LIBERTY GROUP LIMITED

2012 AUDITED ANNUAL FINANCIAL STATEMENTS

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Preparation of annual financial statements

The annual financial statements of the Liberty Group Limited for the year ended 31 December 2012 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

AWB Band *(Lead independent director)*
AP Cunningham
JB Hemphill
MW Hlahla *(Appointed 1 August 2012)*
SJ Macozoma *(Chairman)*
JH Maree
MP Moyo
L Patel *(Resigned 18 May 2012)*
TDA Ross
SP Sibisi
JH Sutcliffe
CG Troskie
BS Tshabalala
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 for the financial year ended 31 December 2012.

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 2012 annual financial statements of the company for the year ended 31 December 2012 were approved by the board of directors on 27 February 2013 and signed on its behalf by

SJ Macozoma
Chairman

JB Hemphill
Chief executive

Johannesburg
27 February 2013

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 2012, and that all such returns are true, correct and up to date.

J Parratt
Company secretary

Johannesburg
27 February 2013

Independent auditors' report

To the shareholder of Liberty Group Limited

We have audited the annual financial statements of Liberty Group Limited set out on pages 15 to 115, which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 2012, 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.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Audit Committee's Report, the Report of the Statutory Actuary and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

Director: **J Goncalves**
Registered Auditor

Johannesburg
27 February 2013

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. Four scheduled meetings were held during 2012 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 18 May 2012. The composition of the committee and details of their attendance at committee meetings are contained in the governance section of Liberty Holdings Limited 2012 integrated 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 governance section of Liberty Holdings Limited 2012 integrated 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 2012 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
27 February 2013

Report of the statutory actuary
for the year ended 31 December 2012

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

Published reporting basis at 31 December	2012 Rm	2011 Rm
Assets		
Total assets as per balance sheet	**225 142**	195 969
Less liabilities	**213 565**	185 613
Liabilities under insurance contracts	**119 682**	107 041
Liabilities under investment contracts with DPF	**2 808**	2 631
Liabilities under investment contracts	**73 795**	62 972
Other liabilities	**17 280**	12 969
Excess of assets over liabilities	**11 577**	10 356

Statutory basis at 31 December	2012 Rm	2011 Rm
Assets		
Total assets	**199 008**	175 062
Less liabilities	**191 450**	167 951
Policyholder liabilities	**179 655**	159 708
Other liabilities	**11 795**	8 243
Excess of assets over liabilities	**7 558**	7 111
Represented by:		
Shareholders' funds	**7 558**	7 111
Capital adequacy requirement	**2 791**	2 495
Capital adequacy requirement: times covered	**2,71**	2,85

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 2012. 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 APN 103, SAP 104 and APN 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.

PA Lancaster BSc, FASSA, FIA
Statutory actuary

Johannesburg
29 February 2012

Report of the statutory actuary *(continued)*
for the year ended 31 December 2012

2. Reconciliation of statutory basis to published reporting basis

Reconciliation of excess assets between published reporting basis and statutory basis	**2012 Rm**	2011 Rm
Excess of assets over liabilities – statutory basis	**7 558**	7 111
Excess of assets over liabilities – published reporting basis	**11 577**	10 356
Difference	**(4 019)**	(3 245)
Items of difference	**(4 019)**	(3 245)
CAR requirements of subsidiaries	**(1 929)**	(1 593)
Write-up of subsidiaries from cost to NAV	**744**	595
Debt instruments	**2 000**	2 000
Differences between statutory and published valuation methodology	**(4 558)**	(3 887)
Inadmissible assets	**(276)**	(360)

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 negative amount of R4 558 million (2011: negative R3 887 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	**2012 Rm**	2011 Rm
Excess assets at the end of the year	**11 577**	10 356
Excess assets as at the beginning of the year	**10 356**	9 603
Change in excess assets over the year	**1 221**	753
This change in excess assets is due to the following items:		
Investment return generated by shareholders' funds		
Investment income	**918**	404
Capital appreciation	**640**	340
Total investment return	**1 558**	744
Operating profit	**1 761**	1 085
Changes in valuation bases/methods/assumptions	**297**	303
Shareholders' tax	**(12)**	83
Management expenses	**(357)**	(295)
Employer pension fund surplus	**(45)**	(4)
Total earnings	**3 202**	1 916
BEE preference dividends	**126**	112
Dividends paid	**(2 055)**	(1 283)
Share-based payments	**24**	(3)
Funding of Restricted Share Plan	**(56)**	
Cash flow hedging reserve	**(20)**	11
Total change in excess assets	**1 221**	753

Report of the statutory actuary *(continued)*
for the year ended 31 December 2012

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 SAP 104 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 2012 and reflect the experience of policies up to 30 September 2012. 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 4,15% p.a. (31 December 2011: 5,15% p.a.) or 4,57°/o 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 9,15% p.a. (31 December 2011: 10,43% 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.

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 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 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 stabilisation reserves amounted to R3 559 million as at 31 December 2012 (R3 237 million as at 31 December 2011).

Report of the statutory actuary *(continued)*
for the year ended 31 December 2012

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 APN 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	**2012 %**	2011 %	**2012 %**	2011 %
1	Spot	Equity Index	**9,41**	8,44	**27,08**	25,31
1	0,8* Spot	Equity Index	**2,23**	1,82	**26,65**	25,19
1	Forward	Equity Index	**10,47**	9,77	**27,10**	25,26
5	Spot	Equity Index	**12,25**	10,63	**24,68**	24,91
5	$(1,04^{5})$* Spot	Equity Index	**21,99**	19,11	**25,19**	25,07
5	Forward	Equity Index	**19,10**	19,09	**25,03**	25,07
20	Spot	Equity Index	**4,76**	3,65	**28,84**	24,63
20	$(1,04^{20})$* Spot	Equity Index	**21,46**	17,51	**26,96**	25,11
20	Forward	Equity Index	**26,31**	23,84	**27,20**	25,19

"Other" options

			Price	
Maturity (years)	Strike	Underlying	**2012 %**	2011 %
5	$(1,04^{5})$* Spot	60% Equity Index, 40% Bond Index with annual rebalancing	**11,94**	9,37
20	Forward	Simulated 5-year spot rate in 20 years time	**0,54**	0,46

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

Yield curve

	Yield (NACC)	
Maturity (years)	**2012 %**	2011 %
1	**4,94**	5,54
2	**5,01**	5,79
3	**5,26**	6,16
4	**5,53**	6,51
5	**5,79**	6,82
10	**6,87**	7,72
15	**7,31**	7,76
20	**7,29**	7,73
25	**7,28**	7,74
30	**7,12**	7,63
35	**7,18**	7,61
40	**7,25**	7,58
45	**7,28**	7,58
50	**7,27**	7,55

Report of the statutory actuary *(continued)*

for the year ended 31 December 2012

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 increase by an amount consistent with a fall 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 APN 110 guidance. In addition, allowance has been made for credit risk and operational risk in accordance with the latest version of SAP 104. In calculating the credit CAR, concentration risk has been allowed for by reducing the credit rating of all instruments issued by Standard Bank. This increases the amount of credit CAR.

In calculating the capital adequacy requirement 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 791 million and the ordinary capital adequacy requirement (OCAR) was calculated as R2 592 million, and thus capital adequacy requirement has been based on the TCAR calculation.

I am satisfied that the excess of assets over liabilities Is sufficient to meet the capital adequacy requirement which amounted to R2 791 million at 31 December 2012 (R2 495 million at 31 December 2011).

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 release of actuarial liabilities of R297 million.

Basis/assumption change	**December 2012 Rm**	December 2011 Rm
Economic valuation assumptions	**316**	27
Mortality valuation assumptions	**160**	(224)
Annuitant mortality	**(14)**	(192)
Persistency	**(164)**	554
Expenses and commission	**48**	(93)
Annuity and GIP investment expense		76
Guarantee repricing		47
Inflation methodology change	**(2)**	
Modelling	**(184)**	134
Tax relief on expenses	**81**	(9)
Other	**56**	(18)
Total	**297**	303

Directors' report

Main business activities

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

Review of results

Ordinary shareholders' attributable comprehensive earnings for the company were R3 182 million, compared to R1 927 million in 2011. Detailed summaries of the 2012 financial results are contained in the various notes commencing on page 41.

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 2013.

Accounting policies

The 2012 annual financial statements have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS) as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, They are also in compliance with the Listings Requirements of the JSE Limited and the South African Companies Act No. 71 of 2008.

The accounting policies adopted in the preparation of the consolidated and separate annual financial statements are in terms of IFRS and are materially consistent with those adopted in the previous financial year. Effective 1 January 2012, the group adopted an accounting policy for shadow accounting as permitted under IFRS 4 *Insurance Contracts*. The shadow accounting will be applied for the allocation of changes to insurance policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contracts. Previously a mismatch was created as the change to the insurance policyholder liability was reflected in profit or loss whilst the matching asset re-measurement is reflected in other comprehensive income. The adoption of shadow accounting allows the relevant change in the insurance liability to also be reflected in other comprehensive income, thereby eliminating the mismatch.

The adoption of shadow accounting results in a change in accounting policy with retrospective application. Refer note 42 on the company financial statements for further detail.

Amendments to IFRS were made by the International Accounting Standards Board which are effective for the period under review. These amendments have no impact on the 2012 or prior period results and are specifically detailed in the accounting policies on page 15.

Corporate governance

During 2012, in compliance with the Companies Act No. 71 of 2008 and the Companies Regulations, prescribed officers were defined, appropriate authorities were put in place throughout the group in respect of related party financial assistance and the social, ethics and transformation committee mandate was further expanded to incorporate all the necessary requirements. A memorandum of incorporation for each company is being rolled out. Liberty expects to be fully compliant by the deadline of two years from promulgation, which is end May 2013.

Liberty continues to report against the King III principles and further progress was made during 2012 in addressing certain areas where improvement was required.

Compliance disclosures are included in the governance and risk management sections of the Liberty Holdings Limited 2012 integrated 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 25 on the company's financial statements on page 96.

Directors' report *(continued)*

Shareholder distributions

Ordinary shareholders

2011 final

On 29 February 2012, the directors declared and paid a part final ordinary dividend of R100 million to shareholders recorded at the close of business on 28 February 2012. A further final ordinary dividend of R650 million accrued to shareholders on 31 March 2012 and was paid during on 16 April 2012.

2012 interim

On 1 August 2012, the directors declared an ordinary interim dividend of R800 million to shareholders recorded at the close of business on 31 August 2012 and was paid on 3 September 2012.

2012 special

On 23 April 2012, the directors declared an ordinary dividend of R505 million to shareholders due to the restructure of the balance sheet of Liberty Health Holdings (Proprietary) Limited. The dividend was paid on 28 December 2012.

2012 final

On 27 February 2013, the directors declared an ordinary final dividend of R900 million to shareholders recorded at the close of business on 28 February 2013, which will be paid on 22 March 2013.

Directorate and secretary

Professor Leila Patel resigned as a director directly after the board meeting on 17 May 2012 and Ms Monhla Hlahla was appointed to the board at the board meeting on 1 August 2012. 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:

	2012					2011			
	Services as directors of LHL and LGL R'000	**LHL and LGL committee fees R'000**	**Services as directors of STANLIB Limited R'000**	**In connection with Standard Bank Group[(1)] R'000**	**Total remuneration R'000**	Services as directors of LHL and LGL R'000	LHL and LGL committe fees R'000	In connection with Standard Bank Group[(1)] R'000	Total remuneration R'000
AWB Band *(Lead independent director)*	**280**	**443**			**723**	255	596		851
AP Cunningham[(2)(3)]	**1 008**		**130**		**1 138**	657			657
MW Hlahla[(4)]	**84**				**84**				
SJ Macozoma *(Chairman)*[(3)]	**2 080**			**976**	**3 056**	1 894		887	2 781
JH Maree[(5)]				**18 012**	**18 012**			27 242	27 242
MP Moyo	**202**	**384**			**586**	183	475		658
L Patel[(6)(7)]	**101**	**35**			**136**	183	64		247
TDA Ross	**202**	**552**			**754**	183	502		685
SP Sibisi[(7)]	**202**	**148**			**350**	183	135		318
JH Sutcliffe[(2)(3)]	**1 207**		**130**		**1 337**	954			954
BS Tshabalala[(7)]	**202**	**186**	**130**		**518**	183	169		352
PG Wharton-Hood[(5)]				**23 865**	**23 865**			26 348	26 348
Total	**5 568**	**1 748**	**390**	**42 853**	**50 559**	4 675	1 941	54 477	61 093

[(1)] *Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty. Amounts include payments otherwise in connection with the affairs of the Standard Bank group.*

[(2)] *Rand equivalent of £73 500 paid to AP Cunningham (2011: £56 000) and £89 000 paid to JH Sutcliffe (2011: £70 000).*

[(3)] *These directors receive a composite fee in lieu of committee fees and their services as directors of Liberty Holdings Limited and Liberty Group Limited.*

[(4)] *MW Hlahla was appointed to the board on 1 August 2012.*

[(5)] *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.*

[(6)] *L Patel resigned from the board on 17 May 2012.*

[(7)] *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 Managers' 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]			Long-term			
	Cash portion of package R'000	Other benefits R'000	Retirement contributions R'000	Total fixed R'000	Cash bonus R'000	Deferred bonus R'000	Total variable R'000	Value of restricted shares/rights granted[2] R'000	Value of share unit right plan[3] R'000	Total LTI R'000	Total compensation for the year R'000
2012											
JB Hemphill[4]	**4 424**	**387**	**132**	**4 943**	**7 900**	**3 850**	**11 750**	**7 000**		**7 000**	**23 693**
CG Troskie[4]	**2 801**	**76**	**243**	**3 120**	**4 563**	**1 626**	**6 189**	**4 500**		**4 500**	**13 809**
Sim Braudo											
Total											
2011											
JB Hemphill[4]	4 208	110	394	4 712	7 332	2 714	10 046	6 000		6 000	20 758
CG Troskie[4]	2 636	136	234	3 006	3 948	1 264	5 212	2 500	2 700	5 200	13 418
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 the Remuneration Committee in February 2013 and 2012 in order to align to the performance periods of 2012 and 2011, respectively.*
(3) *This is a cash-settled scheme, linked to Liberty's share price and subject to service duration.*
(4) *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 7 706 (2011: 3 706) ordinary shares in the holding company's issued share capital as detailed in the governance section of Liberty Holdings Limited 2012 integrated 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 in the governance section of Liberty Holdings Limited 2012 integrated 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 27 February 2013.

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, the Liberty Equity Growth Scheme and Restricted Share Plan.

An analysis of Liberty's obligations in respect of ordinary shares under options or rights at 31 December 2012 is included in Appendix D of Liberty Holdings Limited 2012 integrated annual report.

Directors' report *(continued)*

Contracts

Shareholders are referred to the directors' remuneration section and related party disclosure in note 40 to the group financial statements on of Liberty Holdings Limited 2012 integrated 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 2012, the group's holding company, Liberty Holdings Limited, held 100% (2011: 100%) of Liberty Group Limited's issued ordinary shares.

Acquisitions and disposals during the year

Liberty Group Limited acquired a 51,2% controlling stake in Total Health Trust Limited. Refer to note 35 on the company annual financial statements on page 104 for further details.

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, 11 and 12 on the company financial statements on paged 75 to 77.

Subsidiaries

Details of the significant interests in directly owned subsidiary companies are contained in notes 8 and 9 on the company financial statements on pages 72 to 74.

Special resolutions during the year 2012

On 29 November 2012 the shareholders passed a special resolution whereby they adopted a new memorandum of incorporation.

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 44 on the company financial statements on page 115 for significant events after the reporting date.

Accounting policies

Summary of significant accounting policies

1. Basis of preparation

The 2012 financial statements of Liberty Group Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council 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 IFRS Interpretations Committee 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 2012.

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

Carried at fair value:
- Cash-settled share-based payment arrangements;
- 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:
- 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:

Shadow accounting

The company has adopted for the first time, effective 1 January 2012, an accounting policy for shadow accounting as permitted under IFRS 4 *Insurance Contracts*.

The shadow accounting will be applied to the allocation of changes to policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contracts. Previously a mismatch was created as the change to the insurance policyholder liability was reflected in profit or loss whilst the matching asset re-measurement is reflected in other comprehensive income as required by IAS 16 *Property, Plant and Equipment*. The adoption of shadow accounting will allow the relevant change in the insurance liability to also be reflected in other comprehensive income thereby eliminating the mismatch in presentation.

Accounting policy 18 has been updated for this change.

The adoption of shadow accounting results in a change in accounting policy, with retrospective application as required by IAS 8.

Accounting policies *(continued)*

Summary of significant accounting policies (continued)

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

1.1 New or changes to accounting policies (continued)

The following revisions, published standards are mandatory for the company's accounting periods beginning on or after 1 January 2012:

Standard	Scope
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (revised 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 *Financial instruments: Disclosures – Transfers of Financial Assets* (revised 2010)	This amendment requires disclosures to help users of financial statements evaluate the risk exposure relating to transfers of financial assets and the effect of those risks on an entity's financial position. It relates specifically to any transferred financial assets that are not derecognised in their entirety and any continuing involvement in transferred financial assets that are derecognised in their entirety.

These amendments have no impact on the 2012 or prior period results of the company.

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);
- Application of shadow accounting to changes in policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contracts (accounting policy 18); and
- Experience adjustments and the effect of changes in actuarial assumptions on accumulated past service are recognised as expenses or income in the current year. For active employees, amounts relating to future service and recognised as expenses or income systematically over the periods representing the expected remaining service period of employees (accounting policy 24).

Accounting policies *(continued)*

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

   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 amendments 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 is likely to 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 ordinary shareholder funds, 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 11 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.
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.

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 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. These changes are not yet fully assessed however initial indications are that they will have limited overall impact to the company's net asset value or earnings. Enhanced disclosure requirements on fair value measurement will be required, as well as inclusion of non-financial assets and liabilities in the fair value hierarchy.
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 (to eliminate an accounting mismatch) 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. It is noted that certain proposed limited amendments to the IFRS 9 classification and measurement model were issued as an exposure draft in November 2012. This exposure draft introduces a third classification category for debt instruments, namely fair value through other comprehensive income. These proposed amendments are to address issues with IFRS 9 and the insurance project and to reduce differences with the US's Financial Accounting Standards Board (FASB). 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 limited amendments to classification and measurement, 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. it will be important to minimise the accounting mismatches in profit or loss that may occur on application of the two future standards (IFRS 9 and IFRS 4).

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.

Accounting policies *(continued)*

1. Basis of preparation (continued)

1.4 The following narrow scope amendments have been issued by the IASB, which are not yet effective. These are not expected to significantly impact the company's financial results or disclosures

Effective annual periods beginning on or after 1 July 2012

- IAS 1 *Presentation of Financial Statements* – Presentation of items of Other Comprehensive Income

Effective annual periods beginning on or after 1 January 2013

- IFRS 1 *First-time Adoption of IFRSs* – Repeated application of IFRS 1
- IFRS 1 *First-time Adoption of IFRSs* – Borrowing costs
- IFRS *1 First-time Adoption of IFRSs* – Government Loans
- *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)
- Amendments to transitional guidance in IFRSs 10 *Consolidated Financial Statements*. IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*
- IAS 1 *Presentation of Financial Statements* – Clarification of the requirements for comparative information
- IAS 16 *Property, Plant ad Equipment* – Classification of servicing equipment
- IAS 32 *Financial Instruments: Presentation* – Tax effect of distribution to holders of equity instruments
- IAS 34 *Interim Financial Reporting* – Interim financial reporting and segment information for total assets and liabilities
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective annual periods beginning on or after 1 January 2014

- Investment Entities (Amendments to IFRS 10, IFRS 11 and IAS 27)
  This amendment provides an exemption of the consolidation requirements of IFRS 10 for investment entities, as defined
- IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities

Effective annual periods beginning on or after 1 January 2015

- IFRS 9 *Financial Instruments* – Mandatory effective date of IFRS 9 and transition disclosures
  The mandatory effective date of IFRS 9 was moved from annual periods beginning 1 January 2013 to annual periods beginning 1 January 2015. This IFRS 9 amendment also changed the requirement in terms of disclosures on adoption of IFRS 9, such that it no longer requires the restatement of comparative period financial statements for the initial application of the classification and measurement requirements of IFRS 9, but rather modified disclosures.

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.

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. It is expected that insurance contracts and leases exposure drafts will be re-exposed in 2013. At this stage there is still insufficient clarity to be able to report on the implications of these proposed new standards.

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 part of the consideration transferred.

Accounting policies *(continued)*

2. **Interests in subsidiaries (continued)**
   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.

   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.

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.

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.

   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.

Accounting policies *(continued)*

6. Equipment and owner-occupied properties under development (continued)

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.

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.

Accounting policies *(continued)*

7. Properties (continued)

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.

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:

Accounting policies *(continued)*

9. Impairment (continued)

Financial assets carried at amortised cost (continued)

(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.

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).

Accounting policies *(continued)*

9. Impairment (continued)

Impairment of other non-financial assets (continued)

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).

  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.

Accounting policies *(continued)*

10. Financial 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.

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.

Accounting policies *(continued)*

10. Financial assets (continued)

Subsequent measurement (continued)

Financial assets classified as fair value through profit or loss (continued)

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.

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.

Accounting policies *(continued)*

12. Derivative financial instruments (continued)

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.

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.

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.

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.

Accounting policies *(continued)*

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 Liberty's 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.

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.

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.

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF) (continued)

Professional Guidance issued by the Actuarial Society of South Africa

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 Practice Guidance Notes (PGNs) issued by the Actuarial Society of South Africa to determine the liability in respect of insurance contracts issued in South Africa. The company has continued to value long-term insurance liabilities in accordance with these. In 2012 the naming convention was changed and the term "Professional Guidance Note (PGN) was replaced with either "Advisory Practice Note (APN) or "Standard of Actuarial Practice (SAP), depending on whether the former PGN was "best practice" or "mandatory" respectively. These are available on the Actuarial Society of South Africa website (www.actuarialsociety.org.za). Where applicable, the APNs and SAPs are referred to the accounting policies and notes to the annual financial statements.

Insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis as described in SAP 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 SAP 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 APN 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.

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

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.

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)

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. In accordance with SAP 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.

Shadow accounting is applied to policyholder insurance contracts where the underlying measurement of the policyholder insurance liability depends directly on the fair value of any owner-occupied properties. Any unrealised gains and losses on such owner-occupied properties are recognised in other comprehensive income as described in accounting policy 5. The shadow accounting adjustment to policyholder insurance contracts is recognised in other comprehensive income to the extent that the unrealised gains or losses, together with any related taxation on owner-occupied properties backing policyholder long-term insurance liabilities are also recognised directly in other comprehensive income.

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 for the main categories of business 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 SAP 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.

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF) (continued)

Insurance contracts and investment contracts with DPF (continued)

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).

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 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 management contracts and deferred revenue liability (DRL)

Service fee income on investment management 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 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 management 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.

Accounting policies *(continued)*

18. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF) (continued)

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.

Investment contracts with a DPF switching option

On certain investment contracts, policyholders have an option to switch some or all of their investment from a DPF fund to a non-DPF fund (and vice versa). The value of the liability held with respect to these contracts is taken at the aggregate value of the policyholder investment in the investment portfolio at the valuation date.

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. Receivables and payables related to insurance contracts are subsequently measured in terms IFRS 4, while those related to investment contracts are fair valued through profit or loss in terms of accounting policy 10.

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.

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.

19. Reinsurance contracts held (continued)

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.

Accounting policies *(continued)*

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.

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. Experience adjustments and the effect of changes in actuarial assumptions on accumulated past service are recognised as expenses or income in the current year. For active employees, these items are recognised as expenses or income systematically over a period not exceeding the expected remaining service period of employees.

Accounting policies *(continued)*

24. Employee benefits (continued)

Pension obligations (continued)

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 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 under or over provisions.

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.

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.

Accounting policies *(continued)*

28. Share-based payment transactions

The company operates both equity-settled and cash-settled share-based payment compensation plans. All share options/rights issued after 7 November 2002 that had not vested by 31 December 2004 are accounted for as share-based payment transactions.

Equity compensation plans

The equity compensation staff incentive schemes that have unvested conditions as at 31 December 2012 are the equity growth scheme and the restricted share plan scheme.

Equity growth scheme

The equity growth scheme implemented during 2005 confers rights to permanent employees to acquire Liberty Holdings Limited shares equivalent to the value of the right at date of exercise. Delivery of the shares is affected at future dates, which are determined at the time of granting the rights. The rights issued to participants carry no entitlement to dividends or voting rights. 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 a straight-line basis in the statement of comprehensive income, over the period during which employees will become entitled to the rights granted (vesting period). The expense recognised is adjusted to ultimately reflect the actual number of rights vested, after which no further adjustments are made. The expense is credited to a share-based payments reserve. When the rights have vested the relevant amount is transferred from the share-based payment to retained surplus.

Restricted share plan

The restricted share plan was introduced in 2012 and allows for two methods of participation, namely the deferred plan and the long-term incentive plan. Selected permanent key employees are granted fully paid-up shares at no consideration in terms of retention and, in certain cases, performance agreements. Unconditional vesting occurs on pre-determined dates (depending on fulfilment of a service condition) subject in certain cases to performance targets being met. Prior to vesting, these shares are held in a trust, with the employee being the vested beneficiary to the ecnomic value and income from the share. As such, participants are entitled to receive dividends on these shares during the vesting period but hold no voting rights.

The fair value of the equity instruments granted on the date of grant is recognised in the statement of comprehensive income on a straight-line basis over the vesting period, adjusted to reflect actual levels of vesting. The expense is credited to a share-based payments reserve. There is no consideration payable by the participant when the shares vest, at which time the share-based payments reserve will be transferred to retained surplus.

Cash-settled share-based payments

The company operates various schemes that are considered cash-settled schemes in terms of IFRS 2, namely the phantom share scheme, the share unit rights scheme and, to incorporate the deferral of certain 2011 bonuses, the deferred bonus scheme.

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 at date of settlement, with any changes in fair value recognised in profit or loss for the period.

29. Segment information

The company's products and services are managed by various business units along product categories and risk components. The segment information is presented by each distinct revenue-generating area representing groups of similar products, consistent with the way the company manages the business. These are long-term insurance (retail and corporate). Given the nature of operations, there are no major customers within any of the segments. The information is presented in the same format as is presented to the chief operating decision maker when making operating decisions and for allocating resources and assessing performance. Certain reporting adjustments are provided separately to reconcile to IFRS reported earnings.

Statement of financial position
at 31 December 2012

	Notes	2012 Rm	2011 Rm
Assets			
Equipment and owner-occupied properties under development	3	**736**	666
Owner-occupied properties	4	**1 307**	1 539
Investment properties	5	**21 919**	21 149
Intangible assets	6	**41**	73
Defined benefit pension fund employer surplus	19	**186**	199
Deferred acquisition costs	7	**437**	386
Interests in subsidiaries	8	**3 837**	2 953
Interest in subsidiaries – mutual funds	9	**34 135**	17 766
Interests in joint ventures	10	**68**	96
Reinsurance assets	16	**431**	425
Operating leases – accrued income	5	**535**	430
Derivative assets	13	**6 137**	3 199
Interests in associates	11	**14**	
Interests in associates – mutual funds	12	**12 836**	11 402
Financial investments	13	**138 507**	131 983
Prepayments, insurance and other receivables	14	**1 964**	2 292
Cash and cash equivalents	15	**2 052**	1 411
Total assets		**225 142**	195 969
Liabilities			
Policyholders liabilities		**196 285**	172 644
Insurance contracts	16	**119 682**	107 041
Investment contracts with discretionary participation features	16	**2 808**	2 631
Financial liabilities under investment contracts	17	**73 795**	62 972
Financial liabilities at amortised cost	18	**2 037**	2 054
Employee benefits	19	**801**	794
Deferred revenue	20	**163**	148
Deferred taxation	21	**2 215**	2 501
Deemed disposal taxation liability	22	**861**	
Provisions	23	**338**	364
Operating leases – accrued expense	5	**30**	93
Derivative liabilities	13	**5 642**	2 772
Insurance and other payables	24	**4 648**	3 920
Current taxation		**545**	323
Total liabilities		**213 565**	185 613
Equity			
Ordinary shareholders' interests			
Share capital	25	**29**	29
Retained surplus		**12 128**	10 795
Other reserves		**(580)**	(468)
Total equity		**11 577**	10 356
Total equity and liabilities		**225 142**	195 969

Statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 Rm	Restated 2011 Rm
Revenue			
Insurance premium revenue	26	**16 928**	15 095
Reinsurance premiums	26	**(616)**	(572)
Net insurance premiums		**16 312**	14 523
Service fee income from policyholder investment contracts	27	**852**	824
Investment income	28	**8 121**	7 497
Hotel operation sales		**618**	582
Investment gains	29	**24 369**	6 498
Fee revenue		**110**	
Distribution of profits from subsidiaries – unincorporated property partnerships		**501**	418
Defined benefit pension fund employer surplus	19	**(45)**	(4)
Total revenue		**50 838**	30 338
Claims and policyholders benefits under insurance contracts	30	**(16 465)**	(15 965)
Insurance claims recovered from reinsurers	30	**427**	396
Change in policyholders liabilities		**(12 943)**	(2 368)
Insurance contracts		**(12 772)**	(2 375)
Investment contracts with discretionary participation features		**(177)**	3
Applicable to reinsurers		**6**	4
Fair value adjustment to policyholders liabilities under investment contracts	17	**(10 743)**	(4 226)
Acquisition costs	31	**(1 942)**	(1 710)
General marketing and administration expenses	32	**(3 793)**	(3 390)
Finance costs	34	**(201)**	(212)
Profit before taxation		**5 178**	2 863
Taxation	36	**(1 976)**	(947)
Total earnings		**3 202**	1 916
Other comprehensive (loss)/income		**(20)**	11
Owner-occupied properties – fair value adjustment		**(197)**	115
Change in policyholder insurance liabilities (application of shadow accounting)		**131**	(74)
Net change in fair value on cash flow hedges	13	**(28)**	15
Income and capital gains tax relating to:			
– owner-occupied properties fair value adjustment	36	**66**	(41)
– net change in fair value on cash flow hedges		**8**	(4)
Total comprehensive income		**3 182**	1 927

Statement of changes in shareholders' funds

for the year ended 31 December 2012

Rm	Share capital	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 2011	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**
Total comprehensive income		**(20)**	**(131)**				**3 333**	**3 182**
Ordinary dividends							**(2 055)**	**(2 055)**
Funding of restricted share plan							**(56)**	**(56)**
BEE preference share dividends					**63**		**63**	**126**
Share-based payments						**25**		**25**
Reversal to comprehensive income on cancellations of share options/rights						**(1)**		**(1)**
Transfer of vested equity options reserve						**(5)**	**5**	
Sale and transfer of owner-occupied properties			**(43)**				**43**	
Balance at 31 December 2012	**29**	**(9)**	**410**	**5**	**(1 012)**	**26**	**12 128**	**11 577**

[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. However, in terms of minimum capital adequacy requirements governed by the Long-term Insurance Act and regulated by the Financial Services Board, R2 791 million (2011: R2 495 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 2012

	Notes	2012 Rm	2011 Rm
Cash flows from operating activities		**2 767**	2 467
Cash utilised in operations	37	**(1 294)**	(2 186)
Cash receipts from policyholders		**29 860**	26 083
Cash paid to policyholders, intermediaries, suppliers and employees		**(31 154)**	(28 269)
Interest received		**4 182**	4 047
Interest paid		**(201)**	(212)
Distribution of profits from subsidiaries – unincorporated property partnerships		**501**	418
Dividends received		**2 613**	2 311
Dividends paid	38	**(1 929)**	(1 154)
Taxation paid	39	**(1 105)**	(757)
Cash flows from investing activities		**(2 109)**	(2 928)
Net disposal/(purchases) of investment and owner-occupied properties		**149**	(767)
Purchase of equipment and owner-occupied properties under development		**(256)**	(91)
Proceeds on sale of equipment		**11**	9
Net purchases of financial instruments[(1)]		**(1 095)**	(1 978)
Net movement in loans with group companies		**(89)**	(24)
Acquisition of intangibles		**(39)**	(7)
Shares issued in subsidiaries		**(772)**	(67)
Acquisition of Total Health Trust Limited	35	**(4)**	
Acquisition of associates		**(14)**	
Acquisition of additional shares in joint venture			(6)
Proceeds on disposal of shares in subsidiary			3
Cash flows from financing activities		**(17)**	
Repayment of financial liabilities at amortised cost		**(2 005)**	
Issue of financial liabilities at amortised cost		**2 000**	
Bond expenses		**(12)**	
Net increase/(decrease) in cash and cash equivalents		**641**	(461)
Cash and cash equivalents at the beginning of the year		**1 411**	1 872
Cash and cash equivalents at the end of the year		**2 052**	1 411

[(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 2012

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 integrated annual report.

1.1 Significant classes of business most affected by insurance risk

(a) *Exposures by sum assured (Retail)*

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

Retail sums assured at risk (R)	Before reinsurance Rm	%	After reinsurance Rm	%
2012				
0 – 1 499 999	**210 796**	**32**	**201 282**	**36**
1 500 000 – 2 999 999	**163 384**	**24**	**148 378**	**26**
3 000 000 – 7 499 999	**189 531**	**28**	**166 125**	**29**
7 500 000 and above	**105 146**	**16**	**51 181**	**9**
Total	**668 857**	**100**	**566 966**	**100**
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

(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)	2012 Number of life and disability annuities in payment	2012 Annual annuity amount exposure Rm	2011 Number of life and disability annuities in payment	2011 Annual annuity amount exposure Rm
0 – 240 000	**61 025**	**1 135**	61 532	1 104
240 000 – 480 000	**428**	**136**	366	115
480 000 – 720 000	**73**	**42**	64	36
720 000 and above	**25**	**25**	22	21
Total	**61 551**	**1 338**	61 984	1 276

(c) *Corporate risk business*

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

Industry class	2012 %	2011 %
Administrative/professional	**20**	20
Retail	**36**	36
Light manufacturing	**26**	28
Heavy manufacturing	**13**	12
Heavy industrial and other high risk	**5**	4
Total	**100**	100

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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 for corporate risk business:

Corporate sums assured at risk (R)	Before reinsurance Rm	%	After reinsurance Rm	%
2012				
0 – 1 499 999	**71 325**	**69**	**70 544**	**72**
1 500 000 – 2 999 999	**16 837**	**16**	**16 204**	**17**
3 000 000 – 7 499 999	**12 370**	**12**	**9 729**	**10**
7 500 000 and above	**3 069**	**3**	**938**	**1**
Total	**103 601**	**100**	**97 415**	**100**
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

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] %
2012				
Held at fair value through profit or loss				
Government, municipal and utility stocks	**6 771**		**6 771**	**6,5**
Commercial term deposits	**15 684**	**9 080**	**6 604**	**6,1**
Preference shares	**1 948**	**1 826**	**122**	**6,6**
Collateral deposits	**754**	**721**	**33**	**5,2**
Cash and cash equivalents	**2 052**	**2 042**	**10**	**4,4**
Loans and receivables				
Loans	**183**	**183**		**8,0**
Held-to-maturity				
Loan receivables from joint ventures	**4**		**4**	**nil**
Total	**27 396**	**13 852**	**13 544**	

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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] %
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 deposit	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 to joint ventures	4		4	10,1
Total	37 227	11 267	25 960	

[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:

	2012 Carrying amount Rm	2011 Carrying amount Rm
Within 1 year	**7 302**	5 428
1 – 5 years	**7 173**	8 262
6 – 10 years	**4 962**	11 055
11 – 20 years	**4 035**	7 927
Over 20 years	**1 983**	2 576
Variable	**1 941**	1 979
Total	**27 396**	37 227

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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] %
2012				
Held for trading				
Collateral deposits	**459**	**459**		**4,5**
At amortised cost				
Callable capital bonds	**2 037**		**2 037**	**7,4**
2011				
Held for trading				
Collateral deposits	240	240		5,2
At amortised cost				
Callable capital bond	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.*

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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Debt instruments	**52**	56	**1 851**	728	**2**	4				
Equity instruments	**5**		**52**	19					**31**	23
Mutual funds	**133**	143	**21 360**	17 657	**420**	650	**43**	45		
Cash and cash equivalents	**6**		**81**		**23**		**7**			
Total	**196**	199	**23 344**	18 404	**445**	654	**50**	45	**31**	23
Gross foreign currency exposure	**14**	16	**2 754**	2 275	**40**	63	**485**	431		
Derivatives protection[1]			**(115)**	(395)						
Net foreign currency exposure	**14**	16	**2 639**	1 880	**40**	63	**485**	431		
Exchange rate[2]										
Closing rate at 31 December	**13,71**	12,48	**8,48**	8,09	**11,18**	10,46	**0,10**	0,10		
Average rate during the year	**13,01**	11,62	**8,21**	7,25	**10,55**	10,08	**0,10**	0,09		

[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 2012

1. Risk disclosures (continued)

1.3 Currency risk (continued)

The company's exposure to the foreign currency risk of its subsidiary and joint venture companies is summarised in the table below:

Foreign currency ('m)	Uganda shilling	Nigeria naira
Equity exposure at 31 December 2012		
Liberty Life Uganda Assurance Limited	**11 813**	
Total Health Trust Limited		**1 467**
Company gross foreign currency exposure	**11 813**	**1 467**
Non-controlling interest foreign currency exposure	**(5 788)**	**(716)**
Net company foreign currency exposure	**6 025**	**751**
Rand equivalent (Rm)	**19**	41
Equity exposure at 31 December 2011		
Liberty Life Uganda Assurance Limited	7 328	
Total Health Trust Limited		653
Company gross foreign currency exposure	7 328	653
Non-controlling interest foreign currency exposure	(3 591)	
Net company foreign currency exposure	3 737	653
Rand equivalent (Rm)	12	30

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)
1.4 Derivative assets and liabilities

	2012 Rm	2011 Rm
Derivatives held for trading	**237**	21
Gross carrying amount of assets	**5 348**	2 542
Gross carrying amount of liabilities	**(5 111)**	(2 521)
Derivatives held for hedging	**(37)**	2
Gross carrying amount of asset	**35**	13
Gross carrying amount of liabilities	**(72)**	(11)
Net carrying value	**200**	23

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
2012							
Derivatives held for trading	34	(69)	272	237	5 348	(5 111)	130 532
Foreign exchange derivatives	(8)	(27)	44	9	9		(157)
Swaps	(8)	(27)	44	9	9		(167)
Forwards							10
Interest rate derivatives	42	(20)	228	250	5 361	(5 111)	132 243
Futures	1			1	1		(6)
Forwards	16			16	35	(19)	15 063
Swaps	25	(20)	119	124	5 216	(5 092)	117 020
Swaptions			109	109	109		166
Equity derivatives		(22)		(22)	(22)		(1 554)
Forwards							
Futures							(1 624)
Options							51
Other		(22)		(22)	(22)		19
Derivatives held for hedging		(49)	12	(37)	35	(72)	1 790
Foreign exchange derivatives							
Swaps		(49)	12	(37)	35	(72)	1 790
Total derivative assets/(liabilities)	34	(118)	284	200	5 383	(5 183)	132 322

[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 2012

1. Risk disclosures (continued)
1.4 Derivative assets and liabilities (continued)
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

[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.*

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
2012					
Release timing	**(9)**			**(11)**	**2**
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.

Notes on the company financial statements *(continued)*

for the year ended 31 December 2012

1. Risk disclosures (continued)

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	Above A-	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2012										
Debt instruments	6 752	12 078	2 427	106	1 268	1 408	32	515	28 657	53 243
– Listed preference shares		425	248	25	526	93	7			1 324
– Listed preference shares – foreign				9						9
– Unlisted preference shares			498					117		615
– Listed term deposits	5 882	5 328	775	22	592	118	5	64		12 786
Local	5 322	4 756	733	22	423	118	5	64		11 443
Foreign	560	372	42		169					1 343
– Unlisted term deposits	870	6 325	906	50	150	1 197	20	151		9 669
Local	360	6 325	906	50	150	1 154	20	151		9 116
Foreign	510					43				553
Mortage and loans								183		183
– Pooled funds – debt instruments									28 657	28 657
Local									20 974	20 974
Foreign									7 683	7 683
Investments policies										
– mixed asset classes									23 303	23 303
Prepayments, insurance and other receivables – Local	19	13	6	40	10			1 876		1 964
– Accrued income		13	6					25		44
– Reinsurance recoveries	19			40	10			65		134
– Other								1 786		1 786
Reinsurance assets	34				365			32		431
Derivatives and collateral deposits	1 755	3 997	261			124				6 137
Loan receivables from joint ventures								4		4
Cash and cash equivalents	6	1 397	472					177		2 052
Local	6	1 397	472					60		1 935
Foreign								117		117
Total assets bearing credit risk	8 566	17 485	3 166	146	1 643	1 532	32	2 604	51 960	87 134

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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

Rm	Above A-	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2011										
Debt instruments	12 378	15 052	4 558	216	1 279	1 117	8	560	10 977	46 145
– Listed preference shares		825	88	32	363	2	7			1 317
– Listed preference shares – foreign				23						23
– Unlisted preference shares		333	453					185		971
– Listed term deposits	11 561	9 277	3 017	81	486	115	1	19		24 557
Local	11 451	8 857	2 982	77	332	115		19		23 833
Foreign	10	420	35	4	154		1			724
– Unlisted term deposits	817	4 617	1 000	80	430	1 000		172		8 116
Local	817	4 617	1 000	80	430	959		172		8 075
Foreign						41				41
Mortage and loans								184		184
– Pooled funds – debt instruments									10 977	10 977
Local									5 987	5 987
Foreign									4 990	4 990
Investments policies									18 161	18 161
Prepayments, insurance and other receivables – Local	37		2	53	37		22	2 141		2 292
– Accrued income			2					19		21
– Reinsurance recoveries	37			53	37		22	34		183
– Other								2 088		2 088
Reinsurance assets	43				353			29		425
Derivatives and collateral deposits	823	2 128	203	13		30		2		3 199
Loan receivables from joint ventures								4		4
Cash and cash equivalents										
Local		1 050	358					3		1 411
Total assets bearing credit risk	13 281	18 230	5 121	282	1 669	1 147	30	2 739	29 138	71 637

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.5 Credit exposure (continued)

Rating methodology

For the purposes of this report, the following approach was adopted for the rating classification of credit assets:

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 referencing international probabilities of default rating scales. This is a modification from the rating scale used in previous years where the local currency national rating scales of the rating agencies were used as a benchmark. The primary difference is that the national rating scales are only rank ordering scales and do not imply an actual probability of default. This change has been made to bring Liberty's credit rating scale into line with international best practice and the expected requirements of the SAM regime.

The 2011 debit instruments ratings table summary presented under section 7.5 has been restated to this new scale to allow for better comparison.

Investment grade

A- and above	Strong to extremely strong capacity to meet financial commitments.
BBB	Adequate capacity to meet financial commitments, but vulnerable to severe adverse economic conditions.

Non-investment grade

BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
Below BB	Vulnerable to adverse business, financial and economic conditions.

The above ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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. For most material investments in unrated instruments/counterparties, internal rating were undertaken. However, at any one time there will always be unrated exposures generally entered into through asset managers where the internal ratings methodology has not been applied. 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 group 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 2012

1. Risk disclosures (continued)

1.6 Credit risk

1.6.1 *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 liquid listed instruments are based on available market information. For illiquid listed instruments and unlisted instruments fair value is arrived at through a mark to model process. The mark to model used takes into consideration the expected future cash flows to be earned on the asset, the probability of earning those cash flows over the full life of the deal, including the possibility of credit deterioration over the life of the deal, recovery rates and liquidity in the markets as well as the instrument itself.

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.

For 2012, the change in the fair value movement recognised in profit or loss, with respect to unlisted debt instruments in a non-active market is positive R41 million (2011: negative R26 million).

1.6.2 *Impairments*

Amortised cost instruments

There are no impairments (2011: nil) to financial assets measured at amortised cost.

1.6.3 *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.

	2012			2011		
	Overall company investment Rm	Exposure to Standard Bank Rm	%	Overall company investment Rm	Exposure to Standard Bank Rm	%
Equity instruments	**53 199**	**660**	**1,2**	48 397	902	1,9
Preference shares	**1 333**	**179**	**13,4**	2 311	163	7,0
Term deposits and loans	**22 638**	**5 633**	**24,9**	32 857	6 123	18,6
Cash and cash equivalents	**2 052**	**1 406**	**68,5**	1 411	786	55,7
Derivatives	**5 383**	**2 164**	**40,2**	2 555	1 084	42,4
Collateral deposits	**754**	**291**	**38,6**	644	125	19,4
Total exposure to Standard Bank	**85 359**	**10 333**		88 175	9 183	

The company invests in various structured entities that are credit enhanced by Standard Bank. Total value of these investments is R985 million (2011: R955 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 2012

1. Risk disclosures (continued)
1.6 Credit risk (continued)
1.6.4 *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%
2012							
Debt instruments	**53 060**	**183**	**53 243**		**53 243**		**183**
Listed preference shares on the JSE or foreign exchanges	**1 333**		**1 333**		**1 333**		
Unlisted preference shares	**615**		**615**		**615**		
Listed term deposits on BESA, JSE or foreign exchanges	**12 786**		**12 786**		**12 786**		
Loans		**183**	**183**		**183**		**183**
Unlisted term deposits	**9 669**		**9 669**		**9 669**		
Mutual funds – debt instruments	**28 657**		**28 657**		**28 657**		
Investment policies	**23 303**		**23 303**		**23 303**		
Derivatives	**5 383**		**5 383**	**(5 179)**	**204**		
Derivative collateral deposits	**754**		**754**	**(463)**	**291**		
Reinsurance assets	**431**		**431**		**431**		
Prepayments, insurance and other receivables	**1 905**	**59**	**1 964**		**1 964**		**59**
Loans receivables from joint ventures	**4**		**4**		**4**		
Loans receivables from subsidiaries	**79**		**79**		**79**		
Cash and cash equivalents	**2 052**		**2 052**		**2 052**		
	86 971	**242**	**87 213**	**(5 642)**	**81 571**		**242**
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

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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
2012						
Held for trading						
Collateral deposits	**459**				**459**	**459**
At amortised cost						
Callable capital bonds	**77**	**76**	**2 613**		**2 766**	**2 037**
Insurance and other payables	**4 537**	**75**	**36**		**4 648**	**4 648**
Total	**5 073**	**151**	**2 649**		**7 873**	**7 144**
Percentage proportion (%)	**64**	**2**	**34**		**100**	
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	

[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 2012

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	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Within 1 year	**4 994**	3 807	**228**	228	**14 194**	11 997
2 – 5 years	**9 459**	6 365	**145**	36	**36 151**	28 977
6 – 10 years	**7 832**	6 079	**280**	154	**11 460**	8 103
11 – 20 years	**15 497**	12 578	**619**	484	**28 331**	26 860
Over 20 years	**34 261**	32 481	**1 537**	1 730	**13 568**	17 596
Total unit liabilities	**72 043**	61 310	**2 809**	2 632	**103 704**	93 533
Non-unit liabilities						
Within 1 year	**570**	527		(1)	**508**	871
2 – 5 years	**1 261**	1 214	**(1)**	(1)	**2 806**	3 548
6 – 10 years	**236**	298	**(1)**	(1)	**5 640**	5 669
11 – 20 years	**16**	34	**(1)**	(1)	**13 379**	11 610
Over 20 years	**(6)**	1			**28 170**	23 430
Effect of discounting cash flows	**(325)**	(412)	**2**	3	**(34 525)**	(31 620)
Total non-unit liabilities	**1 752**	1 662	**(1)**	(1)	**15 978**	13 508
Total policyholders liabilities	**73 795**	62 972	**2 808**	2 631	**119 682**	107 041

1.7.3 Cash surrender values

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

Rm	**2012 Carrying value**	**2012 Surrender value**	2011 Carrying value	2011 Surrender value
Insurance contracts	**119 682**	**100 220**	107 041	88 762
Investment contracts with DPF	**2 808**	**2 425**	2 631	2 422
Investment contracts	**73 795**	**73 212**	62 972	62 468
Total policyholder liabilities	**196 285**	**175 857**	172 644	153 652

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 2012

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
2012					
Assets					
Equity instruments	52 088		1 111		53 199
Listed ordinary shares on the JSE	52 000				52 000
Foreign equities listed on an exchange other than the JSE	88				88
Unlisted equities			1 111		1 111
Debt instruments	14 119	9 400	884		24 403
Preference shares listed on the JSE	1 333				1 333
Unlisted preference shares		498	117		615
Listed term deposits on BESA,JSE or foreign exchanges	12 786				12 786
Unlisted term deposits		8 902	767		9 669
Mutual funds	3 392	80 351	647		84 390
Active market	3 392	80 351			83 743
Property	6	5 535			5 541
Equity	3 371	25 172			28 543
Interest-bearing instruments	15	28 642			28 657
Mixed		21 002			21 002
Non-active market			647		647
Equity			647		647
Investment policies		23 303			23 303
Derivatives		5 383			5 383
Equity		5 383			5 383
Assets subject to fair value hierarchy analysis	69 599	118 437	2 642		190 678
Assets not subject to fair value hierarchy analysis					
Derivatives collateral deposits					754
Loans				183	183
Reinsurance assets					431
Prepayments, insurance and other receivables					1 964
Loan receivables from joint ventures				4	4
Loan receivables from subsidiares				79	79
Cash and cash equivalents					2 052
Properties					23 744
	69 599	118 437	2 642	266	219 889

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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
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					
Derivative 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 subsidiaries				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 2012

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.

	2012 Rm	2011 Rm
Balance at beginning of year	**2 397**	2 655
Fair value adjustment	**394**	268
Additions/advances	**1 323**	432
Disposals/repayments	**(1 472)**	(958)
Balance at end of year	**2 642**	2 397

R2 494 million (2011: R1 993 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 R79 million (2011: R1 million) 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 2012

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
2012					
Investment contract liabilities		**73 785**	**10**		**73 795**
Policyholders		**73 785**			**73 785**
Embedded derivatives			**10**		**10**
Derivatives		**5 183**			**5 183**
Liabilities subject to fair value hierarchy analysis		**78 968**	**10**		**78 978**
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					**119 682**
Investment contracts with DPF					**2 808**
Financial liabilities at amortised cost				**2 037**	**2 037**
Derivative collateral deposit					**459**
Insurance and other payables					**4 648**
		78 968	**10**	**2 037**	**208 612**
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

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

	2012 Rm	2011 Rm
Balance at the beginning of the year	**28**	35
Variance due to experience	**(16)**	
Change due to non-economic assumptions	**(2)**	(4)
Change due to economic assumptions		(3)
Balance at the end of the year	**10**	28

Notes on the company financial statements *(continued)*

for the year ended 31 December 2012

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 12-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 2012

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 2012	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	278	(200)
	-2	(278)	200
Annuitant longevity	+4[1]	108	(78)
	-4[2]	(103)	74
Morbidity	+5	386	(278)
	-5	(387)	278
Withdrawals	+8[3]	187	(135)
	-8	(194)	140
Expense per policy	+5	153	(110)
	-5	(153)	110
Market assumptions			
Interest rate yield curve	+12	(2 092)	(169)
	-12	2 496	103
Option price volatilities	+20	187	(110)
	-20	(153)	87
Equity prices	+15	13 920	812
	-15	(13 854)	(819)
Rand exchange rates	+12[4]	(2 622)	(460)
	-12[5]	2 638	470

(1) Annuitant life expectancy increase i.e. Annuitant mortality reduces.

(2) Annuitant life expectancy reduces i.e. Annuitant mortality increases.

(3) Withdrawal rates on all classes of business increase. In some cases an increase in withdrawals reduces the overall impact.

(4) Strengthening of the Rand.

(5) Weakening of the Rand.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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

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[1]	101	(73)
	-4[2]	(97)	70
Morbidity	+5	293	(211)
	-5	(294)	212
Withdrawals	+8[3]	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[4]	(2 279)	(402)
	-12[5]	2 299	407

(1) *Annuitant life expectancy increase i.e. Annuitant mortality reduces.*
(2) *Annuitant life expectancy reduces i.e. Annuitant mortality increases.*
(3) *Withdrawal rates on all classes of business increase. In some cases an increase in withdrawals reduces the overall impact.*
(4) *Strengthening of the Rand.*
(5) *Weakening of the Rand.*

Notes on the company financial statements *(continued)*

for the year ended 31 December 2012

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	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Equity instruments	**53 111**	48 355	**88**	42	**53 199**	48 397
Listed ordinary shares on the JSE	**52 000**	47 495			**52 000**	47 495
Listed ordinary shares on foreign exchanges			**88**	42	**88**	42
Unlisted	**1 111**	860			**1 111**	860
Debt instruments	**22 681**	34 380	**1 905**	788	**24 586**	35 168
Listed preference shares on the JSE or foreign exchanges	**1 324**	1 317	**9**	23	**1 333**	1 340
Unlisted preference shares	**615**	971			**615**	971
Listed term deposits[1] on BESA, or JSE or foreign exchanges	**11 443**	23 833	**1 343**	724	**12 786**	24 557
Loans	**183**	184			**183**	184
Unlisted term deposits[1]	**9 116**	8 075	**553**	41	**9 669**	8 116
Mutual funds[2]	**62 433**	40 930	**21 957**	18 495	**84 390**	59 425
Active market	**61 786**	40 226	**21 957**	18 495	**83 743**	58 721
Property	**5 410**	3 300	**131**	73	**5 541**	3 373
Equity instruments	**16 681**	14 243	**11 862**	11 315	**28 543**	25 558
Interest-bearing instruments	**20 974**	5 987	**7 683**	4 990	**28 657**	10 977
Mixed assets classes	**18 721**	16 696	**2 281**	2 117	**21 002**	18 813
Non-active market						
Equity instruments	**647**	704			**647**	704
Investment policies	**23 303**	18 161			**23 303**	18 161
Mixed assets classes	**23 303**	18 161			**23 303**	18 161
Reinsurance assets	**431**	425			**431**	425
Derivatives	**5 521**	2 950	**(138)**	(395)	**5 383**	2 555
Derivative collateral deposits	**754**	644			**754**	644
Prepayments, insurance and other receivables	**1 964**	2 292			**1 964**	2 292
Current balances related to						
– Insurance contracts	**187**	242			**187**	242
– Investment contracts	**209**	115			**209**	115
Other prepayments, insurance and other receivables	**1 568**	1 935			**1 568**	1 935
Loan receivables from joint ventures	**4**	4			**4**	4
Loan receivables from subsidiaries	**79**	1			**79**	1
Cash and cash equivalents	**1 935**	1 411	**117**		**2 052**	1 411
Property	**23 744**	23 025			**23 744**	23 025
	195 960	172 578	**23 929**	18 930	**219 889**	191 508

[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 2012

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

	2012 Rm	2011 Rm
Properties	**23 744**	23 025
Properties under development	**13**	
Owner-occupied properties	**1 307**	1 539
Investment properties	**21 919**	21 149
Operating leases – accrued income	**535**	430
Operating leases – accrued expense	**(30)**	(93)
Interests in subsidiaries – loans receivable	**79**	1
Interest in subsidiary mutual funds	**34 135**	17 766
Held-to-maturity financial instruments with joint ventures	**4**	4
Reinsurance assets	**431**	425
Interest in associates – mutual funds	**12 836**	11 402
Financial investments	**138 507**	131 983
Derivative assets	**6 137**	3 199
Prepayments, insurance and other receivables	**1 964**	2 292
Cash and cash equivalents	**2 052**	1 411
Total financial, property and insurance assets	**219 889**	191 508

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	
2012				
Policyholders liabilities				**196 285**
Unit-linked (excluding discretionary participation features (DPF))	95 173	72 372		167 545
Business with DPF	15 551		2 808	18 359
Non-participating annuities (including disability income in claim)	12 533	1 413		13 946
Guaranteed capital endowments	13			13
Retail pure risk (excluding disability income annuities in claim)	(5 313)			(5 313)
Group risk (excluding group disability income annuities in claim)	189			189
Embedded derivatives	1 536	10		1 546
Financial liabilities at amortised cost				2 037
Derivatives				5 183
Derivative collateral deposits				459
Insurance and other payables				4 648
Current balance related to insurance contracts				2 839
Current balance related to investment contracts				126
Other				1 683
	119 682	**73 795**	**2 808**	**208 612**

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

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
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	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 2012

2. Segment information

Liberty Group Limited is a matrix organisation with products and services managed by various business units along risk components within South Africa. Operations are structured to align the company's services and related products to retail and institutional markets.

The segment information is therefore presented by each distinct revenue generating service area. The company currently has two revenue generating service areas, namely retail long-term insurance and corporate long-term insurance.

The company accounts for inter-segment revenues and transfers as if the transaction 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 company. The company utilises additional measures to assess the performance of each of the segments 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 40 B.1 on the company financial statements on page 109.

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 2012

2. Segment information (continued)
Segment earnings for the year ended 31 December 2012:

Rm	Long-term insurance Retail	Corporate	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	21 680	7 564		29 244	(12 932)	16 312
Service fee income from policyholder investment contracts					852	852
Investment returns	25 123	6 808	1 682	33 613	(505)	33 108
Fee income	110			110		110
Distribution of profits from subsidiaries – unincorporated property partnerships					501	501
Defined benefit pension fund employer surplus			(45)	(45)		(45)
Total revenue	46 913	14 372	1 637	62 922	(12 084)	50 838
Net claims and policyholder benefits	(18 253)	(9 770)		(28 023)	11 985	(16 038)
Change in policyholder liabilities	(20 193)	(3 457)		(23 650)	10 707	(12 943)
Fair value adjustment to policyholder liabilities under investment contracts					(10 743)	(10 743)
Acquisition costs	(1 744)	(198)		(1 942)		(1 942)
Marketing and administration expenses	(2 844)	(794)	(356)	(3 994)	201	(3 793)
Finance costs	(77)		(124)	(201)		(201)
Profit before taxation	3 802	153	1 157	5 112	66	5 178
Taxation	(1860)	(38)	(12)	(1 910)	(66)	(1 976)
Total earnings	1 942	115	1 145	3 202		3 202
Other comprehensive income						
Owner-occupied properties – fair value adjustment	(179)	(18)		(197)		(197)
Net change in fair value on cash flow hedges	(28)			(28)		(28)
Change in policyholder insurance liabilities (application of shadow accounting)	119	12		131		131
Income and capital gains tax relating to:						
– owner-occupied properties	60	6		66		66
– net change in fair value on cash flow hedges	8			8		8
Total comprehensive income	1 922	115	1 145	3 182		3 182

[1] *Reporting adjustments include the distribution of profits from subsidiaries, 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 2012

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

Restated 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	(6 284)	(1 141)		(7 425)	5 057	(2 368)
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	2 368	50	445	2 863		2 863
Taxation	(1 061)	31	83	(947)		(947)
Total earnings	1 307	81	528	1 916		1 916
Other comprehensive loss						
Owner-occupied properties – fair value adjustment	105	10		115		115
Change in long-term policyholder liabilities (application of shadow accounting)	(68)	(6)		(74)		(74)
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 classification of long-term insurance into defined IFRS 'investment' and 'insurance' products and the application of shadow accounting for the change in long-term policyholder insurance liabilities.*

	2012 Rm	2011 Rm
3. Equipment and owner-occupied properties under development		
Cost at the beginning of the year	**1 942**	1 925
Additions	**256**	91
Disposals	**(58)**	(74)
Cost at the end of the year	**2 140**	1 942
Accumulated depreciation and impairment at the beginning of the year	**(1 276)**	(1 166)
Depreciation	**(175)**	(175)
Disposals	**47**	65
Accumulated depreciation and impairment at the end of the year	**(1 404)**	(1 276)
Net carrying amount at the end of the year	**736**	666

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	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)							
2012							
Cost – movement							
Properties under development		**13**				**13**	**13**
Computer equipment	**849**	**95**	**(33)**			**911**	**187**
Purchased computer software	**104**	**21**	**(6)**			**119**	**24**
Fixtures, furniture and fittings	**818**	**102**	**(4)**			**916**	**434**
Office equipment	**107**	**7**	**(2)**			**112**	**45**
Motor vehicles	**64**	**18**	**(13)**			**69**	**33**
	1 942	**256**	**(58)**			**2 140**	**736**
Accumulated depreciation and impairment – movement							
Computer equipment	**(682)**		**30**	**(72)**		**(724)**	
Purchased computer software	**(82)**			**(13)**		**(95)**	
Fixtures, furniture and fittings	**(414)**		**4**	**(72)**		**(482)**	
Office equipment and office machines	**(62)**		**2**	**(7)**		**(67)**	
Motor vehicles	**(36)**		**11**	**(11)**		**(36)**	
	(1 276)		**47**	**(175)**		**(1 404)**	
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)	

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

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 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	**1 539**	1 513
Additions – capitalised subsequent expenditure	**2**	4
Revaluations	**(197)**	115
Reclassifications to investment properties	**(37)**	(93)
Fair value at the end the of the year	**1 307**	1 539
Cost at the beginning of the year	**720**	787
Additions – capitalised subsequent expenditure	**2**	4
Reclassifications to investment properties	**(2)**	(71)
Cost at the end of the year	**720**	720
Accumulated depreciation at the beginning and end of the year[1]	**(57)**	(57)
Cost less accumulated depreciation	**663**	663

[1] *No depreciation was provided in 2012 or 2011 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 2012.

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 2012. 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 2012. 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 2012

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 7,0% to 12,0% (2011: 7,25% to 11,75%) on a property by property basis. Exit capitalisation rates generally range from 7,0% to 12,0% (2011: 7,25% to 11,75%).

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.

	2012 Rm	2011 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	**21 149**	19 553
Revaluations net of lease straight-lining	**1 052**	755
Revaluations	**1 220**	770
Net movement on straight-lining operating leases	**(168)**	(15)
Additions – property acquired	**32**	
Additions – capitalised subsequent expenditure	**65**	748
Disposals	**(416)**	
Reclassifications from owner-occupied properties	**37**	93
Fair value at the end of the year	**21 919**	21 149
At the end of the year investment properties comprised the following property types:		
Office buildings	**941**	1 197
Shopping malls	**18 120**	17 337
Hotels	**2 892**	2 536
Other	**471**	416
Total investment properties	**22 424**	21 486
Investment properties at fair value	**21 919**	21 149
Operating leases – accrued income	**535**	430
Operating leases – accrued expense	**(30)**	(93)

The investment properties were independently valued as at 31 December 2012 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 2012 and 2011 unlet space amounted to 7,1% (2011: 7,2%) of available lease area in the investment properties held by the company. The average net rental growth is 2,5% (2011: 6,9%).

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, amounted to R1 239 million (2011: R1 058 million). Direct operating expenses arising on the investment property amounted to R539 million (2011: R481 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 2012 of owner occupied properties (R1 307 million) and investment properties (R22 424 million) is R23 731 million (2011: R23 025 million). A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R3,7 billion (2011: R3,6 billion) if the assumption decreased, and decrease the total fair value by R2,8 billion (2011: R2,7 billion) if the assumption increased.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
6. Intangible assets		
Cost at the beginning of the year	**459**	452
Additions	**39**	7
Cost at the end of the year	**498**	459
Accumulated amortisation and impairment at the beginning of the year	**(386)**	(368)
Amortisation	**(27)**	(18)
Impairment	**(44)**	
Accumulated amortisation and impairment at the end of the year	**(457)**	(386)
Net carrying amount at the end of the year	**41**	73
Summary of net carrying value		
Computer software – internally generated	**37**	54
Present value of in-force policyholder contracts[1]	**4**	19

	Balance at beginning of year Rm	Additions Rm	Amortisation Rm	Impairment Rm	Balance at end of year Rm	Amortisation period
2012						
Cost – movement						
Computer software – internally generated	**270**	**39**			**309**	
Present value of in-force policyholder contracts[1]	**189**				**189**	
	459	**39**			**498**	
Accumulated amortisation and impairment movement						
Computer software – internally generated	**(216)**		**(12)**	**(44)**	**(272)**	**Up to 7 years**
Present value of in-force policyholder contracts[1]	**(170)**		**(15)**		**(185)**	**Up to 10 years**
	(386)		**(27)**	**(44)**	**(457)**	
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)	

[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 2012

	2012 Rm	2011 Rm
7. Deferred acquisition costs		
Balance at the beginning of the year	**386**	360
Cost of new business acquired	**249**	219
Amortisation realised through profit or loss	**(198)**	(193)
Balance at the end of the year	**437**	386
Current	**131**	121
Non-current	**306**	265
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	**4 155**	3 349
Intergroup balances	**79**	1
Impairment provision	**(397)**	(397)
Total interests in subsidiaries	**3 837**	2 953
8.2 Movement analysis		
Shares at cost		
Shares at cost at the beginning of the year	**3 349**	3 318
Transfer from interest in joint venture[(1)]	**32**	
Remeasurement to acquisition date fair value[(1)]	**2**	
Write off of impairment provision		(11)
Capital reduction and dividends in specie		(17)
Disposals		(8)
Increase of capital	**772**	67
Shares at cost at the end of the year	**4 155**	3 349
Intergroup balances		
Intergroup balances at the beginning of the year	**1**	(11)
Advances	**79**	12
Repayments	**(1)**	
Intergroup balances at the end of the year	**79**	1
Impairment provision		
Impairment provision at the beginning of the year	**(397)**	(408)
Utilisation of provision to subsidiary cost/intergroup balances		11
Impairment provision at the end of the year	**(397)**	(397)

(1) *On 1 January 2012, Liberty acquired a further 5,96% interest in Total Health Trust Limited (refer to note 34), which resulted in the interest being transferred from joint ventures to interests in subsidiaries. The previously held equity interest was remeasured to its acquisition date fair value.*

Notes on the company financial statements *(continued)*

for the year ended 31 December 2012

	Amount of issued share capital	Percentage of issued share capital		Shares at cost		Intergroup balances[(1)]		Impairment provision	
	2012	**2012 %**	2011 %	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
8. Interests in subsidiaries (continued)									
8.3 Subsidiaries (unlisted) – directly owned				**4 155**	3 349	**79**	1	**(397)**	(397)
Long-term insurance									
Capital Alliance Life Limited	**R896 163 703**	**100**	100	**2 917**	2 917			**(397)**	(397)
Frank Life Limited	**R57 153 173**	**100**	100	**57**	35				
Liberty Active Limited	**R943 001 192**	**100**	100	**943**	193				
Liberty Life Assurance Uganda Limited	**Shs1 000 000 000**	**51**	51	**5**	5				
Liberty Life Swaziland Limited	**E10 000 000**	**100**	100	**10**	10		1		
Investment holding									
LPH Properties Limited	**R869 083**	**100**	100	**1**	1		(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**	185	**79**	5		
Liberty Private Fund Administrators (Proprietary) Limited *[Fund administrators]*	**R100**	**100**	100						
Total Health Trust Limited *[Health risk services organisation]*	**Kes400 000 00**	**51**		**34**					
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**	100						
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 2012

	Percentage share of partnership	
	2012 %	2011 %
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 R885 million (2011: R562 million) and in the losses was R160 million (2011: R66 million).

	Participation rights in total issued units		Units held at fair value	
	2012 %	2011 %	**2012 Rm**	2011 Rm
9. Interests in subsidiaries – mutual funds				
STANLIB Funds Limited	**55**	57	**13 819**	12 013
STANLIB Prudential Bond Fund	**93**		**13 664**	
STANLIB SWIX 40 Exchange Traded Fund	**88**	92	**2 015**	2 030
STANLIB Multi-Manager Property Fund	**54**	53	**1 124**	917
STANLIB Multi-Manager Flexible Property Fund	**53**	53	**951**	769
Global Insurance Settlements Fund PLC	**79**		**671**	
Ermitage Global Wealth Management Strategies Fund	**74**	60	**474**	438
RMB Liberty Progessive Bonus Absolute Return Portfolio	**100**		**415**	
STANLIB Dynamic Return Fund	**67**		**99**	
STANLIB Africa Property Fund	**99**		**53**	
STANLIB Top 40 Exchange Traded Fund	**51**	60	**218**	366
Ermitage Asset Selection Fund	**69**	72	**193**	316
Ermitage Distressed and Event Fund	**97**	93	**149**	199
STANLIB Shariah Equity Fund	**58**	54	**180**	141
Ermitage Global Multi Strategy Fund		60		109
Standard Global Emerging Markets Property Fund	**100**	100	**110**	70
Ermitage Global Long/Short Fund		96		398
Total interests in subsidiary mutual funds			**34 135**	17 766

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
10. Interests in joint ventures		
10.1 Summary		
Equity loans and ordinary shares at cost	**64**	106
Held-to-maturity financial instruments[1]	**4**	4
Impairment provision		(14)
Total interests in joint ventures	**68**	96
10.2 Movement analysis		
Equity loans and ordinary shares at cost		
Balance at the beginning of the year	**106**	100
Acquisition of Total Health Trust Limited ordinary shares[2]	**4**	6
Derecognition of Total Health Trust Limited	**(46)**	
Balance at the end of the year	**64**	106
Held-to-maturity financial instruments[1]		
Balance at the beginning and end of the year	**4**	4
Impairment provision		
Balance at the beginning of the year	**(14)**	(14)
Derecognition of Total Health Trust Limited	**14**	
Balance at the end of the year		(14)

[1] Held-to-maturity financial instruments comprise:

R4 million (2011: 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. The interest in joint venture was transferred to interests in subsidiaries effective 1 January 2012 as a further stake was acquired bringing the total ownership to 51,2%.

The fair value of the loan receivable is nil (2011: nil) and is long term in nature.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

10. Interests in joint ventures (continued)

	Percentage ownership		Equity loans and shares held at cost		Held-to-maturity financial instruments[1]		Impairment		Total interest	
	2012 %	2011 %	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 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		42				(14)		28
Total			**64**	106	**4**	4		(14)	**68**	96

	2012 Rm	2011 Rm
Statement of financial position extracts[5]		
Non-current assets	**358**	375
Current assets	**52**	70
Current liabilities	**(34)**	(44)
Statement of comprehensive income extracts[5]		
Income	**87**	129
Expenses	**(87)**	(121)
Commitments[5]		
Capital commitments – authorised by directors but not contracted	**4**	12
Investment properties	**2**	5
Equipment	**2**	7

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

11. Interests in associates

	2012 Rm
Associates held at cost	**14**

At 31 December the company's associates and percentages held were as follows:

Name	Percentage of issued share capital		Fair value	
	2012 %	2011 %	**2012 Rm**	2011 %
Hereford Financial Services (Proprietary) Limited	**20**		**9**	
Eq-Fin (Proprietary) Limited	**26**		**5**	
Total interest in associates			**14**	

	2012 Rm
11.1 Summarised financial information of associates:	
Total assets	**19**
Total liabilities	**(8)**
Total revenue	**60**
Net profit for the year	**3**
11.2 Summary	
Ordinary shares at cost	**14**
Share of post-acquisition reserves	
Total interest in associates	**14**
11.3 Movement analysis	
Ordinary shares at cost	
Balance at the beginning of the year	
Acquisitions during the year	**14**
Balance at the end of the year	**14**

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
12. Interest in associates – mutual funds		
Fair value of associates held at fair value through profit or loss	**12 836**	11 402
Summarised financial information of associates:		
Total investments	**34 899**	31 170
Current assets	**4 753**	7 066
Current liabilities	**(99)**	(36)
Total revenue[(1)(2)]	**1 869**	1 841

[(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:

	Percentage of participation rights in total issued units		Fair value	
Name	**2012 %**	2011 %	**2012 Rm**	2011 Rm
Standard Bank Institutional Money Market Fund	**35**	30	**5 950**	5 604
STANLIB Institutional Property Fund[(1)]	**50**	39	**1 867**	808
STANLIB Value Fund	**48**	48	**735**	684
STANLIB Balanced Fund	**22**	22	**665**	469
STANLIB Balanced Cautionary Fund	**26**	22	**549**	284
STANLIB Multi-Manager Equity Fund	**37**	40	**461**	627
Synergy Income Fund Limited	**38**	47	**387**	247
STANLIB Moderately Conservative Fund of Funds	**30**	36	**320**	252
STANLIB Multi-Manager Real Return Feeder Fund	**22**	22	**283**	265
STANLIB Multi-Manager Low Equity Fund of Funds	**25**	27	**248**	268
STANLIB Global Equity Feeder Fund	**27**	25	**234**	206
STANLIB Moderate Fund of Funds	**28**	28	**182**	143
STANLIB Multi-Manager Medium Equity Fund of Funds	**23**	25	**168**	169
STANLIB Managed Flexible Fund	**26**	26	**155**	168
STANLIB Resources Fund	**23**	23	**138**	151
Kruger STANLIB Balanced Fund	**23**		**119**	
Kruger STANLIB Prudential Fund	**39**		**106**	
STANLIB Quants Funds[(1)]	**50**	49	**83**	76
STANLIB Multi-Manager All Stars Equity Fund of Funds	**23**	21	**74**	58
STANLIB Small Cap Fund	**36**	33	**59**	58
STANLIB Nationbuilder Fund	**27**	25	**53**	52
STANLIB Aggressive Income Fund[(2)]		28		369
Ermitage Money Market Funds[(2)]		24		263
STANLIB Global Property Feeder Fund[(2)]		34		91
Oasis Balanced Fund[(2)]		26		90
Total interest in associates			**12 836**	11 402

[(1)] *This interest is disclosed as an associate as the percentage ownership during the year fluctuated at or below what is considered to be a controlling interest.*
[(2)] *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 2012

	2012 Rm	2011 Rm
13. Financial investments and derivative assets and liabilities		
13.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market		
Listed	**66 488**	74 182
Equities	**52 088**	47 537
Preference shares	**1 333**	1 340
Commercial term deposits	**6 015**	8 374
Mutual funds	**281**	748
Government, municipal and utility stocks	**6 771**	16 183
Unlisted	**46 807**	37 625
Commercial term deposits	**9 669**	8 116
Mutual funds	**37 138**	29 509
Unquoted and unlisted	**25 029**	19 992
Equities	**1 111**	860
Preference shares	**615**	971
Investment policies	**23 303**	18 161
Loans and receivables		
Loans[(1)]	**183**	184
Total financial investments	**138 507**	131 983
13.2 Derivative assets and liabilities:		
Assets:		
Held for trading	**6 102**	3 186
Derivatives	**5 348**	2 542
Collateral deposits	**754**	644
Held for hedging		
Cash flow hedge assets	**35**	13
	6 137	3 199
Liabilities:		
Held for trading	**5 570**	2 761
Derivatives	**5 111**	2 521
Collateral deposits	**459**	240
Held for hedging		
Derivatives	**72**	11
	5 642	2 772

[(1)] *The fair value of loans is R170 million (2011: R168 million).*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
13. Financial investments and derivative assets and liabilities (continued)					
13.3 Movement analysis:					
2012					
Balance at the beginning 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 hedging assets	13				13
Held for hedging liabilities	(11)				(11)
Interests in associates – mutual funds			11 402		11 402
Interest in subsidiaries – mutual funds			17 766		17 766
Redesignated as derivatives held for hedging	4	(4)			
Additions (purchasings and issuings)		3 549	115 695	28	119 272
Disposals (sales and redemptions)		(2 639)	(115 153)		(117 792)
Accrued interest				16	16
Repayments				(45)	(45)
Fair value adjustments – total earnings	(15)	(799)	23 786		22 972
Derivative assets	29	4 790			
Derivative liabilities	(44)	(5 589)			
Fair value adjustments – other comprehensive income	(28)				(28)
Derivative assets	6				
Derivative liabilities	(34)				
Balance at the end of the year	(37)	532	185 295	183	185 973
Financial investments			138 324	183	138 507
Held for trading assets		6 102			6 102
Held for trading liabilities		(5 570)			(5 570)
Held for hedging assets	35				35
Held for hedging liabilities	(72)				(72)
Interest in associates – mutual funds			12 836		12 836
Interest in subsidiaries – mutual funds			34 135		34 135

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
13. Financial investments and derivative assets and liabilities (continued)					
13.3 Movement analysis:					
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 hedging 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

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
13. Financial investments (continued)		
13.4 Maturity profile of commercial term deposits, government, municipal and utility stocks and loans:		
Less than 1 year	**4 800**	3 399
1 – 5 years	**6 675**	7 716
5 – 10 years	**4 962**	11 055
10 – 20 years	**4 035**	7 927
Over 20 years	**1 983**	2 576
Open ended[1]	**183**	184
Total	**22 638**	32 857

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.*

	Gross value Rm	Income taxation Rm	Net value Rm
13.5 Cash flow hedging reserve			
2012			
Balance at beginning of year	**15**	**(4)**	**11**
Release in accordance with cash flows	**(46)**	**13**	**(33)**
Deferral of fair value adjustments on designated derivatives	**18**	**(5)**	**13**
Balance at the end of the year	**(13)**	**4**	**(9)**
2011			
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

	2012 Rm	2011 Rm
14. Prepayments, insurance and other receivables		
Current balances related to insurance contracts	**187**	242
Outstanding premium receivables	**53**	59
Reinsurance recoveries	**134**	183
Current balances related to investment contracts		
Outstanding premium receivables	**209**	115
Current balances related to insurance and investment contracts	**396**	357
Accrued income	**44**	21
Investment debtors	**515**	173
Loans and current accounts	**530**	1 269
Agents, brokers and intermediaries	**92**	59
Other debtors	**387**	413
Total prepayments, insurance and other receivables[1]	**1 964**	2 292

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

	2012 Rm	2011 Rm
15. Cash and cash equivalents		
Cash at bank and at hand	**416**	132
Short-term cash deposits	**1 636**	1 279
Total cash and cash equivalents	**2 052**	1 411

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012			2011		
	Insurance contracts Rm	Investment contracts with DPF[1] Rm	Reinsurance assets Rm	Restated Insurance contracts Rm	Investment contracts with DPF[1] Rm	Reinsurance assets Rm
16. Policyholders liabilities						
Balance at the beginning of the year	107 041	2 631	(425)	104 592	2 634	(421)
Inflows	36 854	832	(650)	24 377	495	(606)
Insurance premiums	16 448	480	(616)	14 761	334	(572)
Investment returns	20 406	352	(34)	9 616	161	(34)
Unwinding of discount rate	28		(34)	5		(34)
Investments	20 378	352		9 611	161	
Outflows	(22 019)	(675)	496	(20 462)	(485)	455
Claims and policyholders' benefits	(15 814)	(651)	427	(15 518)	(447)	396
Claims and policyholders' benefits under insurance contracts	(15 814)	(356)	427	(15 518)	(208)	396
Switches between investment with DPF to investment without DPF		(295)			(239)	
Acquisition costs associated with insurance contracts	(1 717)	(9)		(1 505)	(10)	
Finance costs	(43)			(21)		
General marketing and administration expenses	(2 592)	(23)		(2 420)	(23)	
Taxation	(1 963)	8	69	(1 103)	(5)	59
Expenses recovered from other group companies	110			105		
Net income from insurance operations	(2 194)	20	148	(1 466)	(13)	147
Changes in estimates	(266)		(29)	(298)		(5)
Planned margins and other variances	(2 733)	28	246	(1 487)	(18)	211
New business	(172)			(245)		
Shareholder taxation on transfer of net income	977	(8)	(69)	564	5	(59)
Balance at the end of the year	119 682	2 808	(431)	107 041	2 631	(425)
Current	14 702	228	(61)	12 868	227	(74)
Non-current	104 980	2 580	(370)	94 173	2 404	(351)

[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 2012

16. 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 APN 105 issued by the Actuarial Society of South Africa (ASSA). The rates are defined using the ASSA 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 incorporate 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 6,89% (2011: 8,15%).
- Equity rate – Gilt rate plus 3,5 percentage points as an adjustment for risk 10,39% (2011: 11,65%).
- Property rate – Gilt rate plus 1 percentage point as an adjustment for risk 7,89% (2011: 9,15%).
- Cash – Gilt rate less 1,5 percentage points 5,39% (2011: 6,65%).

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 endowment business) is 9,2% per annum in 2012 (2011: 10,4% 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 SAP 104 issued by the Actuarial Society of South Africa.

For life annuity and guaranteed endowment business discount rates are set at risk free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and 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 2012

16. 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) when the risk free rate is below 6,5%. The inflation rate is set at the risk free rate less 3% when the risk free rate is above 8,5%. At risk free rates between 6,5% and 8,5% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate expense inflation assumption of 4,15% at 31 December 2012 (2011 assumption: 5,15%). 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. Allowance is also made for dividend withholding tax at the applicable rate.

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 SAP 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives, in respect of policyholder contracts, are set in accordance with APN 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 30,22% (2011: 28,11%). Correlations between asset classes are set based on historical data. Twenty thousand simulations are performed in calculating the liability.

Using the simulated investment returns, but based on 2000 simulations, 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	9,41%	27,08%
A 1 year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	2,23%	26,65%
A 1 year at-the-money (forward) put on the FTSE/JSE TOP 40 index	10,47%	27,10%
A 5-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	12,25%	24,68%
A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1{,}04^5$ of spot	21,99%	25,19%
A 5-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	19,10%	25,03%
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	11,94%	N/A
A 20-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	4,76%	25,84%
A 20-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1{,}04^{20}$ of spot	21,46%	26,96%
A 20-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	26,31%	27,20%
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	0,54%	N/A

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

16. Policyholders liabilities (continued)

For 2011 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	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 forward 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 forward 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 FTSE/JSE TOP 40 index with a strike price equal to $1,04^{20}$ of spot on the	17,51%	25,11%
A 20-year forward 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) is lower than this strike.	0,46%	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 at the relevant date. "At-the-money (spot)" means that the strike price of the option is equal to the current market value of the underlying. "At-the-money (forward)" means that the strike price of the option is equal to the market's expectation of the capital index at the maturity date of the option.

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

Model output yield curve (%)	**2012**	2011
1 year	**4,94**	5,54
2 years	**5,01**	5,79
3 years	**5,26**	6,16
4 years	**5,53**	6,51
5 years	**5,79**	6,82
10 years	**6,87**	7,72
15 years	**7,31**	7,76
20 years	**7,29**	7,73
25 years	**7,28**	7,74
30 years	**7,12**	7,63
35 years	**7,18**	7,61
40 years	**7,25**	7,58
45 years	**7,28**	7,58
50 years	**7,27**	7,55

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 R295 million in 2012 compared to a decrease of R303 million in 2011.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in an increase in the liability of R164 million (2011: decrease of R554 million).
- Future mortality assumptions were adjusted to reflect expected future experience, amounting to a decrease in the liability of R158 million (2011: increase of R232 million).
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R316 million (2011: decrease of R27 million).
- The assumptions for annuitant longevity were strengthened, resulting in an increase in the liability of R14 million (2011: increase of R192 million).
- A change in the expense valuation assumption resulted in a decrease in the liability of R48 million (2011: increase of R93 million).
- A change in the tax relief on expenses resulted in a decrease in reserves of R81 million.
- A change in the modelling resulted in an increase in reserves of R198 million.
- The balance of other changes resulted in a decrease in liabilities of R68 million (2011: decrease of R131 million).
- In 2011 there was a change in the life annuities and guaranteed endowments illiquidity premium methodology, resulting in a decrease in the liability of R108 million. No further changes were required for 2012.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
17. Policyholders liabilities under investment contracts		
Balance at the beginning of the year	**62 972**	57 928
Fund inflows from investment contracts (excluding switches)	**12 932**	10 988
Net fair value adjustment	**10 743**	4 226
Fund outflows under investment contracts (excluding switches)	**(12 280)**	(9 572)
Switches between investment with DPF to investment without DPF	**295**	239
Service fee income	**(867)**	(837)
Balance at the end of the year	**73 795**	62 972
Current	**5 564**	4 334
Non-current	**68 231**	58 638
Net income from investment contracts[1]	**(5)**	43
Service fee income	**867**	837
Expenses		
Property expenses applied to investment returns	**464**	407
Shareholder taxation on transfer of net income	**(12)**	(22)
Acquisition costs	**(267)**	(221)
General marketing and administration expenses	**(1 023)**	(946)
Finance costs	**(34)**	(12)

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

	2012 Rm	2011 Rm
18. Financial liabilities at amortised cost		
Callable capital bonds[1]	**2 037**	2 054
– 2005 issue[2]		2 054
– 2012 August issue[3]	**1 024**	
– 2012 October issue[3]	**1 013**	
Total financial liabilities at amortised cost	**2 037**	2 054
Current	**35**	2 054
Non-current	**2 002**	

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
18. Financial liabilities at amortised cost (continued)		
Movement analysis		
Balance at the beginning of the year	**2 054**	2 054
Bond expense capitalisation	**(12)**	
Additions	**2 000**	
Interest accrued	**173**	179
Repayments	**(2 178)**	(179)
Balance at the end of the year	**2 037**	2 054

(1) *The fair value of the callable capital bonds are R2 206 million (2011: R2 098 million).*

(2) *On 12 September 2005, Liberty Group Limited issued R2 billion subordinated unsecured secondary callable capital bonds which was called 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 was fixed at 8,93% and payable bi-annually in arrears on 12 March and 12 September of each year.*

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.

(3) *On 13 August 2012, Liberty Group Limited issued a R1 billion subordinated bond maturing on 13 August 2017. The bond was issued at a fixed coupon of 7,67% payable semi-annually on 13 August and 13 February each year until 13 August 2017.*

On 3 October 2012, Liberty Group Limited issued a further R1 billion subordinated bond maturing on 3 April 2018. The bond was issued at a fixed coupon of 7,64% payable semi-annually on 3 April and 3 October each year until 3 April 2018.

The bonds are callable by Liberty prior to maturity date if certain regulatory or taxation events occur.

The Financial Services Board approval of the above group issuances included a requirement to hold liquid assets in Liberty Group Limited so that sufficient liquidity is available to meet the bond redemption and interest amounts when they are due. This requirement has been complied with during 2012. Redemptions on maturity date are subject to the approval of the Financial Services Board.

	Note	2012 Rm	2011 Rm
19. Employee benefits			
19.1 Summary			
Asset:			
Defined benefit pension fund employer surplus	19.5	**186**	199
Liabilities:			
Short-term employee benefits	19.2	**439**	346
Post-retirement medical aid benefit	19.4(b)	**362**	448
Total liability		**801**	794

19.2 Short-term employee benefits

	Leave pay		**Short-term incentive schemes**		**Total**	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
At the beginning of the year	**39**	42	**307**	234	**346**	276
Additional provision raised	**53**	53	**365**	255	**418**	308
Utilised during the year	**(55)**	(56)	**(270)**	(182)	**(325)**	(238)
At the end of the year	**37**	39	**402**	307	**439**	346

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 2012

19. Employee benefits (continued)

19.2 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 2012 comprise of R274 million (2011: R214 million) senior management group incentive scheme, R102 million (2011: R71 million) general staff incentive schemes and R26 million (2011: R22 million) investment professional schemes.

19.3 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' contributions 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 2012

	Liberty Group Defined Pension Fund				
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
19. Employee benefits (continued)					
19.4 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	**1 258**	1 234	1 188	1 111	1 369
Valuation adjustment[1]				(13)	
Service cost benefits earned during the year	**13**	13	13	12	14
Interest cost on projected benefit obligation	**62**	67	66	52	59
Actuarial loss	**198**	46	59	94	19
Benefits paid	**(93)**	(102)	(92)	(68)	(350)
Present value of funded obligation at the end of the year	**1 438**	1 258	1 234	1 188	1 111
Change in plan assets					
Fair value of plan assets at the beginning of the year	**1 367**	1 342	1 280	1 197	1 821
Valuation adjustment[1]				(13)	
Expected return on plan assets	**117**	118	117	88	164
Actuarial gain/(loss)	**150**	9	37	76	(438)
Employer contribution[2]	**15**	14	9	8	8
Reduction in employer surplus account	**(15)**	(14)	(9)	(8)	(8)
Benefits paid	**(93)**	(102)	(92)	(68)	(350)
Fair value of plan assets at the end of the year[3]	**1 541**	1 367	1 342	1 280	1 197
Excess not recognised	**103**	109	108	92	86
Analysis of the defined benefit pension fund obligation movement					
Current service cost	**13**	13	13	12	14
Interest cost	**62**	67	66	52	59
Expected return on plan assets	**(117)**	(118)	(117)	(88)	(164)
Net actuarial loss recognised in the year	**48**	37	22	18	458
Total	**6**	(1)	(16)	(6)	367

[1] *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.*

[2] *The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2013 is nil as it is anticipated the contributions will be funded from the employer portion of the surplus account.*

[3] *The fair value of the plan assets for 2012 constitute: 36,85% cash, 11,58% bonds, 36,31% equities, 15,10% international funds and 0,16% property (2011: 43,26% cash, 12,79% bonds, 31,65% equities, 12,10% international funds and 0,20% property).*

Notes on the company financial statements *(continued)*

for the year ended 31 December 2012

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
19. Employee benefits (continued)					
19.4 Retirement benefit obligation (continued)					
(b) Change in post-retirement medical aid obligation					
Present value of unfunded obligation at the beginning of the year	**459**	400	354	344	293
Service cost benefits earned during the year	**9**	8	6	6	6
Interest cost on projected benefit obligation	**40**	34	34	29	26
Benefits paid	**(10)**	(9)	(8)	(7)	(6)
Actuarial (gain)/loss	**(127)**	26	14	(18)	25
Present value of unfunded obligation at the end of the year	**371**	459	400	354	344
Net liability recognised in financial position[1]	**362**	448	390	344	333
Current	**10**	9	8	7	89
Non-current	**352**	439	382	337	244

The liability obligation has been updated after the most recent statutory actuarial valuation as at 1 January 2013.

[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 R362 million (2011: R448 million).*

19.5 Defined benefit pension fund employer surplus

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Balance at the beginning of the year	**199**	202	170	144	162
Adjustments to employee surplus account arising from statutory valuations[1]	**(45)**	13	11	13	84
Adjustment to past contribution rate[2]		(17)			
Investment gains/(losses)	**47**	15	30	21	(92)
Agreed contribution to member benefit enhancements	**(15)**	(14)	(9)	(8)	(10)
Balance at the end of the year	**186**	199	202	170	144
Current	**15**	14	9	8	13
Non-current	**171**	185	193	162	131

[1] *Net adjustments to surpluses that arise on a statutory valuation basis are apportioned between the employer and member surplus accounts as agreed with the trustees.*

[2] *The adjustment to past contribution rate in 2011 refers to the employer decision to increase its contribution rate on 1 January 2012, effective 1 January 2009. The R17 million therefore represents the employer's increased contributions towards members benefits for 2009 and 2010.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

19. Employee benefits (continued)

19.6 Assumptions used in the valuation of obligations

	Liberty Group Defined Pension Fund		Post-Retirement Medical Aid Benefit	
	2012	2011	**2012**	2011
The valuation was based on the following principal actuarial assumptions:				
Anticipated after taxation returns on investments	**7,99%**	8,76%	**n/a[1]**	n/a[1]
Discount rate	**7,99%**	8,76%	**8,40%**	8,78%
Future salary increases (excluding increases on promotion)	**6,36%**	6,11%		
Medical cost trend rate			**7,06%**	7,38%
Mortality assumption – pre-retirement	**[1]**	[1]	**[2]**	[2]
– post-retirement	**[3]**	[4]	**[4]**	[4]
Retirement age – executives	**63**	63	**63**	63
– others	**60 or 65**	60 or 65	**60 or 65**	60 or 65

n/a 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.

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

[3] For the Liberty Group Defined Pension Fund, the post-retirement mortality assumption was based on the CSI Committee: Annuitant mortality 2001 – 2004 tables in 2012.

[4] For both the Liberty Group Defined Pension Fund (2011 only) and the Post-Retirement Medical Aid Benefit (2012 and 2011), the post-retirement mortality assumption is based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years.

19.7 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 2012	Decrease/ (increase) in liability 2011
Variable	**Rm**	Rm
1% decrease in medical inflation rate		
– active members	**33**	50
– pensioners	**13**	13
1% increase in medical inflation rate		
– active members	**(41)**	(63)
– pensioners	**(15)**	(15)

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

19. Employee benefits (continued)

19.8 Transactions between group companies and the funds

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

	2012 R'000	2011 R'000
Retirement		
Defined benefit funds	**8**	7
Defined contribution funds	**144**	131
Medical		
Post-retirement medical benefit paid	**8**	7

19.8.2 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	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Balance at 1 January	**76**	74		
Balance at 31 December	**71**	76	**17**	22

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

	2012 R'000	2011 R'000
Liberty Group Defined Benefit Pension Fund	**240**	197

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

	2012 Rm	2011 Rm
STANLIB Institutional Property		
STANLIB Funds Limited	**214**	167
Standard Bank bonds, deposits and money market investments	**30**	47

19.8.5 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	
	2012 Rm	2011 Rm
Liberty Defined Contribution Pension Fund		
Balance at 1 January	**292**	271
Premiums	**46**	30
Fair value adjustments	**65**	22
Withdrawals	**(36)**	(31)
Balance at 31 December	**367**	292

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

19. Employee benefits (continued)

19.8 Transactions between group companies and the funds (continued)

19.8.5 (continued)

	Fund value	
	2012 Rm	2011 Rm
Liberty Provident Fund		
Balance at 1 January	**1 829**	1 705
Premiums	**202**	175
Fair value adjustments	**400**	143
Withdrawals	**(170)**	(194)
Balance at 31 December	**2 261**	1 829
Liberty Agency Fund		
Balance at 1 January	**935**	917
Premiums	**56**	48
Fair value adjustments	**154**	62
Withdrawals	**(121)**	(92)
Balance at 31 December	**1 024**	935
Liberty Franchise Umbrella Fund		
Balance at 1 January	**37**	31
Premiums	**9**	7
Fair value adjustments	**3**	3
Withdrawals	**(3)**	(4)
Balance at 31 December	**46**	37

20. Deferred revenue

	2012 Rm	2011 Rm
Balance at the beginning of the year	**148**	135
Released to profit or loss	**(17)**	(15)
Deferred income relating to new business	**32**	28
Balance at the end of the year	**163**	148
Current	**18**	16
Non-current	**145**	132

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 2012

	Liability at the beginning of the year Rm	(Provision)/ release for the year Rm	CGT inclusion rate change Rm	Liability at the end of the year Rm
21. Deferred taxation				
Normal taxation	(1 396)	(192)		(1 588)
Policyholder liabilities difference between statutory and accounting basis	(1 323)	(190)		(1 513)
Intangible assets – PVIF	(5)	4		(1)
Deferred acquisition costs	(108)	(14)		(122)
Deferred revenue liability	41	4		45
Provisions	(1)	4		3
Capital gains taxation	(1 105)	500	(22)	(627)
Total	(2 501)	308	(22)	(2 215)

	2012 Rm	2011 Rm
Movement summary		
Balance at the beginning of the year as originally stated	(2 501)	(2 108)
Charge through statement of comprehensive income	308	(393)
Rate change	(22)	
Balance at the end of the year	(2 215)	(2 501)
Deferred tax liabilities		
Non-current	(2 215)	(2 501)
22. Deemed disposal taxation liability	861	

In accordance with the taxation laws amendment act number 22 promulgated 1 February 2013 various investments held to back policyholder liabilities were, from a capital gains taxation perspective, deemed to be simultaneously disposed of and reacquired at market value on 29 February 2012.

The effect of this was the crystalisation of unrealised taxable gains and losses relating to these investments at the old capital gains taxation inclusion rate. The act requires the resultant net taxable gain to be spread and included in equal amounts over four tax years commencing from the 2012 tax year.

The consequential taxation payable for the 2012 tax year of R287 million has been included in current taxation and the expected future tax obligation for the 2013 – 2015 tax years of R861 million has been accounted for and described as a deemed disposal taxation liability. The expected liability does not attract interest and has not been discounted to current values.

Subsequent realised gains and losses of the affected investments will attract the new capital taxation inclusion rates applicable from 1 March 2012.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	Retirement fund administration		Possible claims		Restructuring		Total	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
23. Provisions								
Balance at the beginning of the year	**165**	109	**199**	54			**364**	163
Provisions no longer required			**(35)**	(1)			**(35)**	(1)
Provision raised		93	**34**	165	**19**		**53**	258
Unwinding of discount rate	**7**	(8)					**7**	(8)
Utilised during the year	**(45)**	(29)	**(6)**	(19)			**(51)**	(48)
Balance at the end of the year	**127**	165	**192**	199	**19**		**338**	364

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 were 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 two 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 two years.

Restructuring

In the second half of 2012 the board approved a project to rationalise the group's registered South Africa life licenses. R19 million has been provided for as at 31 December 2012 to cover legal and associated costs including required communication with policyholders. The rationalisation is planned to take place in 2013.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
24. Insurance and other payables		
Current balances related to insurance contracts	**2 839**	2 155
Outstanding claims and surrenders	**2 605**	1 932
Commission creditors	**234**	223
Current balances related to investment contracts		
Outstanding claims and surrenders	**126**	68
Total current balances related to insurance and investment contracts	**2 965**	2 223
Total other payables	**1 683**	1 697
Sundry payables	**1 466**	1 396
Investment creditors	**217**	301
Total insurance and other payables	**4 648**	3 920
Current	**4 612**	3 889
Non-current	**36**	31
25. Share capital		
Authorised share capital		
400 000 000 ordinary shares of 10 cents each	**40**	40
Issued share capital		
288 956 191 ordinary shares of 10 cents each	**29**	29
Total issued share capital	**29**	29

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
26. Premiums		
Insurance premiums	**16 928**	15 095
Reinsurance premiums	**(616)**	(572)
Net insurance premiums	**16 312**	14 523
Fund inflows from investment contracts	**12 932**	10 988
Net premium income from insurance contracts and inflows from investment contracts	**29 244**	25 511
Retail	**16 262**	14 406
Corporate	**7 564**	6 437
Immediate annuities	**5 418**	4 668
Comprising:		
Recurring	**15 079**	13 855
Retail	**9 717**	8 959
Corporate	**5 362**	4 896
Single	**14 165**	11 656
Retail	**6 545**	5 447
Corporate	**2 202**	1 541
Immediate annuities	**5 418**	4 668
Net premium income from insurance contracts and inflows from investment contracts	**29 244**	25 511
27. Service fee income from policyholder investment contracts		
Service fee income from investment contracts	**867**	837
Released to profit or loss	**17**	15
Deferred income relating to new business	**(32)**	(28)
Total service fee income from policyholder investment contracts	**852**	824

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
28. Investment income		
Financial assets held at fair value through profit or loss		
Interest income	4 166	4 026
Dividends received	2 293	1 956
Listed shares	1 804	1 473
Unlisted instruments	489	483
Proceeds on sale of dividends		59
Investment properties		
Rental income from investment properties	1 239	1 058
Financial instruments held-to-maturity		
Interest income	16	14
Subsidiaries and joint ventures		
Dividends[1]	320	355
Interest income[2]		7
Sundry income	40	7
Adjustments to surplus recognised on defined benefit pension fund	47	15
Total investment income	8 121	7 497
[1] Dividends received from subsidiaries:		
Capital Alliance Life Limited	305	*350*
Dividends received from joint ventures:		
The Cullinan Hotel (Proprietary) Limited	15	*5*
Total	320	*355*
[2] Interest received from subsidiaries:		
Liberty Health Holdings (Proprietary) Limited		*7*
Total		*7*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
29. Investment gains		
Investment properties	**1 052**	755
Financial instruments held at fair value through profit or loss	**23 786**	6 351
Quoted instruments	**20 007**	5 089
Unquoted instruments	**3 779**	1 262
Financial instruments held for trading	**(814)**	(464)
Impairment reversal/(charge) of loans to group companies	**354**	(131)
Foreign exchange differences on loans with subsidiaries	**(11)**	(12)
Adjustment to joint venture purchase price	**2**	4
Loss on sale of subsidiary		(5)
Total investment gains	**24 369**	6 498
30. Claims and policyholders' benefits		
Claims and policyholders' benefits under insurance contracts	**16 465**	15 965
Payments under investment contracts	**11 985**	9 333
	28 450	25 298
Insurance claims recovered from re-insurers	**(427)**	(396)
Net claims and policyholders' benefits	**28 023**	24 902
Comprising:		
Retail	**18 253**	17 530
Death and disability claims	**3 153**	3 195
Policy maturity claims	**2 474**	3 301
Policy surrender claims	**9 377**	8 185
Annuity payments	**3 249**	2 849
Corporate	**9 770**	7 372
Death and disability claims	**696**	678
Scheme terminations and member withdrawals	**8 793**	6 393
Annuity payments	**281**	301
Total claims and policyholders' benefits	**28 023**	24 902
31. Acquisition costs		
Insurance contracts	**1 726**	1 515
Investment contracts	**216**	195
Total acquisition costs	**1 942**	1 710
Incurred during the year	**1 993**	1 736
Deferred acquisition costs	**(249)**	(219)
Amortisation and impairment of deferred acquisition costs	**198**	193

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
32. General marketing and administration expenses		
Comprising		
Employee costs	**1 251**	1 239
Office costs	**951**	772
Training and development costs	**138**	137
Other	**1 453**	1 242
Total general marketing and administration expenses	**3 793**	3 390
General marketing and administration expenses include the following:		
Amortisation of intangible assets	**27**	18
Impairment of intangible assets	**44**	
Auditors' remuneration	**22**	23
Audit fees – Current year	**22**	23
Consulting fees	**192**	145
Depreciation	**175**	175
Computer equipment	**72**	74
Purchased computer software	**13**	13
Fixtures, furniture and fittings	**72**	70
Office equipment and office machines	**7**	7
Motor vehicles	**11**	11
Direct operating expenses – on investment properties	**539**	481
– on owner-occupied properties	**38**	33
– on hotel operations	**452**	411
Asset management fees	**371**	329
Operating lease charges – equipment	**1**	1
– property	**14**	66
Other related South African taxes	**191**	162
Financial services levy	**19**	16
Non-recoverable value-added taxation	**172**	146
Provision for retirement fund administration		93
Provision for possible claims		165
Staff costs	**1 251**	1 239
Salaries and wages	**836**	733
Defined benefit pension fund contributions	**9**	11
Medical aid contributions	**(25)**	94
Staff and management incentives	**244**	244
Share-based payment expense – equity-settled schemes	**49**	29
– cash-settled schemes	**35**	21
Other post-retirement benefits	**63**	56
Other	**40**	51

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
33. Share-based payments – equity settled		
Reconciliation of reserve		
Restricted share plan		
Liberty Holdings Limited or Liberty Holdings Limited ordinary shares	**1**	7
Equity growth scheme (rights)		
Liberty Holdings Limited ordinary shares	**25**	
Total share-based payments reserve	**26**	7
Movement for the year	**19**	(16)
Equity settled schemes (share options and rights) – per profit or loss	**25**	30
Reserved in Liberty Holdings Limited	**(25)**	(30)
Transfer of vested options to retained surplus	**(5)**	(15)
Company cancellations – per profit or loss	**(1)**	(1)
Restricted share plan	**25**	
Expense on equity settled schemes recognised in profit or loss	**49**	29

Staff options and rights

The group has various equity-settled remuneration schemes which can be summarised into two categories:

- Rights awarded under equity growth schemes
- Restricted shares awarded under deferred and long-term schemes.

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, the Liberty Equity Growth Scheme and the Restricted Share Plan. 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.

During 2012, Liberty introduced the Liberty Holdings group restricted share plan which has two methods of participation, as detailed below:

Liberty Holdings group restricted share plan (long-term plan)

Awards are made to certain selected executives in the format of fully paid-up shares in Liberty Holdings Limited which are held in trust subject to vesting conditions (service and performance) and will be forfeited if these conditions are not met during the performance measurement period.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

33. Share-based payments (continued)

Staff options and rights (continued)

Liberty Holdings group restricted share plan (deferred plan)

Annual short-term incentive performance bonus payments in excess of thresholds determined annually by Liberty's remuneration committee, are subject to mandatory referral. This is achieved by investing the deferred portions of the short-term incentive awards into Liberty Holdings Limited shares, which are held in a trust, subject to vesting conditions.

Participants under both plans are entitled to receive dividends. No voting rights are attached to the shares held in trust.

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 for the equity growth scheme 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.

Share Incentive Schemes

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

	Price range		Number	
Reconciliation	**2012**	**2011**	**2012**	2011
Options/rights outstanding at the beginning of the year			**13 920 850**	12 759 550
Granted	**R79,48 – R89,40**	R68,00 – R83,00	**119 052**	3 060 050
Exercised	**R46,15 – R89,75**	R46,15 – R81,61	**(1 890 950)**	(356 325)
Lapsed/cancelled	**R58,83 – R89,71**	R46,15 – R92,95	**(742 550)**	(1 542 425)
Options/rights outstanding at the end of the year			**11 406 402**	13 920 850

The weighted average share price for the year was R92,97 (2011: R75,43).

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 2012 is R24,59 (2011: R21,17).

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:

	2012	2011
Exercise price	**R79,48 – R89,40**	R68,00 – R83,00
Expected volatility[1]	**28,48% – 28,83%**	29,00% – 29,66%
Right life	**5 years**	5 years
Dividend yield	**5,42% – 5,84%**	5,70% – 6,69%

Share-based payment expense recognised during 2012 relating to the share options and rights was R25 million (2011: R29 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.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

33. Share-based payments (continued)

Liberty Share options and rights

Liberty Holdings group restricted plan

The following is a summary of the movements of the applicable Liberty shares granted under the restricted share plan:

Liberty Holdings group restricted share plan

Reconciliation	Price range 2012	Number 2012
Granted	R87,90 – R93,51	652 312
Shares outstanding at the end of the year		**652 312**

For the long-term plan, the 2011 awards vest 33,3% at the end of year 2, 3 and 4. The restricted shares are subject to service and performance conditions. The share-based payment expense recognised during 2012 relating to the Liberty restricted share plan (long-term plan) was R14 million respectively.

Deferred plan

Reconciliation	Price range 2012	Number 2012
Granted	R87,90	334 090
Cancellations	R87,90	(1 473)
Shares outstanding at the end of the year		332 617

For the deferred plan, the 2011 awards vest 33,3% after the end of 18 months, 30 months and 42 months respectively.

The share-based payment expense recognised during 2012 relating to the Liberty restricted share plan (deferred plan) was R11 million.

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 2012 was R4 million (2011: R1 million) which was changed to profit or loss.

	Number	
Reconciliation of options under phantom share scheme	**2012**	2011
Options outstanding at the beginning of the year	**150 445**	210 569
Exercised	**(31 000)**	(52 532)
Reinstated/(lapsed/cancelled)	**642**	(7 592)
Options outstanding at the end of the year	**120 087**	150 445

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
34. Finance costs		
Interest expense:		
– interest paid on policyholder claims and supplier balances	**28**	33
– interest on financial liabilities at amortised cost	**173**	179
Total finance costs	**201**	212

35. Business acquisition

Acquisition of Total Health Trust Limited (THT)

To continue the execution of the company's strategy to extend its market share of the wealth management business in African countries outside of South Africa, the company has acquired a 51,2% controlling stake in THT. The effective date of the transaction was 1 January 2012.

THT is a Nigerian health expenses insurance group servicing both government employees and corporate customers.

THT previously was accounted for as a joint venture of the company and the transaction to acquire control was in terms of a staggered purchase agreement, with the final tranche of 5% to increase the shareholding to 51,2% being completed on 1 January 2012 at a cost of R4 million.

The assets and liabilities arising from the acquisition are as follows:

	2012 Rm
Equipment and owner-occupied properties under development	**7**
Investment properties	**11**
Intangible assets	**40**
Prepayments, insurance and other receivables	**17**
Short-term insurance liabilities	**(16)**
Insurance and other payables	**(16)**
Deferred taxation	**(1)**
Current taxation	**(4)**
Net assets and liabilities assumed	**38**
Cash acquired	**29**
Non-controlling interests[1]	**(33)**
Net asset value attributable to ordinary shareholders	**34**
Acquisition cost (measured at fair value on 1 January 2012)	**34**
Previously held as a joint venture	**30**
Additional cash paid	**4**
Excess purchase price	**–**

[1] *Non controlling interests represent their proportionate share of the assets and liabilities assumed.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
36. Taxation		
36.1 Sources of taxation		
South African normal taxation	1 094	776
Current year taxation	915	512
Over provision prior year current taxation	(13)	
Current deferred taxation	192	264
South African capital gains taxation	758	216
Current year taxation	375	87
Deemed disposal taxation liability	861	
Deferred taxation	(500)	129
Attributable to deferred taxation rate change	22	
Other related South African taxes		
Dividend withholding taxation associated with policyholder investments[1]	51	
Total taxation	1 902	992
Profit or loss	1 976	947
Other comprehensive income	(74)	45

[1] *Secondary tax on companies, which is a South African tax on defined dividend distributions to shareholders, was abolished with effect from 1 April 2012 and replaced by a dividend withholding tax. Dividend withholding tax is a tax on the shareholder and applies to dividends received by the individual policyholder fund of a life company. The dividend tax paid by the individual policyholder funds of the group is disclosed under other related South African taxes.*

36.2 Taxation rate reconciliation

2012	CIT[1] Rm	CGT[2][4] Rm	Total Rm
Taxation per profit or loss	1 203	773	1 976
Taxation on other comprehensive income	(59)	(15)	(74)
Total taxation	1 144	758	1 902
Taxation attributable to capital gains rate change		(22)	(22)
Taxation specific to policyholder tax funds[3]	(256)	(677)	(933)
Shareholder taxation	888	59	947
Profit before taxation per statement of comprehensive income	4 536	642	5 178
Defined as capital		642	642
Defined as revenue	4 536		4 536
Taxable revenue directly charged to reserves	(94)		(94)
Adjustment for the revenue offset to policyholder taxation	(933)		
Total	3 509	642	
	%	%	
Effective rate of shareholder taxation[4]	25,3	9,1	
Adjustments due to:			
Income exempt from normal taxation:			
Dividends received	3,3		
Non-tax deductible expenses	(0,6)		
Amounts excluded from capital gains tax		4,9	
Standard rate of South African taxation	28,0	14,0	

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

36. Taxation (continued)

36.2 Taxation rate reconciliation (continued)

2011	CIT[1] Rm	STC[5] Rm	CGT[2][4] 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[3]	(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 shareholder 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	

[1] *CIT represents corporate income taxation.*

[2] *CGT represents capital gains taxation which is an effective tax on defined capital gains in South Africa. The effective CGT rate applicable to shareholders will increase to 18,67% with effect from 1 January 2013. The realised CGT incurred during the 2012 financial year is accounted for at the old effective CGT rate of 14%.*

[3] *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.*

[4] *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 holding company.*

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

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	Restated 2011 Rm
37. Reconciliation of total earnings to cash generated from operations		
Total earnings	**3 202**	1 916
Adjustments for:		
Interest received	**(4 182)**	(4 047)
Interest paid	**201**	212
Dividends received	**(2 613)**	(2 311)
Distribution of profits from subsidiaries-unincorporated property partnerships	**(501)**	(418)
Taxation	**1 976**	947
Net fund outflows after service fees on policyholder investment contracts	**80**	818
Service fee income deferred on new business	**32**	28
Deferred acquisition costs on new business	**(249)**	(219)
Funding of restricted share plan	**(56)**	
Settlement of share-based payment expenses		(2)
	(2 110)	(3 076)
Adjustments for non-cash items:		
Policyholders' liability transfers	**23 686**	6 594
Amortisation of deferred acquisition costs	**198**	193
Release of deferred revenue liability	**(17)**	(15)
Amortisation of intangible assets	**27**	18
Impairment of intangible assets	**44**	
Depreciation of equipment	**175**	175
Adjustment to surplus recognised on defined benefit pension fund	**13**	3
Remeasure of THT to acquisition value	**(2)**	
Share-based payments	**25**	
Share-based payment revenue	**(1)**	(1)
Investment gains	**(24 369)**	(6 498)
Movement on provisions	**(26)**	201
Loss on sale of subsidiary		5
	(2 357)	(2 401)
Working capital changes:	**1 063**	215
Prepayments, insurance and other receivables	**328**	423
Insurance and other payables and employee benefits	**735**	(208)
Cash utilised in operations	**(1 294)**	(2 186)
38. Dividends paid		
Dividends as per statement of changes in shareholders' funds	**(2 055)**	(1 283)
Dividends paid in specie		17
Dividends received on preference shares held in relation to BEE transaction	**126**	112
Total dividends paid	**(1 929)**	(1 154)

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
39. Taxation paid		
Taxation payable at the beginning of the year	**(323)**	(481)
Taxation attributable to normal taxation	**(2 188)**	(599)
Taxation payable at the end of the year	**1 406**	323
Total taxation paid	**(1 105)**	(757)

40. 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 **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
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	
Interest rate									
Swaps	**3 294**	5 727	**392**	207	**262**	167	**32 763**	30 727	<1 – 30 years
Swaptions			**65**	59	**7**	(9)	**4 580**	4 580	9 – 19 years
Forwards	**80 547**	41 820	**10**	(13)	**(43)**	(119)	**7 449**	6 094	<1 year
Equity									
Options	**1 930**	2 307		4	**4**	(33)		315	N/A
			467	257	**230**	6			

There are collateral deposits of R392 million with Standard Bank supporting derivative liabilities to the bank (2011: R240 million). In addition, collateral deposits of R291 million as at 31 December 2012 (2011: R365 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 2012

40. 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:

%	2012	2011
Liberty Group Limited	**64**	64
Liberty Active Limited	**25**	17
Capital Alliance Life Limited	**10**	17
Liberty Growth Limited	**1**	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:

	2012 Rm	2011 Rm
Liberty Group Properties (Proprietary) Limited	**156**	195
STANLIB Limited	**50**	46
Total	**206**	241

B.2 The Liberty Life Educational Foundation (educational foundation)

The educational foundation received R8 million in contributions from Liberty Group Limited (2011: R13 million).

The educational foundation has its banking arrangements with Standard Bank of South Africa Limited. The cash balance at 31 December 2012 was R0,1 million (2011: R0,4 million). Interest earned for the year amounted to R10 020 (2011: R27 876).

Fees charged for the year were R13 109 (2011: R12 963).

The educational foundation also held deposits with STANLIB Limited at various times during the year. At 31 December 2012 the deposit balance was R3,1 million (2011: R5,4 million) and interest earned was R259 859 (2011: R278 876).

B.3 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 R2 million (2011: R3 million).

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

40. Related party disclosures (continued)

Summary of related party transactions (continued)

B.4 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:

	2012 Rm	2011 Rm
Held as financial instrument assets by Liberty Group Limited[1]		
Balance at 1 January	**17 254**	14 778
New policies issued	**3 360**	3 324
Claims	**(1 766)**	(1 955)
Fair value adjustments	**3 203**	1 107
Balance at 31 December	**22 051**	17 254
Held as financial instrument assets by Liberty Active Limited[2]		
Balance at 1 January	**5 418**	3 798
Policies cancelled/matured		(56)
New policies issued	**1 630**	1 384
Fair value adjustments	**986**	292
Balance at 31 December	**8 034**	5 418

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

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

B.5 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 2012 was R189 368 million (2010: R140 979 million). Fees charged for the year were R347 million (2011: R322 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 R1 million (2011: R2 million).

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
41. Commitments		
41.1 Operating lease commitments		
Equipment	**42**	77
Within 1 year	**20**	34
1 to 5 years	**22**	43
Properties	**116**	209
Within 1 year	**75**	135
1 to 5 years	**41**	74
41.2 Capital commitments		
Business acquisitions[1]	**25**	5
Under contracts		5
Authorised by the directors but not contracted	**25**	
Equipment	**468**	221
Under contracts	**65**	1
Authorised by the directors but not contracted	**403**	220
Investment properties	**1 654**	1 182
Under contracts	**700**	477
Authorised by the directors but not contracted	**954**	705
Owner-occupied properties	**17**	35
Under contracts	**2**	2
Authorised by the directors but not contracted	**15**	33
Total commitments	**2 322**	1 729

The company's share of commitments of joint ventures amounting to R4 million (2011: R12 million) to be financed by the existing facilities in the joint venture operations, is disclosed in note 10. The above 2012 capital commitments will be financed by available bank facilities, existing cash resources, internally generated funds and R198 million (2011: R122 million) from non-controlling interests in unincorporated property partnerships.

[1] *The board has approved certain business acquisitions related to its stated strategy of broadening the company's financial services offerings. These acquisitions are in the final state of negotiation and finalisation is expected within the next 12 months from the date of this report. In light of the sensitive nature of the negotiations and certain required regulatory approvals it is not practical to provide full financial details with respect to the transactions. However, the transactions will not have a material impact on the company's earnings and capital structure.*

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

42. Change in accounting policy and restatements

The company has adopted for the first time, effective 1 January 2012, an accounting policy for shadow accounting as permitted under IFRS 4 *Insurance Contracts*. The shadow accounting will be applied to the allocation of changes to policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contacts. Previously a mismatch was created as the change to the insurance policyholder liability was reflected in profit or loss whilst the matching asset re-measurement was reflected in other comprehensive income as required by IAS 16 *Property, Plant and Equipment*. The adoption of shadow accounting allows the relevant change in the insurance liability to be reflected in other comprehensive income thereby eliminating the mismatch in presentation.

The adoption of the shadow accounting policy has been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The financial statement impact of this change is:

	31 December 2012			31 December 2011		
Financial statement line item	**Prior to adoption of shadow accounting Rm**	**Impact of change in accounting policy Rm**	**Including the adoption of shadow accounting Rm**	As previously reported Rm	Impact of change in accounting policy Rm	Restated Rm
Change in long-term policyholder liabilities – insurance contracts	(12 641)	(131)	(12 772)	(2 449)	74	(2 375)
Profit before taxation	5 309	(131)	5 178	2 789	74	2 863
Total earnings	3 333	(131)	3 202	1 842	74	1 916
Other comprehensive income	(151)	131	(20)	85	(74)	11
Other comprehensive income items	(151)		(151)	85		85
Change in long-term policyholder insurance liabilities (application of shadow accounting)		131	131		(74)	(74)
Total comprehensive income	3 182		3 182	1 927		1 927

There is no impact to the financial position or shareholders' funds of the company.

In addition to the statement of comprehensive income, the following notes have been restated in compliance with IAS 1 *Presentation of Financial Statements.*

- Note 2 on the company financial statements: Segment information for the year ended 31 December 2011.
- Note 16 on the company financial statements: Policyholder liabilities and reinsurance assets movement analysis.
- Note 37 on the company financial statements: Reconciliation of total earnings to cash utilised by operations.

Notes on the company financial statements *(continued)*
for the year ended 31 December 2012

43. 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 20 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 2012

43. 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 16 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 19 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 19 and 33 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 23 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 2012

44. Events after the reporting period

South African Life Licence Rationalisation

Introduction

In order to drive efficiencies, as well as consideration of the requirements of the proposed new Solvency Assessment Management (SAM) legislation, a review of the Liberty group's South African life company structure was performed.

Based on the review and managements recommendations, the respective Boards of Liberty Group Limited and affected subsidiaries have resolved to combine the businesses of the following South African life licences; Liberty Group Limited, Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited.

The implementation date targeted is 1 July 2013 assuming all conditions precedent will be met.

Benefits

The main benefits of the proposed rationalisation are:

- An anticipated reduction in regulatory capital under the SAM framework.
- Simplification of operational requirements.
- Reduction of regulatory, governance and reporting requirements.
- Improving the group's product offerings to legacy clients.

Process and timelines

All business in Liberty Active, Capital Alliance Life and Liberty Growth will be transferred to Liberty Group via section 37 of the Long-term Insurance Act. This process requires High Court approval and support from the Financial Service Board (FSB). As part of this process Liberty Group Limited is required to inform all stakeholders of the transfer and provide them opportunity to raise any concerns. Liberty Group Limited has started the engagement with the FSB, targeting to communicate with policyholders in April 2013 and to have met all the conditions precedent by 30 June 2013.

Impact on capital adequacy requirements (CAR) cover ratio

The rationalisation will not have a significant impact on the capital position of the Liberty group under the current solvency regime. Post rationalisation the statutory net asset value (NAV) and the CAR of the affected subsidiaries will be added to Liberty group's statutory NAV and CAR respectively. It is expected that this will result in a slight increase in Liberty Group Limited excess assets over CAR and a reduction in the CAR cover ratio.

Notes