revenue, the group takes on and manages **market risk, counterparty credit risk** included in credit risk and **operational risk** arising from large and complex trading operations.

Other revenue sources include underwriting profit and investment revenue from the group's short-term insurance operations, profit-sharing arrangements relating to the group's long-term insurance operations, as well as gains on property, private equity and strategic investment activities.

Liberty is 53,6% owned by Standard Bank Group and contributed 11% to the group's 2011 headline earnings. Liberty operates primarily in South Africa and has a presence in 14 other African countries. Liberty generates underwriting profits from its long-term insurance operations. Underwriting profit is earned over the life of an insurance product based on the difference between premiums received and investment returns earned and claims paid on the life or disability risks insured. These operations expose the group to changes in mortality, longevity, morbidity and withdrawal risks that are included under **insurance risk**. Liberty also provides long-term investment products and advisory services to clients and receives fees and shares in the investment return of assets managed on behalf of third parties. It also generates revenue through property investment and health insurance activities.

Returns to shareholders

The group's shareholders are the primary providers of capital. They carry the ultimate business risk should the group's operations not be sufficiently profitable or through the erosion of value as a result of a decline in the group's share price. Shareholders are rewarded for accepting this risk through biannual distributions from the earnings of the group and the possibility of growth in share price. Share price growth is dependent on the group's ability to grow shareholders' equity on an annual basis at a rate that exceeds the rate that shareholders would expect for an investment with the risk profile of the group and expected future growth in returns. Further detail on economic returns is provided on page 35.

Impact of the economic environment on key financial ratios

The table below sets out the key financial ratios that drive the earnings and ultimately the value of the group. The table also sets out the external economic factors influencing these value drivers assuming no management action, an indication of how these economic factors influenced the performance of the group in 2011, and the expected impact of these economic factors in 2012. Economic statistics provided relate to South Africa, which is the origin of 92% of the headline earnings of the group.

Impact of economic factors on key financial ratios

Key financial ratio	Economic factor impacting key financial ratio	Impact on 2011	Expected impact on 2012
Growth in loans and advances	Debt-to-disposable income level	▲	▲
	GDP growth	▲	▲
	Interest rates	▲	▲
Net interest margin	Interest rates	▶	▲
Credit loss ratio	Number of insolvencies and liquidations	▲	▲
	Collateral values	▲	▼
	Debt-to-disposable income level	▲	▲
Growth in non-interest revenue			
– Growth in fee and commission revenue	GDP growth and inflation	▲	▲
– Growth in trading revenue	Market trading volumes	▲	▲
	Market price volatility	▼	▲
Growth in operating expenses	GDP growth	▼	▼
	Inflation rate	▼	▶
Effective tax rate	Corporate tax rates	▶	▲
Impact of translating income from operations outside South Africa into rand	Average rand exchange rate	▶	▲
Growth in long-term insurance revenue	Equity market performance	▶	▲
	Persistency of policy revenue	▲	▲
	Debt-to-disposable income level	▲	▲
Growth in ordinary shareholders' equity in operations outside South Africa	Closing rand exchange rate	▶	▲

▲ *Improvement resulting in a positive impact on key financial ratio.*
▼ *Deterioration resulting in a negative impact on key financial ratio.*
▶ *Neutral.*