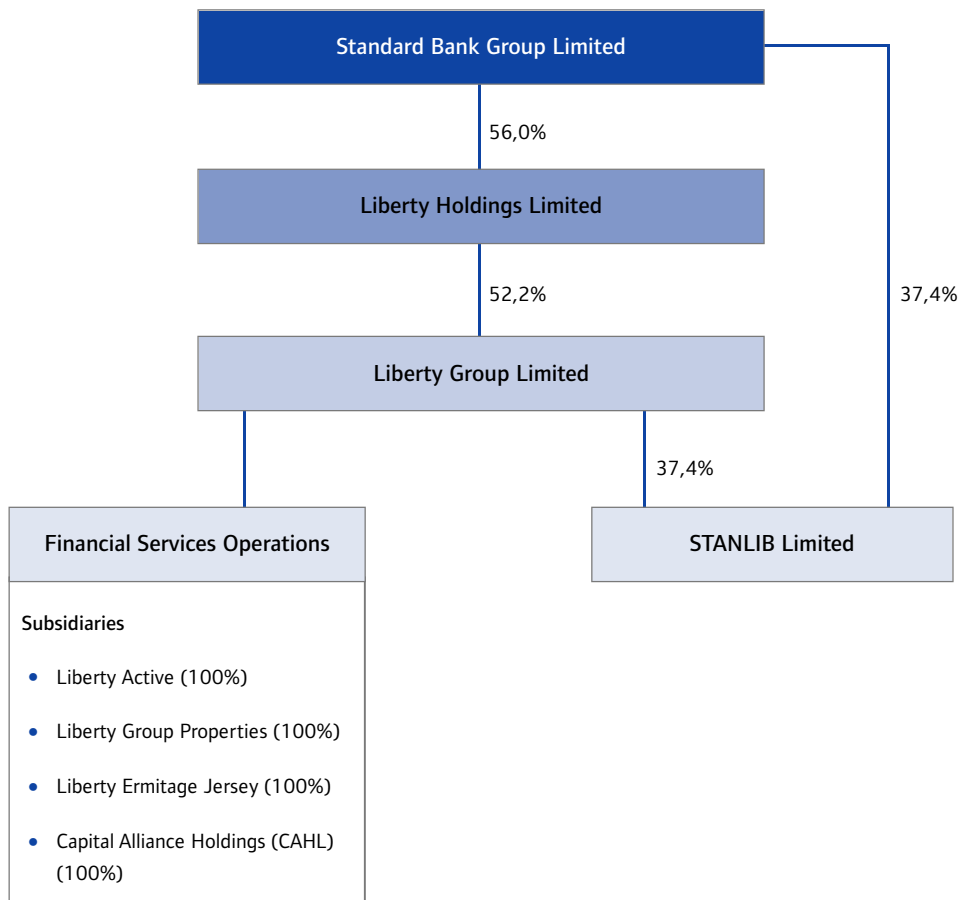


Liberty Group Limited



Recognition

2005 Life Assurer of the Year for Individual Life and Employee Benefits by the South African Financial Services Intermediaries Association.

•

Rated in the excellent category of the Ernst & Young Sustainability Report Rankings of 2005.

•

Liberty Life’s bond issue won the Best Debt Issue of the Year Award for 2005, sponsored by the Bond Exchange and INet Bridge. This award was for the bond issue best received by the market.

Overview

Liberty Group Limited (Liberty Life) is a listed subsidiary of the Standard Bank Group that reports separately on its sustainability and black economic empowerment.

Liberty Life is a leading South African long-term insurer. Its primary products and services comprise traditional long-term insurance provided through Liberty Corporate and Individual Benefits, and other non-banking financial services such as retail investment management, asset management and healthcare services provided through Liberty Healthcare, Liberty Ermitage Jersey, Liberty Group Properties and Stanlib.

Liberty Life's relationship with Standard Bank underpins several business initiatives, primarily the Stanlib joint venture and a bancassurance agreement whereby Liberty Life and Standard Bank products are combined and sold as a value-added service to both Standard Bank and Liberty Life customers.

Liberty Life is in the business of providing a comprehensive and complementary range of non-banking financial services that aspire to meet the ever-changing needs of our customers. By providing life assurance and investment products to individuals and corporates, it serves the South African market at every income level.

Pension Fund Adjudicator (PFA) rulings and the statement of intent (SOI)

During the course of 2005, the PFA issued approximately eighty rulings against life insurers and retirement annuity (RA) funds administered and insured by life insurers. Of these, eleven were issued against the Liberty Group and related RA funds. The majority of the rulings related to charges levied on early premium reduction or cessation.

After a period of negotiation, representatives of the Life Offices Association (LOA) and the five largest life insurance groups and the Minister of Finance signed a SOI in December 2005. The SOI was entered into in order to resolve the uncertainty, avoid protracted legal cases, curb continued negative media attention and most importantly proactively improve the value proposition available to customers.

The SOI recognises that the issues raised by the PFA's rulings are not exclusively confined to RA products and apply more broadly to all savings products. It specifies two sets of minimum standards that should apply to the values available to policyholders on savings-related products in the

event of early premium reduction or cessation. In terms of the SOI, the retrospective minimum standards apply from 1 January 2001 until the implementation date of new commission regulations, and the prospective standards will apply thereafter. The retrospective standards do not require enhancement of values paid out on non-RA policies that have lapsed or been surrendered in the past. Specifically noted in the SOI are a number of issues that National Treasury will attend to, including new commission regulations (moving away from upfront commission to payments during the term of the policy); jurisdictional certainty between the PFA and various other Ombuds; and clarity on a number of regulatory matters.

In light of the understanding reached between the industry and the Ministry of Finance, the directors have authorised the full impact of the financial effects of implementing the minimum standards in accordance with the SOI to be fully provided for as at 31 December 2005.

Liberty Group Limited continued

Financial Sector Charter

Highlights

Katleho Share Scheme

- Approximately 2,2 million shares were issued to qualifying employees as part of Liberty Life's BEE transaction in November 2005. Together with the 2004 allocation, just under 1 000 beneficiaries have received over eight million shares.

Learnerships

- In May 2005, 70 learners graduated from the charter learnership programme, of which 49 were permanently employed.
- In July 2005, 115 learners were recruited for the second intake of the charter learnership programme and are currently being trained at Boston College and Intec College.

Procurement

- Liberty Life developed a BEE reporting system on SAP Business Warehouse that automatically reconciles qualifying spend to the income statement and creditors ledger.
- A supplier accreditation process was formalised.
- Supplier accreditation between Standard Bank, Stanlib, Liberty Active, Liberty Properties, CAHL and Liberty Life was consolidated to ensure consistency.

Priorities and challenges

General

- Strong focus on charter and employment equity targets.
- Retaining skilled black employees.
- Target of 10% disabled learners for the 2006 intake.
- Implementing the DTI's Codes of Good Practice for BEE.

Procurement

- Obtaining relevant accreditation status of suppliers prior to the raising of liabilities.
- Implementing enterprise development initiatives with potential suppliers.
- Implementing a standard procurement policy and procedure across operations.
- Implementing the SAP Supplier Relationship Manager procurement tool.
- Increasing expenditure with black SME suppliers.

Access

- Developing appropriate life assurance savings products for LSM 1 – 5, including an endorsed industrywide product.
- Driving progress at LOA sub-committee level.

Empowerment financing

- Confirming the range and size of funding instruments that qualify for charter points.
- Engaging government in risk sharing arrangements.
- Establishing financial instruments and partnerships necessary for SME, housing and agriculture investments – particularly with Standard Bank.
- Focusing investment spend in under-developed areas.

Corporate governance

Highlights

- Group risk functions were revised during the year to provide better alignment with the business, and to take account of the restructuring of Liberty Life and the integration of CAHL and Liberty Active.
- Included on the JSE SRI Index in 2005.
- 2005 results published in line with IFRS requirements.

Priorities and challenges

- Managing a changing regulatory environment, particularly the impact of the PFA rulings, FICA and FAIS.
- Ongoing communication with all stakeholders on the regulatory developments regarding retirement annuities and other life assurance savings products.
- Ongoing application of a zero tolerance policy towards fraud or breaches of ethics, in line with Liberty Life's code of ethics.
- Enhancing companywide risk management processes.

Shareholders

Highlights

- Positive share price performance over the year.
- Successful completion of the acquisition of CAHL on 1 April 2005.
- Raised R2 billion in subordinated unsecured secondary capital callable bonds. The issue, more than twice oversubscribed, qualifies as regulatory capital and forms part of Liberty Life's capital management strategy.
- Implemented a new dividend policy as described in the 2004 Annual Report.
- Presentation to the analyst and investor community in November 2005, regarding the CAHL acquisition and the restructuring process.

Priorities and challenges

- Ongoing, regular communication on the integration of Liberty Life and CAHL, expected to be a two to three year process.
- Ongoing communication with the investment community around IFRS disclosure.
- Ongoing commitment to reducing our costs per policy to benefit both policyholders and shareholders.
- Possibly disposing of the hedge fund business of Liberty Ermitage and the Australian group and individual risk business known as Prefsure Limited. The directors are considering various offers and further announcements are expected in 2006.

Customers

Highlights

- Sales up despite the negative publicity generated by the PFA rulings.
- The LOA, of which Liberty Life is a member, proposed a new commission structure, which will secure better early termination values for policyholders in respect of savings products.

Priorities and challenges

- Policyholder as the customer – winning back the confidence of our policyholders with transparent, new generation products.
- Intermediary as the customer – keeping the sales force motivated by providing them with a contract of choice.
- Ongoing focus on customer service without additional cost to the policyholder.

Liberty Group Limited continued

Market share

Liberty Life's potential for growth and new business will be realised through:

- Growing the high-net-worth market.
- Accessing Standard Bank's customer base.
- Increasing access to the employee benefits risk market.
- Launching Liberty Active into the low income market.
- Leveraging new business opportunities within CAHL's customer base.

Products and services

A centralised product development area has been set up to take a groupwide view of product development. This will ensure that Liberty Life is able to appropriately and innovatively meet the product requirements of customers into the future.

Liberty Active specialises in bancassurance and is focused on penetrating the emerging market, where there is a need for products that assist in ensuring a family's financial security and children's education.

HIV/Aids

Southern Africa has one of the highest incidences of HIV/Aids in the world. This has impacted on the risk protection products

Liberty Life offered in terms of personal and corporate benefits. Liberty Life used the Actuarial Society of South Africa risk model, together with input from its re-assurers and its experience, to develop its own HIV/Aids model. Personal benefits products are generally bought by high income earners with high levels of education and the HIV/Aids prevalence in this category has been found to be low. As regards corporate benefits, risk is weighted according to industry, region and salary band.

Customer engagement and satisfaction

Customer satisfaction is monitored on a continuous basis through the following channels:

- Financial advisors.
- Call centres.
- Correspondence with all policyholders at least once a year to confirm personal and contact details and the status of each policyholder's portfolio.
- Internal Ombudsman.
- Marketing and advertising.
- Website – www.liberty.co.za.

Product	Description
Bancassurance	Retail assurance and investment products.
Personal benefits	Investment, retirement, health and risk products for the individual.
Corporate benefits	Retirement funding and insurance benefits for the corporate environment.
International fund management	Alternative investment through international equity, bond, money market funds and hedge funds which aim to produce absolute returns each year by taking advantage of arbitrage opportunities.
Investment products	For the local and other African markets.
Property management	Property portfolio investment focusing mainly on shopping centres, offices and hotels.
Worksite marketing	Individual life insurance top-up products to employees to complement the normal group benefits that their employers offer.

Employees

Highlights

- Providing Blue4U to employees.
- Introduced the “Passion for Excellence” awards for employees.
- 360° leadership programme launched.
- First year of graduate intake programme and second year’s intake announced.

Priorities and challenges

- Integrating CAHL employees and alignment of employee benefits.
- Ongoing consistent communication with employees.
- Moving away from a business unit focus to a team approach.

Employee well being

Liberty Life offers employees the following facilities and services:

- **An onsite wellness centre at head office** – with doctors, a dentist, a dietician, a physiotherapist, a podiatrist and a reflexologist.
- **Health management** – including a gym, sports and social club, executive and employee health programme, disease management programme and subsidised medical scheme.
- **Counselling** – free counselling for a wide range of personal and family issues, ranging from financial to legal advice.
- **Work/life balance** – Blue4U, onsite banking, crèche and flexible leave policy.
- **Financial** – preferential banking rates, group life and disability cover and group retirement funds.
- **HIV/Aids** – approximately 95% of Liberty Life employees are members of Libcare, the closed medical aid scheme. All HIV-positive Libcare beneficiaries have access to an HIV/Aids management programme, which includes the provision of anti-retroviral treatment. In 2005 Liberty Life launched a totally subsidised voluntary counselling and testing initiative to heighten awareness of HIV/Aids and give employees easy access to testing.

Leadership development

Liberty Life’s leadership philosophy is currently being reviewed. This is taking place through a 360° development process at executive level. The aim is to establish desired leadership values, and to then use this framework as the context for leadership development throughout the business.

Development programmes

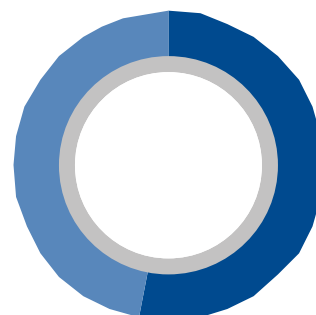
Graduate development programme

A recruitment campaign is run on a national basis at all major universities in South Africa to attract top graduates into the business. Graduates are exposed to different areas of the business for 12 months, and then placed in permanent roles – taking into account business needs and individual graduates’ areas of interest. This campaign is undertaken with Standard Bank to ensure greater reach for talent.

Learnerships for school leavers

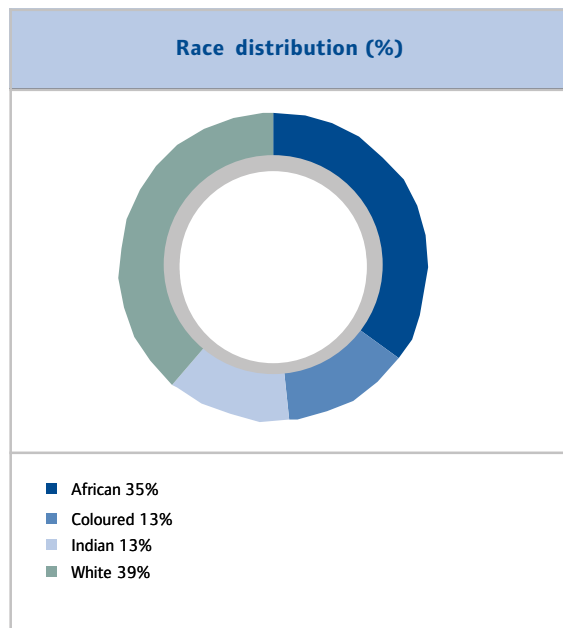
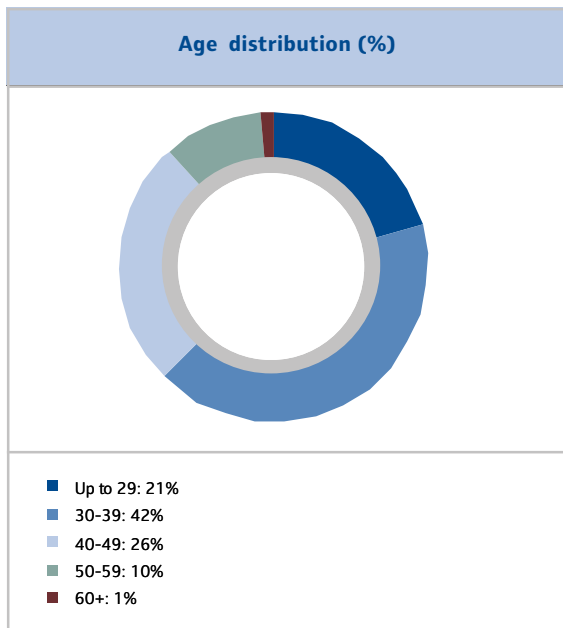
This programme is primarily aimed at sourcing talent from previously disadvantaged groups. A recruitment campaign aimed at attracting matriculants to join a programme to receive formal training for the insurance industry is conducted. The objective is to place the learners within Liberty Life once they have completed their 12-month qualification.

Gender distribution (%)



- Female 53%
- Male 47%

Liberty Group Limited continued



Suppliers

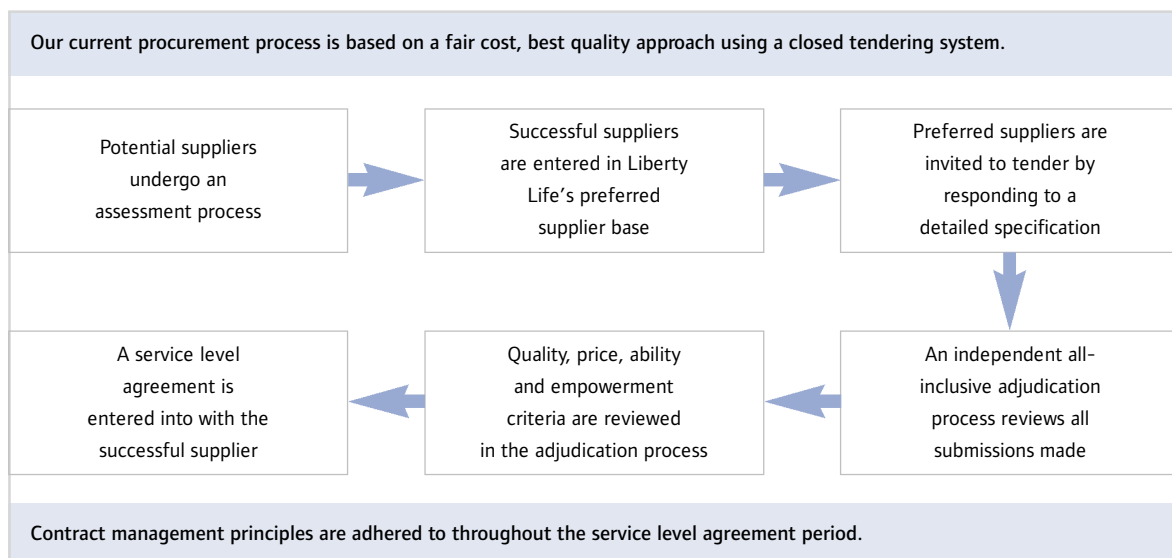
Highlights

- BEE spend with top 20 suppliers for 2005 amounted to R138 million, 78% of the total top 20 suppliers spend.
- With the growth in the supplier base, Liberty Life is on track for its 2014 procurement target.

Priorities and challenges

- Dealing with fronting – removing any dishonest suppliers from preferential supplier lists.

Procurement process



Community

Highlights

- By the end of 2005, approximately 2 500 disadvantaged schools were connected to Mindset Network.
- Total CSI spend in 2005 was R18 million.

Priorities and challenges

- Increasing the percentage of black learners writing higher-grade Mathematics, and the pass rate.
- Formalising a partnership with Parliament (the Parliamentary Millennium Project), which will see the Liberty Foundation playing an integral role in putting about nine million cut-out-and-keep storybooks into thousands of schools across the country.
- Increasing the audience of The Learning Channel by moving it to SABC TV1, which has wider reach than SABC TV3.

Corporate Social Investment (CSI)

Liberty Life's CSI programme is driven through the Liberty Foundation, an independent trust going back 34 years. Its focus is on education with an emphasis on improving learning and teaching in South African schools.

The Liberty Foundation spends its entire budget on education (including health education) as it believes it represents the single most crucial requirement for sustainable economic impact.

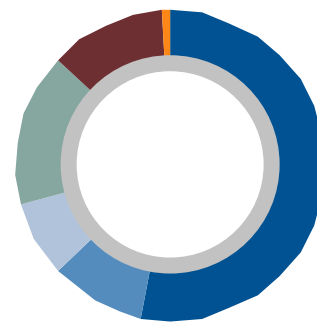
Liberty Life also regards as crucial: primary healthcare, malaria, tuberculosis and HIV/Aids awareness and education. The management of the HIV/Aids pandemic and treatment of its victims is considered imperative if socioeconomic development is to succeed.

The Foundation does not work in isolation, but with other partners such as NGOs, the state sector and other companies, to maximise its contribution to development and empowerment.

CSI spend

Liberty Life's CSI spend for 2005 was R18 million. A summary of how these funds were allocated is illustrated in the accompanying pie chart.

Liberty Life Foundation (%)



- Learning Channel 53%
- Independent Newspapers 10%
- Sowetan 8%
- Mindset Network 16%
- Johnnic Publishing 12%
- Other 1%

Liberty Group Limited continued

Liberty Life Foundation initiatives

In print

Liberty Life provides materials at all levels in support of the national curriculum. This is especially important in an environment where many students have never owned textbooks. Liberty Life partners South Africa's media groups, using the weekly education supplement in many national newspapers, for example, Sunday Times, Star, Argus, Pretoria News and Daily News. The supplements are distributed to about 6 100 schools in South Africa.

On the Internet

Liberty Life has completed the digitalisation of much of the South African school curriculum (Grades 1, 2, 3 and 10, 11, 12), making it available free online at www.learn.co.za and www.mindset.co.za. In 2005, it began the process of merging both websites to form the premier educational website in South Africa.

Through broadcast

Learning Channel

Liberty Life has been broadcasting the Learning Channel on SABC TV3 for 14 years. During 2005, 416 hours were broadcast on SABC TV 3.

Mindset Network

This is a far-reaching project, which creates, sources and delivers free educational material through satellite broadcast with supporting multi-media material in print and on the Internet.

The Health Channel

This channel broadcasts to clinics, delivering "edutainment" into waiting rooms for patients, as well as data streaming a curriculum to healthcare workers in five languages.

The Primary School Channel

The Primary School Channel has come on stream after a successful pilot.

Environment

Priorities and challenges

- Implementing a waste disposal management system, to include the disposal of plastic, metal and glass.
- Conducting annual environmental audits on various levels of operations to ensure compliance to the National Environmental Management Act, 1998.

Occupational Health and Safety (OHS)

Liberty Life's OHS measures include:

- A health and safety committee that meets every two months.
- Approximately 68 health and safety representatives, which include first aiders and fire marshals.
- Fire drills that are generally held once a year and on a monthly basis at the crèche.
- Training held at least twice a year for fire marshals and first aiders and once a year for health and safety representatives.