

Corporate governance statement

The Liberty Life Group is committed to the promotion and furtherance of quality corporate governance practice with a view to conducting a dialogue with its shareholders and other stakeholders concerning the Group's stewardship of the financial, human and other resources entrusted to its care and the manner in which it manages its business affairs and assesses its corporate risks.

This approach of the Liberty Life Group in South Africa to corporate governance is consistent with the contents of the King Report on Corporate Governance in South Africa, published in November 1994, which included a Code of Corporate Practices and Conduct, the underlying principles of which have been fully endorsed by the Liberty Life Group. Similarly, Liberty International Holdings, the United Kingdom subsidiary of Liberty Life, is required to comply with the so-called Combined Code on Principles of Good Governance and Code of Best Practice which was appended to the London Stock Exchange Listing Rules in 1998.

The Liberty Life Group, both locally and internationally, is committed to a continuous review and reassessment of its corporate governance practices, with an emphasis on substance over form.

Board of Directors

The companies within the Liberty Life Group which are reported on in this document, namely Liberty Life, Liberty Holdings, First International Trust and Liblife Strategic Investments, have adopted unitary Board structures comprising an appropriate and balanced mixture of Executive and non-Executive Directors. All Directors bring

to the various Boards a broad range of experience and professional skills which in the case of non-Executive Directors is augmented by an independent perspective from executive management.

Directors are subject to retirement by rotation and re-election by shareholders at least once every three years in accordance with the Articles of Association. The appointment of new Directors is approved directly by the appropriate Board. No Executive Directors hold service contracts.

The Boards are responsible to all shareholders for the proper management and ultimate control of Liberty Life, Liberty Holdings, First International Trust and Liblife Strategic Investments and participate in discussions on and monitor the progress of strategic direction and policy, acquisitions and disposals, the approval of major capital expenditure, consideration of significant financial matters, the monitoring of the activities of executive management and any other matters having a material impact on the affairs of the Liberty Life Group.

The various Boards meet under the chairmanship of Mr. Donald Gordon on a quarterly basis with additional meetings being arranged when necessary. Mr. Gordon, with the concurrence of the Boards, functions as a Group Chairman and is mainly involved in matters affecting the long-term strategic direction of the Liberty Life Group both locally and internationally. Mr. Roy Andersen, the Group Chief Executive, is charged with the overall day-to-day responsibility for the South African operations of the Liberty Life Group. He also chairs the

Executive Management Committee comprising Executive Directors and members of senior management which meets on a monthly basis.

The Boards have established a number of standing committees in which the non-Executive Directors play an active role and which operate according to the terms of reference laid down by the respective Boards.

All Directors have access to the advice and services of the Group Secretary and, with the prior agreement of the Group Executive Chairman (or the Group Chief Executive), are entitled to seek independent professional advice concerning the affairs of The Liberty Life Group at the Group's expense.

Audit and Actuarial Committee

The Audit and Actuarial Committee comprises three non-Executive Directors, the Group Chairman and a Vice-Chairman of Liberty Life and is chaired by an independent non-Executive Director, Mr. Selwyn MacFarlane.

The major and most prominent objectives of the Audit and Actuarial Committee include:

- promoting the overall effectiveness of corporate governance within the Liberty Life Group;
- acting as an effective means of communication between the Boards on the one hand and the external auditors and the head of internal audit on the other;
- satisfying the Boards that adequate internal, financial and operating controls are in place and that material corporate risks have been identified and are being contained and monitored;

- providing the Boards with an assessment of the effectiveness of the external auditors and the internal audit function;
- enhancing the quality, effectiveness, relevance and communication value of the published financial statements and other public documentation issued by the Liberty Life Group with specific focus being placed on the actuarial assumptions, parameters, valuations and reporting guidelines and practices adopted by the statutory actuary as appropriate to the life insurance activities of the Liberty Life Group;
- providing the Boards with an independent point of reference in seeking a resolution of interpretative and controversial issues which impact on the published financial statements and other public documentation issued by the Liberty Life Group.

Meetings of the Audit and Actuarial Committee, which are held four times a year, are attended by the Group's external auditors, the head of internal audit and such members of senior executive management as are deemed appropriate. The members of the Audit and Actuarial Committee review the audit plans and scope of the external and internal audit functions and both the external auditors and the head of internal audit have unrestricted access to the Chairman of the Audit and Actuarial Committee at all times.

Internal audit

The internal audit functions within the Liberty Life Group are located in Group Internal Audit Services. The Group's internal auditors perform an

independent review and appraisal of the Group's various operational activities and operate with the full authority of the Audit and Actuarial Committee.

Group Internal Audit Services is charged with examining and evaluating the effectiveness of the Group's operational activities, the attendant business risks and the systems of internal, financial and operating controls with major weaknesses being brought to the attention of the Audit and Actuarial Committee, the external auditors and members of senior executive management for their consideration and remedial action. All reports issued by Group Internal Audit Services are circulated to the external auditors for their perusal, comment and action where appropriate.

Internal, financial and operating controls

The Boards of Directors of the companies within the Liberty Life Group acknowledge their ultimate responsibility for the Group's systems of internal, financial and operating controls and the monitoring of their effectiveness. These systems are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. The identification of risks and the detailed design, implementation and monitoring of adequate systems of internal, financial and operating controls to manage such risks are delegated to senior executive management by the various Boards and reviewed by the Audit and Actuarial Committee on their behalf on a regular basis.

Even effective systems of internal, financial and operating controls, no

matter how well designed, have inherent limitations, including the possibility of circumvention or the overriding of such controls. Effective systems of internal, financial and operating controls, therefore, aim to provide reasonable assurance with respect to the reliability of financial information and, in particular, financial statement presentation. Moreover, changes in the business and operating environment could have an impact on the effectiveness of such controls which accordingly will require to be reviewed and reassessed on a continuous basis.

The Group maintains internal, financial and operating controls which are designed to provide assurance regarding:

- the safeguarding of assets against unauthorised use or disposition
- compliance with statutory laws and regulations and
- the maintenance of proper accounting records and the adequacy and reliability of financial information.

The external and internal audit functions assist in providing the Boards and senior executive management with monitoring mechanisms for the identification of risks and the assessment of controls appropriate to managing such risks in order to facilitate corrective action being taken to address deficiencies subsequent to their identification.

The Boards of Directors of the companies within the Liberty Life Group have not been made aware by senior executive management or internal audit representations of any issue which would constitute a material breakdown in the functioning of these

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controls during the financial year under review or subsequently.

The external auditors, although not responsible for the Group's systems of controls, are not aware, based on the scope of the work performed by them, of any matters relating to such controls that would constitute a material breakdown.

A material breakdown is defined as being identified weaknesses which result in material losses, contingencies or uncertainties requiring disclosure in the financial statements or the external auditors' report.

Group Remuneration Committee

The Group Remuneration Committee comprises two non-Executive Directors and the Group Chairman and is chaired by a non-Executive Director, Mr. Meyer Kahn. The Group Remuneration Committee is primarily responsible for ensuring that Executive Directors and members of senior executive management are appropriately remunerated and incentivised for their contribution to the Liberty Life Group's financial and operating performance after taking due account of market and industry benchmarks.

An analysis of the remuneration paid to both Executive and non-Executive Directors is contained in an appropriate note to the annual financial statements of the various companies reported on in this document.

Investment overview committee

With effect from January 1999 an Investment Overview Committee has been established comprising two non-Executive Directors, the Group

Chairman, the Group Chief Executive and the Managing Director of Liberty Asset Management. This new Committee is chaired by the Group Chief Executive. The major issues to be addressed by this Committee include overall investment strategies in respect of investment funds entrusted to the Liberty Life Group, the investment selection methodologies and processes, the assessment and monitoring of risk management within Liberty Asset Management and the selection and appointment of fund managers.

Code of ethics

The Group subscribes to the highest levels of professionalism and integrity in the conduct of its business and in its dealings with its various stakeholders. All employees and representatives of the Group are expected to act in a manner which inspires trust and confidence with the general public. The Group has formalised a Code of Ethics which sets out the Group's approach to business ethics and its obligations to clients, shareholders, employees, representatives, suppliers, the general public and the authorities. This Code of Ethics, which has been and will continue to be the subject of a dialogue with the Group's employees and representatives, sets out the following basic approach to business ethics:

- Commercial businesses should operate and compete in accordance with the principles of free enterprise. Free enterprise is nevertheless constrained by the observance of law, and of generally

accepted principles governing ethical behaviour in business.

- Ethical behaviour is founded on the concept of utmost good faith and characterised by integrity, reliability and a commitment to avoid harm.
- Ethical business activities will benefit all parties to them by a fair exchange of value or satisfaction of need. The creation and enjoyment of profit is both a legitimate component of this exchange, and an incentive to continue in business.
- Other than the observance of legal and ethical business practices, we expect no favours from our competitors nor should they expect any from us.
- We expect equivalent standards of ethical behaviour from those with whom we do business.
- It is incumbent upon every commercial enterprise to strive for excellence in its ethical standards, as in any other aspect of its activities.

Other issues

The Liberty Life Group subscribes to a policy of open and ready communication with its shareholders and the various other stakeholders in its activities on matters of both a financial and non-financial nature. In particular the Group produces an annual employee report in which the Group's activities in the preceding financial year are reviewed. The Liberty Life Group has also

established a consultative process with its employees in order to ameliorate the impact of technological and other organisational changes in the working environment.

The Group operates a closed period prior to the publication of its interim results and its annual financial statements during which period Directors and officers of the Group may not deal in the shares of the Group's various listed companies.

The Group has been actively concerned with various aspects of social development for over 25 years and through the activities of the Liberty Life Foundation has gained an enviable reputation for sustained and innovative involvement in the upliftment of the historically disadvantaged members of South African society with an increasing emphasis being placed on educational activities. More detailed comment on the activities of the Liberty Life Foundation is contained on pages 44 and 45 of this document.

The Group seeks to promote a healthy, secure and participative social and working environment with its staff, business connections and society at large.

The Group recognises the need for affirmative action initiatives in the South African corporate environment and to this end has issued a Policy Statement and an attendant Code of Conduct which have been reinforced by appropriate objectives set out in the Group's strategic plan.

Compliance with the King Report

The Liberty Life Group believes that in all material respects it complies with the underlying principles contained in the Code of Corporate Practice and Conduct of the King Report on Corporate Governance in South Africa.