



LIBERTY

Liberty Holdings Limited

Supplementary
information

For the year ended 31 December

2017

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ANALYSIS OF ORDINARY SHAREHOLDERS' EQUITY

for the year ended 31 December 2017

Rm	Group funds invested		Contribution to earnings	
	2017	2016	2017	2016
South African insurance	18 412	18 505	2 972	2 415
Insurance operating surplus			1 618	1 663
Present value of in-force business	12	17	(5)	(13)
Investment portfolios	17 235	14 686	1 480	703
Fixed assets and working capital ⁽¹⁾	6 665	8 302	190	293
Subordinated notes (excluding accrued interest)	(5 500)	(4 500)	(311)	(231)
Other insurance	1 112	1 212	(65)	(42)
Liberty Africa Insurance	813	808	45	41
Nigeria ⁽⁴⁾ and project support costs			(56)	(38)
Liberty Health	299	404	(54)	(45)
Asset management				
STANLIB South Africa	795	777	252	459
STANLIB Rest of Africa	100	104	(204)	(97)
Central overheads and sundry income			(244)	(222)
Liberty Holdings Limited	1 428	1 408		
Liberty Two Degrees adjustment to net asset value ⁽²⁾	597	(330)		
Mismatch earnings on L2D policyholder assets			543	(304)
Preference share dividend			(2)	(2)
Headline earnings			3 252	2 207
Preference share dividend			2	2
Impairment of intangible assets			(136)	
Liberty Holdings shareholders' equity/total earnings	22 444	21 676	3 118	2 209
Normalised:				
Liberty Holdings shareholders' equity/headline earnings	22 444	21 676	3 252	2 207
BEE preference shares	123	148	10	16
Liberty Two Degrees normalisation adjustment ⁽³⁾	(340)	193	(543)	304
Normalised shareholders' equity/headline earnings	22 227	22 017	2 719	2 527

⁽¹⁾ With effect from 1 July 2005 Liberty Group Limited established a working capital funding loan between insurance operations and shareholder assets, subsequently supported by the subordinated notes issue. Inter-divisional interest is charged at 8,77% namc.

⁽²⁾ Represents the difference between Liberty's share of the net asset value of L2D at the end of the period and the listed price of L2D units multiplied by the number of units in issue to Liberty at the end of the period.

⁽³⁾ Reversal of the accounting mismatch arising on consolidation of the policyholders obligation linked to L2D units and the policyholders allocation of the group funds investment.

⁽⁴⁾ Costs associated with the termination of a long-term licence acquisition in Nigeria and project management costs of the Group Arrangements CFU.

ANALYSIS OF GROUP EARNINGS – CORE EARNINGS

for the year ended 31 December 2017

Rm	2017	2016
Individual Arrangements planned margin release including annual contribution increases	1 971	1 805
Individual Arrangements credit life	167	160
Individual Arrangements VIF amortisation	(5)	(12)
LibFin Markets	376	318
Expected long-term rate of return on Shareholder Investment Portfolio ⁽¹⁾	1 464	1 485
Other businesses headline earnings	240	303
Group Arrangements	16	149
Liberty Corporate	81	191
Liberty Africa Insurance	45	41
Liberty Health	(54)	(45)
Nigeria ⁽²⁾ and project support costs	(56)	(38)
Asset management		
STANLIB South Africa	445	459
STANLIB Rest of Africa	15	(97)
Central overheads and sundry income	(236)	(208)
Centre overheads and sundry income	(246)	(224)
BEE preference share income	10	16
Core operating earnings	4 213	4 059
Individual Arrangements new business strain	(675)	(611)
Individual Arrangements operating variances, assumption changes and other	(250)	(223)
Adjusted core operating earnings	3 288	3 225
Variance to long-term rate of return on Shareholder Investment Portfolio	(157)	(698)
STANLIB South Africa sustainable earnings adjustment	(193)	
STANLIB Rest of Africa sustainable earnings adjustment	(219)	
Normalised headline earnings	2 719	2 527

⁽¹⁾ The expected long term rate of return on the SIP portfolio is based on the long term view to avoid volatility in the core operating earnings.

⁽²⁾ Costs associated with the termination of a long-term licence acquisition in Nigeria and project managements costs of the Group Arrangements CFU.

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

for the year ended 31 December 2017

1 Description of embedded value of South African covered business

The prudential regulatory regime governing South African insurance companies is expected to change imminently, which may affect the basis on which embedded value is calculated. Liberty will continue to report embedded value on the same basis as before until the best practice for embedded value reporting emerges.

The current version of Advisory Practice Note (APN) 107 came into force for all financial years ending on or after 31 December 2012. APN 107 governs the way in which embedded values of life assurance companies are reported.

The embedded value consists of:

- The net worth; plus
- The value of in-force covered business; less
- The cost of required capital.

The net worth represents the excess of assets over liabilities on the statutory valuation method, adjusted for the elimination of the carrying value of covered business acquired and for the fair value of share rights granted to Liberty Group Limited employees.

The value of in-force covered business is the discounted value of the projected stream of after-tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities, which differs from the release of profits on the published accounting basis. Covered business is defined as business regulated by the FSB as long-term insurance business written in Liberty Group Limited.

For reversionary and smoothed bonus business, the value of in-force covered business has been calculated assuming that bonuses are changed over time so that the full amount of the

bonus stabilisation reserves is distributed to policyholders over the lifetime of the in-force policies.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory CAR calculated in accordance with Standard of Actuarial Practice (SAP) 104 plus any additional capital considered appropriate by the board given the risks in the business. Required capital has been calculated at 1.5 x CAR, consistent with risk appetite. The cost of required capital is the present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.

The value of new business written is the present value at the point of sale of the projected stream of after-tax profits from that business, reduced by the cost of required capital. New business is defined as covered business arising from the sale of new policies and once-off premium increases in respect of in-force covered business during the reporting period. Risk policies with an inception date prior to the reporting date where no premium has been received are included in the embedded value and value of new business. The contractual terms of these policies state that Liberty Group Limited is on risk from the inception date, even though a premium may not have been received. This definition is consistent with that used in the financial statements.

The value of new business has been calculated on the closing assumptions. Investment yields at the point of sale have been used for new fixed annuities, guaranteed investment plans, and embedded derivatives; for all other business the investment yields at the date of reporting have been used.

No adjustment has been made for the discounting of tax provisions in the embedded value.

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

2 Normalised embedded value

Rm (unless otherwise stated)	2017	2016
Risk discount rate % ⁽¹⁾	11,79	11,92
Net worth	11 134	11 717
Ordinary shareholders' funds on published basis	18 412	18 505
BEE preference share funding	123	148
Adjustment of ordinary shareholders' funds from published basis ⁽²⁾	(7 253)	(6 786)
Adjustment for carrying value of in-force business acquired ⁽³⁾	(12)	(17)
Allowance for fair value of share rights	(36)	(33)
Frank Financial Services allowance for future expenses	(100)	(100)
Net value of life business in-force	23 447	22 753
Value of life business in-force	25 137	24 394
Cost of required capital	(1 690)	(1 641)
Normalised embedded value	34 581	34 470
3 Normalised embedded value earnings		
Embedded value at the end of the year	34 581	34 470
Funding of restricted share plan	92	92
Intragroup dividends	2 600	3 500
Less embedded value at the beginning of the year	(34 470)	(35 268)
Embedded value earnings	2 803	2 794
Return on embedded value (%)	8,2	7,9

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

4 Analysis of normalised embedded value earnings

Rm	2017				2016			
	Net worth	Value of in-force covered business	Cost of required capital	Embedded value	Net worth	Value of in-force covered business	Cost of required capital	Embedded value
Embedded value at the end of the year	11 134	25 137	(1 690)	34 581	11 717	24 394	(1 641)	34 470
Plus dividends paid	2 600			2 600	3 500			3 500
Plus funding of restricted share plan	92			92	92			92
Embedded value at the beginning of the year	(11 717)	(24 394)	1 641	(34 470)	(12 761)	(24 025)	1 518	(35 268)
Embedded value earnings	2 109	743	(49)	2 803	2 548	369	(123)	2 794
Components of embedded value earnings								
Value of new business written in the year	(1 790)	2 092	(90)	212	(1 661)	2 201	(86)	454
Expected return on value of in-force business ⁽⁴⁾		2 888	38	2 926		2 961	36	2 997
Expected net of tax profit transfer to net worth	4 112	(4 112)			4 217	(4 217)		
Variances/changes in operating assumptions	110	(8)	7	109	264	(155)	(66)	43
Operating experience variances ⁽⁵⁾	225	105		330	450	15	12	477
Operating assumption changes ⁽⁶⁾	(45)	75		30	(160)	(39)	(96)	(295)
Changes in modelling methodology ⁽⁷⁾	(70)	(188)	7	(251)	(22)	32	18	28
Property portfolio liquidity fee variance					(4)	(163)		(167)
Development expenses	(55)			(55)	(45)			(45)
Intragroup transfers	46			46				
Embedded value earnings from operations	2 423	860	(45)	3 238	2 775	790	(116)	3 449
Economic adjustments	(311)	(117)	(4)	(432)	(255)	(421)	(7)	(683)
Return on net worth ⁽⁸⁾	(14)			(14)	153			153
Investment variances ⁽⁹⁾	(393)	(201)		(594)	(164)	(799)		(963)
Changes in economic assumptions ⁽¹⁰⁾	96	84	(4)	176	(244)	378	(7)	127
Change in allowance for fair value of share rights ⁽¹¹⁾	(3)			(3)	28			28
Normalised embedded value earnings	2 109	743	(49)	2 803	2 548	369	(123)	2 794

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

Notes to embedded value

- (1) Future investment returns on major asset classes and other economic assumptions have been set with reference to the market yield on medium-term South African government stock.

%	Investment return p.a.	
	2017	2016
Government stock	8,99	9,12
Equities	12,49	12,62
Property	9,99	10,12
Cash	7,49	7,62
The risk discount rate has been set equal to the risk free rate plus 80% of the equity risk premium	11,79	11,92
Maintenance expense inflation rate	7,24	7,37

- (2) *Adjustment of ordinary shareholders' funds from the published basis*

The amounts represent the change in the amount of shareholder funds as a result of moving from a published valuation basis to the net worth on the embedded value basis. This is largely due to the elimination of certain negative rand reserves on the statutory valuation basis. The reduction in net worth results in a corresponding increase in the value of in-force.

- (3) *Adjustment for carrying value of in-force business acquired*

The carrying value of business acquired by Liberty has been deducted from shareholders' funds in order to avoid double counting. For embedded value purposes, the value in respect of this acquired business is included in the value of life business in-force. The net adjustment was R12 million (2016: R17 million).

- (4) The expected return on the value of life business is obtained by applying the previous year's risk discount rate to the value of life business in force at the beginning of the period and the current year's risk discount rate from the point of sale to the valuation date in respect of the value of new business.

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

Notes to embedded value (continued)

- (5) Operating experience variances consist of the combined effect on net worth and value of in-force of operating experience being different to that anticipated at the prior year end.

The net operating experience variance of R330 million (2016: R477 million) comprised:

Rm	Net worth	Value of in-force covered business	Cost of required capital	Embedded value
2017				
Individual Arrangements	117	140		257
Mortality and morbidity	255	78		333
Policyholder behaviour	(8)	93		85
Other ⁽ⁱ⁾	(130)	(31)		(161)
Group Arrangements: Liberty Corporate	(70)	(35)		(105)
Credit portfolio variance	178			178
Total	225	105		330
2016				
Individual Arrangements	202	(10)		192
Mortality and morbidity	67	84		151
Policyholder behaviour	52	(35)		17
Other, including tax variances	83	(59)		24
Group Arrangements: Liberty Corporate	98	25		123
Credit portfolio variance	150			150
Other			12	12
Total	450	15	12	477

⁽ⁱ⁾ The amount of R130 million is primarily related to strengthening in respect of regulatory and other simplification projects.

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

Notes to embedded value (continued)

- (6) The amount of R30 million (2016: negative R295 million) is due to a number of offsetting assumption changes.
- (7) The amount of negative R251 million (2016: R28 million) is due to a number of data refinements and modelling changes including refinements to the modelling of reinsurance.
- (8) Reconciliation of embedded value return on net worth to LibFin Investments earnings:

Rm	2017	2016
LibFin Investments after consolidation of L2D	1 307	787
Adjustment to reflect L2D at listed unit price	(394)	95
LibFin Investments earnings	913	882
Adjustments for differences between the statutory and published basis	(604)	(527)
90:10 book	(194)	(5)
Frank Financial Services	(50)	(28)
Bancassurance obligations relating to Liberty Africa Insurance and STANLIB	(54)	(39)
BEE preference scheme	7	21
Central treasury investments	115	19
Software asset impairment	(71)	
Other	(76)	(170)
Return on net worth	(14)	153

The return on net worth includes an amount of negative R7 million (2016: negative R16 million) in respect of the change in the fair value of cash-flow hedges supporting LGL subordinated notes.

- (9) The amount of negative R393 million (2016: negative R164 million) arises from the mismatch created by hedging market risk on the IFRS basis and the negative investment variance on the 90:10 book. The investment variances include an amount of R61 million (2016: R178 million) in respect of the change in the fair value of cash-flow hedges supporting LibFin Credit.
- (10) The amount of R176 million (2016: R127 million) relates to changes in economic assumptions as described in note (1).
- (11) The amount of negative R3 million (2016: R28 million) in respect of the change in the fair value of share rights arises from the change in the number of share rights for staff employed by Liberty Group Limited and the change in the market value of Liberty Holdings Limited shares over the reporting period.

Other bases, bonus rates and assumptions

Taxation has been allowed for at rates and on bases applicable to Section 29A of the Income Tax Act. Full taxation relief on expenses to the extent permitted was assumed. Capital gains taxation has been taken into account in the embedded value.

Assumptions reflect best estimates of future experience consistent with the valuation basis excluding any compulsory or discretionary margins. However, in contrast to the assumptions in the valuation basis, the embedded value makes allowance for non-compulsory automatic premium and benefit increases.

The assets backing the required capital are consistent with the long-term strategic mix of shareholder funds approved by the Liberty Holdings board.

SOUTH AFRICAN COVERED BUSINESS EMBEDDED VALUE

(CONTINUED)

for the year ended 31 December 2017

5 Sensitivity to risk discount rate and other assumptions

In order to indicate sensitivity to varying assumptions, the value of the in-force life business less cost of required capital and the value of the new business written for Liberty Group Limited are shown below for various changes in assumptions. The reserving basis has been kept constant and only future experience assumptions have been varied. Each value is shown with only the indicated parameter being changed.

Audited Rm	2017		2016	
	Value of in-force life business less cost of required capital at 31 December	Value of new business written in	Value of in-force life business less cost of required capital at 31 December	Value of new business written in
Base value	23 447	212	22 753	454
Value of in-force/new business	25 137	302	24 394	540
Cost of required capital	(1 690)	(90)	(1 641)	(86)
100 basis point increase in risk discount rate	21 758	61	21 125	330
Value of in-force/new business	23 829	169	23 127	436
Cost of required capital	(2 071)	(108)	(2 002)	(106)
100 basis point decrease in interest rate environment	23 891	329	23 051	545
Value of in-force/new business	25 580	421	24 710	629
Cost of required capital	(1 689)	(92)	(1 659)	(84)
10% fall in equity and property market values	22 901		22 188	
Value of in-force	24 591		23 829	
Cost of required capital	(1 690)		(1 641)	
100 basis point increase in equity and property returns	24 364	249	23 639	493
Value of in-force/new business	25 795	325	25 034	565
Cost of required capital	(1 431)	(76)	(1 395)	(72)
10% decrease in maintenance expenses	24 331	293	23 610	536
Value of in-force/new business	26 021	383	25 251	622
Cost of required capital	(1 690)	(90)	(1 641)	(86)
10% decrease in new business acquisition expenses (other than commissions)		375		595
Value of new business ⁽¹⁾		465		681
Cost of required capital		(90)		(86)
10% decrease in withdrawal rates	24 843	405	24 061	661
Value of in-force/new business	26 533	495	25 702	747
Cost of required capital	(1 690)	(90)	(1 641)	(86)
5% decrease in mortality and morbidity for life assurance business	25 028	373	24 179	600
Value of in-force/new business ⁽²⁾	26 718	463	25 820	686
Cost of required capital	(1 690)	(90)	(1 641)	(86)
5% decrease in mortality for annuity business	23 219	209	22 482	450
Value of in-force/new business	24 909	299	24 123	536
Cost of required capital	(1 690)	(90)	(1 641)	(86)

⁽¹⁾ The effect of decreasing acquisition expenses on the value of new business includes the effect on the deferred tax asset impairment, which decreases materially when acquisition expenses decrease. The effect of acquisition expenses on the value of new business is shown in the analysis of value of long-term insurance business and margins in the group equity value report.

⁽²⁾ A correction was made to the 2016 value of in-force morbidity sensitivity.

BANCASSURANCE – BENEFIT TO LIBERTY

as at 31 December 2017

Liberty share (Rm)	2017	2016
Credit Life		
IFRS headline earnings	167	160
Embedded value of in-force contracts	506	461
Other insurance products		
Embedded value of new business	32	53
Embedded value of in-force contracts	1 198	1 113
STANLIB		
Net service fees on assets under management sourced from Standard Bank distribution	422	406

90:10 SHAREHOLDER EXPOSURE

as at 31 December 2017

The "90:10 exposure" refers to the shareholders exposure to certain policyholder portfolios on which a fee arrangement exists whereby the investment return on the portfolios is shared between the policyholders and shareholders in a 90:10 ratio.

As a result of the market risk that arises for shareholders on this exposure it is managed as part of the Shareholders Investment Portfolio (SIP) and consequently the earnings form part of the SIP returns and are included in the LibFin Investments revenue account.

Because of its nature as a management fee the present value of these 90:10 fees are included in the Value of In Force of the business and the annual expected amount forms part of the expected transfer to Net Worth in the AoEV. There is therefore an inconsistency between the IFRS revenue account (shown as LibFin Investments revenue) and the AoEV (shown as expected Life Fund Operating earnings).

Rm	2017	2016
Exposure as at the beginning of the year	4 142	4 622
Expected earnings	303	364
Variance	(109)	(359)
Total net earnings	194	5
Exposure as at the end of the period	3 920	4 142

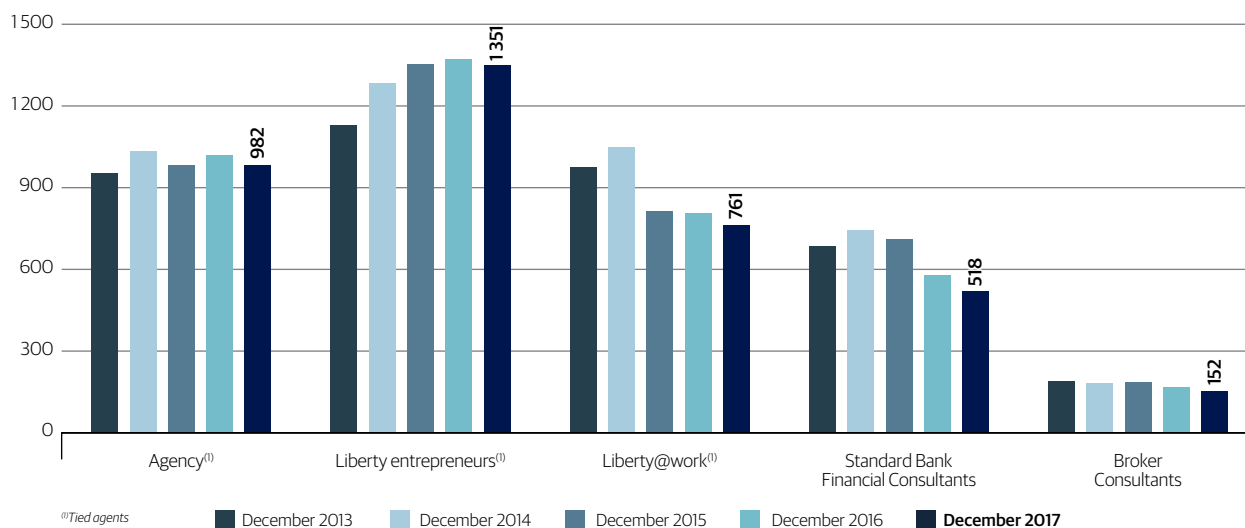
LONG-TERM POLICYHOLDER LIABILITIES IFRS RECONCILIATION

as at 31 December 2017

Rm	2017	2016
Policyholder liabilities at beginning of the year net of reinsurance	299 119	296 915
Policyholder liabilities	307 230	305 194
Reinsurance liabilities	555	617
Policyholder assets	(7 314)	(7 579)
Reinsurance assets	(1 352)	(1 317)
Transfers to policyholder liabilities	15 767	2 555
Net premium income from insurance contracts and inflows from investment contracts	54 140	55 039
Net insurance premiums	36 723	37 882
Fund inflows from investment contracts	17 417	17 157
Investment returns	31 102	17 457
Net claims and policyholder benefits	(52 506)	(53 920)
Net insurance claims	(36 133)	(37 220)
Fund outflows from investment contracts	(16 373)	(16 700)
Acquisition costs	(4 326)	(4 136)
Management expenses, finance costs and profit share allocations	(9 441)	(9 238)
Taxation	(1 906)	(1 058)
Operating profit from insurance operations	(1 296)	(1 589)
Foreign currency translation reserve	(270)	(351)
Policyholder liabilities at end of year net of reinsurance	314 616	299 119
Policyholder liabilities	322 918	307 230
Reinsurance liabilities	663	555
Policyholder assets	(7 484)	(7 314)
Reinsurance assets	(1 481)	(1 352)

SOUTH AFRICAN INSURANCE DISTRIBUTION HEADCOUNT

as at 31 December 2017



LONG-TERM INSURANCE – NEW BUSINESS BY DISTRIBUTION CHANNEL⁽¹⁾

for the year ended 31 December 2017

Rm	Recurring premiums		Single premiums		Total premiums		Indexed premiums	
	2017	2016	2017	2016	2017	2016	2017	2016
Retail	5 817	5 772	22 660	22 916	28 477	28 688	8 084	8 064
Broker	1 236	1 332	5 527	7 006	6 763	8 338	1 789	2 033
Bancassurance	2 601	2 483	6 519	5 451	9 120	7 934	3 253	3 028
Tied channels ⁽²⁾	1 732	1 726	10 359	10 170	12 091	11 896	2 768	2 743
Other	248	231	255	289	503	520	274	260
Institutional	1 196	946	838	1 350	2 034	2 296	1 280	1 081
Broker	691	525	398	754	1 089	1 279	731	600
Bancassurance	22	41			22	41	22	41
Tied channels ⁽²⁾	462	349	419	461	881	810	504	395
Other	21	31	21	135	42	166	23	45
Total new business	7 013	6 718	23 498	24 266	30 511	30 984	9 364	9 145
Split between:								
South Africa⁽¹⁾								
Individual Arrangements	5 657	5 609	22 583	22 830	28 240	28 439	7 916	7 892
Broker	1 234	1 330	5 527	7 006	6 761	8 336	1 787	2 031
Bancassurance	2 547	2 419	6 494	5 430	9 041	7 849	3 196	2 962
Tied channels ⁽²⁾	1 652	1 642	10 359	10 170	12 011	11 812	2 688	2 659
Other	224	218	203	224	427	442	245	240
Liberty Corporate	1 089	765	816	771	1 905	1 536	1 171	842
Broker	648	457	376	175	1 024	632	686	474
Bancassurance	22	38			22	38	22	38
Tied channels ⁽²⁾	419	270	419	461	838	731	461	316
Other			21	135	21	135	2	14
Total new business	6 746	6 374	23 399	23 601	30 145	29 975	9 087	8 734
Liberty Africa Insurance								
Retail	160	163	77	86	237	249	168	172
Broker	2	2			2	2	2	2
Bancassurance	54	64	25	21	79	85	57	66
Tied channels ⁽²⁾	80	84			80	84	80	84
Other	24	13	52	65	76	78	29	20
Institutional	107	181	22	579	129	760	109	239
Broker	43	68	22	579	65	647	45	126
Bancassurance		3				3		3
Tied channels ⁽²⁾	43	79			43	79	43	79
Other	21	31			21	31	21	31
Total new business	267	344	99	665	366	1 009	277	411

⁽¹⁾ Includes premium escalations for Individual Arrangements; excludes STANLIB Multi-manager.

⁽²⁾ Tied channels include Agency, Liberty entrepreneurs and Liberty@work.

TOTAL LONG-TERM INSURANCE PREMIUMS

for the year ended 31 December 2017

Rm	Recurring premiums		Single premiums		Total premiums	
	2017	2016	2017	2016	2017	2016
Individual Arrangements	20 824	20 142	22 151	22 437	42 975	42 579
Liberty Corporate	8 784	8 281	1 222	2 294	10 006	10 575
Liberty Africa Insurance	925	924	234	685	1 159	1 609
STANLIB Multi-manager				276		276
Total premiums	30 533	29 347	23 607	25 692	54 140	55 039
Indexed premiums					32 893	31 916
Individual Arrangements					23 039	22 386
Liberty Corporate					8 906	8 510
Liberty Africa Insurance					948	992
STANLIB Multi-manager ⁽¹⁾						28

⁽¹⁾ The arrangement whereby funds were placed with external asset managers via STANLIB Multi-manager was terminated in 2016 and accordingly there are no flows in 2017 and going forward.

The difference between the single premiums reported under total long-term insurance premiums and single premiums reported under long-term insurance new business by distribution channel arises mainly from different treatment for extensions of matured policies, reinvestment of fund withdrawals, conversions of standalone funds to umbrella funds and fund member movements within Liberty administered funds.

LIBFIN – SHAREHOLDER INVESTMENT PORTFOLIO

as at 31 December 2017

Exposure category Rm	2017				2016			
	Local	Foreign	Total	%	Local	Foreign	Total ⁽¹⁾	%
Equities	4 431	4 787	9 218	33	3 971	3 891	7 862	29
Bonds	7 197	304	7 501	27	6 016	289	6 305	23
Cash	5 385	49	5 434	20	6 779	457	7 236	27
Property	3 093		3 093	11	3 561		3 561	13
Other	1 649	937	2 586	9	1 613	570	2 183	8
Total	21 755	6 077	27 832	100	21 940	5 207	27 147	100
Assets backing capital			17 235	62			14 686	54
Assets backing policyholder liabilities			6 677	24			8 319	31
90:10 exposure			3 920	14			4 142	15
Reconciliation to IFRS shareholders' equity								
Shareholder Investment Portfolio			27 832				27 147	
Less: 90:10 exposure			(3 920)				(4 142)	
Less: Subordinated notes			(5 500)				(4 500)	
SA insurance IFRS shareholder's equity			18 412				18 505	

LIBFIN – SHAREHOLDER INVESTMENT PORTFOLIO PERCENTAGE ALLOCATION

as at 31 December 2017

Exposure category	2017				2016			
	Assets backing capital	Assets backing policyholder liabilities	90:10 exposure	Total	Assets backing capital	Assets backing policyholder liabilities	90:10 exposure	Total
%								
Local assets								
Equities	9	1	6	16	8	1	6	15
Bonds, cash and property	41	12	3	56	36	20	4	60
Other	4	1	1	6	6			6
Foreign assets								
Equities	4	10	3	17	1	9	4	14
Bonds, cash and property	1		1	2	1	1	1	3
Other	3			3	2			2
Total	62	24	14	100	54	31	15	100

LIBFIN – SHAREHOLDER INVESTMENT PORTFOLIO RETURN

as at 31 December 2017

Rm	2017	2016
Realised gross result	2 328	1 539
Taxation	(512)	(349)
Bond cost	(432)	(321)
Expenses (including asset management fees)	(77)	(82)
Net profit	1 307	787
Gross return (%)	8,5	5,7

Taxation note:

The taxation treatment of income derived from assets backing capital is the normal taxation rules applicable to life investment portfolios. The taxation applicable to income derived from assets backing life funds and the 90:10 exposure is determined by the tax rates pertaining to each life tax fund to which the assets are allocated (I-E tax). In addition there is transfer tax at 28% on the net surplus, after the applicable I-E tax.

LIBFIN – MARKETS CREDIT PORTFOLIO

as at 31 December 2017

Rm (unless otherwise stated)	2017	2016	% change
Net earnings from Credit portfolio	330	300	10
Total LibFin assets (Rbn)	62	58	7
Credit portfolio assets (Rbn)	42	38	11
Banks, treasuries and shorter dated assets (Rbn)	20	20	

INDIVIDUAL ARRANGEMENTS – HEADLINE EARNINGS

for the year ended 31 December 2017

Rm	2017	2016
Expected profit and premium escalations	2 040	2 020
Variances, modelling and assumption changes	(144)	(341)
New business strain	(675)	(611)
Project, outperformance incentive and non cost per policy expenses	(286)	(106)
Direct Financial Services	(8)	(109)
Other	176	195
Release of tax provisions		16
Earnings before bancassurance	1 103	1 064
Liberty share of credit life bancassurance (net of all taxes)	167	160
Complex bancassurance preference dividend	(62)	(105)
Headline earnings	1 208	1 119

INDIVIDUAL ARRANGEMENTS – KEY PERFORMANCE INDICATORS

as at 31 December 2017

Rm (unless otherwise stated)	2017	2016
Net customer cash flows	3 196	2 505
Insurance products	2 846	1 948
LISP	350	557
Gross sales (excluding LISP)	26 895	27 186
Indexed new business (excluding LISP)	6 570	6 639
Value of new business	155	426
Retail margin excluding STANLIB (%)	0,5	1,4
Retail new business margin including STANLIB (%) ⁽¹⁾	0,5	1,2

⁽¹⁾ The arrangement whereby funds were placed with external managers via STANLIB Multi-manager was terminated in 2016 and accordingly there are no flows in 2017 resulting in the same margin being reported.

INDIVIDUAL ARRANGEMENTS – INDEXED NEW BUSINESS

as at 31 December 2017

Rm	2017	2016
Individual Arrangements Insurance (excluding emerging consumer market)	5 844	5 785
Emerging consumer market	264	272
Total Individual Arrangements Insurance	6 108	6 057
Direct Financial Services	79	102
STANLIB 'on balance sheet' sales	383	480
Total 'on balance sheet' sales	6 570	6 639
STANLIB 'off balance sheet' sales	2 398	2 063
GateWay LISP 'off balance sheet' sales	220	215
Total Individual Arrangements distribution	9 188	8 917

INDIVIDUAL ARRANGEMENTS – MAINTENANCE COST PER POLICY

as at 31 December 2017

R	2017	2016
Valuation basis		
Complex	636	596
Simplex	318	298
Annuities	318	298

INDIVIDUAL ARRANGEMENTS – NEGATIVE RAND RESERVES⁽¹⁾

as at 31 December 2017

Rm	2017	2016
Published IFRS basis	16 767	16 632
Statutory basis	7 379	7 824

⁽¹⁾ Gross of taxation

By their nature "negative rand reserves" includes offsets between policies with positive and negative reserves. The Directive 145 adjustment is applied only to policies with negative reserves.

LIBERTY CORPORATE – HEADLINE EARNINGS

for the year ended 31 December 2017

Rm	2017	2016
Gross contribution	1 072	1 142
Underwriting margin	417	488
Fee income	589	548
Longevity improvement factor assumption change		(50)
Provision movements and sundry ad hoc items	(36)	59
Pension businesses and other income	102	97
Expenses and other items	(960)	(877)
Profit before tax	112	265
Taxation	(31)	(74)
Headline earnings	81	191

LIBERTY CORPORATE – KEY PERFORMANCE INDICATORS

for the year ended 31 December 2017

Rm (unless otherwise stated)	2017	2016
Gross sales	1 905	1 536
Indexed new business	1 171	842
Value of new business	57	28
New business margin (%)	0,6	0,4
Net customer cash outflows	(1 536)	(751)

LIBERTY HEALTH – HEADLINE EARNINGS

for the year ended 31 December 2017

Rm	2017	2016
Earnings before depreciation and amortisation	(78)	(16)
Amortisation and depreciation	(11)	(33)
Loss before taxation	(89)	(49)
Taxation	35	4
Headline loss	(54)	(45)

LIBERTY HEALTH COVER PRODUCT – LIVES SERVICED

as at 31 December 2017

Thousands	2017	2016	2015	2014
Region				
Eastern Africa	57	55	48	37
Western Africa	36	35	36	34
Southern Africa	29	31	21	19
Total	122	121	105	90
Liberty owned licences	79	81	67	57
Third party licences	43	40	38	33

LIBERTY AFRICA INSURANCE – HEADLINE EARNINGS

for the year ended 31 December 2017

Rm	2017	2016
Insurance entities earnings⁽¹⁾		
Long-term insurance	100	107
Short-term insurance	58	74
Headline earnings (before head office expenses)	158	181
Non controlling shareholders share of headline earnings	(61)	(66)
Liberty share of headline earnings	97	115
Liberty owned businesses >3 years	101	119
Liberty owned businesses <3 years	(3)	(4)
Head office costs	(52)	(74)
Net headline earnings attributable to Liberty	45	41

⁽¹⁾ The headline earnings result is shown at 100% of the earnings of certain of the entities that make up Liberty Africa Insurance.

LIBERTY AFRICA INSURANCE – KEY PERFORMANCE INDICATORS

for the year ended 31 December 2017

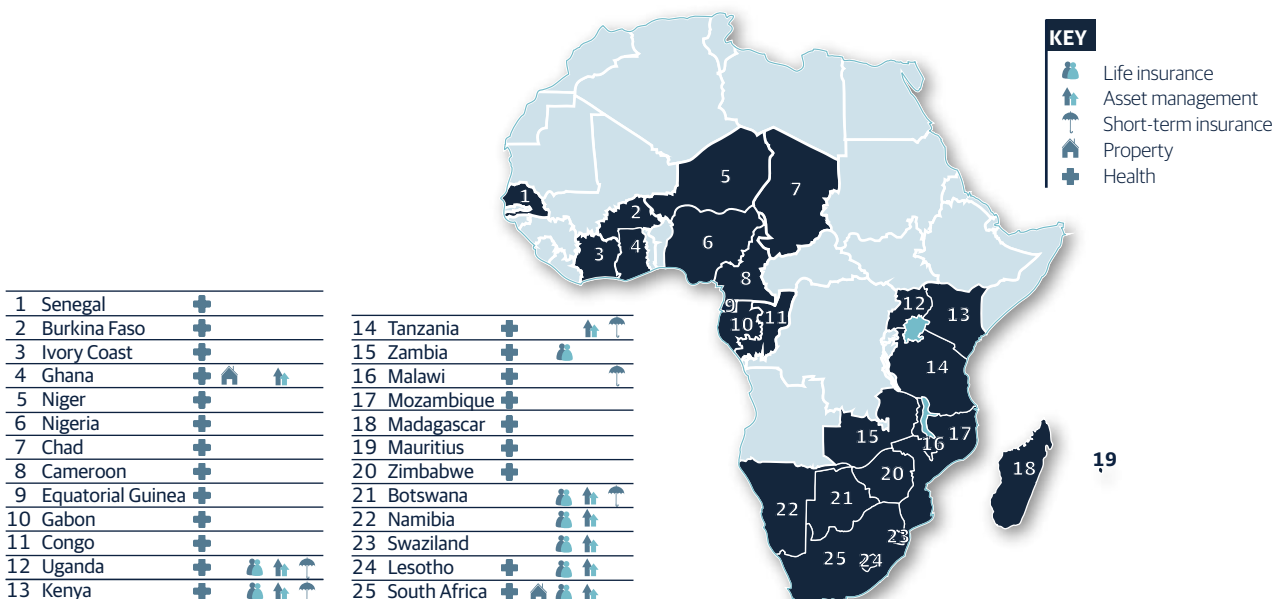
Rm (unless otherwise stated)	2017	2016
Value of new business	21	29
New business margin (%)	3,9	5,6
Long term:		
Gross sales	366	1 009
Indexed new business	277	411
Net customer cash flows	324	483
Short term:		
Net customer cash flows	271	314
Claims loss ratio (%)	48	44

LIBERTY AFRICA INSURANCE – LONG-TERM INSURANCE NET CASH FLOWS

for the year ended 31 December 2017

Rm	2017	2016
Net premiums by product type		
Retail	492	571
Single	40	85
Recurring	452	486
Institutional	667	1 038
Single	194	600
Recurring	473	438
Net premium income from insurance contracts and inflows from investment contracts	1 159	1 609
Net claims and policyholders benefits by product type		
Retail	(307)	(293)
Death, critical illness and disability claims	(61)	(77)
Policy surrender and maturity claims	(242)	(212)
Annuity payments	(4)	(4)
Institutional	(528)	(833)
Death, critical illness and disability claims	(110)	(81)
Scheme terminations and member withdrawals	(418)	(752)
Net claims and policyholders benefits	(835)	(1 126)
Net cash flow split as follows:	324	483
Retail	185	278
Institutional	139	205

OUR PRESENCE IN AFRICA



STANLIB SOUTH AFRICA – HEADLINE EARNINGS

for the year ended 31 December 2017

Rm (unless otherwise stated)	2017	2016
Net fee income	1 704	1 679
Base fees	1 676	1 651
Performance fees	28	28
Total operating expenses	(1 390)	(1 127)
Operating expenses	(1 262)	(1 062)
Non-recurring projects and expenses	(128)	(65)
Profit before investment income	314	552
Other income	57	91
Profit before taxation	371	643
Taxation	(119)	(184)
Total headline earnings	252	459
Average margin (bps)	32	34
Average assets under management (Rbn)	546	525

STANLIB SOUTH AFRICA – NET CASH FLOWS AND ASSETS UNDER MANAGEMENT BY ASSET CATEGORY

as at 31 December 2017

Rm	Net cash inflows/(outflows)		Assets under management	
	2017	2016	2017	2016
Retail	6 849	(1 320)	228 202	210 016
Fixed interest	7 846	913	48 940	40 988
Equity	(752)	(1 072)	13 504	13 044
Property	325	(211)	14 954	13 403
Money Market	(1 400)	1 007	24 794	26 188
Absolute Return	2 572	(551)	6 008	3 249
Balanced	(3 818)	(280)	24 819	27 675
International	(855)	(946)	11 308	11 231
Retail Life	20	(91)	211	183
LISP	3 280	2 116	80 093	70 603
Structured	(369)	(2 205)	3 571	3 452
Institutional	(2 118)	4 121	103 831	100 107
Fixed interest	(5)	1 531	19 905	20 134
Equity	1 021	1 653	6 743	4 462
Property	(641)	2 440	8 539	8 053
Money Market	1 316	1 030	56 217	51 807
Absolute Return	(687)	(402)	514	1 070
Balanced	(2 481)	(1 855)	9 494	11 797
International	(641)	(280)	1 711	2 138
Other		4	708	646
Liberty – Delta LISP	483	(800)	41 877	37 167
Liberty – intergroup	(16 346)	(9 207)	181 753	187 696
Total	(11 132)	(7 206)	555 663	534 986

STANLIB SOUTH AFRICA - ASSETS UNDER MANAGEMENT BREAKDOWN BY SOURCE AND ASSET TYPE

as at 31 December 2017

Rm	Money market (incl cash)	Fixed interest	Equity	Property	Other	Absolute return	Balanced	Inter-national	Struc-tured	Retail life	LISP	Total
2017												
Retail												
Collective Investments		46 561	11 010	11 102		5 164	19 010	11 308				104 155
Linked Investment and Structured Products									3 571		80 093	83 664
Money market	24 794											24 794
Multi-manager Collective Investments		2 379	2 494	3 852		844	5 809			211		15 589
Institutional												
Segregated funds		19 905	6 743	8 539	708	514	9 494	1 711				47 614
Money market	56 217										41 877	56 217
Liberty - Delta LISP												
Liberty - intergroup	5 198	32 877	53 169	24 032	645	6 859	28 441	29 026	1 506			181 753
STANLIB total	86 209	101 722	73 416	47 525	1 353	13 381	62 754	42 045	5 077	211	121 970	555 663
2016												
Retail												
Collective Investments		38 742	10 564	9 671		2 373	23 581	11 231				96 162
Linked Investment and Structured Products									3 452		70 603	74 055
Money market	26 188											26 188
Multi-manager Collective Investments		2 246	2 480	3 732		876	4 094			183		13 611
Institutional												
Segregated funds	786	20 134	4 462	8 053	646	1 070	11 664	2 138				48 953
Money market	51 021						133					51 154
Liberty - Delta LISP												
Liberty - intergroup	9 103	31 547	59 757	25 833	637	7 648	21 361	30 429	1 381		37 167	187 696
STANLIB total	87 098	92 669	77 263	47 289	1 283	11 967	60 833	43 798	4 833	183	107 770	534 986

STANLIB SOUTH AFRICA – RETAIL INVESTMENT PERFORMANCE

for the year ended 31 December 2017

Core retail funds – quartile performance Fund name	Rolling period					
	1 Year		3 Year		5 Year	
	2017	2016	2017	2016	2017	2016
STANLIB Bond	1	1	1	2	2	2
STANLIB Income	2	2	1	2	2	2
STANLIB Money Market	2	2	2	3	2	3
STANLIB Flexible Income	1	1	2	2	3	2
STANLIB Aggressive Income	2	1	1	1	3	2
STANLIB Property Income	2	1	2	2	2	3
STANLIB Balanced	3	4	4	4	3	3
STANLIB Balanced Cautious	4	3	3	3	3	3
STANLIB Inflation Plus 5%	4	4	4	4	4	4
STANLIB Inflation Plus 3%	2	1	1	1	3	3
STANLIB Absolute Plus	1	1	1	1	2	2
STANLIB SA Equity	3	3	4	4	4	3
STANLIB Equity	2	4	3	3	2	2
STANLIB Growth	3	3	4	4	4	4
STANLIB Value	4	2	4	4	4	4

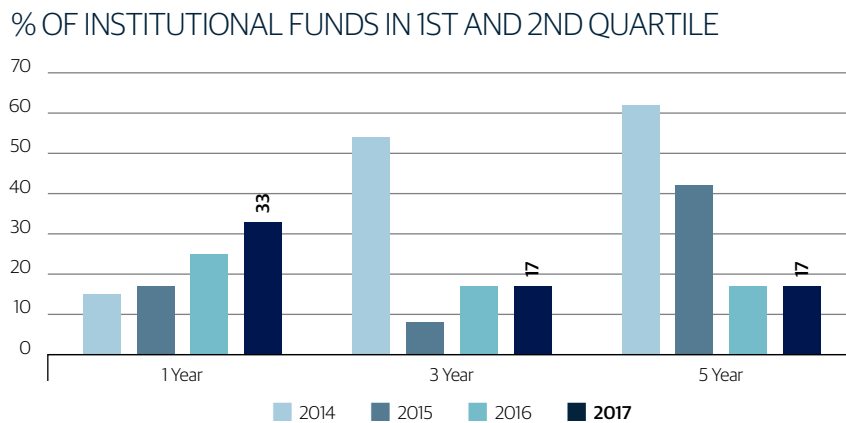
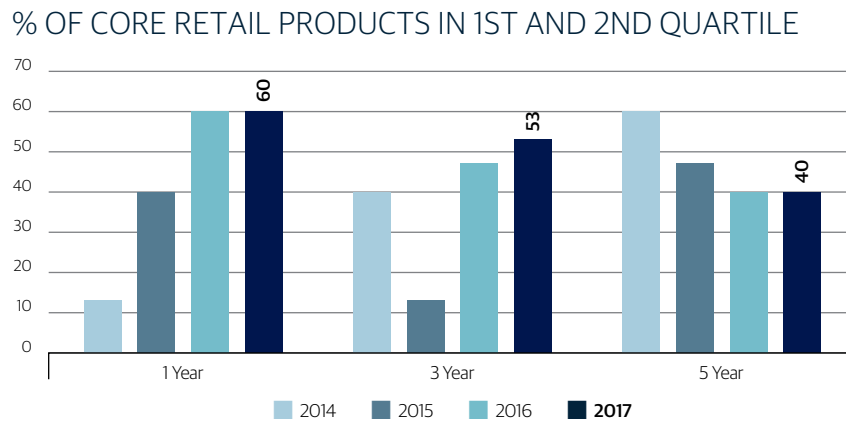
STANLIB SOUTH AFRICA – INSTITUTIONAL INVESTMENT PERFORMANCE

for the year ended 31 December 2017

Survey funds (Alexander Forbes Surveys – quartile performance)	Rolling period					
	1 Year		3 Year		5 Year	
	2017	2016	2017	2016	2017	2016
Stanlib Core Bond	2	1	1	2	2	2
Money Market	2	3	4	4	4	4
Stanlib Institutional Property	3	1	3	2	3	3
Large Manager – Global	4	4	4	4	4	4
Full Global Mandate	4	4	4	4	4	4
Domestic Only Mandate	4	4	4	4	4	4
Stanlib Core Equity	4	4	4	4	4	4
Stanlib Growth Equity	3	3	4	4	4	4
Stanlib Value	4	2	4	4	4	4
Stanlib Enhanced Index	1	4	4	4	4	4
STANLIB Inflation Plus 3%	2	4	2	3	1	2
STANLIB Inflation Plus 5%	4	4	4	4	4	4
Absolute Return		4		3		2
Domestic Absolute Return		4		4		4

STANLIB SOUTH AFRICA – INVESTMENT PERFORMANCE

as at 31 December 2017



STANLIB REST OF AFRICA – ASSETS UNDER MANAGEMENT

as at 31 December 2017

Rm	2017	2016
Opening market value	50 787	50 317
Net cash (outflows)/inflows	(756)	2 891
External	(480)	2 963
Liberty - intergroup	(276)	(72)
Capital appreciation/(depreciation)	2 500	(2 421)
Closing market value	52 531	50 787
Segregated funds	31 683	32 220
Unit trusts	7 364	6 395
Money Market	13 484	12 172
Total assets under management	52 531	50 787

STANLIB REST OF AFRICA – ASSETS UNDER MANAGEMENT BY GEOGRAPHICAL LOCATION

as at 31 December 2017

Rm	2017	2016
Southern region⁽¹⁾	30 729	27 287
Fixed interest	6 395	5 904
Equity	11 096	10 634
Money Market	11 587	9 906
Other	1 651	843
Eastern region⁽²⁾	17 408	19 975
Fixed interest	9 939	11 595
Equity	3 812	3 308
Property	1 864	3 003
Money Market	1 793	2 069
Western region⁽³⁾	4 394	3 525
Fixed interest	1 018	997
Money Market	104	197
Other	3 272	2 331
Total assets under management	52 531	50 787
Combined		
Fixed interest	17 352	18 496
Equity	14 908	13 942
Property	1 864	3 003
Money Market	13 484	12 172
Other	4 923	3 174
	52 531	50 787

⁽¹⁾ Southern region includes Botswana, Swaziland, Lesotho and Namibia.

⁽²⁾ Eastern region includes Kenya and Uganda.

⁽³⁾ Western region is Ghana.

FAIR VALUE MEASUREMENT DISCLOSURES

Fair value hierarchy

1 Asset hierarchy

The table below analyses the fair value measurement of applicable assets by level.

2017 Rm	Level 1	Level 2	Level 3	Total
Equity instruments	132 122	13	2 902	135 037
Listed equities on the JSE or foreign exchanges	125 243			125 243
Unlisted equities		13	1 709	1 722
Scrip assets – listed equities on the JSE	6 879			6 879
Interests in joint ventures			1 193	1 193
Debt instruments	71 546	50 721	206	122 473
Listed preference shares on the JSE or foreign exchanges	401			401
Unlisted preference shares		135	180	315
Listed term deposits on BESA, JSE or foreign exchanges	67 449	11 235		78 684
Unlisted term deposits		38 026	26	38 052
Repurchase agreements and collateral assets	3 696	1 325		5 021
Mutual funds⁽¹⁾	4 819	94 092	699	99 610
Property	10	1 897		1 907
Equity instruments	816	14 885	347	16 048
Interest-bearing instruments	1	22 173		22 174
Mixed asset classes	3 992	55 137	352	59 481
Investment policies		8 528	1 176	9 704
Derivative assets held for trading and for hedging		6 053		6 053
Equity instruments		380		380
Currency exchange instruments		496		496
Interest rate instruments		5 177		5 177
Properties			34 768	34 768
Total assets subject to fair value hierarchy analysis	208 487	159 407	39 751	407 645
Fair value assets not subject to fair value hierarchy analysis:				
Collateral deposits receivable				1 818
Prepayments, insurance and other receivables				6 361
Cash and cash equivalents				15 169
Total fair value assets				430 993
Other assets not subject to fair value hierarchy analysis:				
Intangible assets				231
Defined benefit pension fund employer surplus				171
Equipment				1 128
Interest in joint venture – equity accounted				51
Deferred taxation				336
Deferred acquisition costs				737
Long-term policyholder assets – insurance contracts				7 484
Reinsurance assets				1 774
Loans and receivables				1 222
Total assets as per statement of financial position				444 127

⁽¹⁾ Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

1 Asset hierarchy (continued)

The table below analyses the fair value measurement of applicable assets by level.

2016 Rm	Level 1	Level 2	Level 3	Total
Equity instruments	126 735	118	3 090	129 943
Listed equities on the JSE or foreign exchanges	118 669	58		118 727
Unlisted equities		60	1 871	1 931
Scrip assets – listed equities on the JSE	8 066			8 066
Interests in joint ventures			1 219	1 219
Debt instruments	59 133	57 180	180	116 493
Listed preference shares on the JSE or foreign exchanges	667			667
Unlisted preference shares		336	180	516
Listed term deposits on BESA, JSE or foreign exchanges	52 813	21 815		74 628
Unlisted term deposits		33 265		33 265
Repurchase agreements and collateral assets	5 653	1 764		7 417
Mutual funds⁽¹⁾	4 137	86 830	663	91 630
Property	2	2 010		2 012
Equity instruments	544	13 169	316	14 029
Interest-bearing instruments	2 979	19 669	12	22 660
Mixed asset classes	612	51 982	335	52 929
Investment policies		6 720	1 352	8 072
Derivative assets held for trading and for hedging		6 620		6 620
Equity instruments		1 958		1 958
Currency exchange instruments		929		929
Interest rate instruments		3 733		3 733
Properties			33 828	33 828
Total assets subject to fair value hierarchy analysis	190 005	157 468	39 113	386 586
Fair value assets not subject to fair value hierarchy analysis:				
Collateral deposits receivable				1 989
Prepayments, insurance and other receivables				5 300
Cash and cash equivalents				14 994
Total fair value assets				408 869
Other assets not subject to fair value hierarchy analysis:				
Intangible assets				390
Defined benefit pension fund employer surplus				215
Equipment				1 105
Interest in joint venture – equity accounted				10
Deferred taxation				358
Deferred acquisition costs				713
Long-term policyholder assets – insurance contracts				7 314
Reinsurance assets				1 674
Loans and receivables				1 242
Total assets as per statement of financial position				421 890

⁽¹⁾ Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

2 Liability hierarchy

The table below analyses the fair value measurements of financial instrument liabilities by level.

Rm	Level 1	Level 2	Level 3	Total
2017				
Policyholder long-term investment contract liabilities		100 519		100 519
Third-party financial liabilities arising on consolidation of mutual funds		48 484	1 229	49 713
Repurchase agreements liabilities		4 671		4 671
Liabilities held for trading and for hedging		6 311		6 311
Liabilities subject to fair value hierarchy analysis		159 985	1 229	161 214
Fair value liabilities not subject to fair value hierarchy analysis:				
Policyholder long-term insurance contract liabilities - embedded derivatives				1 411
Collateral deposits payable				4 426
Employee benefits				951
Insurance and other payables				11 995
Total fair value liabilities				179 997
2016				
Policyholder long-term investment contract liabilities		91 613		91 613
Third-party financial liabilities arising on consolidation of mutual funds		42 775	1 271	44 046
Repurchase agreements liabilities		7 064		7 064
Liabilities held for trading and for hedging		6 798		6 798
Liabilities subject to fair value hierarchy analysis		148 250	1 271	149 521
Fair value liabilities not subject to fair value hierarchy analysis:				
Policyholder long-term insurance contract liabilities - embedded derivatives				1 789
Collateral deposits payable				4 684
Employee benefits				876
Insurance and other payables				11 213
Total fair value liabilities				168 083

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

3 Fair value disclosure of financial assets and liabilities that are measured at amortised cost

The fair value of financial assets and liabilities which are measured at amortised cost is categorised into the following fair value hierarchies.

Rm	Amortised cost	Fair value	Level 1	Level 2	Level 3
2017					
Financial assets measured at amortised cost					
Loans and receivables – net carrying value	1 222	1 137			1 137
Loans and receivables	1 259				
Less: accumulated impairment	(37)				
Financial liabilities measured at amortised cost					
Subordinated notes	5 576	5 681		5 681	
Redeemable preference shares	5	5			5
2016					
Financial assets measured at amortised cost					
Loans and receivables – net carrying value	1 242	1 156			1 156
Loans and receivables	1 279				
Less: accumulated impairment	(37)				
Financial liabilities measured at amortised cost					
Subordinated notes	4 596	4 524		4 524	
Redeemable preference shares	5	5			5

4 Reconciliation of level 3 assets and liabilities

The table below analyses the movement of level 3 assets for the year.

Rm	2017	2016
Balance at the beginning of the year	39 113	40 675
Fair value adjustment recognised in profit or loss as part of investment gains ⁽¹⁾	71	(781)
Fair value adjustment recognised in other comprehensive income ⁽¹⁾	(67)	(1)
Reclassification to level 3 ⁽²⁾	26	
Reclassification from level 3 ⁽²⁾		(502)
Foreign currency translation	(26)	(43)
Additions	811	2 602
Disposals	(128)	(2 810)
Movements on third-party share of financial instruments in mutual funds	(49)	(27)
Balance at the end of the year	39 751	39 113
Properties	34 768	33 828
Financial instruments – equity and mutual funds	3 601	3 753
Financial instruments – debt	206	180
Financial instruments – investment policies	1 176	1 352

⁽¹⁾ Included in the fair value adjustments is a R1 656 million unrealised loss (2016: R4 852 million unrealised gain).

⁽²⁾ These movements were assessed based on the latest information available and one or more changes in the observability of valuation inputs. These changes were effective at the beginning of the year.

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

4 Reconciliation of level 3 assets and liabilities (CONTINUED)

The liabilities categorised as level 3 relate to the mutual fund third party portion. The movement in the year relates to unrealised fair value adjustments and therefore a reconciliation is not provided.

5 Sensitivity analysis of level 3 assets

5.1 Investment and owner-occupied property

Investment and owner-occupied properties fair values were obtained from independent valuers who derived the values by determining sustainable net rental income, to which an appropriate exit capitalisation rate is applied. Exit capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

The exit capitalisation rates applied at 31 December 2017 range between 6,3% to 11,0% (2016: between 6,3% to 10,5%). This compares to the ten year government yield of 8,06% (2016: 8,93%). The non observable adjustments included in the valuation can therefore be referenced to the variance to the ten year government rate. Discount rates in 2017 were between 12,0% to 16,5%.

The tables below indicates the sensitivity of the aggregate market values for a 1% change (2016: 0,5%) in the exit capitalisation rate.

Rm	Change in exit capitalisation rate		
	Total	1% increase	1% decrease
2017			
Properties below 6,8% capitalisation rate	26 157	22 029	30 969
Properties between 6,8 – 8,5% capitalisation rate	5 177	4 558	5 991
Properties between 8,6 – 11,0% capitalisation rate	3 434	3 094	3 858
Total	34 768	29 681	40 818

Rm	Change in exit capitalisation rate		
	Total	0,5% increase	0,5% decrease
2016			
Properties below 6,8% capitalisation rate	27 608	25 495	29 821
Properties between 6,8% – 8,5% capitalisation rate	2 640	2 477	2 827
Properties between 8,6% – 10,5% capitalisation rate	3 580	3 393	3 788
Total	33 828	31 365	36 436

The table below indicates the sensitivity of the aggregate market values for a 0,5% change in the discount rate.

Rm	Change in discount rate		
	Total	0,5% increase	0,5% decrease
2017			
Total properties	34 768	34 063	35 414

Both the investment and the owner-occupied properties are linked to policyholder benefits and consortium non-controlling interests which limits the impact to company or group ordinary shareholder comprehensive income or equity for any changes in the fair value measurement.

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

5 Sensitivity analysis of level 3 assets (CONTINUED)

5.2 Financial instrument assets

	2017		2016	
	Rm	Discount rate %	Rm	Discount rate %
Equities and mutual funds				
Unlisted equities	1 709	14 - 35	1 871	14 - 35
Interests in joint ventures	1 193	14	1 219	14
Mutual funds	699	15 - 19	663	15 - 19
Investment policies	1 176	11	1 352	11
Debt				
Unlisted preference shares	180	12	180	12
Unlisted term deposits	26			

Approximately 99% (2016: 99%) of these assets are allocated to policyholder investment-linked portfolios and therefore changes in estimates would be offset by equal changes in liability values.

Rm	2017			2016		
	Net shareholder exposure	Change in discount rate		Net shareholder exposure	Change in discount rate	
		1,0% increase	1,0% decrease		0,5% increase	0,5% decrease
After tax net impact to profit or loss and shareholder equity	372	(22)	26	345	(10)	10

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

Fair value hierarchy (CONTINUED)

6 Group's valuation process

The group's appointed asset managers have qualified valuers that perform the valuations of financial assets and appointed independent valuers to determine fair values of properties required for financial reporting purposes, including level 3 fair values. These valuations are reviewed and approved every reporting period by the group balance sheet committee. The committee is chaired by the group's financial director.

The fair value of level 3 instruments are determined using valuation techniques that incorporate certain assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include the assumed risk adjusted discount rate applied to estimate future cash flows and the liquidity and credit spreads applied to debt instruments. Changes in these assumptions could affect the reported fair value of the financial instruments.

6.1 Valuation techniques used in determining the fair value of assets and liabilities classified within level 2

INSTRUMENT	VALUATION BASIS/ TECHNIQUES	MAIN ASSUMPTIONS
Unlisted preference shares	Discounted cash flow model (DCF)	Bond and interbank swap interest rate curves Agreement interest rate curves Issuer credit ratings Liquidity spreads
Unlisted term deposits, illiquid listed term deposits and senior secured term facility	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Mutual funds	Quoted put (exit) price provided by the fund manager	Price - not applicable Notice period - bond interest rate curves
Investment policies	Quoted put/surrender price provided by the issuer, adjusting for any applicable notice periods (DCF)	Price - not applicable Bond interest rate curves
Derivative assets and liabilities	Option pricing models DCF	Volatility and correlation factors Bond and interbank swap interest rate curves Forward equity and currency rates
Policyholder investment contracts liabilities - unit-linked policies	Current unit price of underlying unitised financial asset that is linked to the liability, multiplied by the number of units held	Not applicable
- annuity certain	DCF	Bond and interbank swap interest rate curves Own credit/liquidity
Third-party financial liabilities arising on the consolidation of mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable

FAIR VALUE MEASUREMENT DISCLOSURES (CONTINUED)

26 Fair value hierarchy (CONTINUED)

6 Group's valuation process (CONTINUED)

6.2 Valuation techniques used in determining the fair value of assets and liabilities classified within level 3

INSTRUMENT	VALUATION BASIS/ TECHNIQUES	MAIN ASSUMPTIONS
Investment and owner-occupied properties	DCF	Exit capitalisation and discount rates Price per square metre Long-term net operating income margin Vacancies Market rental trends (average net rental growth of between 2,3% - 2,5%) Economic outlook Location Hotel income trends/inflation based Hotel occupancy (range between 50% - 75%)
	Sale price (if held for sale)	Not applicable
Unlisted equities and debt, including associates and joint ventures - measured at fair value	DCF/earnings multiple	Cost of capital Bond and interbank swap interest rate curves Consumer price index Gross domestic product If a property investment entity, then assumptions applied are as above under investment and owner-occupied property
	Net asset value	Not applicable
	Recent arm's length transactions	Not applicable
Unlisted preference shares	DCF	Bond and interbank swap interest rate curves Agreement interest rate curves Issuer credit ratings Liquidity spreads
Unlisted term deposits and illiquid listed term deposits	DCF	Bond and interbank swap interest rate curves Issuer credit ratings Liquidity spreads
Mutual funds	Quoted put (exit) price provided by the fund manager, adjusted for liquidity	Price - not applicable Notice periods and estimated repayment - bond interest rate curves Liquidity spreads
Investment policies	Probabilistic valuation methodology DCF	Face value Premium burden Life expectancy Bond and interbank swap interest rate curves
Third part financial liabilities arising on the consolidation of mutual funds	Quoted put (exit) price provided by the fund manager	Not applicable