER VALUE

Cash flow from dividends in terms of dividend policy	Investor capital enables Liberty to create value for all stakeholders in the short, medium and long term	Ability to fulfil our promises
Cash flow from interest on loan notes	Investor capital supports regulatory capital requirements	Innovative products and services
Share price growth	Investor capital used to meet working capital requirements and finance strategic acquisitions	Competitive investment returns

### KEY PERFORMANCE INDICATORS

RETURN ON GROUP EQUITY VALUE

NORMALISED RETURN ON IFRS EQUITY

GROWTH IN HEADLINE AND OPERATING EARNINGS

DIVIDENDS, DIVIDEND AND FINANCE COST COVER

SHARE PRICE AND GROUP EQUITY VALUE

## Material focus area

### Deliver sustainable financial results

Our capital deployment framework defines our financial priorities:

- 1 Meet regulatory requirements and obligations to policyholders
- 2 Service debt owner obligations
- 3 Meet organic business growth aspirations and make investments aligned to strategy
- 4 Achieve a minimum return on IFRS equity
- 5 Generate sufficient free cash flow to pay dividends
- 6 Ensure risk-taking remains within appetite

### Strategy implications

In the formation of our strategy, financial capital requirements have been forecast and an accompanying financial capital plan has been formulated. Assuming no significant unforeseen events, we are comfortable that our strategy will not be constrained by lack of available financial capital.

### Sources of financial capital

#### Equity (risk capital)

In most cases, equity or risk capital, is permanent in nature, with no contracted requirements for repayment or servicing. The ability to raise new equity capital is dependent on investors' perception of the outlook for the business and the ability to realise their investment expectations through dividend flows and share price growth. This makes equity capital relatively expensive from an economic cost perspective.

When seeking to raise new equity capital, the support of our majority shareholder, Standard Bank Group, is a key consideration.

#### Subordinated loan notes (debt capital)

Liberty has an FSB approved R7 billion domestic medium-term note programme that enables the group to issue senior and subordinated debt capital from Liberty Holdings Limited or Liberty Group Limited.

Before any debt issuance, we carefully assess the optimal level of the debt funding (influenced by future strategic requirements) and the desire to reduce cost of capital, while maintaining the group's leverage and return on equity at levels suitable to shareholders.



## INVESTORS (CONTINUED)

### Our financial capital at 31 December 2017

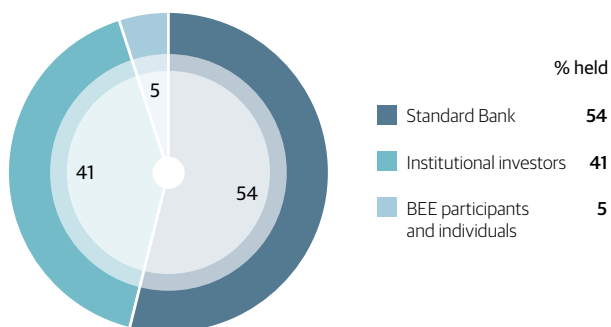
#### EQUITY

Provided by shareholders who expect a sustainable and attractive return on investment, realised over time through dividends and share price growth. Perpetual in nature, funds key expansion opportunities and supports minimum regulatory capital requirements.

**R22,4 billion** <sup>A</sup>

**8 340 shareholders**

#### SHAREHOLDERS



#### DIVIDENDS

Our targeted dividend cover based on underlying core operating earnings is between 2,0 and 2,5 times. The interim dividend is targeted as 40% of the previous year's full dividend.

#### SUBORDINATED LOANS NOTES

Provided by noteholders who expect a competitive risk adjusted lending return and return of investment at the agreed dates. Liberty has a R7 billion domestic medium-term note programme. Debt capital is utilised to reduce the overall cost of capital.

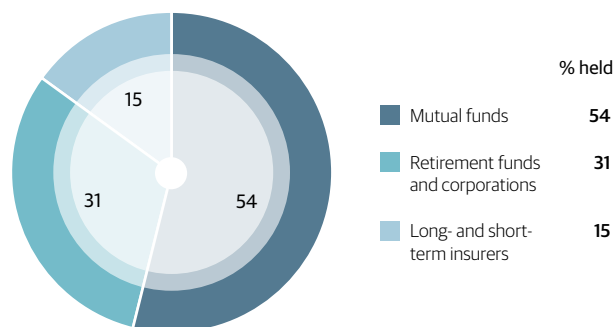
**R1 billion of subordinated debt is repayable in April 2018.**

**R5,6 billion** <sup>A</sup>

(including accrued interest)

**359 noteholders**

#### NOTEHOLDERS



#### INTEREST AND CAPITAL PAYMENTS

Five to seven-year tenor for issued debt instruments. Fixed and floating interest coupon rates paid either semi-annually or quarterly.

### ENGAGEMENT

Various engagement activities are planned to meet institutional and individual shareholders, financial media and investment analysts throughout the year.

We conduct initial pre-note issuance road shows and post issue engagements with rating agencies who prepare formal annual reviews and ratings.

## Liberty conducts both prescribed engagement activities and proactive activities focused on specific investor groupings. We broadly categorise these groups into:

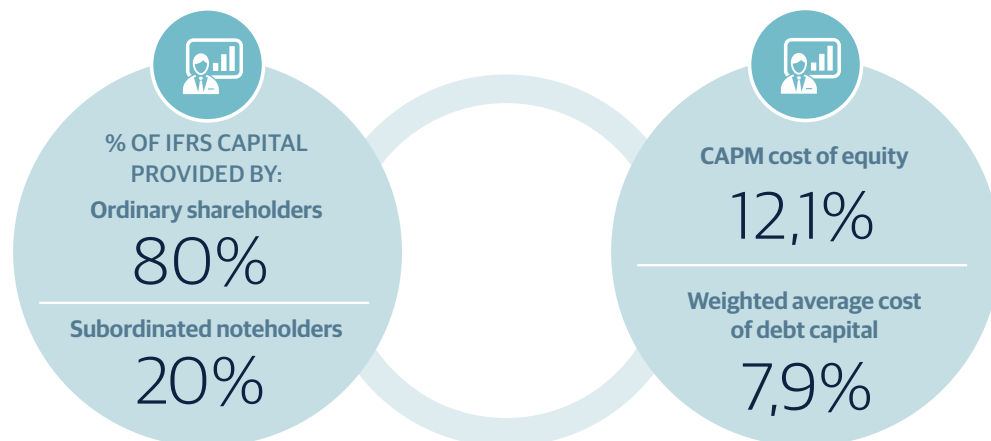
**Standard Bank Group** – which owns 53,6% of Liberty Holdings and is our strategic partner through the bancassurance business agreement. This agreement is an important differentiator and provides a competitive advantage for Liberty's future expansion. Our engagement activities with Standard Bank Group can be categorised into those related to the bank's status as our majority shareholder and operational activities. Standard Bank Group's representation on Liberty's board means that this shareholder is privy to strategic and financial information not readily available to other investors. We strictly control the distribution of information and fully comply with the JSE's requirements regarding the release of price sensitive information. The board ensures that there are sufficient independent non-executive directors to manage the inherent conflict of interests, aided by supporting governance forums. The board's related party committee oversees transactions between Standard Bank Group and Liberty, to assist the board in discharging its governance obligations in respect of material related party transactions and protecting the interests of minority shareholders.

**Institutional investors** – invest on behalf of others, whether these be individuals, mutual funds, retirement vehicles or

medical aid schemes. These investors own approximately 41,8% of Liberty ordinary shares and effectively 100% (99,8%) of all issued subordinated notes. This aggregation of investors is particularly influential in determining our share price and the cost of raising debt and is accordingly a significant focus of our investor engagement activities.

**Individual shareholders** – 6 417 shareholders own approximately 2,1% of Liberty ordinary shares. Liberty engages with these shareholders through public communication channels such as financial media, SENS announcements and an interactive investor relations website. We have implemented a proactive online help facility to receive and respond to individual queries.

**Analysts and financial media** – these individuals and public communication channels are instrumental in effectively communicating our investment proposition. Analysts and the financial media exert considerable influence on the flow of financial capital and therefore need to be fully informed on Liberty's strategy, business model and financial metrics. Providing these stakeholders with timely and pertinent information is necessary to increase the pool of accessible financial capital and reduce the overall cost of capital.



### Cost of financial capital

Our cost of equity is determined using the capital asset pricing model (CAPM). The cost of debt is determined using the current market cost of raising debt. Using the weighted average of capital source, we estimate Liberty's cost of capital for the 2018 financial year at 11,8% (2017: 11,4%). The cost of capital serves as a hurdle for Liberty's capital deployment decisions.



## INVESTORS (CONTINUED)

The drivers of shareholder value by each significant business segment and the key metrics used to measure value driver components are depicted below.

VALUE COMPONENT	VALUE DRIVERS	KEY METRICS
LONG-TERM INSURANCE	<p><b>In-force contracts</b></p> <ul style="list-style-type: none"> <li>Cost of servicing</li> <li>Policyholder behaviour and insurance claims</li> <li>Cost of required capital</li> <li>Risk discount rate</li> <li>Investment return</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance cost per policy</li> <li>Net customer cash flow</li> <li>Value of in-force covered business</li> <li>Cost of required capital</li> </ul>
	<p><b>New business</b></p> <ul style="list-style-type: none"> <li>Sales volume</li> <li>Margin</li> </ul>	<ul style="list-style-type: none"> <li>Indexed new business</li> <li>Value of new business</li> <li>New business margin</li> <li>Distribution capacity (geographic presence, number of supporting intermediaries and corporate consultants)</li> </ul>
SHORT-TERM INSURANCE	<p><b>Sustainable earnings</b></p> <ul style="list-style-type: none"> <li>Cost of servicing</li> <li>Investment return</li> <li>Extent and frequency of loss events</li> <li>Premium rates</li> <li>Reinsurance levels</li> </ul>	<ul style="list-style-type: none"> <li>Claims loss ratio</li> <li>Combined ratio</li> </ul>
ASSET MANAGEMENT	<p><b>Sustainable earnings</b></p> <ul style="list-style-type: none"> <li>Assets under management</li> <li>Investment and performance fees</li> <li>Expenses</li> </ul>	<ul style="list-style-type: none"> <li>Assets under management</li> <li>Net customer cash flow</li> <li>Service fee margin</li> <li>Cost to income ratio</li> </ul>
AVAILABLE CAPITAL	<p><b>Return on capital</b></p> <ul style="list-style-type: none"> <li>Assets held</li> <li>Asset mix</li> <li>Investment performance per asset category</li> </ul>	<ul style="list-style-type: none"> <li>Investment return and reference to benchmark</li> <li>Dividend cover</li> <li>Capital adequacy ratio</li> </ul>

## How we measure investor value

The components of Liberty's equity value have several influencers or value drivers, certain of which can be controlled by active management. Others, such as investment market returns, are less controllable. All drivers of value are managed through the application of risk appetite limits and risk policies.

Liberty's primary basis of value measurement is group equity value.

- We have chosen the embedded value methodology to measure value creation in the South African long-term insurance business
- A combination of valuation techniques has been applied to the short- and long-term businesses located in various African countries outside of South Africa, and
- We have chosen a sustainable earnings multiple for valuing the asset management businesses. The combined calculated value (sum of the parts) is our reported group equity value.

## Group equity value

Liberty has three main lines of business that generate value, namely long-term insurance (risk and investment products), short-term insurance and asset management. In addition, value is created by the efficient management and investment of available capital, being surplus financial capital and capital held for regulatory requirements.

Components of the embedded or equity value and changes thereto are reported and analysed separately as they are appropriate indicators of separate value driver performance. Value of new business and new business margin are representative of sales performance. For the existing business, variances to expected assumptions give an indication of both accuracy of key assumptions and how well the business is being managed to expectations ("manage to model" concept). Efficiency measures include return on embedded or equity value (expressed as a percentage), which can be compared to hurdle rates such as weighted average cost of capital.

The group has for the medium term targeted a long-term sustainable return on equity value of 12,1% for 2017.

Management targets measured by these metrics are integrated into management performance contracts, thereby influencing remuneration. The board monitors value generation by actively reviewing performance against short- and long-term targets

The nature of the long-term insurance business results in a high percentage of contracts having a term of well over 10 years. In addition, the term of contracts is often variable as it depends on events not under management control, such as when a customer dies or their policy lapses. Determining value and assessing performance therefore requires comprehensive valuation models that include forecasting future long-term trends in investment markets as well as policyholder behaviour.

Understanding trends and having appropriate valuation models and assessments is therefore critical to managing risk and ensuring a sustainable business model. Liberty invests considerable resources into model development and skilled financial and actuarial employees, supported by consultants when needed, who regularly benchmark our models and assumptions against best practices.


It should be noted that IFRS earnings of a long-term insurer tend to be more volatile than earnings of most other financial service entities. Volatility arises from any change that may be made to economic and non-economic assumptions used in valuing long-term contract liabilities. Amendments to assumptions result in a 'capitalised' or multiplier effect, which is the result of the change being modelled over the remaining term of contracts.

## Goodwill

While group equity value is a reliable basis for assessing value generation, it is not intended to be the full representative value of the group. Goodwill, incorporating an assessment of the ability to generate future growth and new business, is not fully represented in the underlying calculation of embedded value and the reported group equity value.

## Communicating with investors

Investors often perceive the insurance business as complicated, with complex terminology and metrics. We therefore communicate Liberty's insurance business model by explaining our strategy and differentiated capabilities.

 Refer to the Strategy execution on page 11 and Our business model on page 17

Providing detailed analysis of our financial results enables investors and analysts to compare us with our competitors on a like-for-like basis.

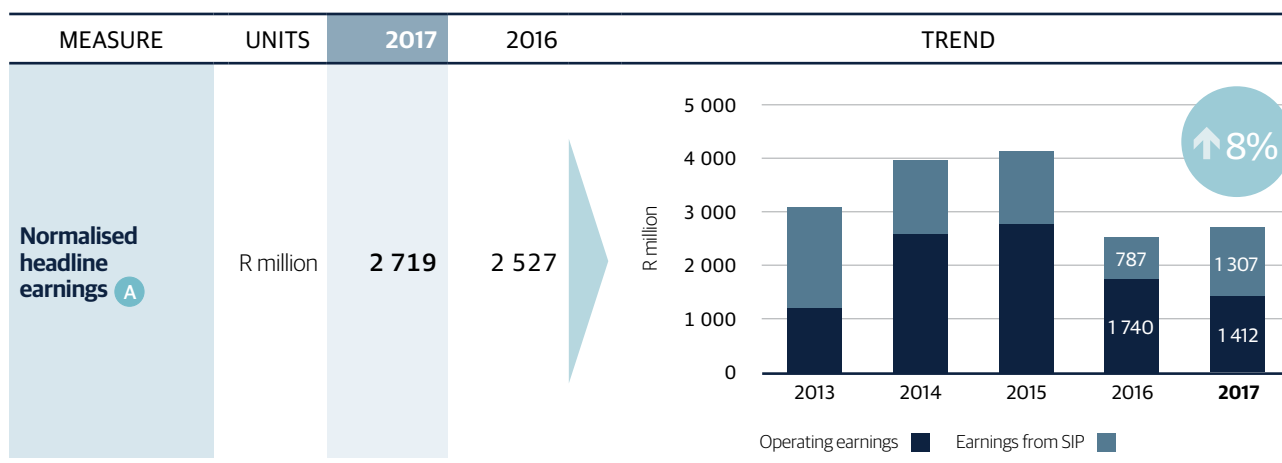
Consistent and effective engagement with shareholders and potential investors to align their expectations with our strategy and targets, helps ensure that our share price fairly reflects our value creation opportunity. Investors and potential investors require regular interaction and information to assist in achieving their investment goals. Liberty's financial director is responsible for investor engagement and is supported in this role by two skilled professionals, who manage the investor relations function.

We deliver this interaction and information through dedicated investor relations services, a well-directed and comprehensive plan complemented by accessible channels of enquiry and timely responses.



## INVESTORS (CONTINUED)

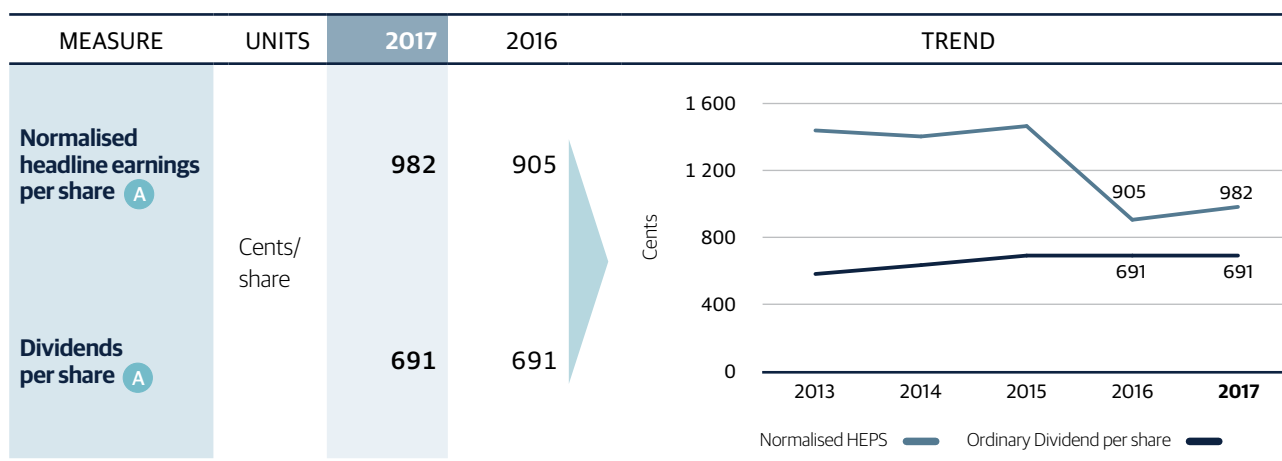
### OUR PERFORMANCE FOR INVESTORS IN 2017



Due to regulatory requirements and long-term insurance product design, Liberty holds a significant amount of capital. Capital held above that necessary to meet policyholder liabilities is invested in a variety of investment markets. These exposures are collectively known as the shareholder investment portfolio (SIP). As such, a significant component of Liberty's earnings each year is directly related to the performance of investment markets. The SIP returned a profit of R1 307 million for 2017. These earnings were impacted by structurally lower local equity and higher foreign asset exposure and significant rand strengthening, particularly in December 2017.

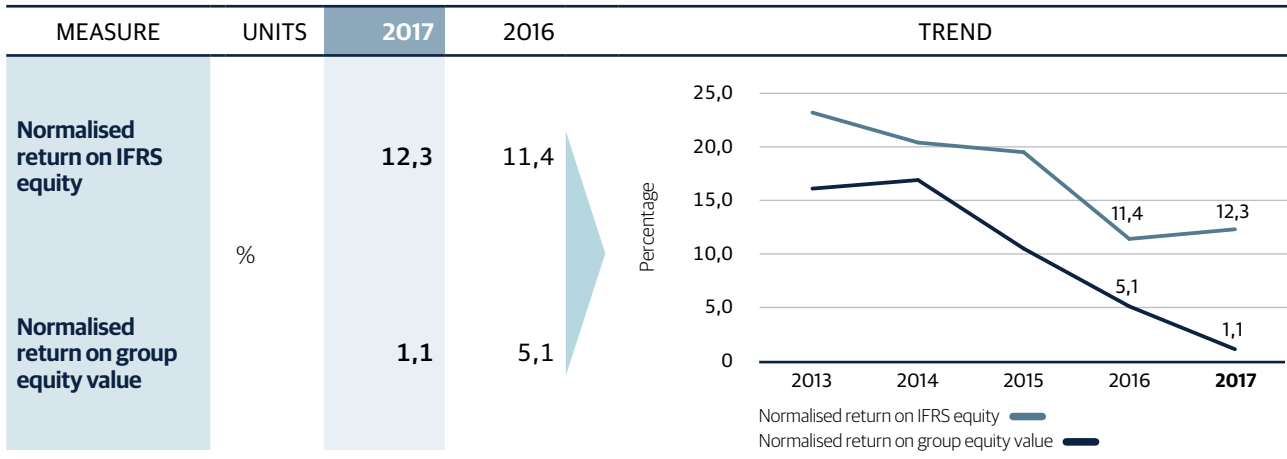
In the main, operating earnings represent the net result of our insurance business' underwriting profits and asset management fees after costs. Operating earnings of R1 412 million were 18,9% lower than 2016 primarily due to a lower underwriting result from Liberty Corporate and weak earnings from both the South African and rest of Africa STANLIB operations.

More details regarding the contributions by business area to normalised IFRS headline earnings is provided later in this section.



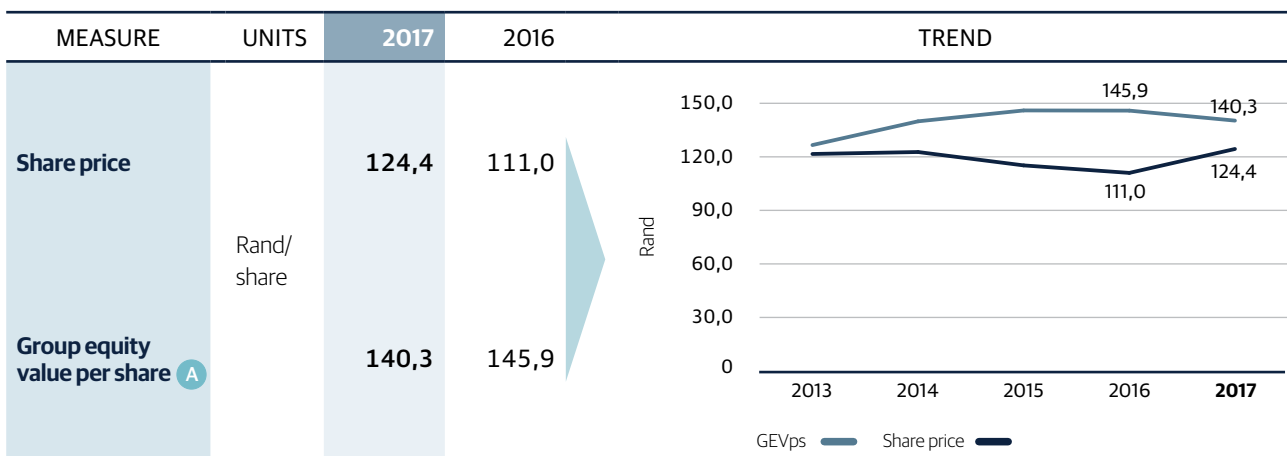
The group's dividend is set with reference to underlying core operating earnings taking cognisance of the need to balance capital and legislative requirements, retain earnings and cash flows to support future growth, and provide a sustainable dividend for shareholders.

Core earnings, in which short-term variances are removed, were 3,8% higher than in 2016. The group's 2017 declared interim dividend of 276 cents and final ordinary dividend of 415 cents total 691 cents per ordinary share, which is unchanged from the 2016 total dividend and is in line with the group's dividend policy. The 2013 dividend per ordinary share was supplemented by a special dividend of 130 cents per ordinary share.



With the average IFRS shareholder equity remaining constant during the year, the improvement in the normalised return on IFRS equity compared to 2016 is due to the 7,6% increase in normalised earnings which is attributable to higher earnings from the SIP, offsetting lower operating earnings in 2017.

The normalised return on group equity value of 1,1% was negatively affected by the low value of new business generated in the current year and the capitalisation impact of weaker earnings from the non-life businesses. The South African covered business experienced low value of new business sold, negative modelling changes and weak investment returns. The non-life businesses reported low sustainable headline earnings, particularly from the STANLIB South African and rest of Africa businesses and a concomitant impairment of these subsidiaries.



Group equity value per share of R140,31 is 3,8% lower than 2016.

Typically, Liberty's ordinary share price tracks group equity value per share (GEVps) over time. Although the GEVps has decreased during the year, the share price has performed satisfactorily, resulting in a narrowing of the gap between the Liberty share price and its GEVps.

We believe that our ability to manage the long-term insurance business to better than actuarial assumption, together with the initiatives to address concerns in the non-covered businesses will support our ordinary share price tracking closer to GEVps over time.



## INVESTORS (CONTINUED)

### Normalised group equity value <sup>A</sup>

Rm (unless otherwise indicated)	2017	2016	% change
<b>Summary of normalised group equity value</b>			
South African insurance operations (SA covered business)	34 581	34 470	0
Normalised net worth <sup>1</sup>	11 134	11 717	(5)
Value of in-force contracts – Individual Arrangements	22 088	21 635	2
Value of in-force contracts – Group Arrangements: Liberty Corporate	3 049	2 759	11
Cost of required capital	(1 690)	(1 641)	(3)
Asset Management	4 600	6 150	(25)
Liberty Africa Insurance	813	808	1
Liberty Health (including Total Health Trust)	299	404	(26)
Liberty Holdings	1 328	1 308	2
Allowance for future shareholder expenses	(2 217)	(1 892)	(17)
Allowance for employee share rights	(36)	(27)	(33)
<b>Normalised equity value</b>	<b>39 368</b>	<b>41 221</b>	<b>(4)</b>
Normalised number of shares (000's)	280 573	282 615	
<b>Normalised group equity value per share (Rand)</b>	<b>140,31</b>	<b>145,86</b>	<b>(4)</b>
<b>Contribution to normalised equity value earnings</b>			
Value of new business written in the year	233	483	(52)
Expected return on value of in-force business	2 926	2 997	(2)
Variances/changes in operating assumptions	109	283	(61)
Development costs	(221)	(107)	(> 100)
Liberty Holdings shareholder expenses	(584)	(228)	(> 100)
Headline earnings of other businesses/intragroup transfer	146	185	(21)
Change in fair value adjustments on value of other businesses	(1 585)	(825)	(92)
Return on net worth	(153)	86	(> 100)
Investment variances and change in economic assumptions	(418)	(836)	50
Change in allowance for share rights	(12)	49	(> 100)
<b>Group equity value earnings</b>	<b>441</b>	<b>2 087</b>	<b>(79)</b>
<b>Normalised return on group equity value (%)</b>	<b>1,1</b>	<b>5,1</b>	

<sup>1</sup> Includes R36 million (2016: R33 million) for allowance for outstanding share rights for the SA covered business.

Group equity value per share was lower at R140,31 (31 December 2016: R145,86). The lower group equity value per share was attributable to weaker earnings from the group's non-covered businesses, particularly within the STANLIB businesses and the resultant capitalisation impact of reduced earnings. The group's SA covered insurance business continued to deliver positive operating variances and be managed to better than model supporting the core assumptions underlying the insurance book. The SA covered business embedded value was preserved. The value of new business (VoNB) and new business margin however ended the year well below expectation. The economic environment favoured flows into guaranteed products, which manifested in a weaker mix of business from a margin perspective. Actions have been taken to improve the VoNB and restore the new business margin.



## Contribution to normalised IFRS headline earnings by business area

Rm	2017	2016	% change
Individual Arrangements	1 208	1 119	8
Group Arrangements	16	149	(89)
Asset Management	48	362	(87)
Balance sheet management	376	318	18
Central overheads and sundry income	(236)	(208)	(13)
Normalised operating earnings	1 412	1 740	(19)
LibFin investments	1 307	787	66
<b>Normalised headline earnings</b>	<b>2 719</b>	<b>2 527</b>	<b>8</b>

**Individual Arrangements** comprises the retail long-term insurance operations in South Africa. 2017 headline earnings of R1 208 million reflect an increase of 8%. The main contributors to this increase were positive risk and persistency variances, which were partially offset by basis changes to better reflect the expectation of future cash flows given policy terms, conditions and the changing regulatory landscape.

**Group Arrangements** comprises Liberty Corporate (earnings R81 million, 2016: R191 million), Liberty Africa Insurance (earnings R45 million, 2016: R41 million) and Liberty Health (loss of R54 million, 2016: loss of R45 million) and Growth initiatives (cost of R56 million, including the write-off of R49 million of capitalised pre-acquisition costs associated with the Nigeria acquisition, 2016: cost of R38 million).

Liberty Corporate earnings were 58% down due to lower underwriting profits, due to a high level of risk claims experienced, particularly an increase in income protection plan (IPP) claims in the second half of 2017.

Liberty Africa Insurance earnings of R45 million were 10% higher than 2016 despite negative exchange rate movements.

Due to the continued recessionary environment in Nigeria, Liberty Health's loss of R54 million was R9 million larger than the 2016 loss.

**Asset Management** comprises the STANLIB South Africa and STANLIB rest of Africa operations. STANLIB South Africa earnings were R252 million for the year (2016: R459 million). Earnings were impacted by margin pressure due to a lower blended investment return for the third consecutive year and a less favourable sales mix, costs associated with the termination of the institutional administration outsourcing programme, the launch of new

franchises and operational write-offs. STANLIB rest of Africa incurred a loss of R204 million for the year (31 December 2016: loss of R97 million). The business continued to be affected mainly by operational losses identified during the remedial programme in East Africa. Efforts to strengthen the operational and control environments have progressed well and risks of further operational losses are significantly reduced. Operations in the other African territories tracked broadly to expectation.

The **LibFin Credit** portfolio, a diversified portfolio of government, state owned enterprise and corporate securities backing the guaranteed investment product sets, contributed R330 million (2016: R300 million), in line with the continued growth of the portfolio and improved portfolio diversification.

The asset liability management portfolio, which consists of the market and liquidity risk exposures arising from the guaranteed investment product set, produced a profit of R46 million in 2017 (2016: R18 million) due to favourable market positioning.

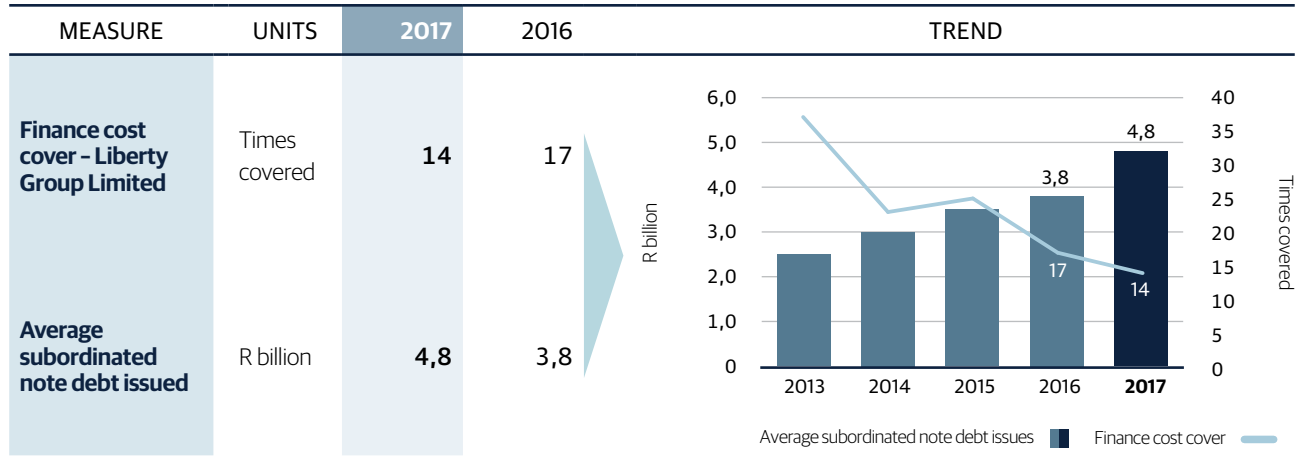
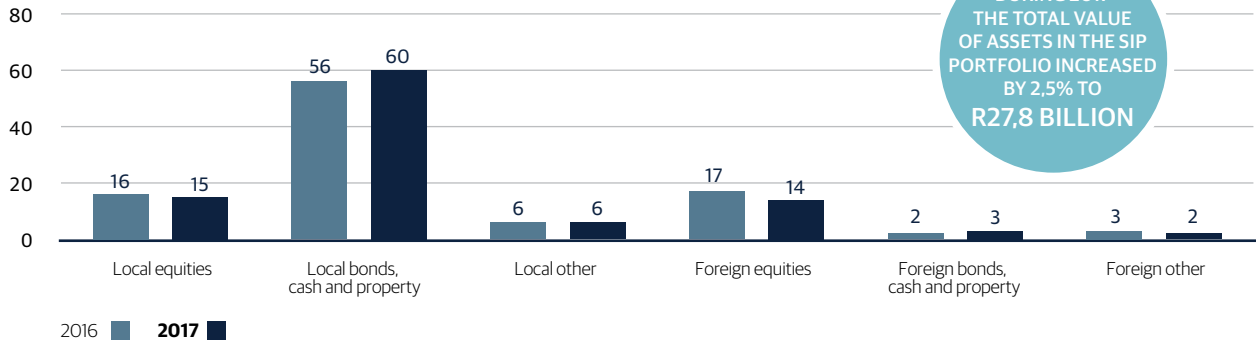
**LibFin Investments** manages the SIP, which includes the assets backing capital in the insurance operations, as well as the group's investment market exposure to the 90:10 book of business. The current risk profile of the SIP is similar to a conservative balanced portfolio and is managed with a long-term through the cycle investment horizon. The portfolio delivered a gross return of 8,5% (2016: 5,7%) which is behind benchmark. Earnings of R1 307 million were well above 2016 earnings of R787 million despite the significant rand appreciation in December 2017 which reduced the returns on offshore assets. The extent of the SIP exposure to investment markets remains appropriate in the context of the group's risk appetite.



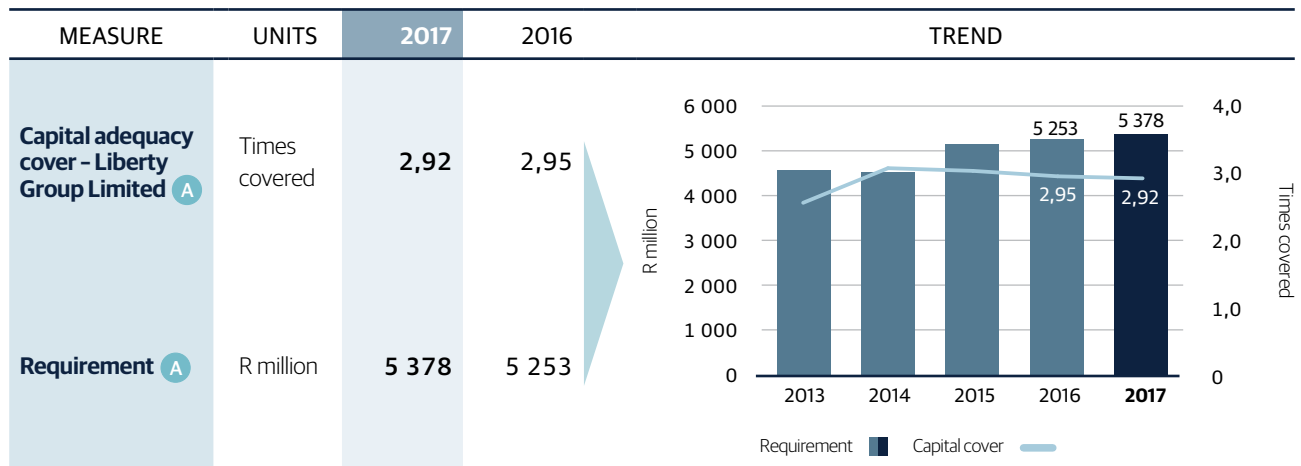
## INVESTORS (CONTINUED)

### SIP PORTFOLIO AT 31 DECEMBER 2017

Percentage



Liberty has an authorised debt raising facility of R70 billion of which R5,5 billion of subordinated notes have been issued at 31 December 2017 (2016: R4,5 billion). As reflected in the above graphic, the finance cost cover on the total debt issued remains substantial relative to IFRS earnings and the increasing level of debt necessary to meet our capital adequacy requirements. Prior period statistics for finance cost cover have been restated in line with an adjusted calculation methodology in 2017.



The capital adequacy cover of the group's main life licence subsidiary, Liberty Group Limited, remained strong at 2,92 times the statutory requirement. Refer to the Regulatory performance review for detailed commentary.

## Determination of normalised headline earnings <sup>A</sup>

Rm	2017	2016
Liberty Holdings shareholders' equity/ total earnings	3 118	2 209
Preference share dividend	(2)	(2)
Impairment of intangible assets	164	
Tax on headline earnings adjustable item	(28)	
Net income earned on BEE preference shares	10	16
Reversal of accounting mismatch arising on consolidation of L2D	(543)	304
<b>Normalised shareholders' equity/ headline earnings</b>	<b>2 719</b>	<b>2 527</b>

An accounting mismatch arises on consolidation of Liberty Two Degrees (L2D) in the group annual financial statements, resulting from the different measurement bases applied to L2D's assets and Liberty Group Limited's (100% subsidiary of Liberty Holdings Limited) policyholder liabilities. Specifically:

- On a consolidated look through basis the investment property assets of L2D are included in the group annual financial statements at fair value; whereas
- The corresponding linked obligations to Liberty Group Limited's policyholders are required under IFRS to continue to be measured in the group annual financial statements at the listed price of the L2D units.

The result of this is an accounting mismatch that represents any difference in the profit and loss movement in the price at which L2D's listed units trade relative to the underlying net asset value.

## Definitions and formulae

### NORMALISED

*Operating earnings, headline earnings per share, return on equity, group equity value per share and return on group equity value*

These measures reflect the economic reality of the consolidation of the listed REIT Liberty Two Degrees (L2D) and the Black Economic Empowerment (BEE) transaction, as opposed to the required technical accounting treatment.

### CAPITAL ADEQUACY COVER

*Expressed as a multiple*

$$= \frac{\text{minimum qualifying total capital held at end of year}}{\text{capital required to be held as prescribed by FSB}}$$

### FINANCE COST COVER

*Expressed as a multiple*

$$= \frac{\text{total earnings for the period before finance costs}}{\text{total finance costs incurred during the period}}$$

### EMBEDDED VALUE

- = net worth of an insurer
- + the value of in-force covered business
- the cost of required capital

### GROUP EQUITY VALUE

*Reflects the combined value of the various components of Liberty's businesses*

- = embedded value of South African covered business
- + valuation of other businesses in the group

### RETURN ON GROUP EQUITY VALUE

$$= \frac{\text{group equity value profits}}{\text{group equity value at the beginning of the year}} (\%)$$

### RETURN ON IFRS EQUITY

$$= \frac{\text{headline earnings attributable to ordinary shareholders}}{\text{average IFRS ordinary shareholders' equity during the period}} (\%)$$

### REQUIRED CAPITAL

The level of capital that is restricted from distribution to shareholders. For SA long-term insurers, this comprises the statutory CAR calculated in accordance with SAP 104 plus any additional capital considered appropriate by the board given the risks in the business.

## OUTCOMES FOR AND FROM INVESTORS

**Liberty Group  
Limited long-term  
debt rating za AA+**

**Liberty Group  
Limited short-term  
debt rating za A-1+**

**Dividends paid  
R3,1 billion**

**12% growth  
in share price**



## CREATING VALUE FOR OUR CUSTOMERS

Customers purchase Liberty's products and services and trust us to fulfil our promises, allowing them to be prepared for life's uncertainties

### OUR VALUE-CREATING PARTNERSHIP WITH CUSTOMERS



#### CUSTOMER VALUE

#### LIBERTY VALUE

#### SOCIETAL VALUE

Risk products that provide peace of mind against risk events	Margin income included in premiums	Financial security for family members and partners following a risk event
Investment products that provide retirement income and meet savings goals	Agreed fees linked to invested assets	Increased national savings
Guaranteed products that provide certainty in the face of change	Fees for the provision of guarantees	Reduced dependency on state resources in retirement
Confidence in Liberty's ability to meet contractual obligations	Investment returns on assets backing capital requirements	Enhanced trust in the financial services industry
Responsible and objective financial advice and the application of knowledge	Agreed fees for services provided	Significant tax collection and contributions to the South African Revenue Services

#### KEY PERFORMANCE INDICATORS

DEATH AND DISABILITY CLAIMS PAID AND MORTALITY VARIANCES

CUSTOMER SERVICE LEVELS, CUSTOMER SATISFACTION AND CUSTOMER PERSISTENCY

DISTRIBUTION CAPACITY, LONG-TERM INSURANCE INDEXED NEW BUSINESS WRITTEN AND MARGIN

COMPLIANCE AND COMPLAINTS

NET CUSTOMER CASH FLOWS ASSETS UNDER MANAGEMENT

## Material focus area

Place customers at the heart of our business decisions

We are committed to making our customers' financial freedom a reality. By providing insurance against life's uncertainties, we free individuals and families from the financial burden caused by death, disability and severe illness. Investment products enable customers to provide for their retirement and reach other investment goals.

Customers are at the centre of our business. Each of our three customer facing units (CFUs) engage with our customers to understand their needs and deliver responsible risk and investment products that meet these needs. Liberty's customer fairness management committee, a sub-committee of the group executive committee, monitors the development and implementation of customer fairness principles across the CFUs and reports on progress to the social, ethics and transformation committee. This ensures that customers remain at the heart of our business.

## SELECTED CUSTOMER STATISTICS

ANNUITY PAYMENTS  
DURING 2017

R6,7 billion

> 500 000

CUSTOMERS WITH SAVINGS MANAGED  
BY STANLIB

LIVES INSURED BY LIBERTY

> 6 million

DEATH AND DISABILITY CLAIMS  
PAID DURING 2017

R8,7 billion

CORPORATE RETIREMENT SCHEMES  
ADMINISTERED

> 10 000

2,6m RETAIL POLICIES IN  
SOUTH AFRICA <sup>L</sup>

2,7m CREDIT LIFE POLICIES  
ACROSS THE GROUP <sup>L</sup>

1,8m POLICIES IN THE SOUTH  
AFRICAN ECM MARKET <sup>L</sup>



THE INDIVIDUAL ARRANGEMENTS CFU HAS A TOTAL IN-FORCE BOOK OF MORE THAN **1,4 MILLION** INDIVIDUAL RISK CUSTOMERS, HOLDING SOME **2,6 MILLION** PRODUCTS PROVIDING RISK COVER IN EXCESS OF **R1,7 TRILLION**



## CUSTOMERS (CONTINUED)

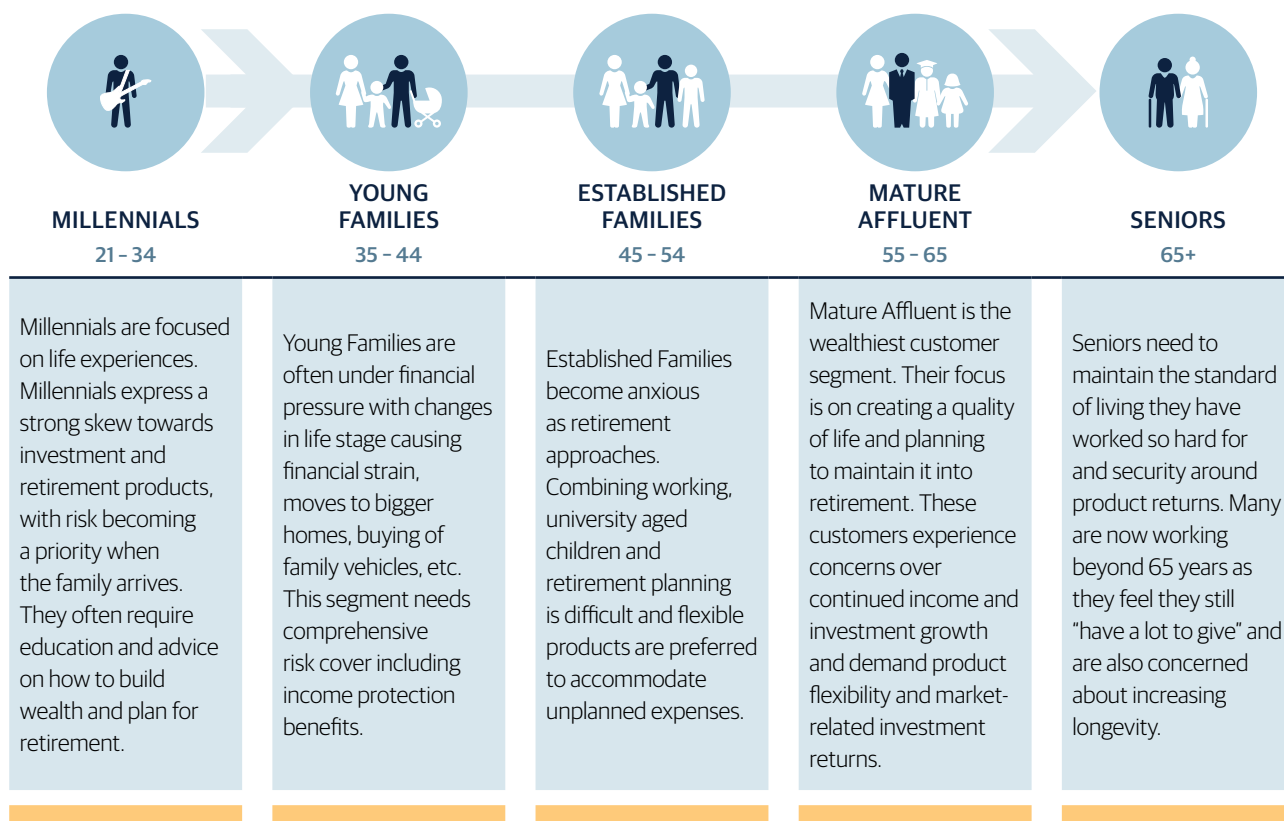
### OUR APPROACH TO PARTNERING WITH CUSTOMERS



#### Customer segmentation

Liberty targets individuals or groups of individuals with sufficient regular monthly income to purchase risk and savings products, or with investable assets above certain levels, or who are upwardly mobile. **STANLIB**, focuses on high net worth individuals, institutional and international investors. Our **Individual** and **Group Arrangements** CFUs focus on individuals and groups of individuals respectively in the mass-affluent, affluent and corporate markets.

We further sub-divide our individual customer segments into five categories:



Our Group Arrangements CFU provides specialist consulting and actuarial services to a wide range of employer customers including multinationals, corporates, small and medium enterprises, affinities and members of Liberty's umbrella fund. These employers are able to purchase group risk solutions for their employees, including life, disability, health and dread disease insurance. Liberty's efforts are always focused on the individual and delivering products and services that improve their lives by making their financial freedom possible.

## Understand our customers' needs

Liberty's value proposition is increasingly informed by customer and adviser insights – from both the broader market as well as our existing customer base. In addition to feedback received through business as usual processes, such as complaints, customer insights are gained through various specific customer and adviser engagements.

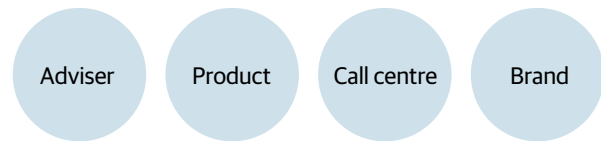
The primary needs of our customers are:

- Independent and responsible advice regarding financial needs
- Easily understandable products that empower decision making
- Financial soundness of the financial services provider whose products they choose, and
- An ongoing and trusting relationship with their financial services provider.

We enhance our understanding of these needs across the customer segments through bi-annual customer satisfaction and customer sentiment surveys. Compiling and analysing approximately 10,000 responses to each survey, an independent

service provider ensures anonymity for the participants. New, in-force, paid-up and cancelled customers are all surveyed to secure both positive and negative feedback. The surveys provide us with both quantitative and qualitative information. Text analytics are used to enhance our understanding of our customers' additional, voluntary comments.

The surveys target responses in four defined areas:



Surveys on our own database are supplemented with generic third-party surveys which monitor the insurance market, consumer confidence, spending habits and financial position.

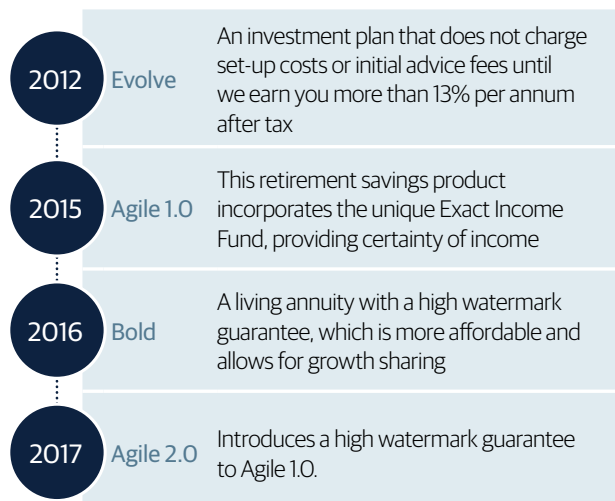
When designing new products, specific focus groups are used for marketing and product development.

## Innovate and develop

To support Liberty's innovation drive, our centre for innovation and cross collaboration is focused on driving sustainable innovation and building relevant capabilities to deliver rapid value creation. We currently have 250 'innovation catalysts' comprising actuaries, accountants, legal advisers and technologists tasked and equipped to facilitate innovation in their respective business units.

Product development teams are in place in each CFU to respond to the identified needs of our customers and prospective customers. Besides developing new risk and investment products, these teams also maintain and enhance the existing product set.

Recent major product releases include:



“ We deal with the most important things in human life – peoples' hopes, dreams and their moments of most profound human vulnerability. ”

DAVID MUNRO  
Group chief executive



## CUSTOMERS (CONTINUED)

### OUR APPROACH TO PARTNERING WITH CUSTOMERS (CONTINUED)

#### Deliver products and services

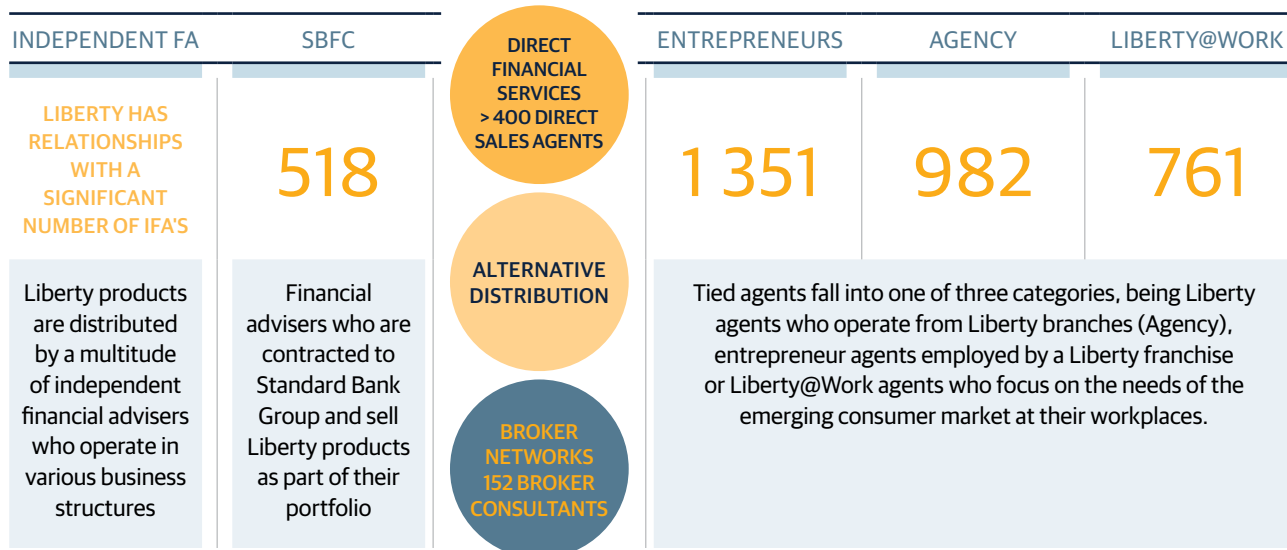
The nature of our business is advising and interacting with customers and providing financial support throughout their life stages. We built extensive servicing capabilities to proactively and reactively communicate with our customers. Our distribution force is a key enabler in one-to-one communication and we supplement this with internet, mobile and call centre capabilities.

In recent years we invested in simplifying our contracts and improving our technology to enable more extensive and efficient channels for information flows. In addition, we focused on response standards for quick resolution of queries and improved our customer complaint handling and dispute resolution processes.

Service delivery is as important as product development. Support processes and products are therefore developed in tandem to ensure that adequate administration and service support is in place when products are launched. Prior to product launches, the relevant risk officers review products and support processes to ensure delivery on the marketing promise. Extensive training, product information and sales support tools are developed and provided in advance of product launches.

Proposals arising from the FSB's Retail Distribution Review will impact our intermediaries. As the landscape for insurance distribution changes, Liberty continues to introduce further digital and technologically driven channels to enable mass-affluent customers to choose products aligned with their specific needs. Liberty provides the training and technology to enable our intermediaries to provide quality advice.

#### Our South African distribution – diversified and multi-channelled



#### Simplification for customers

Liberty operates an inherently complex business. Our products can be complicated to secure satisfactory or superior investment returns, the regulatory environment is constantly evolving, there are multiple customer journeys that need to be managed and technology continues to advance. We are focused on simplifying the way we interact with our customers to eliminate duplicated effort, manual intervention and fragmented processes.

**Our key questions**

How might we deliver a simplified, connected and enhanced customer experience and better enable our advisers and employees who ultimately deliver the experience?

Simplification is one of our primary triage initiatives\*. It is targeted at both the customer experience and the management of human resources. In 2017 we made substantial progress with the simplification project for our customers.

This approach supports our strategic focus of doing valuable things for our customers and delivering consistently exceptional experiences as part of a universal financial services organisation.

 \*More detail of the triage initiatives is available on page 12.

**Our view of "exceptional"**



**Fulfil our promises**

Our products contain promises on which we are committed to deliver. The first step in delivering on our promises is to provide compliant, responsible financial services. Ensuring compliance with both prudential and market conduct legislation is non-negotiable.

 More detail of the regulation that governs our industry is available on page 62.

Treating Customers Fairly (TCF) is an essential initiative that regulators worldwide are emphasising in response to certain questionable practices in parts of the financial services industry. At Liberty, the six core TCF outcomes advocated by the FSB are a core component of how we operate. In addition, we developed our own customer fairness principles which go beyond the minimum requirements of TCF. We believe these principles differentiate us in the market with regard to fairness and business conduct. The board has mandated the social, ethics and transformation committee to oversee customer fairness across the group.

OUR CUSTOMER FAIRNESS PRINCIPLES	LIBERTY'S RESPONSIBILITY
<b>Leadership accountability</b>	Own the issue and don't pass the blame
<b>Customer led</b>	Consider the customer's interests first
<b>Simple, clear and transparent</b>	Communicate in plain language
<b>Reliable engagement</b>	Make promises we can keep and we keep the promises we make
<b>Listen and empower</b>	Provide the right solution for the right reasons that will empower our customers to make informed decisions
<b>Continuous improvement</b>	Evolve, adapt and continuously improve in line with customer expectations and changing needs
<b>Monitor and reporting</b>	Evidence what we say and do



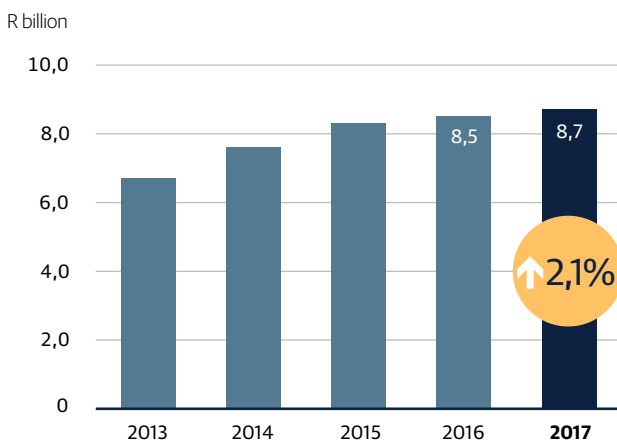
## CUSTOMERS (CONTINUED)

### OUR CUSTOMER PERFORMANCE IN 2017

#### Death and disability claims

In times of loss, customers need empathy and efficient processing of claims. We take pride in being recognised by independent sources for resolving claims as quickly as possible in accordance with our contracted obligation.

#### DEATH AND DISABILITY CLAIMS PAID <sup>A</sup>

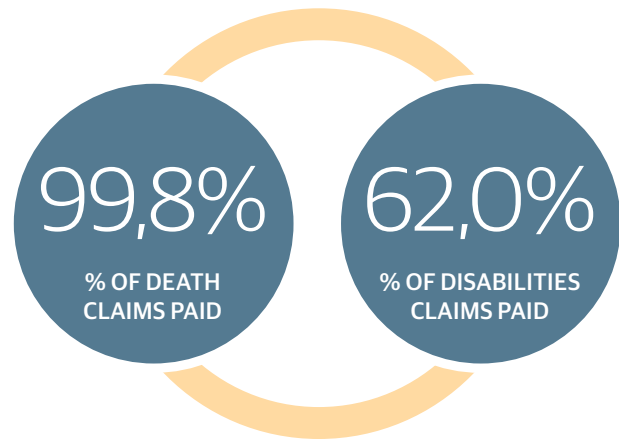


Payout ratios to premiums have consistently remained in a narrow range. New business pricing and premium review adjustments for risk contracts are largely dependent on predicted future death and disability trends. Whilst slightly volatile, our variances between expected and actual claims have, for a significant period of time, remained within assumptions. This creates confidence in our ability to price appropriately, as well as measure the likely obligations for IFRS and capital performance reporting.

CLAIMS PAID AT AN AVERAGE OF ONE EVERY EIGHT MINUTES, TOTTALLING APPROXIMATELY

# R38 million

EVERY WORKING DAY



*Disability claims are subject to much greater variability in qualifying conditions and non-disclosure.*

#### Customer experience

Providing excellent customer experiences through a variety of channels is fundamental to customer satisfaction. Customers' perception of the brand is reflective of their interaction with Liberty. For this reason, we have implemented procedures to measure customer experiences.

#### Call centre measures

To enhance customer call centre service our interactive voice response system allows the customer to receive accurate and timely responses to the more basic of queries. Liberty's dedicated call centre agents dealt with nearly 800 000 calls in 2017, satisfactorily meeting our internal measure of service in 95% of cases.

#### Net promoter score

The net promoter score (NPS), which determines customer sentiment and loyalty, is a widely-accepted tool for measuring how willing our customers are to be advocates, rather than just consumers of our brand. It provides a single score that we apply across different parts of our business to gauge customer centricity. The NPS survey is conducted twice a year covering a wide spread of our policyholders. Nearly 12 000 customers were surveyed during 2017.

The overall customer net promoter score decreased from 34% in December 2016 to 33% in July 2017. The information gained from the survey provides valuable insight into our customer sentiment trends, strengths and weaknesses that will inform subsequent marketing, communication and financial adviser engagement activities.

## Brand trust and awareness

Our brand health survey is conducted annually by an independent service provider and measures Liberty's brand strength relative to competitor brands across life, funeral, investment and retirement product lines. The survey tracks consumer awareness, familiarity and consideration of a range of financial services brands in these product categories across both banking and insurance companies. Liberty experienced increased spontaneous awareness in most product lines. Increased awareness was noted among affluent consumers.

### The brand health market survey reported:

#### INCREASE IN OVERALL AWARENESS - 2017

92%  (2016: 89%)

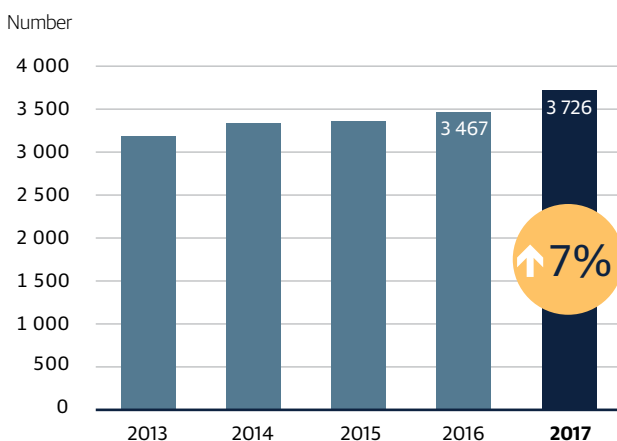
#### PARTICIPANTS SURVEYED FOR BRAND AWARENESS - 2017

1 710  (2016: 1 200)

## Number of customer complaints

A key aspect of driving customer service is to ensure that customer complaints are handled with empathy and fairness. We rigorously monitor our customer complaints to gain insight into customer issues and expectations. We continuously implement changes in our products, services and processes to improve customer experiences.

### NUMBER OF CUSTOMER COMPLAINTS



*The complaint numbers presented here include both reportable complaints in terms of FSB guidelines and all other complaints received through our complaints channels.*

The increase in the total number is, in part, due to our efforts to make complaints' channels more accessible to our customers. Through improvements made in our complaints' processes and website, a greater proportion of customers complain directly to Liberty (62% compared to 59% in 2016) as opposed to the regulators and media.

For these direct complaints we have reduced the turnaround time from 16 days to 14 days which is now within our internally agreed service level agreement. This improvement was achieved through enhancements made in the complaints system, resulting in efficiencies in the capture and processing of complaints. We are within the required regulatory expectations for initial responses to complaints.

People related complaints represent 74% of all complaints and are generally due to poor administration of customer requests/ transactions or processing of payments.

The number of complaints elevated to the group chief executive in 2017 totalled 40, down 30% from the 57 recorded in 2016.

## Strengthening customer relationships through fairness

The group customer fairness management committee uses customer management information systems and processes to proactively identify customer trends and customer fairness opportunities. This committee also decides on customer fairness matters that have a financial, operational, policy or stakeholder impact on the business.

During 2017, we analysed a variety of customer metrics to measure and assess how fairly we treat our customers. This information enables us to identify opportunities to improve customer service. By analysing the complaints received Liberty monitors its performance against the TCF outcomes. In 2017, our challenge was in delivering on TCF outcome 5 - Customer service and product performance. Within this category of complaints, poor administration of customer requests, transactions and the processing of payments were the root causes of the complaints. To address these complaints, we drive a customer service mindset and define customer communication standards across the group.

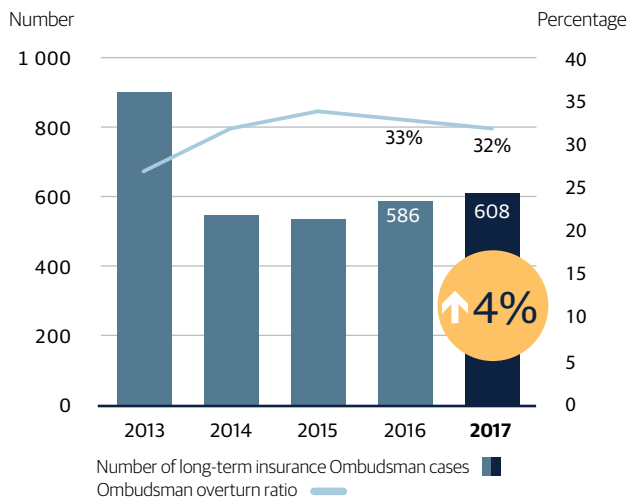
A single-entry point for all complaints received from the Ombudsman ensures that complaints are logged, tracked and actioned until a resolution has been achieved. Many of the cases forwarded to this Ombudsman are associated with claims and result from non-disclosure by the customer or an error on Liberty's part during the sales process. Other complaints relate to sales made through the bancassurance model that are only underwritten on receipt of a claim and not at the time of sale. The number of cases referred to the long-term insurance Ombudsman increased slightly in 2017. The rate at which Liberty's



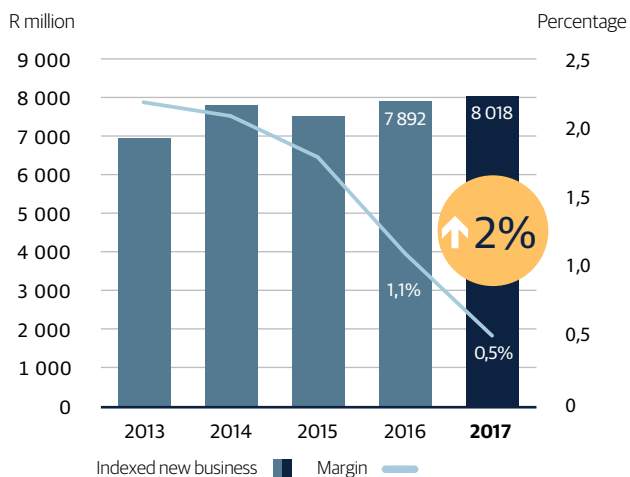
## CUSTOMERS (CONTINUED)

cases were overturned decreased from 33% to 32%. The overturn ratio continues to receive management attention through improved systems, training and feedback to financial advisers.

### NUMBER OF LONG-TERM INSURANCE OMBUDSMAN CASES AND OVERTURN RATIO



### LONG-TERM INSURANCE INDEXED NEW BUSINESS AND MARGIN



### Long-term insurance indexed new business and margin

Group long-term insurance indexed new business was 2% above the prior period although the new business margin of 0,5% was down from 1,1% in 2016.

Individual Arrangements indexed new business of R6 570 million was 1% down on 2016. Competitive retail market pricing and

the tough economic environment continued to place significant pressure on sales volumes. The economic environment favoured flows into guaranteed products, as evidenced by strong demand for the Guaranteed Investment Product and the Bold Living Annuity throughout the year.

Liberty Corporate indexed new business was 39% higher than the prior year at R1 171 million, with recurring premium new business up 42% due to good risk and umbrella enhancement sales. Single premium new business was up 6%.

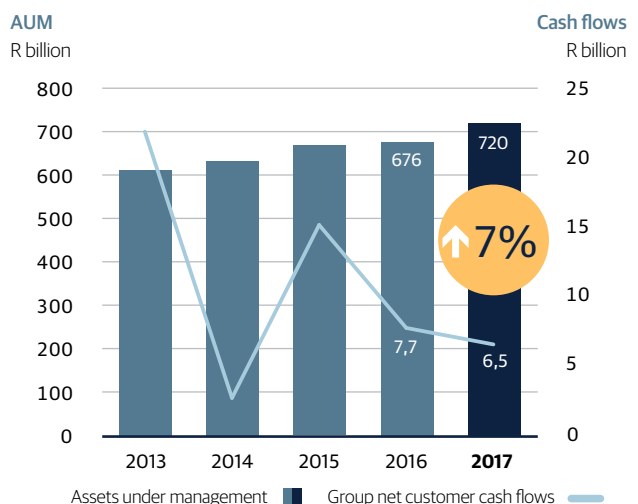
The stronger average rand exchange rate during 2017 negatively impacted the translated rand equivalent sales by Liberty Africa Insurance.

### Net customer cash flows and assets under management

Total assets under management increased by 7% in 2017 to R720 billion (2016: R676 billion), due to market movements and positive external cash flows.

STANLIB manages 84% of these assets and accounts for 52% of the current year's increase. STANLIB reported total external net cash inflows of R4,3 billion (2016: R5,8 billion). In the South African business, inflows of R4,7 billion (2016: inflows of R2,8 billion) have largely been driven by improved retail non-money market flows.

### ASSETS UNDER MANAGEMENT AND CUSTOMER CASH FLOWS



Group net customer cash inflows, including the Gateway LISP, were positive at R6,5 billion despite the poor economic backdrop. Long-term insurance net customer cash inflows of R1,6 billion reflected an improvement on the prior year inflows of R1,1 billion, supported by lower policy withdrawals and maturities in Individual Arrangements.

## Definitions and formulae

### INDEXED NEW BUSINESS (LONG-TERM INSURANCE)

- = twelve months' premiums  
(on new recurring premium policies)
- + 1/10 of new single premium sales

### NET CUSTOMER CASH FLOWS

- = premiums + customer investments
- claims paid, surrenders or withdrawals of investment balances

### NEW BUSINESS MARGIN (LONG-TERM INSURANCE)

$$= \frac{\text{value of new business}}{\text{present value of future modelled premiums at the point of sale}} (\%)$$

## OUTCOMES FOR AND FROM CUSTOMERS



LIBERTY  
3rd in the category  
"Long-term insurance"

*Sunday Times Top Brands Survey 2017*



LIBERTY  
6th in the category  
"Investment companies"

*Sunday Times Top Brands Survey 2017*

Assets under management  
**R720 billion**

Gross insurance premiums  
**R40 billion**

Improved persistency  
in the second half of 2017

**> 6 000 000**  
lives insured by Liberty



# OUR PEOPLE – OUR MOST VALUABLE ASSET

Employees and intermediaries create value by supplying the necessary capacity, skills and expertise to deliver on our promises to stakeholders

## OUR VALUE-CREATING PARTNERSHIP WITH EMPLOYEES



### EMPLOYEE VALUE

### LIBERTY VALUE

### CUSTOMER VALUE

Fair pay linked to performance	An appropriately skilled and motivated workforce	High service levels
Career advancement through comprehensive development programmes	Insights through diversity	Products that meet their needs
Fringe benefits that recognise practical day to day employee needs	Lower employee turnover and therefore lower costs	Responsible financial advice and compliant products and services
Equal opportunities in a non-discriminatory environment	Efficient deployment of human capital in a diverse and inclusive environment	Confidence in their chosen risk and investment partner

### KEY PERFORMANCE INDICATORS

VARIABLE REMUNERATION

TRAINING SPEND ON SKILLS DEVELOPMENT

VOLUNTARY STAFF TURNOVER

NUMBER OF CCMA CASES AND THEIR OUTCOMES

WORKFORCE DEMOGRAPHICS

## Material focus area

### Attract, develop and retain quality employees

We are committed to investing in the growth, development and mobility of our people to meet current and future capability requirements of the business. It is our people that take us forward and their development and success is Liberty's success too.

Our employees provide us with many of our core competencies, including delivering excellent customer service, innovative product development, strong investment management skills and excellent balance sheet management. Liberty promotes a high-performance, customer centric culture to drive innovation and execution of strategy to create value for stakeholders. In exchange, Liberty commits to paying fair, performance related remuneration, providing career and skills development opportunities and value-added benefits in a non-discriminatory work environment.

## KEY DEMOGRAPHICS

### FULL-TIME EMPLOYEES IN SOUTH AFRICA <sup>L</sup>

5 237 ↓ (2016: 5 307)

### FULL-TIME EMPLOYEES IN REST OF AFRICA

859 ↑ (2016: 832)



### PERCENTAGE FEMALE EMPLOYEES IN THE SOUTH AFRICAN WORKFORCE <sup>L</sup>

58,3% ↑ (2016: 58,1%)

### PERCENTAGE BLACK EMPLOYEES IN THE SOUTH AFRICAN WORKFORCE <sup>L</sup>

78,1% ↑ (2016: 77,6%)

### AVERAGE LENGTH OF SERVICE

8 years (2016: 8 years)

### AVERAGE AGE OF EMPLOYEES

38 years (2016: 37 years)

### QUALIFIED ACTUARIES

80 ↑ (2016: 76)

### CALL CENTRE AGENTS

> 350 (2016: > 350)

### STUDENT ACTUARIES

145 ↑ (2016: 131)

### DIRECT SALES AGENTS

> 400 (2016: > 400)



## OUR PEOPLE (CONTINUED)

### HOW OUR EMPLOYEES CREATE VALUE

#### Product development – actuarial skills

Product development is critical to meeting our customers' needs and enables Liberty to grow earnings by enhancing and expanding product lines and supporting growth across all distribution channels. Liberty's people provide the capacity and skills to create differentiated products suited to our customer segments' needs. The ability to provide innovative products is a key differentiator which leverages off the group's unique market risk capability.

Key to product development are the teams who work with the pricing actuaries to develop relevant products that meet customer needs. All new products are designed with reference to our Customer Fairness Principles and the group product development policy.

#### Financial advice – financial advisers

Our financial advisers (including Liberty's tied agents and Standard Bank Financial Consultants) deliver value to customers by applying their training and expertise to provide responsible and objective financial advice, thereby improving people's lives by making their financial freedom possible.

They ensure compliance with applicable legislation and regulations and are instrumental in delivering Liberty's Customer Fairness Principles. Independently of Liberty, our tied agents operate an ethics committee which deals with disputes and conduct, effectively operating as an internal ombud for Liberty's sales force.

Liberty's financial advisers strive to secure customers' future dreams, aspirations and plans, through financial solutions that are tailor-made to suit their individual goals and budgets.

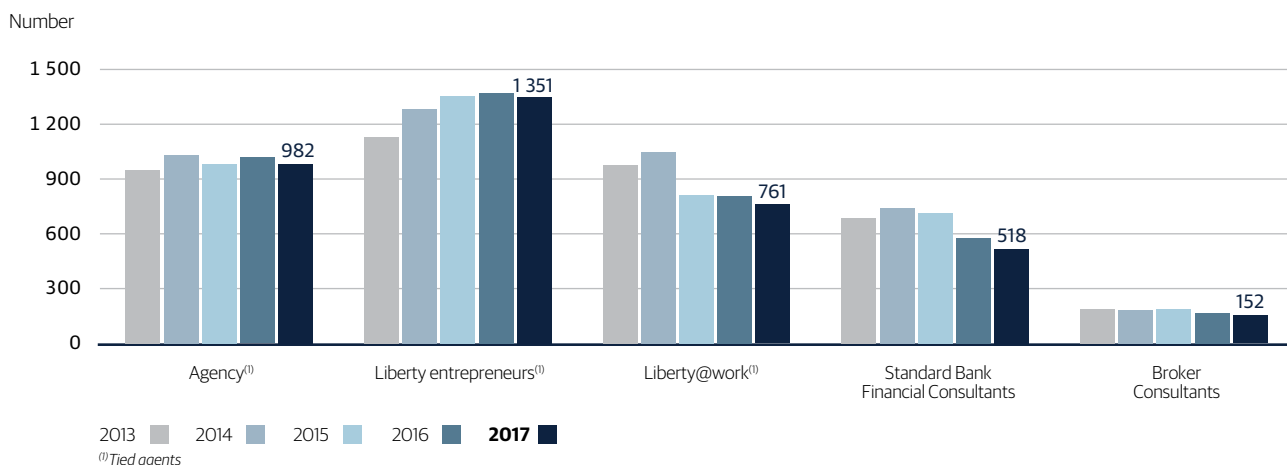
#### Customer service – administration, call centres, investment returns

Liberty's workforce supports the efforts of our sales force and ensures that we deliver on the promises contained in our products. The Customer Value Centre within Individual Arrangements handles more than 70 000 calls per month as well as more than 10 000 emails and approximately 1 200 walk-in queries per month. The contact centre's performance is measured against the results from the Customer Sentiment and Customer Satisfaction surveys.

Call agent consultants are trained in our product range and subjected to both supervision and quality assurance reviews. This latter aspect of customer service is extended to the underwriting and claims departments.





Investment returns for both customers and shareholders are a fundamental driver of the group's business model. Liberty relies on the skills and expertise of its employees charged with this responsibility.

### SOUTH AFRICAN INSURANCE DISTRIBUTION HEADCOUNT



## OUR APPROACH TO HUMAN CAPITAL MANAGEMENT

Our human capital strategy is based on four themes which provide a blueprint for the planning, sourcing, deployment and development of our people. These themes guide how we manage and grow our human capital to achieve our vision.

 <p><b>PEOPLE CAPABILITIES</b></p>	<p><b>Enable growth by building capabilities the business needs</b></p>	<p>Liberty competes globally for talent and strives to offer employees mobility, flexibility and opportunity. We support career growth by progressing people through functions, customer facing units and geographies.</p> <p>Liberty offers a range of development programmes designed to strengthen the group's talent pipeline. These programmes cover technical and management skills as well as the interpersonal skills required by the CFUs.</p> <p>A bursary programme assists employees acquire tertiary qualifications relevant to Liberty. In addition to in-house and external training for employees, Liberty operates an extensive learnership programme that introduces young talent to financial services careers. Our actuarial development programme is designed to address the shortage of actuarial skills within the industry.</p>
 <p><b>TALENT MANAGEMENT AND MOBILITY</b></p>	<p><b>Attract, develop, retain and deploy quality employees to realise their full potential</b></p>	<p>Talent and succession management are strategic imperatives. Our revised talent framework has been aligned to the core capabilities we require to deliver customer centricity.</p> <p>By understanding the talent and capabilities we have, we can appropriately match these to critical roles in the organisation, thereby maximising employee potential and achieving our strategic goals.</p>
 <p><b>LEADING THE JOURNEY</b></p>	<p><b>Grow current and future leaders to be able to inspire and mobilise their teams and other stakeholders in delivering our strategy</b></p>	<p>We engage with our employees through a variety of mechanisms, both formal and informal to gain insight into their needs and ensure that they understand their roles. We conduct employee roadshows aimed at communicating our vision and strategy across the entire group. Most employees have access to Liberty's intranet platform, which keeps them abreast of the latest group developments.</p> <p>Our Let's Talk campaign cascades information from senior leadership throughout the company. Scheduled broadcasts provide an audio-visual channel for internal communication. Our leadership forums are aimed at identifying top talent and setting work practice examples for the broader workforce.</p>
 <p><b>CULTURE AND TRANSFORMATION</b></p>	<p><b>Build a culture that is underpinned by the Liberty values</b></p>	<p>Inclusiveness is at the centre of our culture. We have chosen to take the lead in this objective and are actively transforming Liberty to a fully representative workforce.</p> <p>We believe that being widely representative creates a competitive advantage across our communities and markets.</p>

### Our employee value proposition

Employee remuneration includes guaranteed pay and incentives balanced between guaranteed and variable pay, structured according to seniority and role. We do not reward risk taking outside of approved risk mandates. Benefits for full-time employees include life and disability insurance, medical aid, maternity and paternity leave, wellness support, retirement advice and provision, leave, flexible working hours, canteen, shops and banking facilities.

Value-added benefits recognise practical and day-to-day employee needs, such as empathy and professional support. Over time, these benefits promote healthier and more productive employees and are benchmarked as some of the best benefits in the industry.

We want our people to understand and live our vision of financial freedom. To do so we offer them one of the best risk and retirement offerings in the market so that they can experience our purpose first hand, thereby allowing them to truly improve the lives of our customers.



## OUR PEOPLE (CONTINUED)

### Intermediaries

Liberty's intermediaries are a critical component of our human capital. To retain intermediaries, Liberty provides both industry leading customer and financial adviser value propositions.

Liberty's tied agents are the foundation of our distribution network. South African tied agents fall into one of three categories, being Liberty agents who operate from Liberty branches, entrepreneur agents employed by a Liberty franchise or Liberty@Work agents who focus on the needs of the emerging consumer market at their workplaces. These financial advisers are further supplemented by Standard Bank Financial Consultants (SBFC) and salaried broker consultants. Franchise broker and salaried broker consultants market Liberty's products to independent financial advisers and SBFC.

Our financial advisers are all provided with extensive training and ongoing development, including pre-contract training. We have developed various tools that enable advisers to provide customers with insights and propose solutions to meet their financial needs. Other tools, such as FullView, which enables an adviser to view a customer's investments and policies across multiple platforms and providers, and a recently developed leads application, allow advisers to better serve their clients.

Liberty engages with tied agents through one on one supervisory structures and a national financial advisers' forum, which regularly meets with Liberty management.

Liberty monitors the success of its financial adviser value proposition by measuring the number of advisers who have achieved E-adviser status (having an affiliation with Liberty for over five years) and the percentage who progress from pre-contract training to become E-advisers. This latter number is benchmarked against international norms.

**In times of uncertainty, the advantage of having a financial adviser is even more apparent. Our research tells us that investors who work with financial advisers have nearly three times the net worth and four times the investable assets of those who do not, across all age groups and income levels.**

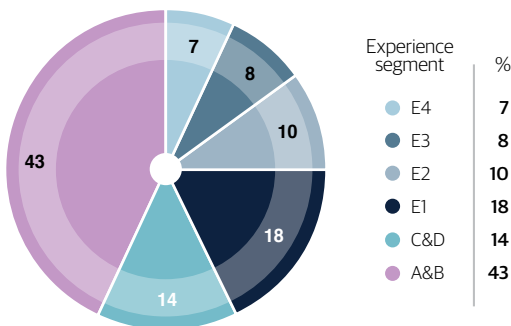


**3 631**  
TOTAL TIED AGENTS  
(2016: 3 653)

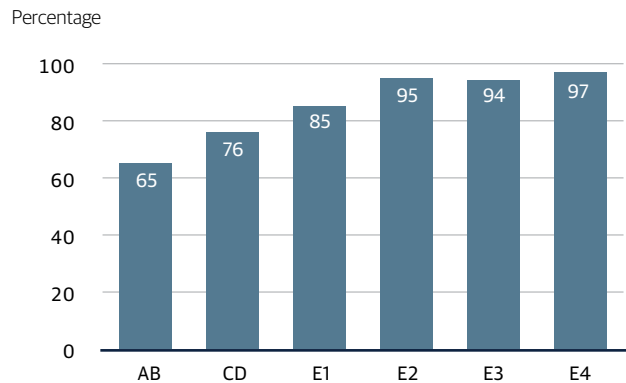
**> 22 000**  
YEARS COMBINED  
EXPERIENCE

**98%**  
OF OUR CANDIDATES  
PASSED THE FAIS  
REGULATORY EXAM

### FINANCIAL ADVISERS - EXPERIENCE SEGMENTS



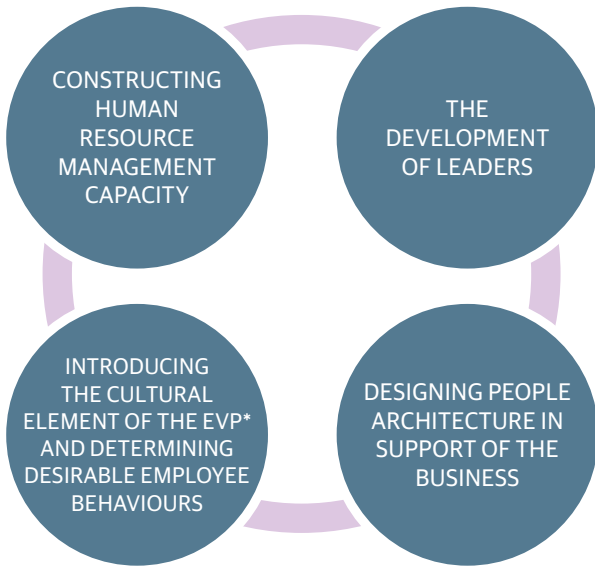
### FINANCIAL ADVISER RETENTION RATES



Experience segment	E4 > 20 years	E3 > 15 years	E2 > 10 years	E1 > 5 years	C&D > 2 years	A&B < 2 years
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## OUR PEOPLE PERFORMANCE IN 2017

In 2017 the group's human capital focus has been on



\* Employee value proposition

Fundamental to building management capacity is Liberty's implementation of an enhanced human capital information technology system which includes core modules such as payroll, global employee benefits, working time and record keeping. In addition, talent management modules such as employee performance management, compensation management, succession management, learning, recruiting, onboarding, workforce planning and workforce analytics are being implemented as well as employee engagement tools such as collaboration and social media.

Our talent acquisition policy, which includes core standards and processes, was finalised in June 2017 and regular training provided over the third quarter of 2017. The performance management philosophy and practices were implemented in March 2018 and business trained on how to use the new performance contracting template, highlighting the importance of continuous performance conversations.

We have partnered with Standard Bank Group to secure "real time" employee survey software. This will result in greater frequency of employee engagement and allow for faster results and the rapid identification of issues and responses thereto.

### Training spend and training programmes

Through partnering with Catalyst, Duke University and Henley Business School, Liberty has developed four management development programmes that cater for staff at all levels of the business and five key talent programmes that cater for staff at junior management up to executive management levels.

#### LEADERSHIP

- Leadership in Action is a Junior Management Development Programme consisting of four modules of four days over four months and includes an action learning project
- Leading from the Centre is a Middle Management Development Programme consisting of three modules over three months including an action learning assignment
- Leading with a Global Vision is an Executive Development Programme consisting of three modules over three months and includes an action learning assignment

#### MANAGEMENT

- Junior Management Development Programme is an aligned programme at NQF Level 5
- Middle Management Development Programme leads to an NQF Level 6 qualification
- Senior Management Development Programme leads to an NQF Level 8 qualification

Finally, all entry level staff attend a two-day workshop focusing on self-awareness and employee career management. The programme provides information to employees about business practices such as performance and talent management.

R15,2m ↑ (2016: R13,4m)

#### TOTAL EXTERNAL COSTS INCURRED FOR EMPLOYEE TRAINING IN SOUTH AFRICA

THE PERCENTAGE OF ALL EMPLOYEES TRAINED THAT WERE FEMALE

50% ↑ (2016: 47%)

THE PERCENTAGE OF ALL EMPLOYEES TRAINED THAT WERE BLACK

84% ↑ (2016: 72%)

Concern over the accuracy of the internal training spend figures has required a change to our disclosure in the current year. We now only disclose external training spend which has been subjected to a limited assurance review. In 2017 Liberty increased its external training spend by 13,4%, to R15,2 million representing 0,37% of total staff costs (2016: 0,33%). The average number of hours of training provided to employees decreased from 22 to 19 hours per annum as an increased number of training courses related to more costly leadership and management development programmes.



## OUR PEOPLE (CONTINUED)

The management of Liberty's training spend is decentralised to the individual business units to optimise the effectiveness of training for the benefit of the group and employees. This decentralised training model is being revised to more accurately align with the career development objectives of individual employees, enhance appropriate skills and to retain skilled staff.

Besides providing "on the job" training specific to individual roles and career paths Liberty encourages employees to pursue tertiary education through a bursary programme that supports qualifications in fields relevant to Liberty.

Liberty also funds an extensive learnership and intern programme that introduces promising young people to careers in financial services. Learners and interns gain between eight and 12 months' work experience and work towards an NQF Level 4 and NQF Level 5 qualifications in programmes supported by the Insurance Sector Education and Training Authority (INSETA).

Our Liberty Actuarial Development Programme (ADP) drives the attraction, development and growth of our actuarial community across the group. In 2017, our actuarial community comprised more than 145 actuarial students, three associates and more than 80 qualified actuaries.

Specific support is provided for our actuarial students studying towards their Fellowship. This support includes financial support, as well as subject tutors and study leave.

During 2017, we launched our Actuarial Mentorship Programme. This programme provides each actuarial student who has less than four years' experience, with a senior actuarial mentor to support their growth and development.

We actively encourage our actuaries to move around the group and gain a wealth of skills to build their careers. In addition, our learning and development programmes during 2017 focused on the development of managerial and leadership abilities in addition to technical skill sets.

Liberty is an active member of the Actuarial Society of South Africa (ASSA) as well as the Association of South African Black Actuarial Professionals (ASABA) where Liberty has sponsored the Mentorship pillar since ASABA's inception. Liberty also works with the South African Actuarial Development Programme (SAADP) in identifying and supporting top talent coming out of our schools and through their university degrees.

### 19 hrs ↓

AVERAGE NUMBER OF TRAINING HOURS IN 2017 (2016: 22 HOURS)

### 87 ↓

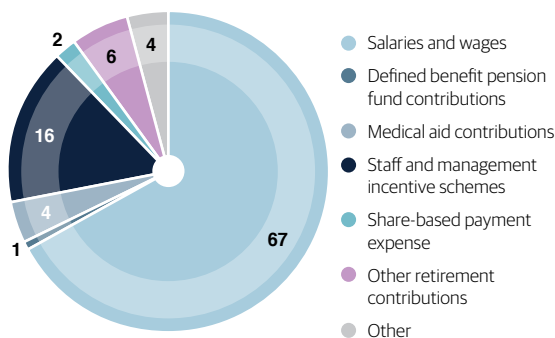
BLACK LEARNERS ENROLLED IN THE INSETA LEARNERSHIP PROGRAMME (2016: 143)

### 26

OUT OF 85 INTERNS EMPLOYED PERMANENTLY

ALL QUALIFIED AND STUDENT ACTUARIES PARTICIPATE IN THE ADP

## EMPLOYEE COST ANALYSIS



%

67

1

4

16

2

6

4

In 2017 Liberty incurred employee costs totalling R4,1 billion (2016: R4,0 billion) on a slightly reduced permanent salaried workforce of 6 096 people (2016: 6 139 people).

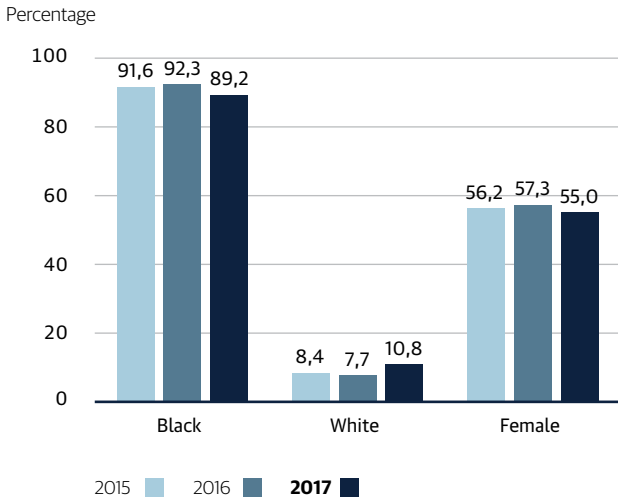
Remuneration packages are geared to each employee's level of influence and role complexity. The balance between guaranteed and variable pay is appropriately structured and does not reward risk-taking outside of board approved risk mandates. All employees have some level of variable pay as part of their remuneration package.

Across the employee base the short-term performance awards (including deferrals) amounted to R670 million representing 16% of the total employee costs.

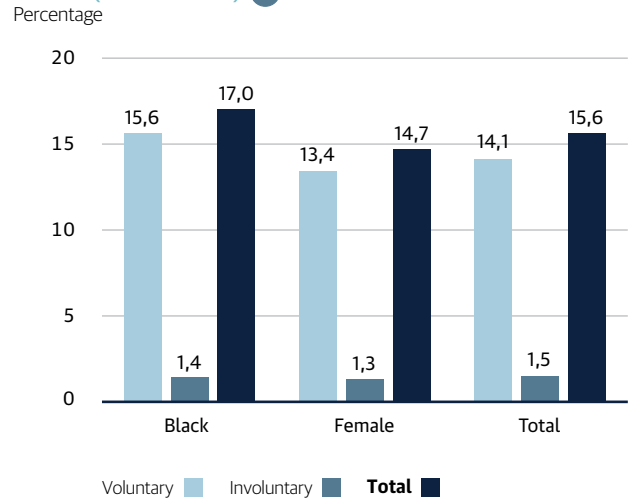


More information regarding Liberty's remuneration policy and its implementation is available in the Remuneration report at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)

DEMOGRAPHICS OF STAFF HIRES (South Africa)

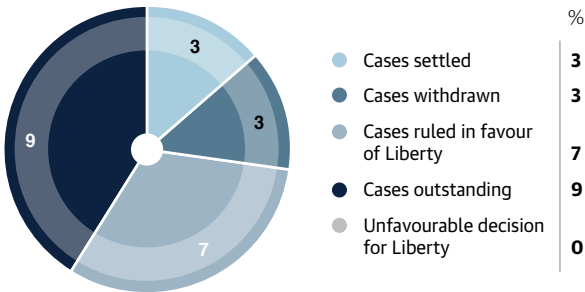


VOLUNTARY AND INVOLUNTARY TERMINATION RATES (South Africa) <sup>L</sup>



CASES REFERRED TO THE CCMA IN 2017

22 ↓ (2016: 32)



AVERAGE ABSENTEEISM IN THE SOUTH AFRICAN WORKFORCE

1,5% ↑ (2016: 1,4%)

AVERAGE SICK DAYS LEAVE FOR THE SOUTH AFRICAN WORKFORCE

3,8 days ↑ (2016: 3,6 days)

OUTCOMES FROM OUR HUMAN CAPITAL MANAGEMENT

A highly motivated and appropriately skilled workforce that can implement strategy and provide competitive returns on shareholder capital

A loyal and productive workforce which actively promotes the Liberty and STANLIB brands

An efficient deployment of human capital, with a diverse and inclusive working culture that maximises opportunities

A fair balance between performance delivery and total reward

Reduced employee turnover

Lower risks of fraud and poor productivity



# REGULATORS – A REGULATORY FRAMEWORK FOR INDUSTRY VALUE

Regulators govern financial stability and market conduct to promote the fair, transparent and responsible treatment of customers

## OUR VALUE-CREATING PARTNERSHIP WITH REGULATORS AND GOVERNMENT AGENCIES



### REGULATOR VALUE

Liberty's participation in industry forums helps shape policy and regulatory frameworks, providing an industry perspective on international regulatory developments and customers' needs and concerns

Compliance by Liberty and other industry participants contributes to market stability, safeguarding of licences, responsible products and a trusted and transparent industry

Financial literacy education

Application of revenue collected to nation building and promotion of economic growth

### LIBERTY VALUE

A trusted industry that promotes the fair treatment of customers and in which participants are viewed as responsible corporate citizens

A regulatory environment which is balanced between economic, social and industry needs

Reduced financial crime

Early identification of product and service opportunities

### CUSTOMER VALUE

Fair outcomes for customers

Responsible and relevant products and advice

Confidence in the industry and the Liberty brand

Increased access to pension and savings products

Upliftment of communities

### KEY PERFORMANCE INDICATORS

CAPITAL ADEQUACY RATIO

COSTS INVESTED IN MANAGING REGULATIONS AND REGULATORY CHANGE

REGULATORY FINES AND PENALTIES

NUMBER OF ADVERSE FINDINGS BY INDUSTRY OMBUDSMEN AND ADJUDICATORS

TAXES COLLECTED AND PAID TO GOVERNMENTS

## Material focus area

### Provide responsible financial services

As a registered financial services provider, Liberty operates in a highly regulated environment. Adapting to regulatory change is one of the group's principle strategic risks. Our strategy has been formulated in the context of the rapidly changing regulatory environment. We welcome practical and cost-effective regulation that will lead to broader access to pensions and savings, promote social reform and increase consumer trust in the industry.

The objectives of regulators:

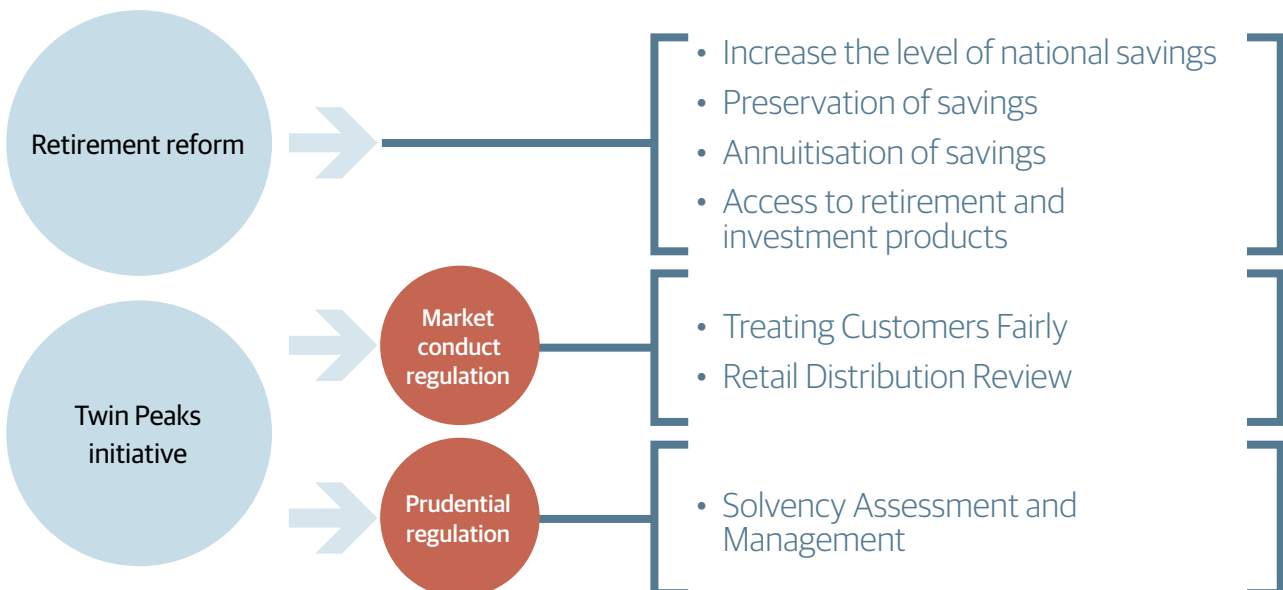
- 1 Fair treatment of financial institution customers
- 2 Financial soundness of financial institutions
- 3 Systemic stability of the financial services sector
- 4 Integrity of financial markets and institutions, and
- 5 Increased financial inclusion.

By achieving these objectives, the regulators of the industry create value for several stakeholder groups, including industry participants, customers and civil society.

## REGULATORY ENVIRONMENT IN SOUTH AFRICA

The Financial Services Board (FSB) is currently the primary regulator of South Africa's non-banking financial services sector and is tasked with promoting and maintaining a sound financial investment environment and ensuring the fair treatment of customers. The FSB's role is set to change when the Financial Sector Regulation Act comes into effect.

### Key themes of regulatory reforms



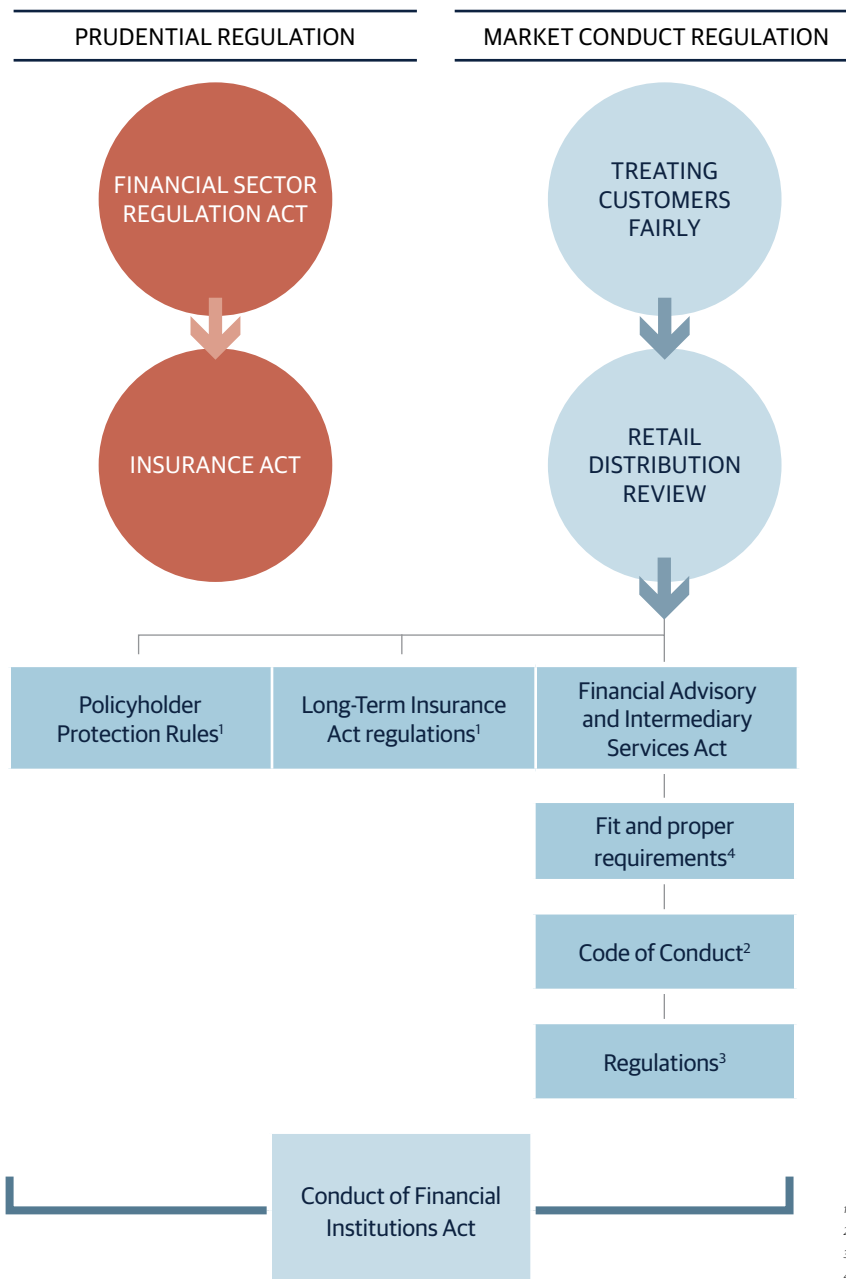


## REGULATORS (CONTINUED)

### Financial Sector Regulation Act (Twin Peaks initiative)

In response to the global financial crisis and the worldwide response to regulatory and risk management, the Twin Peaks model of financial sector regulation was first announced in the Budget Speech of 2011. The legislation and accompanying regulations will provide a comprehensive framework for regulating the financial sector with its implementation envisaged to be a multi-year project. The extensive reforms will result in the establishment of a prudential authority and a dedicated market conduct regulator.

- The prudential authority will be housed in the South African Reserve Bank (SARB) and will be responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates.
- The Financial Sector Conduct Authority (currently the FSB) will be responsible for the protection of customers of financial services firms, improving the way financial service providers conduct their business. This authority will also be responsible for ensuring the integrity and efficiency of financial markets and promoting effective financial consumer education.



<sup>1</sup> Gazetted 15 December 2017

<sup>2</sup> Comment due 28 February 2018

<sup>3</sup> To be issued in 2018

<sup>4</sup> Effective 1 April 2018

## Treating Customers Fairly has six intended outcomes:

- 1 Customers can be confident that TCF is central to the corporate culture of financial services companies
- 2 Products and services marketed and sold are designed to meet the needs of identified customer groups and are targeted accordingly
- 3 Customers are provided with clear information and kept informed
- 4 Where advice is given, it is suitable and takes account of customer circumstances
- 5 Products perform as companies have led customers to expect
- 6 Customers do not face unreasonable post-sale barriers to change product, switch providers, submit a claim or make a complaint

 Refer to our customer fairness principles on page 49.

## Other developments

### South African Revenue Service (SARS)

SARS plays a critical role in the retirement and savings industry in South Africa. Through its development and implementation of the Income Tax and Tax Administration Acts (amongst others) SARS influences individual taxpayers in their approach to savings and retirement planning. Traditionally, the rate of savings and retirement preparedness in South Africa has been low, a situation that needs to be addressed if the country is to develop and a future social burden is to be avoided.

The Minister of Finance established a tax review committee in 2013 to assess the South African tax policy framework and examine the overall tax base and tax burden. The committee's recommendations, which are advisory in nature, may lead to significant structural reform if implemented.

### Retirement Fund Reform

Several retirement fund reforms were announced in the 2011 budget. The changes to deductible limits of all retirement fund contributions were implemented on 1 March 2016. The implementation of mandatory annuitisation of provident fund benefits is currently included in South Africa's income tax legislation and scheduled for implementation on 1 March 2019. However, consultation over mandatory annuitisation of provident fund benefits continues. These consultations are expected to be finalised during 2018. Subject to agreement between Government and stakeholders, the tax free portability of retirement benefits between all retirement funds should become possible in 2018.

## Liberty's approach to regulators and compliance

Liberty believes that constructive and productive relationships with the regulators and policymakers of our industry allow us to create value for our stakeholders, including regulators by fostering trust in the financial services industry. Liberty is an active participant in the development of national policies and regulations. We engage with governments and regulators in the geographies in which we operate. In South Africa our primary engagement is with the FSB, the SARB and National Treasury. We also participate in industry associations, notably The Association for Savings and Investment South Africa (ASISA) and other chambers of commerce.

As a minimum, Liberty is committed to full compliance with applicable legislation, instilling ethics in all areas of our business, preventing fraud and continuing to invest responsibly. Internal compliance management forums continually identify and interpret regulatory requirements and ensure that the customer facing units establish appropriate policies and procedures to meet these requirements. Group risk, compliance and internal audit control functions apply independent oversight to ensure fair treatment of customers and the application of sound ethical principles.

Liberty's approach to compliance is to move beyond a tick-box approach and to understand how regulatory developments will affect strategy, product design, costs and organisational structure and to look for opportunities in developing regulation. Management initiates specific programmes to ensure that Liberty can adapt to anticipated regulatory changes. New and emerging regulation and increasing supervision remain key themes. RDR, Recovery and Resolution Planning (RRP), anti-money laundering requirements in terms of the Financial Intelligence Centre Act and Solvency Assessment and Management (SAM) requirements are particularly noteworthy.



## REGULATORS (CONTINUED)

### OUR REGULATORY PERFORMANCE IN 2017

We measure our compliance with regulations using both publicly available statistics and other internally generated indicators.

#### Participation in industry working groups and forums

The group continues to engage extensively with our main South African industry regulator, the FSB. Senior group executives represented Liberty at all of the quarterly update meetings. At these meetings we ensured that the group's financial position, strategy and concerns were communicated to the senior management of the regulator. We participated in various FSB forums, with considerable time dedicated to SAM legislation.

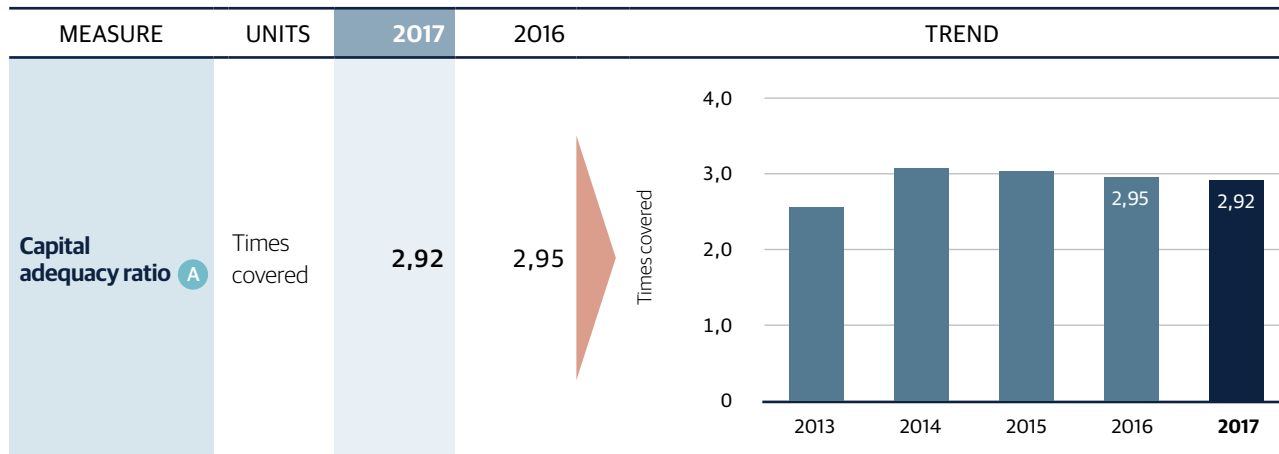
We also engage with other South African regulators where appropriate and frequently partner with Standard Bank Group when interacting with the SARB.

We continued to conduct a parallel run in anticipation of the introduction of SAM, the proposed new long-term insurance solvency regime. We prepared our "Own Risk and Solvency Assessment and Stress Test" within the deadlines set.

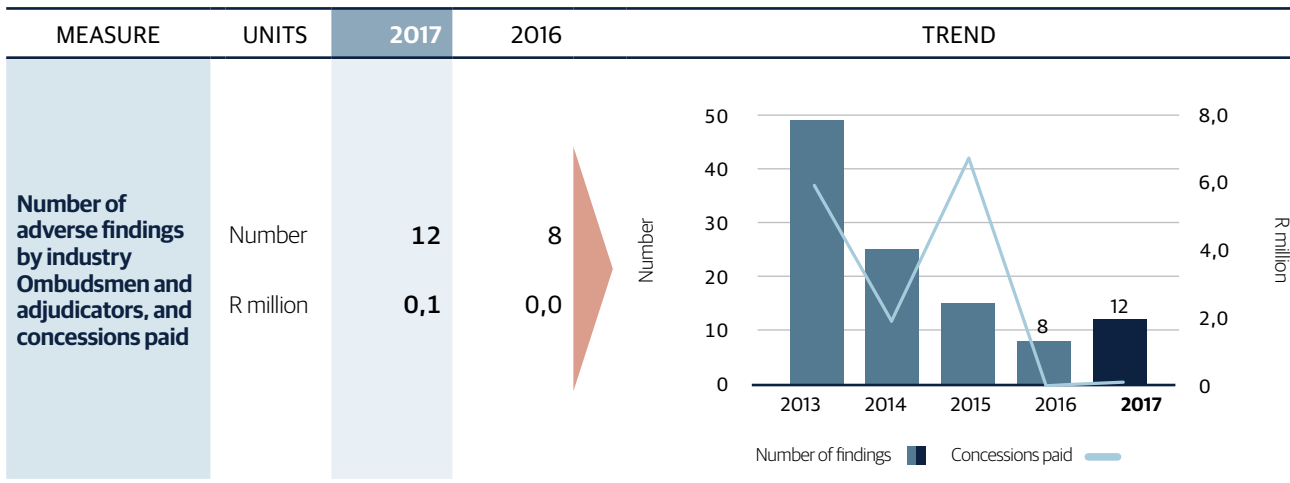
In the balance of our African markets, Liberty continues to focus on initiating and improving engagement with all the relevant regulators. We regard this as particularly important as we grow our presence across the continent.

Our approach to interaction with regulators is to be positively proactive.

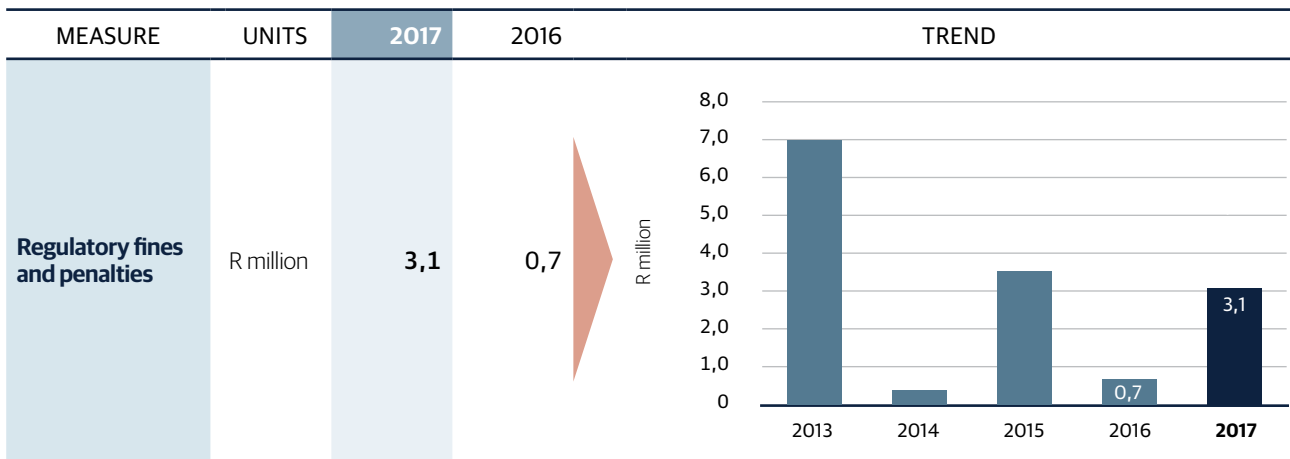
We continued to participate in the activities of ASISA where we have board representation and actively participate on board sub-committees and work streams. David Munro, the group chief executive, serves on the ASISA board.



The CAR cover decreased marginally from 2,95 at 31 December 2016 to 2,92 at 31 December 2017. The CAR coverage was reduced by the payment of dividends and the impact of the sovereign downgrades on credit investments. These impacts were offset by earnings of R1,8 billion and a R1,0 billion increase in subordinated debt issued.



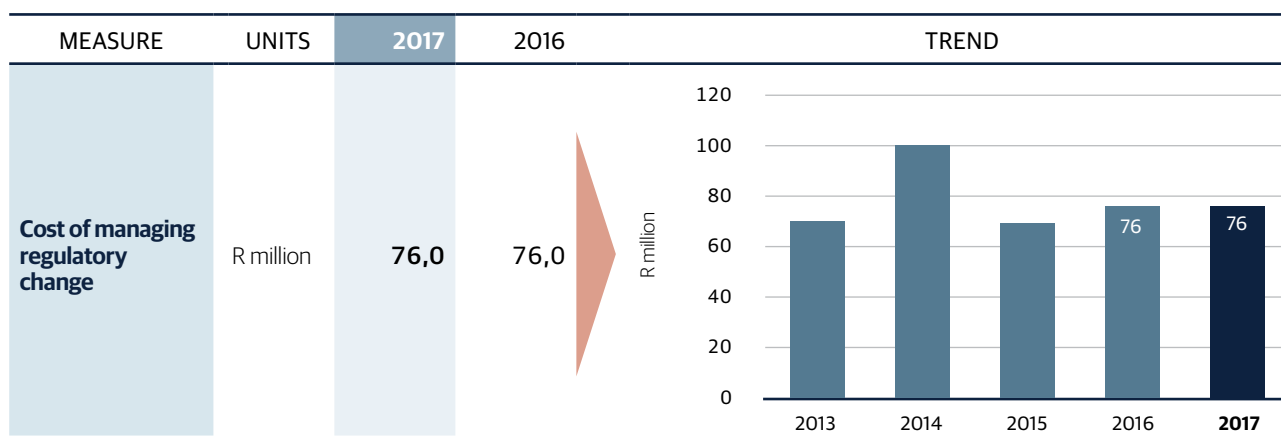
As a last resort, customers have the option to elevate a complaint to the appropriate industry Ombudsman or adjudicator. Liberty tracks its performance at the Pension Fund Adjudicator and the Ombud for Financial Services Providers. In 2017 there were 12 adverse findings against Liberty and concessions paid amounted to R78 000.



The South African operations of the group were fined R275 000 for regulatory non-compliance during 2017 (2016: R238 500). Regulatory fines or penalties levied by regulators in other Africa regions during 2017 amounted to R9 000 (2016: R nil). The group has been advised by the FSB of its intention to levy penalties in respect of certain Liberty Corporate administered retirement funds. Given our substantial progress in recent years in bringing the backlog of retirement fund regulatory returns, valuations and related governance up-to-date, we consider that these penalties will not be material and will be reduced in mitigation. Provisions for these possible penalties have been raised.

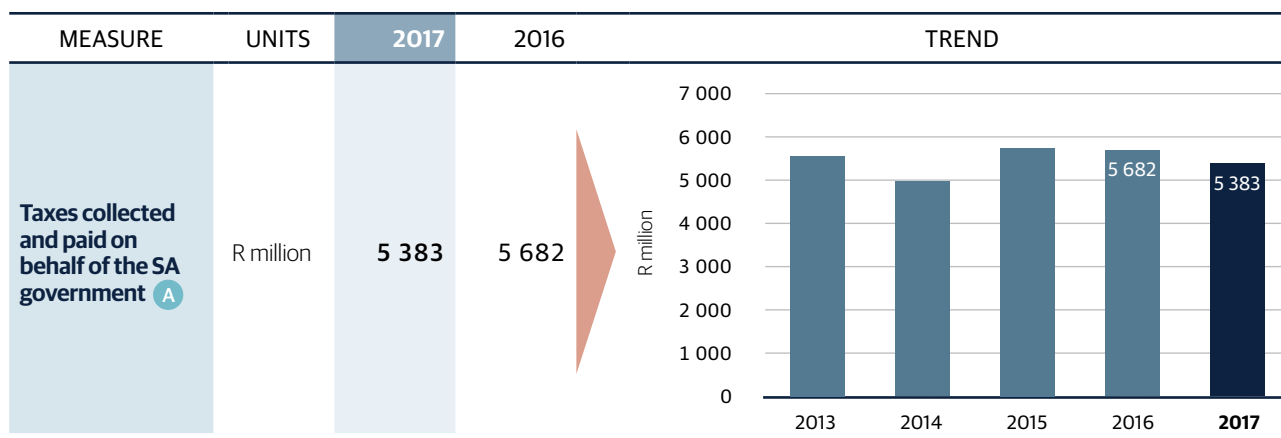
The complexity of the group's international operations, the associated tax environment and the increasing burden of tax administration being transferred to corporations by revenue authorities, has seen the group incur various small fines and penalties for non-compliance with income tax, employee tax and value added tax legislation in selected territories in which it operates. Whenever the group becomes aware of an error or omission in the determination of tax owing, it voluntarily approaches the appropriate authority in order to resolve the matter as quickly as possible. During the current year, fines and penalties associated with non-compliance with tax legislation amounted to R2,8 million (2016: R429 000). The penalties incurred in 2017 can be largely attributed to a delay in the payment of employees' tax in respect of the deferred unit trust scheme awards for STANLIB.

# REGULATORS (CONTINUED)



The implementation of regulations is managed at both a group and business area level, depending on the nature of the regulation and the skills required. During 2017 the group invested over R14 million in preparation for the introduction of SAM. A further R62 million was expended in preparation for the introduction of other proposed and planned regulations, including PoPI, Foreign Account Tax Compliance Act and Treating Customers Fairly.

In addition to these project costs, significant investment is made in training our employees on regulatory matters. Employees attend fraud awareness courses and are trained on FICA and anti-money laundering regulations.



These figures comprise the total taxes collected by the group on behalf of the South African government (in respect of employees and policyholders) as well as direct taxes levied on the group. As such, these amounts include income tax, PAYE, capital gains tax (CGT) (both company and policyholders), value added tax, dividends tax and other taxes.

The decrease from 2016 to 2017 is primarily the result of a decrease in the CGT liability for the shareholder investment portfolio.

## OUTCOMES FROM REGULATORY REFORM

<p>1</p> <p>Improved business practices</p>	<p>2</p> <p>Industry trust and stability</p>	<p>3</p> <p>Greater financial literacy</p>	<p>4</p> <p>Higher insurance penetration</p>
<p>5</p> <p>Increased demand for Liberty products</p>	<p>6</p> <p>Increased financial inclusion</p>	<p>7</p> <p>Higher national savings rate</p>	<p>8</p> <p>Less reliance on social support</p>



# BUILDING VALUABLE PARTNERSHIPS WITH COMMUNITIES

Communities provide us with our social relevance, future customers and employees

## OUR VALUE-CREATING PARTNERSHIP WITH COMMUNITIES



### COMMUNITY VALUE

### LIBERTY VALUE

### CUSTOMER VALUE

Socio-economic upliftment through education	Valuable brand (social and relationship) capital	Association with a socially responsible partner
Transformation of the workplace and supply chain	Diversity provides greater perspective	Broad stakeholder engagement
Targeted employee skills development	Enhanced employee recruitment	Greater insight into customer needs
A trusted risk and investment industry serving all communities	Increased brand recognition and awareness of products and services	Responsible investment decisions
Sustainable use of non-renewable resources and mitigation of climate change	Employee fulfilment through participation in corporate social investment projects and association with Liberty as a responsible corporate citizen	A growing economy

### KEY PERFORMANCE INDICATORS

CSI SPEND AND OUTCOMES

B-BBEE RATING AND ACHIEVEMENT OF EE PLAN

BRAND TRUST AND AWARENESS

REDUCTION IN ELECTRICITY AND WATER CONSUMPTION AND MINIMISING CO<sub>2</sub> EMISSIONS

EXTENT AND IMPACT OF ENGAGEMENT WITH INVESTEE COMPANIES



## COMMUNITIES (CONTINUED)

### Material focus area Enhance social relationships

Long-term, sustainable value growth can only be achieved through the growth and success of the communities in which we operate and neighbouring communities. We are committed to strengthening our communities.

#### Our social contract:

Liberty will contribute to improving living conditions and eradicating poverty by:

- 1 Improving access to education to empower self-fulfilment
- 2 Ensuring the workplace is representative of the communities that we serve
- 3 Behaving as a responsible corporate citizen and acting with integrity, and
- 4 Providing job opportunities and products and services that enable financial freedom.

#### Engagement with communities

We understand that our reputation is directly linked to our ability to deliver shared value. We engage with different segments of society and prioritise those relationships that will generate future value for Liberty and society as a whole. Through targeted and meaningful engagement, we gain an understanding of our communities' needs and we gain insight into the quality of our relationships with these communities.

Liberty has a centralised approach to CSI, with a series of flagship initiatives managed in partnership with like-minded organisations.

#### Empowering through education

Shaped around the wider socio-economic needs of the communities in which we operate, Liberty's CSI strategy prioritises education to create opportunities for future employment and contribute to the building of a thriving economy. Liberty acknowledges the need to improve financial literacy throughout the broader population, to assist all ages to save for their futures and adequately provide for their families.



#### In South Africa we focus on:

- **Socio-economic development:** Education life learning stages in primary, secondary and tertiary institutions with a focus on literacy, mathematics and science, and
- **Consumer education:** Where we contribute to providing financial literacy for sustainable socio-economic development.

#### In the rest of Africa we focus on:

- The wider socio-economic needs of the country's development agenda and the critical needs that exist in developing communities. Education remains a major focus of our mandate.

Intervention area	PRIMARY SCHOOL	SECONDARY SCHOOL	TERTIARY AND POST-TERTIARY	FINANCIAL EDUCATION	EMPLOYEE VOLUNTEERISM
Description	Provision of educational materials Learner leadership development Teacher development	Supplementary maths and science lessons South African Maths Olympiad Scholarship programme	Structured bursaries for actuarial and CA stream studies in partnership with SAADP and SAICA Commerce bursaries	Financial literacy	Commemorative day events Rand-for-rand matching (Employee matching programme)
Achievements	19 406 learners in 20 schools received educational materials 33 teachers received training Six teacher ambassadors taught maths and English at three selected schools	951 learners to receive extra maths and science lessons 124 Grade 10 – 2 teachers received curriculum training in maths and science 196 000 learners participated in the Maths Olympiad Five secondary school students supported through scholarships	Liberty bursaries benefited 12 learners from Liberty's funded high school programme STANLIB provided 12 commerce bursaries	> 17 000 learners participated in Liberty's consumer education programmes	> 5% staff utilising staff volunteerism leave
2017 expenditure	R6,2 million	R12,0 million	R1,1 million	R14,4 million	R0,7 million

### Transformation

Our business needs to be socially relevant. This is partially achieved by striving to ensure our workforce reflects the diversity of the societies in which we operate. Liberty has chosen an integrated approach to transformation in South Africa, as demonstrated through our transformation vision, which goes beyond compliance.

Our purpose is to provide guidance and pioneer new ways to make this possible, for our customers, employees, investors, communities and our country. To fulfil our role in society, we are committed to increasing the pace and impact of our transformation journey for the benefit of our investors, customers, staff, suppliers and the society we serve. We will be guided on this journey by the South African Constitution and we will actively build the society it seeks to create.

Inclusivity and participation will be hallmarks of our progress. Relevant stakeholders will have a voice in charting our course, and developing the process, as we make a difference to our country by fulfilling our purpose through the provision of socially responsible products and services that add value to our customers and our business.

Liberty was founded to bring greater financial freedom to more people.



## COMMUNITIES (CONTINUED)



### EMPLOYEES

Increase our demographic representation through recruitment, promotion, retention and development



### CUSTOMERS

Grow our customer base to be more demographically inclusive



### SUPPLIERS

Support and establish an inclusive supplier base through integrative and core alignment



### COMMUNITIES

Establish partnerships that provide financial and other resources for sustainable socio-economic development

## Responsible investing

At Liberty, we recognise that investors are increasingly incorporating environmental, social and governance concerns into their investment decisions, as a proxy for management quality and an indication of the soundness of a company's long-term sustainability. We are committed to being a responsible corporate citizen. As such, we seek to invest in a manner that contributes to the sustainability of our business and provides shared value in the areas in which we operate. Investments are made according to Liberty's responsible investment philosophy. The philosophy provides a high-level description of the key elements of responsible investment and how they apply to Liberty, including the pursuit of a balance between financial and environmental, social and governance returns.

External frameworks and principles guide the group. Liberty, as a long-term insurer, is a signatory to the United Nations Principles for Responsible Investment (UNPRI) through STANLIB, the group's asset manager and endorses the Code for Responsible Investing in South Africa (CRISA), whose principles serve as the overarching basis for responsible investment across the group. Liberty delegates the investment management of its assets to appointed investment managers and requires via mandate that they in turn adopt the principles and practices of CRISA. Adherence to this requirement, the extent of disclosure with respect to proxy voting and the nature and extent of engagements is monitored on an ongoing basis by due diligence reviews and ongoing engagement.

STANLIB incorporates environmental, social and governance considerations into its research processes. This is done through the consideration of a stewardship pillar in the research process which compels analysts and portfolio managers to consider issues such

as remuneration, social and environmental responsibility, board independence and transparency. STANLIB reports annually on its progress against the six responsible investment principles in its public Transparency Report to the UNPRI which is available at



[www.unpri.org/organisation](http://www.unpri.org/organisation)

LibFin plays a significant role in the management of Liberty's balance sheet and is responsible for the administration of the credit portfolio that comprises a broad spectrum of credit assets. Through our various credit investment activities, LibFin evaluates a thorough and comprehensive list of investment considerations which includes the CRISA principles.

## Sustainable use of the natural environment

Although Liberty is not a significant consumer of natural resources, we are committed to minimising our direct impact and adapting our investment criteria to assess responsible natural resource utilisation when investing both shareholder capital and customer funds.

Incorporating environmentally-friendly elements into new buildings and refurbishment projects is driven by operating cost savings, growing public interest and regulation. Liberty is a founding member of the Green Building Council of South Africa (GBCSA) and a member of the South African Property Owners Association. Liberty employees have served on the board of the GBCSA continuously since 2011 to ensure that Liberty plays an active role in industry-wide sustainability efforts.

## OUR COMMUNITY PERFORMANCE IN 2017

### Empowering through education

R23,4m  (2016: 20,3m)

TOTAL CONTRIBUTION BY THE GROUP TO EDUCATION UPLIFTMENT INITIATIVES IN 2017

R14,4m  (2016: 11,4m)

INVESTED IN FINANCIAL LITERACY IN 2017

The primary school programmes focused on learner development, teacher development and sharing learning materials in primary schools located in the Western Cape, Gauteng and KwaZulu-Natal. In partnership with the Future Thinking Foundation, we provided educational content and resources to learners and teachers in these schools during 2017.

The high school programmes focused on learner and teacher development in Mathematics and Science, primarily in Gauteng and KwaZulu-Natal. Through the Kutlwanong Centre for Maths, Science and Technology. The project supports learners in schools in Katlehong, Gauteng and surrounding areas, and schools in Umbumbulu, KwaZulu-Natal and surrounding areas.

296  (2016: 246)

GRADE 12 LEARNERS ASSISTED WITH MATHS AND SCIENCE

91%

ACHIEVED UNIVERSITY ENTRANCE MARKS

SIGNIFICANT CONTRIBUTION TO THE SCHOOL CIRCUITS' ACHIEVEMENT

Many financial education programmes capture short-term outputs and outcomes. Research reveals there are two types of effective intervention. These are the use of norms (directing people towards a specific action) and direct intervention. Liberty's Mind My Money programme is underpinned by the recognition that people's lives are not linear, but are characterised by crests and troughs of financial need and that a financial capability programme is thus more appropriate than a financial literacy programme to effect real impact and change in those peaks and valleys. More than 17 000 people participated in the programme in 2017.

STANLIB's flagship financial literacy initiative – STANLIB Smartbucks – teaches financial literacy to learners from disadvantaged areas.

Active employee involvement through volunteerism is an important component of our CSI strategy. Liberty continued with its formal volunteerism programme where we leverage relationships with schools and non-profit organisations.

### Liberty Community Trust (LCT)

The LCT was established as part of Liberty's Black Economic Empowerment (BEE) deal. It remains a shareholder of Liberty Holdings and is led by an independent board of trustees. The trust is mandated to change the realities of individuals and communities in South Africa by investing in education initiatives that enable sustainable economic inclusion. It supports Liberty's ambition to enhance and enrich the lives of South African students and learners by utilising proceeds received from Liberty Holdings' dividends.

The trust is a self-sufficient vehicle but is able to use Liberty's resources and employees as and when required to ensure minimal spend on administration. It is aligned with Liberty's transformation agenda as well as the group's CSI strategy to ensure an integrated approach to community development and empowerment through education.

During 2017 four priority strategic areas were identified, namely:

- 1 Career development
- 2 Improvement of learning outcomes
- 3 Enhancement of school leadership and governance
- 4 Higher education bridging programmes and to support the development of low-cost private schooling



## COMMUNITIES (CONTINUED)

### Transformation

The amended financial sector codes of good practice were published in December 2017. All B-BBEE certificates issued after this date must be in terms of the amended financial sector code. The aim of the amended sector codes is to improve inequalities in the financial sector which in turn will contribute towards business sustainability and the sustainable economic growth, development and social transformation in South Africa.

In general, the amended code better aligns to the core business of the sector and seeks to properly address the transformation of the entire financial sector value chain.

Despite the increased challenges included in the revised code, Liberty achieved a level two contributor status based on the revised code. We acknowledge that we can further improve in the areas of skills development and management control, with the emphasis on training and affirmative action of African females, African males and persons with disabilities. The group was awarded bonus points for its Blue Skies enterprise development initiatives.

Transformation progress is measured against the following seven pillars, detailed in the code:

1	Ownership
2	Management control
3	Skills development
4	Procurement and enterprise supplier development
5	Socio-economic development and consumer education
6	Empowerment financing and enterprise supplier development
7	Access to financial services

The amended code's increased focus on management control has resulted in the employment equity element of the scorecard falling away. Details of Liberty's employment equity performance as well as our overall racial demographic is detailed in the "Our people" section of this report. Our skills development performance is also recorded in the "Our people" section.

Our performance in the remaining elements of the code is summarised below:

- We continue to exceed the sector code's black ownership targets
- Management control, based on black representation amongst the board and executive management, remained consistent during the year despite the various changes to the executive and non-executive directors and members of the executive committee
- Preferential procurement: The group's total qualifying BEE spend amounted to R5,1 billion in 2017 (2016: R5,0 billion). Procuring from black women suppliers remains the biggest challenge under this pillar. Our Enterprise and Supplier Development programmes are therefore biased towards supporting women-owned businesses in order to mitigate the risks that may reduce our performance in this pillar
- Enterprise and supplier development: The Blue Skies Programme provides comprehensive support to the development capacity of targeted black suppliers to manage their businesses more efficiently and effectively. To date, this programme has assisted 30 small businesses by providing opportunities and intellectual support
- Socio-economic development and consumer education: The group's CSI spend in 2017 and the reach of our financial literacy programmes was sufficient to achieve full points for this pillar
- Access to financial services: The group is assessed based on the extent to which our products meet required standards. Liberty was awarded full points for this pillar, and
- The group also provides empowerment financing, including credit extension, equity investments and debt financing. No significant changes to the extent of this funding occurred during 2017 and the group again achieved a good score for this pillar.

Enterprise development and consumer education programmes achieved the intended impact with more than 17 000 people trained.

### Workplace diversity and inclusion

During the first quarter of 2017, we undertook a diversity and inclusion survey.

> 2 500

EMPLOYEES RESPONDED TO THE SURVEY

80% were black, coloured and indian  
58% were female and 42% male

The survey considered seven areas of Liberty. These, together with the average positive response for each appear below:

76%

RECRUITMENT PRACTICES

68%

PEOPLE DEVELOPMENT

65%

TASK ALLOCATION AND REMUNERATION

74%

MANAGEMENT PRACTICES

89%

PERSONS WITH DISABILITY

83%

WORK ENVIRONMENT

74%

WELLNESS, CULTURE, LOYALTY AND DISCRIMINATION

These responses are used to help us focus the initiatives underway to improve workplace diversity and inclusion.

### Skills development spend plan and targets

The budgeting and target-setting process took the following into consideration:

- Minimum budget standards were provided at the point of setting budgets per race, gender and occupational level against payroll percentages
- The workplace skills plan submitted to INSETA
- Learnership plans based on contracts and registration with INSETA, and
- Provision of additional budget to supplement total spend.

Total skills development spend for the year was R28,5 million.

### Enterprise development

Our Blue Skies Supplier Development Programme undertakes to eliminate all barriers to growth for participating SMEs by providing them with both financial and non-financial support. Financial support takes the form of contributions to the ASISA and Tswelopelo Funds – an industry Enterprise Development Fund and Standard Bank’s Enterprise Development Fund that identifies and invests in SMEs servicing the financial sector and other industries.

Non-financial support takes the form of business development services, whereby we provide SMEs on the programme with the ongoing, tailored strategic guidance and training they need to successfully scale up their operations to the point at which they can be seamlessly integrated into our supply chain.

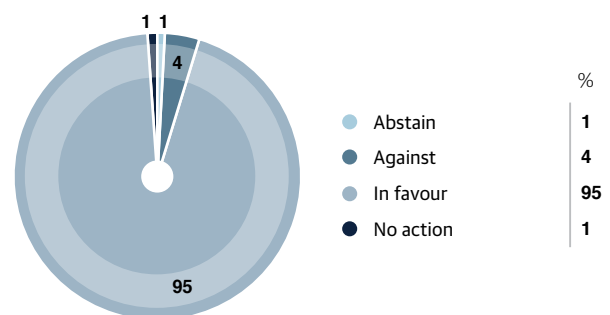
Liberty partnered with ASISA for the fifth year in the development programme initiatives valued at R3 million and in the investment programme initiatives valued at R75 million. The number of suppliers reached and supported this year is 19.

In 2017 Liberty partnered with the Standard Bank Incubator Acceleration Programmes. The Accelerators are designed to assist participants to grow and move to the next level. Through this process, the participants also gain access to markets, access to funding and access to resources and recognition needed to sustain their businesses. The number of suppliers directly reached and supported this year is 200. R6 million was invested in these programmes.

### Responsible investing

The investment team at STANLIB expresses its views via proxy voting. Should STANLIB intend to vote against a particular resolution, the investee’s management teams are engaged. During the year, STANLIB engaged with listed entities on the independence of certain board members, CEO remuneration, long serving directors and their independence and the reappointment of auditors. Proxy voting is tracked and is available to clients for review. Our 2017 proxy voting records appear below:

### PROXY VOTING HISTORY





## COMMUNITIES (CONTINUED)

We are committed to supporting the efforts of the private sector in the provision of bulk infrastructure for social and economic development in South Africa and the rest of Africa. Recognising the importance of creating an alternative investment sector, we have invested in various infrastructure projects, including power generation and energy sector projects with the aim of supporting the growth and development of these areas for sustainable economic growth.

Liberty, together with STANLIB, participates in the Renewable Energy Independent Power Producer Procurement (REIPPP) programme and has invested R3,8 billion (2016: R3,4 billion) in debt funding for solar and wind energy projects thus far.

Liberty's other investments in infrastructure include toll roads and rail development projects. Liberty is one of the larger investors with a total exposure of R3,4 billion.

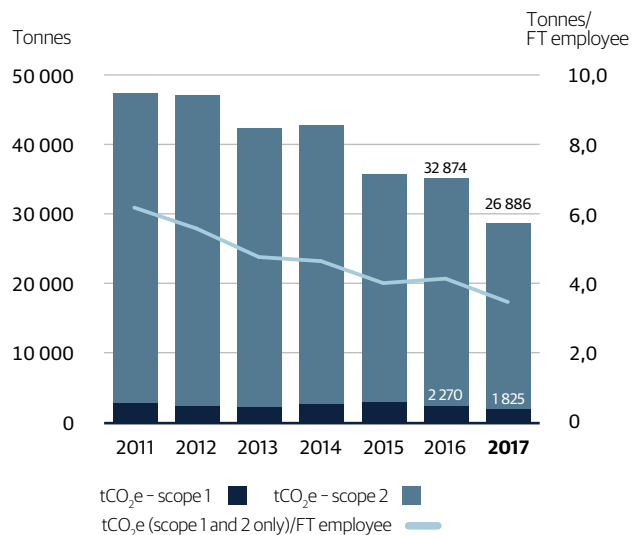
### Sustainable use of the natural environment

Liberty is committed to managing those areas of our business that directly impact the environment to protect valuable resources. In addition to investing in renewable energy, we strive to minimise consumption at our offices and within the property portfolio.

Liberty once again participated in the Carbon Disclosure Project (CDP) Climate Change questionnaire and achieved a performance band C (2016: C). There are challenging areas in reducing our carbon footprint and we continue to work towards our goals of alignment with the sustainable development goals. We believe our 2018 investment into a new web-based analytics tool will enhance our reporting and strategic decision making going forward. Formal carbon reduction targets are necessary to improve our score. We are currently investigating adopting science-based targets in the absence of a formal methodology for the financial sector.

The group reflected a decrease in total emissions per full time equivalent South African employee, from 4,1 tCO<sub>2</sub>e to 3,5 tCO<sub>2</sub>e due to an 18% reduction in scope 1 and 2 emissions.

### SCOPE 1 AND 2 EMISSIONS <sup>L</sup>



### Minimising electricity consumption

It is important for Liberty to be a responsible user of electricity, considering that the majority of electricity in South Africa is generated from non-renewable sources, and the associated increase in cost and the pressure on the national electricity grid. Being an efficient energy user helps reduce operational costs and our carbon footprint.

During 2018, we will invest in photovoltaic solar panels which are being installed at our head office and Midlands Mall Phase 3 extension. These panels will reduce electricity demand by a combined 1.5 MW per annum, reducing long-term electricity costs and lowering carbon emissions.



Refer to our Report to society for more detailed information on CO<sub>2</sub> emissions and other environmental matters at [www.libertyholdings.co.za/investor](http://www.libertyholdings.co.za/investor)
















## OUTCOMES FOR AND FROM COMMUNITIES

1  
Socio-economic upliftment  
through education

2  
Greater inclusion  
and economic participation

3  
Greater environmental  
stewardship

## 2017 PERFORMANCE DASHBOARD AND 2018 TARGETS

		2017		2018	
		ACTUAL	TARGET	ACHIEVEMENT	TARGET
 INVESTORS	Normalised return on group equity value	1,1% <b>A</b>	Cost of equity <b>12,1%</b>		> 12,0%
	Normalised return on IFRS equity	12,3%	GDP + CPI + <b>9% to 10%</b>		Between <b>15% to 18%</b>
	Shareholder Investment Portfolio performance	Below benchmark	Board approved benchmark reference		Board approved benchmark reference
	Risk appetite	Achieved	Manage within risk appetite		Manage within risk appetite
	Individual Arrangements new business margin	0,5% <b>A</b>	Between <b>1,5% to 2,0%</b>		Between <b>1,0% to 1,5%</b>
 CUSTOMERS	Combined policyholder persistency performance	Below actuarial assumption	Actuarial assumption		Actuarial assumption
 OUR PEOPLE	South African voluntary staff turnover	14,1% <b>L</b>	< 14% <sup>1</sup>		< 14%
 REGULATORS	Liberty Group Limited CAR cover	2,92 times <b>A</b>	> 1,5 times		> 1,5 times
 COMMUNITIES	B-BBEE contributor level	2 <b>V</b>	2		2
	Corporate social investment spend (South Africa)	R41,3m <b>L</b>	1% of adjusted net operating profit after tax		1% of adjusted net operating profit after tax


<sup>1</sup> Excluding planned business restructure
 Fully achieved
  Not achieved

## IFRS RESULTS

### Accounting policies

The accounting policies applied in the preparation of the annual financial statements are in terms of IFRS and are consistent with those applied in the prior year group and company annual financial statements except for the mandatory adoption of minor amendments or early adoption of amendments to IFRS. These amendments have not resulted in any material impacts to the group's 2017 reported results or comparative periods.

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, both effective 1 January 2018, will have an immaterial impact on the group's financial results and disclosures.

 Detailed accounting policies are disclosed in Appendix A to the Liberty Holdings Limited annual financial statements.

### Accounting key judgements

The nature of a long-term insurer involves the valuation of policyholder contractual obligations that are designed to be in place for long periods into the future. Key judgements around assumptions in the actuarial liability models are therefore significant in deriving liability measurements. Several assets are either unlisted or illiquid requiring measurement models to determine fair values. These models naturally rely on assumptions. These, in addition to other judgements applied in measurement and classification, are detailed in the annual financial statements.

Summarised extracts from Liberty Holdings Limited 2017 consolidated annual financial statements are included in the pages that follow. The full version of the annual financial statements is available electronically or in printed form on request from the company secretary.

## EXTRACTS FROM OUR ANNUAL FINANCIAL STATEMENTS

### Summary consolidated statement of comprehensive income <sup>A</sup> for the year ended 31 December 2017

Rm	2017	2016
Net insurance premiums	38 020	39 366
Investment returns <sup>1</sup>	40 487	19 062
Other income	4 215	4 316
<b>Total revenue</b>	<b>82 722</b>	<b>62 744</b>
Net insurance benefits and claims <sup>2</sup>	(43 848)	(37 616)
Fair value adjustment to long-term policyholders' liabilities under investment contracts	(9 116)	(3 891)
Fair value adjustment on third-party mutual fund interests <sup>3</sup>	(4 619)	619
Fair value adjustment to financial liabilities		(27)
Acquisition costs	(4 935)	(4 723)
General marketing and administration costs <sup>4</sup>	(11 345)	(10 733)
Finance costs	(1 344)	(1 415)
Profit share allocations and equity accounted earnings from joint venture	(947)	(1 007)
<b>Profit before taxation</b>	<b>6 568</b>	<b>3 951</b>
Taxation	(2 864)	(1 325)
<b>Total earnings<sup>5</sup></b>	<b>3 704</b>	<b>2 626</b>
<b>Other comprehensive loss</b>	<b>(233)</b>	<b>(148)</b>
<b>Total comprehensive income</b>	<b>3 471</b>	<b>2 478</b>

<sup>1</sup> The increase in investment returns is due to higher market returns experienced in 2017 than in 2016. In particular, the SIP delivered a gross return of 8.5% (2016: 5.7%).

<sup>2</sup> The increase in net insurance claims and benefits can be attributed to the high level of risk claims experienced, particularly an increase in income protection plan (IPP) claims in Liberty Corporate in the second half of 2017.

<sup>3</sup> The movement in the income statement is as a result of increased fair value adjustments in the year as per (1) above, attributed to the third-party mutual fund interests.

<sup>4</sup> Includes a once-off impairment write off of intangibles of R164 million.

<sup>5</sup> Includes the positive earnings impact of R543 million, after tax, arising on consolidation of the Liberty Two Degrees listed REIT (L2D).

## Summary consolidated statement of financial position <sup>A</sup>

as at 31 December 2017

Rm	2017	2016
<b>Assets</b>		
Properties <sup>1</sup>	34 768	33 828
Long-term policyholder assets - insurance contracts	7 484	7 314
Other investments <sup>2</sup>	364 068	340 516
Repurchase agreements, scrip and collateral assets	11 900	15 483
Other assets	10 738	9 755
Cash and cash equivalents	15 169	14 994
<b>Total assets</b>	<b>444 127</b>	<b>421 890</b>
<b>Liabilities</b>		
Long-term policyholder liabilities	322 918	307 230
Reinsurance liabilities	663	555
Third-party liabilities arising on consolidation of mutual funds <sup>3</sup>	49 713	44 046
Short-term insurance liabilities	780	925
Financial liabilities	5 581	4 601
Liabilities held for trading and for hedging	6 311	6 798
Repurchase agreements liabilities and collateral deposits payable	9 097	11 748
Other liabilities	18 673	16 981
<b>Total liabilities</b>	<b>413 736</b>	<b>392 884</b>
<b>Equity</b>		
Ordinary shareholders' equity	22 444	21 676
Share capital and share premium <sup>4</sup>	5 183	5 322
Retained surplus	18 166	16 990
Other reserves	(905)	(636)
Non-controlling interests <sup>5</sup>	7 947	7 330
<b>Total equity</b>	<b>30 391</b>	<b>29 006</b>
<b>Total equity and liabilities</b>	<b>444 127</b>	<b>421 890</b>

<sup>1</sup> Increase in properties due to additional capital expenditure of R660 million and increased valuations of R370 million.

<sup>2</sup> Increase in financial investments is due to favourable market returns in 2017 and an increase in interests in associates related to additional interests in mutual funds classified as associates under IFRS in the current year.

<sup>3</sup> Subsidiary mutual fund interests not held by the group are classified as third-party mutual fund liabilities as they represent demand deposits held at fair value. Mutual funds values increased in the year due to higher market returns experienced in 2017 than in 2016 attributed to the third-party mutual fund interests.

<sup>4</sup> Reduction due to share buy-backs that support employee equity-settled incentive schemes.

<sup>5</sup> Increase mainly attributable to non-controlling interests share in the acquisition or disposal of Liberty Two Degrees units between Liberty Group Limited investment portfolios to match policyholder obligations in 2017.

## EXTRACTS FROM OUR ANNUAL FINANCIAL STATEMENTS (CONTINUED)

### Summary consolidated statement of changes in shareholders' equity <sup>A</sup>

for the year ended 31 December 2017

Rm	2017	2016
<b>Balance of ordinary shareholders' equity at 1 January</b>	<b>21 676</b>	<b>21 739</b>
Ordinary dividends	(1 942)	(2 022)
Total comprehensive income	2 932	2 128
Share buy-backs <sup>1</sup>	(350)	(477)
Black economic empowerment transaction	32	195
Share-based payments	99	132
Transaction costs of issuing units in Liberty Two Degrees <sup>2</sup>		(78)
Preference dividends	(2)	(2)
Transactions between owners	9	(40)
Transactions between owners - Liberty Two Degrees	(10)	101
<b>Ordinary shareholders' equity</b>	<b>22 444</b>	<b>21 676</b>
<b>Balance of non-controlling interests at 1 January</b>	<b>7 330</b>	<b>4 254</b>
Total comprehensive income	539	350
Acquisition of Liberty Two Degrees <sup>2</sup>		3 000
Transactions between owners - Liberty Two Degrees <sup>3</sup>	351	(101)
Acquisition of unincorporated property partnerships	87	98
Acquisition of subsidiaries		33
Unincorporated property partnerships net distributions	(238)	(219)
Non-controlling interests' share of subsidiary distributions	(133)	(21)
Non-controlling interests' share of shares issued in subsidiary	2	3
Transaction costs of issuing units in Liberty Two Degrees <sup>2</sup>		(38)
Transactions between owners <sup>3</sup>	9	(29)
<b>Non-controlling interests</b>	<b>7 947</b>	<b>7 330</b>
<b>Total equity</b>	<b>30 391</b>	<b>29 006</b>

<sup>1</sup> Share buy-backs are purchases of shares from the market to meet employee equity-settled incentive schemes.

<sup>2</sup> Non-controlling interests share in Liberty Two Degrees, a subsidiary of Liberty Holdings Limited, which was listed on the JSE on 6 December 2016.

<sup>3</sup> Increase in non-controlling interests share in the acquisition or disposal of Liberty Two Degrees units between Liberty Group Limited investment portfolios to match policyholder obligations in 2017.

**Summary consolidated statement of cash flows** A

for the year ended 31 December 2017

Rm	2017	2016
<b>Cash flows from operating activities<sup>1</sup></b>	<b>5 121</b>	<b>2 443</b>
Cash utilised by operations	(7 082)	(9 157)
Interest and dividends received	18 841	18 242
Distributions paid	(3 075)	(2 717)
Taxation paid	(1 946)	(2 260)
Other operating cash flows	(1 617)	(1 665)
<b>Cash flows from investing activities</b>	<b>(3 581)</b>	<b>(6 607)</b>
Net purchase of investments	(2 906)	(4 937)
Net purchase of other assets	(375)	(288)
Repayment of on collateral deposits payable	(258)	(1 236)
Acquisition of subsidiaries		(146)
Acquisition of equity accounted joint ventures	(42)	
<b>Cash flows from financing activities<sup>2</sup></b>	<b>(1 280)</b>	<b>(18)</b>
Net advance of financial liabilities	980	687
Net repayment of repurchase agreements liabilities	(2 393)	(3 175)
Net cash flows from equity transactions with non-controlling interests	483	3 063
Transaction costs of issuing units in Liberty Two Degrees		(116)
Share buy-back	(350)	(477)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>260</b>	<b>(4 182)</b>
Cash and cash equivalents at the beginning of the year	14 994	19 305
Cash and cash equivalents acquired through business acquisitions		61
Foreign currency translation	(85)	(190)
<b>Cash and cash equivalents at the end of the year</b>	<b>15 169</b>	<b>14 994</b>

<sup>1</sup> Increase in cash flows from operating activities mainly due to higher investment income in 2017 compared to gains in 2016.

<sup>2</sup> Increase due to lower repayments of repurchase agreement liabilities in 2017.

## CONTACT AND COMPANY REFERENCE DETAILS

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### Company Secretary

**Jill Parratt**

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Registration number: 1968/002095/06

### Transfer Secretaries

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Registration number 2004/003647/07  
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### Auditors

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### Website: [www.libertyholdings.co.za](http://www.libertyholdings.co.za)

Customer Call Centre  
Tel: 0860 456 789

## FORWARD-LOOKING STATEMENTS

This integrated report contains certain statements about the Liberty group that are, or may be deemed to be, forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect or incomplete, then actual future performance and achievements may be materially different from those expressed or implied by such statements. Furthermore, care has been taken to avoid providing forward-looking statements which would constitute a specific or general profit forecast or estimate under the JSE Listings Requirements and there is accordingly an inherent limitation in the scope of the forward-looking information provided. The directors therefore advise readers to use caution regarding interpreting any forward-looking statements in this report.





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