

GOVERNANCE AND COMMUNICATION

Liberty Holdings relationship with Standard Bank

INTRODUCTION

Liberty Holdings Limited is majority owned by Standard Bank Group Limited. The purpose of this document is to provide the strategic rationale for the commercial benefit of the bancassurance relationship; outline the principles of economic benefit to Liberty insofar as disclosure is reasonable and no competitive information or regulatory parameter is impacted; and to highlight the governance parameters.

1. STRATEGIC RATIONALE

Bancassurance covers a wide range of detailed arrangements between banks and insurance companies, with the objective of increasing market reach, increased revenues, economies of scale and other synergies.

Liberty actively seeks to identify and develop synergies, joint ventures, coordination of product design and opportunities for secondment of personnel and sharing of knowledge and expertise with other businesses in the Standard Bank group, for the mutual benefit of both parties. Collaboration efforts include, but are not limited to, Risk and Governance, Marketing, Information Technology, Finance, Procurement and HR.

Through the bancassurance partnership, Liberty is able to:

- Utilise the extensive Standard Bank branch network as an additional distribution channel, accessing local markets in which Liberty does not have distribution reach, at a lower cost than traditional distribution.
- Diversify revenue streams from the traditional distribution channels.
- Gain access to clients, both retail and corporate, that would not otherwise be reachable by Liberty.
- Expand beyond the borders of South Africa by utilising the established infrastructure of Standard Bank's market presence in Africa and other emerging countries
- Attract and retain scarce talent, by providing extended career opportunities
- Leverage cost and operational synergies and best practices.

2. ECONOMIC BENEFITS

The important of the bancassurance relationship is underpinned by the substantial contribution of the bancassurance arrangement to new business volumes (Liberty) and cash flows (STANLIB).

Profit shares

The profit share agreed on by the parties is directly dependent on the nature of the business being sold, the distribution channel and the relative administrative functions performed by each party. Profit shares paid to Standard Bank in terms of the Bancassurance agreement are included in related party disclosures in the annual and interim financial reports and disclosures.

South Africa

Embedded business

- Embedded business comprises the selling of an insurance product on an "embedded in product" and/or "embedded in process" basis, where the sale is integrally linked to the sale of the Bank product and integrated in the Bank's systems and processes.
- Most of the administration is performed by the Bank and the customers are bank customers. Liberty provides the insurance license and expertise in terms of product development, management of key metrics and product pricing.
- Liberty's share of the profit share on embedded business is commensurate with the functions it performs in respect of this business, its contribution to the administration and risk that it is taking. This is currently 10%.

Advisory Business

- Advisory or complex business relates to the selling of insurance, investment and health products in a personal advisory relationship/engagement where the product is not integrally linked to a Bank product.

A Bank appointed advisor gives high advice through the provision of a comprehensive financial needs analysis.

- Complex products are provided and the administrative burden lies mainly with Liberty. The cost of the distribution channel (SBFC) is however borne by the Bank. The profit share for Liberty is 50%.
- Commission is paid as for any other independent intermediary – so in effect the bank is another distribution channel for Liberty, contributing almost one third of Liberty's new business sales.

Transactional business

- The transactional business relates to selling of a wealth product on a single sale basis through a Bank point of client engagement, where the sale is not integrally linked to the sale of a Bank product, giving limited advice which could typically take the form of a single needs analysis and providing product information, but not specifically dependant on a comprehensive financial needs analysis.
- The administration and infrastructure for this type of business is generally made available by Liberty but will use the bank branch infrastructure and personnel to access clients. Profit shares range between 50% and 65% depending on the nature of the business.

STANLIB

- STANLIB gains significant advantage by having access to the branch network and customer base of one of the largest banks in Africa. A substantial share of the cash flows and assets under management generated by STANLIB are through Standard Bank.
- STANLIB earns asset management and other fees on funds sourced through the Standard Bank channel.
- The Bank will not share in the economic profit relating to investment business (STANLIB) until a high water mark (based on Bank volumes) is exceeded or after 2015.
- Standard Bank advisers (SBFC) will earn market related commission and trail fees on business placed with STANLIB.

Africa

- Products are sold through Standard Bank branches and Liberty utilises this distribution network in Africa. Liberty therefore does not have to incur significant infrastructural costs to meet its expansion objectives.
- Economic sharing formulas are aligned to the respective acquisition models and include all business lines, (Life, Pensions, Health, Short Term and Investment) or as otherwise designated and range between 40% and 75% for Liberty depending on the respective responsibilities.

3. GOVERNANCE

Bancassurance Governing Bodies

The Liberty Board of Directors includes a majority of independent non executive directors and serves as the primary governance body and amongst other obligations is responsible for managing the relationship at an arm's length with its largest shareholder, Standard Bank. A formal report on any Bancassurance matters and intergroup transactions is submitted to the Board on a bi-annual basis for approval.

Over and above specifically mandated Board Sub-Committees (such as the Bancassurance Negotiating Sub-Committee consisting of independent non- executive directors) there are 3 operating governance committees. These committees have been established to ensure appropriate governance protocols or standards are adhered to in the execution of the Bancassurance relationship with the Bank. These committees are the Bancassurance Committee, the Standard Bank \Liberty Transaction Monitoring Committee and the Related Party Contract Review Committee. Any issues that require independent resolution are escalated to the Board for a final decision.