LIBERTY

Own your life

Liberty Group Limited

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Directors: S J Macozoma (Chairman), J B Hemphill* (Chief Executive), A W B Band, A P Cunningham#, J H Maree, M P Moyo, L Patel, T D A Ross, Dr S P Sibisi, J H Sutcliffe#, B S Tshabalala, CG Troskie, P G Wharton-Hood
(* Executive Director, # British)
Company Secretary: J M Parratt

Liberty Life – an Authorised Financial Services Provider in terms of the FAIS Act (Licence No. 2409). Liberty Group Limited – Reg. No. 1957/002788/06

Attached is a comprehensive extract of the annual financial statements for Liberty Group Limited as at 31 December 2011, which are identical to the authorised annual financial statements, however excludes, for purposes of internal confidentiality reasons, the directors' and prescribed officers' individual remuneration. If these details are required, please contact myself directly.

J Parratt
Company secretary

Johannesburg
29 February 2012

LIBERTY GROUP LIMITED

2011 AUDITED ANNUAL FINANCIAL STATEMENTS

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Preparation of annual financial statements

The annual financial statements of the Liberty Group Limited and company for the year ended 31 December 2011 were

Prepared by: Luiz Torres CA(SA)
Supervised by: Jeff Hubbard B.Com CA(SA) – *Group Chief Financial Officer*

These financial statements have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Companies Act No. 71 of 2008.

Directorate and administration

Directors
HI Appelbaum *(Resigned 12 May 2010)*
AWB Band *(Lead independent director)*
AP Cunningham
WR Harte *(Resigned 14 October 2010)*
JB Hemphill
SJ Macozoma *(Chairman)*
JH Maree
MP Moyo
L Patel
A Romanis *(Retired 15 May 2010)*
TDA Ross
SP Sibisi
RG Tomlinson *(Resigned 30 June 2010)*
BS Tshabalala
JH Sutcliffe
CG Troskie *(Appointed 14 October 2010)*
PG Wharton-Hood

Company Secretary
J Parratt

Business address and registered office
Liberty Life Centre, 1 Ameshoff Street, Braamfontein 2001
PO Box 10499 Johannesburg 2000

Statutory Actuary
PA Lancaster
Liberty Life Centre
1 Ameshoff Street
Braamfontein
2001

Auditors
PricewaterhouseCoopers Inc.
Registered Auditors
Private Bag X36, Sunninghill, 2157

PricewaterhouseCoopers Incorporated will continue in office in accordance with section 270(2) of the Companies Act.

Registration number
1957/002788/06
Incorporated in Republic of South Africa

Directors' approval

The board of directors is responsible for the preparation of the annual financial statements. The board acknowledges its duty to ensure balanced content and fair presentation in the report that provides a comprehensive assessment of the performance of the company and group for the financial year ended 31 December 2011.

In accordance with Companies Act requirements, the annual financial statements which conform with International Financial Reporting Standards (IFRS), fairly present the state of affairs of the company as at the end of the financial year, and the net income and cash flows for the year. It is the responsibility of the independent auditors to report on the fair presentation of the annual financial statements. Their report is contained on page 4.

The directors are ultimately responsible for the internal controls of the company. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and company assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Systems and controls are monitored throughout the company. Greater details of such, including the operation of the internal audit function, is provided in the governance and risk management sections of the Liberty Holdings Limited integrated annual report.

Based on the information and explanations given by management and the internal auditors, the directors are of the opinion that the accounting and internal controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the company's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, accounting policies supported by judgements, estimates, and assumptions in compliance with IFRS are applied on the basis that the company shall continue as a going concern.

The 2011 annual financial statements of the company for the year ended 31 December 2011 were approved by the board of directors on 29 February 2012 and signed on its behalf by

SJ Macozoma
Chairman

JB Hemphill
Chief executive

Johannesburg
29 February 2012

Company secretary compliance statement

In terms of Section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act No. 71 of 2008 in respect of the year ended 31 December 2011, and that all such returns are true, correct and up to date.

J Parratt
Company secretary

Johannesburg
29 February 2012

Independent auditors' report

To the shareholder of Liberty Group Limited

We have audited the annual financial statements of Liberty Group Limited, which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in shareholders' funds and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 111.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Liberty Group Limited as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

Director: **J Goncalves**
Registered Auditor

Johannesburg
29 February 2012

Report of the group audit and actuarial committee

The group audit and actuarial committee (GAAC) has been constituted in accordance with applicable legislation and regulations. The members of the GAAC are all independent non-executive directors of the company. Five meetings were held in 2011 during which the members fulfilled their functions as prescribed by the Companies Act No. 71 of 2008 and the Long-term Insurance Act, 52 of 1998 and as recommended by King III.

The members of the GAAC were recommended by the board to shareholders and were formally appointed at the annual general meeting on 13 May 2011. The composition of the committee and details of their attendance at committee meetings is set out on page 123 of Liberty Holdings Limited annual report. The committee executed its duties and responsibilities, in accordance with the terms of reference of its mandate. Details of the activities of the GAAC are contained in the corporate governance section on page 124 of Liberty Holdings Limited annual report.

In order to execute his responsibilities, the chairman of the GAAC met separately during the course of the year with the head of group internal audit services, the statutory actuary, the group compliance officer, the chief risk officer, management and the external auditors. The chairman of the GAAC was also a member of the group risk committee during 2011 and attended all the meetings of the group risk committee held during the year under review.

Based on the information and explanations given by management and the internal auditors, the GAAC are of the opinion that the accounting and internal controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the company's assets and liabilities. Nothing has come to the attention of the GAAC to indicate that any breakdown in the functioning of these controls, resulting in material loss to the company, has occurred during the year and up to the date of this report.

The GAAC has satisfied itself that the auditors are independent of the company and thereby are able to conduct their audit functions without any influence from the company. The GAAC has also satisfied itself, through the assurance from the internal and external auditors, of the expertise, resources and experience of the group's finance function.

The GAAC has reviewed the annual financial statements and recommended the report to the board for approval.

TDA Ross
Chairman
Group audit and actuarial committee

Johannesburg
29 February 2012

Report of the statutory actuary
for the year ended 31 December 2011

1. Statement of excess assets, liabilities and capital adequacy requirement

Published reporting basis at 31 December	2011 Rm	2010 Rm
Assets		
Total assets as per balance sheet	**195 969**	186 274
Less liabilities	**185 613**	176 671
Liabilities under insurance contracts	**107 041**	104 592
Liabilities under investment contracts with DPF	**2 631**	2 634
Liabilities under investment contracts	**62 972**	57 928
Other liabilities	**12 969**	11 517
Excess of assets over liabilities	**10 356**	9 603

Statutory basis at 31 December	2011 Rm	2010 Rm
Assets		
Total assets	**175 062**	168 329
Less liabilities	**167 951**	161 157
Policyholder liabilities	**159 708**	154 037
Other liabilities	**8 243**	7 120
Excess of assets over liabilities	**7 111**	7 172
Represented by:		
Shareholders' funds	**7 111**	7 172
Capital adequacy requirement	**2 495**	2 688
Capital adequacy requirement: times covered	**2,85**	2,67

A reliable estimate of the statutory balance sheet for Liberty Group Limited and its subsidiaries was produced for the Liberty Holdings Limited 2011 Integrated Annual Report. During the completion of the 2011 statutory returns to the Financial Services Board, further adjustments of R89 million to the statutory assets were identified and have been allowed for in the table above.

In regard to the financial position of the long-term insurance subsidiaries of Liberty Group Limited, reliance has been placed on the actuarial investigations performed by the statutory actuaries of those companies. They have certified that assets are sufficient to meet the liabilities that will emerge under existing policies and to cover the capital adequacy requirement of those companies.

I have conducted an investigation into the financial position of Liberty Group Limited at 31 December 2011. I certify that the actuarial valuation was carried out on the basis described below in accordance with the guidance notes issued by the Actuarial Society of South Africa (including PGN 103, PGN 104 and PGN 110). In my opinion, the Company was financially sound on the statutory basis at the valuation date and is likely to remain financially sound for the foreseeable future.

P A Lancaster BSc, FASSA, FIA
Statutory actuary

Johannesburg
29 February 2012

Report of the statutory actuary *(continued)*
for the year ended 31 December 2011

2. Reconciliation of statutory basis to published reporting basis

Reconciliation of excess assets between published reporting basis and statutory basis	2011 Rm	2010 Rm
Excess of assets over liabilities – statutory basis	7 111	7 172
Excess of assets over liabilities – published reporting basis	10 356	9 603
Difference	(3 245)	(2 431)
Items of difference	(3 245)	(2 431)
CAR requirements of subsidiaries	(1 593)	(1 362)
Write-up of subsidiaries from cost to NAV	531	440
Debt instruments	2 000	2 000
Differences between statutory and published valuation methodology	(3 887)	(3 223)
Inadmissible assets	(296)	(286)

For purposes of the published accounts, long-term insurance subsidiaries are held at cost. For purposes of the statutory basis, long-term insurance subsidiaries are held at net asset value, less capital requirements of the subsidiary.

The amount of R3 887 million (2010: R3 223 million) relates mainly to the elimination of negative rand reserves on Lifestyle Protector business on the statutory valuation basis.

Inadmissible assets consist mainly of intangible assets and the employers' share of the pension fund surplus.

3. Analysis of change in excess assets (published reporting basis)

Analysis of change in excess assets Published reporting basis	2011 Rm	2010 Rm
Excess assets at the end of the year	10 356	9 603
Excess assets as at the beginning of the year	9 603	11 070
Change in excess assets over the year	753	(1 467)
This change in excess assets is due to the following items:		
Investment return generated by shareholders' funds		
Investment income	404	287
Capital appreciation	340	261
Total investment return	744	548
Operating profit	1 011	1 358
Changes in valuation bases/methods/assumptions	303	(53)
Fee revenue		15
Shareholders' tax	83	(2)
Management expenses	(295)	(286)
Employer pension fund surplus	(4)	11
Total earnings	1 842	1 591
Capital reduction		(1 022)
BEE preference dividends	112	117
Dividends paid	(1 283)	(2 078)
Share-based payments	(3)	(7)
Owner-occupied properties	74	(68)
Cash flow hedging reserve	11	
Total change in excess assets	753	(1 467)

Report of the statutory actuary *(continued)*

for the year ended 31 December 2011

4. Description of published reporting valuation basis

Assets

Investments have been valued as set out in the accounting policies.

Insurance contracts and investment contracts with discretionary participation features

Provision has been made for the best estimate of future experience, plus compulsory margins as required in terms of guidance note PGN104 issued by the Actuarial Society of South Africa. In addition, selected discretionary margins are held.

The best estimate assumptions relating to future mortality, morbidity, withdrawals and maintenance expenses were derived from and are consistent with recent experience. Detailed experience investigations were carried out during 2011 and reflect the experience of policies up to 30 September 2011. Future maintenance expenses have been set according to the Liberty Group cost per policy basis. In setting the assumptions, provision was made for the expected increase in AIDS-related claims and for the effect of future inflation in maintenance expenses at 5,15% p.a. (2010: 5,27% p.a.) or 5,67% p.a. after the addition of the prescribed margin.

Future investment returns were related to the medium-term government stock interest rate prevailing at the valuation date and were set at 10,43% p.a. (2010: 10,55% p.a.) taking into account the asset mix of the fund. The before-tax discount rates were set at the same rates. Future tax and tax relief were allowed for at rates and on bases applicable to Section 29A of the Income Tax Act and full allowance has been made for capital gains tax. Provision was made for capital gains tax on unrealised gains at the valuation date at the full undiscounted value. No allowance has been made for the changes in tax rates announced in the Budget speech on 22 February 2012.

The best estimate assumptions were strengthened by the addition of compulsory margins. Further discretionary margins were added so that the shareholders' participation in profits emerges in the year in which it is earned, and so that profit emerges in line with product design. These discretionary margins include:

- An allowance for the shareholders' participation in the reversionary and terminal bonus expected to be declared each year in respect of with profits business;
- An allowance for the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market related business;
- For certain classes of business where limited experience is available for the purpose of setting best estimate assumptions, prudent assumptions have been set for mortality and withdrawal rates.

Individual market related policies are policies where benefits are dependent on the performance of underlying investment portfolios (including business with smoothed bonuses). Liabilities for such policies were calculated as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the 'unit reserve'), less a 'rand reserve' which is calculated on a policy by policy cash flow basis. The 'rand reserve' is the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses.

Reversionary bonus and the major non-profit classes of policies were valued by discounting the expected future cash flows at a market related rate of interest reduced by an allowance for investment expenses and the relevant compulsory margin.

Policyholder reasonable benefit expectations have been allowed for as follows:

- In respect of reversionary bonus business by allowing for future bonus at the latest declared rates;
- In respect of market related business by assuming a bonus rate supported by the investment returns assumed in the valuation; and
- Taking into account expectations created by legislation, marketing literature, actual past practice and industry norms.

In respect of with-profit business where bonuses are smoothed, bonus stabilisation reserves are held arising from the past difference between the after-tax investment performance of the assets net of the relevant management fees and the quantum of bonuses declared. The total of the stabilization reserves amounted to R3 124,6 million as at 31 December 2011 (R3 743,6 million as at 31 December 2010).

Report of the statutory actuary *(continued)*
for the year ended 31 December 2011

4. Description of published reporting valuation basis (continued)

Investment contracts without discretionary participation features

All financial liabilities included in investment contract liabilities without discretionary participation features were held at fair value in accordance with IAS 39.

Minimum investment return guarantees

A reserve for minimum investment return guarantees is held, calculated on a stochastic basis using Monte Carlo simulation techniques in accordance with PGN 110.

Using the simulated investment returns, the prices and implied volatilities of the following instruments are as follows:

Vanilla options

			Price		Implied volatilities	
Maturity (years)	Strike	Underlying	**2011 %**	2010 %	**2011 %**	2010 %
1	Spot	Equity Index	**8,44**	7,60	**25,31**	23,13
1	0,8* Spot	Equity Index	**1,82**	1,46	**25,19**	23,41
1	Forward	Equity Index	**9,77**	8,95	**25,26**	23,13
5	Spot	Equity Index	**10,63**	10,70	**24,91**	26,26
5	($1,04^5$)* Spot	Equity Index	**19,11**	18,78	**25,07**	26,23
5	Forward	Equity Index	**19,09**	20,13	**25,07**	26,23
20	Spot	Equity Index	**3,65**	4,30	**24,63**	26,89
20	($1,04^{20}$)* Spot	Equity Index	**17,51**	18,80	**25,11**	27,54
20	Forward	Equity Index	**23,84**	26,61	**25,19**	27,74

"Other" options

			Price	
Maturity (years)	Strike	Underlying	**2011 %**	2010 %
5	($1,04^5$)* Spot	60% Equity Index, 40% Bond Index with annual rebalancing	**9,37**	9,28
20	Forward	Simulated 5 year spot rate in 20 years time	**0,46**	0,40

The zero coupon yield curve used in the asset projections was as follows:

Yield curve

	Yield (NACC)	
Maturity (years)	**2011 %**	2010 %
1	**5,54**	5,48
2	**5,79**	5,88
3	**6,16**	6,35
4	**6,51**	6,81
5	**6,82**	7,17
10	**7,72**	7,93
15	**7,76**	7,89
20	**7,73**	7,77
25	**7,74**	7,54
30	**7,63**	7,25
35	**7,61**	7,15
40	**7,58**	7,05
45	**7,58**	6,99
50	**7,55**	6,91

Report of the statutory actuary *(continued)*
for the year ended 31 December 2011

5. Statutory capital adequacy requirement

Investigations were carried out to determine the amount of the capital adequacy requirement (CAR), which provides for adverse variations in experience, including an allowance for deterioration in mortality experience arising from the AIDS pandemic. These investigations were carried out in terms of the guidance notes issued by the Actuarial Society of South Africa.

In the calculation of the investment resilience element of the capital adequacy requirement, it was assumed that equity asset values would decline by 30%, property values by 15% and fixed interest asset values would fall by an amount consistent with an increase in yields of 25% of the yield at the valuation date.

In calculating the TCAR, allowance has been made for the investment guarantee reserve to be released when policies surrender. In addition, it is assumed that only 50% of commission is recovered from intermediaries on surrender.

In calculating the OCAR, the resilience requirement includes the effect of the asset shocks described above on the investment guarantee reserve held in accordance with the latest PGN110 guidance. In addition, allowance has been made for credit risk and operational risk in accordance with the latest version of PGN104. In calculating the credit CAR, concentration risk has been allowed for by reducing the credit rating of all instruments issued by Standard Bank and Investec Bank. This increases the amount of credit CAR.

In calculating the CAR it has been assumed that in the event that the bonus stabilisation reserve of the Prudential book of business falls below -7,5% of the liabilities, terminal bonuses would be reduced.

I certify that the management action assumed above has been approved by specific resolution by the board of directors and that I am satisfied that this action would be taken if solvency were to be threatened.

In the calculation of CAR, the Termination capital adequacy requirement (TCAR) amounted to R2 406 million and the ordinary capital adequacy requirement (OCAR) was calculated as R2 495 million, and thus the capital adequacy requirement has been based on the OCAR calculation.

I am satisfied that the excess of assets over liabilities is sufficient to meet the capital adequacy requirement which amounted to R2 495 million at 31 December 2011 (R2 688 million at 31 December 2010).

6. Material changes in valuation basis since the previous valuation

Modelling and other changes were made to the valuation to re-align valuation assumptions with expected future experience. These changes resulted in a decrease in published reserves of R303 million.

Basis/assumption change	2011 Rm
Persistency assumption changes	(554)
Mortality assumption changes	232
Changes to economic assumptions	(27)
Annuitant longevity assumption changes	192
Illiquidity premium methodology	(108)
Expense valuation assumption changes	93
Other	(131)
	(303)

Directors' report

Main business activities

Liberty is incorporated in the Republic of South Africa and is a public company. Liberty is a long-term insurance company and the holding company of various long-term insurance operating subsidiaries engaged in the provision of financial services including long-term insurance and investment services. These financial services are undertaken in South Africa.

Review of results

Ordinary shareholders' attributable comprehensive earnings for the company were R1 927 million, compared to R1 523 million in 2010. Detailed summaries of the 2011 financial results are contained in the various notes on pages 39 to 111.

Going concern

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors have a reasonable expectation, based on an appropriate assessment of a comprehensive range of factors, that the company and its various subsidiaries have adequate resources to continue as going concerns for the foreseeable future and at least for the next financial reporting period ending 31 December 2012.

Accounting policies

The 2011 annual financial statements have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS) as well as the AC 500 standards as issued by the Accounting Practices Board or its successor. They are also in compliance with the South African Companies Act No. 71 of 2008.

The accounting policies adopted in the preparation of the annual financial statements are in terms of IFRS and are materially consistent with those adopted in the previous financial year. In 2011, the company has added a cash flow hedging accounting policy in order to account for derivatives used to protect against currency movement on investments in certain foreign denominated debt instruments. These investments are acquired by the Liberty Financial Solutions (LibFin) business unit to support investment products sold by the South African insurance operations.

Amendments to IFRS or interpretations were made by the International Accounting Standards Board which are effective for the period under review. These amendments or interpretations are either not significant or not applicable to the 2011 results of the company and are specifically detailed in the accounting policies on page 14.

Corporate governance

The promulgation of the Companies Act No. 71 of 2008 (new Companies Act) and the Companies Regulations in May 2011 necessitated a review and alignment of certain governance and secretarial processes. These alignments included defining prescribed officers, adherence to new related party financial assistance and broadening committee mandates to include formally social and ethics matters.

In 2010, the directors of the company unanimously endorsed the King Report on Corporate Governance for South Africa 2009 (King III), which was effective for years commencing on or after 1 March 2010 and at that stage conducted an extensive review of the King III principles and the company's existing governance practices.

Liberty elected to report against the King III principles from the 2010 reporting period. The group substantially complies with the principles advocated in King III and during 2011 further progress has been achieved in addressing certain areas where development is required.

Compliance disclosures are included in the governance and risk management disclosures on pages 112 to 215 of the Liberty Holdings Limited annual report.

Share capital

There were no changes in the authorised or issued share capital of the company during the financial year.

Further details of the company's share capital are contained in note 23 on the company's annual financial statements on page 92.

Directors' report *(continued)*

Shareholder distributions

Ordinary shareholders

2010 final

On 23 February 2011, the directors declared an ordinary dividend of R850 million to shareholders recorded at the close of business on 10 March 2011, which was paid on 14 March 2011.

2011 interim

On 3 August 2011, the directors declared an ordinary dividend of R380 million to shareholders recorded at the close of business on 2 September 2011 and was paid on 5 September 2011.

2011 final

On 29 February 2012, the directors declared and paid an ordinary dividend of R100 million to shareholders recorded at the close of business on 28 February 2012. A further dividend of R650 million will accrue to shareholders on 28 March 2012 and will be paid during April 2012.

Directorate and secretary

There were no changes to the directorate of the company during the year. Particulars of the company's directors and company secretary are contained on page 1.

Non-executive directors' remuneration

The remuneration received by the non-executive directors is as follows:

	Services as directors of Liberty Holdings Limited and Liberty Group Limited	Liberty Holdings Limited and Liberty Group Limited committee fees	Otherwise in connection with the affairs of Standard Bank Group[1]	Total remuneration	Services as directors of Liberty Holdings Limited and Liberty Group Limited	Liberty Holdings Limited and Liberty Group Limited committee fees	Otherwise in connection with the affairs of Standard Bank Group[1]	Total remuneration
	2011				2010			
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
HI Appelbaum[2]					87	30		117
AWB Band *(Lead independent director)*	**255**	**596**		**851**	173	448		621
AP Cunningham[3]	**657**			**657**	597			597
SJ Macozoma *(Chairman)*	**1 894**		**887**	**2 781**	1 795		885	2 680
JH Maree[4][5]			**15 699**	**15 699**			6 525	6 525
MP Moyo	**183**	**475**		**658**	173	331		504
L Patel[6]	**183**	**64**		**247**	173	61		234
A Romanis[2]					87	165		252
TDA Ross	**183**	**502**		**685**	173	533		706
SP Sibisi[6]	**183**	**135**		**318**	173	256		429
JH Sutcliffe[3]	**954**			**954**	597			597
BS Tshabalala[6]	**183**	**169**		**352**	173	288		461
PG Wharton-Hood[4][5]			**14 960**	**14 960**			12 743	12 743
Total	**4 675**	**1 941**	**31 546**	**38 162**	4 201	2 112	20 153	26 466

[1] *Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty.*

[2] *HI Appelbaum resigned and A Romanis retired from the board on 12 May 2010 and 13 May 2010 respectively.*

[3] *Rand equivalent of £56 000 paid to AP Cunningham (2010: £53 250) and £70 000 paid to JH Sutcliffe (2010: £53 250).*

[4] *JH Maree and PG Wharton-Hood are full-time employees of the Standard Bank group and therefore do not receive directors' fees or other remuneration from Liberty.*

[5] *Total remuneration above excludes deferred bonuses and share incentives, details of which are disclosed in the Standard Bank annual integrated report.*

[6] *L Patel, SP Sibisi and BS Tshabalala participated in the 2004 black ownership transaction (refer to section on non-executive directors' interests in shares held in the Black Management Trust).*

Directors' report *(continued)*

Prescribed officers' remuneration

Remuneration, including incentives, is calculated pro rata to the period served as a prescribed officer. The presentation of the remuneration components below reflect the award values in relation to the performance period to which they relate. Not all components are immediately settled and are linked to the ordinary share price of Liberty Holdings Limited as well as being contingent to performance and service periods.

The remuneration received by prescribed officers are as follows:

	Fixed				Variable[1]			Retention			
	Cash portion of package	Other benefits	Retire-ment contri-butions	Total fixed	Cash bonus	Deferred bonus	Total variable	Value of rights granted[2]	Value of share unit right plan[3]	Total retention	Total com-pensation for the year
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2011											
JB Hemphill[7]	**4 208**	**110**	**394**	**4 712**	**7 332**	**2 714**	**10 046**	**6 000**		**6 000**	**20 758**
CG Troskie[7]	**2 636**	**136**	**234**	**3 006**	**3 948**	**1 264**	**5 212**	**2 500**	**2 700**	**5 200**	**13 418**
SIM Braudo											
Total											
2010											
JB Hemphill[7]	4 002	101	363	4 466	4 850	1 150	6 000	2 564	3 500	6 064	16 530
RG Tomlinson[4] [7]	1 453	123	134	1 710	1 500		1 500				3 210
WR Harte[5] [7]	1 939	95	172	2 206	2 060	265	2 325		1 500	1 500	6 031
CG Troskie[6] [7]	844	23	80	947				2 129		2 129	3 076
SIM Braudo											
Total											

[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] *Awards granted are valued using option pricing methodology and subject to performance conditions and service duration. Rights granted refer to the awards approved by remco in February 2012 and 2011 in order to align to the performance periods of 2011 and 2010, respectively.*
[3] *This is a cash-settled scheme, linked to Liberty's share price and subject to service duration.*
[4] *Resigned on 30 June 2010.*
[5] *Resigned on 12 October 2010.*
[6] *Appointed on 12 October 2010.*
[7] *Executive director.*

Direct and indirect interest of directors, including their families, in share capital

At the date of this report, the directors held interests, directly and indirectly, of 3 706 (2010: 1 006) ordinary shares in the holding company's issued share capital as detailed on page 133 of Liberty Holdings Limited annual report.

Information on options or rights to the company's ordinary shares granted to executive directors under the equity settled remuneration schemes are contained on page 134 of Liberty Holdings Limited annual report.

There have been no changes to the interest of directors, including their families, in the share capital as disclosed above to the date of approval of the annual financial statements, namely 29 February 2012.

Ordinary shares/rights under option

Liberty operates various share incentive schemes, being the Liberty Life Association of Africa Limited Share Trust, The Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme.

An analysis of Liberty's obligations in respect of ordinary shares under options or rights at 31 December 2011 is included in Appendix C of Liberty Holdings Limited annual report.

Directors' report *(continued)*

Contracts

Shareholders are referred to the directors' remuneration section on page 132 and related party disclosure in note 39 to the group financial statements on page 315 of Liberty Holdings Limited annual report for disclosure pertaining to contracts relating to directors.

Property and equipment

There was no change in the nature of the fixed assets of the company or in the policy regarding their use during the year.

Holding company

At 31 December 2011, the group's holding company, Liberty Holdings Limited, held 100% (2010: 100%) of Liberty's issued ordinary shares.

Acquisitions and disposals during the year

Liberty Group Limited acquired an additional 5,0% holding for R6 million in the joint venture, Total Health Trust Limited from Tritech Computers (Nigeria) Limited bringing the ownership to 45,1% at 31 December 2011.

Associates and joint ventures

The interests in joint ventures and associates, where considered significant in the light of the company's financial position and results, are set out in notes 10 and 11 on the company annual financial statements on pages 73 and 75 respectively.

Subsidiaries

Details of the significant interests in directly owned subsidiary companies are contained in notes 8 and 9 on the company annual financial statements on pages 70 to 72.

Special resolutions during the year 2011

No special resolutions were passed during 2011.

Management by third parties

None of the businesses of the company nor its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest.

Borrowing powers

In terms of the company's memorandum of incorporation the amount which the company may borrow is unlimited. However, any borrowings within the South African registered subsidiary life licence entities are subject to the Financial Services Board of South Africa's prior approval.

Insurance

The Liberty Holdings group has placed cover of up to R3 billion for losses as a result of commercial crime and claims under professional indemnity in excess of R5 million. Directors' and officers' liability insurance up to R1,5 billion plus £100 million is also in place.

Events after reporting date

Refer to note 40 on the company annual financial statements on page 111 for significant events after the reporting date.

Accounting policies

Summary of significant accounting policies

1. Basis of preparation

The 2011 financial statements of Liberty Group Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board or its successor and comply with the South African Companies Act No. 71 of 2008.

All amounts are shown in rand millions unless otherwise stated.

IFRS comprise International Financial Reporting Standards, International Accounting Standards and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or after 1 January 2011.

The financial statements have been prepared on a historical cost basis, except for the following:

Carried at fair value:
- Derivative financial instruments;
- Financial instruments held for trading or designated at fair value through profit or loss;
- Investment properties and owner-occupied properties;
- Interests in mutual funds which are included in interests in associates; and
- Policyholder investment contract liabilities.

Carried at a different measurement basis:
- Cash-settled share-based payment arrangements measured under an option pricing model;
- Provisions which are measured at a future expected cost, discounted for the time value of money;
- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the financial soundness valuation (FSV) basis as set out in accounting policy 18; and
- Retirement benefit obligations which are measured in terms of the projected unit credit method.

The preparation of financial statements that conform with IFRS requires the use of accounting estimates and assumptions in the measurement of certain assets and liabilities. These estimates and assumptions can require complex management judgement in the process of applying the company's accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 39 on the company financial statements.

1.1 New or changes to accounting policies

The accounting policies are consistent with those adopted in the previous year, except for the following:

Cash flow hedge accounting

The company has adopted for the first time, effective 1 January 2011, an accounting policy for cash flow hedge accounting. Cash flow hedges are hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction. The company applies cash flow hedge accounting to hedge against changes in future cash flows resulting from the conversion to rand of contracted foreign currency denominated cash flows associated with financial instrument assets.

Refer to accounting policy 12 for further details.

The following revisions, amendments to published standards or new interpretations are mandatory for the company's accounting periods beginning on or after 1 January 2011:

Accounting policies *(continued)*

Summary of significant accounting policies (continued)

1. Basis of preparation (continued)

1.1 New or changes to accounting policies (continued)

Standard/interpretation	Scope	Effective date
IFRS 3 *Business Combinations*	Transitional requirements for contingent considerations in a business combination that occurred before the effective date of the revised IFRS 3, measurement of non-controlling interests and the requirement for the application guidance in IFRS 3 to be applied to unreplaced and voluntarily replaced share-based payment awards.	Annual periods beginning on or after 1 July 2010
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity.	Annual periods beginning on or after 1 January 2011
IAS 27 *Consolidated and Separate Financial Statements*	Transition requirements for amendments.	Annual periods beginning on or after 1 July 2010
IFRIC 13 *Customer Loyalty Programmes*	Clarifying the fair value of an award credit.	Annual periods beginning on or after 1 January 2011
Amendments to IFRS 7 *Financial Instruments*	These amendments emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.	Annual periods beginning on or after 1 January 2011
Amendments to IAS 24 *Related Party Disclosures*	The revised standard clarifies the definition of a related party, requires additional disclosure in respect of commitments between related parties and provides certain exemptions for government-related entities.	Annual periods beginning on or after 1 January 2011
Amendments to IAS 34 *Interim Financial Reporting*	These amendments provide guidance on IAS 34 disclosure requirements.	Annual periods beginning on or after 1 January 2011
Amendments to IFRIC 14 *Pre-payments of a Minimum Funding Requirement*	This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.	Annual periods beginning on or after 1 January 2011
IFRIC 19 *Existing Financial Liabilities with Equity Instruments*	This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit or loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.	Annual periods beginning on or after 1 July 2010

Whilst these amendments have resulted in changes to the company's accounting policies or disclosures, there has not been any material impact on any of the financial statement line item amounts in 2011 or prior periods.

Accounting policies *(continued)*

1. Basis of preparation (continued)

1.2 Accounting policy elections

The company has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- Interests in joint ventures are accounted for using equity accounting principles (accounting policy 3);
- Mutual fund investments, held by investment-linked insurance funds, in which the company holds between 20% – 50% economic interest, are designated on initial recognition as at fair value through profit or loss (accounting policy 4);
- Equipment is stated at cost less accumulated depreciation (accounting policy 6);
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 7);
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 8);
- In general, financial assets are designated as at fair value through profit or loss (accounting policy 10);
- Application of cash flow hedge accounting for certain investments (accounting policy 12); and
- Unrecognised actuarial gains or losses on post-employment benefits are recognised in profit or loss over a period not exceeding the expected average remaining working life of active employees (accounting policy 24).

1.3 New or amended standards that may significantly impact on the company results or disclosures that are not yet effective

The following new or amended standards are not yet effective for the current financial year. The company will comply with the new standards and interpretations from the effective date and has elected not to early adopt any amended or new standard.

Standard	Scope	Potential impact to the company
IFRS 10 *Consolidated Financial Statements* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special-purpose Entities*. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 addresses the principal/agent relationship and what should be assessed when reviewing for control.	Control must be assessed by more than just reviewing actual or options on equity instruments held in the entity. An entity needs to look at potential voting rights and other contractual agreements. The application of the concept of an agent and a principal may lead to more entities, particularly mutual fund investments, being consolidated under IFRS 10 than under the current control standards. This is however unlikely to have a material impact to future group comprehensive income or profit or loss.
IFRS 11 *Joint Arrangements* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	IFRS 11 establishes principles for the financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). IFRS 10 supersedes IAS 31 *Interests in Joint Ventures*. Joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.	It is not expected that the application of IFRS 11 will result in any changes to the recognition and measurement of the company's current interests.

Accounting policies *(continued)*

1. **Basis of preparation (continued)**

1.3 New or amended standards that may significantly impact on the group results or disclosures that are not yet effective (continued)

Standard	Scope	Potential impact to the company
IFRS 12 *Disclosures of Interests in Other Entities* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	The objective of IFRS 12 is to enable users of financial statements to evaluate the nature of, and risks associated with its *Interests in Other Entities* and the effects of those interests on its financial position, financial performance and cash flows. Other entities includes subsidiaries, joint arrangements and associates, and structured entities that are not controlled by the entity (i.e. unconsolidated).	IFRS 12 introduces more comprehensive disclosure requirements regarding the nature of the relationship, risks and significant judgements an entity may make in determining the nature of its interest in another entity. The application of IFRS 12 is likely to result in additional disclosure in the financial statements.
IFRS 13 *Fair Value Measurement* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with prospective application. Early application permitted.	IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements (the actual requirement to measure at fair value arises in the other relevant IFRSs). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset of transfer the liability takes place either (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.	The significant majority of the company's assets as well as a large portion of the company's liabilities are measured at fair value. The application of IFRS 13 may result in changes to the measurement of certain of the company's assets and liabilities, although initial high-level assessments indicate these are unlikely to be significant. Enhanced disclosure requirements on fair value measurement will be required.
Amendments to IAS 19 *Employee Benefits* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	The amendments to IAS 19 eliminate the corridor method under which the recognition of actuarial gains or losses was deferred. All actuarial gains and losses are now required to be recognised immediately in other comprehensive income. The company's current accounting policy election in this regard is to recognise these in profit or loss.	On the adoption of IFRS, the company chose not to apply the corridor method and so this amendment has no specific impact. It is unlikely that the application of the amendments to IAS 19 will result in significant measurement changes to the company's employee benefit liabilities. However, the removal of the election to carry actuarial gains or losses in profit or loss will result in less volatility of future reported profit or loss amounts. The IAS 19 amendments also require enhanced disclosures.

Accounting policies *(continued)*

1. Basis of preparation (continued)

1.3 New or amended standards that may significantly impact on the group results or disclosures that are not yet effective (continued)

Standard	Scope	Potential impact to the company
IFRS 9 *Financial Instruments* Effective date: Applicable for annual periods beginning on or after 1 January 2015, with retrospective application. Early application permitted.	This standard introduces new requirements for the classification and measurement of financial assets and liabilities. All recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and those cash flows are solely payments of principal and interest, generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss. A fair value option (provided certain specified conditions are met) is still available as an alternative to amortised cost measurement. In terms of financial liabilities, entities that elect to measure a financial liability at fair value will now present the portion of the change in fair value due to the changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. IFRS 9 is partially complete with impairment measurement on amortised cost designated assets and hedging outstanding.	The implications to the company are at this stage difficult to assess and will be clearer when the impairment and hedging portions are completed. It is highly likely that financial instrument classification will be influenced by the final IFRS 4 standard on insurance contract measurement currently under development. This is because the majority of the company's financial instruments are held to meet obligations of currently designated insurance contract liabilities.

IFRS 10, 11 and 12 have resulted in subsequent consequential amendments to:
- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*

These amendments have the same effective date as the application date of IFRS 10, 11 and 12.

1.4 New amendments or standards which are not expected to significantly impact the company that are not yet effective
- *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- Amendments to IFRS 7 *Financial Instruments: Disclosures*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

1.5 Accounting developments at the IASB that will potentially impact the company

The IASB is working on the following projects which, if issued as standards, may materially impact the company's current financial position:
- Insurance contracts;
- Revenue recognition on contracts with customers; and
- Leases.

Accounting policies *(continued)*

1. Basis of preparation (continued)

1.5 Accounting developments at the IASB that will potentially impact the company (continued)

Given the significant comment received on prior exposure drafts and the wide implications to business, there have been significant re-deliberations on these projects by the IASB during the year. The exposure draft on revenue recognition on contracts with customers has been re-exposed and it is expected that insurance contracts and leases will follow a similar process of re-exposure. At this stage there is still insufficient clarity to be able to report on the implications of these proposed new standards.

In addition, the IASB has issued an exposure draft on *Consolidation – Investment entities*. If the exposure draft as issued is adopted as a standard, it removes the scope exemption contained in IAS 28 Investments in Associates, which allows for investment-linked insurance funds, where the company owns between 20% – 50% in the fund, and which are deemed to be interests in associates, to be designated as at fair value through profit or loss on initial recognition. This may therefore result in an accounting mismatch between reported income from these associates and obligations required to be measured in the matching insurance and investment contract liabilities.

2. Interests in subsidiaries

Interest in subsidiaries comprises interests in subsidiary companies and mutual funds.

Subsidiaries are entities in which the company has the power to govern their financial and operating policies and/or in which the company has more than 50% of the voting rights or economic interest. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the company controls another entity.

Interests in subsidiary companies are shown at cost less any required impairment (which is assessed annually). Gains and losses on disposal of subsidiaries are included in profit or loss.

Any acquisition related costs are recorded as expenses in the period in which they are incurred, except for costs to issue debt or equity securities which are recognised in accordance with IAS 32 and IAS 39.

Interests in mutual funds, that are subsidiaries by definition, are designated as at fair value through profit or loss and measured as set out in accounting policy 10.

3. Interests in joint ventures

Joint ventures are contractual arrangements whereby the company and one or more parties undertake an economic activity, involving a corporation, partnership or entity, which is subject to joint control.

The company's interests in joint ventures are carried at cost, less any required impairment.

Distributions of ordinary shares held in subsidiaries

Distributions of defined equity shares held in subsidiaries, either through a dividend or capital reduction will be measured at the carrying value at the date of distribution, including any unrealised impairment provisions.

4. Interests in associates

Those mutual funds, in which the company has between 20% and 50% economic interest, backing policyholders' liabilities, therefore providing significant influence, are deemed to be interests in associates and are, on initial recognition, designated as at fair value through profit or loss, based on the scope exemption in IAS 28 *Investments in Associates* for investment-linked insurance funds.

Initial measurement is at fair value on trade date with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the balance sheet date. Fair value adjustments on mutual funds are recognised in profit or loss.

5. Foreign currencies

Foreign currency translation

The company's presentation currency is South African Rand (ZAR). The functional currency of the company's operations is the currency of the primary economic environment where each operation physically has its main activities.

Accounting policies *(continued)*

5. Foreign currencies (continued)

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies different to the functional currency at the statement of financial position date are translated into the functional currency at the ruling rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction, and those measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains or losses are recognised as part of fair value adjustments on financial instruments in profit or loss.

6. Equipment and owner-occupied properties under development

Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the company and the cost of the item can be measured reliably. Maintenance and repairs, which neither add to the value of assets nor appreciably prolong their useful lives, are recognised in profit or loss. Profits or losses on disposal are included within general marketing and administration expenses in profit or loss.

When significant components of equipment have different useful lives, those components are accounted for and depreciated as separate items.

Properties under development

Properties under development are owner-occupied properties not yet available for own use. Properties under development are carried at cost less any required impairment. This asset is impaired if the recoverable amount is less than the cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once development is complete, the properties are transferred to owner-occupied properties. Investment property under development is included in investment properties.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis at rates appropriate to the expected useful lives of the assets. Depreciation is calculated on the cost less any impairment and expected residual value. No depreciation is charged on properties under development. The estimated useful lives applied are as follows:

• Computer equipment	3 – 5 years
• Purchased computer software	5 years
• Fixtures, furniture and fittings	8 – 10 years
• Office equipment and office machines	5 – 8 years
• Motor vehicles	5 years
• Plant and machinery	15 years

There has been no change to useful lives from those applied in the previous financial year. The residual values and useful lives are reassessed on an annual basis.

7. Properties

Investment properties

Investment properties are held to earn rental income and capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development and fair value adjustments. Developments on existing properties are measured at fair value. Investment properties include property that is being constructed or developed for future use as investment property.

Owner-occupied properties

Owner-occupied properties are held by the company for use in the supply of services or for its own administration purposes.

Accounting policies *(continued)*

7. Properties (continued)

Measurement

Investment properties are reflected at valuation based on open-market fair value at the statement of financial position date. Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses. If the open-market valuation information cannot be reliably determined, the company uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. If the fair value of investment property under construction or development cannot be measured reliably, it is measured at cost until such time as construction is complete or fair value can be reliably measured.

The open-market fair value is determined annually by independent professional valuators.

The fair value adjustments on investment properties are included in profit or loss as investment gains in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

The fair value adjustments on owner-occupied properties are recognised in other comprehensive income and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss. On disposal or transfer (change in use) of owner-occupied properties to investment properties, the amounts included in the revaluation reserve are transferred directly to retained surplus.

The deemed cost for any re-classification (between investment properties and owner-occupied properties) is at fair value, at the date of reclassification.

Depreciation in respect of owner-occupied properties

Depreciation will be accounted for in profit or loss at rates appropriate to the expected useful lives of owner-occupied buildings (normally 40 years) and any significant component part. Land is not depreciated. Depreciation is calculated on the opening open-market fair value less any expected residual value. If the expected residual value is greater than or equal to the carrying value, no depreciation is provided for. On the date of the revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is directly transferred net of any related deferred taxation, between the revaluation reserve and retained earnings as the property is utilised.

8. Intangible assets

Computer software development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the company and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of materials and employee services used or consumed in generating the intangible asset. Capitalisation is further limited to development costs where the company is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Computer software development costs recognised as assets are amortised in profit or loss on a straight-line basis at rates appropriate to the expected useful life of the asset. Amortisation commences from the date the software is available and brought into use. As the software is proprietary and specific to the company operations, no residual value is estimated.

Accounting policies *(continued)*

8. Intangible assets (continued)

Present value of acquired in-force policyholder insurance contracts and investment contracts with discretionary participation features

Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of a subsidiary, the present value of acquired in-force (PVIF) business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset and amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts. The estimated life is re-evaluated annually. These cash flows ignore the effects of taxation as this is separately adjusted for on application of the deferred taxation accounting policy. The PVIF is carried in the statement of financial position at cost less any accumulated amortisation.

Amortisation of intangibles

Amortisation of intangibles is charged to profit or loss. Goodwill is not amortised. The expected useful lives are as follows:

- Computer software development costs 2 – 7 years
- PVIF business 5 – 10 years

9. Impairment

The carrying amounts of the company's assets are reviewed on an annual basis to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Financial assets carried at amortised cost

The company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following events:

(i) significant financial difficulty of the issuer or debtor;

(ii) a breach of contract, such as a default or delinquency in payments;

(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(iv) the disappearance of an active market for that financial asset because of financial difficulties; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company, including:

- adverse changes in the payment status of issuers or debtors in the company; or
- national or local economic conditions that correlate with defaults on the assets in the company.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

Accounting policies *(continued)*

9. Impairment (continued)

Financial assets carried at amortised cost (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed in profit or loss.

Goodwill

Goodwill is allocated to cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Each CGU containing goodwill is tested annually for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets on a pro rata basis. Impairment losses relating to goodwill are not reversed.

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss immediately when incurred for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10. Financial assets

The company classifies its financial assets at initial recognition into categories, namely held at fair value through profit or loss, derivatives that are held for hedging, held-to-maturity investments and loans and receivables. The classification depends on the purpose for which the asset was acquired and, with the exception of those held at fair value through profit or loss, is reassessed on an annual basis.

In general, financial assets are designated as at fair value through profit or loss, as the company's strategy is to manage financial investments acquired to match its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis.

Financial assets comprise financial instruments, pledged assets, and interests in associates to which the scope exemption in IAS 28 *Investments in Associates* applies.

Initial measurement

Purchases and sales of financial assets are recognised on trade date, which is the date on which the company assumes or transfers substantially all risks and rewards of ownership. Financial assets are initially recognised as follows:

- Fair value through profit or loss – at fair value on trade date, with transaction costs recognised in profit or loss.

  This category has two sub-categories, namely financial assets held for trading and those designated at fair value through profit or loss at inception.

  Financial instruments that are classified as held for trading are those that are:

  (i) Acquired or incurred principally for the purpose of selling or repurchasing in the short term, or

  (ii) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

  (iii) A derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Accounting policies *(continued)*

10. Financial assets (continued)

Initial measurement (continued)

Financial assets designated as at fair value through profit or loss at inception are those that are:

(i) used to match investment contract liabilities held at fair value and/or insurance contract liabilities, and this designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis; or

(ii) managed within the company and performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group executive committee. The company's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair value. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

- Held-to-maturity and loans and receivables – at fair value on trade date plus transaction costs that are directly attributable to their acquisition.

Those mutual funds in which the company has between 20% and 50% economic interest, providing significant influence, are deemed to be interests in associates and are, on initial recognition, designated as at fair value through profit or loss, based on the scope exemption in IAS 28 relating to investment-linked insurance funds.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or on trade date when they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Non-cash financial assets pledged, where the counterparty has the right to sell or repledge the assets to a third party, are classified as pledged assets.

Subsequent measurement

Financial assets classified as fair value through profit or loss

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise.

The fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined by reference to regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the statement of financial position date.

If quoted market prices are not available, reference can also be made to readily and regularly available broker or dealer price quotations. For units in mutual funds and shares in open ended investment companies, fair value is determined by reference to published repurchase prices.

If a market for a financial asset is not active, the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current market value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where the fair value of financial assets is determined using discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Fair value adjustments for unquoted instruments are included in investment gains and losses and are determined as follows:

Fixed and variable rate preference shares, bonds and inflation-linked bonds

Preference shares and bonds are fair valued using a discounted cash flow model. Cash flows are projected by using either the applicable fixed dividend/coupon, or by extrapolating the future variable dividend/coupon using an applicable market implied curve. These dividends/coupons are then valued using a discount curve which allows for the credit risk of the particular issuer, where the credit spread is derived from instruments which display similar credit risk characteristics.

Accounting policies *(continued)*

10. Financial assets (continued)

Subsequent measurement (continued)

Structured notes (including credit-linked and equity-linked notes)

Structured notes are fair valued by unbundling the note into its constituent parts, and summing the value of each of these parts. The funded portion of the note is valued as a floating rate deposit or floating rate credit instrument using a discounted cash flow model. Changes in the probability of default of either issuer or any reference entity results in a credit adjustment to the value of the instrument. Embedded optionality is valued using an appropriate option pricing model. Fixed rate notes generally include an interest rate swap, and this is valued using the appropriate market implied curve. The sum of these components is used as the value of the structured note.

Swaps

Swaps are fair valued using a discounted cash flow model. Cash flows are projected by using either the applicable fixed coupon, or by extrapolating the future variable coupon using an applicable market implied curve. These coupons are then valued using a market implied swap discount curve.

Forwards

Forwards are fair valued by comparing the agreed forward price to the market implied forward price of the instrument, and discounting the difference using a market implied discount curve.

Unlisted equities (including unlisted variable rate preference shares)

Valuations are determined by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of the equity instrument.

Fixed deposits and negotiable certificates of deposit

Fixed deposits and negotiable certificates of deposit are fair valued by unbundling the deposit into a floating rate deposit and an interest rate swap. The floating rate deposit is valued at face value and adjusted where necessary for the probability of default of the issuer. The interest rate swap is valued using the appropriate market implied curve. The sum of these two components is used as the value of the deposit.

Investment policies with other insurers

These are valued at the fair values of the underlying investments supporting the policy adjusting for applicable liquidity or credit risk.

Over-the-counter options (OTC)

OTC options are fair valued using an appropriate option pricing model, for example the Black Scholes Model.

Pledged assets

Marketable securities held under scrip lending arrangements are measured in accordance with the stated accounting policy applicable to the listed equity or term deposit and are reflected as pledged assets on the statement of financial position.

Financial assets classified as held-to-maturity

Held-to-maturity investments are financial assets with fixed or determinable payments, other than loans and receivables, and fixed maturity where management has both the intent and the ability to hold to maturity. They are carried at amortised cost using the effective interest rate method less any required impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets that are not quoted in an active market and that are created by the entity for providing money, goods or services directly to a debtor, other than those that are originated with the intention of sale immediately or in the short term or that have been designated at fair value through profit or loss. They have fixed or determinable payments and are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method less any required impairment.

11. Financial liabilities

Financial liabilities comprise derivative financial liabilities, trading liabilities (both held for trading and held for hedging), callable capital bonds and policyholders liabilities under investment contracts.

Financial liabilities are initially recognised at fair value, net of transaction costs that are directly attributable to the raising of the funds.

The fair value of financial liabilities is determined using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument adjusted for the credit risk of Liberty.

Accounting policies *(continued)*

11. Financial liabilities (continued)

The measurement of derivative liabilities is described in accounting policy 12.

The callable capital bonds are subsequently measured at amortised cost using the effective interest rate method. The measurement of policyholder liabilities under investment contracts is described in accounting policy 18.

12. Derivative financial instruments

Derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held for trading.

Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivative financial instruments are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. All gains or losses on measurement are recognised in profit or loss within investment gains or losses.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only observable market data.

When unobservable market data has an impact on the valuation of derivatives, the entire day one gain or loss in fair value indicated by the valuation model from the transaction price is not recognised immediately in profit or loss but over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out.

Hedge accounting

Derivatives that qualify for cash flow hedge accounting

Certain derivatives are designated as hedges of highly probable future cash flows attributable to a recognised asset or liability,

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The company documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The company also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve. The ineffective part of any gain or loss is recognised immediately in profit or loss as investment income gains or losses.

Amounts recognised in other comprehensive income (OCI) are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss.

12. Derivative financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately transferred to profit or loss as investment gains or losses.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as investment gains or losses.

Accounting policies *(continued)*

13. Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the investments have expired or on trade date when they have been transferred and the company has also transferred substantially all risks and rewards of ownership. Non-cash financial assets pledged, where the counterparty has the right to sell or repledge the assets to a third party, are classified as pledged assets.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

14. Cash and cash equivalents

Cash and cash equivalents comprise balances with bankers, highly liquid short-term funds on deposit and cash on hand, but do not include money market securities held for investment. Instruments included in this category are those with maturity dates of three months or less.

15. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business reduce the proceeds from the equity issue.

16. Black economic empowerment (BEE) transaction

Investments in BEE entities via equity instruments, the proceeds of which were used by the BEE entities to finance share purchases from shareholders to facilitate the 2004 BEE transaction, do not meet the IAS 39 definition of a financial asset and are considered to be a reduction of equity.

Cash flows arising from Liberty Holdings Limited's dividends are used by the BEE entities to redeem these equity instruments and fulfil dividend obligations and are recognised directly in equity.

17. Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which, in terms of the authority granted by shareholders, the dividends are approved by the company's directors.

18. Policyholder insurance and investment contracts

Policyholder contracts are classified into three categories, depending on the type of investment benefit or insurance risks, namely insurance, investment with discretionary participation feature (DPF) and investment without DPF.

Professional Guidance Notes (PGNs) issued by the Actuarial Society of South Africa (ASSA)

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4. The company had, prior to the adoption of IFRS 4, adopted the PGNs to determine the liability in respect of insurance contracts issued in South Africa. The company has continued to value insurance liabilities in accordance with these PGNs.

The PGNs are available on the ASSA website (www.actuarialsociety.org.za).

Where applicable, the PGNs are referred to in the accounting policies and notes to the annual financial statements.

Insurance and investment contract classification

The company issues contracts that transfer insurance risk, financial risk or, in some cases, both.

An insurance contract is a contract under which the company (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables.

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF)

A number of insurance and investment contracts contain a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

(i) that are likely to be a significant portion of the total contractual benefits;

(ii) whose amount or timing is contractually at the discretion of the company; and

(iii) that are contractually based on:
- the performance of a specified pool of contracts or a specified type of contract; and/or
- realised and/or unrealised investment returns on a specified pool of assets held by the company.

The terms and conditions or practice relating to these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and limits within which the company may exercise its discretion as to the quantum and timing of the payment to policyholders. A proportion, as set out in the policy conditions, of the eligible surplus (usually 9/10ths of the surplus) must be attributed to policyholders as a group (which can include future policyholders), while the amount and timing of the distribution to individual policyholders is at the discretion of the company, subject to the advice of the statutory actuary. Management of this business is in accordance with the company's Published Principles and Practices of Financial Management, as lodged with the Financial Services Board. The terms reversionary bonus and smoothed bonus refer to the specific forms of DPF contracts underwritten by the company.

All components in respect of DPFs are included in the policyholder liabilities.

Insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis as described in PGN 104, using a discounted cash flow methodology. The liability is reflected as policyholders liabilities under insurance contracts and investment contracts with DPF.

The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return and tax and any expected losses in respect of options.

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of PGN 104, plus additional discretionary margins.

Derivatives embedded in the company's insurance contracts are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The liabilities in respect of the investment guarantees underlying maturity and death benefits, and guaranteed annuity options are measured in accordance with PGN 110 on a market-consistent basis.

Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity. These profits emerge over the lifetime of the contract in line with the risks borne by the company. These discretionary margins include an allowance for the shareholders' participation in the reversionary and terminal bonuses expected to be declared each year in respect of with-profit business, as well as an allowance for both the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market-related business. In addition, further discretionary margins are held where required for prudent reserving.

Liabilities for individual market-related policies where benefits are in part dependent on the performance of underlying investment portfolios (including business with stabilised bonuses) are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element).

Reversionary bonus classes of policies, and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at a market-related rate of interest, reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate (the non-guaranteed element).

The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF) (continued)

Insurance contracts and investment contracts with DPF (continued)

Measurement (continued)

In respect of corporate life and lumpsum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses.

Within the company all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared (non-guaranteed element). In accordance with PGN 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years. All bonus stabilisation provisions are held as part of the liabilities under these contracts.

The liability estimates are reviewed bi-annually. Any changes in estimates of the liability are reflected in profit or loss as they occur.

Where policyholders, in respect of certain policies, are entitled to a part surrender, any part surrender is treated as a derecognition of the policyholders liability.

Incurred but not reported claims

Provision is made in the policyholders liabilities under insurance contracts for the estimated cost at the end of the year of claims incurred but not reported (IBNR) at that date. IBNR provisions are calculated using run-off triangle techniques. These liabilities are not discounted due to the short-term nature of IBNR claims.

Liability adequacy test

At each statement of financial position date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of the insurance liabilities (as measured under the FSV basis) is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in PGN 104 as well as any additional discretionary margins), the deficiency is recognised in profit or loss.

Premium income

Premiums on insurance contracts are recognised when due in terms of the contract, other than in respect of universally costed policies, recurring premium pure risk policies (that lapse in the event of a premium not being paid) and corporate schemes. Premiums receivable in respect of corporate schemes are recognised when there is reasonable assurance of collection in terms of the policy contract. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission. Premium income received in advance is included in insurance and other payables.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment in accordance with the terms of each reinsurance contract.

Claims

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are charged to income when notified of a claim based on the estimated liability for compensation owed to policyholders. Outstanding claims are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs (including bonuses payable and the company's contribution to agents' pension and medical aid funds) that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

The FSV method for valuing insurance contracts and investment contracts with DPF makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

Investment contracts without DPF

Measurement

The company issues investment contracts without fixed benefits (unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity).

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Investment contracts without DPF (continued)

Measurement (continued)

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets, derivatives and/or investment property (unit linked) and are designated at inception as at fair value through profit or loss.

The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

The company's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within the company's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the statement of financial position date.

If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option.

For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. No initial profit is recognised immediately as any profit on initial recognition is amortised over the life of the contract.

Service fees on investment contracts and deferred revenue liability (DRL)

Service fee income on investment contracts is recognised on an accrual basis as and when the services are rendered.

A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis.

Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds.

Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment contracts.

Amounts received and claims incurred on investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed when incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised over the expected life of the contract, taking into account all decrements, on a straight-line basis, as they represent the right to receive future management fees. Amortisation periods are as follows:

- Linked annuities 10 – 16 years
- Other investment contracts 5 years

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment contracts.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders.

19. Reinsurance contracts held

The company cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the company with reinsurers under which the company is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the company.

Accounting policies *(continued)*

19. Reinsurance contracts held (continued)

The expected benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract.

Reinsurance assets are assessed for impairment at each statement of financial position date. If there is reliable objective evidence, as a result of an event that occurred after its initial recognition, that amounts due may not be recoverable, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

20. Offsetting

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

21. Investment income and finance costs

Investment income for the company comprises rental income from properties, interest and dividends. Dividends are recognised when the right to receive payment is established. Rental income is accounted for on a straight-line basis. Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Rental income in respect of company owner-occupied properties is eliminated on consolidation. Accrued investment income on instruments held at amortised cost is assessed for impairment in line with accounting policy 9. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

22. Hotel operations sales

Hotel operations sales comprises the sale of accommodation, food and beverage, other guest facilities and rentals received. Sales are recognised over the period for which the services are rendered. Revenue is shown net of value-added tax, returns, rebates and discounts.

23. Fee revenue

Fee revenue includes management fees on assets under management and administration fees.

Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.

Administration fees received for the administration of medical schemes are recognised when the services are rendered.

24. Employee benefits

Leave pay provision

The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Incentive scheme

Incentive scheme bonuses are short- or long-term bonuses which are recognised as an expense as incurred when the company has a present constructive obligation and the amount can be reliably measured.

Pension obligations

The company operates various pension schemes. The schemes are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations. The company has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Accounting policies *(continued)*

24. Employee benefits (continued)

Pension obligations (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the company. The defined benefit obligation is calculated annually by appointed qualified statutory actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. When the calculation results in a benefit to the company, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan.

The company's current service costs to the defined benefit funds are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service. For active employees, these items are recognised as expenses or income systematically over a period not exceeding the expected remaining service period of employees.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the company pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

The company provides some post-retirement healthcare benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Appointed qualified statutory actuaries value these obligations annually.

25. Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

Current taxation

Current taxation is the expected taxation payable, using taxation rates enacted at the statement of financial position date, including any prior year provision adjustments.

Deferred taxation

Deferred taxation is provided in full using the liability method. Provision is made for deferred taxation attributable to temporary differences in the accounting and taxation treatment of items in the financial statements. A deferred taxation liability is recognised for all temporary differences, at enacted or substantially enacted rates of taxation at the statement of financial position date, except differences relating to goodwill, initial recognition of assets and liabilities which affect neither accounting nor taxable profits or losses and investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. In respect of temporary differences arising on fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposal. A deferred taxation asset is recognised for the carry forward of unused taxation losses, unused taxation credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilised. The major categories of assets and liabilities giving rise to a deferred taxation balance are investment properties revaluation surpluses, policyholder valuation basis, life fund special transfers, deferred acquisition costs, deferred revenue, unrealised gains on investments, intangible assets and provisions.

Accounting policies *(continued)*

26. Provisions

Provisions are recognised when the company has a present legal or constructive obligation of uncertain timing or amount, as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

27. Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases.

28. Share-based payment transactions

Equity compensation plans

Options are granted to permanent employees at the discretion of the directors in terms of which shares in Liberty Holdings Limited (formerly Liberty Group Limited) may be acquired at prices prevailing at the dates of grant of the options. Delivery of the shares so acquired is effected at future dates, which are determined at the time of granting the options. Shares acquired through the share option incentive schemes have to be paid for by the employees at the subscription prices as determined in the option contracts. Shares under option, which have not yet been delivered to participants, carry no shareholder rights.

The fair value of share options granted after 7 November 2002 and not vested at 1 January 2005 is measured at grant date and expensed on a straight-line basis over the period during which the employees will become entitled to the options granted (vesting period). The fair value of the options is measured using an appropriate model which takes into account the terms and conditions of the share option scheme as well as the historical share price movement.

The expense recognised is adjusted to ultimately reflect the actual number of share options vested after which no further adjustments are made. The expense is credited to a share-based payments reserve. When the options have vested, the relevant amount is transferred from the share-based payment reserve to retained surplus.

Equity compensation plan implemented during 2005

The equity compensation scheme implemented during 2005 confers rights to employees to acquire Liberty Holdings Limited (formerly Liberty Group Limited) shares equivalent to the value of the right at date of exercise. The fair value of the rights are measured at grant date using an appropriate model which takes into account the terms and conditions of the scheme, as well as the historical share price movement. The fair value is expensed over the vesting period on the same basis as the equity compensation plans.

Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date. Until the liability is settled, the fair value is re-measured at each reporting date and date of settlement, with any changes in fair value recognised in profit or loss for the period.

Black economic empowerment (BEE) transaction

The group concluded its BEE transaction on 8 November 2004. The issue of equity-linked instruments to the Black Managers' Trust had not vested with the participants at 31 December 2004. These instruments have been accounted for as an equity-settled share-based payment transaction and the option, inherent in the transaction, has been valued at fair value at the date of the transaction. The fair value is recognised as an expense on a straight-line basis in profit or loss over the vesting period, with a corresponding increase in the share-based payments reserve within equity. The fair value of the options is measured using an appropriate model which takes into account the terms and conditions of the BEE transaction. When the options have vested, the relevant amount is transferred from the share-based payment reserve to retained surplus.

Statement of financial position
at 31 December 2011

	Notes	2011 Rm	2010 Rm
Assets			
Equipment and owner-occupied properties under development	3	**666**	759
Owner-occupied properties	4	**1 539**	1 513
Investment properties	5	**21 149**	19 553
Intangible assets	6	**73**	84
Defined benefit pension fund employer surplus	18	**199**	202
Deferred acquisition costs	7	**386**	360
Interests in subsidiaries	8	**2 953**	2 899
Interest in subsidiaries – mutual funds	9	**17 766**	12 848
Interests in joint ventures	10	**96**	90
Reinsurance assets	15	**425**	421
Operating leases – accrued income	5	**430**	466
Derivative assets	12	**3 199**	1 979
Interests in associates – mutual funds	11	**11 402**	5 374
Financial investments	12	**131 983**	135 139
Prepayments, insurance and other receivables	13	**2 292**	2 715
Cash and cash equivalents	14	**1 411**	1 872
Total assets		**195 969**	186 274
Liabilities			
Policyholders liabilities		**172 644**	165 154
Insurance contracts	15	**107 041**	104 592
Investment contracts with discretionary participation features	15	**2 631**	2 634
Financial liabilities under investment contracts	16	**62 972**	57 928
Financial liabilities at amortised cost	17	**2 054**	2 054
Employee benefits	18	**794**	666
Deferred revenue	19	**148**	135
Deferred taxation	20	**2 501**	2 108
Provisions	21	**364**	163
Operating leases – accrued expense	5	**93**	144
Derivative liabilities	12	**2 772**	1 510
Insurance and other payables	22	**3 920**	4 256
Current taxation		**323**	481
Total liabilities		**185 613**	176 671
Equity			
Ordinary shareholders' interests			
Share capital	23	**29**	29
Retained surplus		**10 795**	10 151
Other reserves		**(468)**	(577)
Total equity		**10 356**	9 603
Total equity and liabilities		**195 969**	186 274

Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 Rm	2010 Rm
Revenue			
Insurance premium revenue	24	**15 095**	14 434
Reinsurance premiums	24	**(572)**	(513)
Net insurance premiums		**14 523**	13 921
Service fee income from policyholder investment contracts	25	**824**	797
Investment income	26	**7 497**	7 142
Hotel operation sales		**582**	582
Investment gains	27	**6 498**	12 769
Fee revenue			15
Distribution of profits from subsidiaries – unincorporated property partnerships		**418**	441
Defined benefit pension fund employer surplus	18	**(4)**	11
Total revenue		**30 338**	35 678
Claims and policyholders benefits under insurance contracts	28	**(15 965)**	(15 828)
Insurance claims recovered from reinsurers	28	**396**	431
Change in policyholders liabilities		**(2 442)**	(5 963)
Insurance contracts		**(2 449)**	(6 025)
Investment contracts with discretionary participation features		**3**	58
Applicable to reinsurers		**4**	4
Fair value adjustment to policyholders liabilities under investment contracts	16	**(4 226)**	(6 463)
Acquisition costs	29	**(1 710)**	(1 713)
General marketing and administration expenses	30	**(3 390)**	(3 166)
Finance costs	32	**(212)**	(196)
Profit/(loss) before taxation		**2 789**	2 780
Taxation	33	**(947)**	(1 189)
Total earnings		**1 842**	1 591
Other comprehensive income		**85**	(68)
Owner-occupied properties – fair value adjustment		**115**	(99)
Net change in fair value on cash flow hedges	12	**15**	
Income and capital gains tax relating to:			
– owner-occupied properties fair value adjustment	33	**(41)**	31
– net change in fair value on cash flow hedges		**(4)**	
Total comprehensive income		**1 927**	1 523

Statement of changes in shareholders' funds

for the year ended 31 December 2011

Rm	Share capital and share premium	Cash flow hedging reserve[1]	Owner-occupied properties revaluation[1]	Capital redemption reserve fund[1]	Empowerment reserve[2]	Share-based payments reserve[1]	Retained surplus[1]	Total
Balance at 1 January 2010	1 051		542	5	(1 159)	127	10 504	11 070
Capital reduction	(1 022)							(1 022)
Total comprehensive income			(68)				1 591	1 523
Ordinary dividends							(2 078)	(2 078)
BEE preference share dividends					40		77	117
Reversal to comprehensive income on cancellations of share options/rights						(5)		(5)
Payments on settlement of equity share options							(2)	(2)
Transfer of vested equity options reserve						(99)	99	
Sale and transfer of owner-occupied properties			40				(40)	
Balance at 31 December 2010	**29**		**514**	**5**	**(1 119)**	**23**	**10 151**	**9 603**
Total comprehensive income		**11**	**74**				**1 842**	**1 927**
Ordinary dividends							**(1 283)**	**(1 283)**
BEE preference share dividends					**44**		**68**	**112**
Reversal to comprehensive income on cancellations of share options/rights						**(1)**		**(1)**
Payments on settlement of equity share options							**(2)**	**(2)**
Transfer of vested equity options reserve						**(15)**	**15**	
Sale and transfer of owner-occupied properties			**(4)**				**4**	
Balance at 31 December 2011	**29**	**11**	**584**	**5**	**(1 075)**	**7**	**10 795**	**10 356**

(1) *The retained surplus, share-based payments, owner-occupied properties revaluation and cash flow hedging reserves are distributable in terms of the company's memorandum of incorporation and will attract secondary tax on companies of 10,0% if distributed to shareholders. However, in terms of minimum capital adequacy requirements governed by the Long-term Insurance Act and regulated by the Financial Services Board, R2 495 million (2010: R2 688 million) of shareholder funds are not available to be distributed.*

(2) *Represents the cost of preference shares acquired as part of the 2004 BEE share ownership transaction that do not meet the definition of a financial asset in terms of International Financial Reporting Standards.*

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 Rm	2010 Rm
Cash flows from operating activities		**2 467**	393
Cash utilised in operations	34	**(2 186)**	(3 546)
Cash receipts from policyholders		**26 083**	23 973
Cash paid to policyholders, intermediaries, suppliers and employees		**(28 269)**	(27 519)
Interest received		**4 047**	4 018
Interest paid		**(212)**	(196)
Distribution of profits from subsidiaries – unincorporated property partnerships		**418**	441
Dividends received		**2 311**	1 123
Dividends paid	35	**(1 154)**	(976)
Taxation paid	36	**(757)**	(471)
Cash flows from investing activities		**(2 928)**	(1 725)
Net purchases of properties under development, investment and owner-occupied properties		**(767)**	(969)
Purchase of equipment		**(91)**	(271)
Proceeds on sale of equipment		**9**	6
Net (purchases)/sales of financial instruments[1]		**(1 978)**	(1 179)
Net movement in loans with group companies		**(24)**	849
Proceeds on disposal of shares in subsidiary		**3**	
Acquisition of intangibles		**(7)**	(50)
Shares issued in subsidiaries		**(67)**	(153)
Sale of ordinary shares in joint ventures			47
Acquisition of additional shares in joint venture		**(6)**	(5)
Net decrease in cash and cash equivalents		**(461)**	(1 332)
Cash and cash equivalents at the beginning of the year		**1 872**	3 204
Cash and cash equivalents at the end of the year		**1 411**	1 872

(1) *This includes the net sales/(purchases) of mutual funds that are classified as associates and subsidiaries.*

Notes on the company financial statements

for the year ended 31 December 2011

1. Risk disclosures

This note only contains company specific information relating to Liberty Group Limited. For full disclosure of Liberty's risk management refer to the risk management section of the company's holding company, Liberty Holdings Limited's financial statements.

1.1 Significant classes of business most affected by insurance risk

(a) *Retail assurance business*

The following table provides a summary of the profile of amounts at risk per life in terms of mortality benefits before and after reinsurance:

Retail sums assured at risk (R)	Before reinsurance Rm	Before reinsurance %	After reinsurance Rm	After reinsurance %
2011				
0 – 1 499 999	**204 687**	**33**	**192 601**	**37**
1 500 000 – 2 999 999	**149 876**	**25**	**136 366**	**26**
3 000 000 – 7 499 999	**169 091**	**28**	**151 201**	**29**
7 500 000 and above	**88 026**	**14**	**42 275**	**8**
Total	**611 680**	**100**	**522 443**	**100**
2010				
0 – 1 499 999	203 989	35	189 984	39
1 500 000 – 2 999 999	140 259	24	127 044	26
3 000 000 – 7 499 999	154 216	28	139 011	28
7 500 000 and above	77 746	13	36 683	7
Total	576 210	100	492 722	100

(b) *Life annuity business*

The profile of annuity amounts payable per life, in respect of non-participating life and disability income annuities, is as follows:

Annuity amount per annum (R)	2011 Number of life and disability annuities in payment	2011 Annual annuity amount exposure Rm	2010 Number of life and disability annuities in payment	2010 Annual annuity amount exposure Rm
0 – 240 000	**61 532**	**1 104**	62 291	1 070
240 000 – 480 000	**366**	**115**	316	100
480 000 – 720 000	**64**	**36**	50	28
720 000 and above	**22**	**21**	17	16
Total	**61 984**	**1 276**	62 674	1 214

(c) *Corporate risk business*

The following table provides the split by industry class of annual premium income received on corporate risk business:

Industry class	2011 %	2010 %
Administrative/professional	**20**	20
Retail	**36**	37
Light manufacturing	**28**	27
Heavy manufacturing	**12**	12
Heavy industrial and other high risk	**4**	4
Total	**100**	100

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.1 Significant classes of business most affected by insurance risk (continued)

(c) Corporate risk business (continued)

The following table provides a summary of the profile of amounts at risk per life in terms of mortality benefits before and after reinsurance:

Corporate sums assured at risk (R)	Before reinsurance Rm	%	After reinsurance Rm	%
2011				
0 – 1 499 999	**67 171**	**72**	**66 450**	**75**
1 500 000 – 2 999 999	**14 043**	**15**	**13 702**	**15**
3 000 000 – 7 499 999	**10 617**	**11**	**8 397**	**9**
7 500 000 and above	**2 224**	**2**	**735**	**1**
Total	**94 055**	**100**	**89 284**	**100**
2010				
0 – 1 499 999	87 315	79	86 259	81
1 500 000 – 2 999 999	13 358	13	13 068	12
3 000 000 – 7 499 999	7 725	7	6 099	6
7 500 000 and above	1 503	1	508	1
Total	109 901	100	105 934	100

1.2 Interest rate risk applicable to financial instrument assets and liabilities

The tables below give additional detail on financial instrument assets and liabilities and their specific interest rate exposure.

Accounts receivable, accounts payable and loans balances with subsidiaries and the group companies where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows.

Financial instrument investments	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate[1] %
2011				
Held at fair value through profit or loss				
Government, municipal and utility stocks	**16 183**		**16 183**	**7,9**
Commercial term deposits	**16 490**	**7 534**	**8 956**	**6,6**
Preference shares	**2 311**	**1 936**	**375**	**6,7**
Collateral deposits	**644**	**565**	**79**	**5,2**
Cash and cash equivalents	**1 411**	**1 048**	**363**	**5,1**
Loans and receivables				
Loans	**184**	**184**		**8,0**
Held-to-maturity				
Loan receivables from joint ventures	**4**		**4**	**10,1**
Total	**37 227**	**11 267**	**25 960**	

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.2 Interest rate risk applicable to financial instrument assets and liabilities (continued)

Financial instrument investments	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate[1] %
2010				
Held at fair value through profit or loss				
Government, municipal and utility stocks	16 535	50	16 485	8,2
Commercial term deposits	14 683	4 019	10 664	7,9
Investment policies	277		277	8,6
Preference shares	3 331	3 272	59	7,1
Collateral deposit	423	423		5,2
Cash and cash equivalents	1 872	1 872		5,3
Loans and receivables				
Loans	177	177		8,0
Held-to-maturity				
Loan receivables to joint ventures	4		4	10,1
Total	37 302	9 813	27 489	

[1] *Effective interest rate is the rate applicable at 31 December on a nacm basis averaged on a weighted basis with reference to carrying value.*

The maturity profile of the financial instrument investments is as follows:

	2011 Carrying amount Rm	2010 Carrying amount Rm
Within 1 year	**5 428**	5 021
1 – 5 years	**8 262**	8 556
6 – 10 years	**11 055**	7 304
11 – 20 years	**7 927**	8 934
Over 20 years	**2 576**	5 719
Variable	**1 979**	1 768
Total	**37 227**	37 302

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.2 Interest rate risk applicable to financial instrument assets and liabilities (continued)

Financial instrument liabilities	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate[1] %
2011				
Held for trading				
Collateral deposits	**240**	**240**		**5,2**
At amortised cost				
Callable capital bond[2]	**2 054**		**2 054**	**8,6**
2010				
Held for trading				
Collateral deposits	225	225		5,2
At amortised cost				
Callable capital bond[2]	2 054		2 054	8,6

[1] *Effective interest rate is the rate applicable at 31 December on a nacm basis averaged on a weighted basis with reference to the carrying value.*

[2] *Contractually repriced on 12 September 2012, at which date it is callable by Liberty Group Limited, with compulsory redemption on 12 September 2017.*

1.3 Currency risk

The table below segregates the currency exposure by major currency at 31 December:

Assets	British pound		US dollar		Euro		Japanese yen		Other
Rm	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**
Debt instruments	**56**	4	**728**	540	**4**	2			
Equity instruments		1 173	**19**	9					**23**
Mutual funds	**143**	135	**17 657**	13 835	**650**	865	**45**	45	
Total	**199**	1 312	**18 404**	14 384	**654**	867	**45**	45	**23**
Gross foreign currency exposure	**16**	128	**2 275**	2 166	**63**	98	**431**	553	
Derivatives protection[1]			**(395)**	(314)					
Net foreign currency exposure	**16**	128	**1 880**	1 852	**63**	98	**431**	553	
Exchange rate[2]									
Closing rate at 31 December	**12,48**	10,29	**8,09**	6,64	**10,46**	8,87	**0,10**	0,08	
Average rate during the year	**11,62**	11,30	**7,25**	7,32	**10,08**	9,71	**0,09**	0,08	

[1] *Certain currency exposures are reduced by means of cross currency swap contracts.*

[2] *Expressed as a ratio of rand equivalent to one unit of applicable currency referenced to the closing/average rate provided by the Corporate and Investment Banking Division of Standard Bank.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.4 Derivative assets and liabilities

	2011 Rm	2010 Rm
Derivatives held for trading	**21**	271
Gross carrying amount of assets	**2 542**	1 556
Gross carrying amount of liabilities	**(2 521)**	(1 285)
Derivatives held for hedging	**2**	
Gross carrying amount of asset	**13**	
Gross carrying amount of liabilities	**(11)**	
Net carrying value	**23**	271

Open derivative positions at 31 December

	Maturity analysis of net fair value						
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Underlying principal amount/ notional[1] amount Rm
2011							
Derivatives held for trading	(93)	35	79	21	2 542	(2 521)	
Foreign exchange derivatives	2		(17)	(15)	2	(17)	
Swaps			(17)	(17)		(17)	128
Options (dollar denominated)	2			2	2		10
Interest rate derivatives	(69)	53	96	80	2 455	(2 375)	
Forwards	(69)		(11)	(80)	182	(262)	22 244
Swaps		53	12	65	2 178	(2 113)	92 540
Swaptions			95	95	95		7 580
Equity derivatives	(26)	(18)		(44)	85	(129)	
Forwards	(22)			(22)	1	(23)	(22)
Futures	(8)	2		(6)	9	(15)	(2 758)
Options	4	(29)		(25)	66	(91)	28
Other		9		9	9		19
Derivatives held for hedging		(9)	11	2	13	(11)	
Foreign exchange derivatives		(9)	11	2	13	(11)	
Swaps		(9)	11	2	13	(11)	1 000
Total derivative assets/(liabilities)	(93)	26	90	23	2 555	(2 532)	120 769
2010							
Derivatives held for trading							
Interest rate derivatives	6		300	306	1 418	(1 112)	
Forwards	5			5	10	(5)	3 483
Swaps	1		187	188	1 295	(1 107)	53 446
Swaptions			113	113	113		7 580
Equity derivatives	(78)	43		(35)	138	(173)	
Futures	(102)			(102)	46	(148)	(1 780)
Options	22			22	40	(18)	2 606
Swaps	2	(7)		(5)	2	(7)	4
Other		50		50	50		50
Total derivative assets/(liabilities)	(72)	43	300	271	1 556	(1 285)	65 389

[1] *The notional or underlying principal amount reflects the volume of the company's investment in derivative financial instruments. It represents the amount to which a rate or price is applied to calculate the exchange of cash flows. The amount at risk inherent in these contracts is significantly less than the notional amount.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.4 Derivative assets and liabilities (continued)

Cross currency swaps

From 2011, the company uses currency swaps to mitigate against the risk of certain changes in cash flows arising from changes in foreign currency rates and uses hedge accounting to account for these transactions.

The forecasted timing of the release of net cash flows from the cash flow hedging reserve into profit or loss at 31 December is as follows:

Rm	Total reserve	3 months or less	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
2011					
Release timing	11		1	6	4

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss.

There were no transactions for which cash flow hedge accounting had to be discontinued in 2011 as a result of highly probable cash flows no longer being expected to occur.

1.5 Credit exposure

The following table provides information regarding the aggregated credit risk exposure for the company for debt instruments categorised by credit ratings (if available) at 31 December.

Rm	Sove-reign	AAA	AA	A	BBB and below	Not rated	Pooled funds	Total carrying value
2011								
Debt instruments	10 759	3 933	17 491	1 878	687	420	10 977	46 145
– Listed preference shares			885	200	223	32		1 340
Local			885	177	223	32		1 317
Foreign				23				23
– Unlisted preference shares			786	93		92		971
– Listed term deposits	10 759	3 232	9 094	1 172	192	108		24 557
Local	10 759	3 232	8 697	1 135	10			23 833
Foreign			397	37	182	108		724
– Unlisted term deposits		701	6 726	413	272	4		8 116
Local		701	6 726	413	231	4		8 075
Foreign					41			41
– Loans						184		184
– Mutual funds – debt instruments							10 977	10 977
Local							5 987	5 987
Foreign							4 990	4 990
Investment policies							18 161	18 161
Prepayments, insurance and other receivables – Local			129	22		2 141		2 292
– Accrued income			2			19		21
– Reinsurance recoveries			127	22		34		183
– Other						2 088		2 088
Reinsurance assets			396			29		425
Derivatives and collateral deposits		766	2 282	149		2		3 199
Loan receivables from joint ventures						4		4
Cash and cash equivalents Local			1 277			134		1 411
Total assets bearing credit risk	10 759	4 699	21 575	2 049	687	2 730	29 138	71 637

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)
1.5 Credit exposure (continued)

Rm	Sove-reign	AAA	AA	A	BBB and below	Not rated	Pooled funds	Total carrying value
2010								
Debt instruments	9 237	7 198	13 202	3 390	142	1 557	13 238	47 964
– Listed preference shares		5	1 026			351		1 382
Local		5	1 022			351		1 378
Foreign			4					4
– Unlisted preference shares			1 261	25		663		1 949
– Listed term deposits	9 237	6 037	6 467	2 913	96	118		24 868
Local	9 237	5 679	6 404	2 910	96			24 326
Foreign		358	63	3		118		542
– Unlisted term deposits								
Local		1 156	4 448	452	46	248		6 350
– Loans						177		177
– Mutual funds – debt instruments							13 238	13 238
Local							10 458	10 458
Foreign							2 780	2 780
Investment policies							15 459	15 459
Prepayments, insurance and other receivables – Local			186	16		2 513		2 715
– Accrued income			12			14		26
– Reinsurance recoveries			174	16				190
– Other						2 499		2 499
Reinsurance assets			35	367		19		421
Derivatives and collateral deposits		1 036	896			47		1 979
Loan receivables to joint ventures						4		4
Cash and cash equivalents Local			1 866			6		1 872
Total assets bearing credit risk	9 237	8 234	16 185	3 773	142	4 146	28 697	70 414

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.5 Credit exposure (continued)

Rating scale

The rating scale applied is based on internal definitions, influenced by published external rating agencies including Fitch, Moody's and S & P, as described below and reflects long-term local currency ratings. It is consistent with the rating scale adopted in the prior year.

Investment grade

Sovereign Obligations of governments are considered to be of the highest quality and are subject to minimal credit risk. Sovereign exposures include state owned enterprises where an explicit government guarantee exists.

AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' ratings indicate a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

Non-investment grade

BB Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.

Not rated

The company is not restricted to investing purely in rated instruments or where counterparties are rated and accordingly invests in assets that offer appropriate returns after an internal assessment of credit risk. This does not imply that the potential default risk is higher or lower than for rated assets. A detailed internal analysis of such investments is performed to assess the riskiness of the investment.

Pooled funds

The company is exposed to credit risk generated by debt instruments which are invested in by mutual funds in which the company invests. The company's exposure to mutual funds is classified at fund level and not at the underlying asset level and, although mutual funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets.

The company is exposed to counterparty credit risk in respect of investment policies as well as the underlying debt instruments supporting the valuation of the policy.

As per the prior year, investment in mutual funds and investment policies credit risk has been classified at fund level under the classification of pooled funds.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.6 Credit risk

1.6.1 Derivatives

A detailed credit analysis of all LibFin derivative counterparties is performed and approved by GBSMC prior to any trading taking place. In addition, trading is limited to financial institutions with a minimum local currency credit rating of "A" as determined by a reputable credit rating agency. ISDA Agreements and where applicable, Credit Support Annexure (CSA's) are negotiated with all trading counterparties. In addition, the company's appointed asset managers enter into derivative contracts with their mandates to manage mainly currency risk inherent in the relevant investment portfolios. The risk procedures in operation at the respective asset managers require a minimum derivative counterparty rating of 'A'.

1.6.2 Insurance and other receivables

Debt collection procedures are rigorously carried out on defaulters. Industry supported default lists help to prevent rogue agents, brokers and intermediaries from conducting business with Liberty. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Investment debtors are protected by the security of the underlying investment not being transferred to the purchaser prior to payment. Established broker relationships and protection afforded through the rules and directives of the JSE Limited further reduce credit risk.

1.6.3 Credit assessment changes recognised in profit or loss

Fair value instruments

The company invests in both listed and unlisted debt instruments. Changes to credit spreads for listed instruments are based on available market information and/or a proxy (where appropriate), combined with management input and override depending on the liquidity of the listed asset. Unlisted financial assets are generally not actively traded and changes to the credit spread for these instruments are fair valued with reference to proxy listed assets (where appropriate), combined with management input and override, market research and other compelling evidence which is all collated to form a view on current value.

Where different asset managers have acquired the same unlisted debt instrument, these instruments will be valued by the asset manager but evaluated for consistency by the company.

The change in the fair value movement recognised in profit or loss, with respect to unlisted debt instruments in a non-active market, is a negative R26 million (2010: negative R19 million).

1.6.4 Impairments

Amortised cost instruments

There are no impairments (2010: nil) to financial assets measured at amortised cost.

1.6.5 Standard Bank Group Limited (Standard Bank) credit risk concentration

Standard Bank is Liberty Holdings Limited's holding company. Normal credit processes are followed before any asset exposure is entered into with Standard Bank. Assets within the life licence entities are governed by total exposure limits to any one institution, set by the FSB.

	2011			2010		
	Overall company investment Rm	**Exposure to Standard Bank Rm**	**%**	Overall company investment Rm	Exposure to Standard Bank Rm	%
Equity instruments	**48 397**	**902**	**1,9**	53 752	1 598	3,0
Preference shares	**2 311**	**163**	**7,0**	3 331	162	4,9
Term deposits	**32 857**	**6 123**	**18,6**	31 395	4 428	14,1
Cash and cash equivalents	**1 411**	**786**	**55,7**	1 872	174	9,3
Derivatives	**2 555**	**1 084**	**42,4**	1 556	250	16,1
Collateral deposits	**644**	**125**	**19,4**	423	350	82,7
Total exposure to Standard Bank		**9 183**			6 962	

The company invests in various structured entities that are credit enhanced by Standard Bank. Total value of these investments is R955 million (2010: R1 463 million).

In the ordinary course of business the company invests in various mutual funds which in turn may have some exposure to Standard Bank. The group does not control these mutual funds. Consequently, it has not been deemed necessary to quantify the aggregate Standard Bank exposure in each mutual fund, which in any event would not be material to the company.

Notes on the company financial statements *(continued)*

for the year ended 31 December 2010

1. Risk disclosures (continued)

1.6 Credit risk (continued)

1.6.6 Collateral

The table below discloses the financial effect that collateral has on the group's maximum exposure to credit risk in relation to its financial assets.

Rm	Unsecured	Secured	Total exposure	Netting agreements	Exposure after netting	Collateral coverage relative to secured exposure	
						Less than 100%	Greater than 100%
2011							
Debt instruments	45 961	184	46 145		46 145		184
Listed preference shares on the JSE or foreign exchanges	1 340		1 340		1 340		
Unlisted preference shares	971		971		971		
Listed term deposits on BESA, JSE or foreign exchanges	24 557		24 557		24 557		
Loans		184	184		184		184
Unlisted term deposits	8 116		8 116		8 116		
Mutual funds – debt instruments	10 977		10 977		10 977		
Investment policies	18 161		18 161		18 161		
Derivatives	2 555		2 555	(2 493)	62		
Derivative collateral deposits	644		644	(279)	365		
Reinsurance assets	425		425		425		
Prepayments, insurance and other receivables	2 244	48	2 292		2 292		48
Loans receivables from joint ventures	4		4		4		
Loans receivables from subsidiaries	1		1		1		
Cash and cash equivalents	1 411		1 411		1 411		
	71 406	232	71 638	(2 772)	68 866		232
2010							
Debt instruments	47 787	177	47 964		47 964		177
Listed preference shares on the JSE or foreign exchanges	1 382		1 382		1 382		
Unlisted preference shares	1 949		1 949		1 949		
Listed term deposits on BESA, JSE or foreign exchanges	24 868		24 868		24 868		
Loans		177	177		177		177
Unlisted term deposits	6 350		6 350		6 350		
Mutual funds – debt instruments	13 238		13 238		13 238		
Investment policies	15 459		15 459		15 459		
Derivatives	1 556		1 556	(1 437)	119		
Derivative collateral deposits	423		423	(73)	350		
Reinsurance assets	421		421		421		
Prepayments, insurance and other receivables	2 639	76	2 715		2 715	37	39
Loans receivables from joint ventures	4		4		4		
Cash and cash equivalents	1 872		1 872		1 872		
	70 161	253	70 414	(1 510)	68 904	37	216

Notes on the company financial statements *(continued)*
for the year ended 31 December 2010

1. Risk disclosures (continued)

1.7 Maturity profile of liabilities

1.7.1 Maturity profiles of the company's financial instrument liabilities

The table below summarises the maturity profile of the financial liabilities of the company based on the remaining undiscounted contractual obligations. Policyholder liabilities under investment contracts and investment contracts with DPF are shown in a separate table in 1.7.2, as these are managed according to expected and not contractual cashflows. Derivative financial instruments are shown in a separate table in 1.4.

Contractual cash flows (Rm)	0 – 3 months[1]	3 – 12 months	1 – 5 years	6 – 10 years	Total	Total carrying value
2011						
Held for trading						
Collateral deposits	**240**				**240**	**240**
At amortised cost						
Callable capital bond	**54**	**2 124**			**2 178**	**2 054**
Insurance and other payables	**3 920**				**3 920**	**3 920**
Total	**4 214**	**2 124**			**6 338**	**6 214**
Percentage proportion (%)	**66**	**34**			**100**	
2010						
Held for trading						
Collateral deposits	225				225	225
At amortised cost						
Callable capital bond	54	125	2 126		2 305	2 054
Insurance and other payables	4 220	6	30		4 256	4 256
Total	4 499	131	2 156		6 786	6 535
Percentage proportion (%)	66	2	32		100	

[1] *0 – 3 months are either due within the time frame or are payable on demand.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2010

1. Risk disclosures (continued)

1.7 Maturity profile of liabilities (continued)

1.7.2 Liquidity risks arising out of obligations to policyholders

The following tables give an indication of liquidity needs in respect of cashflows required to meet obligations arising under insurance contracts, investment contracts with DPF (as defined in IFRS 4) and investment contracts.

Expected cash flows	Investment contracts		Investment with DPF		Insurance contracts	
Unit liabilities	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
Within 1 year	**3 807**	3 898	**228**	254	**11 997**	9 649
2 – 5 years	**6 365**	4 463	**36**	14	**28 977**	28 374
6 – 10 years	**6 079**	4 955	**154**	136	**8 103**	7 694
11 – 20 years	**12 578**	10 752	**484**	466	**26 860**	26 167
Over 20 years	**32 481**	32 409	**1 730**	1 766	**17 596**	18 956
Total unit liabilities	**61 310**	56 477	**2 632**	2 636	**93 533**	90 840
Non-unit liabilities						
Within 1 year	**527**	470	**(1)**	(1)	**871**	1 073
2 – 5 years	**1 214**	979	**(1)**	(1)	**3 548**	2 831
6 – 10 years	**298**	298	**(1)**	(1)	**5 669**	5 342
11 – 20 years	**34**	95	**(1)**	(1)	**11 610**	10 741
Over 20 years	**1**				**23 430**	21 695
Effect of discounting cash flows	**(412)**	(391)	**3**	2	**(31 620)**	(27 930)
Total non-unit liabilities	**1 662**	1 451	**(1)**	(2)	**13 508**	13 752
Total policyholders liabilities						
Total policyholders liabilities	**62 972**	57 928	**2 631**	2 634	**107 041**	104 592

1.7.3 Cash surrender values

The following table shows the cash surrender value for policyholders' liabilities:

Rm	**2011** Carrying value	**2011** Surrender value	2010 Carrying value	2010 Surrender value
Insurance contracts	**107 041**	**88 762**	104 592	85 257
Investment contracts with DPF	**2 631**	**2 422**	2 634	2 431
Investment contracts	**62 972**	**62 468**	57 928	57 418
Total policyholder liabilities	**172 644**	**153 652**	165 154	145 106

The contractual worst case cash flows for investment contracts, would be an immediate cash flow amounting to the surrender value of investment contracts at the financial position date.

Notes on the company financial statements *(continued)*

for the year ended 31 December 2010

1. Risk disclosures (continued)

1.8 Fair value hierarchy

1.8.1 Asset hierarchy

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. The company adopted the amendments to IFRS 7 with effect from 1 January 2010. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy;

- Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2011					
Assets					
Equity instruments	47 537		860		48 397
Listed ordinary shares on the JSE	47 495				47 495
Foreign equities listed on an exchange other than the JSE	42				42
Unlisted equities			860		860
Debt instruments	25 897	8 254	833		34 984
Preference shares listed on the JSE	1 340				1 340
Unlisted preference shares		879	92		971
Listed term deposits on BESA,JSE or foreign exchanges	24 557				24 557
Unlisted term deposits		7 375	741		8 116
Mutual funds	3 392	55 329	704		59 425
Active market	3 392	55 329			58 721
Property	6	3 367			3 373
Equity	3 370	22 188			25 558
Interest-bearing instruments	16	10 961			10 977
Mixed		18 813			18 813
Non-active market			704		704
Equity			704		704
Investment policies		18 161			18 161
Derivatives		2 555			2 555
Equity		85			85
Foreign exchange		15			15
Interest rate		2 455			2 455
Assets subject to fair value hierarchy analysis	76 826	84 299	2 397		163 522
Assets not subject to fair value hierarchy analysis					
Derivatives collateral deposits					644
Loans				184	184
Reinsurance assets					425
Prepayments, insurance and other receivables					2 292
Loan receivables from joint ventures				4	4
Loan receivables from subsidiares				1	1
Cash and cash equivalents					1 411
Properties					23 025
	76 826	84 299	2 397	189	191 508

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)
1.8 Fair value hierarchy (continued)
1.8.1 Asset hierarchy (continued)

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2010					
Assets					
Equity instruments	52 744		1 008		53 752
Listed ordinary shares on the JSE	52 734				52 734
Foreign equities listed on an exchange other than the JSE	10				10
Unlisted equities			1 008		1 008
Debt instruments	26 250	7 318	981		34 549
Preference shares listed on the JSE	1 382				1 382
Unlisted preference shares		1 693	256		1 949
Listed term deposits on BESA,JSE or foreign exchanges	24 868				24 868
Unlisted term deposits		5 625	725		6 350
Mutual funds	4 025	44 733	666		49 424
Active market	4 025	44 733			48 758
Property		3 829			3 829
Equity	4 005	15 874			19 879
Interest-bearing instruments		13 238			13 238
Mixed	20	11 792			11 812
Non-active market			666		666
Equity			666		666
Investment policies		15 459			15 459
Derivatives		1 556			1 556
Equity		138			138
Interest rate		1 418			1 418
Assets subject to fair value hierarchy analysis	83 019	69 066	2 655		154 740
Assets not subject to fair value hierarchy analysis					
Derivative collateral deposits					423
Loans				177	177
Reinsurance assets					421
Prepayments, insurance and other receivables					2 715
Loan receivables to joint ventures				4	4
Cash and cash equivalents					1 872
Properties					21 388
	83 019	69 066	2 655	181	181 740

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)
1.8 Fair value hierarchy (continued)
1.8.2 Reconciliation of level 3 financial assets

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

	2011 Rm	2010 Rm
Balance at beginning of year	**2 655**	1 700
Fair value adjustment	**268**	156
Additions/advances	**432**	1 426
Disposals/repayments	**(958)**	(627)
Balance at end of year	**2 397**	2 655

R1 993 million (2010: R2 251 million) of the financial instrument assets contained in level 3 are held to match obligations to policyholders and as such any change in measurement would result in a similar adjustment to either policyholder insurance contracts, policyholder investment contracts or policyholder investment contracts with DPF.

Consequently the company's overall profit or loss is not significantly sensitive to the inputs of the models applied to derive fair value.

As the financial instruments intercompany loan assets of R1 million (2010: R nil) are currently interest free and repayable on demand the carrying value cannot be below the demand deposit floor amount at reporting date. Consequently sensitivity analysis on the carrying value of these assets and liabilities is not relevant.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)
1.8 Fair value hierarchy (continued)
1.8.3 Liability hierarchy
The table below analyses the fair value measurements of financial instrument liabilities by level.

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2011					
Investment contract liabilities		**62 944**	**28**		**62 972**
Policyholders		**62 944**			**62 944**
Embedded derivatives			**28**		**28**
Derivatives		**2 532**			**2 532**
Liabilities subject to fair value hierarchy analysis		**65 476**	**28**		**65 504**
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					**107 041**
Investment contracts with DPF					**2 631**
Financial liabilities at amortised cost				**2 054**	**2 054**
Derivative collateral deposit					**240**
Insurance and other payables					**3 920**
		65 476	**28**	**2 054**	**181 390**
2010					
Investment contract liabilities		57 893	35		57 928
Policyholders		57 893			57 893
Embedded derivatives			35		35
Derivatives		1 285			1 285
Liabilities subject to fair value hierarchy analysis		59 178	35		59 213
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					104 592
Investment contracts with DPF					2 634
Financial liabilities at amortised cost				2 054	2 054
Derivative collateral deposit					225
Insurance and other payables					4 256
Loans payables on subsidiaries					11
		59 178	35	2 054	172 985

1.8.4 Reconciliation of level 3 financial liabilities
The table below analyses the movement of level 3 financial instrument liabilities for the year.

	2011 Rm	2010 Rm
Balance at the beginning of the year	**35**	36
Change due to non-economic assumptions	**(4)**	(1)
Change due to economic assumptions	**(3)**	
Balance at the end of the year	**28**	35

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.9 Sensitivity analysis

The company's earnings and available capital are exposed to insurance and market risks amongst others through its insurance and asset management operations. Assumptions are made in respect of the market and insurance risks in the measurement of policyholder liabilities. This section provides sensitivity analyses to changes in some of these variables.

The sensitivities provided cannot simply be extrapolated to determine prospective earnings forecasts and caution is advised to any user doing this. They do, however, provide insight into the impact that changes in these risks can have on policyholder liabilities and attributable profit after taxation.

The upper and lower sensitivities chosen reflect management's best judgement of a reasonably possible change in the respective variable (i.e. management's view is that the actual experience has a 50/50 chance of falling in/out of the range) within a twelve month period from the financial position date. Each range used is broadly based on applying 25% and 75% confidence levels to the relevant historical experience. These ranges are adjusted accordingly for management's views. The sensitivity analysis does not cover extreme or irregular events that may occur.

The table below provides a description of the sensitivities that are provided on insurance risk assumptions.

Insurance risk variables	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the policyholder withdrawal rates prior to maturity
Expense per policy	A level percentage change in the expected maintenance expenses

Sensitivities on expected taxation have not been provided.

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities.

The table below provides a description of the sensitivities provided on market risk assumptions.

Market risk variables	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term equity, property and interest rate option volatility assumptions
Equity price	A change in the local and foreign equity prices
Rand currency	A change in the ZAR exchange rate to all applicable currencies

Sensitivities on long-term expense inflation assumptions have not been provided.

The equity price and rand currency sensitivities are applied as an instantaneous event at the financial position date with no change to long-term market assumptions used in the measurement of policyholder liabilities. In other words, the assets are instantaneously impacted by the sensitivity on the financial position date. The new asset levels are applied to the measurement of policyholder liabilities, where applicable, but no changes are made to the assumptions used in the measurement of policyholder liabilities. The interest rate yield curve and implied option volatilities sensitivities are applied similarly but the assumptions used in the measurement of policyholder liabilities that are dependent on interest rates yield curves and implied option volatilities are updated.

Over a reporting period, assets are expected to earn a return consistent with the long-term assumptions used in the measurement of policyholder liabilities. The instantaneous sensitivities applied at the financial position date show the impacts of deviations from these long-term assumptions (e.g. the increase in the equity price sensitivity shows the impact of assets earning the sensitivity amount in excess of the long-term equity return assumption).

The market sensitivities are applied to all assets held by the company (and not just assets backing the policyholder liabilities).

Each sensitivity is applied in isolation with all other assumptions left unchanged.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.9 Sensitivity analysis (continued)

The table below summarises the impact of the change in the above risk variables on policyholder liabilities and on ordinary shareholders equity and attributable profit after taxation. The market risk sensitivities are net of risk mitigation activities. Consequently the comparability to the previous year is impacted by the level of risk mitigation at the respective financial position date.

Positive numbers represent an increase to policyholders' liabilities and profit after taxation and correspondingly negative numbers indicate a decrease to policyholders' liabilities and profit after taxation.

31 December 2011	Change in variable	Impact on policyholders liabilities	Impact on ordinary shareholders' equity and attributable profit after taxation
Assumption description	%	Rm	Rm
Insurance assumptions			
Mortality			
Assured lives	+2	182	(131)
	-2	(183)	132
Annuitant longevity	+4	101	(73)
	-4	(97)	70
Morbidity	+5	293	(211)
	-5	(294)	212
Withdrawals	+8	288	(207)
	-8	(320)	231
Expense per policy	+5	128	(92)
	-5	(129)	93
Market assumptions			
Interest rate yield curve	+12	(2 041)	(242)
	-12	2 446	185
Option price volatilities	+20	236	(139)
	-20	(210)	121
Equity prices	+15	12 225	791
	-15	(12 120)	(796)
Rand exchange rates	+12[1]	(2 279)	(402)
	-12[2]	2 299	407

[1] *Strengthening of the Rand.*

[2] *Weakening of the Rand.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)
1.9 Sensitivity analysis (continued)

31 December 2010	Change in variable	Impact on policyholders liabilities	Impact on ordinary shareholders' equity and attributable profit after taxation
Assumption description	%	Rm	Rm
Insurance assumptions			
Mortality			
Assured lives	+2	143	(103)
	-2	(143)	103
Annuitant longevity	+4	113	(81)
	-4	(107)	77
Morbidity	+5	248	(178)
	-5	(248)	178
Withdrawals	+8	276	(199)
	-8	(309)	222
Expense per policy	+5	119	(86)
	-5	(119)	86
Market assumptions			
Interest rate yield curve	+12	(1 797)	(270)
	-12	2 174	234
Option price volatilities	+20	168	(106)
	-20	(153)	97
Equity prices	+15	11 447	831
	-15	(11 335)	(871)
Rand exchange rates	+12[1]	(1 667)	(278)
	-12[2]	1 686	282

[1] *Strengthening of the Rand.*
[2] *Weakening of the Rand.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.10 Summary of the company's financial, property and insurance assets and liabilities per class

1.10.1 Assets per class

	Rand denominated		Foreign		Total	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
Equity instruments	**48 355**	52 570	**42**	1 182	**48 397**	53 752
Listed ordinary shares on the JSE	**47 495**	51 562		1 172	**47 495**	52 734
Listed ordinary shares on foreign exchanges			**42**	10	**42**	10
Unlisted	**860**	1 008			**860**	1 008
Debt instruments	**34 380**	34 180	**788**	546	**35 168**	34 726
Listed preference shares on the JSE or foreign exchanges	**1 317**	1 378	**23**	4	**1 340**	1 382
Unlisted preference shares	**971**	1 949			**971**	1 949
Listed term deposits[1] on BESA, or JSE or foreign exchanges	**23 833**	24 326	**724**	542	**24 557**	24 868
Loans	**184**	177			**184**	177
Unlisted term deposits[1]	**8 075**	6 350	**41**		**8 116**	6 350
Mutual funds[2]	**40 930**	34 544	**18 495**	14 880	**59 425**	49 424
Active market	**40 226**	33 878	**18 495**	14 880	**58 721**	48 758
Property	**3 300**	3 757	**73**	72	**3 373**	3 829
Equity instruments	**14 243**	10 341	**11 315**	9 538	**25 558**	19 879
Interest-bearing instruments	**5 987**	10 458	**4 990**	2 780	**10 977**	13 238
Mixed assets classes	**16 696**	9 322	**2 117**	2 490	**18 813**	11 812
Non-active market Equity instruments	**704**	666			**704**	666
Investment policies	**18 161**	15 459			**18 161**	15 459
Interest linked		277				277
Mixed assets classes	**18 161**	15 182			**18 161**	15 182
Reinsurance assets	**425**	421			**425**	421
Derivatives	**2 950**	1 870	**(395)**	(314)	**2 555**	1 556
Derivative collateral deposits	**644**	423			**644**	423
Prepayments, insurance and other receivables	**2 292**	2 715			**2 292**	2 715
Current balances related to						
– Insurance contracts	**242**	230			**242**	230
– Investment contracts	**115**	77			**115**	77
Other prepayments, insurance and other receivables	**1 935**	2 408			**1 935**	2 408
Loan receivables from joint ventures	**4**	4			**4**	4
Loan receivables from subsidiaries	**1**				**1**	
Cash and cash equivalents	**1 411**	1 872			**1 411**	1 872
Property	**23 025**	21 388			**23 025**	21 388
	172 578	165 446	**18 930**	16 294	**191 508**	181 740

[1] *Term deposits include instruments which have a defined maturity date and capital repayment. These instruments are by nature interest bearing at a predetermined rate, which is either fixed or referenced to quoted floating indices.*

[2] *Mutual funds are categorised into either property, equity, 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.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.10 Summary of the company's financial, property and insurance assets and liabilities per class (continued)

1.10.2 Reconciliation of financial asset classes to financial position

	2011 Rm	2010 Rm
Properties	**23 025**	21 388
Owner-occupied properties	**1 539**	1 513
Investment properties	**21 149**	19 553
Operating leases – accrued income	**430**	466
Operating leases – accrued expense	**(93)**	(144)
Interests in subsidiaries – loans receivable	**1**	
Interest in subsidiary mutual funds	**17 766**	12 848
Held-to-maturity financial instruments with joint ventures	**4**	4
Reinsurance assets	**425**	421
Interest in associates	**11 402**	5 374
Financial investments	**131 983**	135 139
Derivative assets	**3 199**	1 979
Prepayments, insurance and other receivables	**2 292**	2 715
Cash and cash equivalents	**1 411**	1 872
Total financial, property and insurance assets	**191 508**	181 740

1.10.3 Liabilities per class

	Policyholder liability class			Total per statement of financial position Rm
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	
2011				
Policyholders liabilities				**172 644**
Unit-linked (excluding discretionary participation features (DPF))	83 956	61 614		145 570
Business with DPF	14 740		2 631	17 371
Non-participating annuities (including disability income in claim)	11 276	1 330		12 606
Guaranteed capital endowments	63			63
Retail pure risk (excluding disability income annuities in claim)	(4 766)			(4 766)
Group risk (excluding group disability income annuities in claim)	183			183
Embedded derivatives	1 589	28		1 617
Financial liabilities at amortised cost				2 054
Derivatives				2 532
Derivative collateral deposits				240
Insurance and other payables				3 920
Current balance related to insurance contracts				2 117
Current balance related to investment contracts				68
Other				1 735
	107 041	62 972	2 631	181 390

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

1. Risk disclosures (continued)

1.10 Summary of the company's financial, property and insurance assets and liabilities per class (continued)

1.10.3 Liabilities per class (continued)

	Policyholder liability class			Total per statement of financial position Rm
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	
2010				
Policyholders liabilities				165 154
Unit-linked (excluding discretionary participation features (DPF))	80 009	56 777		136 786
Business with DPF	15 427		2 634	18 061
Non-participating annuities (including disability income in claim)	11 014	1 116		12 130
Guaranteed capital endowments	242			242
Retail pure risk (excluding disability income annuities in claim)	(3 854)			(3 854)
Group risk (excluding group disability income annuities in claim)	150			150
Embedded derivatives	1 604	35		1 639
Financial liabilities at amortised cost				2 054
Derivatives				1 285
Derivative collateral deposits				225
Insurance and other payables				4 256
Current balance related to insurance contracts				2 277
Current balance related to investment contracts				105
Other				1 874
Loan payables to subsidiaries				11
	104 592	57 928	2 634	172 985

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

2. Segment information

The segment information is primarily presented by two revenue generating service areas, namely Retail long-term insurance and Corporate long-term insurance. Additional information on product classifications within the long-term insurance segment is provided. No geographical analysis is provided as both revenue generating service areas fall within South Africa.

The company accounts for inter-segment revenues and transfers as if the transactions were with third parties. Given the nature of the operations there is no single external customer that provides 10% or more of the company's revenues.

The profit or loss information follows a similar format to the statement of comprehensive income. The company's revenue generating business units are structured into two business unit clusters, each headed up by a chief executive, who reports directly to the group's chief executive. These executives, along with the group's financial director, head of LibFin, and the group's executive-strategic services, are considered to be the chief operating decision makers within the group and company. The group utilises additional measures to assess the performance of each of the segments, which can be found in the chief executive's report, financial review and business unit reviews in Liberty Holdings Limited annual report and include measures such as indexed new business, new business margin, net cash flows, assets under management and embedded value.

Definitions

Long-term insurance

Products and services sold in terms of the Long-term Insurance Act. These products and services are split between retail and corporate customers.

Retail

Products aimed at individuals that provide wealth creation, particularly through retirement savings, and wealth protection through health, life and disability insurance.

Product categories:

(a) Pure risk — Contracts that only provide insurable risk benefits in the event of death, sickness or disability.

(b) Investment and risk — Contracts that offer a combination of savings and risk benefits. These include products that offer a prescribed monetary benefit over a contractually determined period.

Corporate

Risk and retirement savings products under the umbrella of group schemes marketed to employers who provide those benefits to their employees.

Product categories:

(a) Risk — Insurable risk benefits such as life and disability.

(b) Investment — Facilitation of employee savings for retirement.

Other

Other includes:

Investment portfolios — Shareholder capital, not allocated to the other operating segments, specifically invested to maximise the investment yield within the group's risk appetite and company regulatory requirements.

Central costs — Costs associated with the group's central administration and shareholder services, including certain corporate social investment and black empowerment activities, that are attributed to the company on the basis described in note 37 B.1 on the company financial statements on page 105.

Reporting adjustments

The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

2. Segment information (continued)
Segment earnings for the year ended 31 December 2011:

Rm	Long-term insurance Retail	Corporate	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	19 074	6 437		25 511	(10 988)	14 523
Service fee income from policyholder investment contracts					824	824
Investment returns	11 287	2 974	922	15 183	(606)	14 577
Distribution of profits from subsidiaries – unincorporated property partnerships					418	418
Defined benefit pension fund employer surplus			(4)	(4)		(4)
Total revenue	30 361	9 411	918	40 690	(10 352)	30 338
Net claims and policyholder benefits	(17 530)	(7 372)		(24 902)	9 333	(15 569)
Change in policyholder liabilities	(6 352)	(1 147)		(7 499)	5 057	(2 442)
Fair value adjustment to policyholder liabilities under investment contracts					(4 226)	(4 226)
Acquisition costs	(1 517)	(193)		(1 710)		(1 710)
Marketing and administration expenses	(2 629)	(655)	(294)	(3 578)	188	(3 390)
Finance costs	(33)		(179)	(212)		(212)
Profit before taxation	2 300	44	445	2 789		2 789
Taxation	(1 061)	31	83	(947)		(947)
Total earnings	1 239	75	528	1 842		1 842
Other comprehensive income						
Owner-occupied properties – fair value adjustment	105	10		115		115
Net change in fair value on cash flow hedges	15			15		15
Income and capital gains tax relating to:						
– owner-occupied properties	(37)	(4)		(41)		(41)
– net change in fair value on cash flow hedges	(4)			(4)		(4)
Total comprehensive income	1 318	81	528	1 927		1 927

[1] *Reporting adjustments include the distribution of profits from subsidiaries, the consolidation of unincorporated property partnerships and the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

2. Segment information (continued)
Segment earnings for the year ended 31 December 2010:

Rm	Long-term insurance Retail	Corporate	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	17 705	5 755		23 460	(9 539)	13 921
Service fee income from policyholder investment contracts					797	797
Investment returns	15 504	4 812	782	21 098	(605)	20 493
Fee revenue			15	15		15
Distribution of profits from subsidiaries – unincorporated property partnerships					441	441
Other[2]	269	(269)	11	11		11
Total revenue	33 478	10 298	808	44 584	(8 906)	35 678
Net claims and policyholder benefits	(17 250)	(7 500)		(24 750)	9 353	(15 397)
Change in policyholder liabilities	(10 050)	(1 765)		(11 815)	5 852	(5 963)
Fair value adjustment to policyholder liabilities under investment contracts					(6 463)	(6 463)
Acquisition costs	(1 541)	(172)		(1 713)		(1 713)
Marketing and administration expenses	(2 364)	(625)	(341)	(3 330)	164	(3 166)
Finance costs	(17)		(179)	(196)		(196)
Profit before taxation	2 256	236	288	2 780		2 780
Taxation	(1 121)	(66)	(2)	(1 189)		(1 189)
Total earnings	1 135	170	286	1 591		1 591
Other comprehensive loss						
Owner-occupied properties – fair value adjustment	(90)	(9)		(99)		(99)
Income and capital gains tax relating to owner-occupied properties	28	3		31		31
Total comprehensive income	1 073	164	286	1 523		1 523

[1] *Reporting adjustments include the distribution of profits from subsidiaries, the consolidation of unincorporated property partnerships and the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products.*

[2] *Other comprises a transfer of policies from Corporate to Retail as well as additional defined benefit pension fund employer surplus.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

2. Segment information (continued)
Analysis of long-term insurance earnings by product classification

Rm	Retail Pure risk	Retail Investment and risk	Corporate Risk	Corporate Investment	Total
For year ended 31 December 2011					
Policyholder premiums	3 121	15 953	697	5 740	25 511
Investment returns	(473)	11 760	166	2 808	14 261
Total revenue	2 648	27 713	863	8 548	39 772
Net claims and policyholder benefits	(1 190)	(16 340)	(549)	(6 823)	(24 902)
Change in policyholder liabilities	817	(7 169)	(65)	(1 082)	(7 499)
Acquisition costs	(905)	(612)		(193)	(1 710)
Marketing and administration expenses	(611)	(2 018)	(51)	(604)	(3 284)
Finance costs		(33)			(33)
Profit/(loss) before taxation	759	1 541	198	(154)	2 344
Total per operating segment		2 300		44	2 344
For year ended 31 December 2010					
Policyholder premiums	2 783	14 922	659	5 096	23 460
Investment returns	(522)	16 026	217	4 595	20 316
Other		269		(269)	
Total revenue	2 261	31 217	876	9 422	43 776
Net claims and policyholder benefits	(1 063)	(16 187)	(477)	(7 023)	(24 750)
Change in policyholder liabilities	487	(10 537)	(115)	(1 650)	(11 815)
Acquisition costs	(916)	(625)	1	(173)	(1 713)
Marketing and administration expenses	(540)	(1 824)	(52)	(573)	(2 989)
Finance costs		(17)			(17)
Profit before taxation	229	2 027	233	3	2 492
Total per operating segment		2 256		236	2 492

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

2. Segment information (continued)
Other financial detail by operating segment

Rm	Long-term insurance Retail	Corporate	Other	IFRS reported
2011				
Total assets	133 426	39 218	23 325	195 969
Additions to non-current assets	683	69	104	856
Interest in joint ventures	58	6	32	96
Interest income	3 123	823	87	4 033
Depreciation			(175)	(175)
Amortisation of PVIF		(15)		(15)
Amortisation of computer software internally generated			(3)	(3)
Amortisation of deferred acquisition costs	(33)	(160)		(193)
Release of deferred revenue	15			15
2010				
Total assets	127 076	38 078	21 120	186 274
Additions to non-current assets	880	92	326	1 298
Interest in joint ventures	58	6	26	90
Interest income	3 019	937	34	3 990
Depreciation			(174)	(174)
Amortisation of PVIF		(15)		(15)
Amortisation of computer software internally generated			(4)	(4)
Amortisation of deferred acquisition costs	(32)	(150)		(182)
Release of deferred revenue	13			13

	2011 Rm	2010 Rm
3. Equipment and owner-occupied properties under development		
Cost at the beginning of the year	1 925	2 074
Additions	91	271
Disposals	(74)	(73)
Transfers to owner-occupied properties		(347)
Cost at the end of the year	1 942	1 925
Accumulated depreciation and impairment at the beginning of the year	(1 166)	(1 058)
Depreciation	(175)	(174)
Disposals	65	66
Accumulated depreciation and impairment at the end of the year	(1 276)	(1 166)
Net carrying amount at the end of the year	666	759

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	Balance at the beginning of the year Rm	Additions Rm	Dis-posals Rm	Depre-ciation Rm	Transfers Rm	Balance at the end of the year Rm	Net book value Rm
3. Equipment and owner-occupied properties under development (continued)							
2011							
Cost – movement							
Computer equipment	**840**	**50**	**(41)**			**849**	**167**
Purchased computer software	**102**	**2**				**104**	**22**
Fixtures, furniture and fittings	**811**	**23**	**(16)**			**818**	**404**
Office equipment	**107**	**5**	**(5)**			**107**	**45**
Motor vehicles	**65**	**11**	**(12)**			**64**	**28**
	1 925	**91**	**(74)**			**1 942**	**666**
Accumulated depreciation and impairment – movement							
Computer equipment	**(648)**		**40**	**(74)**		**(682)**	
Purchased computer software	**(69)**			**(13)**		**(82)**	
Fixtures, furniture and fittings	**(357)**		**13**	**(70)**		**(414)**	
Office equipment and office machines	**(57)**		**2**	**(7)**		**(62)**	
Motor vehicles	**(35)**		**10**	**(11)**		**(36)**	
	(1 166)		**65**	**(175)**		**(1 276)**	
2010							
Cost – movement							
Properties under development[1]	347				(347)		
Computer equipment	799	67	(26)			840	192
Purchased computer software	80	22				102	33
Fixtures, furniture and fittings	685	160	(34)			811	454
Office equipment	96	13	(2)			107	50
Motor vehicles	67	9	(11)			65	30
	2 074	271	(73)		(347)	1 925	759
Accumulated depreciation and impairment – movement							
Computer equipment	(593)		20	(75)		(648)	
Purchased computer software	(55)			(14)		(69)	
Fixtures, furniture and fittings	(326)		35	(66)		(357)	
Office equipment and office machines	(52)		2	(7)		(57)	
Motor vehicles	(32)		9	(12)		(35)	
	(1 058)		66	(174)		(1 166)	

[1] *No depreciation is provided for on properties under development.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
4. Owner-occupied properties		
Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.		
Fair value at the beginning of the year	**1 513**	1 345
Additions – capitalised subsequent expenditure	**4**	7
Revaluations	**115**	(99)
Transfer from properties under development		347
Reclassifications to investment properties	**(93)**	(87)
Fair value at the end the of the year	**1 539**	1 513
Cost at the beginning of the year	**787**	576
Additions – capitalised subsequent expenditure	**4**	7
Transfer from properties under development		347
Reclassifications to investment properties	**(71)**	(143)
Cost at the end of the year	**720**	787
Accumulated depreciation at the beginning and end of the year[1]	**(57)**	(57)
Cost less accumulated depreciation	**663**	730

[1] *No depreciation was provided in 2011 or 2010 as the residual value of the building is equal or greater than the cost less accumulated depreciation.*

The valuation of owner-occupied properties and investment properties has been carried out by Ian Mitchell Investment Property Consultants CC (Chartered Valuation Surveyor – Professional Valuer) and Asset Valuation Services CC (Professional Associate Valuer) as at 31 December 2011.

The valuation is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors, adapted for South African law and conditions. The valuation assumes that there will be no change in the social, economic or political circumstances between the date of the valuation and the financial year-end of the company.

The basis of value is "market value" which is defined as an opinion of the best price at which the sale of an interest in property, taking into account existing tenant lease terms, would have been completed unconditionally for a cash consideration on the date of valuation assuming:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as at the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used and summed together with the capitalised and discounted value of the projected income to give present value as at 31 December 2011. In order to determine the reversionary rental income on lease expiry, renewal or review a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2011. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

4. Owner-occupied properties (continued)

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, regard to the current long-term bond yield (R204 risk free rate) and the relative attractiveness that an investor may place on property as an asset class.

Primary discount rates range from 7,25% to 11,75% (2010: 7,25% to 12,0%) on a property by property basis. Exit capitalisation rates generally range from 7,25% to 11,75% (2010: 7,25% to 12,0%).

On the basis that turnover or profit rental income has a greater degree of uncertainty and risk than the contractual base rental, a risk premium of between 1% and 6% has been added to the discount rate and to the exit capitalisation rate, to reflect the greater investment risk associated with the variable rental element on a property by property basis.

	2011 Rm	2010 Rm
5. Investment properties		
Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.		
Fair value at the beginning of the year	**19 553**	17 370
Revaluations net of lease straight-lining	**755**	1 141
Revaluations	**770**	1 148
Net movement on straight-lining operating leases	**(15)**	(7)
Additions – capitalised subsequent expenditure	**748**	965
Disposals		(10)
Reclassifications from owner-occupied properties	**93**	87
Fair value at the end of the year	**21 149**	19 553
At the end of the year investment properties comprised the following property types:		
Office buildings	**1 197**	1 137
Shopping malls	**17 337**	15 954
Hotels	**2 536**	2 392
Other	**416**	392
Total investment properties	**21 486**	19 875
Investment properties at fair value	**21 149**	19 553
Operating leases – accrued income	**430**	466
Operating leases – accrued expense	**(93)**	(144)

The investment properties were independently valued as at 31 December 2011 by Mr I Mitchell and Asset Valuation Services CC, who are both registered as professional valuers with the South African Council for the Property Valuers Profession as well as members of the Institute of Valuers of South Africa. The method of valuation is more fully described in note 4, owner-occupied properties.

At 31 December 2011 and 2010 unlet space amounted to 7,2% (2010: 4,2%) of available lease area in the investment properties held by the company. The average net rental growth is 6,9% (2010: 13,2%).

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, amounted to R1 058 million (2010: R902 million). Direct operating expenses arising on the investment property amounted to R481 million (2010: R404 million).

Critical accounting estimates and judgements

A key input to the models that derive the fair value of properties is the capitalisation rate. The combined fair value at 31 December 2011 of owner occupied properties (R1 539 million) and investment properties (R21 486 million) is R23 025 million (2010: R21 388 million). A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R3,6 billion (2010: R3,1 billion) if the assumption decreased, and decrease the total fair value by R2,7 billion (2010: R2,5 billion) if the assumption increased.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
6. Intangible assets		
Cost at the beginning of the year	**452**	402
Additions	**7**	50
Cost at the end of the year	**459**	452
Accumulated amortisation and impairment at the beginning of the year	**(368)**	(349)
Amortisation	**(18)**	(19)
Accumulated amortisation at the end of the year	**(386)**	(368)
Net carrying amount at the end of the year	**73**	84
Summary of net carrying value		
Computer software – internally generated	**54**	50
Present value of in-force policyholder contracts[1]	**19**	34

	Balance at beginning of year Rm	Additions Rm	Amortisation Rm	Balance at end of year Rm	Amortisation period
2011					
Cost – movement					
Computer software – internally generated	**263**	**7**		**270**	
Present value of in-force policyholder contracts[1]	**189**			**189**	
	452	**7**		**459**	
Accumulated amortisation and impairment movement					
Computer software – internally generated	**(213)**		**(3)**	**(216)**	**Up to 7 years**
Present value of in-force policyholder contracts[1]	**(155)**		**(15)**	**(170)**	**Up to 10 years**
	(368)		**(18)**	**(386)**	
2010					
Cost – movement					
Computer software – internally generated	213	50		263	
Present value of in-force policyholder contracts[1]	189			189	
	402	50		452	
Accumulated amortisation and impairment movement					
Computer software – internally generated	(209)		(4)	(213)	Up to 5 years
Present value of in-force policyholder contracts[1]	(140)		(15)	(155)	Up to 10 years
	(349)		(19)	(368)	

[1] *Represents the present value (at acquisition date) of future profits before taxation, on policyholder contracts acquired from business combinations, less amortisations. No internally generated value of in-force has been recognised, since it does not meet the recognition criteria in IAS 38.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
7. Deferred acquisition costs		
Balance at the beginning of the year	**360**	332
Cost of new business acquired	**219**	210
Amortisation realised through profit or loss	**(193)**	(182)
Balance at the end of the year	**386**	360
Current	**121**	117
Non-current	**265**	243
Deferred acquisition costs are amounts incurred on acquiring policyholder investment contracts. They are amortised to income over the contract period.		
8. Interests in subsidiaries		
8.1 Summary		
Shares at cost	**3 349**	3 318
Intergroup balances	**1**	(11)
Impairment provision	**(397)**	(408)
Total interests in subsidiaries	**2 953**	2 899
8.2 Movement analysis		
Shares at cost		
Shares at cost at the beginning of the year	**3 318**	5 036
Write off of impairment provision	**(11)**	(16)
Capital reduction and dividends in specie	**(17)**	(1 855)
Disposals	**(8)**	
Increase of capital	**67**	153
Shares at cost at the end of the year	**3 349**	3 318
Intergroup balances		
Intergroup balances at the beginning of the year	**(11)**	953
Write off of impairment provision		(123)
Advances	**12**	7
Repayments		(848)
Intergroup balances at the end of the year	**1**	(11)
Impairment provision		
Impairment provision at the beginning of the year	**(408)**	(550)
Impairment reversal/(charge) through profit or loss		3
Utilisation of provision to subsidiary cost/intergroup balances	**11**	139
Impairment provision at the end of the year	**(397)**	(408)

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	Amount of issued share capital	Percentage of issued share capital		Shares at cost		Intergroup balances[(1)]		Impairment provision	
	2011	**2011 %**	2010 %	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
8. Interests in subsidiaries (continued)									
8.3 Subsidiaries (unlisted) – directly owned				**3 349**	3 318	**1**	(11)	**(397)**	(408)
Long-term insurance									
Capital Alliance Life Limited	**R896 163 703**	**100**	100	**2 917**	2 917			**(397)**	(397)
Frank Life Limited	**R35 653 172**	**100**	100	**35**	23				
Liberty Active Limited	**R193 001 192**	**100**	100	**193**	193		1		
Liberty Life Assurance Uganda Limited	**Shs1 000 000 000**	**51**	51	**5**	5				
Liberty Life Botswana (Proprietary) Limited	**P8 178 870**		100		10				(2)
Liberty Life Swaziland Limited	**E10 000 000**	**100**	100	**10**	10	**1**	1		
Investment holding									
LPH Properties Limited	**R869 083**	**100**	100	**1**	1	**(5)**	(5)		
Social responsibility									
The Liberty Life Educational Foundation	**n/a**	**100**	100						
Other									
General Staff Scheme Share Trust [2004 General staff scheme]	**n/a**	**100**	100						
Frank Financial Services (Proprietary) Limited [*Marketing and administration services]*	**R185 380 709**	**100**	100	**185**	130	**5**	3		
Liberty Private Fund Administrators (Proprietary) Limited *[Fund administrators]*	**R100**	**100**	100						
Dormant									
North City Brokers Limited	**R40 000**	**100**	100						
Cape Hotels Share Block (Proprietary) Limited	**R2**	**100**	100						
Sandton Hotels (Proprietary) Limited	**R1 000**	**100**	100						
Standard Insurance Limited (Swaziland)	**E2 500 000**	**100**	100	**3**	3				
Wedelin Investments[1] (Proprietary) Limited			100		26		(11)		(9)
Liberty Hotels (Proprietary) Limited	**R1**	**100**	100						

[(1)] *All subsidiary loans are at fair value and have no specific repayment terms but are repayable on demand and are interest free.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	Percentage share of partnership	
	2011	2010
	%	%
8. Interests in subsidiaries (continued)		
Unincorporated property partnerships		
Offices and shopping centres		
Alberton City	**64,3**	64,3
Sandton City	**75,0**	75,0
Sandton Convention Centre	**60,0**	60,0
Hotel operations		
Sandton Sun and Towers	**75,0**	75,0
Garden Court Sandton City	**75,0**	75,0

Liberty Group Limited, indirectly, has interests in a number of other subsidiaries. The directors are of the opinion that to publish the full information would not be of further assistance to shareholders in obtaining a meaningful appreciation of the state of the company's affairs. A register detailing such information in respect of all subsidiaries of Liberty Group Limited will be available for inspection by members or their duly authorised agents at the company's registered office.

The interest of the company for the year in the taxed profits of its subsidiaries was R562 million (2010: R570 million) and in the losses was R66 million (2010: R47 million).

	Participation rights in total issued units		Units held at fair value	
	2011	2010	**2011**	2010
	%	%	**Rm**	Rm
9. Interests in subsidiaries – mutual funds				
STANLIB Funds Limited	**57**	56	**12 013**	9 938
STANLIB ETF Swix Fund	**92**		**2 030**	
STANLIB Multi-Manager Property Fund	**53**	52	**917**	865
STANLIB Multi-Manager Flexible Property Fund	**53**	52	**769**	732
Ermitage Global Wealth Management Strategies Limited	**60**		**438**	
Ermitage Global Long/Short Fund	**96**	96	**398**	473
Ermitage ETF Top 40 Fund	**60**		**366**	
Ermitage Asset Selection Fund	**72**	76	**316**	515
Ermitage Distressed and Event Driven Fund	**93**	95	**199**	325
STANLIB Shariah Equity Fund	**54**		**141**	
Ermitage Global Multi Strategy Fund	**60**		**109**	
Standard Global Emerging Markets Property Fund	**100**		**70**	
Total interests in subsidiary mutual funds			**17 766**	12 848

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
10. Interests in joint ventures		
10.1 Summary		
Equity loans and ordinary shares at cost	**106**	100
Held-to-maturity financial instruments[(1)]	**4**	4
Impairment provision	**(14)**	(14)
Total interests in joint ventures	**96**	90
10.2 Movement analysis		
Equity loans and ordinary shares at cost		
Balance at the beginning of the year	**100**	142
Acquisition of Total Health Trust Limited ordinary shares[(2)]	**6**	5
Disposal of Fountainhead and Evening Star ordinary shares[(3) (4)]		(47)
Balance at the end of the year	**106**	100
Held-to-maturity financial instruments[(1)]		
Balance at the beginning of the year	**4**	149
Reclassification of Evening Star loan		(145)
Balance at the end of the year	**4**	4
Impairment provision		
Balance at the beginning of the year	**(14)**	
Impairment charge recognised in profit or loss		(14)
Balance at the end of the year	**(14)**	(14)

(1) *Held-to-maturity financial instruments comprise:*
R4 million (2010: R4 million) on demand interest free loan receivable extended to The Financial Services Exchange (Proprietary) Limited.

(2) *On 1 February 2009, Liberty acquired a 35,3% equity stake in Total Health Trust Limited which is registered and conducts health risk-related services in Nigeria. With effect from 1 January 2010 and 1 January 2011, two further 5,0% equity stakes were acquired bringing the total ownership to 40,3% and 45,3% respectively.*

(3) *On 1 January 2010, Liberty reclassified the R145 million variable interest bearing (2011 and 2010: 10,08%) loan receivable, extended to Evening Star 768 (Proprietary) Limited, to loans with other parties. The loan has no set terms of repayment and accrued interest is paid at least annually.*
The fair value of the loan receivable is nil (2010: nil) and is long term in nature.

(4) *On 1 January 2010, Liberty disposed of its ordinary shares in Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited to Liberty Holdings Limited.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

10. Interests in joint ventures (continued)

	Percentage ownership		Equity loans and shares held at cost		Held-to-maturity financial instruments[1]		Impairment		Total interest	
	2011 %	2010 %	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
Principal joint ventures – unlisted										
The Financial Services Exchange (Proprietary) Limited *(financial verification and technology service provider)*	**33,3**	33,3			**4**	4			**4**	4
The Cullinan Hotel (Proprietary Limited) *(hotel developer and manager)*	**50,0**	50,0	**64**	64					**64**	64
Total Health Trust Limited[2] *(health risk services organisation)*	**45,3**	40,3	**42**	36			**(14)**	(14)	**28**	22
Total			**106**	100	**4**	4	**(14)**	(14)	**96**	90

	2011 Rm	2010 Rm
Statement of financial position extracts[5]		
Non-current assets	**375**	377
Current assets	**70**	62
Current liabilities	**(44)**	(42)
Statement of comprehensive income extracts[5]		
Income	**129**	164
Expenses	**(121)**	(121)
Commitments[5]		
Capital commitments – authorised by directors but not contracted	**12**	7
Investment properties	**5**	
Equipment	**7**	7

[5] *Represents the company's proportionate share in the joint ventures.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
11. Interest in associates – mutual funds		
Fair value of associates held at fair value through profit or loss	**11 402**	5 374
Summarised financial information of associates:		
Total investments	**31 170**	16 049
Current assets	**7 066**	509
Current liabilities	**(36)**	(375)
Total revenue[1][2]	**1 841**	587

[1] *Total revenue is defined as interest, dividend and sundry income.*
[2] *Units or shares held in mutual funds are by their nature demand deposits and are held at fair value. The net income or loss is capitalised to unit values within each fund and consequently there is no net profit or loss. Increase in net assets as a result of operations represents total income less expenses before any distributions or capitalisation.*

As at 31 December, the company's associates and percentages held were as follows:

Name	Percentage of participation rights in total issued units		Fair value	
	2011 %	2010 %	**2011 Rm**	2010 Rm
Standard Bank Institutional Money Market Fund	**30**		**5 604**	
STANLIB Institutional Property Fund[1]	**39**		**808**	
STANLIB Value Fund	**48**	42	**684**	691
STANLIB Multi Manager Equity Fund	**40**	39	**627**	691
STANLIB Balanced Fund[2]	**22**		**469**	
STANLIB Aggressive Income Fund	**28**	27	**369**	245
STANLIB Balanced Cautionary Fund	**22**		**284**	
STANLIB Multi-Manager Low Equity Fund of Funds	**27**	31	**268**	330
STANLIB Multi-Manager Real Return Feeder Fund	**22**	39	**265**	278
Ermitage Money Market Funds	**24**	35	**263**	253
STANLIB Moderately Conservative Fund of Funds	**36**	37	**252**	214
Synergy Income Fund Limited	**47**		**247**	
STANLIB Global Equity Feeder Fund[3]	**25**		**206**	
STANLIB Multi-Manager Medium Equity Fund of Funds	**25**	28	**169**	195
STANLIB Managed Flexible Fund	**26**	30	**168**	270
STANLIB Resources Fund	**23**	24	**151**	175
STANLIB Moderate Fund of Funds	**28**	28	**143**	136
STANLIB Global Property Feeder Fund[4]	**34**	35	**91**	89
Oasis Balanced Fund	**26**		**90**	
STANLIB Quants Funds	**49**	50	**76**	94
STANLIB Small Cap Fund	**33**	32	**58**	64
STANLIB Multi-Manager All Stars Equity Fund of Funds	**21**		**58**	
STANLIB Nationbuilder Fund	**25**	25	**52**	70
Emitage Global Multi Strategy Fund[5]		49		107
Emitage Global Wealth Management Services[5]		41		453
STANLIB Balanced Fund[6]		24		369
STANLIB ALSI 40 Fund[6]		22		172
STANLIB Conservative Fund of Funds[6]		21		131
STANLIB Multi-Manager Income Feeder Fund[6]		37		124
STANLIB Shariah Equity Fund[5]		49		122
STANLIB Dynamic Return Fund[6]		31		101
Total interest in associates			**11 402**	5 374

[1] *Defined as a subsidiary in the prior year due to percentage of participation rights exceeding 50%.*
[2] *Previously known as STANLIB Stability Fund.*
[3] *Previously knows as STANLIB International Equity Fund of Funds.*
[4] *Previously known as STANLIB International Property Fund.*
[5] *Defined as a subsidiary in the current year due to percentage of participation rights exceeding 50%.*
[6] *This interest is no longer disclosed as an associate as the percentage ownership during the year was less than 20%.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
12. Financial investments and derivative assets and liabilities		
12.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market		
Listed	74 182	83 020
Equities	47 537	52 744
Preference shares	1 340	1 382
Commercial term deposits	8 374	8 334
Mututal funds	748	4 026
Government, municipal and utility stocks	16 183	16 534
Unlisted	37 625	33 526
Commercial term deposits	8 116	6 349
Mutual funds	29 509	27 176
Government, municipal and utility stocks		1
Unquoted and unlisted	19 992	18 416
Equities	860	1 008
Preference shares	971	1 949
Investment policies	18 161	15 459
Loans and receivables		
Loans[1]	184	177
Total financial investments	131 983	135 139
12.2 Derivative assets and liabilities:		
Assets:		
Held for trading	3 186	1 979
Derivatives	2 542	1 556
Collateral deposits	644	423
Held for hedging		
Cash flow hedge assets	13	
	3 199	1 979
Liabilities:		
Held for trading	2 761	1 510
Derivatives	2 521	1 285
Collateral deposits	240	225
Held for hedging		
Derivatives	11	
	2 772	1 510

[1] *The fair value of loans is R168 million (2010: R177 million).*

Notes on the company financial statements *(continued)*

for the year ended 31 December 2011

12. Financial investments and derivative assets and liabilities (continued)

12.3 Movement analysis:

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
2011					
Balance at the beginning of the year		469	153 184	177	153 830
Financial investments			134 962	177	135 139
Held for trading assets		1 979			1 979
Held for trading liabilities		(1 510)			(1 510)
Interests in associates – mutual funds			5 374		5 374
Interest in subsidiaries – mutual funds			12 848		12 848
Redesignated as derivatives held for hedging	84	(84)			
Additions (purchasings and issuings)	18	1 175	117 615	30	118 838
Disposals (sales and redemptions)	(26)	(773)	(116 183)		(116 982)
Accrued interest		13		14	27
Repayments				(37)	(37)
Fair value adjustments – total earnings	(89)	(375)	6 351		5 887
Derivative assets	(52)	2 384			
Derivative liabilities	(37)	(2 759)			
Fair value adjustments – other comprehensive income	15				15
Derivative assets	11				
Derivative liabilities	4				
Balance at the end of the year	2	425	160 967	184	161 578
Financial investments			131 799	184	131 983
Held for trading assets		3 186			3 186
Held for trading liabilities		(2 761)			(2 761)
Held for heding assets	13				13
Held for hedging liabilities	(11)				(11)
Interest in associates – mutual funds			11 402		11 402
Interest in subsidiaries – mutual funds			17 766		17 766
2010					
Balance at the beginning of the year		354	140 493	187	141 034
Financial investments			119 685	187	119 872
Held for trading assets		409			409
Held for trading liabilities		(55)			(55)
Pledged assets			1 559		1 559
Interests in associates – mutual funds			4 373		4 373
Interest in subsidiaries – mutual funds			14 876		14 876
Additions (purchasings and issuings)		1 296	105 422	17	106 735
Impairment				(6)	(6)
Disposals (sales and redemptions)		(419)	(106 209)		(106 628)
Accrued interest		107	753	19	879
Repayments				(40)	(40)
Fair value adjustments		(869)	12 725		11 856
Derivative assets		1 064			
Derivative liabilities		(1 933)			
Balance at the end of the year		469	153 184	177	153 830
Financial investments			134 962	177	135 139
Held for trading assets		1 979			1 979
Held for trading liabilities		(1 510)			(1 510)
Interest in associates – mutual funds			5 374		5 374
Interest in subsidiaries – mutual funds			12 848		12 848

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
12. Financial investments (continued)		
12.4 Maturity profile of commercial term deposits, government, municipal and utility stocks and loans:		
Less than 1 year	**3 399**	2 069
1 – 5 years	**7 716**	7 192
5 – 10 years	**11 055**	7 304
10 – 20 years	**7 927**	8 934
Over 20 years	**2 576**	5 719
Open ended[1]	**184**	177
Total	**32 857**	31 395

There is no maturity profile for listed and unlisted equities and other non-term instruments as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

Details of listed and unlisted investments are recorded in registers which may be inspected by members or their duly authorised agents at the company's registered office.

[1] *Open ended represent loans which are secured against policyholder contracts and the maturity profile is not determinable as the holder has the option to settle at any time prior to the contract maturity date.*

2011	Gross value Rm	Income taxation Rm	Net value Rm
12.5 Cash flow hedging reserve			
Release in accordance with cash flows	**(84)**	**24**	**(60)**
Deferral of fair value adjustments on designated derivatives	**99**	**(28)**	**71**
Balance at the end of the year	**15**	**(4)**	**11**

	2011 Rm	2010 Rm
13. Prepayments, insurance and other receivables		
Current balances related to insurance contracts	**242**	230
Outstanding premium receivables	**59**	40
Reinsurance recoveries	**183**	190
Current balances related to investment contracts		
Outstanding premium receivables	**115**	77
Current balances related to insurance and investment contracts	**357**	307
Accrued income	**21**	26
Investment debtors	**173**	288
Loans and current accounts	**1 269**	1 593
Agents, brokers and intermediaries	**59**	38
Other debtors	**413**	463
Total prepayments, insurance and other receivables[1]	**2 292**	2 715

[1] *All inflows of economic benefits are expected to occur within one year.*

	2011 Rm	2010 Rm
14. Cash and cash equivalents		
Cash at bank and at hand	**132**	36
Short-term cash deposits	**1 279**	1 836
Total cash and cash equivalents	**1 411**	1 872

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011			2010		
	Insurance contracts Rm	Investment contracts with DPF[1] Rm	Reinsurance assets Rm	Insurance contracts Rm	Investment contracts with DPF[1] Rm	Reinsurance assets Rm
15. Policyholders liabilities						
Balance at the beginning of the year	104 592	2 634	(421)	98 567	2 692	(417)
Inflows	24 262	495	(606)	27 430	446	(497)
Insurance premiums	14 761	334	(572)	14 250	184	(513)
Investment returns	9 501	161	(34)	13 180	262	16
Unwinding of discount rate	5		(34)	6		(39)
Investments	9 496	161		13 174	262	55
Outflows	(20 421)	(485)	455	(20 184)	(484)	454
Claims and policyholders' benefits	(15 518)	(447)	396	(15 380)	(448)	431
Claims and policyholders' benefits under insurance contracts	(15 518)	(208)	396	(15 380)	(322)	431
Switches between investment with DPF to investment without DPF		(239)			(126)	
Acquisition costs associated with insurance contracts	(1 505)	(10)		(1 562)	(6)	
Finance costs	(21)			(10)		
General marketing and administration expenses	(2 315)	(23)		(2 119)	(23)	
Taxation	(1 062)	(5)	59	(1 113)	(7)	23
Net income from insurance operations	(1 392)	(13)	147	(1 221)	(20)	39
Changes in estimates	(298)		(5)	(29)		(20)
Planned margins and other variances	(1 413)	(18)	211	(1 504)	(27)	82
New business	(245)			(267)		
Shareholder taxation on transfer of net income	564	5	(59)	579	7	(23)
Balance at the end of the year	107 041	2 631	(425)	104 592	2 634	(421)
Current	12 868	227	(74)	10 722	253	(63)
Non-current	94 173	2 404	(351)	93 870	2 381	(358)

[1] *The company cannot reliably measure the fair value of the investment contracts with discretionary participation features (DPF). The DPF is a contractual right that gives investors in these contracts the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund. These supplementary returns are subject to the discretion of the company.*

Notes on the company financial statements *(continued)*

for the year ended 31 December 2011

15. Policyholders liabilities (continued)

Process used to decide on assumptions and changes in assumptions

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business. Company specific tables, based on graduated industry standard tables modified to reflect the company specific experience, are used for larger classes.

Investigations into mortality experience are performed every half year for the large classes of business and annually for all other classes of business. The period of investigation extends over at least the latest three full years.

The results of the investigation are used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

In setting the assumptions provision is made for the expected increase in AIDS-related claims. Allowance for AIDS-related deaths is made in the base mortality rates at rates consistent with the requirement of ASSA's PGN 105. The rates are defined using the ASSA2003 lite model calibrated to reflect Liberty's assurance lives.

For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

The incidence of disability claims is derived from the risk premium rates determined from annual investigations. The incidence rates are reviewed on an annual basis, based on medical claims experience. The adjusted rates are intended to reflect future expected experience.

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal investigation is performed every half year for the large lines of business and annually for the smaller classes and incorporates at least two years experience. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration, policy term and policy type. Typically the rates are higher for risk type products than for investment type products, and are higher at early durations.

Investment return

Future investment returns are set for the main asset classes as follows:

- Gilt rate – Effective 10-year yield curve rate at the balance sheet date 8,15% (2010: 8,27%).
- Equity rate – Gilt rate plus 3,5 percentage points as an adjustment for risk 11,65% (2010: 11,77%).
- Property rate – Gilt rate plus 1 percentage point as an adjustment for risk 9,15% (2010: 9,27%).
- Cash – Gilt rate less 1,5 percentage points 6,65% (2010: 6,77%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. The rate averaged across the blocks of business (excluding annuity and guaranteed capital bond business) is 10,43% per annum in 2011 (2010: 10,6% per annum). Where appropriate the investment return assumption will be adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins as per PGN 104 issued by the Actuarial Society of South Africa.

For annuity and guaranteed capital bond business, discount rates are largely set at risk free rates consistent with the duration of the liabilities, reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

An expense analysis is performed on the actual expenses incurred in the calendar year preceding the balance sheet date. This analysis is used to calculate the acquisition costs incurred and to set the maintenance expense assumption which is based on the budget approved by the board.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

15. Policyholders liabilities (continued)

Process used to decide on assumptions and changes in assumptions (continued)

Expense inflation

The inflation rate is set at 60% of the risk free rate (gilt rate) at the current valuation, subject to a minimum of the risk free rate less 3%, resulting in a best estimate expense inflation assumption of 5,15% at 31 December 2011 (2010: 5,27%). The expense inflation assumption is set taking into consideration the expected future development of the number of in-force policies, as well as the expected future profile of maintenance expenses.

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act at the balance sheet date. Each company's current tax position is taken into account. Taxation rates consistent with that position, and the likely future changes in that position, are allowed for. In respect of capital gains taxation (CGT), taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains/(losses) at the valuation date, at the full undiscounted value.

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the liabilities, voluntary premium increases that give rise to expected profits are not allowed for. However, compulsory increases and increases that give rise to expected losses are allowed for. This is consistent with the requirements of PGN 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives, in respect of policyholder contracts, are set in accordance with PGN 110. Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. The 30 year annualised implied-at-the-money volatility assumption, estimated using the economic scenario generator output for the FTSE/JSE Top 40 index, is 28,11% (2010: 28,05%). Correlations between asset classes are set based on historical data. Twenty thousand simulations are performed in calculating the liability.

Using the simulated investment returns for 31 December 2011, the prices and implied volatilities of the following instruments are:

	Price	Volatility
A 1-year at-the-money spot put on the FTSE/JSE TOP 40 index	8,44%	25,31%
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	1,82%	25,19%
A 1-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	9,77%	25,26%
A 5-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	10,63%	24,91%
A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1{,}04^5$ of spot	19,11%	25,07%
A 5-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	19,09%	25,07%
A 5-year put with a strike price equal to $1{,}04^5$ of spot, on an underlying index constructed as 60% FTSE/JSE TOP 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	9,37%	N/A
A 20-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	3,65%	24,63%
A 20-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1{,}04^{20}$ of spot	17,51%	25,11%
A 20-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	23,84%	25,19%
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years time) is lower than the strike	0,46%	N/A

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

15. Policyholders liabilities (continued)

For 2010 using the simulated investment returns, the prices and implied volatilities of the following instruments are:

	Price	Volatility
A 1-year at-the-money spot put on the FTSE/JSE TOP 40 index	7,60%	23,13%
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	1,46%	23,41%
A 1-year forward on the FTSE/JSE TOP 40 index	8,95%	23,13%
A 5-year at-the-money spot put on the FTSE/JSE TOP 40 index	10,70%	26,26%
A 5-year put on the FTSE/JSE TOP 40 index with a strike price equal to $1,04^{5}$ of spot	18,78%	26,23%
A 5-year forward on the FTSE/JSE TOP 40 index	20,13%	26,23%
A 5-year put with a strike price equal to $1,04^{5}$ of spot, on an underlying index constructed as 60% FTSE/JSE TOP 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	9,28%	N/A
A 20-year at-the-money spot put on the FTSE/JSE TOP 40 index	4,30%	26,89%
A 20-year put FTSE/JSE TOP 40 index with a strike price equal to $1,04^{20}$ of spot on the	18,80%	27,54%
A 20-year forward on the FTSE/JSE TOP 40 index	26,61%	27,74%
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike.	0,40%	N/A

The TOP 40 index above is a capital returns index whereas the ALBI is a total return index. Spot refers to the value of the index at market close on 31 December. At-the-money means that the strike value of the option is equal to the spot.

The zero coupon yield curve used in the projection is as follows (expressed in NACC):

Model output yield curve (%)	**2011**	2010
1 year	**5,54**	5,48
2 years	**5,79**	5,88
3 years	**6,16**	6,35
4 years	**6,51**	6,81
5 years	**6,82**	7,17
10 years	**7,72**	7,93
15 years	**7,76**	7,89
20 years	**7,73**	7,77
25 years	**7,74**	7,54
30 years	**7,63**	7,25
35 years	**7,61**	7,15
40 years	**7,58**	7,05
45 years	**7,58**	6,99
50 years	**7,55**	6,91

Changes in assumptions

Modelling and other changes were made to realign valuation assumptions with expected future experience. These changes resulted in a net decrease in policyholders liabilities of R303 million in 2011 compared to a decrease of R173 mllion in 2010. These amounts exclude the impact on annuities and guaranteed endowments (increase in liabilities of R19 million in 2011, increase in liabilities of R555 million in 2010) which is offset by a corresponding change in the value of the backing assets.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in a decrease in the liability of R554 million (2010: decrease of R104 million).
- Future mortality assumptions were adjusted to reflect expected future experience, amounting to an increase in the liability of R232 million (2010: increase of R132 million).
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R27 million (2010: decrease of R232 million).
- The assumptions for annuitant longevity were strengthened, resulting in an increase in the liability of R192 million (2010: increase of R20 million).
- A change in the life annuities and guaranteed endowments illiquidity premium methodology, resulting in a decrease in the liability of R108 million.
- A change in the expense valuation assumption resulted in an increase in the liability of R93 million.
- The balance of modelling changes and corrections resulted in a decrease in liabilities of R131 million (2010: increase of R11 million).

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
16. Policyholders liabilities under investment contracts		
Balance at the beginning of the year	57 928	52 090
Fund inflows from investment contracts (excluding switches)	10 988	9 539
Net fair value adjustment	4 226	6 463
Fund outflows under investment contracts (excluding switches)	(9 572)	(9 479)
Switches between investment with DPF to investment without DPF	239	126
Service fee income	(837)	(811)
Balance at the end of the year	62 972	57 928
Current	4 334	4 368
Non-current	58 638	53 560
Net income from investment contracts[1]	43	89
Service fee income	837	811
Expenses		
Property expenses applied to investment returns	407	345
Shareholder taxation on transfer of net income	(22)	(40)
Acquisition costs	(221)	(173)
General marketing and administration expenses	(946)	(847)
Finance costs	(12)	(7)

[1] *Prior to deferred acquisition costs and deferred revenue liability adjustments.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
17. Financial liabilities at amortised cost		
Callable capital bonds	**2 054**	2 054
Current	**2 054**	54
Non-current		2 000
Movement analysis		
Balance at the beginning of the year	**2 054**	2 054
Interest accrued	**179**	179
Repayments	**(179)**	(179)
Balance at the end of the year	**2 054**	2 054

On 12 September 2005, Liberty Group Limited issued R2 billion subordinated unsecured secondary callable capital bonds redeemable on 12 September 2017 and callable by Liberty Group Limited on 12 September 2012. The bond was launched at a spread of 120 bps over the benchmark R153 bond to yield a fixed bi-annual interest coupon of 8,93%.

The coupon rate is fixed at 8,93% and payable bi-annually in arrears on 12 March and 12 September of each year until 12 September 2012, thereafter floating at three-month JIBAR plus 186 bps and payable quarterly on 12 December, 12 March, 12 June and 12 September until maturity date.

The Financial Services Board's approval of the company issuance of this subordinated debt included a requirement to hold liquid assets equal to at least the amount of the outstanding debt being R2 billion. This requirement has consistently been complied with.

The fair value of the callable capital bonds are R2 098 million (2010: R2 153 million).

	Note	2011 Rm	2010 Rm
18. Employee benefits			
18.1 Summary			
Asset:			
Defined benefit pension fund employer surplus	18.5	**199**	202
Liabilities:			
Short-term employee benefits	18.2	**346**	276
Post-retirement medical aid benefit	18.4(b)	**448**	390
Total liability		**794**	666

18.2 Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
At the beginning of the year	**42**	46	**234**	119	**276**	165
Additional provision raised	**53**	48	**255**	212	**308**	260
Utilised during the year	**(56)**	(52)	**(182)**	(97)	**(238)**	(149)
At the end of the year	**39**	42	**307**	234	**346**	276

All outflows in economic benefits in respect of short-term employee benefits are expected to occur within one year.

Leave pay

In terms of the company policy, employees are entitled to accumulate a maximum of 20 days compulsory leave and 20 days discretionary leave. Compulsory leave has to be taken within 18 months of earning it, failing which it is forfeited. Discretionary leave can be sold back to the company while compulsory leave cannot be sold back to the company.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

18. Employee benefits (continued)

18.2 Short-term employee benefits (continued)

Short-term incentive schemes

In terms of the group remuneration policy, selected employees at the discretion of directors receive an incentive bonus. The incentive bonus relates to employee, group and divisional performance and is approved by the remuneration committee.

Short-term cash incentive schemes as at 31 December 2011 comprise of R214 million (2010: R175 million) senior management group incentive scheme, R71 million (2010: R32 million) general staff incentive schemes and R22 million (2010: R27 million) investment professional schemes.

18.3 Details of funds

The company operates the following retirement and post-retirement medical schemes for the benefit of its employees.

Liberty Group Defined Benefit Pension Fund

The company operates a funded defined benefit pension scheme in terms of section 1 of the Income Tax Act, 1962. With effect from 1 March 2001 the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The defined benefit pension scheme was closed to new employees from 1 March 2001. Employer companies contribute the total cost of benefits provided, taking into account the recommendation of the actuaries.

Liberty Defined Contribution Pension Fund(1)

Liberty Group Limited operates a funded defined contribution pension scheme in terms of section 1 of the Income Tax Act, 1962. The Liberty Defined Contribution Pension Fund offers a benefit to Liberty employees based on the accumulated contributions and investment returns at retirement.

Liberty Provident Fund(1)

The Liberty Provident Fund offers a benefit to Liberty employees, based on the accumulated contributions and investment returns at retirement. The company contributes to the scheme for the benefit of employees in terms of the rules of the fund.

Liberty Agency Fund(1)

The Liberty Agency Fund offers a benefit to the company's qualifying agents based on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

Liberty Franchise Umbrella Fund(1)

The Liberty Franchise Umbrella Fund offers a benefit to registered qualifying franchises, on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

(1) *All these schemes are defined contribution schemes, therefore, there can be no future obligation against the company for unfunded benefits.*

Post-retirement medical benefit

The company operates an unfunded post-retirement medical aid benefit for permanent employees who joined the company prior to 1 February 1999, and agency staff who joined the company prior to 1 March 2005. Medical aid costs are included in the profit or loss within general marketing and administration expenses in the period during which the employees render services to the company. For past service of employees the company recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

In all cases employer companies' contribustions are charged to the profit or loss when incurred. All retirement schemes are governed by the Pension Fund Act, 1956, as amended.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	Liberty Group Defined Pension Fund				
	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
18. Employee benefits (continued)					
18.4 Retirement benefit obligation					
(a) *Change in defined benefit funded obligation*					
In the opinion of the pension fund valuator,after the most recent statutory actuarial valuation as at 1 January 2012, the Liberty Group defined benefit plan was financially sound.					
Present value of funded obligation at the beginning of the year	**1 234**	1 188	1 111	1 369	583
Additions through business acquisition					8
Adjustment[(1)]					688
Valuation adjustment[(2)]			(13)		
Service cost benefits earned during the year	**13**	13	12	14	14
Interest cost on projected benefit obligation	**67**	66	52	59	50
Actuarial loss	**46**	59	94	19	132
Benefits paid	**(102)**	(92)	(68)	(350)	(106)
Present value of funded obligation at the end of the year	**1 258**	1 234	1 188	1 111	1 369
Change in plan assets					
Fair value of plan assets at the beginning of the year	**1 342**	1 280	1 197	1 821	1 613
Valuation adjustment[(2)]			(13)		
Additions through business acquisition					24
Expected return on plan assets	**118**	117	88	164	136
Actuarial (loss)/gain	**9**	37	76	(438)	154
Employer contribution[(3)]	**14**	9	8	8	12
Reduction in employer surplus account	**(14)**	(9)	(8)	(8)	(12)
Benefits paid	**(102)**	(92)	(68)	(350)	(106)
Fair value of plan assets at the end of the year[(4)]	**1 367**	1 342	1 280	1 197	1 821
Excess not recognised	**109**	108	92	86	452
Analysis of the defined benefit pension fund obligation movement					
Current service cost	**13**	13	12	14	14
Interest cost	**67**	66	52	59	50
Expected return on plan assets	**(118)**	(117)	(88)	(164)	(136)
Net actuarial loss/(gain) recognised in the year	**37**	22	18	458	(22)
Total	**(1)**	(16)	(6)	367	(94)

(1) This adjustment represents the former member, member and employer surplus accounts which were set up following the approval of the apportionment of the surplus by the registrar of pension funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.

(2) The valuation adjustment represents the change in the defined benefits funded obligation between the submission of the previous accounting valuation and the subsequent statutory valuation.

(3) The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2012 is nil as it is anticipated the contributions will be funded from the employer portion of the surplus account.

(4) The fair value of the plan assets for 2011 constitute: 43,26% cash, 12,79% bonds, 31,65% equities, 12,10% international funds and 0,20% property (2010: 49,30% cash, 5,70% bonds, 34,10% equities, 10,70% international funds and 0,20% property).

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
18. Employee benefits (continued)					
18.4 Retirement benefit obligation (continued)					
(b) Change in post-retirement medical aid obligation					
Present value of unfunded obligation at the beginning of the year	**400**	354	344	293	261
Additions through business acquisition					11
Service cost benefits earned during the year	**8**	6	6	6	5
Interest cost on projected benefit obligation	**34**	34	29	26	22
Benefits paid	**(9)**	(8)	(7)	(6)	(6)
Actuarial loss/(gain)	**26**	14	(18)	25	
Present value of unfunded obligation at the end of the year	**459**	400	354	344	293
Net liability recognised in financial position[1]	**448**	390	344	333	283
Current	**9**	8	7	89	75
Non-current	**439**	382	337	244	208

The liability obligation has been updated after the most recent statutory actuarial valuation as at January 2012.

(1) The present value of unfunded obligation at the end of the year represents the consolidated Liberty Holdings Limited position. Liberty Group Limited's net liability recognised in the statement of financial position is R448 million (2010: R390 million).

18.5 Defined benefit pension fund employer surplus

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Balance at the beginning of the year	**202**	170	144	162	
Approved surplus apportionment					162
Additional trustee agreed allocation	**13**	11	13	84	
Investment gains	**15**	30	21	(92)	
Adjustment to past contribution rate	**(17)**				
Agreed contribution to member benefit enhancements	**(14)**	(9)	(8)	(10)	
Balance at the end of the year	**199**	202	170	144	162
Current	**14**	9	8	13	2
Non-current	**185**	193	162	131	160

The apportionment of the surplus within the Liberty Group Defined Pension Fund between the employer and the members was approved on 31 August 2007 by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001. The employer surplus has been measured as the approved amount allocated at 1 January 2003 (date of apportionment) adjusted for additional trustees approved allocations and subsequent related investment net gains or losses. The amount will be recovered through future reductions in employer contributions to the plan. The updated liability valuation effective 1 January 2012 resulted in a further surplus of R13 million (2010: R11 million). The adjustment to past contribution rate refers to the employer decision to increase its contribution rate on 1 January 2011, effective 1 January 2009. The R17 million therefore represents the employer's increased contributions towards member benefits for 2009 and 2010.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

18. Employee benefits (continued)

18.6 Assumptions used in the valuation of obligations

	Liberty Group Defined Pension Fund		Post-Retirement Medical Aid Benefit	
	2011	2010	**2011**	2010
The valuation was based on the following principal actuarial assumptions:				
Anticipated after taxation returns on investments	**8,76%**	9,10%	**n/a**[(1)]	n/a[(1)]
Discount rate	**8,76%**	9,10%	**8,78%**	8,01%
Future salary increases (excluding increases on promotion)	**6,11%**	6,43%		
Medical cost trend rate			**7,38%**	6,10%
Mortality assumption – pre-retirement	[(1)]	[(1)]	[(2)]	[(2)]
– post-retirement	[(3)]	[(3)]	[(3)]	[(3)]
Retirement age – executives	**63**	63	**63**	63
– others	**60 or 65**	60 or 65	**60 or 65**	60 or 65

n/a[(1)] The Post-Retirement Medical Aid Benefit fund is an unfunded liability and therefore there is no asset-backing portfolio.

[(1)] No pre-retirement mortality has been allowed for in 2010 and 2011.

[(2)] For the Post-Retirement Medical Aid Fund, the pre-retirement assumption is based on the PA (90) Tables for Pensioners (Ultimate Rates).

[(3)] For both the Liberty Group Defined Pension Fund and the Post-Retirement Medical Aid Benefit, the post-retirement mortality assumption is based on the PA(90) Tables for Pensioners (Ultimate Rates) less 2 years.

18.7 Sensitivity analysis

Shown in the table below are sensitivities of the value of the post-retirement medical aid to changes in the medical inflation rates without changes to the risk discount rate:

	Decrease/ (increase) in liability 2011	Decrease/ (increase) in liability 2010
Variable	**Rm**	Rm
1% decrease in medical inflation rate		
– active members	**50**	43
– pensioners	**13**	12
1% increase in medical inflation rate		
– active members	**(63)**	(54)
– pensioners	**(15)**	(15)

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

18. Employee benefits (continued)

18.8 Transactions between group companies and the funds

18.8.1 The contributions which the company has made on behalf of the employees during the year are as follows:

	2011 R'000	2010 R'000
Retirement		
Defined benefit funds	7	4
Defined contribution funds	131	137
Medical		
Post-retirement medical benefit paid	7	7

18.8.2 The Liberty Group Defined Benefit Pension Fund has various banking relationships with Standard Bank Group Limited and its subsidiaries. The summary of balances deposited and interest received are as follows:

	Balance deposited		Interest received	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Balance at 1 January	74	345		
Balance at 31 December	76	74	22	19

18.8.3 Certain defined benefit funds have outsourced their management to Liberty Group Limited. The summary of fees paid is as follows:

	2011 R'000	2010 R'000
Liberty Group Defined Benefit Pension Funds	197	223

18.8.4 The Liberty Group Defined Pension Fund has investments in certain mutual fund subsidiaries and in Standard Bank Group Limited as follows:

	2011 Rm	2010 Rm
STANLIB Institutional Property		32
STANLIB Funds Limited	167	127
Standard Bank bonds, deposits and money market investments	47	180

18.8.5 The following retirement benefit funds have insurance policies with Liberty Group Limited held as investment policies in the funds. A summary of the transactions for each policy with each fund follows:

	Fund value	
	2011 Rm	2010 Rm
Liberty Defined Contribution Pension Fund		
Balance at 1 January	271	237
Premiums	30	31
Fair value adjustments	22	34
Withdrawals	(31)	(31)
Balance at 31 December	292	271

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

18. Employee benefits (continued)

18.8 Transactions between group companies and the funds (continued)

17.8.5 (continued)

	Fund value	
	2011 Rm	2010 Rm
Liberty Provident Fund		
Balance at 1 January	**1 705**	1 535
Premiums	**175**	164
Fair value adjustments	**143**	219
Withdrawals	**(194)**	(213)
Balance at 31 December	**1 829**	1 705
Liberty Agency Fund		
Balance at 1 January	**917**	868
Premiums	**48**	55
Fair value adjustments	**62**	104
Withdrawals	**(92)**	(110)
Balance at 31 December	**935**	917
Liberty Franchise Umbrella Fund		
Balance at 1 January	**31**	24
Premiums	**7**	7
Fair value adjustments	**3**	4
Withdrawals	**(4)**	(4)
Balance at 31 December	**37**	31

19. Deferred revenue

	2011 Rm	2010 Rm
Balance at the beginning of the year	**135**	121
Released to profit or loss	**(15)**	(13)
Deferred income relating to new business	**28**	27
Balance at the end of the year	**148**	135
Current	**16**	14
Non-current	**132**	121

Deferred revenue relates to upfront fees received from investment management contract holders as a prepayment for asset management and related services. These amounts are non-refundable and released to income as the services are rendered.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	Liability at the beginning of the year Rm	(Provision)/ release for the year Rm	Liability at the end of the year Rm
20. Deferred taxation			
Normal taxation	**(1 131)**	**(264)**	**(1 395)**
Policyholder liabilities difference between statutory and accounting basis	**(1 077)**	**(246)**	**(1 323)**
Intangible assets – PVIF	**(9)**	**4**	**(5)**
Deferred acquisition costs	**(101)**	**(7)**	**(108)**
Deferred revenue liability	**37**	**4**	**41**
Provisions	**19**	**(19)**	
Capital gains taxation	**(977)**	**(129)**	**(1 106)**
Total	**(2 108)**	**(393)**	**(2 501)**

	2011 Rm	2010 Rm
Movement summary		
Balance at the beginning of the year	**(2 108)**	(1 629)
Charge through statement of comprehensive income	**(393)**	(479)
Balance at the end of the year	**(2 501)**	(2 108)
Deferred tax liabilities		
Non-current	**(2 501)**	(2 108)

	Retirement fund administration		Possible claims		Total	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
21. Provisions						
Balance at the beginning of the year	**109**	139	**54**	48	**163**	187
Provisions no longer required			**(1)**		**(1)**	
Provision raised	**93**	9	**165**	6	**258**	15
Unwinding of discount rate	**(8)**	(11)			**(8)**	(11)
Utilised during the year	**(29)**	(28)	**(19)**		**(48)**	(28)
Balance at the end of the year	**165**	109	**199**	54	**364**	163

Retirement fund administration

In prior years Liberty was appointed as an administrator to various retirement funds which, for a number of unrelated reasons, are now in the process of being liquidated or deregistered. A review of the status of these funds concluded that there is insufficient future potential fee income to cover the expected costs of liquidation or deregistration. In light of Liberty's association with the funds, the group has undertaken a specific project which commenced in 2009 to conclude the necessary formal procedures relating to these funds. During 2011 the project scope was extended to include conversion of administratively uneconomic stand alone funds to umbrella structures. Consequently additional amounts have been raised to cover the net expected costs of these conversions. The provision reflects the best estimate of the current value of future costs less fund recoveries. It is likely this project will take a further three years to complete.

Possible claims

Provision has been made for possible claims arising from investment and insurance contract administration activities. Due to the nature of the provision, the timing of the expected cash flows is uncertain but likely to be within the next year.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
22. Insurance and other payables		
Current balances related to insurance contracts	**2 155**	2 277
Outstanding claims and surrenders	**1 932**	1 971
Commission creditors	**223**	306
Current balances related to investment contracts		
Outstanding claims and surrenders	**68**	105
Total current balances related to insurance and investment contracts	**2 223**	2 382
Total other payables	**1 697**	1 874
Sundry payables	**1 396**	1 283
Investment creditors	**301**	591
Total insurance and other payables	**3 920**	4 256
Current	**3 889**	4 226
Non-current	**31**	30
23. Share capital and share premium		
Authorised share capital		
400 000 000 ordinary shares of 10 cents each		
Issued share capital		
288 956 191 ordinary shares of 10 cents each	**29**	29
Share premium		
Balance at the beginning of the year		1 022
Capital reduction		(1 022)
Balance at the end of the year		
Total issued share capital and share premium	**29**	29

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
24. Premiums		
Insurance premiums	15 095	14 434
Reinsurance premiums	(572)	(513)
Net insurance premiums	14 523	13 921
Fund inflows from investment contracts	10 988	9 539
Net premium income from insurance contracts and inflows from investment contracts	25 511	23 460
Retail	14 406	13 796
Corporate	6 437	5 755
Immediate annuities	4 668	3 909
Comprising:		
Recurring	13 855	13 140
Retail	8 959	8 469
Corporate	4 896	4 671
Single	11 656	10 320
Retail	5 447	5 327
Corporate	1 541	1 084
Immediate annuities	4 668	3 909
Net premium income from insurance contracts and inflows from investment contracts	25 511	23 460
25. Service fee income from policyholder investment contracts		
Service fee income from investment contracts	837	811
Released to profit or loss	15	13
Deferred income relating to new business	(28)	(27)
Total service fee income from policyholder investment contracts	824	797

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
26. Investment income		
Financial assets held at fair value through profit or loss		
Interest income	**4 026**	3 945
Dividends received	**1 956**	1 126
Listed shares	**1 473**	749
Unlisted instruments[3]	**483**	364
Manufactured dividends on scrip lending		13
Proceeds on sale of dividends	**59**	888
Scrip lending fees		2
Investment properties		
Rental income from investment properties	**1 058**	902
Financial instruments held-to-maturity		
Interest income	**14**	28
Subsidiaries and joint ventures		
Dividends[1]	**355**	162
Interest income[2]	**7**	45
Sundry income	**7**	14
Adjustments to surplus recognised on defined benefit pension fund	**15**	30
Total investment income	**7 497**	7 142
[1] *Dividends received from subsidiaries:*		
Capital Alliance Life Limited	**350**	
Liberty Active Limited		*152*
Dividends received from joint ventures:		
The Cullinan Hotel (Proprietary) Limited	**5**	*10*
Total	**355**	*162*
[2] *Interest received from subsidiaries:*		
Liberty Health Holdings (Proprietary) Limited	**7**	*45*
Total	**7**	*45*

[3] *Includes preference share dividends of R1 million from the company's subsidiary STANLIB Limited in 2010.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
27. Investment gains		
Investment properties	**755**	1 141
Financial instruments held at fair value through profit or loss	**6 351**	12 725
Quoted instruments	**5 089**	10 572
Unquoted instruments	**1 262**	2 153
Financial instruments held for trading	**(464)**	(869)
Impairment of loans to group companies	**(131)**	(223)
Foreign exchange differences on loans with subsidiaries	**(12)**	8
Loss on sale of subsidiary	**(5)**	
Adjustment to joint venture purchase price	**4**	
Impairment of investment in joint venture		(14)
Subsidiary impairment reversal/(charge)		3
Cash and cash equivalents		(2)
Total investment gains	**6 498**	12 769
28. Claims and policyholders' benefits		
Claims and policyholders' benefits under insurance contracts	**15 965**	15 828
Payments under investment contracts	**9 333**	9 353
	25 298	25 181
Insurance claims recovered from re-insurers	**(396)**	(431)
Net claims and policyholders' benefits	**24 902**	24 750
Comprising:		
Retail	**17 530**	17 250
Death and disability claims	**3 195**	2 877
Policy maturity claims	**3 301**	2 892
Policy surrender claims	**8 185**	8 886
Annuity payments	**2 849**	2 595
Corporate	**7 372**	7 500
Death and disability claims	**678**	619
Scheme terminations and member withdrawals	**6 393**	6 601
Annuity payments	**301**	280
Total claims and policyholders' benefits	**24 902**	24 750
29. Acquisition costs		
Insurance contracts	**1 515**	1 568
Investment contracts	**195**	145
Total acquisition costs	**1 710**	1 713
Incurred during the year	**1 736**	1 741
Deferred acquisition costs	**(219)**	(210)
Amortisation and impairment of deferred acquisition costs	**193**	182

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
30. General marketing and administration expenses		
Comprising		
Employee costs	**1 239**	1 170
Office costs	**772**	759
Training and development costs	**137**	150
Other	**1 242**	1 087
Total general marketing and administration expenses	**3 390**	3 166
General marketing and administration expenses include the following:		
Amortisation of intangible assets	**18**	19
Auditors' remuneration	**23**	17
Audit fees – Current year	**23**	17
Consulting fees	**145**	154
Depreciation	**175**	174
Computer equipment	**74**	75
Purchased computer software	**13**	14
Fixtures, furniture and fittings	**70**	66
Office equipment and office machines	**7**	7
Motor vehicles	**11**	12
Direct operating expenses – on investment properties	**481**	404
– on owner-occupied properties	**33**	26
– on hotel operations	**411**	388
Loss on disposal of equipment		1
Asset management fees	**329**	229
Operating lease charges – equipment	**1**	5
– property	**66**	87
Other related South African taxes	**162**	154
Financial services levy	**16**	14
Non-recoverable value-added taxation	**146**	140
Provision for retirement fund administration	**93**	9
Provision for possible claims	**165**	6
Staff costs	**1 239**	1 170
Salaries and wages	**733**	710
Defined benefit pension fund contributions	**11**	5
Medical aid contributions	**94**	86
Staff and management incentives	**244**	187
Share-based payment expense – equity-settled schemes	**29**	42
– cash-settled schemes	**21**	5
Other post-retirement benefits	**56**	58
Other	**51**	77

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 R000	2010 R000
31. Share-based payments – equity settled		
Reconciliation of reserve		
Staff options		
Company	**86**	87
Allocated to subsidiaries	**25**	25
BEE transaction		
Company	**90**	90
Allocated to subsidiaries	**9**	9
Transfer of vested options to retained surplus	**(203)**	(188)
Total share-based payments reserve	**7**	23
Movement for the year	**(16)**	(104)
Equity settled schemes – per profit or loss	**30**	45
Reserved in Liberty Holdings Limited	**(30)**	(45)
Transfer of vested options to retained surplus	**(15)**	(99)
Company cancellations – per profit or loss	**(1)**	(3)
Subsidiary cancellations		(2)
Expense on equity settled schemes recognised in profit or loss	**29**	42
Liberty Holdings Limited Employee Schemes	**29**	33
Black Economic Empowerment transaction		9

Staff options and rights

The group has accounted for share options and rights granted after 7 November 2002 not vested prior to 1 January 2005.

Effect of Liberty Group Limited Scheme of Arrangement on share option and right schemes

In terms of Liberty Group Limited's scheme of arrangement in 2008, Liberty Holdings Limited has assumed with effect from 1 December 2008 Liberty Group Limited's share option and rights schemes.

Liberty Holdings Limited

The Liberty Holdings Limited group has a number of share incentive schemes, which entitles key management personnel and senior employees to purchase Liberty Holdings Limited shares. These share incentive schemes are the Liberty Life Association of Africa Limited Share Trust, the Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme. The Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme confers rights to employees to acquire Liberty Holdings Limited ordinary shares equivalent to the value of the right at date of exercise. The group is required to ensure that employee's tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. The eventual value of the rights is effectively settled by the issue of shares equivalent to the value of rights. Since April 2005, only rights under the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme have been granted to employees.

All of the above mentioned schemes are classified as equity-settled share option plans in accordance with the requirements of IFRS 2. In accordance with the 2008 scheme of arrangement, the share-based payments reserve is now accounted for in Liberty Holdings Limited and the applicable expenses recovered from the company. The company reserve relating to previous option/right issues remains in the company until the relevant options/rights vest or are cancelled, at which point the reserve will transfer to retained surplus.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

31. Share-based payments (continued)

Staff options and rights (continued)

Share Incentive Schemes

The following is a summary of the movements of the applicable share options and rights granted:

			Number	
Reconciliation	**Price range 2011**	Price range 2010	**2011**	2010
Options/rights outstanding at the beginning of the year			**12 759 550**	11 180 045
Granted	**R68,00 – R83,00**	R67,00 – R76,80	**3 060 050**	3 620 700
Exercised	**R46,15 – R81,61**	R46,15 – R69,00	**(356 325)**	(393 973)
Lapsed/cancelled	**R46,15 – R92,95**	R46,15 – R93,30	**(1 542 425)**	(1 647 222)
Options/rights outstanding at the end of the year			**13 920 850**	12 759 550

The weighted average share price for the year was R71,94 (2010: R63,36).

50% of the options/rights vest in year three, thereafter 25% in year four and five. Typically, the employee must remain in the employment of the company in order to exercise options/rights. The weighted average fair value per right granted in 2010 is R19,43 (2010: R22,71).

A binominal tree model and a modified binominal tree model were used in order to value the share options and share rights, respectively. The fair value of the share rights granted during the year and the assumptions used are as follows:

	2011	2010
Exercise price	**R68,00 – R83,00**	R67,00 – R76,80
Expected volatility[(1)]	**29,00% – 29,66%**	29,77% – 30,77%
Right life	**5 years**	5 years
Dividend yield	**5,70% – 6,69%**	5,82% – 6,71%

Share-based payment expense recognised during 2011 relating to the share options and rights was R29 million (2010: R33 million).

[(1)] *Expected volatility is determined separately for each tranche of options issued. The expected volatility is based on the annualised historic volatility of the share price for 10 years before the grant date. The volatility is calculated using daily price movements on trading days. The range disclosed shows the minimum and maximum volatility over all tranches issued during the year.*

Black Economic Empowerment (BEE) transaction and IFRS 2

Liberty Group Limited

Liberty Group Limited entered into a BEE transaction during 2004, which resulted in the recognition of a share-based payment expense in respect of shares allocated to incentivise black employees.

The Katleho Managers Trust acquired the right to grant options of 10,3 million shares in Liberty Group Limited to qualifying black employees and directors of the Liberty Group Limited. As a consequence of the scheme of arrangement, these options are now held against Liberty Holdings Limited shares.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

31. Share-based payments (continued)

The fair value of the options, being R12,30 per share, were measured using a stochastic simulation model, which incorporated the terms and conditions of the BEE transaction. The model requires a number of assumptions, which are as follows:

- Grant date of the options: 29 October 2004, being the last date of trade before the scheme implementation;
- Market price of the underlying shares at the grant date: R57 per share;
- Dividend yield: assumed to equal the average dividend yield of 5,22% for the 12 months preceding the grant date;
- Strike price: this will differ based on the investment return scenario generated by the valuation mode;
- Expiry date: the options are assumed to have a term of 20 years and, therefore, the expiry date will be in the year 2024;
- Volatility: the annualised standard deviation of the monthly return on Liberty Group Limited shares was used, namely 29,71%;
- Risk-free rate of interest: Bond Exchange of South Africa (BESA) zero-coupon South African government bond curve used as at the grant date. From the zero-coupon curve, a forward rate curve was derived; and
- Preference dividend rate: this rate was originally set at 65% of the prime lending rate.

The share-based payment expense recognised during 2010 relating to the Liberty BEE transaction was R9 million. As at 31 December 2010 all the shares have vested and the cumulative reserve relating to the BEE transaction transferred to retained surplus.

Phantom share scheme

Liberty Group Limited reduced its capital by approximately R1 billion, or R3,60 per share, which was paid out to shareholders on 12 June 2006 from the share premium account.

Share option/right holders are not entitled to receive dividends on their share options/rights and therefore each employee 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 number of phantom rights were calculated as the number of share options/rights outstanding multiplied by R3,60, divided by the average Liberty Group Limited share price over five days starting 5 June 2006 (R73,81 per share). The vesting dates of these rights have been matched to the share options/rights in respect of which they were granted, with the earliest date being 11 August 2006, and can be exercised at the option of the employee over a maximum of a 12-year period from 12 June 2006. On exercise the company will compensate the employee in cash for the difference between strike price and the market price of a Liberty Holdings Limited share at the date of exercise. The phantom share scheme qualifies as a cash-settled scheme, as the company incurs a cash liability to the employee based on the price of Liberty Holdings Limited's shares. The expense recognised during 2011 was R1 million (2010: R nil) which was changed to profit or loss.

Reconciliation of options under phantom share scheme	2011 Number	2010 Number
Options outstanding at the beginning of the year	**210 569**	236 210
Exercised	**(52 532)**	(2 283)
Lapsed/cancelled	**(7 592)**	(23 358)
Options outstanding at the end of the year	**150 445**	210 569

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
32. Finance costs		
Interest expense:		
– interest paid on policyholder claims and supplier balances	33	17
– interest on financial liabilities at amortised cost	179	179
Total finance costs	212	196
33. Taxation		
33.1 Sources of taxation		
South African normal taxation	776	842
Current year taxation	512	572
Current deferred taxation	264	270
South African capital gains taxation	216	316
Current year taxation	87	107
Deferred taxation	129	209
Total taxation	992	1 158
Other comprehensive income	45	(31)
Profit or loss	947	1 189

Notes on the company financial statements *(continued)*

for the year ended 31 December 2011

33. Taxation (continued)

33.2 Taxation rate reconciliation

2011	CIT[1] Rm	STC[2] Rm	CGT[3][5] Rm	Total Rm
Taxation per profit or loss	743		204	947
Taxation on other comprehensive income	33		12	45
Total taxation	776		216	992
Taxation specific to policyholder tax funds[4] [5]	(172)		(227)	(399)
Shareholder taxation	604		(11)	593
Profit before taxation per statement of comprehensive income	2 784		5	2 789
Defined as capital			5	5
Defined as revenue	2 784			2 784
Taxable revenue directly charged to reserves	130			130
Ordinary dividends paid		1 283		1 283
Adjustment for the revenue offset to policyholder taxation	(399)			
Total	2 515	1 283	5	
	%	%	%	
Effective rate of taxation	24,0		(220,0)	
Adjustments due to:				
Income exempt from normal taxation:				
Dividends received	4,8	2,5		
Non-tax deductible expenses	(0,1)			
Under provision of taxes in respect of prior years	(0,5)			
Amounts excluded from capital gains tax			234,0	
Special allowances	(0,2)			
Secondary taxation relief obtained		7,5		
Standard rate of South African taxation	28,0	10,0	14,0	

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

33. Taxation (continued)

33.2 Taxation rate reconciliation (continued)

2010	CIT[1] Rm	STC[2] Rm	CGT[3][5] Rm	Total Rm
Taxation per profit or loss	869		320	1 189
Taxation on other comprehensive income	(27)		(4)	(31)
Total taxation	842		316	1 158
Taxation specific to policyholder tax funds[4] [5]	(271)		(282)	(553)
Shareholder taxation	571		34	605
Profit before taxation per statement of comprehensive income	2 816		(36)	2 780
Defined as capital			(36)	(36)
Defined as revenue	2 816			2 816
Taxable revenue directly charged to reserves	(95)		(4)	(99)
Ordinary dividends paid		2 078		2 078
Adjustment for the revenue offset to policyholder taxation	(553)			(553)
Total	2 168	2 078	(40)	
	%	%	%	
Effective rate of taxation	26,3		(85,0)	
Adjustments due to:				
Income exempt from normal taxation:				
Dividends received	4,3			
Non-tax deductible expenses	(2,6)			
Amounts excluded from capital gains tax			99,0	
Secondary taxation relief obtained		10,0		
Standard rate of South African taxation	28,0	10,0	14,0	

[1] *CIT represents corporate income taxation.*

[2] *STC represents secondary tax on companies which is a South African tax on defined dividend distributions to shareholders.*

[3] *CGT represents capital gains taxation which is an effective tax on defined capital gains in South Africa.*

[4] *Policyholder taxation funds are separate taxation persons which have differing taxation rules applied in the South African taxation legislation.*
There are three separate funds, defined as untaxed, individual and corporate. As these funds and related taxes are in essence direct taxes against investments held on behalf of policyholders (not shareholders), it is not considered necessary to reconcile effective rates by fund.

[5] *Capital gains taxation arising on the possible disposal of subsidiaries or business units will only be provided for when a firm intention to sell has been mandated by the directors of the company.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
33. Taxation (continued)		
32.3 Potential future taxation relief		
Secondary taxation credits not utilised and not provided for representing possible future STC taxation relief	42	42
34. Reconciliation of total earnings to cash generated from operations		
Total earnings	1 842	1 591
Adjustments for:		
Interest received	(4 047)	(4 018)
Interest paid	212	196
Dividends received	(2 311)	(1 275)
Distribution of profits from subsidiaries-unincorporated property partnerships	(418)	(441)
Taxation	947	1 189
Settlement of share-based payment expenses	(2)	(2)
Net fund outflows/(inflows) after service fees on policyholder investment contracts	818	(625)
Service fee income deferred on new business	28	27
Deferred acquisition costs on new business	(219)	(210)
	(3 150)	(3 568)
Adjustments for non-cash items:		
Policyholders' liability transfers	6 668	12 426
Amortisation of deferred acquisition costs	193	182
Release of deferred revenue liability	(15)	(13)
Amortisation of intangible assets	18	19
Impairment of joint venture		14
Depreciation of equipment	175	174
Adjustment to surplus recognised on defined benefit pension fund	3	(32)
Loss on sale of subsidiary	5	
Loss on disposal of equipment		1
Share-based payment revenue	(1)	(5)
Investment gains	(6 498)	(12 769)
Movement on provisions	201	(24)
	(2 401)	(3 595)
Working capital changes:	215	49
Prepayments, insurance and other receivables	423	(977)
Insurance and other payables and employee benefits	(208)	1 026
Cash utilised in operations	(2 186)	(3 546)
35. Dividends paid		
Dividends as per statement of changes in shareholders' funds	(1 283)	(2 078)
Dividends paid in specie	17	985
Dividends received on preference shares held in relation to BEE transaction	112	117
Total dividends paid	(1 154)	(976)

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
36. Taxation paid		
Taxation payable at the beginning of the year	**(481)**	(273)
Taxation attributable to normal taxation	**(599)**	(679)
Taxation payable at the end of the year	**323**	481
Total taxation paid	**(757)**	(471)

37. Related party disclosures

A list of related parties, as defined, is contained in the related party disclosures in the published Liberty Holdings Limited annual financial statements. Related party transactions with the ultimate holding company, directors and related entities, and joint ventures are also disclosed therein.

The disclosures below are additional to those disclosed in Liberty Holdings Limited.

Summary of related party transactions
Where relevant, amounts are excluding value added taxation.

A.1 Direct holding company – investment in shares in Liberty Holdings Limited
Liberty Group Limited invests from time to time in securities issued by Liberty Holdings Limited for the benefit of policyholders. Summary of investments held is as follows:

	Nominal holding		Fair value	
Liberty Holdings Limited ordinary shares Summary of ordinary share holdings and movements:	**2011 '000**	2010 '000	**2011 Rm**	2010 Rm
Holdings at 1 January				
Purchases		353		28
Sales		(353)		(28)
Holdings at 31 December				

A.2 Derivatives
Certain derivative transactions were entered into between Liberty Group Limited and the Corporate and Investment Banking Division of Standard Bank Group Limited. All transactions were entered into in order to hedge the market risk inherent in the company's assets and liabilities. The transactions were entered into on an arm's length basis and only after obtaining competitive pricing quotations from other financial institutions who conduct business in these markets.

Transaction summary:

	Underlying principle/notional amount traded		Fair value		Amount included in profit or loss		Underlying principle/notional position		Open maturity dates
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	
Interest rate									
Swaps	**5 727**	15 397	**207**	169	**167**	67	**30 727**	25 559	<1 – 30 years
Swaptions			**59**	68	**(9)**	(28)	**4 580**	4 580	9 – 19 years
Forwards	**41 820**	5 493	**(13)**	5	**(119)**	(44)	**6 094**	3 070	<1 year
Equity									
Options	**2 307**	6 954	**4**	8	**(33)**	4	**315**	1 858	<1 – 3 years
Foreign exchange									
Options		3 316				(4)			
Forwards		2 303				11			
			257	250	**6**	6			

There are collateral deposits of R240 million with Standard Bank supporting derivative liabilities to the bank (2010: R168 million). In addition, collateral deposits of R365 million as at 31 December 2011 (2010: R350 million) are deposited in Standard Bank bank accounts as collateral supporting South African Futures Exchange traded derivatives.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

37. Related party disclosures (continued)

Summary of related party transactions (continued)

B. Subsidiaries

B.1 Administration fees, loans and dividends

With effect from 1 January 2007 the company implemented a multiple employer cost basis (MEC) to the South African life licence entities within the group, namely Liberty Group Limited, Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited.

The MEC attributes costs between the life licences on a proportionate method with reference to the type of business sold under each licence during the year and the current in-force policies under administration.

The table below indicates the derived allocation percentages:

%	2011	2010
Liberty Group Limited	64	65
Liberty Active Limited	17	14
Capital Alliance Life Limited	17	19
Liberty Growth Limited	2	2
	100	100

Applicable costs are therefore linked to the above proportions.

Long-term and working capital loans are provided to various subsidiaries by Liberty Group Limited, details of outstanding amounts and relevant terms are provided in note 8. Details of dividends received from subsidiaries are provided in note 26.

Fees earned for asset management, sales distribution, administration, forensics, internal audit, human resources and information systems services:

	2011 Rm	2010 Rm
Liberty Group Properties (Proprietary) Limited	195	201
STANLIB Limited	46	41
Total	241	242

B.2 Lexshell 615 Investments (Proprietary) Limited (Lexshell)

Lexshell holds Liberty Group Limited ordinary shares to satisfy obligations under share option schemes. The number of ordinary shares held at the end of the year was nil (2010: nil).

No Liberty Group Limited shares were purchased by Lexshell in 2011 or 2010. In 2010, Lexshell sold 4 521 114 shares for an amount of R312 million at an average price of R69,01 per share to certain staff members of Liberty Group Limited on exercise of share options and rights previously awarded by Liberty Group Limited.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

37. Related party disclosures (continued)

Summary of related party transactions (continued)

B. Subsidiaries (continued)

B.3 The Liberty Life Educational Foundation (educational foundation)

The educational foundation received R13 million in contributions from Liberty Group Limited (2010: R18 million).

The educational foundation has its banking arrangements with Standard Bank of South Africa Limited. The cash balance at 31 December 2011 was R0,4 million (2010: R6,7 million). Interest earned for the year amounted to R27 876 (2010: R16 575).

Fees charged for the year were R12 963 (2010: R11 506).

The educational foundation also held deposits with STANLIB Limited at various times during the year. At 31 December 2011 the deposit balance was R5,4 million (2010: R5,1 million) and interest earned was R278 876 (2010: R233 444).

B.4 Property leases

Liberty Group Properties (Proprietary) Limited lease properties from Liberty Group Limited for business operations purposes. These leases are negotiated annually. Total lease income earned was R3 million (2010: R5 million).

B.5 Reinsurance arrangements

Liberty Group Limited, Liberty Active Limited and STANLIB Multi-Manager Limited have entered into various reinsurance arrangements. These arrangements are accounted as financial instruments. Summary of movements is as follows:

	2011 Rm	2010 Rm
Held as financial instrument assets by Liberty Group Limited[1]		
Balance at 1 January	**14 778**	10 391
New policies issued	**3 324**	4 378
Claims	**(1 955)**	(2 003)
Fair value adjustments	**1 107**	2 012
Balance at 31 December	**17 254**	14 778
Held as financial instrument assets by Liberty Active Limited[2]		
Balance at 1 January	**3 798**	2 504
Policies cancelled/matured	**(56)**	(158)
New policies issued	**1 384**	1 032
Fair value adjustments	**292**	420
Balance at 31 December	**5 418**	3 798

[1] *Includes reinsurance arrangements with Liberty Active Limited and STANLIB Multi-Manager Limited.*

[2] *Includes reinsurance arrangement with Liberty Group Limited.*

B.6 Treasury function

STANLIB Limited (STANLIB) performs a treasury function for Liberty Group Limited whereby surplus cash is invested.

The balance at 31 December 2011 was nil (2010: R69 million). Interest earned for the year was R3 million (2010: R2 million).

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

37. Related party disclosures (continued)

Summary of related party transactions (continued)

B. Subsidiaries (continued)

B.7 Asset management

In terms of various asset management agreements, STANLIB is mandated to manage certain policyholder investments.

The value of assets under management at 31 December 2011 was R140 979 million (2010: R133 649 million). Fees charged for the year were R322 million (2010: R263 million).

C. Joint ventures

Financial verification services

The Financial Services Exchange (Proprietary) Limited provides financial verification services to Liberty Group Limited and fees charged were R2 million (2010: R2 million).

D. Key management personnel of Standard Bank Group Limited, Liberty Holdings Limited and Liberty Group Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

Aggregate details of insurance, annuity and investment transactions between Liberty Group Limited, and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance

	Aggregate insured cover		Premiums received		Surrender value	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000	**2011 R'000**	2010 R'000
Life	**40 497**	54 003	**529**	824	**1 439**	4 896
Morbidity	**34 739**	35 981	(included in life premiums)			

Annuities	Amounts paid	
	2011 R'000	2010 R'000
Life[(1)]		**353**

Investment	Fund value	
	2011 R'000	2010 R'000
Balance at 1 January	**19 818**	38 164
Appointments and resignations	**8 105**	(19 512)
Premiums received	**8 176**	2 087
Investment return credited net of charges	**611**	4 582
Commission and other transaction fees	**(162)**	(42)
Claims and withdrawals	**(41)**	(5 461)
Balance at 31 December	**36 507**	19 818

[(1)] *There are no certain or term annuity related party transactions.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

	2011 Rm	2010 Rm
38. Commitments		
38.1 Operating lease commitments		
Equipment	**77**	75
Within 1 year	**34**	39
1 to 5 years	**43**	36
Properties	**209**	294
Within 1 year	**135**	118
1 to 5 years	**74**	176
38.2 Capital commitments		
Business acquisitions[1]	**5**	6
Under contracts	**5**	
Authorised by the directors but not contracted		6
Equipment	**221**	162
Under contracts	**1**	5
Authorised by the directors but not contracted	**220**	157
Investment properties	**1 182**	1 437
Under contracts	**477**	352
Authorised by the directors but not contracted	**705**	1 085
Owner-occupied properties	**35**	17
Under contracts	**2**	
Authorised by the directors but not contracted	**33**	17
Total commitments	**1 729**	1 991

The above 2011 expenditure will be financed by available bank facilities, existing cash resources and internally generated funds.

[1] *The company has committed to acquiring an additional 11% equity in Total Health Trust Limited during 2011 and 2012. Based on the valuation at 31 December the amount committed is estimated to be R5,0 million (2010: R5,7 million).*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

39. Key judgements in applying assumptions on application of accounting policies

Key assumptions can materially affect the reported amounts of assets and liabilities. The assumptions require complex management judgements and are therefore continually evaluated. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions, where applicable, for each line item within the statement of financial position are described below.

Equipment

Depreciation charges: The useful lives and residual values per class of equipment are estimated and annually reviewed to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the group and the calculated depreciation charge to be applied in each reporting period. The range of useful lives and the amortisation methodology are contained in accounting policy 6 and details of depreciation charged in note 3 on the company financial statements.

Owner-occupied and investment properties (including operating lease accrued income and accrued expenses)

Determination of fair value: Investment and owner-occupied properties are measured at fair value using various inputs relating to existing tenant terms, location and vacancy levels. Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer notes 4 and 5 on the company financial statements for specific details, including a sensitivity analysis on the fair value of these properties to a change in the capitalisation rate assumption.

Intangible assets

Identification and initial recognition: Internally generated software assets are subject to an assessment that the costs incurred are in relation to a technically feasible project for which the company has the intention and ability to complete. Intangible assets acquired as part of business combinations are capitalised at their fair value, represented by the estimated net present value of future cash flows relating to existing business, or at a value as determined by an independent valuer.

Subsequent measurement: The company does not revalue intangible assets and, where there is a finite life to the asset, amortises the initial recognition amounts over estimated useful lives, taking into account any expected residual values relating to each class of intangible asset. The amortisation method used best reflects the pattern in which the asset's future economic benefits are consumed by the company. Details of the amortisation methodology, amortisation charge and useful lives are contained in accounting policy 8 and note 6 on the company financial statements.

Deferred acquisition costs and deferred revenue

Revenue recognition: Deferred acquisition costs in respect of investment management contracts are amortised on a straight-line basis over the expected life of the contract. Deferred revenue is released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Refer to notes 7 and 19 for details of amounts recognised in profit or loss.

Financial assets and liabilities including held for trading or held for hedging assets and liabilities and interest in associates – mutual funds

Fair value measurement: The company holds a number of financial assets and liabilities that are designated at fair value through profit or loss or that are classified as held for hedging. These are valued at quoted liquid market prices as far as possible. However, if such prices are unavailable, fair value is based on either internal valuations or management's best estimates of realisable amounts. The company's valuation methodologies have been set out in accounting policies 10, 11, 12 and 18. The value of the instruments can fluctuate on a daily basis and consequently the actual amounts realised subsequently may differ materially from their value at the reporting date. Full disclosure of unquoted financial instruments, valuation hierarchy and sensitivities are contained in note 1 on the company financial statements.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

39. Key judgements in applying assumptions on application of accounting policies (continued)

With regards to the application of cash flow hedge accounting, management applies judgement in assessing, at both inception of the hedge and on an ongoing basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of hedged items.

Current and deferred taxation

Liability determination: There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The company recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Asset measurement: Deferred taxation assets are assessed for probable recoverability based on applicable estimated future business performance and related taxable projected income.

Policyholder liabilities under insurance contracts and related reinsurance assets

Liability and asset determination: Policyholder liabilities under insurance contracts and reinsurance assets are derived from actual claims submitted which are not settled at reporting date, and estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received or paid (net of expected service costs). The key assumptions applied and analysis of their sensitivity have been detailed in accounting policies 18 and 19, the insurance risk and sensitivity analysis components of note 1 on the company financial statements and note 15 on the company financial statements.

Employee benefits – Defined benefit pension fund employer surplus and post-retirement employee benefit liabilities

Liability and asset determination: In deriving probable post-retirement employee benefit liabilities and recognised surpluses, various assumptions, for example mortality, medical cost trend rate and future salary increases, are required. Further details are contained in note 18 on the company financial statements.

Employee benefits – share-based payments and long-term cash incentive schemes

Expense and liability determination: In calculating the amount to be expensed representing the value of share-based payments granted to employees and the movement in the liability of long-term cash incentive schemes, various assumptions relating to expected take up of rights and incentives, equity share price, dividend yields and related volatility are applied. Details of these are contained in notes 18 and 31 on the company financial statements.

Provisions

Provisions are made for known present obligations at reporting date that are likely to result in a future outflow of the company resources. Judgement is applied as to the quantum and timing of these resources considering all available information. Refer to note 21 on the company financial statements for specific detail.

Impairment

Impairment tests are conducted on all assets included in the statement of financial position. The recoverable amount is determined as the higher of fair market value or value in use. In determining the value in use, various estimates are applied including deriving future cash flows and applicable discount rates. The value in use calculations and related assumptions and estimates are most applicable to the impairment tests on equipment and properties under development, reinsurance assets, intangible assets and receivables. Further details are contained in the accounting policies.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2011

40. Events after the reporting period

The South African Minister of Finance has announced as part of the Budget 2012 tax proposals that the effective capital gains tax rates will increase for all disposals of qualifying assets from 1 March 2012. The inclusion rate for individuals and special trusts will increase to 33,3% (previously 25%). In the context of a long-term insurer it means that the effective capital gains tax rate applicable to the individual policyholder fund will increase to 10% (previously 7,5%). The inclusion rate for other entities, which includes the company policyholder fund of a long-term insurer, will increase to 66,6% (previously 50%), raising the effective rate for companies to 18,6% (previously 14%).

The unrealised capital gains tax provision as at 31 December 2011 would have increased by R368 million to R1 473 million, had the company applied the new increased inclusion rates. This increase in taxation liability will largely be absorbed by the company's policyholders in terms of the provisions of their respective policies and therefore the company's liability to policyholders at 31 December 2011 would be reduced. The net exposure to shareholders is likely to be less than R3 million in both earnings and shareholders' funds.

Notes

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