LIFE INVESTMENTS HEALTH CORPORATE PROPERTIES ADVICE

LIBERTY

Liberty Holdings Limited

Integrated report

For the year ended 31 December

2016

About our report

This integrated report is primarily addressed to our shareholders, as the providers of financial capital, although all stakeholders are invited to review it

This report informs the reader about our business and 2016 performance compared to our previously stated ambitions and our plans for the future

BOUNDARY AND SCOPE

Our integrated report covers the performance of Liberty Holdings Limited and its subsidiaries for the year ended 31 December 2016. The report also identifies any risks, opportunities or events between 31 December 2016 and the date of this report that may have a material impact on the group.

REPORTING FRAMEWORKS

This report is prepared under the guidance of the International Integrated Reporting Framework (<IR> Framework) as adopted by the board. In addition, it conforms to other international and local statutory and reporting frameworks, including the Companies Act No. 71 of 2008, the Johannesburg Stock Exchange (JSE) Listings Requirements and the Global Reporting Initiative (GRI) G4.

Our management reporting processes and our suite of reporting publications are aligned with the reporting principles of the King Code of Governance Principles for South Africa 2009 (King III Code).

We are fully committed to generating competitive sustainable value for our shareholders

We appreciate that this requires mutually beneficial partnerships with key stakeholders

DIRECTORS' APPROVAL

The board acknowledges its responsibility to ensure the integrity of Liberty's 2016 integrated report and has applied its collective mind throughout the preparation of this report. The board believes that the integrated report is presented in compliance with the <IR> Framework.

The directors unanimously embrace the guidance contained in the King III Code.

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 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.

The board unanimously approved this report and authorised its release on 24 March 2017.

JH Maree
Chairman

T Dloti
Group chief executive

ASSURANCE

PwC issued an unmodified audit opinion on the group's financial statements and an unmodified assurance opinion on the group equity value report and checked the accuracy of these extracts included in the Performance review section of this report. In addition, PwC has provided a limited assurance report, considered appropriate from a cost benefit perspective, on selected other information contained in this report. The various levels of assurance received on reporting information has been indicated in the **Performance review** section only. This is indicated by:

- 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)*

Highlights

Group equity value maintained at
R41 billion

Group equity value per share
R145,86

Liberty Group Limited CAR cover
2,95 times

Assets under management
R676 billion

Listed the Liberty Two Degrees REIT, providing a significant investment opportunity to customers and institutional investors

Investing in initiatives that will deliver long-term growth:

- Establishing a short-term insurance proposition for South Africa
- Growing the digital capability in Individual Arrangements

Contents

NAVIGATION

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

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

AFS Refers to the page where further detail is contained within the annual financial statements.

Refers to more detailed information available online at: **www.libertyholdings.co.za/investor**

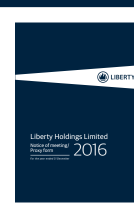
Throughout this report

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'**

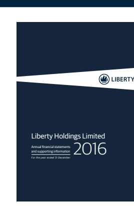
Web content

AVAILABLE IN PRINT AND ONLINE AS A PDF

2016 INTEGRATED REPORT*



NOTICE OF ANNUAL GENERAL MEETING AND PROXY FORM



FINANCIAL RESULTS PRESENTATION

* *Online version links directly to additional information contained in either the annual financial statements and supporting information for the year ended 31 December 2016, or to other supplementary information which supports the 2016 integrated report.*

Stakeholder partnerships and capitals

Our integrated report is themed around our chosen key stakeholder partnerships that maximise our ability to generate competitive and sustainable value. Liberty acknowledges its dependency on the availability of capital resources and sustainable utilisation thereof in the conduct of its plans. The board 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, is committed through its investment criteria to promote responsible utilisation of natural resources.

Materiality

We focus our reporting on 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. Our material focus areas were confirmed by the board as unchanged from the prior year. Liberty is a South African company with a strategic intent to increase its presence in sub-Saharan Africa. Due to the majority of our operations still being conducted in South Africa, these make up the bulk of this report.

MATERIAL FOCUS AREAS	KEY PARTNERSHIP
Place customers at the heart of our business decisions	**Customers** purchase our products and services (after obtaining appropriate advice on their financial needs) to achieve their financial goals and manage life's uncertainties
Attract, develop and retain quality employees	**Employees** supply the necessary skills and expertise to deliver on our promises to stakeholders
Provide responsible financial services	**Regulators** govern financial stability and market conduct for our industry (includes government agencies and industry associations)
Enhance social relationships	**Communities** provide us with our social relevance, future customers and employees
Deliver sustainable financial results	**Investors** provide our financial capital

Liberty prioritises ongoing sustainability above short-term maximisation of profits

Chairman's review

Following our 2016 results, the priority for 2017 is to resume our long-term growth trajectory. The executive team is taking action to preserve value, extract efficiencies and grow the business sustainably.

JACKO MAREE

Review

Liberty's 2016 financial results were disappointing. The reasons are well covered in the group chief executive's review. Whilst external conditions were difficult, we could have reacted sooner to market trends and developments, and better managed certain operational issues which were within our direct control. However, we should not overlook the many positive initiatives which were either implemented or set in motion across the group during 2016.

In line with our customer centric approach, Liberty continued developing and refining competitive value propositions in response to customers' changing needs. There has also been significant progress in simplifying and streamlining processes, developing new digital capabilities as well as improving and facilitating easier interaction with our customers.

We have strengthened a number of valuation assumptions in the South African insurance business and remained within risk appetite at all times. Effective capital management has meant that Liberty Group Limited's strong capital position was maintained at the upper end of its target range in respect of both the current long-term insurance regulations and the impending Solvency Assessment and Management regime.

Liberty continues to deal with considerable regulatory change aimed at improving the resilience of the financial sector, protection of customer rights and the socio-economic development of the economies in which we operate. We welcome practical and cost effective regulation and engage positively and constructively with all our regulators in this regard.

Following our 2016 results, the priority for 2017 is to resume our long-term growth trajectory. The executive team is taking action to preserve value, extract efficiencies and grow the business sustainably.

Board developments and governance

We welcomed Carol Roskruge Cele to the board on 1 December 2016 and David Munro on 15 February 2017. They bring different business experience, knowledge and perspectives to the board's deliberations. Steven Braudo resigned from the board on 4 May 2016 after leaving the employ of the Standard Bank Group.

It is imperative that our customers trust us and this year saw a particular focus on treating customers fairly. The Social, Ethics and Transformation committee oversaw the implementation of our customer fairness principles across the group during the year.

The Group Information Technology Committee had its first full year of operation and is contributing not only to better governance of IT, but also to oversight of business strategies which have a heavy reliance on innovative IT solutions.

The board has adopted a gender diversity policy to ensure that women will fill at least 30% of board positions by 2020.

Appreciation

I thank our intermediaries for their efforts and support in a challenging year and our employees for their dedication and hard work. It is only through the continued commitment and endeavour of all our people that Liberty will prosper.

My sincere thanks go to all board members for their commitment, contribution and service. I look forward to working with them in 2017 as we continue to support and guide Thabo Dloti and his executive team.

Finally, I would like to thank all our shareholders. I am confident that with Liberty's financial strength, proud history, and talented leadership team, we will succeed and grow in the years ahead.

Jacko Maree

JH Maree

Chairman 24 March 2017

Group chief executive's review

The 2016 financial year was a challenging year for Liberty. Despite the disappointing earnings results, our Group Equity Value was preserved and the capital position of the group has remained strong. In response to the tough economic environment, we have taken decisive actions to ensure that we are better placed to meet our customers' and shareholders' long-term expectations going forward.

THABO DLOTI

Financial overview

Normalised headline earnings were down by 38,8% compared to prior year. The main items contributing to the decrease in earnings are the strengthening of our assumption sets in the South African insurance business in line with customer trends and regulatory developments, weak investment markets which resulted in lower investment returns on the Shareholder Investment Portfolio, a decline in STANLIB's earnings due largely to once-off costs and operating items, and higher new business strain.

Notwithstanding the tough environment, the business continued to deliver positive operating variances and was managed better than to model. It is important to note that the strengthening of the forward looking assumption sets has strengthened the balance sheet, significantly improved the management of interest rate risk and reduced future hedging costs.

The business continued to generate positive net customer cash inflows of R7,7 billion in 2016 (31 December 2015: R15,2 billion) despite a tough operating environment within which long-term insurance net customer cash inflows amounted to R1,1 billion (31 December 2015: R5,4 billion). We are pleased that the long-term insurance cash inflows reflected a marked improvement compared to the outflows of R353 million reported at the half year despite higher claims and surrenders. Indexed new business grew by 5.0% in 2016.

We remain convinced that the management actions taken during the course of the year, the strengthening of our balance sheet and the successful implementation of our strategy will create sustainable shareholder value and deliver a business with well diversified sources of earnings.

Strategy 2020

The tough operating environment did not deter us from continuing to implement our objectives.

We improved our customer propositions by launching new offerings that assisted our customers to manage the tough environment better and digitised our processes to create exceptional customer and adviser experiences. We have improved our investment proposition to our Standard Bank Group clients by launching the Standard Bank GoalStandard offering (a suite of risk differentiated co-named Unit Trust products developed between STANLIB and Standard Bank).

We prioritised transformational initiatives that deliver immediate value by increasing our distribution capacity across the group, increasing our insurance footprint and product capability in sub-Saharan Africa, establishing pan-African alternative capabilities and outsourcing the STANLIB retail administration business.

We aligned our efforts to ensure maximum efficiencies are extracted across the group. We combined the Liberty and STANLIB LISPs, we have pooled the LibFin and STANLIB passive capabilities to establish a single group passives business, we aligned our sales and distribution capabilities in South Africa for efficiencies and increased capacity, and we reorganised our executive team to strengthen the business and to ensure accelerated delivery on strategic objectives.

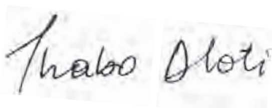
We have taken tough decisions to ensure our business is sustainable by scaling down the South African Health business operations following the merger of Liberty Medical Scheme with Bonitas (to meet solvency requirements as dictated by the regulator). We withdrew the Frank.NET brand from the market and scaled down the Direct Financial Services business, repositioning it to support the growth in our affinity partners' business. We terminated the Own Your Life Rewards program as it became apparent that this proposition was not in customers' or Liberty's interests in the long term.

We continued to selectively invest in a portfolio of opportunities that we believe will contribute towards the future growth of Liberty. We have invested in establishing a short-term insurance proposition for South Africa in partnership with Standard Bank. We are investing in the establishment of a single investment platform across the group and are in the process of acquiring a long-term insurance licence in Nigeria.

Our strategy remains unchanged as we focus on delivering key initiatives in order to bring our objectives to fruition while at all times working to improve the value we provide to our customers.

Appreciation

I would like to thank my fellow board members and the Liberty executive committee for their support and collaboration during a challenging year. I also wish to thank our intermediaries and employees for all their hard work and commitment towards making Liberty the great company that it is. I know that the short-term results are disappointing, however, their contribution has laid a foundation for sustainable earnings growth for the next 60 years.



T Dloti
Group chief executive

24 March 2017

About us

Why invest in Liberty

OUR PROUD HISTORY

Liberty is a well-known South African brand with a growing presence across Africa. For nearly 60 years, Liberty has created value for investors by meeting customers' financial needs through developing and delivering appropriate insurance and investment products and services.

OUR CORE COMPETENCIES

Strong distribution capacity with over 3 600 advisers, being enhanced by investment in digital and direct channels	Our relationship and bancassurance partnership with Standard Bank provides a competitive advantage on the African continent	Innovative product development capability, enabling the launch of products such as Bold, Evolve, Agile, Term Life, STANLIB unit trust tax free savings account, the STANLIB Kenya I-REIT and the Liberty Two Degrees REIT
We serve customers in multiple geographies, currently 24 African countries	LibFin provides world-class balance sheet management and facilitates differentiating features in product offerings	Strong investment management capability in STANLIB, particularly in fixed income and property asset classes

OUR STRATEGY 2020

Our strategic intent to 2020 remains on track, with renewed focus on:

Expansion initiatives to drive value by increasing our exposure to growth markets by:

- Investing in markets with higher growth than traditional markets
- Investing in additional business lines that increase penetration of existing markets
- Launching new products that are more capital efficient

Ensuring that the business is responsive to changing environments and consumer behaviours through:

- Providing broader omni-channel customer engagement platforms
- Providing relevant customer propositions
- Protecting current value and maximising the opportunities arising from regulatory change

We are 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

2016 operating context

Weak local equity markets resulted in lower returns being delivered by policyholder and shareholder local equity portfolios, continuing a trend already observed in 2015.	The rand strengthened significantly against the US dollar and other major currencies during the year, which had a negative impact on foreign asset returns and foreign subsidiary earnings.
The challenging consumer environment impacted customer behaviour negatively, with increased policy surrenders, fund withdrawals and disability claims experienced.	Uncertainty relating to key regulatory developments including tax, timing of the introduction of the new Solvency II capital regime, the Retail distribution review and IFRS 17, the new standard on insurance contracts.

Liberty Two Degrees

Increased investment options

The Liberty Property Portfolio (LPP) has been an integral part of Liberty's customer offering for many years.

To improve policyholder investment options and to provide access to Liberty's prestige direct property portfolio to non-policyholder investors, a portion of the LPP was sold into a Real Estate Investment Trust: Liberty Two Degrees.

LIBERTY two°degrees

Liberty Two Degrees (L2D) was successfully listed as a REIT on the JSE on 6 December 2016.

Following the listing, L2D held an undivided share in the iconic LPP of R6 billion that was acquired from Liberty in exchange for listed participatory units in L2D. In addition, R2,8 billion was raised in the private placement.

The market value uplift on the portfolio contributed to a net asset value per L2D listed participatory unit of R9,64 at the year end. The closing share price at 31 December 2016 of R10,50 compared favourably to the listing price of R10,00.

L2D is ungeared and will be able to take on debt to fund future quality acquisitions, as appropriate. In the short term, L2D will focus its growth strategy on South Africa. Growth is expected to come from identified high quality acquisition targets, as well as from L2D's current development pipeline including the Liberty Midlands Mall, Eastgate Complex and John Ross Eco-Junction – Melomed Hospital.

L2D provides a significant investment opportunity for all Liberty customers and institutional investors, and has the ability to borrow and to raise equity to fund further growth opportunities for policyholders and investors.

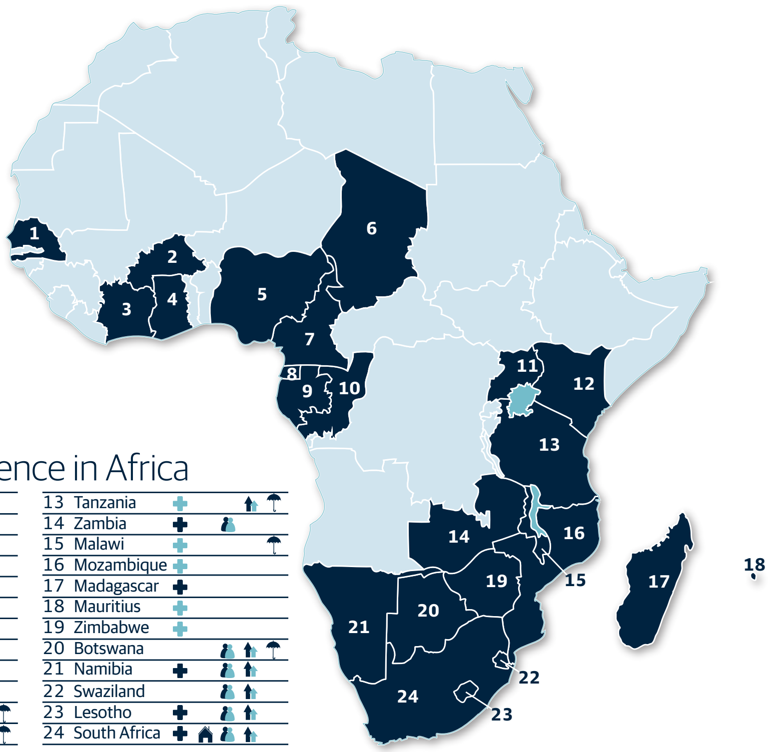
Refer to www.liberty2degrees.co.za for further information

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. These include life, short-term and health related insurance, investment management and financial support for retirement.

Liberty's advisers expertly equip customers with knowledge to make financial 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 presence in Africa

KEY

- Life insurance
- Asset management
- Short-term insurance
- Property
- Health – Liberty presence
- Health – products distributed via third party licence

1	Senegal	Health – products				
2	Burkina Faso	Health – products				
3	Ivory Coast	Health – products				
4	Ghana	Health – products	Property		Asset management	
5	Nigeria	Health – Liberty presence				
6	Chad	Health – products				
7	Cameroon	Health – products				
8	Equatorial Guinea	Health – products				
9	Gabon	Health – products				
10	Congo	Health – products				
11	Uganda	Health – Liberty presence		Life insurance	Asset management	Short-term insurance
12	Kenya	Health – Liberty presence		Life insurance	Asset management	Short-term insurance
13	Tanzania	Health – products			Asset management	Short-term insurance
14	Zambia	Health – Liberty presence		Life insurance		
15	Malawi	Health – products				Short-term insurance
16	Mozambique	Health – products				
17	Madagascar	Health – Liberty presence				
18	Mauritius	Health – products				
19	Zimbabwe	Health – products				
20	Botswana			Life insurance	Asset management	Short-term insurance
21	Namibia	Health – Liberty presence		Life insurance	Asset management	
22	Swaziland			Life insurance	Asset management	
23	Lesotho	Health – Liberty presence		Life insurance	Asset management	
24	South Africa	Health – Liberty presence	Property	Life insurance	Asset management	

Our brands

LIBERTY

Your pioneering guide to financial freedom

OUR BRAND ESSENCE

OUR PURPOSE

We make a difference in people's lives by making their financial freedom possible

This is our passion

We believe that our customers should have the opportunity to grow their wealth and leave a legacy for their family. We understand the value of knowledge and its power to change realities when set in action

OUR BELIEF

STANLIB

Investing where it counts

OUR PURPOSE

We believe that in an increasingly dynamic and interconnected world, the failure to see the connections that effect our clients' money, puts that money at risk

And understanding those connections reveals opportunities

Our organisational structure

To optimise our ability to achieve Liberty's 2020 strategic goals, an operating model was implemented to maximise our focus on our chosen customer segments, and more effectively leverage group shared capabilities.

CUSTOMER FACING UNITS

Individual Arrangements

Provides risk and health insurance, and investment solutions to individual mass-affluent and affluent consumers, mainly in South Africa.

Group Arrangements

Provides insurance and investment solutions to corporate customers and retirement funds across sub-Saharan Africa.

Asset Management

Provides asset management capabilities to manage investment assets on the African continent.

STANDARD BANK BANCASSURANCE PARTNERSHIP

Supported and enabled by:

STRATEGIC COMPETENCY UNITS

LibFin

Manages market and credit risk inherent in the South African insurance operations, originates credit portfolios and oversees investment management of the group's financial capital.

Group Distribution

Provides a groupwide advisory service and distribution capability for the customer facing units' product offerings through multiple channels.

Investment Platform

A single investment platform to service investment products sold by the group is under development.

GROUP ENABLEMENT

Group Enablement delivers common services, processes and technologies by creating efficiencies through economies of scale. Group Enablement also builds future capabilities in technology and insurance through dedicated centres of excellence.

GROUP GOVERNANCE AND EXECUTION

The group's mandatory governance functions, group finance, stakeholder reporting and strategic support and oversight.

Our business model

Our business model is to utilise and replenish available capital resources sustainably 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 by delivering on our customer promise by producing innovative product solutions supported by effective distribution and servicing.

Capitals	Inputs
FINANCIAL The pool of funds supporting business operations:	• R21,7 billion equity capital • R4,6 billion debt capital • Shareholder funds • Net customer cash inflows
INTELLECTUAL Institutional knowledge, product development capability, systems, procedures and protocols:	• Balance sheet management • Market and data analysis • In-house and acquired software • Experienced board and executives • Bancassurance partnership
BRAND The relationships and collaborations we create with our customers, stakeholders and communities:	• Customer centric culture • CSI initiatives • Brand strength/trust • Embedded customer fairness • Multiple access channels
HUMAN The competencies, capabilities and experience of our employees and how they innovate, collaborate and align with Liberty's objectives:	• 9 792 total workforce, including ◦ 76 qualified actuaries ◦ 97 chartered accountants ◦ 356 certified financial planners including tied agents
NATURAL Renewable and non-renewable resources used by Liberty to function:	• Electricity • Water • Fuel • Land

CORPORATE GOVERNANCE

We believe that good corporate governance provides a solid foundation to add value for our stakeholders and achieve our strategic objectives.(1)

IR 12 – 29

(1) *Detail of Liberty's governance structures and processes can be found in* Governance at Liberty *in this report.*

Key strategic differentiators which drive our value creation

Design and develop innovative products and services

We have extensive product development experience and skill

Our asset management expertise, particularly in managing fixed income and property asset classes, is industry leading

This allows us to optimise the use of our human and intellectual capital

Offer products and services and distribute to chosen markets

Our extensive South African distribution network is providing key insights in developing our distribution capacity throughout Africa

A significant advantage is our Standard Bank relationship including the bancassurance partnership

This allows us to expand our sources of financial, intellectual and human capital

Understanding our customers' financial needs

Our operating model includes three separate customer facing units to target chosen customer segments and to address evolving regulations

This allows us to focus on our customers and enhance our brand capital

Fulfil our promises to customers

Liberty is a trusted brand with a history of nearly 60 years

Substantial investment in building on technology advances to differentiate our service delivery

This further builds our brand capital

Leverage our balance sheet

Our LibFin capability provides world-class balance sheet management capability

This allows us to optimise the use of our financial capital within the board approved risk appetite

Entity value creation

VALUE IS CREATED FROM THREE MAIN ACTIVITIES

INSURANCE UNDERWRITING PROFIT	+	INVESTMENT INCOME	+	ASSET MANAGEMENT PROFIT
Contracted premium income for risks insured, less claims and acquisition and service expenses (actual and expected over contract duration)		Net investment income on shareholder investment market exposures (capital invested and derived exposures from insurance contract obligations), less group administration and strategic expenses		Performance and asset based fees earned for managing and administering customer mandates, less related acquisition and service expenses

RISK MANAGEMENT

Liberty is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of the group's products and services. The board is mindful of achieving this objective in the interests of all stakeholders in a sustainable manner.

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 and regulators) that may affect our strategies and potentially impact our results, capital and reputation.(3)

AFS 117 – 172

Key outputs	Stakeholder outcomes
• Over 6 million lives insured • STANLIB manages savings for over 500 000 customers • More than 8 000 retirement schemes administered • Death and disability claims paid of R8,5 billion • New products launched in 2016 (Liberty Bold, Guaranteed Investment Plan, offshore endowment, STASH and Liberty Two Degrees) • Assets under management of R676 billion	**CUSTOMERS** • Customer peace of mind through Liberty value propositions • Responsible advice on financial needs • Excellent customer service • Customer satisfaction
• R2,7 billion paid in salaries • R21 million invested in salaried staff upskilling • SA salaried staff voluntary turnover 14,3% • Transformation targets met	**EMPLOYEES** • Guaranteed pay plus incentives • Employee benefits • Collaboration through Liberty citizenship principles • Multi-level development and leadership programmes • Regular performance assessments
• Liberty Group Limited capital adequacy cover of 2,95 times • Participation in regulatory updates • R5,7 billion in taxes collected and paid to the South African government • Industry Ombudsmen and adjudicator findings • Prudent risk management • Business operated within risk appetite	**REGULATORS** • Improved business practices • Fair treatment of customers • Compliant products, policies and procedures • Constructive engagement on policies and regulations • Significant tax contributions to economies
• Almost 26 000 adults assisted through consumer education programmes • R37 million CSI spend in South Africa • 30% of waste recycled • Water consumption 149 545 kL • Total emissions 53 077 metric tonnes CO_2 • Utilities payments • Energy efficiency programme (Project Sekela)	**COMMUNITIES** • Financial education opportunities • Community investment • Products genuinely supporting financial freedom • Responsible management of waste and emissions
• 5,1% normalised return on group equity value(2) • 11,4% normalised return on equity(2) • R2 527 million normalised headline earnings(2) • Dividends of 691 cents per share paid	**INVESTORS** • Returns through dividends and share price growth • Competitive and risk adjusted returns

(2) *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.*

(3) *Significant detail pertaining to the group risks, including mitigation action and governance can be found in the comprehensive risk management disclosure in the annual financial statements.*

Strategy 2020

Vision and purpose

VISION

To be the trusted leader in insurance and investment in Africa

PURPOSE

To make a difference in people's lives by making their financial freedom possible

This is our passion

Strategy 2020 objectives

Be the No. 1 provider in South Africa to the mass-affluent consumer segment

Be in Top 10 in Nigeria and **Top 3 in Kenya,** gaining insurance market share and achieving **significant growth** in sub-Saharan Africa

Accelerate growth and market share in the **SA corporate market** to become a **Top 3 player**

Be the **preferred** manager for **asset** flows destined for **Africa**

Be the preferred **partner** for **Standard Bank** in all its **African geographies**

Leverage and ensure seamless transfer of **core capabilities of the group** to wherever there are opportunities

Liberty citizenship principles

HOW WE DO BUSINESS

- We place the **customer** at the heart of everything we do.
- We leverage **group synergy** and **business unit focus** to **maximise value** – for our people, our partners, our customers, our communities and our shareholders.
- **Fair play** underpins all our business activities and our relationships – with our people, our partners, our customers, our communities and our shareholders.

HOW WE RELATE

- We believe **our people are our greatest asset** and we invest in our people to realise their full potential, to achieve our goals.
- We believe that **we create more value together** than we could on our own, and we strive at all times to leverage our collective capabilities.
- In our consideration, the **customer** comes before the organisation, the organisation comes before the team, and the team comes before the individual.

Our strategy delivery

Although 2016 was a challenging year, our transformative journey to achieving our Strategy 2020 objectives remained on track. We preserved current value and invested in future building blocks to deliver longer term growth.

Key strategic achievements in 2016 include:

Improved our customer propositions

Delivered innovative products to improve our customer offering:

- Launched the Bold Living Annuity
- Further investment choice offered to policyholders following successful listing of Liberty Two Degrees
- Launched an enhanced guaranteed investment product and a more competitive offshore investment product offering
- Launched co-branded retail funds with Standard Bank leading to an improved investment proposition for Standard Bank customers

Prioritised investments that deliver immediate value

Established pan-African alternative capabilities in STANLIB, including the launch of a multi-manager alternative fund of funds

Expanded our insurance footprint and product capability in sub-Saharan Africa:

- Short-term insurance in Uganda, Malawi and Botswana
- Life insurance in Lesotho

Aligned to ensure we extract efficiencies and grow

Aligned the LibFin and STANLIB passive investment capabilities to establish a single group passive business

Established the Group Distribution strategic competency unit to align management of distribution capabilities across the group and optimise our distribution resources

Combined the Liberty and STANLIB LISPs

Reorganised the executive team to optimise opportunities

Invested for future growth

Invested in establishing a short-term insurance proposition for South Africa

Invested in growing the digital capability in Individual Arrangements

We are at an advanced stage of acquiring a long-term insurance licence in Nigeria

Sustainable value creation is a key priority

We will create sustainable value for our shareholders by maintaining meaningful relationships with our customers, employees, partners and communities through implementing the Liberty citizenship principles

Strategy 2020 at a glance

Our chosen geographic footprint

Liberty continues to focus on sub-Saharan Africa

INDIVIDUAL ARRANGEMENTS	GROUP ARRANGEMENTS	ASSET MANAGEMENT

Customer segments we will serve

INDIVIDUAL ARRANGEMENTS	GROUP ARRANGEMENTS	ASSET MANAGEMENT
• Affluent consumers • Mass-affluent segment	• SMEs • Corporates • Multinationals • Affinities	• High net worth individuals • Institutional investors • International investors

We have differentiated capabilities to unlock identified opportunities

INDIVIDUAL ARRANGEMENTS	GROUP ARRANGEMENTS	ASSET MANAGEMENT
• Trusted brand in the affluent market • Robust distribution capability in our chosen market segment • Attractive product set and strong product development capability	• Proven track record in the SME market in South Africa • Extensive African footprint with presence in 24 countries • Capability to serve companies and multinationals in multiple geographies	• Industry leading investment propositions • Strong distribution partners in Liberty tied force and Standard Bank financial consultants • Strong offshore partner (Columbia Threadneedle)

GROUP WIDE

- **Relationship with Standard Bank**
- **Balance sheet management**
- **Group enablement functions facilitate efficient operations**
- **Investment platform**
- **Group Distribution**

How we organise ourselves to differentiate

Our operating model aims to:

- Address the challenges the industry faces;
- Protect our current business;
- Enable us to take a bigger share of the market; and
  - *Adopt a more customer centric approach to doing business;*
  - *Leverage the entire group by transporting and investing in capabilities which can maximise opportunities; and*
  - *Become more agile and able to transform rapidly in the face of a changing environment.*

Governance at Liberty

We believe that good corporate governance provides a solid foundation to add value to our stakeholders and achieve our strategic objectives.

During 2016, the board approved a gender diversity policy which articulates Liberty's approach to the promotion of diversity on the group's boards of directors. The board has undertaken to ensure that females comprise at least 30% of its membership by 2020.

The group IT committee was established in 2015 and met throughout 2016 assisting the board in fulfilling its responsibilities with respect to IT governance and providing guidance on technology and digitisation matters inherent in the group's strategy, operations and controls.

The King IV Report on Corporate Governance for South Africa, 2016 (King IV) was launched in November 2016 and builds on the foundations of King III. King IV shifts focus onto selecting and implementing governance practices to achieve the governance outcomes of an ethical culture, good performance, effective control and legitimacy.

Implementation of King IV will be a key focus area in 2017 and will initially entail a comparison of Liberty's existing governance practices to the principles and desired outcomes contained in the report. This will enable the board to understand shortcomings in current governance practices against the principles of King IV and identify any enhancements which may be required to effectively deliver the governance outcomes.

Board responsibility

The board acknowledges its responsibility for overall corporate governance and ultimate control of the group's various businesses, as well as ensuring that clear strategic direction and appropriate management structures are in place.

The chairman and lead independent director

The chairman, Mr JH Maree, has considerable knowledge and experience from his previous role as Standard Bank chief executive and Liberty board member for 16 years from March 1997 to March 2013.

Mr JH 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, and thus, as recommended by King III, and in compliance with the JSE Listings Requirements Regulation 3.84(c), Mr AWB 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.

Four board meetings in 2016

- *One four-day strategy session*
- *Two directors' information sessions*

Independence assessments are undertaken by the directors' affairs committee for directors who have served more than nine years

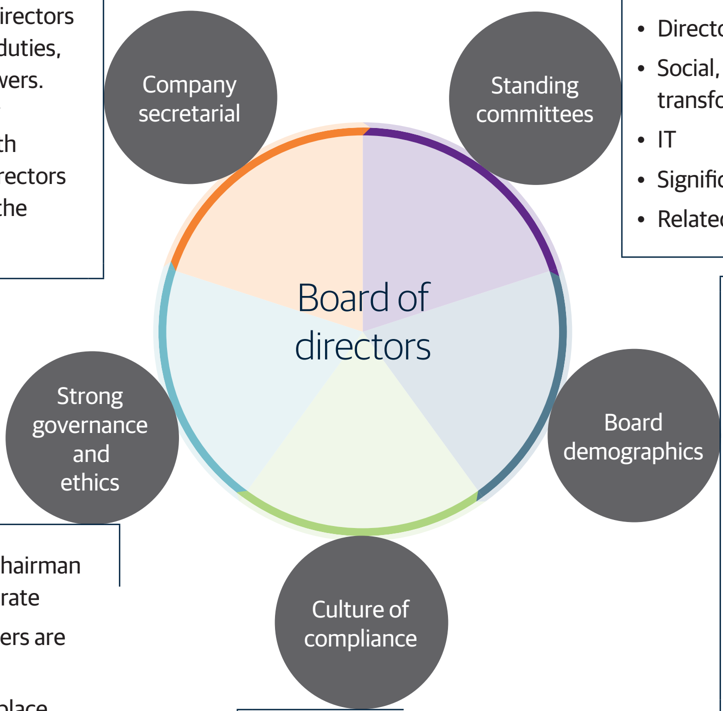
Closed board sessions (without executive directors present) take place after every board meeting

All AGM resolutions passed with majority votes >88%

Board and standing committees

The board directs the group as well as provides an independent review on all issues of strategy, performance, resources and standards of conduct, either directly or through its committees.

The board operates in terms of a detailed mandate, key features of which include effective leadership based on an ethical foundation, the sustainability of the group, approving the group's objectives and strategies, ethics and transformation, ensuring an effective governance framework, ensuring compliance with regulatory obligations and effective risk management.



The company secretarial function provides the directors with guidance on their duties, responsibilities and powers. The company secretary maintains an arms length relationship with the directors and is not a director of the company.

- Remuneration
- Audit and actuarial
- Risk
- Directors' affairs
- Social, ethics and transformation
- IT
- Significant transactions
- Related party

As at 31 December 2016

Male	11
Female	3
Black	50%
Executive	2
Independent	10
Non-executive	2
Length of service (years)	
<3	7
3 - 6	3
7 - 9	2
>9	2

- The roles of non-executive chairman and chief executive are separate
- Non-executive board members are re-elected every three years
- A strong code of ethics is in place
- Register of directors' interest is tabled at every meeting. Directors are obliged to disclose any potential conflict of interest

Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture and imperative to achieving its strategy. The board delegates responsibility to management to run the business in a compliant manner.

Governance at Liberty (continued)

Board of directors


JACKO MAREE


ANGUS BAND


SANTIE BOTHA


TONY CUNNINGHAM


THABO DLOTI


MONHLA HLAHLA


MIKE ILSLEY


PETER MOYO


DAVID MUNRO


CAROL ROSKRUGE CELE


SIBUSISO SIBISI


YUNUS SULEMAN


JIM SUTCLIFFE


CASPER TROSKIE


SIM TSHABALALA

(**) Denotes age as at 31 December 2016

1 Jacko Maree(61)

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 Angus Band(64)

BA, BAcc (Wits), CA(SA)

LEAD INDEPENDENT DIRECTOR
Appointed November 2008

Areas of expertise and contribution:
General management, governance, insurance, finance and remuneration.

3 Santie Botha(52)

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)(1), Famous Brands Limited (Chairman)(1), Tiger Brands Limited(1), Telkom Limited(1).

4 Tony Cunningham(61)

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.

5 Thabo Dloti(47)

B Bus Sc (UCT), AMP (Harvard)

GROUP CHIEF EXECUTIVE
Appointed November 2013*

Areas of expertise and contribution:
Insurance, asset management, risk, business transformation, strategy.

* *Appointed group chief executive March 2014*

6 Monhla Hlahla(53)

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

INDEPENDENT DIRECTOR
Appointed August 2012

Areas of expertise and contribution:
General business, HR and remuneration, governance.

7 Mike Ilsley(55)

BCom (Wits), BAcc (Wits), CA(SA)

INDEPENDENT DIRECTOR
Appointed November 2014

Areas of expertise and contribution:
Insurance, financial services, auditing and accounting, JSE listings, governance.

Other directorships of listed entities:
Liberty Two Degrees(1).

8 Peter Moyo(54)

BCompt (Hons) (Unisa), CA(SA), HDip Tax (Wits), AMP (Harvard)

INDEPENDENT DIRECTOR
Appointed February 2009

Areas of expertise and contribution:
Insurance, financial services, accounting, general business, governance.

Other directorships of listed entities:
Vodacom Group Limited (Chairman)(1), Liberty Two Degrees (Chairman)(1).

9 David Munro(45)

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

NON-EXECUTIVE DIRECTOR
Appointed 15 February 2017

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

10 Carol Roskruge Cele(44)

MSc, (KZN), MBL (Unisa SBL)

INDEPENDENT DIRECTOR
Appointed 1 December 2016

Areas of expertise and contribution:
General business, strategy, commercial and governance.

11 Sibusiso Sibisi(61)

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

INDEPENDENT DIRECTOR
Appointed November 2008

Areas of expertise and contribution:
General business, insurance, mathematical and computational modelling.

12 Yunus Suleman(59)

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(1), Gold Fields Limited(4).

13 Jim Sutcliffe(60)

BSc (UCT), FIA

INDEPENDENT DIRECTOR
Appointed September 2009

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

Other directorships of listed entities:
Sun Life Financial Inc (Chairman)(2), Sun Life Assurance Company of Canada (Chairman)(2), Lonmin PLC(3).

14 Casper Troskie(53)

BCom (Hons) (UCT), CA(SA)

FINANCIAL DIRECTOR
Appointed October 2010

Areas of expertise and contribution:
Insurance, banking, governance, financial reporting.

15 Sim Tshabalala(49)

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(1).

(1) *Listed on the JSE.*
(2) *Listed on the Toronto Stock Exchange and New York Stock Exchange.*
(3) *Listed on the London Stock Exchange.*
(4) *Listed on the JSE, the New York Stock Exchange and the Swiss Exchange.*

Governance at Liberty (continued)

Governance structures and processes

BOARD OF DIRECTORS

STANLIB board

BOARD COMMITTEES	Group remuneration committee (Remco)	Group audit and actuarial committee (GAAC)	Group actuarial committee (GAC) *The GAC is a sub-committee of the GAAC*	Group risk committee (GRC)
RESPONSIBILITIES	• Formulating remuneration strategy and policies • Monitoring the implementation and effectiveness of such policies • Engaging where necessary with stakeholders on remuneration issues	• Governance and regulatory compliance • Interaction with assurance providers • Oversee integrated reporting • Consideration of actuarial matters delegated to the GAC	• Consideration of actuarial matters • Product design • Principles and Practices of Financial Management (PPFM)	• Understanding risk • Setting policy and recommending risk appetite • Scrutinising management actions • Compliance with policy • Sufficiency of capital
MEMBERS AND 2016 MEETING ATTENDANCE	*Independent directors* Angus Band (Chairman) 3/3 Peter Moyo 3/3 Jim Sutcliffe 3/3 *Non-executive directors* Jacko Maree 3/3 Sim Tshabalala 3/3	*Independent directors* Mike Ilsley (Chairman) 4/4 Angus Band 4/4 Tony Cunningham 4/4 Peter Moyo 1/1 *(resigned from the GAAC 17 March 2016)* Jim Sutcliffe 4/4 Yunus Suleman 3/4	*Independent directors* Tony Cunningham (Chairman) 7/7 Mike Ilsley 7/7 Jim Sutcliffe 7/7	*Independent directors* Jim Sutcliffe (Chairman) 4/4 Tony Cunningham 4/4 Mike Ilsley 4/4 Peter Moyo 4/4 Yunus Suleman 4/4 Sibusiso Sibisi 4/4 *Non-executive director* Swazi Tshabalala *(resigned 31 January 2016)* *Executive director* Casper Troskie 4/4

- Other subsidiary boards
- Internal risk and audit committees (where appointed)

The board applies responsible governance in managing the business within the approved risk appetite through various committees and subsidiary boards.

Group directors' affairs committee (DAC)	Group social, ethics and transformation committee (SET)	Group IT committee (GITC)	Significant transactions committee (STC)	Related party committee (RPC)
• Composition of board and committees • Review of board and committee effectiveness • Review of governance and ownership	• Transformation • Social and economic development • Good corporate citizenship • Sustainability • Stakeholder management • Customer relationship management • Labour and employment • Consumer engagement	• Governance with respect to the group IT function • Guidance on technology and digitalisation • Disaster recovery business continuity and IT security	• Evaluation of significant acquisitions, disposals, investments, credit arrangements and related party transactions	• Oversees transactions between Liberty and Standard Bank • Ensure rights of minority shareholders are considered and protected
Independent directors Angus Band (Chairman) 4/4 Peter Moyo 4/4 Sibusiso Sibisi 4/4 *Non-executive directors* Jacko Maree 4/4 Sim Tshabalala 4/4	*Non-executive director* Jacko Maree (Chairman) 3/4 *Independent directors* Angus Band 4/4 Santie Botha 4/4 Monhla Hlahla 2/4 *Executive director* Thabo Dloti 4/4	*Independent directors* Peter Moyo (Chairman) 4/4 Santie Botha 3/4 Mike Ilsley 3/4 Sibusiso Sibisi 4/4 *Non-executive director* Steven Braudo 1/1 *(resigned 4 May 2016)* *Executive director* Thabo Dloti 4/4	*Non-executive director* Jacko Maree (Chairman) Sim Tshabalala *Independent directors* Angus Band Mike Ilsley Peter Moyo Yunus Suleman *9 meetings held in 2016* *Attendance is not reflected as the committee only meets when required.* *Other directors, as determined by the chairman, invited from time to time depending on subject matter under discussion.*	*Independent directors* Angus Band (Chairman) Peter Moyo Jim Sutcliffe *1 meeting held in 2016* *Attendance is not reflected as the committee only meets when required.* *Other directors, as determined by the chairman, invited from time to time depending on subject matter under discussion.*

Governance at Liberty (continued)

Governance structures and processes (continued)

Risk management

The group's governance structures and processes are aligned with enterprise risk management (ERM) principles.

The board has adopted the three lines of defence model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks within the group. The model incorporates the management, oversight and assurance of risk management, essentially providing three independent views of risk in the organisation. The implementation of this model ensures that risk management is embedded in the culture of the organisation and provides assurance to the board and senior management that risk management is effective.

The board of directors and their standing committees provide oversight of the group's risk management activities.

The group chief executive utilises the group executive committee and key management committees to manage the components of risk.

The board is committed to increasing customer and shareholder value through the prudent management of risks, mindful of the interests of all stakeholders.

Three lines of defence

First line of defence	Business unit management	« Manage day-to-day risk origination and management in accordance with risk policy and strategy « Identify and assess risks and implement management's response « Report and escalate material risks and issues to governance bodies « Track losses and implement remedial actions
Second line of defence	Heads of compliance, risk and actuarial control functions and statutory actuaries	« Provide oversight of and challenge to the first line of defence « Propose risk policy and strategy « Champion implementation of risk policy on strategy « Provide assurance to board and regulators
Third line of defence	Independent assurance providers – internal and external audit	« Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the ERM framework

COMBINED ASSURANCE

Regular communication between internal audit 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 from an ERM perspective.

Principal risks associated with our strategic objectives

The process by which the group identifies, assesses and prioritises risks to its strategy facilitates the principal risks being placed in a "Strategic versus Execution" framework, to identify more clearly the risks that arise from external forces, and those which are related to the execution of existing strategies. Risks related to people and the prioritisation of resources are viewed as common risks across all the different risk types. The most recent top strategic risks are summarised below.

Liberty risk identification and prioritisation matrix

Common risk	Common risk	Risk type	SPECIFIC RISKS	STRATEGIC RESPONSE (MANAGEMENT ACTIONS)
Breakdown in people management and organisational change practices	Inadequate prioritisation processes at a strategic and operational level	STRATEGIC (EXTERNAL)	**Poor outlook for the SA economy and for emerging economies,** arising from the slowdown in China and the liquidity squeeze in emerging markets .	Liberty maintains a strong capital position. In addition, offshore investment alternatives are offered to policyholders. In 2016 more focus was directed towards expense control and product pricing and design.
		STRATEGIC (EXTERNAL)	**Increased competition** brought about by new-age competitors with different operating realities.	Liberty is committed to building an agile capability to meet customer demands and reduce time to market. This includes partnering with tech start-ups and digitalisation of the investment product range.
		STRATEGIC (EXTERNAL)	**Inadequate cyber-security and resilience** from cyber-attacks in a rapidly evolving technology environment leading to significant adverse reputational and financial impacts.	Liberty continues to invest in the group's information security with a strong focus on the roll-out and implementation of its cyber security policy and related frameworks.
		EXECUTION (INTERNAL)	**Ineffective risk selection strategy and data management** in the face of competition, technology and competitive advances.	Liberty continues to invest in its data and information strategy programme to establish appropriate data governance and related practices.
		EXECUTION (INTERNAL)	**Complexity management** brought about by both inorganic and organic growth reducing management bandwidth and introducing key person risks.	Liberty has specifically structured its businesses to deal with this risk by formally defining strategic and financial goals. Governance simplification initiatives have largely been completed. Legacy administration platforms are being migrated and an IT governance programme is being implemented. A project to rationalise discretionary participation feature funds has been approved by the board. In addition, the range of investment portfolio options offered is being rationalised.
		EXECUTION (INTERNAL)	**Rapidly changing customer behaviour and regulation,** in particular Retail Distribution Review (RDR), demanding changes in the **sales and distribution** capability.	Liberty has a focussed steering committee to provide strategic response to RDR. In addition, product designs are regularly refreshed, as are actuarial assumptions.
		EXECUTION (INTERNAL)	**Breakdown in people management and organisational change practices.**	Talent management processes, succession planning and people development programmes across the group assist with the identification and management of associated key person dependency risks. Formal change management planning ensures that risks associated with organisational change are mitigated promptly. During 2016 initiatives to enhance Liberty's high-performance culture were implemented. These were coupled with a review of remuneration structures and retention practices and processes.
		EXECUTION (INTERNAL)	**Inadequate prioritisation processes at a strategic and operational level.**	A formal project prioritisation and oversight committee is in place to ensure key projects are delivered in line with the strategic business objectives. Various executive committees manage the prioritisation of Strategy 2020 delivery.

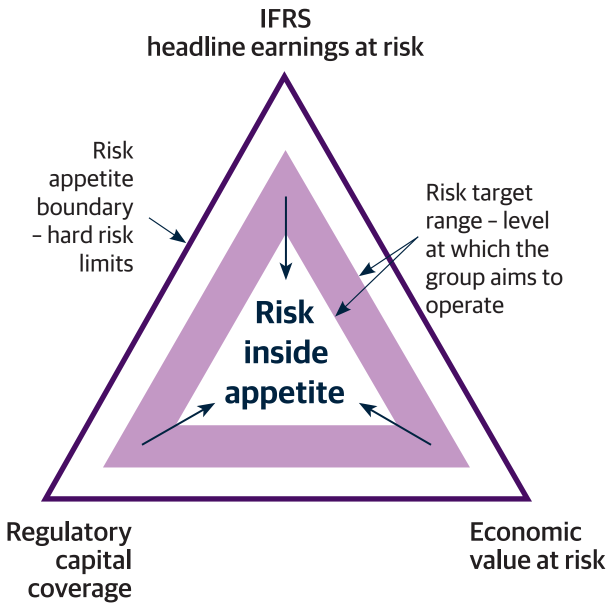
The board and group risk committee monitor and ensure that these and other significant risks that emerge are addressed or mitigated through the group's strategy and risk management practices. Appropriate strengthening of risk management practices takes place as necessary.

Governance at Liberty (continued)

Governance structures and processes (continued)

Risk appetite

The risk appetite framework, approved by the board, sets quantitative and qualitative boundaries on risk that can be assumed in pursuit of strategy through value creation activities. The quantitative boundaries are summarised as follows:



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 to all material or significant boards while the group chief executive appoints the 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.

Refer to the legal entity structure at www.libertyholdings.co.za/investor.

Liberty Group Limited

Liberty Group Limited is a wholly owned subsidiary of Liberty Holdings Limited and is the group's main South African registered long-term insurance licenced entity. From a materiality perspective the majority of the group's business and associated risks reside in this licenced entity. Consequently, the boards and standing committees of Liberty Holdings Limited and Liberty Group Limited 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, non-executive and executive directors. The board meetings of these companies are combined meetings, resulting in improved efficiency and information sharing.

STANLIB Limited

STANLIB is the group's wholly owned asset manager. Its board includes three non-executive directors due to the importance of governance over investors' funds managed and administered by the group.

Liberty Two Degrees

Liberty Two Degrees was constituted as a REIT and listed on the JSE on 6 December 2016. Liberty held 67% of the REIT at 31 December 2016. 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. As part of this transaction, Liberty Group Limited sold minority undivided shares in individual properties in the Liberty Property Portfolio to Liberty Two Degrees in exchange for units in the listed REIT. The STANLIB REIT Fund Managers (RF) Proprietary Limited board includes three non-executive directors in view of the magnitude and importance of policyholder funds invested in Liberty Two Degrees.

Liberty Holdings Kenya Limited (LHK)

Liberty holds 57,8% of LHK, which is listed on the Nairobi Stock Exchange. LHK conducts the group's long-term insurance operations in Kenya and is the investment holding company for the group's short-term insurance businesses in East Africa. The board includes three independent directors, one of whom is the chairman.

Company secretarial function

The company secretary, currently Ms JM Parratt, is required to provide the directors of the group, 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 group and to report at any meetings of the shareholders of the group or of the group'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 No. 71 of 2008 (Companies Act).

In compliance with section 3.84(j) of the JSE Listings Requirements the board of directors 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.

External auditors

For 2016, PricewaterhouseCoopers Inc. (PwC) was the lead independent firm of external auditors to Liberty Holdings Limited and the appointed auditors to the majority of the group's subsidiaries. Certain of the group's subsidiaries are audited by either SizweNtsaluba Gobodo Inc. or KPMG Inc.

The GAAC is satisfied with the continued independence of the firm and the audit partner and will be recommending to shareholders at the May 2017 annual general meeting that PwC is re-appointed as the group's lead external audit firm for 2017.

Board meetings and attendance

The number of meetings and attendance at board meetings by each of the directors of Liberty Holdings Limited (LHL) and Liberty Group Limited (LGL) during 2016 are set out below. Attendance of directors at STANLIB Limited board meetings is also reflected.

	LHL/LGL board meetings[1]	STANLIB board meetings
Jacko Maree	5/5	
Angus Band	5/5	
Santie Botha	5/5	
Steven Braudo *(resigned 4 May 2016)*	1/1	0/1
Tony Cunningham	5/5	4/4
Thabo Dloti	5/5	4/4
Monhla Hlahla	5/5	3/4
Mike Ilsley	5/5	
Peter Moyo	5/5	
David Munro *(appointed 15 February 2017)*	0/0	
Carol Roskruge Cele *(appointed 1 December 2016)*	0/0	
Sibusiso Sibisi	5/5	
Yunus Suleman	5/5	
Jim Sutcliffe	5/5	4/4
Casper Troskie	5/5	4/4
Sim Tshabalala	5/5	
Swazi Tshabalala *(resigned 31 January 2016)*	0/0	
Seelan Gobalsamy	n/a	4/4

[1] *One of the five board meetings was the strategy session.*

Group executive committee

The group executive committee (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 group executive committee. 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.

The exco generally meets 10 times during a year. 18 meetings were held during 2016, seven of which were dedicated to strategy development. Members of the exco at 1 March 2017 and their years of financial service experience are set out below.

	Years of financial services experience
Thabo Dloti Group chief executive	25
Pumeza Bam Group HR executive (appointed 1 March 2017)	5
Seelan Gobalsamy Chief executive – STANLIB (to 28 February 2017) Chief executive – Emerging markets (from 1 March 2017)	20
Giles Heeger Executive – Asset management	20
David Jewell Group executive – Individual Arrangements	23
John Maxwell Chief executive – Individual Arrangements	27
Sydney Mbhele Chief marketing officer (appointed 1 February 2017)	6
Johan Minnie Group executive – Sales, distribution and bancassurance	21
Berlina Moroole Chief risk officer	3
Marjorie Ngwenya Group executive – strategy (appointed 1 July 2016)	18
Thiru Pillay Group executive – Group professional services	16
Casper Troskie Financial director	28

Governance at Liberty (continued)

Statement of compliance

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

During 2016, Liberty was compliant in all material respects with the requirements of the Companies Act, the Companies Act Regulations, the Listings Requirements of the JSE Limited and the FSB board notice 158 of 2014 entitled "Governance and Risk Management Framework for Insurers", effective 1 April 2015.

The board has unanimously embraced the King Code of Governance Principles (King III). The code was applied in its entirety with the exception of two recommended practices that were not adopted completely. These are detailed below.

KING III RECOMMENDED PRACTICE	LIBERTY'S RESPONSE
Non-executive fees should comprise a base fee as well as an attendance fee per meeting. (Code ref 2.25.4)	The chairman is paid a composite annual fee which includes his committee membership. Board members are paid a fixed annual fee in respect of their board membership and an additional fixed fee in respect of each committee membership. The fee reflects the responsibilities of the directors that extend beyond attendance at meetings and the requirement to be available between scheduled meetings. The history of attendance indicates that there is currently no necessity to pay an attendance fee per meeting.
The board should adopt formal dispute resolution processes for internal and external disputes. (Code ref 8.6.1)	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, an internal Ombudsman and arbitration with suppliers. Accordingly, the board has not considered an alternative dispute resolution process.

Oversight of compliance risk management is delegated to the GAAC, 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.

During 2016, no material breaches were identified that require separate disclosure.

Total penalties applied by the various regulators for non-compliance were less than R300 000 for both 2016 and 2015.

Statement of going concern

The board concluded and expressed in their responsibility statement of the 2016 annual financial statements, that the group is a going concern. The 2016 interim and annual financial statements were prepared on that basis.

Remuneration of directors and prescribed officers

Non-executive directors

Non-executive directors' fees, including the chairman's fee, are proposed by the board and recommended to the shareholders for approval at the annual general meeting.

Non-executive directors do not receive short-term incentives and do not participate in any long-term incentive schemes. Proposed fees for the 2017 directorships of Liberty Holdings Limited, Liberty Group Limited and STANLIB Limited, as well as members of board standing committees, as set out in the notice to members, are based on a carefully considered assessment of the responsibility placed on non-executive directors arising from increased requirements for regulatory oversight. Fees are annually benchmarked to equivalent responsibilities in the financial services sector. In light of the non-executives' attendance record in recent years, it has been decided not to change the current policy of a set annual fee to an attendance fee basis. This policy will be reviewed annually with due consideration to attendance records.

In view of the poor financial performance in 2016, the non-executive director fees were increased by 6% on average and 3% for the international non-executive directors. Benchmarking of the fees was conducted and it was found that some fees will lag the market based on the increases awarded but this will be addressed going forward.

Indirect interests

By virtue of either directorships in or material shareholdings held directly or indirectly by Standard Bank Group Limited's 53,6% (2015: 53,6%) in the issued ordinary share capital of Liberty, Mr JH Maree, Mr SK Tshabalala and Ms BS Tshabalala, being directors of both Liberty and Standard Bank Group Limited (Ms BS Tshabalala was only a director of both for one month, January 2016), had in aggregate an indirect beneficial and non-beneficial interest of 153 461 712 (2015: 153 461 712) ordinary shares in Liberty at 31 December 2016.

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

	Number of shares	
Direct beneficial interests	**2016**	**2015**
Executive directors		
T Dloti	**242 677**	231 726
CG Troskie	**59 669**	35 136
	302 346	266 862
Non-executive directors		
SL Botha	**5 335**	5 335
SIM Braudo[(1)]		183 712
MP Moyo	**4 858**	4 858
SP Sibisi		5 559
JH Sutcliffe	**4 000**	4 000
BS Tshabalala[(2)]		35 612
	14 193	239 076
	316 539	505 938

(1) *Mr SIM Braudo resigned as a non-executive director on 4 May 2016.*

(2) *Ms BS Tshabalala resigned as a non-executive director on 31 January 2016.*

There have been no other changes to the interests of directors including their families, in the share capital as disclosed to the date of the approval of the integrated report, namely 24 March 2017.

Governance at Liberty (continued)

Remuneration of directors and prescribed officers (continued)

Non-executive directors' remuneration

Non-executive directors (R'000)	Directors of LHL and LGL	Committee fees	Ad hoc fees[1]	Directors of STANLIB Limited	Directors of STANLIB REIT Fund Managers	Total Liberty Group	Other Standard Bank Group[2]	Total remuneration
2016								
JH Maree[3] (chairman)	2 600					2 600	55	2 655
AWB Band (lead independent director)	840	539	316			1 695		1 695
SL Botha	310	211				521		521
SIM Braudo[4][5] (resigned 4 May 2016)							2 505	2 505
AP Cunningham[6]	2 214					2 214		2 214
MW Hlahla	310	177		162		649		649
MG Ilsley	310	972	316		130	1 728		1 728
MP Moyo	310	662	316		188	1 476		1 476
CL Roskruge-Cele (appointed 1 December 2016)	26					26		26
SP Sibisi	310	398				708		708
YGH Suleman	310	372	211			893		893
JH Sutcliffe[7]	2 683		24			2 707		2 707
BS Tshabalala (resigned 31 January 2016)							1 285	1 285
SK Tshabalala[4]							32 867	32 867
Total	10 223	3 331	1 183	162	318	15 217	36 712	51 929

(1) *Ad hoc fees were paid to non-executive directors relating to additional work performed on significant transactions including the listing of Liberty Two Degrees.*

(2) *Other Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty Holdings Limited and its subsidiaries.*

(3) *The chairman of the board received a composite fee in lieu of committee fees and his services as a director of Liberty Holdings Limited and Liberty Group Limited.*

(4) *Messrs SIM Braudo and SK Tshabalala, whilst non-executive directors of Liberty, were full time employees of the Standard Bank group and therefore did not receive directors' fees or other remuneration from Liberty.*

(5) *Mr SIM Braudo was the deputy chief executive and an executive director until 1 July 2015, whereafter he resigned and transferred to Standard Bank group. He remained a director of Liberty in a non-executive capacity until 4 May 2016, at which date he resigned from Standard Bank group.*

(6) *Mr AP Cunningham is an international director and receives a composite fee of £134 000 (2015: £130 000) as a member of the board, committees and subsidiary boards. 2016 rand equivalent of directors' foreign currency fees paid is R2 214 000 (2015: R2 606 000).*

(7) *Mr JH Sutcliffe is an international director and receives a composite fee of £144 000 (2015: £140 000) as a member of the board, committees, subsidiary boards and chairman of a committee. 2016 rand equivalent of directors' foreign currency fees paid is R2 683 000 (2015: R2 543 000). In addition ad hoc committee and board attendance fees of R24 000 (2015: R45 000) were paid.*

Remuneration of directors and prescribed officers (continued)

Non-executive directors' remuneration (continued)

Non-executive directors (R'000)	Directors of LHL and LGL	Committee fees	Ad hoc fees[1]	Directors of STANLIB Limited	Total Liberty Group	Other Standard Bank Group[2]	Total remuneration
2015							
JH Maree[3] (appointed as chairman 19 January 2015)	2 472				2 472		2 472
AWB Band (lead independent director)	795	511	89		1 395		1 395
SL Botha	295	84			379		379
SIM Braudo[4][5]						12 380	12 380
AP Cunningham[6]	2 606				2 606		2 606
JB Hemphill[4][7] (resigned 15 April 2015)						5 786	5 786
MW Hlahla	295	168		154	617		617
MG Ilsley	295	491	67		853		853
MP Moyo	295	555	89		939		939
TDA Ross (retired 22 May 2015)	148	445			593		593
SP Sibisi	295	219			514		514
YGH Suleman (appointed 6 August 2015)	123	89			212		212
JH Sutcliffe[8]	2 543		45		2 588		2 588
BS Tshabalala	295	177			472	927	1 399
SK Tshabalala[4]						31 339	31 339
Total	10 457	2 739	290	154	13 640	50 432	64 072

(1) *Ad hoc fees were paid to non-executive directors relating to additional work performed on significant transactions.*

(2) *Other Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty Holdings Limited and its subsidiaries.*

(3) *The chairman of the board received a composite fee in lieu of committee fees and his services as a director of Liberty Holdings Limited and Liberty Group Limited.*

(4) *Messrs SIM Braudo, JB Hemphill and SK Tshabalala, whilst non-executive directors of Liberty, were full time employees of the Standard Bank group and therefore did not receive directors' fees or other remuneration from Liberty.*

(5) *Mr SIM Braudo was the deputy chief executive and an executive director until 1 July 2015, whereafter he resigned and transferred to Standard Bank group. He remained a director of Liberty in a non-executive capacity until 4 May 2016, at which date he resigned from Standard Bank group.*

(6) *Mr AP Cunningham is an international director and receives a composite fee of £134 000 (2015: £130 000) as a member of the board, committees and subsidiary boards. 2016 rand equivalent of directors' foreign currency fees paid is R2 214 000 (2015: R2 606 000).*

(7) *Mr JB Hemphill was chief executive and an executive director until 28 February 2014, whereafter he transferred to Standard Bank group. He remained a director of Liberty in a non-executive capacity until 15 April 2015, at which date he resigned from Standard Bank group.*

(8) *Mr JH Sutcliffe is an international director and receives a composite fee of £144 000 (2015: £140 000) as a member of the board, committees, subsidiary boards and chairman of a committee. 2016 rand equivalent of directors' foreign currency fees paid is R2 683 000 (2015: R2 543 000). In addition ad hoc committee and board attendance fees of R24 000 (2015: R45 000) were paid.*

Governance at Liberty (continued)

Remuneration of directors and prescribed officers (continued)

Executive directors and prescribed officers

The Companies Act and associated regulations introduced the concept of prescribed officers and related remuneration disclosure. The group's directors' affairs and remuneration committees considered the Act and obtained legal opinion. These committees assess the prescribed officer definition annually from a specific company rather than a group perspective. During 2016, Messrs CG Troskie and T Dloti were assessed as meeting the prescribed officer definition for Liberty Holdings Limited in line with policy. Their remuneration details along with those of other members of the board are detailed in this section.

Executive directors' remuneration is determined in compliance with the group's remuneration policy.

The executive directors of the board at 31 December 2016 are made up of the group chief executive and the financial director (Mr T Dloti and Mr CG Troskie respectively). These positions qualify as board appointments in line with best practice, succession planning and JSE requirements.

The remuneration committee sets executive director remuneration with due consideration to the performance, experience and responsibility of each director. This evaluation is informed by an extensive benchmarking of similar roles in companies comparable to Liberty's size, industry and risk profile.

Share incentive awards in Standard Bank awarded prior to the appointment of Mr CG Troskie as a Liberty executive director, remain unaffected in line with policy. Liberty has assumed the service cost for these incentives from the date of Mr Troskie's appointment and will continue to do so while he serves Liberty in an executive capacity.

During 2016, Messrs T Dloti and CG Troskie were eligible for both short- and long-term incentive awards in line with the remuneration committee approved remuneration philosophy and group executive incentive schemes as described in the "people section" of this report which details remuneration.

In summary, short-term incentives for each executive have two components. These are performance against set non-financial key performance indicators (KPIs) and scaled financial performance measured against board approved targets. The table below summarises the category participation and award performance for each executive during the relevant financial year.

The financial targets for incentive purposes include 35% weighting to the IFRS operating earnings, 35% weighting to group equity value profits (normalised for the assumed annual long-term investment return), 10% weighting to the performance of the Shareholder Investment Portfolio relative to a three year rolling average benchmark, 10% weighting to group cost savings (pre-tax) and 10% weighting to group net client cash flows.

Executive director short-term incentive emoluments

			2016 Performance				2015 Performance			
Prescribed officer	KPI %	On target financial %	**Applicable package R'000**	**KPI %**	**Financial %**	**Total %**	Applicable package R'000	KPI %	Financial %	Total %
T Dloti	20	120	**6 059**	**16,0**	**35,0**	**51,0**	5 750	17,0	132,1	149,1
CG Troskie	20	100	**3 884**	**16,6**	**36,3**	**52,9**	3 650	17,0	110,1	127,1

Group chief executive (CE) – Mr T Dloti

Mr Dloti was appointed to the board on 4 November 2013 and subsequently as group chief executive with effect from 1 March 2014. His performance is evaluated against specified criteria, in line with King III recommended practice. Mr Dloti is subject to a three-month notice period. His KPIs for 2016 included:

- Delivery of key financial targets
- Review and implement the group strategy in light of the changed economic and operational environment
- Continue implementing on expansion of long- and short-term insurance and asset management businesses in the rest of Africa
- Identify and execute on opportunistic investments and acquisitions to grow in existing markets of operation
- Implement long-term sustainable talent management practices whilst ensuring the business attracts and retains talent
- Ensure that the business adequately prepares for the ongoing regulatory and legislative changes
- Ensure that the group has sufficient capital and capital structures are streamlined to fund the growth aspiration and meet regulatory requirements
- Ensure that the group operates within the board approved risk appetite
- Contribute to achieving the group's employment equity targets in particular at senior and professionally qualified levels

Financial director (FD) – Mr CG Troskie

Mr Troskie was appointed to the board as Liberty's FD on 12 October 2010. The FD's performance and expertise were assessed and found suitable in terms of the JSE Listings Requirements. Mr Troskie is subject to a three-month notice period. His KPIs for 2016 included:

- Delivery of key financial targets
- Ensure that appropriate financial governance and internal controls are in place throughout the group
- Meet regulatory and financial reporting obligations during the year
- Execute the planning cycle and budgets in terms of the new operating model and ensure transition managed
- Develop new cost methodology to create a more appropriate cost management framework
- Ensure optimal holding structure developed for rest of Africa businesses
- Develop performance metrics and performance targets which support the business strategy
- Optimise balance sheet and capital structures in preparation for SAM
- Ensure that the skills and talent pool is retained
- Contribute to achieving the group's employment equity targets, in particular at senior and professionally qualified levels

Messrs Dloti's and Troskie's performance against the above KPIs was assessed and their achievement is reflected in the table on page 26.

Executive directors' and prescribed officers' remuneration

The presentation of the remuneration components below appropriately reflects the award values in respect of the performance period to which they relate. Not all components are immediately settled and are linked to the Liberty ordinary share price as well as being contingent on performance and service periods.

	2016		2015		
R'000	**T Dloti**	**CG Troskie**	T Dloti	CG Troskie	SIM Braudo[5]
Fixed remuneration[1]	**6 250**	**3 868**	5 716	3 626	2 562
Cash portion of package	**5 405**	**3 444**	5 156	3 181	2 311
Other benefits	**353**	**89**	113	82	51
Retirement contributions	**492**	**335**	447	363	200
Variable remuneration awards[2]	**3 091**	**2 053**	8 574	4 639	3 877
KPI	**969**	**645**	978	620	442
Financial	**2 122**	**1 408**	7 596	4 019	3 435
Long-term awards[3]	**10 000**	**6 000**	10 000	6 000	
Total	**19 341**	**11 921**	24 290	14 265	6 439
Accrued and settled	**8 714**	**5 605**	11 710	7 173	5 313
Deferred in terms of short-term incentives policy[4]	**627**	**316**	2 580	1 092	1 126
Deferred in terms of long-term incentives policy[3]	**10 000**	**6 000**	10 000	6 000	

(1) *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.*

(2) *In order to align reporting of incentive awards to the relevant performance, the amounts granted, as reported above, relate to the respective periods reviewed.*

(3) *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).*

(4) *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.*

(5) *Mr SIM Braudo was the deputy chief executive until 1 July 2015, whereafter he resigned from Liberty and transferred to Standard Bank Group. He remained on the board as a non executive director until 4 May 2016, when he resigned from the board. In recognition of his services rendered while an executive director at Liberty, he received a pro rata share of his variable remuneration for the year based on the assessment of achieved KPIs as at the date of his resignation from Liberty.*

Governance at Liberty (continued)

Remuneration of directors and prescribed officers (continued)

Summary of past long-term awards not exercised

Equity-settled schemes

Liberty rights under option

Name	Date granted	Price payable per share	Date fully vested	Rights under option at beginning of year	Rights granted/ (exercised) during year	Rights under option at end of year
Non-executive director						
SIM Braudo[(1)]				12 500	(12 500)	
	24 Feb 2011	R74,70	24 Feb 2016	12 500	(12 500)	
Executive directors						
T Dloti				65 000		65 000
	1 Mar 2010	R 70,26	1 Mar 2015	40 000		40 000
	24 Feb 2011	R 74,70	24 Feb 2016	25 000		25 000
CG Troskie				81 098	(3 522)	77 576
	24 Feb 2011	R 74,70	24 Feb 2016	25 000	(25 000)	
	1 Mar 2012	R 87,90	1 Mar 2017	11 053		11 053
	1 Mar 2014	R 123,39	1 Mar 2019	22 657		22 657
	1 Mar 2015	R 160,40	1 Mar 2020	22 388		22 388
	1 Mar 2016	R 138,40	1 Mar 2021		21 478	21 478
Executive directors' interests in the Standard Bank rights under option						
CG Troskie[(2)]				16 875	(13 125)	3 750
	2 Jan 2009	R83,00	02 Jan 2016	9 375	(9 375)	
	5 Mar 2010	R111,94	05 Mar 2017	7 500	(3 750)	3 750

(1) *Mr SIM Braudo resigned as an executive director on 1 July 2015 but remained on the board in a non-executive capacity until 4 May 2016, when he resigned from the board.*
(2) *Awards prior to appointment to the Liberty board.*

Name	Date granted	Price payable per share	Date fully vested	Shares at beginning of the year	Shares granted/ (cancelled) during the year	Shares vested during the year	Shares at end of the year	Current value at end of year
Restricted share plan (long-term plan)								
Non-executive director								
SIM Braudo[1]				250 926	(219 538)	(31 388)		
	01 Mar 2012	R87,90	01 Mar 2016	17 065		(17 065)		
	01 Mar 2013	R121,02	01 Mar 2018	42 969	(28 646)	(14 323)		
	01 Mar 2014	R123,39	01 Mar 2019	141 017	(141 017)			
	01 Mar 2015	R160,40	01 Mar 2020	49 875	(49 875)			
Executive directors								
T Dloti				268 974	72 254	(35 388)	305 840	33 947
	1 Mar 2012	R 87,90	1 Mar 2016	21 616		(21 616)		
	1 Mar 2013	R 121,02	1 Mar 2018	41 316		(13 772)	27 544	3 057
	1 Mar 2014	R 123,39	1 Mar 2019	149 932			149 932	16 642
	1 Mar 2015	R 160,40	1 Mar 2020	56 110			56 110	6 228
	1 Mar 2016	R 138,40	1 Mar 2021		72 254		72 254	8 020
CG Troskie				134 293	36 850	(19 979)	151 164	16 779
	1 Mar 2012	R 87,90	1 Mar 2016	7 585		(7 585)		
	1 Mar 2013	R 121,02	1 Mar 2018	37 184		(12 394)	24 790	2 752
	1 Mar 2014	R 123,39	1 Mar 2019	58 352			58 352	6 477
	1 Mar 2015	R 160,40	1 Mar 2020	31 172			31 172	3 460
	1 Mar 2016	R 138,40	1 Mar 2021		36 850		36 850	4 090
Restricted share plan (deferred plan)								
Non-executive director								
SIM Braudo[1]				42 475	(42 475)			
	1 Mar 2013	R 121,02	1 Sep 2016	8 758	(8 758)			
	1 Mar 2014	R 123,39	1 Sep 2017	15 423	(15 423)			
	1 Mar 2015	R 160,40	1 Sep 2018	18 294	(18 294)			
Executive directors								
T Dloti				45 980	18 639	(23 928)	40 691	4 992
	1 Mar 2013	R 121,02	1 Sep 2016	8 281		(8 281)		
	1 Mar 2014	R 123,39	1 Sep 2017	18 487		(9 243)	9 244	1 134
	1 Mar 2015	R 160,40	1 Sep 2018	19 212		(6 404)	12 808	1 571
	1 Mar 2016	R 138,40	1 Sep 2019		18 639		18 639	2 287
CG Troskie				20 663	7 888	(11 298)	17 253	2 117
	1 Mar 2013	R 121,02	1 Sep 2016	4 478		(4 478)		
	1 Mar 2014	R 123,39	1 Sep 2017	8 554		(4 277)	4 277	525
	1 Mar 2015	R 160,40	1 Sep 2018	7 631		(2 543)	5 088	624
	1 Mar 2016	R 138,40	1 Sep 2019		7 888		7 888	968

[1] *Mr SIM Braudo resigned as an executive director on 1 July 2015 but remained on the board in a non-executive capacity until he resigned from the board on 4 May 2016. Upon resignation from the board, Mr SIM Braudo's allocations were cancelled.*

How we create sustainable value

We partner with our key stakeholders who provide resources that enable us to generate competitive sustainable value

To create value over the long term, it is essential to maintain mutually beneficial partnerships with our key stakeholders.

Each key stakeholder group provides a form of capital that contributes to the successful delivery of Liberty's strategy. We understand the limitations to that capital and our ability to either manage, renew or find alternative sources.

Given the nature of Liberty's business as a significant public interest company, providing financial products and services (in many cases that are contracted over future years), there is the implicit requirement to manage the business sustainably and avoid business failure under virtually all modelled scenarios.

We identify and partner with key stakeholder groups who provide resources that materially influence the value drivers of the business model. These key stakeholders are actively engaged and managed to ensure that an optimal balance of the respective objectives is achieved.

KEY STAKEHOLDERS THAT MATERIALLY CONTRIBUTE TO VALUE DRIVERS	
Customers	Purchase our products and services to achieve their financial goals and manage life's uncertainties
Employees	Supply the necessary skills and expertise to deliver on our promises to stakeholders
Regulators (including government agencies and industry associations)	Govern financial stability and market conduct for our industry
Communities	Provide us with our social relevance, future customers and employees
Investors	Provide our financial capital

Other stakeholders that contribute to Liberty's business success are engaged appropriately. These include business partners, suppliers of goods and services and the media. However, for the purposes of this integrated report, we have focused on the material key stakeholders.

Stakeholder engagement

Liberty's stakeholder engagement unit is responsible for facilitating an integrated approach to stakeholder engagement across the group. This approach is aligned with Liberty's organisational philosophy, brand ethos and values, material sustainability focus areas and strategy.

The frequency of engagement varies according to each stakeholder group and the particular issue at hand. Liberty is proactive in identifying and responding to its stakeholders' expectations, concerns and conflicts.

A centralised approach is used to manage investors, employees, regulators and communities. Liberty's customer facing units undertake stakeholder engagement relevant to each of their areas and are responsible for identifying relevant stakeholder concerns and taking appropriate action. The board of directors is kept appraised of engagement activities, concerns raised and mitigating action taken through the group social, ethics and transformation committee.

Stakeholder sentiment

Our bi-annual stakeholder sentiment survey aims to determine stakeholders' perceptions of Liberty, our products and services and the overall manner in which we conduct the business. This survey enables us to better understand the needs and expectations of our key stakeholders. The overall satisfaction score of the 2016 survey of 79% reflected a decline from the 2014 score of 83%. Investor and community groups reflected a slight decline in satisfaction levels, while our other stakeholders reflected relatively stable satisfaction levels. During the implementation of Strategy 2020, certain stakeholder engagement activities were curtailed while the stakeholder engagement strategy was redefined, resulting in lower satisfaction levels amongst the investor and community groups. The survey results have been used to update our stakeholder engagement strategies specific to each stakeholder group. We have focused 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. The next survey will be conducted in 2018.

Sustainability report

Investors – provide our financial capital

Investors' financial capital is key to support our business operations

	IFRS REPORTED VALUE	NUMBER OF INVESTORS	2017 INVESTOR DIARY	INVESTOR VALUE OBJECTIVE
Ordinary shareholders **(equity capital)**	*31 December 2016* **R21,7** billion	**Total number** **9 280** Standard Bank 54% Institutional 42% BEE participants and other empowerment vehicles 2% Individuals 2%	2016 annual financial results: 24 February 2016 final dividend payment: 10 April Annual general meeting: 19 May 2017 half yearly financial results: 4 August 2017 interim dividend payment: 4 September	**A sustainable and attractive return on investment, realised over time through dividends and share price growth**
Subordinated note holders **(debt capital)**	**R4,6** billion *(includes accrued interest)*	**Total number** **311** Mutual funds 54% Retirement funds and corporations 26% Long- and short-term insurers 20%	*Interest payment dates by issued note reference* LGL 02: 13 February, 13 August LGL 03: 3 April, 3 October LGL 04: 14 February, 14 August LGL 05: 12 March, 12 June, 12 September, 12 December LGL 06: 4 January, 4 April LGL 07: 4 January, 4 April, 4 July, 4 October	**A competitive risk adjusted lending return and return of investment at the agreed dates**

This financial capital can be provided in various forms but essentially is split between equity capital and debt capital

Equity capital provided by shareholders:

Perpetual in nature, funds key expansion opportunities and supports minimum regulatory capital requirements. Equity capital is typically more expensive than debt capital due to the associated risks and uncertainty of returns.

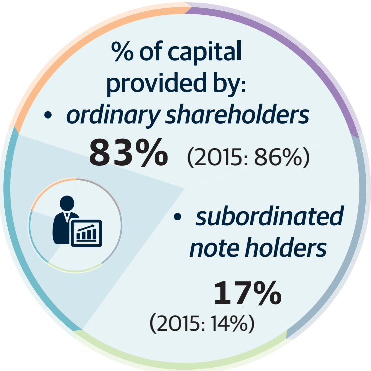
Debt capital:

Financial capital that is provided for a specified period. These investors are paid before dividends are paid to equity shareholders. Debt capital is typically utilised to reduce the overall cost of capital as it is, in most cases, less expensive than equity capital.

KEY PERFORMANCE MEASURES	ENGAGEMENT ACTIVITIES	CAPITAL RAISING OPTIONS	CASH RETURN OPTIONS
• Return on group equity value[1] • Return on equity[1] • Headline earnings and operating earnings growth[1] • Dividend growth and cover • Growth in share price • Capital adequacy cover [1] *BEE and REIT normalised*	Various engagement activities are planned to meet institutional and individual shareholders, financial media and investment analysts	Higher retention of earnings Issue of ordinary shares	**Dividend policy** The objective of the group's dividend policy is to provide a sustainable dividend for shareholders, and is determined with reference to underlying core operating earnings taking cognisance of the need to: (i) balance capital and legislative requirements; and (ii) retain earnings and cash flows to support future growth. Subject to consideration of the above, the 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.
• Capital adequacy cover • Finance cost coverage ratio • Financial leverage ratio	Initial pre-note issuance road shows Post issue engagements with rating agency – formal annual review and rating	New debt issues	**Interest and capital** Five to seven-year tenor (capital repayment at end of term) for issued debt instruments. Fixed and floating interest coupon rates paid either semi annually or quarterly. On 12 December 2016, Standard & Poor's Ratings Services assigned its long-term 'zaAAA' and short-term 'zaA-1' South Africa national scale issuer credit ratings to Liberty Group Limited. Standard & Poor's also assigned long-term South Africa national scale issue ratings of 'zaAA+' to Liberty's non-deferrable subordinated notes and 'zaAA-' to Liberty's deferrable subordinated notes. R1 billion is repayable in August 2017.

Additional information 67 | 37 | 67 71

Investors – provide our financial capital (continued)



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.

Value measurement

The primary basis of value measurement adopted by South African long-term insurers is group equity value, supported by the embedded value framework governed by the South African Actuarial Practice Notes. Various measures of value generation are monitored, including normalised earnings per share, return on IFRS shareholder equity and share price.

How we measure 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.

We have chosen the embedded value methodology to measure value creation in the South African long-term insurance business (incorporating LibFin credit which provides sustainable credit margin on assets backing long-term insurance contracts). A combination of valuation techniques have been applied to the short- and long-term businesses located in various African countries outside of South Africa. 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.

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. In particular, 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 equal to the cost of equity (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 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.

Embedded value framework

Embedded value is a widely utilised financial reporting framework in the long-term insurance industry. Liberty has adopted the guidance (referred to as APN 107) provided by the Actuarial Society of South Africa to determine the value of the existing insurance contracts.

Group equity value and goodwill

While group equity value is considered to be 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.

Future value measurement

Advances in economic capital modelling have led to the FSB adopting a modified basis, the Solvency Assessment and Management (SAM) framework, to establish future minimum capital levels of the South African insurance industry. We believe economic capital frameworks are becoming the accepted best practice for value measurement. Liberty's preparations to transition to these frameworks are well advanced.

Business model value drivers

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	In-force contracts	Cost of servicing		• Maintenance cost per policy • Net customer cash flow • Value of in-force covered business • Variances to modelled expectations • Cost of required capital
		Policyholder behaviour	*Lapse and withdrawal* *Mortality and morbidity* *Contract extensions and alterations*	
		Cost of required capital		
		Risk discount rate		
		Investment return		
	New business	Sales volume	*Distribution capacity* *Productivity* *New products and markets*	• Indexed new business • Value of new business • New business margin • Distribution capacity (geographic presence, number of supporting intermediaries and corporate consultants)
		Margin	*Cost of acquisition and servicing* *Product mix* *Premium pricing net of reinsurance* *Policyholder behaviour* *Risk discount rate* *Cost of capital consumed*	
SHORT-TERM INSURANCE	Sustainable earnings	Cost of servicing		• Claims loss ratio • Combined ratio
		Investment return		
		Extent and frequency of loss events		
		Premium rates		
		Reinsurance levels		
ASSET MANAGEMENT	Sustainable earnings	Assets under management	*Net customer cash flows* *Investment performance*	• Assets under management • Net customer cash flow • Service fee margin • Cost to income ratio
		Investment and performance fees	*Investment performance*	
		Expenses	*Acquisition* *Management and administration*	
AVAILABLE CAPITAL	Return on capital	Assets held	*Capital created less distributed*	• Investment return and reference to benchmark • Dividend cover • Capital adequacy ratio
		Asset mix		
		Investment performance per asset category		

To complement the above, the group has an overall capital management strategy as well as a strategic tax plan. These are designed to improve efficiency and optimise shareholder value.

Refer to the website for the Six year review and to Appendix E (Abbreviations and definitions) in the AFS and supporting information.

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Six year review

Investors – provide our financial capital (continued)

Investor capital availability

Sources of financial capital

Equity (risk capital)

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

In addition, when seeking to raise equity capital, the support of our majority shareholder, Standard Bank, is a key consideration.

Subordinated note holders (debt capital)

Liberty has an FSB approved R5 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.

Liberty issued a R400 million fixed rate and a R600 million floating rate subordinated bond issuance during 2016. At 31 December 2016, Liberty had R4,5 billion of FSB approved subordinated debt capital in issue, with the planned redemption of R1 billion in the 2017 financial year.

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.

COST OF CAPITAL

The cost of equity is determined using the capital asset pricing model. 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 2017 financial year at 11,6% (2016: 12,6%).

STRATEGY 2020

In the formation of our Strategy 2020, financial capital requirements have been forecast and an accompanying financial capital plan has been formulated. Assuming no large unforeseen events, we are comfortable that our strategy will not be overly constrained by lack of available financial capital.

FINANCIAL CAPITAL DEPLOYMENT PRIORITIES

1. Meet regulatory requirements and policyholder obligations
2. Service debt owner obligations
3. Meet organic business growth aspirations and make acquisitions aligned to strategy
4. Service the group's dividend policy
5. Return remaining surplus to investors

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

Investors often perceive the insurance business as complicated, with complex terminology and metrics. We therefore communicate Liberty's insurance business model by explaining our differentiated capabilities and strategy. Refer to Our business model and Strategy 2020 sections. 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.

Our engagement plan

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

Standard Bank – 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 expansion into the rest of the African continent. Our engagement activities with Standard Bank can be categorised into those related to the bank's status as our majority shareholder and operational activities. Standard Bank'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 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 41,5% 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 – 7 294 shareholders own approximately 2,3% 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 to 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.

Customers are at the heart of our business

Liberty provides solutions to customers to meet their financial needs and allow them to prepare for life's uncertainties throughout their life stages.

Customer value propositions enable customers to achieve financial freedom, peace of mind and increased choice. Liberty's in-depth understanding of trends in consumer behaviour, developments in information technology and government's social agenda are important overlays in our ability to assess current market conditions and anticipate future needs.

Our customer fairness principles ensure that treating customers fairly is embedded in the business.

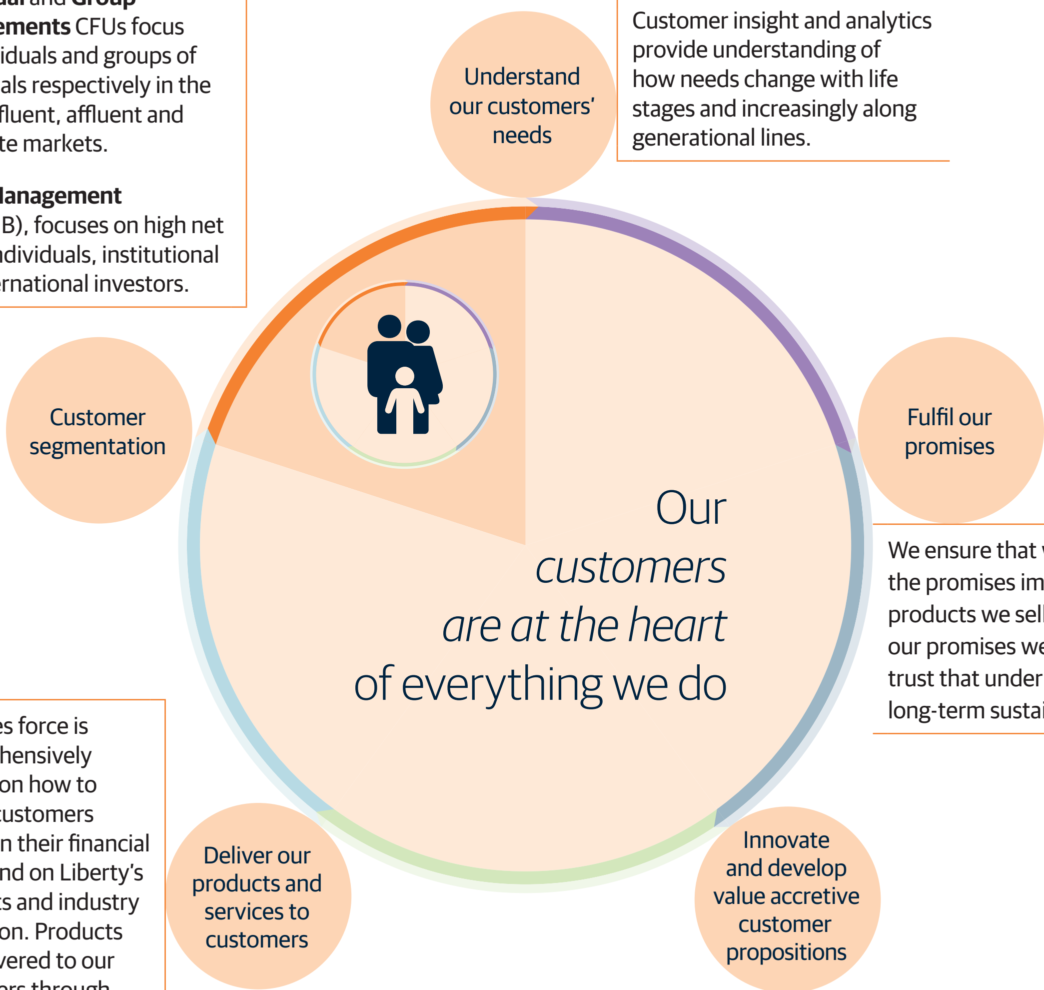
THE PRIMARY NEEDS OF OUR CUSTOMERS ARE:

- 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.

Individual and **Group Arrangements** CFUs focus on individuals and groups of individuals respectively in the mass-affluent, affluent and corporate markets.

Asset Management (STANLIB), focuses on high net worth individuals, institutional and international investors.

Customer insight and analytics provide understanding of how needs change with life stages and increasingly along generational lines.



We ensure that we meet the promises implicit in the products we sell. By fulfilling our promises we build the trust that underpins our long-term sustainability.

Our sales force is comprehensively trained on how to advise customers based on their financial needs and on Liberty's products and industry regulation. Products are delivered to our customers through both our sales force and independent intermediaries.

The ultimate aim is to give the most appropriate advice to customers.

Our products and services:

- Are regulatory compliant
- Are innovative
- Leverage our intellectual and financial capital
- Are cost effective
- Are delivered to market quickly
- Build brand value

INDIVIDUAL ARRANGEMENTS	GROUP ARRANGEMENTS	ASSET MANAGEMENT *(STANLIB)*
Provides insurance and investment solutions to the individual mass-affluent and affluent markets.	Provides insurance and investment solutions to corporate customers (SMEs, large corporates, multi-nationals and affinity groups) and retirement funds across sub-Saharan Africa.	Provides asset management capabilities to manage asset flows, including international flows, invested in Africa focusing on high net worth individuals, institutional and international investors.

Products and services are distributed by:

• ***Liberty's tied intermediaries***	• ***Independent financial advisers***	• ***Bancassurance channels***
• Direct channels	• Specialist distribution teams • Corporate consultants	• Relationship managers • Specialist distribution teams • Direct channels

The business is structured to enable the three customer facing units (CFUs) to effectively engage with our customers. To hold the customer at the centre of decision making, Liberty has a customer fairness committee as a sub-committee of the group executive committee. This committee monitors the development and consistent implementation of customer fairness principles across the CFUs and reports on progress to the social, ethics and transformation committee.

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

Understanding customer needs

Liberty targets individuals or groups of individuals with sufficient regular monthly income to purchase risk and savings products, have investable assets above certain levels or who are upwardly mobile.

Our ongoing customer research shows that younger customers expect digital and mobile interactivity with Liberty. Although financial advisers remain fundamental to our business model and essential for appropriate advice, technology enabled customers often prefer to record or update their personal data online. They also demand products and services that are more customisable to their specific needs.

In prioritising customer centricity, Liberty founded dHub in July 2016 as a digital design unit with the initial task of developing products, services and applications for the Individual Arrangements CFU.

dHub is mandated to introduce agile and fast interfaces that create a virtual environment for customers and financial advisers alike. It puts customer centricity into practice by involving customers and financial advisers in every step of product and service design. These are tested and rolled out incrementally to ensure that the end results are exactly what customers and advisers want.

Digital application forms are replacing the paper documentation that customers and advisers traditionally worked through. The digital application form is pre-populated with existing customer information and completed quickly, so that customers are processed within an hour.

Liberty's several websites were consolidated into a single site and portal for customers and advisers to add or amend information remotely. dHub also launched the innovative "STASH", a mobile application which facilitates savings via smartphones. This application will be followed by further mobile applications designed for specific customer and adviser activities.

Another primary function of dHub is to introduce machine learning and analytics to more efficiently aggregate and interrogate customer information in the quest for deep customer centricity.

In less than a year, dHub has grown from one to six agile and multi-disciplinary teams tackling over 80 projects. It is pioneering a quicker, more flexible and accurate approach to customers and projects that will transform Liberty in the pursuit of our Strategy 2020 objectives.

Customers are at the heart of our business (continued)

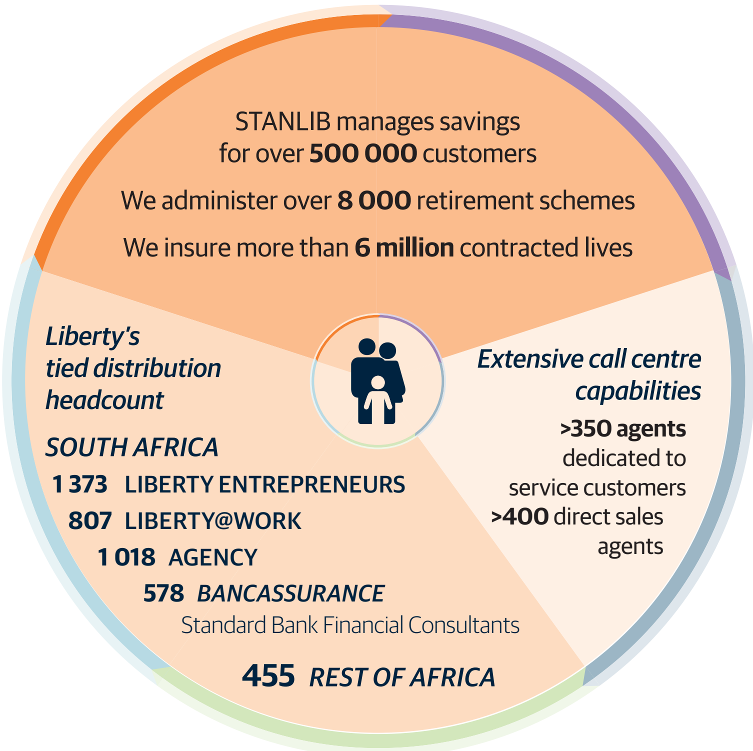
Fulfil our promises

Our products contain promises on which we are committed to deliver. 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. As a consequence, our overall net promoter score customer experience measure improved over the year.

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 customer fairness committee, a sub-committee of the group executive committee, monitors development and implementation of customer fairness principles across the CFUs. The board has mandated the social, ethics and transformation committee to oversee customer fairness across the group.



INNOVATIVE PRODUCT DEVELOPMENT AND SERVICE DELIVERY

Liberty Two Degrees (L2D) was listed in December 2016, giving investors exposure to the iconic Liberty Property Portfolio. Liberty policyholders were able to switch their existing interests in the Liberty Property Portfolio to L2D as well as invest additional funds in L2D.

Liberty Bold (Bold) was launched during 2016. It is the only living annuity that allows investment into any combination of SA's top funds and change them at any time with a return guarantee that increases as the returns do. Bold features a five-year 80% quarterly high watermark return guarantee that can be stopped and restarted at any time, or rolled over after a period of five years.

A new ***offshore endowment*** proposition which offers access to a range of index trackers and investment portfolios was launched during the year.

A new ***Guaranteed Investment Plan*** which provides a guaranteed fixed return on the amount invested with the flexibility to pay in additional amounts later to maximise the efficiency of the investment was launched in 2016.

STASH, a mobile application to facilitate savings via smartphones, was launched in January 2017.

The Individual Arrangements (split between risk and investment products), Group Arrangements and Asset Management CFUs have dedicated product development teams led by senior executives focusing on specific customer segments and their needs. The group employs in excess of 50 professionals in product design, made up of actuaries, accountants, legal advisers and economists. This focus has enabled the launch of products such as Bold, Evolve, Agile, Term Life, STANLIB unit trust tax free savings account, the Liberty Two Degrees REIT and the STANLIB Kenya income real estate investment trust (I-REIT), all of which meet specific customer needs and leverage the group's expertise and experience. Liberty's balance sheet management expertise, residing within LibFin, plays a key part in adding value to product development.

Service delivery is as important as product development. Support processes 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 product 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 on our intermediaries. As the landscape for insurance distribution changes, Liberty is introducing 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.

Sources of value

Investment products

Investment options to meet financial needs:

- Collective investment schemes
- Segregated investment mandates
- Retirement savings
- Annuities

Tailored investment solutions

Risk products

Monetary compensation in the event of:

- Death
- Disability
- Medical expenses *(outside South Africa)*
- Retrenchment
- Damage or loss of physical property *(East Africa only)*

Tailored risk solutions

Regulation, governance and equity capital

Managing and deploying the company's financial capital resources to:

- Maintain minimum regulatory requirements
- Invest within board approved risk appetite

Support growth strategies

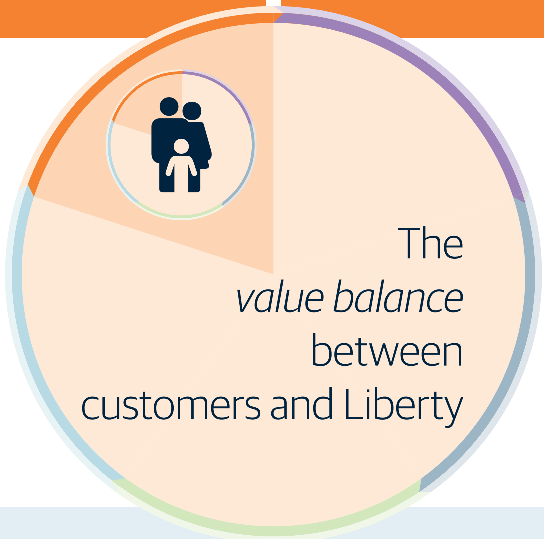
Financial advice and administration services

Reaching and supporting our customers through:

- Extensive distribution network of tied and non-tied financial advisers
- Choice of direct sales platform, call centres and online assistance
- Insights into customer needs and concerns

How our customers benefit

- Competitive investment returns and facilitation of retirement income
- Benefits provided when risk events occur
- Confidence in Liberty's ability to meet contractual obligations
- Responsible financial advice and innovative products, supported by efficient administration



How Liberty benefits

- Margins included in contracted premiums
- Agreed charges typically linked to the assets invested
- Agreed charges for services provided
- Investment returns on assets backing capital

Our key performance measures

- Death and disability claims (mortality variances)
- Long-term insurance indexed new business and margin
- Capital adequacy cover
- Long-term customer contract insurance persistency
- Net customer cash flows
- Assets under management
- Distribution capacity
- Customer satisfaction
- Customer complaint volumes and insurance ombud queries

Our people – our most valuable asset

A workforce that reflects the diversity of our customers and communities enables us to perform effectively in our chosen markets. Liberty promotes a high performance and customer centric culture to drive innovation and execution of strategy to create value for all stakeholders.

Our employee value proposition

Liberty's employee value proposition is aimed at attracting, developing and retaining talent across the geographies in which we operate.

Our priority is to grow current and future leaders through skills and career development as well as targeted succession planning.

THE PRIMARY NEEDS OF OUR EMPLOYEES ARE:

- A non-discriminatory work environment;
- A sense of affiliation and belonging;
- Being rewarded for performance and provided with engaging career opportunities; and
- Competitive remuneration, with primary and lifestyle benefits.

Opportunities and mobility

We are competing globally for talent and strive to offer employees mobility, flexibility and opportunity. We support career growth by progressing people through functions, customer facing units and geographies.

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.

Comprehensive primary and lifestyle benefits

Training and leadership development

Employees can access various development and leadership programmes to further strengthen the group's talent pipeline. We first look internally to fill vacancies and then, if required, advertise externally.

Competitive rewards structure

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.

Group citizenship and transformation

The Liberty citizenship principles guide the culture and behaviours required to enable employees to live our purpose and thereby realise our 2020 vision.

Aligning our people to Strategy 2020 and customer centricity

Liberty's Strategy 2020 will succeed through the skill, experience and passion of our people. Accordingly, we have developed a comprehensive people strategy to develop technical and leadership skills needed by the group.

PEOPLE CAPABILITIES	TALENT MANAGEMENT AND MOBILITY	ENGAGING AND INSPIRING OUR PEOPLE	CULTURE AND TRANSFORMATION
Enable growth by building capabilities the business needs	Attract, develop, retain and deploy quality employees to realise their full potential	Grow current and future leaders to be able to inspire and mobilise their teams and other stakeholders in delivering on Strategy 2020	Build a culture that is underpinned by the Liberty citizenship principles

SOUTH AFRICAN PERMANENT EMPLOYEES

52% black senior management

58% female permanent staff

Average age of 37 years

Average length of service 8 years

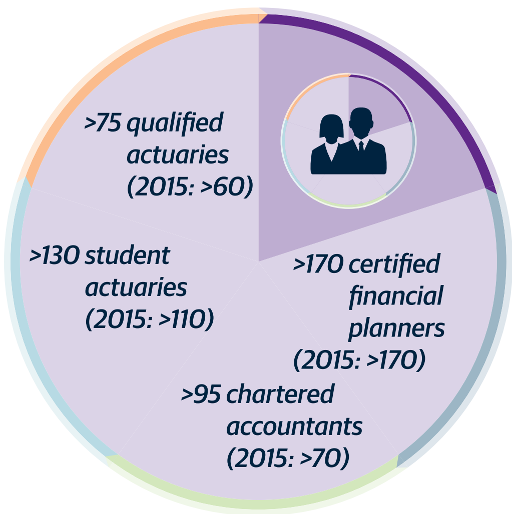
Developing our people capabilities

Liberty needs talented people who can adapt to rapid change and are confident to manage in and across geographies.

We have redesigned career path management and defined the skills required for the various levels of leadership in Liberty. We are acquiring and developing the core strategic capabilities to attain current and future business needs.

Empowering people through training and development

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.



A bursary programme assists employees to 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. This initiative includes workplace experience.

Our actuarial development programme is designed to address the shortage of actuarial skills within Liberty and the industry as a whole.

Talent management and mobility

Talent and succession management are strategic imperatives. Our revised talent framework has been aligned to Strategy 2020 and identifies the core capabilities we require to deliver on our customer centric strategy. 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.

Our people – our most valuable asset (continued)

Engaging and inspiring our people

We regularly engage with our employees through a variety of mechanisms, to gain insight into their needs and ensure that they understand their roles in making Liberty's strategy become reality.

In 2016, employees were engaged through formal and informal mechanisms. We conducted 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.

We also continued our Let's Talk campaign, which cascades information from senior leadership through all organisational levels. General and regularly scheduled broadcasts provide an audio-visual channel for internal communication. Finally, our leadership forums are conducted regularly with the aim of identifying top talent and setting work practice examples for the broader workforce.

Employee financial freedom

Our employees cannot authentically impart the message of financial freedom to our customers unless they experience it for themselves. We therefore launched an Employee Financial Freedom Programme, aimed at educating staff on how to optimise their remuneration and benefits, risk schemes, investment portfolios and retirement savings. This entailed the collaboration of all the business areas in the group to develop and roll out a comprehensive strategy to enable financial freedom for our employees.

Culture and transformation

Strategy 2020 requires the alignment of Liberty's internal culture with our vision and purpose. We are working to create a multi-cultural environment that fosters inclusion and an equitable employment environment for our employees across all geographies.

In pursuit of these goals, we refined the building blocks for the Liberty As One model, which will be underpinned by the Liberty citizenship principles and leader practices. These are being cascaded throughout the business to ensure every employee understands how Liberty will align with Strategy 2020.

Profile of staff

Number of staff	2016	2015
South African		
Management	**166**	160
Professionally qualified	**1 433**	1 394
Skilled	**2 489**	2 583
Semi-skilled	**1 134**	1 400
Unskilled	**85**	99
Permanent staff	**5 307**	5 636
Tied agents	**3 198**	3 147
Total	**8 505**	8 783
Other African territories		
Permanent staff	**832**	767
Tied agents	**455**	892
Total	**1 287**	1 659
Total work force	**9 792**	10 442

Source of value

Fair pay

Liberty's remuneration philosophy is to link reward to performance within an agreed risk appetite framework. Senior management who develop and execute strategy have a higher proportion of variable pay.

Career advancement

Comprehensive programmes identify and nurture scarce human capital. This includes:

- Performance and talent management
- Bursary programme
- Leadership and management development programmes
- Internal and external training
- Performance objectives linked to strategy

Fringe benefits

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

Equal opportunity

Non-discrimination 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 work force. We believe that being widely representative creates a competitive advantage across our communities and markets.

How our employees benefit

Fair pay	Career advancement	Fringe benefits	Equal opportunity
Rewards reflective of performance	Skills and career development	Comprehensive value-added benefits	A non-discriminatory work environment that promotes respect and dignity

How Liberty benefits

- A highly motivated and appropriately skilled work force that is able to implement strategy and provide competitive returns on shareholder capital
- A loyal and productive work force 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 cost of employment
- Reduced employee turnover. Lower risks of fraud and poor productivity

Our key performance measures

- Variable remuneration ratio
- Surveys, including employee attitudinal and preferred employer
- Training spend on skills and development
- Voluntary staff turnover
- Number of CCMA cases and settlements
- Employment equity progress

Our people – our most valuable asset (continued)

Remuneration of Liberty's people

The core objective of our policy is to ensure that remuneration practices support the delivery of the strategy and that the practices align with shareholders' long-term objectives. Although no material changes were made to remuneration structures during 2016, additional financial targets were added to drive cost and net customer cash flows and the minimum shareholding requirement for executives was extended to include executives who head major business units.

Overview of remuneration for 2016

Liberty continued to reorganise itself to enable Strategy 2020 and complementary changes in the employee profile and staff turnover have been observed, with the group's total work force (permanent employees and tied agents) reducing by 6,2% during 2016. The South African permanent employee headcount was 5 307 at 31 December 2016 (2015: 5 636). The change was primarily due to restructuring that took place in Liberty Health and STANLIB. Salary increases for 2016 were benchmarked at 6% but because of the lower head count, primarily as a result of restructuring, the total salary bill only increased by 2,5% compared to 2015.

The 2016 financial year was a difficult year for Liberty with volatile investment markets, a tough consumer environment, changing consumer trends and a number of operational issues impacting Liberty's results. The design of Liberty's incentive schemes endeavours to ensure that there is alignment between shareholder and employee interests. The short-term and long-term incentives awarded for 2016 are as follows:

- The decline in operating headline earnings of 37,2% and failure to achieve return on group equity targets have been the main contributors to the decline in senior executives' short-term incentives, which decreased by 47%, with the short-term incentives of the prescribed officers down by 63% compared to the previous year. Short-term incentives, in total, declined by 20% compared to 2015 but have not declined at the same rate of earnings as three of the five financial measures were met, as were a material portion of the key performance measures. In addition, the specialist scheme is primarily weighted towards KPI performance and thus not directly impacted by financial performance. More employees participated in this scheme during 2016. Some of the business units generated a strong performance, such as Libfin, which resulted in increased incentives in that business unit. Within STANLIB, some of the franchises had a much improved year and as a result, the incentives for those franchises were higher than 2015, although STANLIB as a whole declined, as did STANLIB Africa. Deferrals declined by 17% which is attributable to the lower short-term incentives for senior management.
- Long-term incentives awarded were 6% down on 2015 and reflect individual performance as well as retention and market benchmarks. The vesting of the restricted share plan is subject to performance conditions and the adverse financial results of 2016 have had a negative impact on the vesting of the awards issued in 2014. As a result 50% of the shares that were due to vest in 2017 will be forfeited, which equates to approximately R15,2 million in value.

Looking forward, the remuneration policy will continue to support the delivery of the business strategy and drives sustainable growth in return to shareholders, subject to operating within the approved risk appetite.

Summary of the group's remuneration policy, structure and processes

Liberty's remuneration policy ensures as far as possible that its employee and shareholder interests are aligned. The remuneration policy is linked to the group's strategy as detailed in this report. Competitive remuneration, which is fair to both the individual and to shareholders, is critical in attracting and retaining the best people. Key principles of the policy include:

- remuneration practices which encourage behaviour consistent with the group's vision, purpose and values;
- remuneration practices which do not encourage excessive risk taking outside of the group's risk appetite;
- remuneration practices that are not based on race and gender discrimination, as well as internal and external parity;
- the remuneration focus is on total remuneration. It is referenced to "like-for-like" market remuneration levels, adjusted for relative experience and responsibility levels;
- the total remuneration package is geared to meeting both short-term operational goals and long-term strategic objectives;
- fixed and variable pay is appropriately structured according to seniority and roles;
- a strong correlation exists between performance and total remuneration, allowing for upside opportunities for exceptional performance;
- individual rewards are determined according to group, business unit and individual performance; and
- the cost to the business is an important consideration in the design of remuneration structures to ensure an efficient approach to remuneration.

Ensuring alignment of remuneration with risk taken

The chief risk officer reports to the remuneration committee (remco) on any excessive risk taking or issues that the committee should be aware of in relation to the remuneration schemes that Liberty utilises and this is considered when determining short- and long-term incentive awards. The reporting includes assessment against the SAM framework and Governance and Risk Management Framework for Insurers as developed by the FSB.

Remuneration practices of non-South African group subsidiaries

The same remuneration philosophy and principles are materially practiced within group subsidiaries domiciled outside the borders of South Africa, taking cognisance of specific in-country circumstances, economic conditions and legislation.

Minimum shareholding for executive directors

With effect from February 2015, the executive directors (currently Messrs T Dloti and CG Troskie) are required to maintain vested shareholdings valued at least at the average of their last three years' total remuneration. As this requirement was only introduced in 2015, the executive directors have a phase-in period to align to this holding requirement. The holding requirement has been extended to key business area executives from February 2017.

Until the required shareholding is met, the full restricted share value of executive directors' remuneration that vests will be retained.

From 2017, the shareholding requirement will change to a multiple of guaranteed package where the group CE will be required to hold a multiple of three times his annual guaranteed package and other key executives a multiple of two times their annual guaranteed package in vested shares.

Remuneration structure

Our 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.

GUARANTEED REMUNERATION Salary level is based on function, experience and market pay levels

Base salary and benefits

Liberty enhances the value created by individual employees by allowing package structuring to align with personal financial requirements, including the ability to increase life and disability cover, leave entitlement and contributions to retirement funds. This structuring must be within the total guaranteed remuneration package and be compliant with labour and taxation legislation.

ELEMENT	BUSINESS OBJECTIVE	POLICY DETAIL
Basic salary	To attract and retain employees in line with the scope, nature and skills requirements of the role.	Our standard is to benchmark to the market median for financial services. Reasonable differentiation exists in remuneration for attracting and retaining critical skills, experience, performance and driving transformation. Salary increases are scheduled annually effective 1 April and reflect a market-related adjustment based on inflation, market and financial sector trends. At an individual level, the employee's performance and market comparison per job grade informs the increase.
Compulsory benefits	Enables employees to have appropriate savings resources for their retirement and maintain a healthy lifestyle.	Membership of the Liberty defined contribution fund is compulsory for all new employees. All staff funds include life and disability cover. All staff are contractually obliged to belong to a medical aid, either the closed Liberty administered medical scheme, or their spouse's medical scheme.
Optional benefits and qualifying allowances	To enhance the package available to employees and assist with retention and productivity.	These benefits and allowances include, for example, funeral cover, car allowances, spouse's life cover etc.

Our people – our most valuable asset (continued)

VARIABLE REMUNERATION

Variable remuneration awards are based on group, business area and individual performance

Short- and long-term incentives

The primary role of variable remuneration is to drive performance within risk appetite, retain key employees and ensure alignment between executives and shareholders. There is a strong correlation between objectively-measured performance and levels of remuneration. An annual performance contract exists for every role, defining and clarifying the objectives and outputs required of each person. Performance contracts and incentive structures identify and clarify measurable (financial and non-financial) deliverables and indicators against which performance can be measured over defined periods. Formal reviews of these performance contracts take place to ensure transparency in performance feedback, to identify development needs and to determine corrective action where appropriate. The year-end performance review is used as an input for salary increases and incentive awards.

ELEMENT	BUSINESS OBJECTIVE	POLICY DETAIL
Short-term – Annual cash payment Short-term – Annual deferral above certain thresholds	To align employee and company interests to achieve stated objectives in a particular year, whilst balancing short-term performance and risk taking with sustainable value creation for shareholders.	The schemes are based on a series of financial targets and non-financial objectives. With the exception of the STANLIB's scheme, the remco has the discretionary right to adjust actual financial performance for any items they determine were not in management's control. Key principles include minimum qualifying service periods in the year, pro rata adjustments for service periods of less than a year and a pre-condition of being in the employment of the group at award date. Awards above R500 000 are subject to deferral.
Long-term incentives	The primary role of long-term incentive awards is to align management objectives closely to those expected by shareholders. Long-term plans supplement deferred short-term incentive awards to effectively assist in the retention and motivation of key management and critical skills.	All awards are discretionary and subject to performance conditions. The general policy is that awards are made annually taking into consideration total remuneration benchmarks to ensure that the award is a benchmarked multiple of guaranteed package. In addition, the role and performance of the individual and the need to retain their services in the future are taken into account.

Remuneration of tied agents

Liberty distributes various insurance and investment products via several independent and tied sales channels. The tied sales channels include tied agents who are exclusively contracted to and managed by Liberty. Their remuneration structures are based on set commission rules linked to the quality, quantum and mix of products sold. There is normally a basic minimum monthly rate of earnings, however the majority of agents' commission earnings are well in excess of this minimum basic amount. Included in the commission rules are clawback provisions which apply in the event that policies or investment contracts lapse within prescribed periods from sale date. Various customer retention, quality and volume incentives are offered to assist in achieving sales and customer retention targets. Based on performance and grading, certain tied agents in South Africa qualify for either a cash-settled unit scheme linked to Liberty Holdings share price payable after three years, or a deferred STANLIB unit trust forward purchase scheme, with a delivery period of three years. Awards under these schemes are used as retention schemes and are conditional on remaining contracted with the group and minimum performance criteria. Tied agents are also eligible, on a voluntary basis, to join the group's sponsored medical aid scheme and various defined contribution retirement schemes.

Remuneration processes

Benchmarking

Liberty employees are generally benchmarked to the 50th percentile as informed by market survey data. Where necessary, employees are paid closer to the upper quartile of the market to take cognisance of scarce skills. Proportionately higher guaranteed remuneration increases for lower staff levels have been implemented since 2010 in order to narrow the differentiation between management and general staff. Liberty's minimum entry level salary package is R122 850 per annum.

The group has adopted a portfolio remuneration approach, in terms of which remuneration structures are designed to reward employees appropriately for performance achieved in their respective business areas in addition to the overall group performance. Consideration is given to the market sector, maturity and life cycle of the business area.

Remuneration processes (continued)

Benchmarking (continued)

Liberty uses various independent service providers to ensure that it remunerates employees competitively and care is taken to select appropriate peer groups, ensuring comparison to a similar market and organisations of a comparable size. Factors such as industry, revenue, profits, market capitalisation and number of employees are considered. During 2016, 21st Century Pay Solutions, PricewaterhouseCoopers (PwC), PwC Remchannel, Mercer Consulting and Employment Conditions Abroad conducted surveys on our behalf on remuneration trends and benchmarking of remuneration and benefits as well as remuneration regulations and compliance. In addition, input is obtained from Standard Bank to ensure alignment where relevant.

Employee transfers between Liberty and Standard Bank

The remuneration policy of Liberty and Standard Bank allows for portability whereby approved transfers within the group allow for the continuation of certain benefits including past unexercised equity-settled or cash-settled grants. The derived IFRS 2 costs in relation to the portion of unvested equity-settled grants on Standard Bank ordinary shares or cash-settled schemes are raised as an expense in Liberty from date of transfer. Similarly, the relevant Standard Bank business unit bears the IFRS 2 costs of unvested equity-settled and cash-settled Liberty awards if employees are transferred from Liberty to another Standard Bank group business unit. Once transfers are effective, employees are only eligible to receive further long-term incentives from the new employer.

Retention agreements

Retention agreements are only entered into in exceptional circumstances. Retention payments have to be repaid should the individual concerned leave within a stipulated period. At 31 December 2016 there are no significant retention agreements in force.

Guaranteed bonuses

Guaranteed bonuses are made by exception in the context of hiring and only in relation to the first year. Payments of guaranteed bonuses are subject to meeting required performance standards.

Buy-out awards made on hiring

To attract key employees it is sometimes necessary to compensate for the loss of unvested awards in their previous company. This would normally be through the appropriate group scheme subject to normal vesting terms. In certain situations, cash buy-out awards may be made on joining, subject to repayment if the employee leaves the group within a certain period.

Termination payments

Although there are no long-term employment contracts in place in the group, severance benefits may be required to be paid which is determined by reference to prevailing labour law and Liberty precedents.

There is an appropriate governance process in place to approve all types of payments listed above.

Summary of short-term incentive schemes (STIs)

Incentive scheme	Reference	Employee applicability: South Africa	Employee applicability: Africa
Senior management and specialists	STI – 1	✓	✓
STANLIB short-term	STI – 2	✓	✓
LibFin markets	STI – 3	✓	
Liberty general staff	STI – 4	✓	✓

STI – 1 *Senior management and specialists incentive scheme*

This scheme is applicable to senior management and specialists not included in the STANLIB short-term or LibFin markets schemes.

The scheme is designed to incentivise senior management and specialists to achieve the group and specific business area's annual business plans that support the board approved strategy.

There are two performance components of the scheme, the first being personal objectives (non-financial measures) and the second being financial targets. The specialist incentive arrangement focusses less on financial outcomes as compared to the senior management arrangement.

At the lowest participation level, 15% of the guaranteed package is set for personal Key Performance Indicators (KPIs) increasing to 20% at higher participation levels. In the event that the minimum financial targets (gate) are not attained, only the KPI component, moderated through the performance management process, is available to be paid as an incentive bonus. As from 2016, the KPI component allows for out-performance which is capped at 125% of the allocated KPI weighting.

The financial component scale has at each participant level a predetermined percentage of guaranteed package at various reference points, which then determines the amount of the incentive to be awarded. Participation levels range between 15% and 120% (the participation level of the group chief executive is 140%) of guaranteed package at the "on target" level. "On target" is the performance level that the board believes will represent an achievement in line with average realistic shareholder expectations. Amounts awarded are adjusted for achievement above or below this level with a minimum achievement of approximately 80% of "on target" set to qualify for any financial bonus. The remco also imposes a discount adjustment if certain key non-financial objectives are not met, which vary from year to year (for example the achievement of employment equity targets).

Our people – our most valuable asset (continued)

In an effort to ensure that risk officers, internal auditors and compliance officers do not compromise their independence, annual incentive awards for this group of staff are focused less on financial target delivery. These employees' annual incentive awards are weighted more towards the achievement of individual KPIs.

Incentive awards may be forfeited if risk appetite is breached and incentives over a certain threshold (established annually) are deferred into the Liberty Holdings group restricted share plan (see detail under the long-term incentive scheme section below). The purpose is to ensure a retention component to the STI methodology and to focus management on the longer term financial results. In addition, a clawback provision is in place over the deferral portion until vesting. Unvested deferrals may be forfeited in full or in part at the remco's discretion if, in their opinion, the particular participant has demonstrated misconduct or has misstated financial performance in the current or prior years.

Annual determination of short-term incentive financial targets

Financial targets supporting the various short-term schemes are approved by the board annually.

Financial targets are set to drive sustainable profitable growth and not be detrimental to the group's long-term interests. Management propose targets to the board that provide appropriate incentivisation, are sufficiently challenging, are aligned to shareholders' interests and are within the group's risk appetite.

Targets are agreed at the start of the year both at a group and business area level and are aligned to minimum required returns using cost of capital as a base. The entire Liberty Holdings Limited executive as well as the majority of senior management have a minimum weighting of 40% as from 2016 (previously 20%) of their financial targets aligned to group performance.

The group financial targets comprise the following measures:

- *IFRS operating earnings (35% weighting)*

Defined as normalised headline earnings excluding the performance on the Shareholder Investment Portfolio (SIP) and unhedgeable components of asset/liability mismatches. This measurement was chosen given its relevance to those earnings that management's performance has the most direct influence over. The 2016 "on target" level was set at R2 966 million.

- *Increase in group equity value (35% weighting)*

This reflects the group equity value profits normalised for the assumed annual long-term investment return and measured before dividends to Liberty Holdings Limited ordinary shareholders, share buy-backs and other capital transactions.

Remco chose this measure as this reflects the best estimate of value generated by the business during the year and is normally closely correlated to share price performance. The 2016 "on target" level was set at R5 816 million.

- *LibFin SIP gross return relative to benchmark (3 year rolling average) (10% weighting)*

This measure reflects the under or over performance of the SIP compared to a defined benchmark which, as from 2016, is measured against a 3 year rolling benchmark to encourage long-term sustainability. Given the significant size of the SIP and the sensitivity of the contribution to group earnings, remco chose this indicator to ensure focus by management on the performance of the SIP.

- *Group cost savings target (pre-tax) (10% weighting)*

The saving is calculated as a variance from budget pre-tax savings from management and super-commission expense costs to ensure that there is group alignment from a cost savings perspective.

- *Group net client cash flows (10% weighting)*

The measure includes asset management external flows, money market and insurance cash flows. The measure reflects cash generation activities to defined targets.

Summary of South African participant categories on the senior management and specialist incentive scheme

% OF ANNUAL SALARY PACKAGE	Senior management (excluding risk, compliance and technical specialists)	Senior management fulfilling risk and compliance roles	Senior management fulfilling technical specialist roles
Personal key performance indicators	20% (with out-performance opportunity to maximum of 125% of this weighting)	Maximum of 100%	Maximum of 45%
	+	+	+
Financial targets (split between group and business area, with a minimum weighting of 40% to group targets)	Maximum of 120% for on target[1] measure – scaled for under- or outperformance	Maximum of 20% for on target[1] measure – scaled for under- or outperformance	Maximum of 15% for on target[1] measure – not scaled
Financial scale:	Yes	Yes	No
Below minimum threshold	Nil award	Nil award	Nil award
Above minimum threshold	Bonus increases in line with proportional scale	Bonus increases in line with proportional scale	Capped to set percentage
	–	–	–
Strategic non-financial target discount[2]	Up to 20%	Up to 20%	Up to 8%
	EQUALS TOTAL AWARD		
Deferred into restricted shares, vesting in 18, 30 and 42 months with no performance conditions	• Between R500 000 and R2 million – 20% of excess over R500 000 • Above R2 million up to R5,5 million – 30% of the excess over R2 million • Above R5,5 million – 40% of the excess above R5,5 million		

[1] *"On target" is normally referred to the board approved budget.*

[2] *Specific non-financial targets set annually by the board which result in a penalty in the personal key performance indicators component if not met.*

STI – 2 *STANLIB short-term incentive scheme*

This scheme is a profit sharing arrangement and is applicable to STANLIB investment professionals and shared services employees. Bonus pools are calculated as pre-defined shares of adjusted profit at a franchise unit and STANLIB group level. The investment franchise pools are calculated separately for each franchise to ensure remuneration is aligned to the underlying success of the franchise. The bonus pool is then allocated to participants based on their performance. Similarly the shared service pool is calculated at a pre-defined share of STANLIB profits taking into account the cost of franchise incentives. Individual incentive awards are based on individual key performance indicators and business performance. The pool is shared between distribution staff, general staff and management. Up to 50% of the awards are deferred into the STANLIB deferred bonus scheme or the Liberty Holdings group restricted share plan (deferred plan). Refer to LTI – 2 and LTI – 4.

STI – 3 *LibFin markets scheme*

Investment professionals in LibFin, given the specialist nature of the skill set required, are eligible for short-term incentive awards that are specifically benchmarked on an annual basis to market related data. This is obtained from the Standard Bank Global Markets remuneration unit and other independent sources as required. The amount of the STI award is linked to the performance of each participant and the business unit against pre-determined key performance targets. As described under STI – 1, these awards are subject to deferrals and forfeitures.

STI – 4 *Liberty general staff incentive scheme*

A general staff incentive scheme (excludes all staff on the senior management incentive scheme, the STANLIB short-term incentive scheme and the LibFin markets scheme) rewards staff based on individual, business unit and group performance. This scheme can pay awards of up to 20% of annual total package. Individual awards granted do not exceed the deferral thresholds.

Our people – our most valuable asset (continued)

Summary of long-term incentive schemes (LTIs)

Current	Reference
Liberty Holdings Group restricted share plan (long-term)	**LTI – 1**
Liberty Holdings Group restricted share plan (deferred plan)	**LTI – 2**
Liberty Equity Growth	**LTI – 3**
STANLIB deferred bonus	**LTI – 4**
Business unit long-term	**LTI – 5**
Share unit rights plan	**LTI – 6**

Legacy	Reference
Phantom share	**LTI – 7**

LTI – 1, LTI – 2 and LTI – 3 are accounted for as equity-settled share schemes. The other schemes are cash-settled. Staff and management have outstanding awards under the various legacy plans that will vest and be settled under the rules in force at the time of grant. The remco does not intend to make any further awards under these plans.

LTI – 1 *The Liberty Holdings group restricted share plan (long-term)*

Long-term incentive awards are discretionary as considered by the group chief executive. The quantum of the award at individual level is guided by:

- publicly disclosed remuneration information as well as total remuneration benchmarks;
- affordability and annual allowable number of long-term incentives available;
- the role, performance and future retention of an employee is taken into account in the long-term incentive award decision; and
- employees fulfilling key and critical roles are considered for annual long-term incentive awards.

Awards are in the format of fully paid-up shares in Liberty Holdings Limited which are held in a trust subject to vesting conditions (service and performance) and will be forfeited if these conditions are not met during the performance measurement period.

PERFORMANCE CONDITIONS	• Awards granted are subject to performance conditions linked to achieving a cumulative return on group equity value in excess of cumulative cost of equity; • The cost of equity target is approved by the board annually and performance in excess of the target, measured over the vesting period, will ensure vesting of 100% of long-term incentives; • The return on group equity value is normalised for economic assumption changes and investment variances and is calculated on a cumulative basis; • A vesting scale for performance below target levels allows for proportionate vesting of long-term incentives; • Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the relevant awards will reduce or lapse in line with the vesting scale; • Unvested shares are forfeited on termination of employment; and • No re-testing of performance conditions is permitted.	
VESTING PERIOD	• Awards granted before 28 February 2013: 33⅓%: 2, 3, 4 year anniversary performance condition on 4th year vesting.	• Awards granted after 28 February 2013: 33⅓%: 3, 4, 5 year anniversary performance condition on all vestings.
OTHER	• Applicable dividends are paid to participants as and when paid by Liberty; • No voting rights are attached to the shares held in trust; • Liberty Holdings Limited executives can elect to take up to 50% of the deferral award in share rights through the Equity Growth scheme. A 10% premium is provided on those elections to reward the greater level of uncertainty, the longer vesting period and the absence of dividend rights; • Shares cannot be issued by the company, but have to be acquired in the market; and • Share awards are based on the Liberty Holdings Limited share price one week prior to the last day to trade cum dividend on the JSE.	

The second vesting tranche of the 2013 awards and first vesting tranche of the 2014 awards are subject to financial performance conditions referenced to the results for the vesting period ended 31 December 2016. The performance condition linked to the second vesting tranche of the 2013 awards has been satisfied. The performance condition relating to the first vesting tranche of the 2014 awards has not been fulfilled and only 50% of the award will be released for vesting.

LTI – 2 *The Liberty Holdings group restricted share plan (deferred plan)*

Annual short-term incentive performance bonus payments in excess of thresholds, arising from the senior management incentive scheme and the LibFin markets scheme determined annually by the remco, are subject to mandatory deferral. This is achieved by investing the deferred portions of the STI awards into Liberty Holdings Limited shares, which are held in a trust subject to vesting conditions.

PERFORMANCE CONDITIONS	• Not applicable. Short-term incentive bonus was already dependent on achievement of performance targets; and • Unvested shares are forfeited on termination of employment.		
VESTING PERIOD	• 18 months – 33⅓%	• 30 months – 33⅓%	• 42 months – 33⅓%
CLAWBACK	• Awards may be reduced or forfeited in full or in part, if in the remco's judgement there has been misconduct or materially adverse misstatement of financial results.		
OTHER	• Applicable dividends are paid to participants as and when paid by Liberty; • No awards granted if the group does not pay incentive bonuses in a particular financial year; • No voting rights are attached to the shares held in trust; • Shares cannot be issued by the company, but have to be acquired in the market; • Share awards are based on the Liberty Holdings Limited share price one week prior to the last day to trade cum dividend on the JSE.; and • Key STANLIB executives are required to invest 20% of their deferred incentive into Liberty restricted shares.		

LTI – 3 *The Liberty Equity Growth scheme*

Executives are awarded a conditional right to receive shares equal to the value of the difference between the share price at the time that the rights were granted and the share price when the rights are exercised (should the price of a Liberty Holdings Limited share appreciate in value).

PERFORMANCE CONDITIONS	• Awards granted are subject to performance conditions linked to achieving a cumulative return on group equity value in excess of cumulative cost of equity; • The cost of equity target is approved by the board annually and performance in excess of the target, measured over the vesting period, will ensure vesting of 100% of long-term incentives; • The return on group equity value is normalised for economic assumption changes and investment variances and is calculated on a cumulative basis; • A vesting scale for performance below target levels allows for proportionate vesting of long-term incentives; • Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the relevant awards will reduce or lapse in line with the vesting scale; • Unvested shares are forfeited on termination of employment; and • No re-testing of performance conditions is permitted.		
VESTING PERIOD	• 3 years – 50%	• 4 years – 25%	• 5 years – 25%
OTHER	• No rights are issued at a pricing discount; and • Right holders are not entitled to dividends and do not have voting rights		

LTI – 4 *The STANLIB deferred bonus scheme*

Annual short-term incentive performance bonus payments up to 50% are subject to mandatory deferral. This is achieved by investing the deferred portions of the STI awards into units of nominated STANLIB-managed unit trusts.

PERFORMANCE CONDITIONS	• Not applicable. Short-term incentive bonus was already dependent on achievement of performance targets. This scheme facilitates only the deferral of the cash payment; and • Unvested awards forfeited on termination of employment.
VESTING PERIOD	• 1 to 3-year cliff vesting
OTHER	• No awards granted if the company does not pay incentive bonuses in a particular financial year.

LTI – 5 *Business unit long-term incentive schemes*

Certain executives and senior management members of certain business units participate in additional LTI schemes. These schemes are business unit-specific and are referenced to value created over periods of between three and seven years. Any amounts accrued under these schemes are cash-settled. Certain of the schemes have extended payment periods past vesting dates. Participants who leave the group prior to vesting or payment date forfeit any unvested or deferred amounts.

The only active scheme at 31 December 2016 is in respect of Liberty Health.

Our people – our most valuable asset (continued)

LTI – 6 *Share unit rights plan*

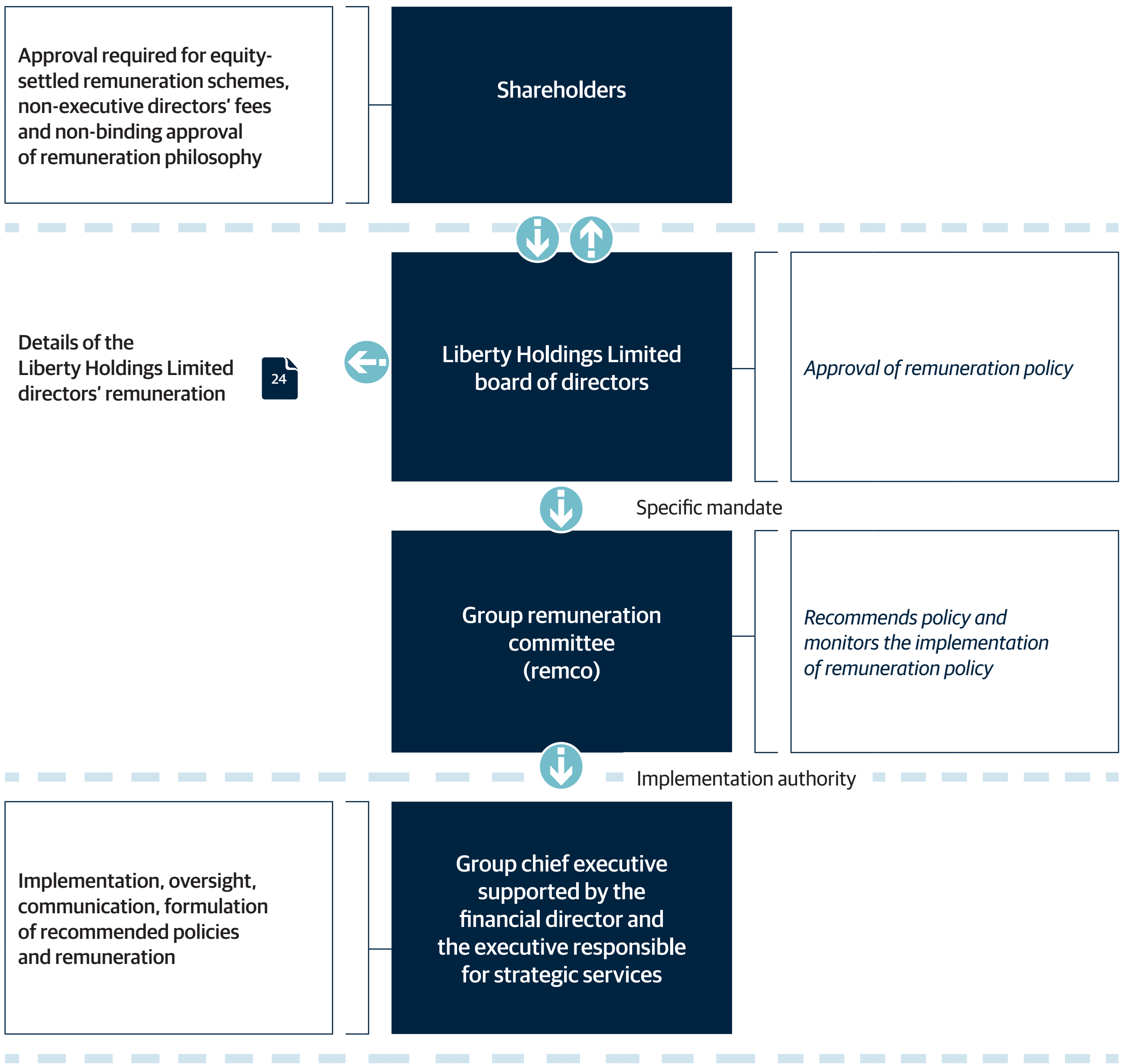
Units were allocated to executives and senior management at the discretion of remco. Each unit value is directly linked to the share price of one Liberty Holdings Limited ordinary share. The unit values are settled in cash, three years after the grant date, subject to the continued employment of the participant over the three-year period. Historical awards are not adjusted for Liberty Holdings Limited dividends paid. The last vesting date for the remaining unvested share unit rights is March 2017.

LTI – 7 *Phantom share scheme*

On 12 June 2006, Liberty Group Limited reduced its capital by approximately R1 billion, or R3,60 per share, which was paid out to shareholders from the share premium account. Share option/right holders were not entitled to receive dividends on their share options/rights and therefore each member who had outstanding share options/rights at that date, received a participation right in a phantom share scheme to compensate for the economic opportunity cost applicable to the capital no longer available. The last vesting date for these participation rights is 12 June 2018.

Governance of remuneration

The policies and levels of remuneration at Liberty are set within a governance framework. The diagram below outlines the main levels of authority within this framework:



Purpose and role of the remuneration committee

The primary purpose of the remco is to ensure remuneration practices and policies support the delivery of the business strategy. The remco implements its board mandate through interaction with shareholders (where necessary), board members, external consultants, Standard Bank and management. Thorough independent external research on remuneration best practice, industry and country specific trends and role profile benchmarking assist the committee in formulating policy and remuneration structures at Liberty. The committee members have unrestricted access to information to independently ensure compliance with the group risk appetite, policy and regulatory requirements. There is effective communication with relevant executives to enable them to manage their employees within the approved policies. They are assisted by dedicated human resource experts and sub-committees which focus on specific issues. The key objective is an appropriate link of levels of remuneration to business performance and strategy implementation while operating within the group's approved risk appetite and governance framework.

Remuneration disclosures

Accounting for remuneration

IFRS and the group's accounting policies determine the accounting treatment of each component of remuneration, with detailed disclosures within the relevant notes to the annual financial statements. In summary, costs are accounted for in relation to the applicable service rendered with deferred short-term incentives being expensed over the applicable qualifying periods, adjusted for the expected outcome of applicable performance conditions. The liability for long-term cash incentive schemes is measured annually utilising probability-adjusted future expected outcomes present valued at appropriate risk-free rates. Equity-settled share-based payments are valued at grant date and expensed over the vesting periods.

Prescribed officers

The promulgation of the Companies Act No. 71 of 2008 and associated regulations in May 2011 introduced the concept of prescribed officers and related remuneration disclosure. The group's directors' affairs committee and remco considered the new act and obtained legal opinion. The committees' view is to assess the prescribed officer definition from a specific company rather than group perspective. Accordingly, Messrs Thabo Dloti and Casper Troskie meet the definition from a management perspective in respect of the Liberty Holdings Limited company. Their remuneration details are detailed in the Remuneration of directors and prescribed officers section.

Liberty Holdings Limited executive committee remuneration

R'000	2016	2015
Fixed	**41 619**	44 295
Cash portion of package	**36 449**	39 401
Other benefits	**1 433**	1 115
Retirement contributions	**3 737**	3 779
Variable[1]	**32 180**	68 575
Cash bonus	**23 598**	50 352
Deferred bonus	**8 582**	18 223
Long-term incentives	**51 500**	53 250
Value of restricted shares/rights granted[2]	**51 500**	53 250
Total[3]	**125 299**	166 120
Guaranteed pay	**41 619**	44 295
STI awards	**23 598**	50 352
LTI awards (including STI deferral)	**60 082**	71 473
Total	**125 299**	166 120

(1) *In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.*

(2) *The award value of restricted shares is the number of restricted shares granted times by the share price at award date. Rights granted are valued using option pricing methodology. Both are subject to performance conditions and service duration. The value granted refers to the awards approved by the remuneration committee in February 2017 and 2016 in order to align to the performance periods of 2016 and 2015, respectively.*

(3) *The composition of the executive committee members has changed from the comparative year, so the numbers are not comparable.*

Full details of the remuneration of Messrs Thabo Dloti (CE), and Casper Troskie (financial director) are contained in the Remuneration of directors and prescribed officers section of this report.

Our people – our most valuable asset (continued)

Summary of incentive schemes at 31 December 2016

Description	Eligible participants	Number of participants[1] 2016	Number of participants[1] 2015	Award amounts[2] Rm 2016	Award amounts[2] Rm 2015	IFRS expense (see note below) Rm 2016	IFRS expense (see note below) Rm 2015	Number of rights and shares[4] 2016
Short-term				**486**	598	**625**	660	
Senior management and specialists[5]	Senior management and specialists not included in other specific schemes	**623**	594	**240**	327	**316**	348	
STANLIB short-term[5]	Investment professionals and senior management employed by STANLIB	**235**	168	**103**	111	**107**	101	
LibFin markets[5]	Investment professionals	**25**	14	**38**	31	**80**	38	
Liberty general staff[5]	Staff not included in the above mentioned schemes	**4 194**	4 548	**105**	129	**122**	173	
Long-term				**292**	313	**205**	228	
Liberty Holdings group restricted share plan (long-term)[6]	Selected executives	**159**	216	**155**	168	**82**	83	**3 047 357**
Liberty Holdings group restricted share plan (deferred)[6]	Participants of the senior management scheme that receive awards in excess of thresholds	**243**	252	**56**	64	**49**	54	**746 755**
Liberty Equity Growth[6]	Selected executives	**161**	238	**5**	4	**3**	5	**2 333 919**
STANLIB deferred bonus[5]	Investment professionals and senior management employed by STANLIB	**142**	137	**76**	77	**67**	80	
Business unit plans[3] [5]	Selected business unit executives	**9**	9					
Share unit rights plan[5]	Selected executives and senior management	**7**	7			**4**	6	
Phantom share scheme[5]	Liberty Group Limited share option holders on 12 June 2006	**18**	35					
Total				**778**	911	**830**	888	

[1] *Number of participants reflect, in respect of short-term schemes, the total number of individual awards granted for the reporting period and in respect of long-term schemes, participants that have outstanding awards at 31 December (either not vested or vested but not exercised).*

[2] *Award amounts reflect, in respect of short-term awards, the approved amounts relating to the financial performance for the past financial year and in respect of long-term awards the amounts awarded in relation to the financial performance for the past financial year and ad hoc awards awarded in the calendar year.*

[3] *Awards on long-term business units plans are only determined in the year of vesting.*

[4] *Number of rights and shares represent the outstanding awards not as yet vested or vested but not exercised.*

[5] *Cash-settled.*

[6] *Equity-settled.*

IFRS expense:

Due to the timing of the award finalisation being post year end, the IFRS accruals for short-term awards are not fully aligned.

IFRS requires long-term awards to be amortised over the vesting period adjusted for the probability of performance being met. Therefore, the award and expense amounts are not directly comparable.

Refer to appendix B in the annual financial statements for full details of rights and restricted share awards.

A regulatory framework for industry value

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

Adapting to regulatory and environmental change is one of the group's principle strategic risks. Our 2020 Strategy has been formulated in the context of the rapidly changing regulatory environment. We welcome practical and cost effective regulation.

We support government initiatives that promote social reform and provide broader access to pensions and savings. We are optimistic about greater regulatory alignment and clarity throughout the sub-Saharan region. Liberty contributes a significant amount in taxes to the South African Revenue Services (SARS).

THE PRIMARY OBJECTIVES OF THE REGULATORS ARE:

- Fair treatment of financial institution customers;
- Financial soundness of financial institutions;
- Systemic stability of financial services sector;
- Integrity of financial markets and institutions; and
- Financial literacy and capability.

Key themes of regulatory reforms:

Retirement reform	Market conduct
• Increase national savings	• Treating Customers Fairly
• Preservation of savings	• Retail Distribution Review
• Annuitisation of savings	• Solvency Assessment and Management
• Access to products	

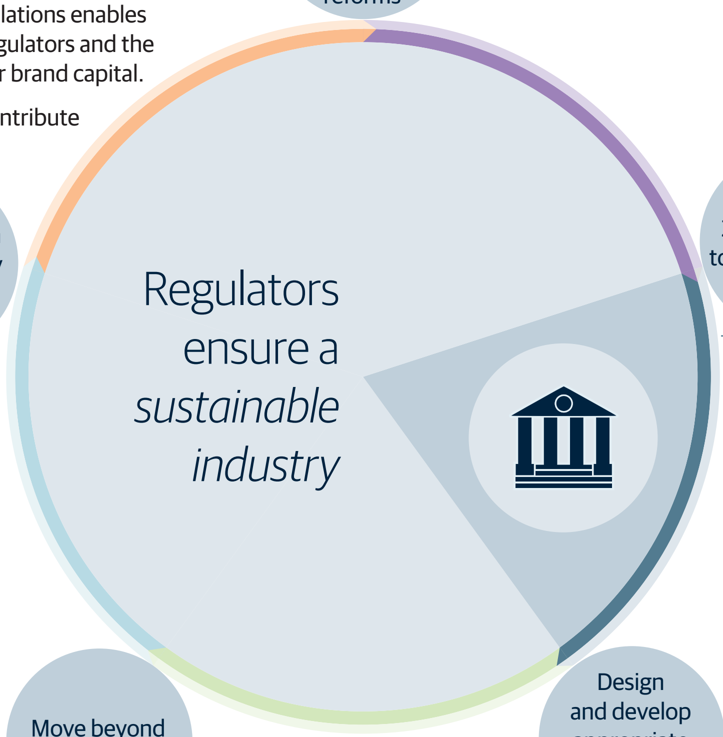
Understand our regulatory environment and anticipated reforms

We engage with the FSB, SARB, National Treasury, regulators in other countries and actively participate in industry forums

Positive and constructive engagement with regulators and policymakers.

Being compliant with all regulations enables us to build trust with both regulators and the general public, enhancing our brand capital.

The taxes that Liberty pay contribute to government revenues.



Recognised as a trusted industry participant

Align our 2020 strategy to the regulatory environment

To enhance customer and shareholder value we continue to:

- Develop new distribution channels and technologies – multi-channel environment
- Facilitate customer interaction
- Build on opportunities for Group Arrangements and STANLIB arising from retirement reform
- Maximise the local presence advantage of STANLIB to grow our asset management business across sub-Saharan Africa

We are committed to maintaining the highest levels of compliance, 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.

Move beyond compliance

Design and develop appropriate products and services

We consider the impact of regulatory changes on customer needs with a view to developing innovative, relevant and compliant products to better serve targeted customer segments.

A regulatory framework for industry value (continued)

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. The FSB's role is set to change when the Financial Sector Regulation Bill is enacted.

Legislation administered by the FSB includes:

- Long-term Insurance Act;
- Financial Advisory and Intermediary Services Act (FAIS);
- Financial Markets Act ;
- Pension Funds Act;
- Financial Intelligence Centre Act; and
- Consumer Protection via the Treating Customers Fairly (TCF) framework.

Historically, the purpose of insurance industry regulation has been to ensure that minimum capital adequacy and solvency levels are achieved, ensuring insurers can meet their obligations in the event of a risk event. While regulation in this area continues to develop as regulators embrace risk-based capital models, regulatory developments further abroad are increasingly directed at improving the trust relationship between insurers and their customers.

The South African regulatory environment follows this and other international trends.

Key developments within South Africa are:

Financial Sector Regulation Bill (Twin Peaks initiative)

The Bill includes recommendations to improve National Treasury's legal enforcement and clarifies the role of the regulators. The Twin Peaks model will split regulation of the financial services sector into prudential services and market conduct. A new Prudential Authority, within the SARB, will oversee the risks affecting the soundness of financial institutions and the financial system as a whole. A Financial Sector Conduct Authority (FSCA) is envisaged to replace the current FSB and will oversee market conduct, including reckless lending practices, excessive fees and unfair product terms.

These two new regulators will significantly intensify the regulatory supervision of financial services institutions. Liberty has performed an assessment of current operating structures, focusing on aspects of governance, controls and assurance, to ensure that increased regulatory reporting requirements are met.

Liberty whistleblower hotline contacts:

0800 204557 (South Africa)
+27 12 543 5383 (International)

Insurance Bill

The Insurance Bill was tabled in Parliament in January 2016.

Prudential regulation of the insurance industry is contained in this Bill. The Bill gives effect to national government policy objectives by enhancing:

- access to insurance by introducing a micro-insurance regulatory framework;
- the financial soundness of insurers and the financial services sector, while also protecting policyholders by:
  - introducing a new Solvency Assessment and Management (SAM) regime;
  - introducing a framework for insurance group supervision; and
  - enhancing reinsurance arrangements.
- alignment with international standards in accordance with South Africa's G20 commitments.

Solvency Assessment and Management (SAM)

SAM follows international best practice in introducing a risk based solvency regime around capital adequacy, risk governance and risk disclosure for insurers. SAM will prompt insurers to re-examine their risks and ensure they have sufficient capital to cover those risks. Under SAM, the internal view of economic capital will become virtually identical to the regulatory capital requirements. SAM will facilitate a better understanding of Liberty's actual risks, while also creating incentives for state-of-the-art risk management and ensure greater risk transparency. Following comprehensive parallel runs in 2015 and 2016, Liberty is well positioned to implement the SAM framework.

Market conduct

Treating Customers Fairly (TCF)

TCF is an outcomes-based regulatory and supervisory approach designed to ensure that specific and clearly articulated fairness outcomes are delivered by regulated financial service providers. Specifically, TCF aims to help customers fully understand the features, benefits, risks and costs of their financial products and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.

TFC 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; and
6. Customers do not face unreasonable post-sale barriers to change product, switch providers, submit a claim or make a complaint.

TCF is embedded in Liberty's culture and impacts on all areas of our business. It impacts on the way decisions are made, how we handle and engage with customers, how actions are taken; and the provision of the correct level of evidence to demonstrate this. TCF regulations will be introduced incrementally through inclusion in new legislation, education and guidelines, and will be a core focus of FSB investigations into financial services practices.

Retail Distribution Review (RDR)

RDR's main purpose is to ensure that insurance distribution models are aligned to TCF outcomes. In so doing, RDR promotes appropriate, affordable and fair advice and supports a sustainable business model for financial advisers, who will be remunerated for providing advice rather than selling product.

RDR presents an opportunity to increase transparency throughout Liberty's products and services. We are assisting our financial advisers to become RDR ready by providing analytic tools and developing an advice proposition that customers will be willing to pay for. However, payment for advice may open an advice gap for smaller and lower income segment clients. This advice gap will need to be filled through more direct platforms, built using digital and other developing technologies. As a consequence, sales of certain products such as recurring premium endowments and retirement annuities are expected to reduce significantly.

RDR reforms will be effected in three broad phases aligned to the legislative timetable for implementing the overarching Twin Peaks financial services architecture.

Conduct of business returns (CBRs)

CBRs are market conduct returns which will form part of the off-site supervision framework for insurers. CBRs will feed into the overall market conduct risk-based supervision framework, through which conduct risk profiles for individual insurers and groups will be developed. The first revised CBR submissions are due in April 2017.

Conduct of Financial Institutions Bill (CoFI Bill)

The CoFI Bill is intended to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector. National Treasury intends tabling the CoFI Bill in Parliament in 2018.

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 is 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, will lead to significant structural reform if implemented.

Retirement Fund Reform

These reforms, announced in the 2011 budget, include changes to deductible limits of all retirement fund contributions, introduction of mandatory annuitisation of provident fund benefits and tax-free portability of retirement benefits between all retirement funds. The reforms were implemented on 1 March 2016, however, the annuitisation of provident fund benefits was deferred for two years.

Other regulatory changes

Liberty implements regulatory projects as necessary to facilitate enhancement of processes, systems and technology to enable compliance with new and amended legislation, currently including the Protection of Personal Information Act, the Cybercrime and Cybersecurity Bill and the Financial Intelligence Centre Amendment Bill.

Notable 2016 engagement activities

- Liberty held several stakeholder engagement meetings with the FSB and SARB to discuss regulatory and legislative compliance requirements.
- Liberty continues to submit comments on the FSB's RDR proposals as well as the various proposed regulatory changes as a result of the shift towards Twin Peaks (these include the FSR Bill and prudential standards, Insurance Bill and CBRs).
- Liberty continues to participate in the FSB's SAM process.
- Regular interactive engagements with National Treasury on tax and retirement reform.

A regulatory framework for industry value (continued)

Source of value

Improved business practices	Industry trust and stability	Improved government revenue collection	Creating value for customers
Liberty's participation provides: • Industry perspective on global and local regulatory developments • Insights into customer needs and concerns • Credibility to industry associations such as ASISA	Compliance ensures: • Market stability • Safeguarding of licenses • Responsible, easily understood products	Application of revenue collected to nation building and promotion of economic growth Upliftment of communities	Good governance contributes to: • Fair outcomes for customers • Responsible and relevant products • Brand trust for being a responsible corporate citizen

How the regulators and government agencies benefit

Liberty supports the regulators and the industry by participating in forums, shaping policy and regulatory frameworks	Through its commitment to fair outcomes for its customers, Liberty contributes to a trusted and transparent industry	Liberty collects taxes on behalf of its customers as well as paying applicable taxes on its own transactions and profits	Following regulatory guidelines and promoting good market conduct is a key element of Liberty's risk management and good corporate governance

How Liberty benefits

- A regulatory environment which is balanced between economic, social and industry needs
- A transparent and fairly regulated industry in which all participants are consistently supervised
- Early identification of product and services opportunities
- Brand trusted and acknowledged as a responsible citizen
- Reduced financial crime
- Contributing to "nation building" through participation in government policy formulation
- An industry structure allowing for fair treatment of customers – a trusted industry

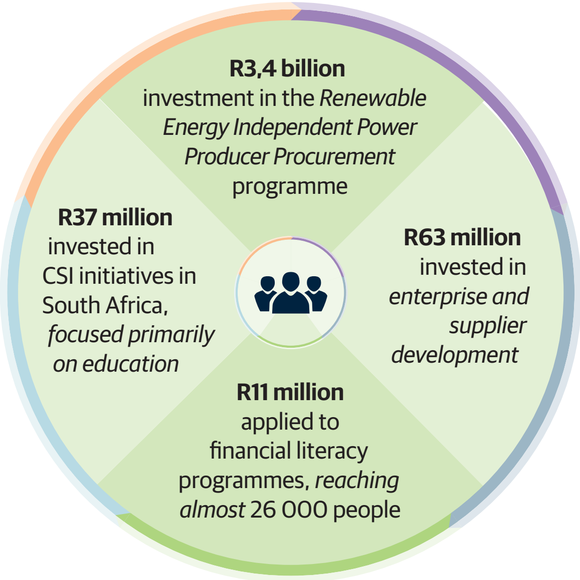
Our key performance measures

- Pro-active engagement activities
- Capital adequacy cover
- Costs invested in managing regulatory change
- Taxes collected and paid on behalf of governments
- Regulatory fines and penalties
- Number of adverse findings by industry Ombudsmen and adjudicators

Building partnerships with our communities

Liberty recognises that our ability to remain commercially sustainable depends on the growth and success of the communities in which we operate. By investing in these communities, we support their viability over the long term.

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. Through targeted and meaningful engagement, we gain an understanding of our communities' needs and insight into the quality of our relationships with these communities. Liberty has a centralised approach to corporate social investment (CSI), with a series of flagship initiatives managed in partnership with like-minded organisations.



Empowering through education

Shaped around the socio-economic needs of our communities, our CSI strategy focuses primarily on education, which we consider fundamental to creating opportunities for future employment and to building a stable economy. For almost 40 years, Liberty has focused on investing in the education and upliftment of communities in the geographies in which we operate. The group contributed R37 million to education upliftment initiatives in 2016.

The primary school programmes focus on learner development, teacher development and sharing learning materials in 20 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 more than 18 000 learners and 480 teachers in these schools during 2016.

The high school programmes focus on learner and teacher development in Mathematics and Science, primarily in Gauteng and KwaZulu-Natal. Through the Kutlwanong Centre for Maths, Science and Technology, we supported more than 900 grade 10 – 12 learners, of whom more than 250 were in matric during 2016. The project supports learners in 23 schools in Katlehong, Gauteng and surrounding areas, and 17 schools in Umbumbulu, KwaZulu-Natal and surrounding areas.

OUR SOCIAL CONTRACT

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

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

In tertiary education, Liberty supports the University of Cape Town's African Institute of Financial Markets and Risk Management, which aims to address the shortage of skills in the financial sector at postgraduate level, with a focus on increasing the number of black professionals in the industry. We also provide bursaries to students studying undergraduate degrees.

The social impact of our programmes is measured through a monitoring-and-evaluation partnership with the University of Johannesburg.

Financial literacy

To make financial freedom possible, Liberty invests in financial literacy programmes in communities and places of work. The programme recognises that financial freedom means different things to different people. Therefore the path is not mapped out in phases, but rather participants direct the outcomes they would like to achieve. Liberty provides the knowledge, the tools, the support, as well as the expertise to educate participants on financial freedom. Almost 13 000 participants were reached in 2016.

STANLIB's flagship financial literacy initiative – STANLIB Smartbucks – has, since 2012, taught financial literacy to over 60 000 learners from 300 schools in disadvantaged areas. This year's initiative alone reached over 12 500 learners from the most disadvantaged schools as selected by the Department of Basic Education.

Community involvement

Our most significant community volunteerism initiative in 2016 was in support of the International Nelson Mandela Day. In South Africa, Liberty partnered with *Stop Hunger Now* and Liberty employees packed almost 210 000 food parcels, which will feed over 840 children, providing five meals per week, for an entire year.

STANLIB employees honoured Mandela Day with the establishment of the STANLIB Nelson Mandela Charity Fund. Liberty Africa operations also participated in Mandela Day by refurbishing school libraries and offering financial education to graduates.

Building partnerships with our communities (continued)

TRANSFORMATION VISION

Liberty is 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. Our compass on this journey will be 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 in our country by providing relevant and socially responsible products and services that add value to our customers and business.

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.

Enterprise and supplier development

Liberty's commitment to increase the pace and impact of our transformation journey for our communities, suppliers and potential suppliers is demonstrated through the Liberty Blue Skies programme. The programme develops and grows emerging entrepreneurs and enterprises throughout their business growth life-cycle by removing barriers to growth. For more information, refer to http://libertyblueskies.co.za/about/.

More than R63 million was invested in enterprise and supplier development during 2016.

Preferential procurement

Liberty continues to work to improve the proportion of its purchasing allocated to black-owned and black women-owned businesses. During 2016, the weighted procurement spend with B-BBEE suppliers increased to R5,0 billion (2015: R3,3 billion).

Investing responsibly

Liberty seeks to invest in a manner that contributes to the sustainability of our business and provides shared value in the areas in which we operate. Liberty is a signatory to the UN Principles for Responsible Investment (PRI) and endorses the Code for Responsible Investing in South Africa (CRISA). These principles serve as the overarching basis for responsible investment across the group. The UN PRI's Transparency Report requires STANLIB to report on its progress against the six responsible investment principles. Additionally, LibFin requires that its external asset managers endorse CRISA.

Contributing to building infrastructure in Africa

Infrastructure gaps are consistently cited as one of the biggest challenges to doing business in Africa. Building on our history of property development and through property investment activities, the group continues to contribute to infrastructure development in the territories in which we operate. As we expand across Africa, Liberty looks to alternative assets and transactions that can make a real difference on the continent.

The STANLIB Infrastructure franchise invests in sectors requiring private capital and specifically projects presenting an attractive combination of risk and return. Renewable energy is a key focus of this franchise, as well as investment opportunities in water, power, transport, telecommunications and oil and gas infrastructure projects.

The total value of infrastructure investments across the group at 31 December 2016 (incorporating the infrastructure fund and LibFin investments) amounts to:

- R3,4 billion (2015: R3,1 billion) in solar and wind energy projects through the Renewable Energy Independent Power Producer Procurement programme;
- R4,5 billion (2015: R2,6 billion) in roads and rail development projects; and
- R1,8 billion (2015: R1,7 billion) in Eskom bonds.

As the continent struggles to meet its growing energy requirements, while addressing climate change concerns, Liberty incorporates energy efficiency into new and refurbished property developments. We thereby ease the strain on national grids and reduce operating costs for the group and tenants.

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. Apart from investing in renewable energy, we strive to minimise consumption at our offices and within the property portfolio.

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.

Source of value

Empowerment through education	Equal opportunity and inclusive society	Responsible corporate citizenship	Sustainable use of the natural environment
Liberty's community involvement is focused on education support spanning: • Primary school teacher and learner support • High school maths and science programmes • Tertiary education • Financial literacy programmes aimed at working adults	Liberty's commitment to transformation aims to deliver: • Increased black ownership • Representative employment • Enterprise and supplier development • Higher procurement levels from black suppliers • Skills development	Stakeholder engagement that informs: • Community investment and transformation initiatives • Strategy development • Focus areas to improve alignment to social relevance • The United Nations Principles of Responsible Investment and the Code for Responsible Investing in South Africa	Liberty is committed to: • Minimising its direct impact on the environment • Investing in a socially and environmentally responsible manner • Mitigating against climate change by developing "green" buildings. We are a member of the Green Building Council of SA

How communities benefit

Socio-economic upliftment through education	Greater inclusion and economic participation	Stakeholder engagement that delivers shared value	A corporate partner committed to environmental stewardship

How Liberty benefits

- Good corporate citizen status, thereby creating constructive relationships with government and other stakeholders
- Increased awareness and propensity to purchase Liberty products and services
- Enhanced "employer of choice" perception and increased demand for talented and skilled individuals to join the group

Our key performance measures

- Corporate social investment spend and outcomes
- Transformation, including B-BBEE rating
- Brand trust and awareness measured through stakeholder surveys
- Responsible environmental management including CO_2 emissions

Performance review

2016 Strategic objectives and self-assessment

OUR 2020 VISION	OUR 2016 STRATEGIC OBJECTIVES	
Become the No. 1 provider in South Africa to the retail mass-affluent consumer segment	• Entrench the implementation of the Individual Arrangements operating model • Embed a culture of customer centricity • Continue preparing the business to adapt to required regulatory themes • Develop and launch further innovative products and solutions to meet customer needs • Implement the multi-channel distribution capability to broaden distribution reach utilising digital solutions where appropriate	3⁄4
Being in Top 10 in Nigeria and Top 3 in Kenya and gaining insurance market share and achieving significant growth in sub-Saharan Africa	• Grow our presence in West Africa • Launch relevant products and solutions in all countries of representation • Expand distribution reach through current networks and affinity partners, and explore opportunities through new partners and technologies • Continue to build leadership and technical competencies and align in-country employees with the Liberty brand, culture and Liberty citizenship principles	3⁄4
Accelerate growth and market share in the SA corporate market to become a Top 3 player	• Grow our institutional offering through investment in capabilities and acquisitions to achieve scale to take advantage of middle market growth in insurance and investment markets in South Africa and other African territories • Launch further tiered product offerings off the revised umbrella solution and gain market share	1⁄4
Become the preferred manager for asset flows destined for Africa	• Complete the implementation and align the Asset Management operating model • Leverage and maximise STANLIB's geographic reach and investment capabilities to deliver on its customer value proposition in all territories in which it operates • Continue to develop infrastructure, direct property, private equity and passive investment capabilities within STANLIB	3⁄4
Become the preferred partner for Standard Bank in all its African geographies	• Leverage opportunities to enhance our bancassurance capability and further support Standard Bank • Expand into new geographies where Standard Bank has a presence	3⁄4
Leverage and ensure seamless transfer of core capabilities of the group to wherever there are opportunities	• Embed the Liberty citizenship principles, implement the revised leadership and talent management approaches • Ensure that the enterprise architecture, including information technology, supports the business strategy • Alignment of investment propositions and the group investment platform • Complete the group's programme to facilitate SAM readiness in 2017	1⁄2

Good progress 3⁄4 *Moderate progress* 1⁄2 *Limited progress* 1⁄4

Summary of 2017 strategic objectives

OUR **2020** VISION	OUR **2017** STRATEGIC OBJECTIVES
Become the No. 1 provider in South Africa to the retail mass-affluent consumer segment	• Employ digital resources to enhance the customer and adviser experience • Accelerate alignment of investment proposition and implementation of group investment platform • Continue to further simplify the Individual Arrangements operations • Invest in core capabilities in order to manage better than model
Being in Top 10 in Nigeria and Top 3 in Kenya and gaining insurance market share and achieving significant growth in sub-Saharan Africa	• Accelerate business growth in Kenya and build scale in other selected territories • Grow our presence in West Africa
Accelerate growth and market share in the SA corporate market to become a Top 3 player	• Build distribution capability to scale for large corporates and SMME segments in South Africa and other territories • Deliver foundational capability for a competitive umbrella offering • Continue to simplify the Group Arrangements operating model and ensure that the business is appropriately resourced to deliver on its strategic objectives
Become the preferred manager for asset flows destined for Africa	• Ensure that the business is well resourced in order to enhance investment capability including alternatives, customised solutions and enhanced equity, passives and illiquid credit capabilities • Continue to align asset management manufacturing capability • Create execution capacity in order to support the diverse business and manage operational risks across the business • Enhance and grow third party distribution capability
Become the preferred partner for Standard Bank in all its African geographies	• Scale bancassurance distribution capacity across the continent • Accelerate bancassurance initiatives including distribution channel optimisation and increased penetration in Group Arrangements
Leverage and ensure seamless transfer of core capabilities of the group to wherever there are opportunities	• Deliver group simplification project to optimise operating structure and manage costs • Continue to deliver the ongoing regulatory programme and continue preparing the business to adapt to required regulatory themes • Complete the implementation of the people strategy to bolster core skills and increase management bandwidth • Reinvigorate an aligned brand and marketing strategy for the group

Performance review (continued)

2016 Performance dashboard and **2017 targets**

		2016 ACTUAL	2016 TARGET	2016 ACHIEVEMENT	2017 TARGET
Investors	Normalised return on group equity value	5,1%[A]	>10 year bond rate[1] plus a margin within a 4 – 5% range		Cost of equity 12,12%
Investors	Normalised return on IFRS equity	11,4%	19,0%		GDP + CPI + 9% to 10%
Investors	Shareholder Investment Portfolio performance	Below benchmark	Board approved benchmark reference		Board approved benchmark reference
Investors	Risk appetite	Achieved	Manage within risk appetite		Manage within risk appetite
Investors	**Individual Arrangements** new business margin	1,2%[A]	Between 2,0% – 2,5%		Between 1,5% to 2,0%
Customers	Combined policyholder persistency performance	Better than actuarial assumption	Actuarial assumption		Actuarial assumption
Employees	South African voluntary staff turnover	14,3%	<11%[2]		<14%[2]
Regulators	Liberty Group Limited CAR cover	2,95[A] times	>1,5 times		>1,5 times
Communities	Financial Sector Code score	92.0	90.0		91.0
Communities	Corporate social investment spend	R37[L] million	1% of adjusted net operating profit after tax		1% of adjusted net operating profit after tax

[1] *South African government bond*
[2] *Excluding planned business restructure*

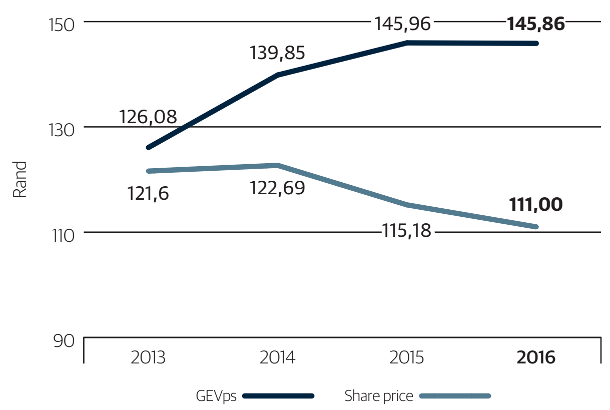
Fully achieved *Not achieved*

Throughout this section assurance obtained is indicated as either [A] [L] [V], refer IR IFC

2016 **Performance review**

Investors: Ordinary shareholders

Share price and normalised group equity value per share (GEVps)



Normalised group equity value per share of R145,86 was maintained at the prior year level (2015: R145,96). Operating variances, and modelling and assumptions changes were net positive although lower than the prior year, supporting the assumptions underlying the group's equity value. However, the growth in group equity value was offset by significantly lower investment returns and the impact of capitalisation of reduced earnings from the asset management business.

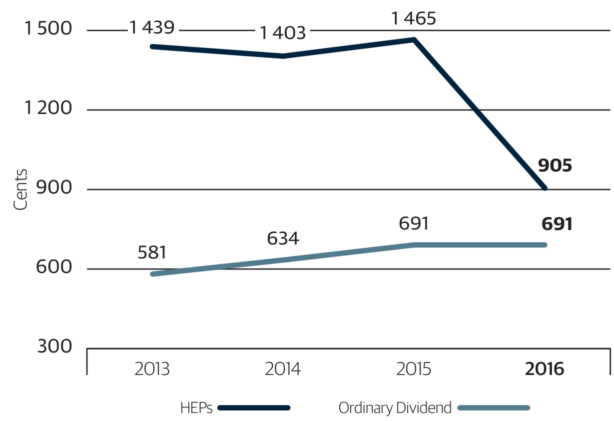
Typically Liberty's ordinary share price tracks group equity value per share (GEVps) over time. Lower returns from investment markets and a challenging consumer environment have contributed to weaker earnings in 2016, widening the gap between the Liberty share price and GEVps.

We believe that our ability to manage the long-term insurance business to better than actuarial assumption, combined with good cash generation and growth going forward in our Individual Arrangements, Group Arrangements, STANLIB and LibFin Credit businesses, will support our ordinary share price tracking closer to GEVps over time.

Normalised headline earnings and dividends[1] per share

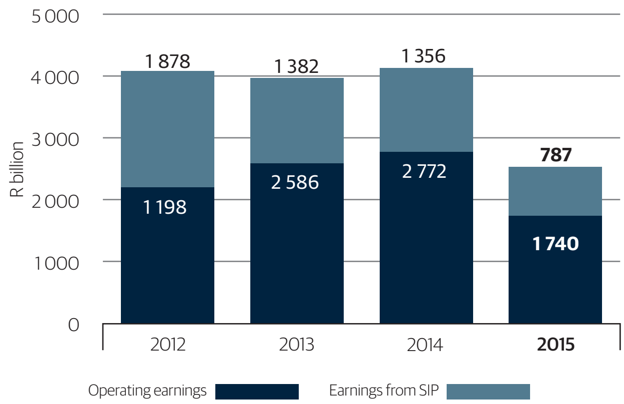
The group's 2016 declared interim dividend of 276 cents and final ordinary dividend of 415 cents total 691 cents per ordinary share, which is unchanged from the 2015 total dividend. The ordinary dividend is in line with the group's dividend policy. The 2013 dividend per ordinary share was supplemented by a special dividend of 130 cents per ordinary share.

Normalised headline earnings per share performance follows the same trends as the normalised headline earnings discussed below.



[1] *Excludes any special dividend.*

Normalised headline earnings



Due to regulatory requirements and long-term insurance product design, Liberty has to hold a significant amount of capital. It also has large investment market exposures (collectively known as the SIP). Therefore, a high component of Liberty's earnings each year is directly related to the performance of investment markets. Market returns experienced in 2016 were muted and the portfolio accordingly delivered a gross return of 5,7% (31 December 2015: 9,6%). While the SIP performance for 2016 was behind benchmark, the five year cumulative performance is ahead of the applicable benchmark.

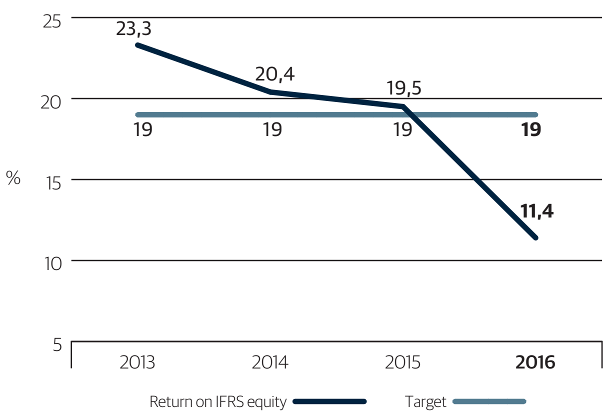
The extent of the SIP exposure to investment markets remains appropriate in the context of the group's risk appetite.

2016 **Performance review** (continued)

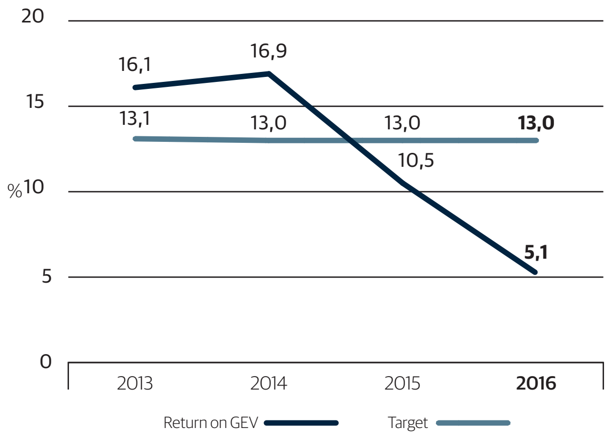
Investors (continued)

Operating earnings were lower than 2015 primarily as a result of strengthening of assumption sets to take account of recent customer trends and regulatory developments, as well as increased new business strain, driven primarily by the geared effects of lower volumes, the introduction of a new risk tax fund and a changed business mix in the South African insurance business. STANLIB's South African results were impacted by continued low market returns, lower external net cash inflows, higher once off costs relating to the implementation of the outsourcing of its retail and institutional administration business and costs relating to provisioning for tax and client exposures. The other Africa business was mainly impacted by impaired bank exposures, the curtailment of guaranteed cash mandate business and provisions raised for client and operational exposures in Kenya.

Normalised return on IFRS equity



Normalised return on group equity value



Return on group equity value is very important in assessing our performance and forms a large part of management's variable remuneration performance target. The return on IFRS equity declined in 2016 due to lower earnings from the customer facing units, as well as lower earnings from the SIP.

Normalised return on the group equity value of over R41 billion was 5,1% in 2016, which was below the medium target of 13% (long bond rate plus 4%). Significantly lower investment returns, lower value of new business and the impact of reduced earnings from the asset management business negatively impacted the return on normalised group equity value in 2016.

Investors

Deliver sustainable financial results

Normalised group equity value Ⓐ

Rm (unless otherwise indicated)	2016	2015	% change
Summary of normalised group equity value			
South African insurance operations (SA covered business)	**34 470**	35 268	(2)
Normalised net worth[1]	**11 717**	12 761	(8)
Value of in-force contracts – Individual Arrangements	**21 635**	21 521	1
Value of in-force contracts – Group Arrangements: Liberty Corporate	**2 759**	2 504	10
Cost of required capital	**(1 641)**	(1 518)	(8)
Asset Management	**6 150**	6 630	(7)
Liberty Africa Insurance	**808**	736	10
Liberty Health (including Total Health Trust)	**404**	373	8
Liberty Holdings	**1 308**	462	>100
Allowance for future shareholder costs	**(1 892)**	(1 786)	(6)
Allowance for employee share options/rights	**(27)**	(48)	44
Total normalised group equity value	**41 221**	41 635	(1)
Normalised number of shares (000's)	**282 615**	285 259	
Normalised group equity value per share (Rand)	**145,86**	145,96	
Contribution to normalised equity value earnings			
Value of new long-term insurance business	**483**	729	(34)
Expected return on SA covered business value of in-force contracts	**2 997**	2 538	18
Operating assumption changes and variances	**55**	627	(91)
Development costs	**(107)**	(41)	(>100)
Headline earnings of other businesses	**185**	635	(71)
Fair value adjustments on value of other businesses	**(825)**	(251)	(>100)
Investment return on net worth	**86**	603	(86)
Investment variances and economic assumption changes	**(836)**	(841)	1
Change in allowance for share options/rights	**49**	121	(60)
Total normalised equity value earnings	**2 087**	4 120	(49)
Normalised return on group equity value (%)	**5,1**	10,5	

[1] *Includes R33 million (2015: R61 million) for allowance for employee share options/rights for the SA covered business.*

Group equity value per share was maintained at the prior year level at R145,86 (2015: R145,96). Operating variances, and modelling and assumptions changes were net positive although lower than the prior year, supporting the assumptions underlying the group's equity value. The decrease in the risk discount rate of 85bps applied to the value of in-force contracts in the South African long-term insurance business positively impacted the group equity value. However, this positive impact on group equity value was offset by significantly lower investment returns, the impact of capitalisation of reduced earnings from the asset management business and lower value of new business achieved in 2016. The return on group equity value amounted to 5,1%.

The value of new long-term insurance business was below the prior year due to the positive impact of the reduction in the risk discount rate being more than offset by the effect of the year end basis changes, the introduction of the new risk tax fund together with the delayed repricing of the risk products and the impact of acquisition expense growth exceeding new business growth. In addition, the value of new business was negatively affected by the business mix. Various management actions are underway to improve margins and grow the value of new business within the Individual Arrangements business. This is management's key priority for 2017.

2016 **Performance review** (continued)

Investors (continued)

Contribution to normalised IFRS headline earnings by business area

Rm	2016	2015	% change
Individual Arrangements	**1 119**	1 869	(40)
Group Arrangements	**149**	204	(27)
Asset Management	**362**	629	(42)
Balance sheet management	**318**	260	22
Central overheads and sundry income	**(208)**	(190)	(9)
Normalised operating earnings	**1 740**	2 772	(37)
LibFin Investments	**787**	1 356	(42)
Normalised headline earnings	**2 527**	4 128	(39)

Individual Arrangements comprises the retail long-term insurance operations in South Africa. 2016 headline earnings of R1 119 million reflect a decrease of 40%. The main contributors to this result were the significant strengthening of forward looking assumptions to take account of recent customer trends and regulatory developments, increased new business strain, lower positive operating variances due to worsening persistency on investment business, as well as on risk business at early durations.

Group Arrangements comprises Liberty Corporate (earnings R191 million, 2015: R219 million), Liberty Africa Insurance (earnings R41 million, 2015: R25 million) and Liberty Health (loss of R45 million, 2015: loss of R19 million) and Growth initiatives (cost of R38 million, 2015: cost of R21 million).

Liberty Corporate earnings were 13% down after a once-off R36 million charge related to strengthening of longevity improvement assumptions. Despite the higher volume of risk claims reported in the year, the underwriting result was slightly better than the prior year and reflected good risk selection. Tight expense control continued during 2016. Liberty Africa Insurance earnings were up 64%. Poor investment markets, mainly in Kenya, Namibia and Botswana, negatively impacted shareholder investment income and fees. However the short-term insurance businesses produced good underwriting results, demonstrating good pricing and claims management. Liberty Health has been strategically repositioned to focus primarily on providing health risk value solutions to employers and their employees across the African continent. The loss of R45 million includes the impact of the curtailment of the Liberty Medical Scheme (LMS) contracts in South Africa following LMS's scheme amalgamation with Bonitas Medical Aid and the consequential restructure of the administration business. Growth initiatives reflect the cost of continuing to execute on growth and geographic expansion strategies. We are in the advanced stages of acquiring a life licence in Nigeria.

Asset Management STANLIB's headline earnings of R362 million were 42% lower than the prior year. Continued low market returns and positive, but lower, external net cash inflows, higher once off costs relating to the implementation of the outsourcing of its retail and institutional administration business and costs relating to provisioning for tax and client exposures contributed to this result. The other Africa business was mainly impacted by impaired bank exposures and the curtailment of guaranteed cash mandate business in Kenya. Costs incurred in identifying, resolving and providing for potential exposures and write offs further impacted the results of the business in Kenya. Operations in the other African territories tracked expectation.

The ***LibFin Credit*** portfolio, a diversified portfolio of government, state owned enterprise and corporate securities backing the guaranteed investment product sets, contributed R300 million (2015: R260 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 R18 million in 2016, compared to a break even result in 2015, despite a volatile trading environment.

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. This portfolio has a conservative balanced mandate and is managed with a long-term through the cycle investment horizon. Market returns experienced in 2016 were muted and the portfolio accordingly delivered a gross return of 5,7% (2015: 9,6%) which was below the strategic benchmark for the year. The extent of the SIP exposure to investment markets remains appropriate in the context of the group's risk appetite. The SIP contributed R787 million (2015: R1 356 million) to the group's normalised headline earnings.

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 previous group and company annual financial statements except for the mandatory adoption of minor amendments, early adoption of amendments to IFRS and voluntary changes in presentation policies, as set out below. The minor amendments have not resulted in any material impacts to the group's 2016 reported results or comparative periods.

Certain individual pure risk contracts, where the present value of expected future inflows exceeded the present value of expected future outflows at a portfolio level, were included as negative liability amounts (policyholder assets) within the aggregate policyholder liabilities for insurance contracts. In addition, reinsurance liabilities were included within the aggregate policyholder liabilities for insurance contacts. To provide more relevant and useful information to the user, the group voluntarily disclosed the policyholder assets and the reinsurance liabilities separately on the face of the statement of financial position.

Amendments to IAS 1 *Presentation of Financial Statements*, effective 1 January 2016, clarify that materiality applies to the complete set of financial statements and that the inclusion of

Investors (continued)

Deliver sustainable financial results

immaterial information can inhibit the usefulness of financial disclosures. The group undertook a project to assess the appropriateness of disclosures in the annual financial statements and deleted and/or amended disclosures no longer considered material, resulting in a more streamlined and concise set of annual financial statements.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* and IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*, effective 1 January 2017, have been early adopted as at 1 January 2016.

These amendments have not resulted in any financial impacts to the group's 2016 reported results or comparative periods.

In addition, the group voluntarily restated the 2015 cash flow statement to include movements in collateral deposits payable from financing to investing activities.

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 very significant in deriving liability measurements. In addition a number of assets are either unlisted or illiquid requiring measurement models to determine fair values. These models naturally rely on a number of 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 2016 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.

Determination of normalised headline earnings Ⓐ

Rm	2016	2015
Total earnings attributable to ordinary shareholders	**2 209**	4 011
Preference share dividend	**(2)**	(2)
Impairment of intangible assets		110
Tax on headline earnings adjustable items		(17)
Net income earned on BEE preference shares	**16**	26
Reversal of accounting mismatch arising on consolidation of L2D	**304**	
Normalised headline earnings attributable to ordinary shareholders	**2 527**	4 128

Following the listing of Liberty Two Degrees (L2D) in December 2016, an accounting mismatch arises on consolidation of L2D in the group annual financial statements, resulting from the different measurement bases applied to L2D's assets and Liberty Group Limited's policyholder liabilities. Specifically:

- the investment property assets of L2D are included in the group annual financial statements at fair value; whereas
- the corresponding 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 accounting mismatch is that the increase in the premium at which L2D's listed units traded relative to the underlying net asset value at 31 December 2016 resulted in a reported loss in the group annual financial statements of R304 million.

Investors: Debt note holders

Finance cost cover – Liberty Group Limited

	2013	2014	2015	2016
Finance cost cover (times covered)	29	20	20	**13**
Average subordinated note debt issued (R billion)	2,4	3	3,5	**3,8**

Liberty has an authorised debt raising facility of R5 billion of which R4,5 billion of subordinated notes have been issued at 31 December 2016 (2015: R3,5 billion). As reflected in the above table, the finance cost cover on the total debt issued, although below the prior year, remains substantial relative to IFRS earnings.

Capital adequacy cover – Liberty Group Limited Ⓐ

	2013	2014	2015	2016
Requirement (R million)	4 564	4 534	5 145	**5 253**
Capital cover (times covered)	2,56	3,07	3,03	**2,95**

The capital adequacy cover of the group's main life licence subsidiary, Liberty Group Limited, remained strong at 2,95 times the statutory requirement. Refer to the Regulatory performance review for detailed commentary.

2016 **Performance review** (continued)

Investors (continued)

Definitions and formulae

CAPITAL ADEQUACY COVER

expressed as a multiple

= minimum qualifying total capital held at end of year / capital required to be held as prescribed by FSB

EMBEDDED VALUE

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

FINANCE COST COVER

expressed as a multiple

= total earnings for the period before finance costs / total finance costs incurred during the period

FSV

Financial Soundness Valuation (valuation methodology as issued by the Actuarial Society of South Africa used to measure insurance and investment contracts).

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

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)

= value of new business / present value of future modelled premiums at the point of sale (%)

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.

RETURN ON EMBEDDED/GROUP EQUITY VALUE

= embedded value/group equity value profits / embedded value/group equity value at the beginning of the year (%)

RETURN ON IFRS EQUITY

= headline earnings attributable to ordinary shareholders / 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.

Extracts from annual financial statements

for the year ended 31 December 2016

Summary consolidated statement of comprehensive income Ⓐ

Rm	2016	2015
Net insurance premiums	**39 366**	37 572
Investment returns[1]	**19 062**	32 059
Other income	**4 316**	4 364
Total revenue	**62 744**	73 995
Net insurance benefits and claims[2]	**(37 616)**	(36 884)
Fair value adjustment to long-term policyholder liabilities under investment contracts	**(3 891)**	(6 181)
Fair value adjustment on third-party mutual fund interests[3]	**619**	(7 301)
Fair value adjustment to financial liabilities	**(27)**	(14)
Acquisition costs	**(4 723)**	(4 760)
General marketing and administration expenses	**(10 733)**	(10 149)
Finance costs	**(1 415)**	(1 196)
Profit share allocations and equity accounted earnings from joint venture	**(1 007)**	(920)
Profit before taxation	**3 951**	6 590
Taxation	**(1 325)**	(2 303)
Total earnings[4]	**2 626**	4 287
Other comprehensive (loss)/income	**(148)**	62
Total comprehensive income	**2 478**	4 349

(1) The decrease in investment returns is due to lower returns on the shareholders' investment portfolio in the second half of the year due to poor portfolio returns and rand strength.

(2) Increased policy surrenders, fund withdrawals and disability claims were experienced in 2016 as a result of the challenging consumer environment.

(3) The movement in the income statement is as a result of lower third-party ownership of mutual funds, largely attributable to funds which are no longer classified as subsidiaries in the current year.

(4) Includes the negative effects of the accounting mismatch arising on consolidation of the recently listed Liberty Two Degrees REIT of R304 million, after tax

Investors (continued)

Deliver sustainable financial results

Summary consolidated statement of financial position Ⓐ

as at 31 December 2016

Rm	2016	Restated 2015
Assets		
Properties	**33 828**	33 321
Long-term policyholder assets – insurance contracts[5]	**7 314**	7 579
Other investments	**340 516**	338 654
Repurchase agreements, scrip and collateral assets	**15 483**	19 225
Other assets	**9 755**	8 813
Cash and cash equivalents	**14 994**	19 305
Total assets	**421 890**	426 897
Liabilities		
Long-term policyholder liabilities[5]	**307 230**	305 194
Reinsurance liabilities[5]	**555**	617
Third-party liabilities arising on consolidation of mutual funds[6]	**44 046**	46 329
Short-term insurance liabilities	**925**	937
Financial liabilities	**4 601**	3 914
Liabilities held for trading and for hedging	**6 798**	11 125
Repurchase agreements liabilities and collateral deposits payable	**11 748**	16 159
Other liabilities	**16 981**	16 629
Total liabilities	**392 884**	400 904
Equity		
Ordinary shareholders' equity	**21 676**	21 739
Share capital[7]	**5 322**	5 550
Retained surplus	**16 990**	16 615
Other reserves	**(636)**	(426)
Non-controlling interests[8]	**7 330**	4 254
Total equity	**29 006**	25 993
Total equity and liabilities	**421 890**	426 897

[5] *The group adopted a voluntary change in presentation policies to present policyholder assets and reinsurance liabilities separately from policyholder liabilities.2015 comparatives were restated.*

[6] *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.*

[7] *Reduction due to share buy-backs that support employee equity-settled incentive schemes.*

[8] *Increase mainly attributable to non-controlling interests share of R3 billion in Liberty Two Degrees, a subsidiary of Liberty Holdings Limited, listed on the JSE on 6 December 2016.*

2016 **Performance review** (continued)

Investors (continued)

Summary consolidated statement of changes in equity

Rm	2016	2015
Balance of ordinary shareholders' interests at 1 January	**21 739**	19 487
Ordinary dividends	**(2 022)**	(1 874)
Total comprehensive income	**2 128**	4 010
Share buy-back[9]	**(477)**	(444)
Black economic empowerment transaction	**195**	520
Share-based payments	**132**	140
Transaction costs of issuing units in Liberty Two Degrees[10]	**(78)**	
Preference dividends	**(2)**	(2)
Transactions between owners	**(40)**	(98)
Transactions between owners – Liberty Two Degrees	**101**	
Ordinary shareholders' interests	**21 676**	21 739
Balance of non-controlling interests at 1 January	**4 254**	4 147
Total comprehensive income	**350**	339
Acquisition of Liberty Two Degrees[10]	**3 000**	
Transactions between owners – Liberty Two Degrees[10]	**(101)**	
Acquisition of unincorporated property partnership	**98**	
Acquisition of subsidiaries	**33**	
Unincorporated property partnerships net distributions	**(219)**	(144)
Non-controlling interests' share of subsidiary dividend	**(21)**	(43)
Non-controlling interests' share of shares issued/(capital reduction) in subsidiary	**3**	(1)
Transaction costs of issuing units in Liberty Two Degrees	**(38)**	
Transactions between owners	**(29)**	(44)
Non-controlling interests	**7 330**	4 254
Total equity	**29 006**	25 993

(9) *Share buy-backs are purchases of shares from the market to meet employee equity-settled incentive schemes.*

(10) *Non-controlling interests share in Liberty Two Degrees, a subsidiary of Liberty Holdings Limited, listed on the JSE on 6 December 2016. Transaction costs debited to equity.*

Investors (continued)

Deliver sustainable financial results

Summary consolidated statement of cash flows Ⓐ

Rm	2016	Restated 2015
Cash flows from operating activities[11]	**2 443**	13 489
Cash (utlised)/generated by operations	**(9 157)**	2 033
Interest and dividends received	**18 242**	17 181
Dividends paid	**(2 717)**	(2 255)
Taxation paid	**(2 260)**	(2 055)
Other operating cash flows	**(1 665)**	(1 415)
Cash flows from investing activities[12]	**(6 607)**	(16 052)
Net purchase of investments	**(4 937)**	(16 759)
Net purchase of other assets	**(288)**	(650)
(Repayment of)/proceeds on collateral deposits payable	**(1 236)**	3 246
Acquisition of subsidiaries	**(146)**	(1 889)
Cash flows from financing activities[12]	**(18)**	7 691
Net advance of financial liabilities	**687**	339
Net (repayment of)/proceeds on repurchase agreements liabilities	**(3 175)**	7 722
Net cash flows from equity transactions with non-controlling interests	**3 063**	74
Transaction costs of issuing units in Liberty Two Degrees	**(116)**	
Share buy-back	**(477)**	(444)
Net (decrease)/increase in cash and cash equivalents	**(4 182)**	5 128
Cash and cash equivalents at the beginning of the year	**19 305**	13 985
Cash and cash equivalents acquired through business acquisitions	**61**	
Foreign currency translation	**(190)**	192
Cash and cash equivalents at the end of the year	**14 994**	19 305

(11) *Decrease in cash flows from operating activities mainly due to investment losses in 2016 compared to gains in 2015.*

(12) *Restatement as a result of reclassifying cash flows from collateral deposits payable from financing activities to investing activities.*

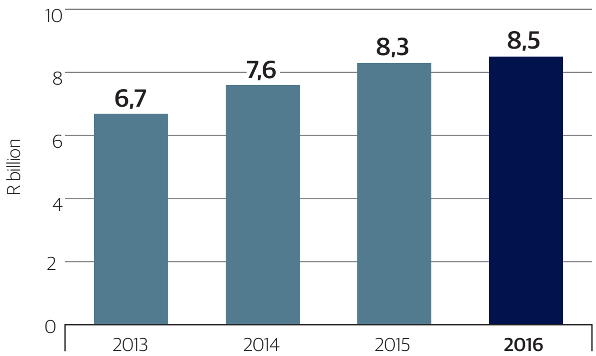
2016 **Performance review** (continued)

Customers

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 Ⓐ

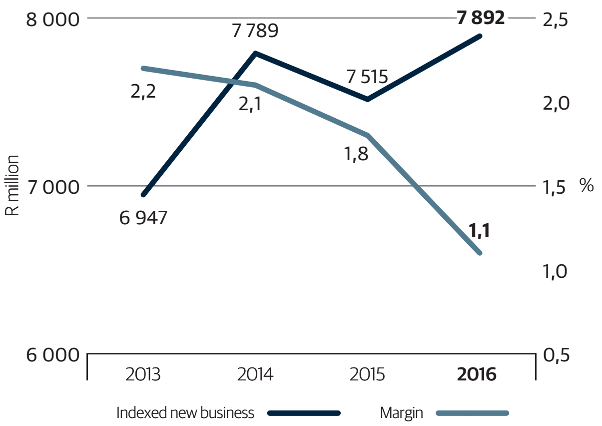


During 2016, Liberty paid out on 99,8% (2015: 99,6%) of all individual death claims received. Disability claims are subject to much greater variability in qualifying conditions and non-disclosure. As a result, we paid 64,1% (2015: 69,6%) of all individual disability claims submitted. Disability claims increased sharply across the industry during the year.

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.

Long-term insurance indexed new business and margin

Despite a challenging consumer environment, long-term insurance operations indexed new business grew by 5% to R7 892 million. Individual Arrangements indexed new business grew by 3,6% in 2016. Group Arrangements recorded a 35% increase in Liberty Africa Insurance indexed new business to R411 million. Liberty Corporate indexed new business increased by 7% to R842 million due to strong umbrella product sales.



Various new and enhanced product offerings were taken to market, which contributed to the increased sales in 2016. These included the launch of the Bold living annuity and additional policyholder investment choices following the listing of Liberty Two Degrees. In addition, there was strong support for the Guaranteed Investment Product launched towards the end of the first half of the year and a more competitive offshore investment product offering was launched. Liber8, a new intuitive and easy to manage retirement and investment plan package that includes life and disability cover, was launched for corporate customers.

New business margins of 1,1% (2015: 1,8%) remained under pressure in the second half of 2016 due to writing of new risk business in the new risk tax fund and delayed re-pricing of these products, as well as a continued change in the mix of business sold. The value of new business reduced in 2016 to R483 million from R729 million in 2015. Management has prioritised the improvement of the value of new business for 2017, with a number of corrective actions being implemented.

Strengthening customer relationships through fairness

The group customer fairness 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 2016, we analysed a variety of customer metrics to measure and assess how fairly we are treating our customers. This information enables us to identify opportunities to improve customer service.

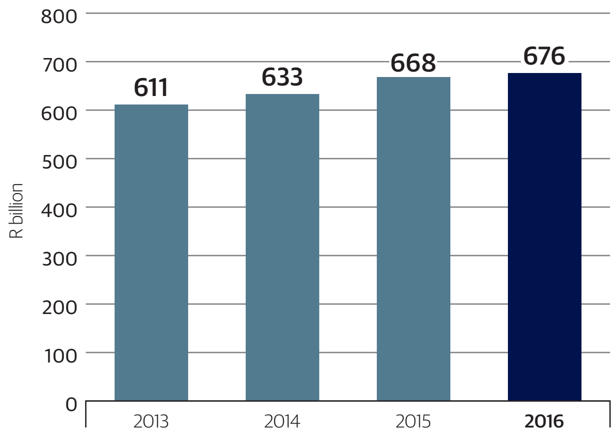
Customers
Place customers at the heart of our business decisions

Net customer cash flows and assets under management

Total assets under management increased marginally in 2016 to R676 billion (2015: R668 billion), due to low market returns combined with lower net customer cash inflows during the year.

Net customer cash inflows amounted to R7,7 billion (2015: R15,2 billion) within which long-term insurance net customer cash inflows amounted to R1,1 billion (2015: R5,4 billion). Despite higher claims and surrenders, long-term insurance cash inflows remained subdued, although improved compared to the outflows of R353 million reported at the half year. Strong fourth quarter new business inflows (Individual Arrangements), lower scheme terminations and lower member withdrawals (Liberty Corporate) contributed to the improvement in the second half of 2016. STANLIB net cash inflows of R5,8 billion (2015: R8,5 billion) were lower than the prior year mainly due to lower South African non-money market flows, partly offset by improved non-money market inflows from the African businesses. The asset management cash inflows for the year ended 31 December 2016 improved considerably from the net cash inflows of R453 million reported at 30 June 2016.

Assets under management



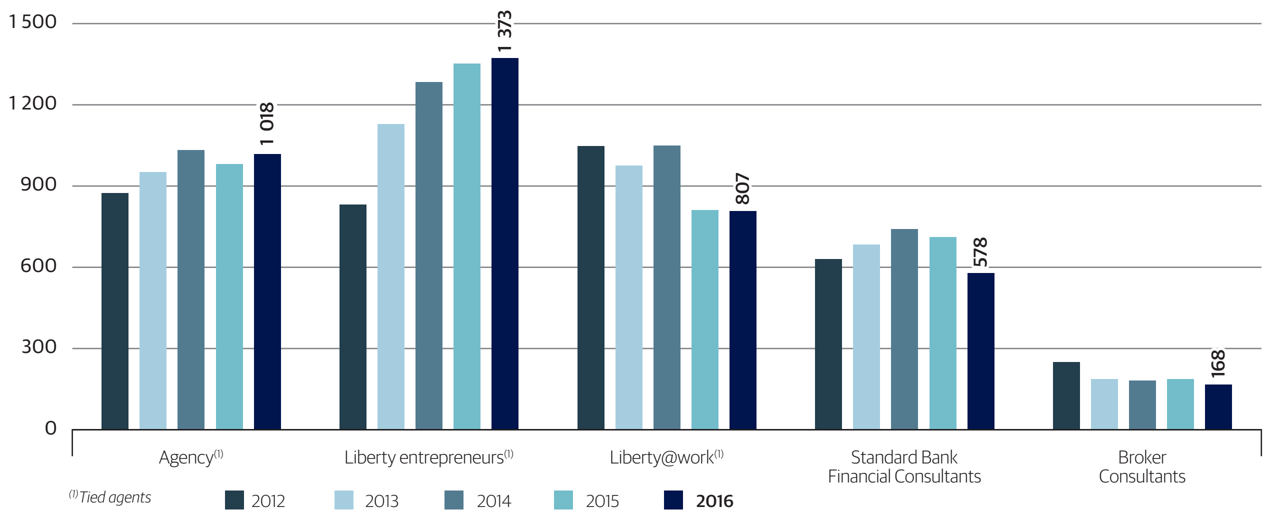
Long-term insurance customer contract persistency

In line with recent customer trends and regulatory developments, the retail business significantly strengthened its assumptions by R414 million (2015: weakened assumptions by R122 million) in the year. The impact of assumption changes in Liberty Corporate was a further strain of R36 million. These changes have strengthened the balance sheet, significantly improved management of interest rate risk and reduced future hedging costs.

Despite the challenging consumer environment, the South African insurance business delivered positive, but lower, operating variances during 2016. As a result, 2016 was the seventh consecutive year of generating positive variances against our assumed levels of lapses.

South African insurance distribution headcount

Reference is made to the FSB's Retail Distribution Review and proposals to change intermediary remuneration in the regulatory stakeholder section of this report. When these proposals are promulgated, they will impact significantly on the industry's long-term distribution. Financial advisers will be remunerated for providing advice rather than product sales, which is likely to reduce funding support for new entrants into independent channels. The result could be an increased number of tied distribution agents. In 2016, the overall tied distribution headcount increased by 3%, with a significant increase in the number of advisers with more than five years' experience.



2016 **Performance review** (continued)

Customers (continued)

Customer satisfaction

Customer satisfaction with our service levels is fundamental to customer centricity. 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

While the number of calls received declined by 17% in 2016, we improved the quality of our service from 40% to 89% against accepted benchmarks. The call centre achieved an abandonment rate of 1% for 2016 compared to 16% in 2015, which shows a major improvement in completed service interactions.

Net promoter score

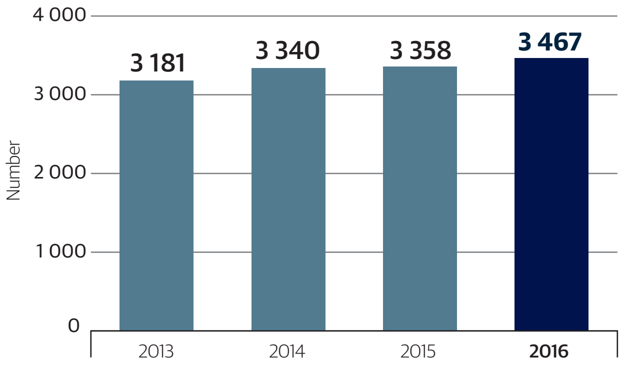
The net promoter score (NPS), which determines customer sentiment and loyalty, is a widely-accepted tool for measuring how willing our customers are to be advocates, rather than just consumers of our brand. It provides a single score that we apply across different parts of our business to gauge customer centricity. The NPS survey is conducted twice a year covering a wide spread of our policyholders. 20 000 customers were surveyed during 2016 compared to 15 000 in the prior year.

The overall customer NPS increased favourably in 2016. This change was primarily due to focused marketing and brand awareness. The NPS information gained provides valuable insight into our customer sentiment trends, strengths and weaknesses, and is used in marketing, communication and financial adviser engagement.

Number of customer complaints (escalated to group customer relations)

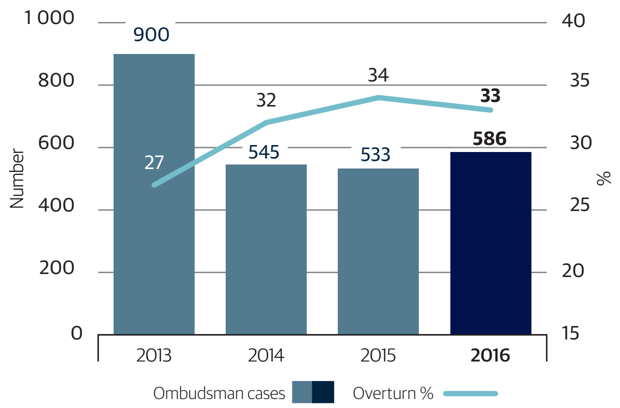
A key aspect of driving customer centricity is to ensure that customer complaints are handled with empathy and fairness. We rigorously monitor our customer complaints to gain insight into customer issues and expectations. We continuously implement changes in our products, services and processes to improve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

Number of customer complaints



The number of complaints handled by the group's customer relations department increased from 3 358 in 2015 to 3 467 in 2016. Of these, 57% were logged directly with us, 31% through regulatory bodies and 11% through social media. The increase in complaints highlights, among other aspects, our efforts to make complaint channels more accessible to our customers. The most common reasons for complaints were found to be poor service, alleged misrepresentation, payment, claim or value enquiries.

Number of long-term insurance Ombudsman cases and overturn ratio



Source: Ombudsman long-term insurance

A central 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 2016. The rate at which Liberty's cases were overturned decreased from 34% to 33%. The overturn ratio continues to receive management attention through improved systems, training and feedback to financial advisers.

Employees
Attract, develop and retain quality employees

Employees

Employee engagement and surveys

In 2016 Liberty was awarded Top Employer status by the Top Employer Institute for the eighth consecutive year.

top EMPLOYER SOUTH AFRICA 2017
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

We engage with our employees through multiple interfaces. Following the commencement of the roll out of the Liberty citizenship principles in 2016, an employee attitudinal survey will be conducted in 2017 to gain insights into how the cultural shift flowing from implementing these principles has been received, as well as its impact on our business practices.

Variable remuneration ratio linked to financial outperformance

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 packages. Short-term incentive schemes for senior level employees are uncapped and have a large financial performance bias.

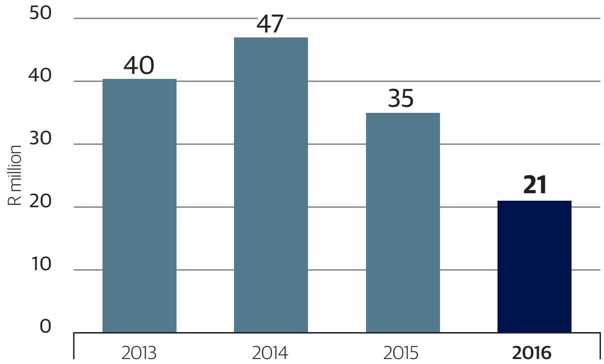
Using the executive directors as a proxy, the average percentage (related to cost to company) outperformance variances from target have scored at 2016: negative 74%, 2015: positive 11% and 2014: positive 43%. The outperformance score has declined due to a combination of factors that include more stringent targets, a weak economic environment and challenges described in the investor section of the performance review.

Across the employee base the short-term performance awards (including deferrals) amounted to 2016: R618 million, 2015: R739 million and 2014: R752 million.

Actuarial Developmental Programme (ADP)

Actuarial talent is a critical skill for Liberty. The Liberty Actuarial Development Programme (ADP) is responsible for attracting, developing and retaining critical actuarial skill across the group. In 2016, 195 (2015: 173) participants were enrolled in Liberty's ADP in South Africa. Liberty is also committed to transforming the broader actuarial profession by supporting the Association of South African Black Actuarial Professionals (ASABA).

Training spend on full time employees (L)



Liberty invested R21 million in employee training in South Africa, which equates to 0,5% (2015: 0,9%) of the South African payroll costs. The decrease in the training spend is due to increased utilisation of internal resources and staff to conduct training and more stringent definitions being applied to what constitutes training expenditure. 4,8% of 2016 training expenditure was dedicated to senior management training (2015: 2,1%). 72,1% (2015: 82,4%) of the training expenditure was directed to black employees.

The management of Liberty's training spend is decentralised to the individual business units in order to optimise the effectiveness of training for the benefits 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.

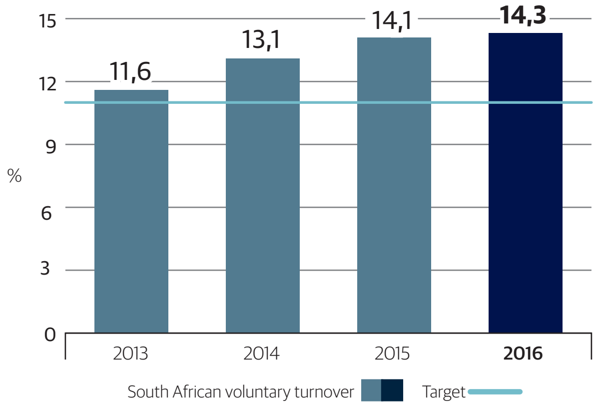
In 2016, the average number of training hours for our South African employees increased to 22 hours from 16 hours in 2015. Liberty encourages employees to pursue tertiary education through a bursary programme that supports qualifications in fields relevant to Liberty.

Liberty also funds an extensive learnership programme that introduces promising young people to careers in financial services. Learners gain eight months' work experience and work towards an NQF Level 4 qualification in a programme supported by the Insurance Sector Education and Training Authority (INSETA). In 2016, Liberty enrolled 143 (2015: 147) black learners in the INSETA learnership programme, five of whom were disabled (2015 restated: five).

2016 **Performance review** (continued)

Employees (continued)

South African voluntary staff turnover (%)



The group's employee headcount reduced by 6,2% during 2016 primarily due to the restructuring of Liberty Health, Direct Financial Services and outsourcing STANLIB's retail and institutional administration business. The South African based employee headcount declined from 5 636 in 2015 to 5 307 at 31 December 2016.

The average tenure of our employees in 2016 was eight years (2015: seven years). The voluntary turnover ratio in South Africa, excluding retrenchments, dismissals, inter-group transfers and mutually-agreed separations, remained almost constant at 14,3% in 2016 compared to 14,1% in 2015.

While this result is above our 2016 target of 11% and marginally above our revised target of 14,0%, it does fall within the industry norm of 17% (PwC – Salary and Wage Movement Survey: 2016). The total staff turnover for South Africa remained at 19,9%, while the rest of Africa's employee turnover reduced significantly from 17,9% in 2015 to 13,6% in 2016.

The ongoing demand for black talent in South Africa also contributes to higher staff turnover, particularly at senior and middle management levels. We analyse the insights gained from exit interviews to apply this knowledge for the benefit of all staff.

Succession planning is in place across Liberty's full demographic profile to ensure that key roles affected by staff turnover can be filled.

Number of CCMA cases and settlements

Our labour dispute statistics include the total number of formal and informal disciplinary matters, as well as formal litigation in the Commission for Conciliation, Mediation and Arbitration (CCMA) and the Labour Court. The number of cases increased in 2016 to 32 cases from 22 cases in 2015.

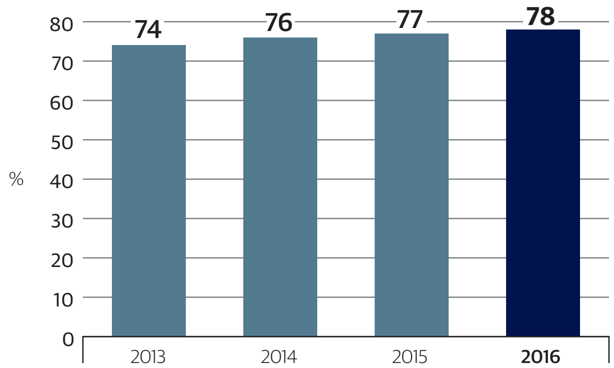
Of the 32 CCMA cases, 14 were settled, five were withdrawn, nine were ruled in Liberty's favour and one remained outstanding at 31 December 2016. Rulings are awaited on the remaining three cases.

Employment equity progress

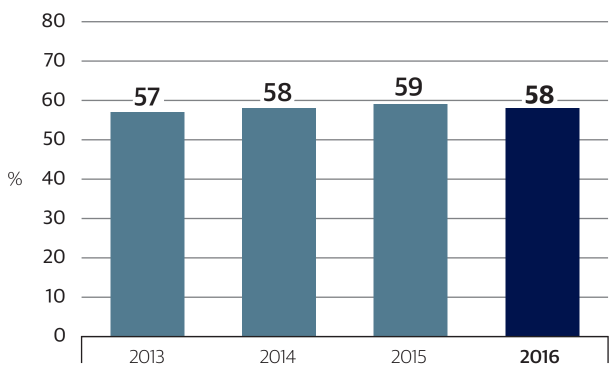
Liberty met its employment equity targets across all occupational levels in 2016. Black representation at top management decreased to 46% (2015: 50%) but increased to 52% (2015: 49%) in senior management positions. The majority of Liberty's employees in South Africa are female (58%). Overall black representation increased marginally to 78% in 2016 from 77% in 2015.

Our employment equity forum, which strengthens the consultation and compliance requirements of this pillar, again conducted diversity dialogues to enhance employee awareness of the diversity that exists within the group and its value. The aim of these sessions was to support the creation of a mutual understanding and shared language across the group while highlighting the link between transformation and our strategy. There is continuous management focus to ensure that the group reflects the demographics of the markets in which it operates.

South African black employees



South African women employees



Regulators
Provide compliant and responsible financial services

Regulators

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 Solvency Assessment and Management (SAM) legislation.

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

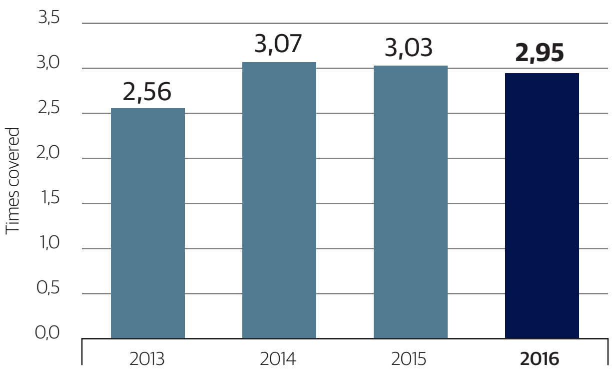
We continued to conduct a parallel run in anticipation of the introduction of SAM, the proposed new long-term insurance solvency regime intended to come into effect in 2017. We prepared our "Own Risk and Solvency Assessment and Stress Test" within the deadlines set.

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 in our quest to grow our presence across the continent.

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

We continued to participate with the Association for Savings & Investment SA (ASISA) where we have board representation and actively participate on board sub-committees and work streams. Liberty's group chief executive, Thabo Dloti, served as the chairman of ASISA during 2016.

Capital adequacy cover – Liberty Group Limited Ⓐ



The capital adequacy cover of Liberty Group Limited remained strong at 2,95 (2015: 3,03 times) times the statutory requirement. The group remains well capitalised at the upper end of its target range in respect of the current capital regime. All other group subsidiary life licences were adequately capitalised.

Capital adequacy requirements in South Africa are set at the higher of the "termination" (TCAR) basis or "ordinary" (OCAR) basis. Both the 2016 and 2015 calculations reflected OCAR as the higher amount.

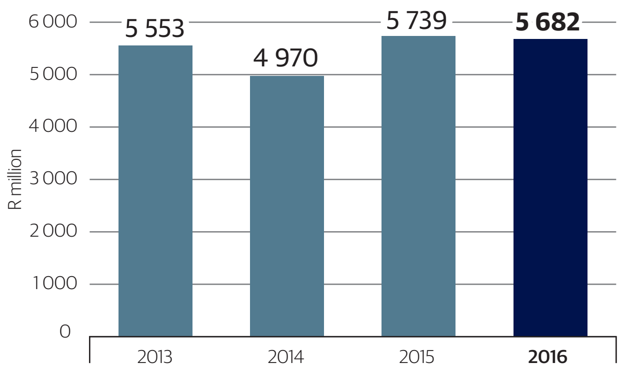
Liberty is far advanced with the preparation for the implementation of SAM. Our 2016 capital calculations under the current draft guidelines confirm that the group is well positioned from a solvency and capital perspective.

Cost of regulatory change

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 2016 the group invested over R12 million in preparation for the introduction of SAM. A further R64 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. The total amount spent on regulatory management at a group level for 2015 amounted to R69 million.

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.

Taxes collected and paid on behalf of the South African government Ⓐ



These figures comprise the total taxes collected by Liberty 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 (both company and policyholders), value added tax, dividends tax and other taxes.

2016 Performance review (continued)

Regulators (continued)

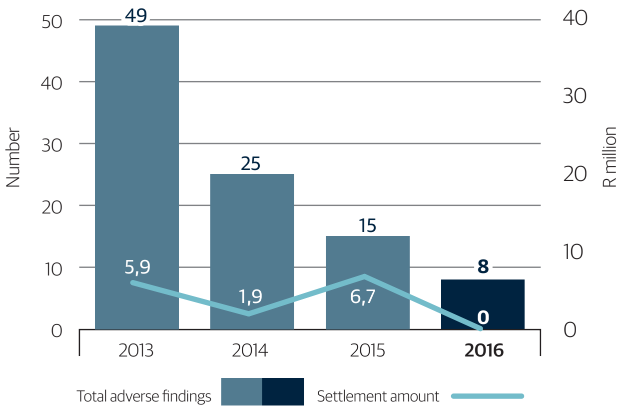
The decrease from 2015 to 2016 is primarily the result of a reduction in the employee tax liability, which was higher in 2015 due to the BEE share scheme vesting in that year, largely offset by an increase in the income tax liability due to the deemed disposal during 2016 and increase in the capital gains tax inclusion rate.

Regulatory fines and penalties

The South African operations of the group were fined R238 500 for regulatory non-compliance during 2016 (2015: R96 000). No regulatory fines or penalties were levied by regulators in other jurisdictions in Africa during 2016 (2015: R139 000). 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 R429 000 (2015: R3,3 million). The penalties incurred in 2016 can be largely attributed to a delay in the payment of employees' tax in respect of the unit trust scheme awards in the commissions area.

Number of adverse findings by industry Ombudsmen and adjudicators



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. The total number of adverse findings declined once again in 2016. No concessions were payable in respect of 2016 cases. The total value of concessions paid in 2015 amounted to R6,7 million.

Communities

Enhance social relationships

Communities

Transformation, including B-BBEE

In October 2013, the Amended B-BBEE Codes of Good Practice were enacted. Updated B-BBEE Codes of Good Practice became effective in 2015. These codes focus on economic participation and skills development and the growth of black entrepreneurs is further encouraged through an emphasis on enterprise and supplier development (ESD) elements. The revised Financial Sector Code (FSC) is expected to come into effect in 2017. Liberty's 2016 performance is accordingly measured against the current FSC which was launched in 2013.

During 2016, we met our internal targets and maintained our level two rating against the current FSC. Liberty adheres to the FSC in measuring its transformation progress as it aligns to our inclusion strategy. The code commits all participants to actively promote a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, contributing to the establishment of an equitable society by providing accessible financial services to black people and directing investment into targeted sectors of the economy.

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

- Ownership
- Management control
- Employment equity
- Skills development
- Procurement
- Enterprise development and/or employment financing
- Socio-economic development
- Access to financial services
- Empowerment financing

Our overall score of 92.0 (2015: 91.1) results from a focused strategy and clearly defined objectives for employment equity, skills development, preferential procurement, empowerment financing and access to finance.

Our performance in the employment equity and skills development pillars is detailed in the Employees performance section. However highlights of our other transformation activities are listed below:

- We exceed the FSC's black ownership targets.
- Management control, based on black representation amongst the executive directors and on the executive committee, improved slightly compared to 2015.
- Preferential procurement: The group's total qualifying BEE spend amounted to R5,0 billion in 2016 (2015: R3,3 billion). Procuring from black women suppliers remains the biggest challenge for this pillar. Our ESD programmes are therefore biased towards supporting women-owned businesses in order to mitigate the risks that may reduce our performance in this pillar.
- Enterprise 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 opportunity and intellectual support. A partnership with Lionesses of Africa resulted in increased access to a pan-African network of more than 250 000 women-owned businesses.
- Socio-economic development: The group's CSI spend in 2016 (discussed below) 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 and the reach of our financial literacy programmes. The score remains unchanged from 2015.
- 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 2016 and the group again achieved full points for this pillar.

Sustainability report

Brand trust and awareness

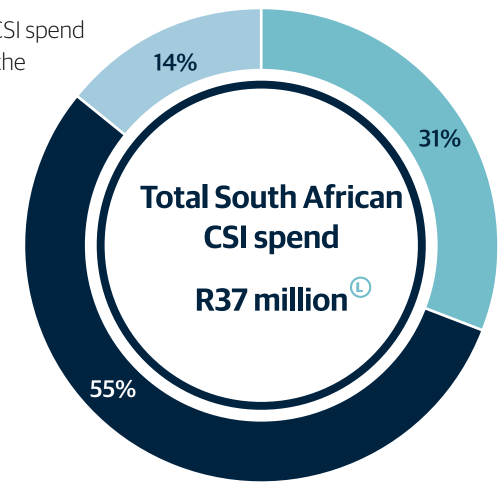
Our brand health survey is conducted annually by an independent service provider and measures Liberty's brand strength relative to competitor brands across life, funeral, investment and retirement product lines. The survey tracks consumer awareness, familiarity and consideration of a range of financial 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 increased overall awareness from 87% in 2015 to 89% in 2016 and an increase in future consideration from 33% in 2015 to 41% in 2016.

Corporate social investment (CSI) and outcomes

During the year, Liberty invested R40,0 million (2015: R45,6 million) in CSI in South African and other African territories.

South African CSI spend was applied in the following proportions:

- Consumer education
- Education
- Employee matching



2016 **Performance review** (continued)

Communities (continued)

Build social and relationship capital

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.

Liberty has a centralised approach to CSI, with a series of flagship initiatives run in partnership with various like-minded organisations and relevant government departments. The Liberty CSI strategy focuses on interventions in the key life stages of community members. Active employee involvement through volunteerism is an important component. Liberty continued with its formal volunteerism programme where we leverage relationships with schools and non-profit organisations.

During 2016, Liberty reached almost 26 000 people through consumer education programmes conducted in targeted communities and work sites. This training helps attendees better understand the importance of financial management, saving, responsible borrowing and long-term income protection.

The Liberty Community Trust represents Liberty's commitment to community development and empowerment, forming an integral part of the group's citizenship agenda. The trust is mandated to implement innovative educational programmes and facilitate sustainable economic inclusion within communities. The trust is in the process of finalising its internal business processes and will commence various projects in 2017.

In the rest of Africa, Liberty supports education and works to improve public health in the communities where we have a presence. The guideline for this expenditure is 1% of net profit. Our CSI operations in Uganda, Zambia, Namibia and Botswana all support community schools, either directly or in partnership with other organisations.

Mitigating our environmental impacts

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 and customers' capital.

Liberty, as a long-term insurance company, 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 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 engagement. STANLIB, the group's asset manager, incorporates environmental, social and governance considerations into their research processes. This is done through a stewardship pillar in the research process which assists analysts and portfolio managers to consider issues such as remuneration, social and environmental responsibility, board independence and transparency. In addition, STANLIB is a signatory to the United Nations Principles for Responsible Investment and is therefore required to report on its progress against the six responsible investment principles.

We carefully manage the areas of our business that directly impact the environment. These impacts include electricity usage, water consumption, waste generation and employee travel. We also take into consideration the key role our property portfolio has on the environmental impact of tenants and other third parties.

Liberty continues to participate in the Carbon Disclosure Project (CDP) and achieved a performance band C (2015: E) rating in 2016. Although we improve our environmental performance each year, we remain focused on identified challenges. The group has invested into a new web-based analytics tool that will enhance our environmental reporting and decision making in future years.

Project Sekela launched in 2016

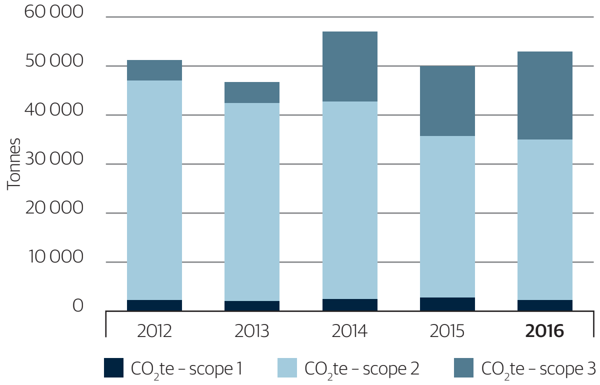
As part of reducing our environmental impacts, Project Sekela was launched in early 2016 to take a holistic and logical approach to improving our efficiencies, costs and risk profiles in utilising electricity, water and security, as well as waste generated. Liberty spends well over R300 million per annum on utilities and security at the various properties in our portfolio. Over the next three years, Project Sekela will collect the relevant source data from all Liberty sites and institute efficient utilisation of resources and services to reduce our emissions and operational costs, as well as minimising the risk profiles of all our properties in terms of climate change and societal shifts.

Scope 1, 2 and 3 CO_2 emissions

Liberty's combined scope 1, 2 and 3 CO_2 emissions for South African operations increased to 53,1 thousand tonnes of CO_2 equivalent (tCO_2e) (2015: 49,9 thousand tCO_2e). The increase is attributable to having broadening the scope and boundary of our scope 3 carbon emissions by adding losses from transmission and distribution of purchased electricity to the calculation in 2016. Excluding this change made in 2016, the combined scope 1, 2 and 3 CO_2 emissions for the South African operations has remained largely unchanged from the prior year.

The group reflected a slight increase in total emissions per full time equivalent South African employee, from 4,0 tCO_2e to 4,1 tCO_2e. Refer to the online sustainability report for more detailed information on CO_2 emissions.

CO_2 emissions



Our strategic intent to 2020

Expansion initiatives to drive value by increasing our exposure to growth markets by:

- Investing in markets with higher growth than traditional markets
- Investing in additional business lines that increase penetration of existing markets
- Launching new products that are more capital efficient

Ensuring that the business is responsive to changing environments and consumer behaviours through:

- Providing broader omni-channel customer engagement platforms
- Providing relevant customer propositions
- Protecting current value and maximising the opportunities arising from regulatory change

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