



LIBERTY

Liberty Holdings Limited

**Application of the King IV™ Report
on Corporate Governance for South Africa**

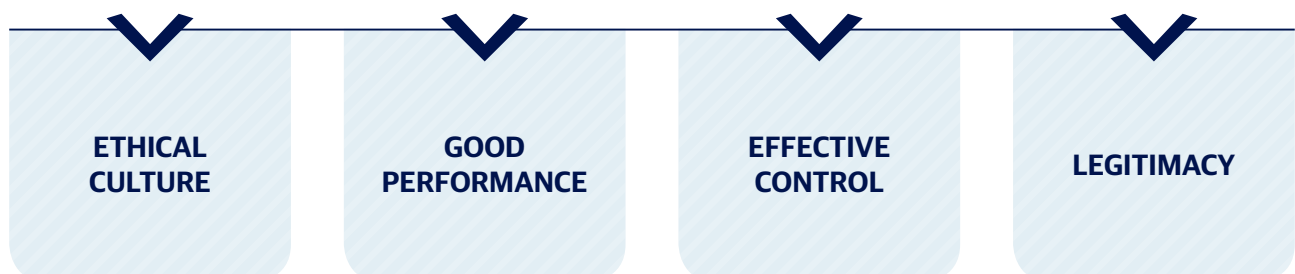
2019

- Ethical culture
- Good performance
- Effective control
- Legitimacy

Contents

	Principles	Pg	
Leadership, ethics and corporate citizenship	1	Leadership	K2
	2	Organisational ethics	K2
	3	Responsible corporate citizenship	K2
Strategy, performance and reporting	4	Strategy and performance	K2
	5	Reporting	K3
Governing structures and delegation	6	Primary role and responsibilities of the governing body	K3
	7	Composition of the governing body	K3
	8	Committees of the governing body	K4
	9	Evaluation of the performance of the governing body	K4
	10	Appointment and delegation to management	K5
Governance functional areas	11	Risk governance	K5
	12	Technology and information governance	K5
	13	Compliance governance	K6
	14	Remuneration governance	K6
	15	Assurance	K6
Stakeholder relationship	16	Stakeholders	K7
	17	Responsibilities of institutional investors	K7

OUTCOMES



This document has been prepared in response to the disclosures proposed in the King IV Report on Corporate Governance for South Africa 2016 (King IV™).

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We view this document as an integral element of our annual reporting suite and the information disclosed herein has been dictated by materiality and the avoidance of repetition of information disclosed elsewhere. The full suite of Liberty's annual reports includes:



The full suite can be accessed at www.libertyholdings.co.za/investor

During 2019, Liberty applied King IV™ in its entirety except for a single recommended practice, which was remedied on 1 December 2019. Details appear under principle 7 below.

Application of the King IV™ principles

Principle 1 – Leadership

The governing body should lead ethically and effectively

The directors of the board hold one another accountable for decision-making and acting in an ethical manner thus providing effective leadership. All members of the board, whether they are categorised as executive, non-executive or independent act with independence of mind in the best interests of the group. The chairman of the board monitors this through regular one-on-one meetings with the members of the board. An external evaluation of the performance of the board, its sub-committees and individual directors, was completed and feedback was provided to the directors' affairs committee at the May 2019 meeting. No significant gaps were identified. An internal evaluation of the board and sub-committees will be conducted during 2020.

Principle 2 – Organisational ethics

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture

Liberty has a board approved code of ethics. This code has been communicated to all stakeholders and is available on the company's website. There is ongoing ethical awareness training and employee performance evaluations include a review of ethical conduct. An independent ethics survey was finalised in 2019 which guides the enhancement of ethical management in the group. The board has a zero-tolerance approach to unethical behaviour and all the necessary reporting mechanisms, sanctions and remedies are in place to identify and manage breaches of ethical standards.

Principle 3 – Responsible corporate citizenship

The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen

The board oversees and monitors the consequences of the group's activities and outputs and its status as a responsible citizen. Liberty's compliance with legislation, standards and adherence to its own policies is monitored by the group compliance committee. This committee considers new legislation and compliance with existing legislation and Liberty's own policies on an ongoing basis. The committee reports to executive management and thereafter to the group audit and actuarial committee and the group risk committee, where necessary. The social, ethics and transformation committee has responsibility for monitoring the group's responsible corporate citizen performance as well as ensuring an ethical culture in conjunction with the people, social, ethics and transformation committee, a committee whose members are drawn from executive management. The responsibilities of this committee include a review of the workplace, workforce and the impact of Liberty on the economy, society and the environment. In addition, two sub-committees of the group control and risk oversight committee were constituted in 2019, being the supplier risk committee and the group client risk committee.

Principle 4 – Strategy and performance

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process

The board takes responsibility for Liberty's performance by steering and setting the direction for the achievement of its purpose and values through its strategy. Strategy is proposed by management and then reviewed and challenged by the board. In particular, the board and management hold an annual offsite session at which these matters are discussed. The session considers whether the proposed strategy will create value, its associated risks and dependencies, and impacts on the resources and relationships available to it. The strategy is then approved by the board and a report back on execution against strategy is on every executive committee agenda, with regular report backs to the board and appropriate board committees. Through these regular reports, the board ensures that the group responds to any negative consequences of its activities and outputs.

Application of the King IV™ principles continued

Principle 5 – Reporting

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects

The board oversees the preparation of all reports that are publicly available, ensuring that they present material information in an integrated manner, providing users with a holistic, clear, concise and understandable view of Liberty's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. Management has been delegated responsibility for the group's reporting, following the direction set by the board. Liberty produces an annual integrated report as well as other reports and supplementary information which, together, contain all the legitimate and reasonable information needs of material stakeholders. The integrated report and supporting documentation are published on the company's website. Printed copies can be requested by stakeholders.

Principle 6 – Primary role and responsibilities of the governing body

The governing body should serve as the focal point and custodian of corporate governance in the organisation

The board is responsible for the effective governance of Liberty and has ultimate control of the group's various businesses, as well as providing clear strategic direction. The board directs the group and provides an independent review on all issues of strategy, performance, resources and standards of conduct, either directly or through its committees. The board meets quarterly and additional meetings are arranged when necessary.

The roles and responsibilities of the board are detailed in the board mandate which is available at www.libertyholdings.co.za/investors. The board is assisted by various board committees. The board and its committees track performance against their mandates on an annual basis to ensure that all responsibilities have been fulfilled. The board is satisfied that it fulfilled its responsibilities as detailed in its mandate during 2019.

Principle 7 – Composition of the governing body

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

The directors' affairs committee considers the composition of the board on an annual basis and makes recommendations to the board if changes are required. The appropriate mix of knowledge, skills and experience needed to govern Liberty are debated when considering the composition of the board. The board comprises a majority of independent directors and the independence of directors who have served on the board for longer than nine years is considered on an annual basis. The independence of all directors on the board is also considered holistically during this process. The board has approved a diversity policy which includes targets for black African females. Details of the composition of the board and committees are available in the Governance at Liberty report.

The composition of each of the board committees is also considered on an annual basis by the directors' affairs committee and recommendations to introduce new expertise and perspectives, if necessary, are made to the board.

The process of nomination and election to the board and board committees is formal and transparent. Before recommending an appointment to the board, the directors' affairs committee verifies a candidate's credentials and that the candidate has sufficient time to fulfil the responsibilities as a member of the board.

The responsibilities of the chairman and the lead independent director are provided in the Governance at Liberty document.

A social, ethics and transformation committee has been established and its responsibilities include its statutory duties. Contrary to the recommended practice 36e of principle 7, the chairman of the board was also the chairman of the social, ethics and transformation committee. However, on 1 December 2019 Ms Thembisa Skweyiya was appointed chairman of the social, ethics and transformation committee. Except for the group chief executive, all other members of the social, ethics and transformation committee are non-executive directors of the board.

Application of the King IV™ principles continued

Principle 8 – Committees of the governing body

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties

The board determines matters to be delegated to board committees and considers the allocation of roles and associated responsibilities and the composition of membership across all committees on a holistic basis so as to achieve effective collaboration through cross membership and avoid duplication and fragmented functioning as far as possible. The board ensures that there is balanced distribution of power across each committee to ensure complementary rather than competing approaches.

The mandates for the board and each board committee are available on the company's website, together with information on the individual members. The mandates and performance of the committees in line with their mandates are considered regularly.

The risks impacting the group are considered by the group risk committee and not the group audit and actuarial committee, although this committee does consider financial risks. Four of the members of the audit and actuarial committee serve on the group risk committee and the non-executive chairman of the board attends all meetings by invitation. The group risk committee is satisfied that it fulfilled its responsibilities as detailed in the mandate during 2019.

The group audit and actuarial committee is satisfied that the external auditors are independent of Liberty and there is a formal policy in place to manage the provision of non-audit services. The designated partner who has oversight of the audit is rotated every five years. The group audit and actuarial committee considered the quality of the external audit function in a closed session with members of the finance function and concluded that external audit had addressed all material issues. The significant matters addressed by the group audit and actuarial committee during the year under review are set out in the report of the chairman of the group audit and actuarial committee in the annual financial statements as well as significant matters that the committee considered in relation to the annual financial statements and how these were addressed.

An assessment of the effectiveness of all the heads of control functions was performed by the group audit and actuarial committee and it was agreed that the heads of control functions were effective.

A strong finance function is in place, comprising senior managers who are qualified Chartered Accountants. The group audit and actuarial committee reviewed the effectiveness of the design and implementation of internal financial controls which form part of combined assurance.

Regular communication between internal and external audit as well as other assurance providers serves to optimise the areas of reliance and enhance value delivery to all parties. Combined assurance will continue to evolve and further enhance alignment between the key role players.

The head of the internal audit function has a reporting line to the group audit and actuarial committee and, in a closed session with only the members of the committee, the committee expressed satisfaction with the effectiveness of the head of the internal audit function and the internal audit arrangements. The permanent head of the internal audit function resigned at the beginning of 2019 and an acting head was appointed. A permanent head of the internal audit function was appointed on 1 December 2019.

The group audit and actuarial committee is satisfied that it fulfilled its responsibilities as detailed in its mandate during 2019.

The board has allocated oversight of remuneration to the remuneration committee and all the members of this committee are non-executive members of the board with the majority being independent non-executive members. The chairman of the remuneration committee is an independent director. The remuneration committee is satisfied that it fulfilled its responsibilities as detailed in its mandate during 2019.

Principle 9 – Evaluations of the performance of the governing body

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

The board evaluates its performance annually and an external evaluation is performed every third year. An external evaluation of the board and committees was finalised early in 2019. No material issues were reported to the directors' affairs committee. The lead independent director leads the evaluation of the chairman on an annual basis, although when an external evaluation of the board is conducted this evaluation forms part of the external assessment.

Application of the King IV™ principles continued

Principle 10 – Appointment and delegation to management

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

Liberty has a formal, board approved delegation of authority which has been communicated to management. Compliance with the delegation of authority is tracked by the company secretary who reports non-compliance to the group executive committee so that it can be addressed. The board believes that the delegation of authority contributes to role clarity and the effective exercise of authority and responsibilities.

The group chief executive is appointed by the board and is responsible for leading the implementation and execution of the approved strategy, policy and operational planning. The group chief executive reports progress to the board.

The succession plan for the group chief executive and senior management is regularly reviewed by the directors' affairs committee and presented to the board.

Liberty has appointed a company secretary who is qualified and experienced to perform the role of company secretary. The company secretary provides professional corporate governance services to the board. Her performance and independence is evaluated on an annual basis by the directors' affairs committee.

Principle 11 – Risk governance

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

The group risk committee is tasked to assist the board with the governance of risk and has approved a risk management policy which determines the enterprise risk management framework which has been adopted. Liberty's approach to risk management places consideration of risk as a focal point in business activities. It enables the business to make informed risk-based decisions and manage expected returns by selecting the risks it is willing to assume. Liberty's risk strategy is integrally linked to the business strategy, with risk mitigating actions designed to improve the prospects of achieving the business goals.

The group risk committee recommends the group's risk appetite and tracks performance against risk appetite on a quarterly basis. The setting of the level of risk appetite is based on stakeholder input and driven by the requirement to deliver high levels of financial security for clients through appropriate maintenance of the group's ongoing solvency. The dual and, at times, conflicting objectives of creating shareholders' equity and minimising risks are controlled through these limits.

Liberty has adopted an enterprise risk management (ERM) approach which enables the group to consider the potential impact of risks on stakeholders. Liberty's risk framework is substantially based on the ERM principles embodied in the Solvency Assessment and Management (SAM) framework. The risk management system is an integral part of Liberty's overall governance, management, reporting processes, policies and culture.

Full details of the group's arrangements for governing and managing risk are provided in the risk section of the annual financial statements.

Principle 12 – Technology and information governance

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

To better govern technology and information, the board constituted the group IT committee as a committee of the board.

This committee considers all aspects of IT governance and risk in line with the recommendations of King IV™, which form the basis of its mandate, in particular cyber security. The committee reports on a quarterly basis to the board.

On an annual basis, the board considers the need for independent assurance on the effectiveness of the group's technology and information arrangements, including outsourced services.

An overview of the arrangements for governing and managing technology and information, areas of present and future focus and actions to monitor the effectiveness of technology and information management, is included in the Governance at Liberty report.

Application of the King IV™ principles continued

Principle 13 – Compliance governance

The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen

Oversight of compliance risk management is delegated to the group audit and actuarial committee, which reviews and approves the mandate of the group compliance officer (GCO). The GCO provides a quarterly report on the status of compliance risk management within the group and significant areas of non-compliance, as well as providing feedback on interaction with regulators. The group internal audit control function periodically audits the compliance control function as well as the compliance policy and governance standards.

An overview of the arrangements for governing and managing compliance risk as well as key areas of present and future focus and actions to monitor the effectiveness of compliance risk management and how the outcomes were addressed is included in the Governance at Liberty report.

During 2019, Liberty was compliant in all material respects with the requirements of the Companies Act No. 71 of 2008, the Companies Act Regulations, the Prudential Standard Governance and Operational Standards 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.

Liberty has a responsible and transparent tax policy which considers reputational repercussions. At every meeting of the group audit and actuarial committee, the head of tax reports on Liberty's tax status and compliance with the tax policy, ensuring that the committee is aware of any risks and how these are being mitigated.

Principle 14 – Remuneration governance

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term

The remuneration committee aligns the interests of clients and shareholders with market related remuneration supporting the achievement of the strategic intent of the business through creating a sustainable reward and incentive structure. This is accomplished by means of a governance framework that aims to retain and attract talent through fair, competitive and transparent remuneration.

The board has approved the group's remuneration report as recommended by King IV™ which details the group's approach and specific Companies Act and King IV™ disclosures. This report is available online at www.libertyholdings.co.za/investor.

Shareholders are engaged on the remuneration policy and implementation report during the year.

Shareholders are asked to cast a non-binding vote at the Annual General Meeting on the remuneration policy and the implementation report. Approval of the non-executive directors' remuneration is also requested from shareholders at the Annual General Meeting.

Principle 15 – Assurance

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports

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.

Application of the King IV™ principles continued

Principle 16 – Stakeholders

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

Liberty's governance structures and processes provide for sound and prudent management and oversight of the group's businesses and adequately recognise and protect the interests of clients, shareholders and other stakeholders. Liberty's social, ethics and transformation committee is responsible for the management and oversight of our relationships with stakeholders. In this responsibility the committee is supported by a dedicated stakeholder engagement function with the mandate of leveraging stakeholder relationships, investing in socio-economic development, and embedding sustainable business practices.

Liberty deploys stakeholder engagement at a strategic level to support board-level priorities and critical business requirements. Liberty has identified key stakeholder groupings and their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement.

Our financial advisers (both tied agents and independent financial advisers) are often the face of Liberty to our clients. Liberty also engages directly with clients and potential clients and identifies client needs and concerns. Within the South African operation, there are numerous touchpoints where clients can communicate with Liberty to convey their needs, wants and expectations. Clients have access to a variety of channels to communicate with us directly, including an extensive call centre which deals with complaints, service issues, claims, product sales and advice, social media and web-based platforms.

Liberty has various long-standing effective dispute resolution processes which are applied both internally and externally on a case-by-case basis, such as complaints resolution processes and arbitration with suppliers.

The minutes of annual general meetings are detailed and are available to shareholders on request.

Principle 17 – Responsibilities of institutional investors

The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote good governance and the creation of value by the companies in which it invests

The board of Liberty's asset manager, STANLIB Limited, ensures that responsible investment is practiced by the organisation to promote good governance and the creation of value by the companies in which it invests.

STANLIB is entrusted to act on behalf of individuals, groups and corporations to safeguard their funds and deliver consistently on their objectives. These objectives must be achieved by taking into account both financial returns, and other factors that could enhance or undermine the overall outcome. There is mounting evidence that environmental, social and governance (ESG) issues can affect the performance of investment portfolios and have implications for an entity's earnings and prospects as well as the broader economy. As a fiduciary, STANLIB is embracing the responsibility of managing funds holistically.

STANLIB reports annually on its progress against the six responsible investment principles in its public Transparency Report to the United Nations Principle for Responsible Investing (UNPRI). In addition, an annual Stewardship Report is published, providing an account to all stakeholders our progress made as a responsible investment house in affecting positive change.



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