LIBERTY GROUP LIMITED

2012 AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Contents

Directorate and administration	1
Directors' approval	2
Company secretary compliance statement	3
Independent auditors' report	4
Report of the group audit and actuarial committee	5
Directors' report	6
Accounting policies	10
Statement of financial position	37
Statement of comprehensive income	38
Statement of changes in shareholders' funds	39
Statement of cash flows	40
Notes on the company financial statements	41

Preparation of annual financial statements

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

Prepared by: Melanie Sterrenberg CA(SA), Maryane Taylor CA(SA) and 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 group 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 group 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 group. 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 group 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 group. 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 group'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 group, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the group 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 group shall continue as a going concern.

The 2012 annual financial statements of the group 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 consolidated financial statements of Liberty Group Limited set out on pages 10 to 114, 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 group's directors are responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

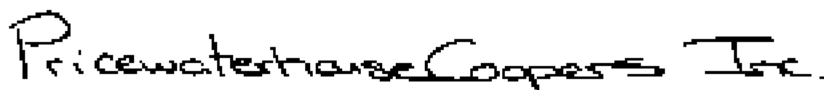
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated 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 consolidated financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated 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 consolidated 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 in 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 corporate 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 group'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 group, 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 group and thereby are able to conduct their audit functions without any influence from the group. 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 consolidated financial statements and recommended the report to the board for approval.

TDA Ross
Chairman
Group audit and actuarial committee

Johannesburg
27 February 2013

Directors' report

Main business activities

Liberty Group Limited is the holding company of various operating subsidiaries engaged in the provision of financial services including long-term and short-term insurance and investment services. These financial services are primarily undertaken in South Africa, with some levels of services being provided in other countries on the African continent.

Liberty Group Limited is incorporated in the Republic of South Africa and is 100% owned by Liberty Holdings Limited.

Review of results

Ordinary shareholders' attributable earnings for the group were R3 505 million, compared to R2 064 million in 2011. Detailed commentary on the 2012 financial results is contained in the various notes throughout this report, 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 45 to the group financial statements for further detail. Amendments to IFRS were made by the International Accounting Standards Board which is 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 pages 10 to 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 2012 Liberty Holdings Limited integrated annual report in the governance and risk management disclosures sections.

Share capital

There were no changes in the authorised share capital of the company during the financial year. Further details of the company's share capital are contained in note 25 to the group's annual financial statements.

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	Retire-ment contri-butions 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 com-pensation 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	3 345	86	290	3 721	6 894	3 180	10 074	5 200		5 200	18 995
Total	10 570	549	665	11 784	19 357	8 656	28 013	16 700		16 700	56 497
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 the 2012 Liberty Holdings Limited integrated 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 the 2012 Liberty Holdings Limited 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

At the annual general meeting held on 18 May 2012, shareholders approved the creation of the Liberty Holdings group restricted share plan.

Liberty now operates the following share incentive schemes, being the Liberty Holdings group restricted share plan, The Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme.

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

Contracts

Shareholders are referred to the directors' remuneration section and related party disclosure in note 40 to the group financial statements of 2012 Liberty Holdings Limited integrated annual report.

Directors' report *(continued)*

Property and equipment

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

Holding company

At 31 December 2012, the group's holding company, Liberty Holding Limited, held 100% (2011: 100%) of Liberty Group Limited' s issued ordinary shares.

Bancassurance

The Liberty group has extended the joint venture bancassurance agreements with the Standard Bank group for the manufacture, sale and promotion of insurance, investment and health products through the Standard Bank's African distribution capability.

In terms of the agreements, Liberty's group subsidiaries pay joint venture profit shares to various Standard Bank operations. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines.

During 2012, the board approved the rationalisation of the South African life licence companies in the group. This rationalisation will necessitate the creation of preference shares in the group's wholly owned subsidiary, Liberty Group Limited in order to facilitate the payment of the profit share to Standard Bank in South Africa which currently paid from another wholly owned subsidiary, Liberty Active Limited.

The bancassurance agreements are evergreen agreements with a 24-month notice period for termination, but neither party could have given notice of termination until February 2014. As at the date of the approval of this integrated annual report, neither party had given notice. As the joint venture bancassurance relationship provides commercial benefits to both Liberty and Standard Bank, a governance framework is in place to protect the interests of minority shareholders.

Acquisitions and disposals during the year

Liberty Group Limited acquired an additional 5,0% holding for R4 million in Total Health Trust Limited (THT) from Tritech Computers (Nigeria) Limited bringing the ownership to 51,2%, effective 1 January 2012 and providing control to the group as at 31 December 2011, Liberty Group Limited held 45,1% in THT, which at that stage was accounted for as a joint venture. THT with effect from 1 January 2012 has been accounted for as a subsidiary.

Associates and joint ventures

The interests in joint ventures and associates, where considered significant in the light of the group's financial position and results, are set out in notes 8, 9 and 10 to the group annual financial statements.

Subsidiaries

Details of the significant interests in directly owned subsidiary companies are contained in notes 8 and 9 on the Liberty Group Limited company annual financial statements.

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 or 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.

South African life license's rationalisation

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 group's South African group life company structure was performed. The implementation date targeted is 1 July 2013 assuming all conditions will be met. For further details refer to the 2012 Liberty Holdings Limited integrated annual report South African life licence rationalisation section.

Insurance

The Liberty Holdings Limited 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

There are no significant events after the reporting date, being 31 December 2012, to the date of approval of the consolidated annual report, namely 27 February 2013.

Accounting policies

Summary of significant accounting policies

1. Basis of preparation

The 2012 consolidated and company 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, the Listings Requirements of the JSE Limited 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:
- Derivative financial instruments;
- Cash-settled share-based payment arrangements;
- 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;
- Policyholder investment contract liabilities; and
- Third party financial liabilities arising on the consolidation of mutual funds.

Carried at a different measurement basis:
- Provisions which are measured at a future expected cost, discounted for the time value of money;
- Long-term policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the financial soundness valuation (FSV) basis as set out in note 16 to the accounting policies; 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 group'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 43 to the group 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:

The group 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.

Refer to accounting policy 16 for further details.

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

Accounting policies *(continued)*

1. Basis of preparation (continued)

1.1 New or changes to accounting policies (continued)

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

Standard/interpretation	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 exposures 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 group.

1.2 Accounting policy elections

The group 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 2);
- Mutual fund investments, held by investment-linked insurance funds, in which the group holds between 20% – 50% economic interest, are designated on initial recognition as at fair value through profit or loss (accounting policy 2);
- Acquisitions of subsidiaries under common control where the acquirer incorporates assets and liabilities at their pre-combination carrying amounts (accounting policy 2);
- Equipment is stated at cost less accumulated depreciation (accounting policy 4);
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 5);
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 6);
- In general, financial assets are designated as at fair value through profit or loss (accounting policy 8);
- Application of cash flow hedge accounting for certain investments (accounting policy 10);
- 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 16); 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 are recognised as expenses or income systematically over the periods representing the expected remaining service period of employees (accounting policy 22).

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

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

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 group
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 and certain structured entities, 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 group's current interests. The group's current accounting policy is to apply the equity method of accounting for joint ventures, which complies with IFRS 11.
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 group
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 group's assets are measured at fair value, as well as a large portion of the group's liabilities. The application of IFRS 13 may result in changes to the measurement of certain of the group's assets and liabilities. These changes are not yet fully assessed however initial indications are that they will have limited overall impact to the group'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 group's current accounting policy election in this regard is to recognise these in profit or loss.	On the adoption of IFRS the group 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 group'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 group
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. The objectives of the 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 group 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 group's financial instruments are held to meet obligations of currently designated insurance contract liabilities. It will be important to minimise the accounting mismatches in the income statement 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 group'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 IFRS 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 P*roperty, Plant and 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 Liberty

The IASB is working on the following projects which, if issued as standards, may materially impact the group's current financial position:

- Insurance contracts.
- Revenue recognition on contracts with customers.
- 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 both the 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. Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries.

Interests in subsidiaries

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

Subsidiaries are entities in which the group has the power to govern their financial and operating policies and/or in which the group 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 group controls another entity.

Accounting policies *(continued)*

2. Basis of consolidation (continued)

Interests in subsidiaries (continued)

The results of the subsidiaries are included from the date on which control is transferred to the group (effective date of acquisition) and are no longer included from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. Interests in subsidiary companies in the company financial statements are shown at cost less any required impairment (which is assessed annually). Any acquisition- related costs are recorded as expenses in the period in which they are incurred, except for the costs to issue debt or equity securities which are part of the consideration transferred.

The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.

Mutual funds, in which the group has greater than 50% economic interest resulting in effective control, are consolidated. The consolidation principles applied to these mutual funds are consistent with those applied to consolidated subsidiary companies.

Business combinations

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The cost of an investment in a subsidiary is adjusted to reflect changes in consideration arising from contingent consideration amendments. Transaction costs are recognised within profit or loss as and when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the group's share of the identifiable net assets, is recorded as goodwill.

The group elects to measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets on an acquisition-by-acquisition basis.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Unincorporated property partnerships

The group consolidates its interests in those property partnerships where the group holds a majority stake in the property and controls the management of the property, including the power over all significant decisions around use and maintenance of the property. Non-controlling interests in the unincorporated property partnerships are measured at their proportionate share of the fair value in the various properties and any non-distributed net accumulated profit or loss.

Interests in joint ventures

Joint ventures are contractual arrangements whereby the group and one or more parties undertake an economic activity involving a corporation, partnership or entity, which is subject to joint control. Investments in joint ventures are accounted for using equity accounting principles for the duration in which the group has the ability to exercise joint control.

The group's interests in joint ventures are carried initially at cost. The group's share of post-acquisition profit or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. Any goodwill in respect of joint ventures acquired is recognised as part of interests in joint ventures in the statement of financial position. The group discontinues equity accounting when the group's share of losses exceeds or equals its interests in the joint venture, unless it has incurred obligations or guaranteed obligations in favour of the joint venture. Where the accounting policies for joint ventures are not consistent, in all material respects, with policies adopted by the group, adjustments are made to ensure consistency with the group policies.

Interests in associates

An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investment. This is generally demonstrated by the group holding in excess of 20%, but no more than 50%, of the voting rights.

Accounting policies *(continued)*

2. Basis of consolidation (continued)

Interests in associates (continued)

Interests in associates are accounted in the group financial statements using the equity method of accounting from the date significant influence commences until the date significant influence ceases. The group's interests in associates are carried initially at cost. The group's share of post-acquisition profit or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. Any goodwill in respect of associates acquired is recognised as part of interests in associates in the statement of financial position. At each reporting date the group determines whether there is objective evidence that the interests in associates are impaired. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in accounting policy 7. Where an entity within the group transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the associate. Where the accounting policies for associates are not consistent, in all material respects, with policies adopted by the group, adjustments are made to ensure consistency with the group policies.

Interests in associates – mutual funds

Those mutual funds in which the group has between 20% and 50% economic interest, backing policyholder 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 statement of financial position date. Fair value adjustments on mutual funds are recognised in profit or loss.

Acquisitions of subsidiaries under common control

Common control is defined as a business combination in which all of the combining entities (subsidiaries) are ultimately controlled by the same party both before and after the business combination, and control is not transitory.

The cost of an acquisition of a subsidiary under common control is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. On acquisition the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their pre-combination carrying amounts. Any excess/deficit of the purchase price over the pre-combination recorded ultimate holding company's net asset value of the subsidiary is adjusted directly to equity. Any differences to values of the subsidiary's underlying assets and liabilities compared to those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted on consolidation. Under this approach comparatives are not restated.

The principles of when control arises are the same as those for interests in subsidiaries where purchase price accounting is applied.

Special purpose entities

Special purpose entities are entities created to accomplish a narrow and well-defined objective such as the securitisation of financial assets. These entities may take different legal forms. A special purpose entity is consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group controls the entity.

Distributions of ordinary shares held in subsidiaries

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

Receipts of distributions of subsidiary ordinary shares previously held by a subsidiary

Any receipt of subsidiary defined equity shares by way of a distribution from a directly held subsidiary is considered to be an effective split of the carrying value of the previously singular directly held investment in the subsidiary. The carrying value to be apportioned between the resulting two or more directly owned subsidiaries is calculated with reference to the attributed values on the original acquisition of the previous directly held subsidiary, adjusted for any post-acquisition impairments or pre-acquisition dividends and capital reductions that were applied to the original cost.

Accounting policies *(continued)*

2. Basis of consolidation (continued)

Transactions with non-controlling interests

The group applies a policy of treating transactions, including partial disposals with non-controlling interests that do not result in the gain or loss of control, as transactions with equity owners of the group. For purchases of additional interests from non-controlling interests, the excess of the purchase consideration over the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. Profits or losses on the partial disposal of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.

3. Foreign currencies

Foreign currency translation

The group's presentation currency is South African rand (ZAR). The functional currency of the group'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.

Group foreign operations

Assets and liabilities of group foreign operations whose functional currency is different to the presentation currency are translated from their respective functional currency into the group's presentation currency at closing rates ruling at statement of financial position date. The income and expenditure and equity movements are translated into the group's presentation currency at rates approximating the foreign exchange rates ruling at the date of the various transactions.

All resulting translation differences arising from the consolidation and translation of foreign operations are recognised in other comprehensive income and accumulated in equity as a foreign currency translation reserve.

When a foreign operation is partially disposed of or sold, the cumulative amount of the exchange differences in the foreign currency translation reserve relating to that foreign operation is reclassified from the reserve to profit or loss when the gain or loss on disposal is recognised.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. 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 group 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)*

4. 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.

5. 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 group 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 group 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 reclassification (between investment properties and owner-occupied properties) is at fair value, at the date of reclassification.

Depreciation in respect of owner-occupied properties

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

Accounting policies *(continued)*

6. Intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method of accounting. The cost of a business combination is the fair value of the purchase consideration due at the date of acquisition (including any directly attributable transaction costs for acquisitions prior to 1 January 2010). Goodwill represents the excess of the purchase price consideration of an acquisition over the fair value attributable to the net identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets and goodwill on acquisitions of associates and joint ventures is included in interests in associates and interests in joint ventures respectively.

With effect from 1 January 2004, goodwill is capitalised at opening net carrying value for business combinations prior to that date, or cost in respect of subsequent acquisitions. Goodwill is allocated to the applicable cash-generating units, which may not be to a level greater than an operating segment level, for the purposes of impairment testing. Goodwill is tested annually for impairment and carried at capitalised value less accumulated impairment losses. Any impairment calculated is expensed to profit or loss. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 group 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 group 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 group operations, no residual value is estimated.

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

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.

Customer relationships and contracts

Customer relationships and contracts acquired as part of a business combination are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships and contracts acquired at the date of acquisition.

Subsequent to initial recognition such acquired intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated life is re-evaluated on an annual basis.

Accounting policies *(continued)*

6. Intangible assets (continued)

Technology-based intangible assets

Technology-based intangibles consist of software acquired as part of business combinations and are capitalised at its fair value at the date of acquisition, as determined by an independent valuer. The fair value was determined utilising a method which calculated the cost involved in creation of the software. Subsequent to initial recognition purchased software is amortised on a straight-line basis over its estimated useful life. The estimated life is re-evaluated on an annual basis.

Subsequent to initial recognition the value of the distribution forces are amortised on a straight-line basis over their estimated economically beneficial lives. The estimated life is re-evaluated on an annual basis.

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	4 – 15 years
• Customer relationships and contracts	7 years
• Purchased software	7 years

7. Impairment

The carrying amounts of the group'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 group 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 group about the following events:

(i) Significant financial difficulty of the issuer or debtor;
(ii) A breach of contract, such as a default or delinquency in payments;
(iii) It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
(iv) The disappearance of an active market for that financial asset because of financial difficulties; or
(v) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

Accounting policies *(continued)*

7. Impairment (continued)

Financial assets carried at amortised cost (continued)

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the group 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 group 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 group'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 an improved credit rating), the previously recognised impairment loss is reversed in profit or loss.

Goodwill

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

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss immediately when incurred for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

8. Financial assets

The group 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 group'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.

Accounting policies *(continued)*

8. Financial assets (continued)

Initial measurement

Purchases and sales of financial assets are recognised on trade date, which is the date on which the group 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 three sub-categories, namely financial assets held for trading, financial assets held for hedging 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 group 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 group'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 and group have 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.

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 is also 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 group 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.

Accounting policies *(continued)*

8. Financial assets (continued)

Subsequent measurement (continued)

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 either by using the applicable fixed coupon, or by extrapolating the future variable coupon using an applicable market implied curve. These coupons are then valued using a market implied swap discount curve.

Forwards

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

Unlisted equities (including unlisted variable rate preference shares)

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

Fixed deposits and negotiable certificates of deposit

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

Investment policies with other insurers

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

Over-the-counter options (OTC)

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

Pledged assets

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

Accounting policies *(continued)*

8. Financial assets (continued)

Subsequent measurement (continued)

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.

9. Financial liabilities

Financial liabilities comprise callable capital bonds, trading liabilities, derivative financial liabilities (both held for trading and held for hedging), redeemable non-participating preference shares, policyholder liabilities under investment contracts, and third party financial liabilities arising on consolidation of mutual funds.

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.

Derivative financial liabilities are subsequently measured as described in accounting policy 10.

The callable capital bonds and redeemable non-participating preference shares are subsequently measured at amortised cost using the effective interest rate method.

The measurement of policyholder liabilities under investment contracts is described in note 16 to the accounting policies.

Third party financial liabilities arising on consolidation of mutual funds are effectively demand deposits and are consequently measured at fair value, which is the quoted unit values as derived by the fund administrator with reference to the rules of each particular fund. Fair value gains or losses are recognised in profit or loss.

10. Derivative financial instruments

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

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

Derivative financial instruments are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Accounting policies *(continued)*

10. Derivative financial instruments (continued)

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 group 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 group 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.

11. 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 group 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.

12. 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)*

13. 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.

14. 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. The number of shares in the earnings per share calculation is reduced for the respective weighted average Liberty Holdings Limited shares held by the BEE entities.

15. Dividend distribution

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

16. Policyholder insurance and investment contracts

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

Insurance and investment contract classification

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

An insurance contract is a contract under which the group (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 group 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 group; 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 group.

Accounting policies *(continued)*

16. Policyholder insurance and investment contracts (continued)

Discretionary participation features (DPF) (continued)

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 group 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 group, subject to the advice of the statutory actuary. Management of this business is in accordance with the group'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 group.

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

Short-term insurance

Short-term insurance provides benefits under short-term policies, typically one year or less, under which the group accepts significant insurance risks from the policyholder if the policyholder incurs losses relating to uncertain future events such as mechanical breakdown of equipment, theft, fire, weather-related events, fraud, third party claims and medical expenses etc.

Gross written premiums

Gross premiums exclude value-added tax. Premiums are accounted for as income when the risk related to the insurance policy commences and are amortised over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The unearned premiums are calculated using a straight-line basis, except for those insurance contracts where allowance is made for uneven exposure.

Liability adequacy

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.

Provision for reported claims and claims incurred but not reported (IBNR)

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provisions include an estimated portion of the direct expenses of the claims and assessment charges.

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date (IBNR claims). This provision is calculated using the chain ladder run-off triangle technique. These provisions for claims are not discounted for the time value of money due to the expected short duration to settlement.

Deferred acquisition costs (DAC) in respect of short-term contracts

Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as an asset. All other costs are recognised as expenses when incurred.

Deferred revenue liability in respect of short-term contracts

A deferred revenue liability (DRL) is raised for any income receivable on the placement of reinsurance for risks arising from short-term insurance contracts. The DRL is released to income systematically over the coverage period of the respective reinsurance contract.

Accounting policies *(continued)*

16. Policyholder insurance and investment contracts (continued)

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due from and to agents, intermediaries and insurance contract holders and are included under prepayments, insurance and other receivables and insurance and other payables.

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 group had, prior to the adoption of IFRS 4, adopted the Professional 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 group 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 in the accounting policies and notes to the annual financial statements.

Long-term insurance contracts and investment contracts with DPF measurement

These contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as described in SAP 104, using a discounted cash flow methodology. The liability is reflected as policyholder 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 group’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 group. 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 discretionary margins are held where required for prudent reserving. Liabilities for individual market-related policies where benefits are in part dependent on the performance of underlying investment portfolios (including business with stabilised bonuses) are taken as the aggregate value of the policies’ investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element). Reversionary bonus classes of policies and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates 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.

Accounting policies *(continued)*

16. Policyholder insurance and investment contracts (continued)

Long-term insurance contracts and investment contracts with DPF measurement (continued)

In respect of corporate life and lump sum 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. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses. Within the group 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 policyholder 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 insurance liabilities are also recognised directly in other comprehensive income.

Incurred but not reported claims

Provision is made in the long-term policyholder 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. Outstanding claims and benefit payments are stated gross of reinsurance.

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) net of any related intangible present value of acquired in-force business (PVIF) assets 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 and annuity considerations on long-term insurance contracts are recognised when due in terms of the contract, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract) and recurring premium pure risk policies (collectively the Lifestyle series) 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. Premiums in respect of universally costed and recurring premium risk policies are recognised as premiums when received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. 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 are recognised when due for payment in accordance with the terms of each reinsurance contract.

Accounting policies *(continued)*

16. Policyholder insurance and investment contracts (continued)

Claims

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

Acquisition costs

Acquisition costs for long-term 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

Measurement

The group 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 group'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 group'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 contract.

Amounts received and claims incurred on investment management 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)*

16. Policyholder insurance and investment contracts (continued)

Investment contracts without DPF measurement (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 management 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 of IFRS 4, whilst those related to investment contracts are fair valued through profit or loss in terms of accounting policy 8.

17. Reinsurance contracts held

The group cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the group. The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets are assessed for impairment at each statement of financial position date. If there is reliable objective evidence, as a result of an event that occurred after its initial recognition, that amounts due may not be recoverable, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

18. 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)*

19. Investment income and finance costs

Investment income for the group 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 group 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 group 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 7. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

20. Hotel operations sales

Hotel operations sales comprise the sale of accommodation, food and beverages, 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.

21. 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.

22. Employee benefits

Leave pay provision

The group recognises a liability for the amount of accumulated leave if the group 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-term bonuses which are recognised as an expense as incurred when the group has a present or constructive obligation and the amount can be reliably measured.

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations. The group 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 group 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 group. 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 group, 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.

Accounting policies *(continued)*

22. Employee benefits (continued)

Pension obligations (continued)

The group'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, amounts relating to future service are recognised as expenses or income systematically over the periods representing the expected remaining service period of employees.

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

For defined contribution plans, the group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group 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

Some group companies provide post-retirement healthcare benefits to their 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.

23. 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.

24. Provisions

Provisions are recognised when the group 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.

Accounting policies *(continued)*

25. Operating leases

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

The group as lessor

Receipts of operating leases from properties held as investment properties are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

The group as lessee

Lease payments arising from operating leases are recognised in profit or loss on a straight-line basis over the lease term.

26. Share-based payment transactions

The group 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 reserve 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 economic 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 group 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.

Accounting policies *(continued)*

27. Segment information

The group's products and services are managed by various business units along geographical lines, 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 group manages the business. These are long- term insurance (retail and corporate), short-term insurance, asset management and health services. 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.

28. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale. In light of the group's primary business being the provision of insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business. Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification as held for sale are recognised in profit or loss.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

(i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and

(ii) its recoverable amount at the date of the subsequent decision not to sell.

Statement of financial position
at 31 December 2012

	Notes	2012 Rm	2011 Rm
Assets			
Equipment and owner-occupied properties under development	3	**832**	752
Owner-occupied properties	4	**1 307**	1 539
Investment properties	5	**24 063**	23 410
Intangible assets	6	**398**	526
Defined benefit pension fund employer surplus	19	**186**	199
Deferred acquisition costs	7	**439**	389
Interests in joint ventures	8	**377**	422
Reinsurance assets	14	**966**	898
Operating leases – accrued income	5	**1277**	1 085
Held for trading assets	11	**6 910**	3 790
Interest in associates	9	**14**	
Interests in associates – mutual funds	10	**13 837**	11 697
Financial investments	11	**227 285**	194 940
Deferred taxation	21	**73**	79
Prepayments, insurance and other receivables	12	**2 772**	2 601
Cash and cash equivalents	13	**5 155**	6 042
Total assets		**285 891**	248 369
Liabilities			
Long-term policyholder liabilities		**234 277**	206 924
Insurance contracts	14	**164 160**	145 211
Investment contracts with discretionary participation features	14	**2 820**	2 639
Financial liabilities under investment contracts	15	**67 297**	59 074
Short-term insurance liabilities	16	**21**	
Financial liabilities at amortised cost	17	**2 037**	2 054
Third party financial liabilities arising on consolidation of mutual funds	18	**14 465**	11 164
Employee benefits	19	**830**	816
Deferred revenue	20	**166**	152
Deferred taxation	21	**2 675**	2 752
Deemed disposal tax liability	22	**918**	
Provisions	23	**338**	364
Operating leases – accrued expense	5	**30**	93
Held for trading liabilities	11	**6 098**	3 113
Insurance and other payables	24	**7 108**	5 623
Current taxation		**648**	539
Total liabilities		**269 611**	233 594
Equity			
Ordinary shareholders' interests		**13 270**	11 774
Share capital	25	**29**	29
Retained surplus		**13 822**	12 217
Other reserves		**(581)**	(472)
Non-controlling interests		**3 010**	3 001
Total equity		**16 280**	14 775
Total equity and liabilities		**285 891**	248 369

Statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 Rm	2011 Rm
Revenue			
Insurance premium revenue	26	**29 458**	26 454
Reinsurance premiums	26	**(879)**	(754)
Net insurance premiums		**28 579**	25 700
Service fee income from policyholder investment contracts	27	**878**	859
Investment income	28	**12 346**	10 859
Hotel operation sales		**720**	679
Investment gains	29	**30 270**	8 154
Fee revenue and reinsurance commission	30	**109**	94
Defined benefit pension fund employer surplus	19	**(45)**	(4)
Total revenue		**72 857**	46 341
Claims and policyholders benefits under insurance contracts	31	**(24 391)**	(22 400)
Insurance claims recovered from reinsurers	31	**643**	543
Change in policyholders liabilities		**(19 193)**	(6 242)
Insurance contracts		**(19 080)**	(6 288)
Investment contracts with discretionary participation features		**(181)**	(5)
Applicable to reinsurers		**68**	51
Fair value adjustment to policyholders liabilities under investment contracts	15	**(9 949)**	(4 033)
Fair value adjustment on third party mutual fund interests	18	**(2 979)**	(1 230)
Acquisition costs	32	**(3 398)**	(2 895)
General marketing and administration expenses	33	**(6 172)**	(5 710)
Finance costs	35	**(204)**	(225)
Profit share allocations under bancassurance and other agreements		**(774)**	(606)
Loss on sale of subsidiary			(4)
Equity accounted earnings from joint ventures			10
Profit/(loss) before taxation		**6 440**	3 549
Taxation	37	**(2 544)**	(1 184)
Total earnings		**3 896**	2 365
Other comprehensive income		**(18)**	15
Owner-occupied properties – fair value adjustment		**(197)**	115
Income and capital gains tax relating to owner occupied properties fair value adjustment		**66**	(41)
Change in long-term policyholder insurance liabilities (application of shadow accounting)		**131**	(74)
Net change in fair value on cash flow hedges	11	**(29)**	14
Income and capital gains tax relating to net change in fair value on cash flow hedges		**8**	(4)
Foreign currency translation		**3**	5
Total comprehensive income		**3 878**	2 380
Total earnings attributable to:			
Liberty shareholders' interests		**3 505**	2 064
Non-controlling interests		**391**	301
		3 896	2 365
Total comprehensive income attributable to:			
Liberty shareholders' interests		**3 486**	2 078
Non-controlling interests		**392**	302
		3 878	2 380

Statement of changes in shareholders' funds

for the year ended 31 December 2012

	Share capital Rm	FCTR[1] Rm	Cash flow hedging reserve[2] Rm	Owner-occupied properties revaluation[2] Rm	Capital redemption reserve fund[2] Rm	Empowerment reserve[3] Rm	Share-based payments reserve[2] Rm	Retained surplus[2] Rm	Non-controlling interests Rm	Total Rm
Balance at 1 January 2011	29	(7)		514	5	(1 119)	23	11 425	2 695	13 565
Total comprehensive income		4	10	74				1 990	302	2 380
Ordinary dividends								(1 283)		(1 283)
Unincorporated property partnerships									4	4
Capital contribution									162	162
Distribution									(158)	158
BEE preference share dividends						44		68		112
Share based payments							(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**	**(3)**	**10**	**584**	**5**	**(1 075)**	**7**	**12 217**	**3 001**	**14 775**
Disposal of Alberton City									**(234)**	**(234)**
Increase in minorities from acquisition of Total Health Trust									**33**	**33**
FCTR recycled through profit or loss		**2**								**2**
Total comprehensive income		**2**	**(21)**	**(131)**				**3 636**	**392**	**3 878**
Ordinary dividends								**(2 055)**		**(2 055)**
Unincorporated property partnerships									**(182)**	**(182)**
Capital contribution									**2**	**2**
Distribution									**(184)**	**(184)**
BEE preference share dividends						**63**		**63**		**126**
Funding of restricted share plan								**(87)**		**(87)**
Share-based payments							**25**			**25**
Payments on settlement of equity share options							**(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**	**1**	**(11)**	**410**	**5**	**(1 012)**	**26**	**13 822**	**3 010**	**16 280**

(1) *FCTR: Foreign Currency Translation Reserve.*

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

(3) *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		**4 644**	4 760
Cash utilised in operations	38	**(918)**	(1 168)
Cash receipts from policyholders		**40 921**	36 087
Cash paid to policyholders, intermediaries, suppliers and employees		**(41 839)**	(37 255)
Interest received		**6 535**	6 197
Interest paid		**(204)**	(255)
Distribution to non-controlling interest in unicorporated property partnerships		**(184)**	(158)
Dividends received		**3 432**	2 676
Dividends paid	39	**(2 498)**	(1 521)
Taxation paid	40	**(1 519)**	(1 041)
Cash flows from investing activities		**(5 461)**	(4 271)
Net purchases of investment and owner-occupied properties		**337**	(904)
Purchase of equipment and owner occupied properties under development		**(276)**	(99)
Proceeds on sale of equipment		**12**	13
Net (purchases)/sales of financial instruments[(1)]		**(5 491)**	(3 273)
Proceeds on disposal of Liberty Life Botswana (Proprietary) Limited	36.2		4
Acquisition of intangibles		**(25)**	(6)
Acquisition of Total Health Trust Limited	36.1	**(4)**	(6)
Acquisition of associates		**(14)**	
Cash flow from financing activities		**(102)**	162
Repayment of financing liabilities at amortised cost		**(2 005)**	
Advance of financial liabilities at amortised cost		**1 988**	
Capital movement in non-controlling interests in unincorporated property partnerships		**2**	162
Funding of restricted share plan		**(87)**	
Net (decrease)/increase in cash and cash equivalents		**(919)**	651
Cash and cash equivalents at the beginning of the year		**6 042**	5 390
Cash and cash equivalents acquired through business acquisition		**29**	
Foreign currency translation		**3**	
Cash and cash equivalents at the end of the year		**5 155**	6 042

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

Notes to the group financial statements
for the year ended 31 December 2012

1. Risk disclosures

This note only contains company specific information relating to Liberty Group Limited group. 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 size of 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	Before reinsurance %	After reinsurance Rm	After reinsurance %
2012				
0 – 1 499 999	**335 485**	**42**	**323 179**	**47**
1 500 000 – 2 999 999	**166 802**	**21**	**150 086**	**22**
3 000 000 – 7 499 999	**191 799**	**24**	**167 092**	**24**
7 500 000 and above	**106 111**	**13**	**51 785**	**7**
Total	**800 197**	**100**	**692 142**	**100**
2011				
0 – 1 499 999	325 650	44	312 181	48
1 500 000 – 2 999 999	153 350	21	138 024	21
3 000 000 – 7 499 999	170 971	23	152 092	24
7 500 000 and above	88 811	12	42 825	7
Total	738 782	100	645 122	100

(b) *Longevity risk*

The profile of annuity amounts payable per life net of reinsurance, 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	**89 199**	**1 766**	91 510	1 746
240 000 – 480 000	**651**	**203**	545	169
480 000 – 720 000	**93**	**54**	86	49
720 000 and above	**36**	**37**	31	31
Total	**89 979**	**2 060**	92 172	1 995

(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	**33**	31
Retail	**23**	23
Light manufacturing	**29**	31
Heavy manufacturing	**13**	13
Heavy industrial and other high risk	**2**	2
Total	**100**	100

Notes to the group 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	**163 698**	**60**	**162 110**	**65**
1 500 000 – 2 999 999	**51 059**	**19**	**50 088**	**20**
3 000 000 – 7 499 999	**42 660**	**16**	**33 491**	**13**
7 500 000 and above	**13 874**	**5**	**4 522**	**2**
Total	**271 291**	**100**	**250 211**	**100**
2011				
0 – 1 499 999	162 749	64	161 569	68
1 500 000 – 2 999 999	45 414	18	44 992	19
3 000 000 – 7 499 999	36 810	14	29 118	12
7 500 000 and above	10 190	4	3 315	1
Total	255 163	100	238 994	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 loan balances with 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	**28 247**		**28 247**	**6,6**
Commercial term deposits	**32 960**	**16 427**	**16 533**	**6,4**
Investment policies	**1**	**1**		**nil**
Preference shares	**2 730**	**2 609**	**121**	**6,5**
Collateral deposits	**784**	**749**	**35**	**5,2**
Cash and cash equivalents	**5 155**	**5 060**	**95**	**3,6**
Loans and receivables				
Loans	**913**	**184**	**729**	**8,0**
Held-to-maturity				
Loan receivables from joint ventures	**4**		**4**	**nil**
Total	**70 794**	**25 030**	**45 764**	

Notes to the group 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	26 750	11	26 739	7,7
Commercial term deposits	29 443	12 172	17 271	6,2
Investment policies	3	3		nil
Preference shares	2 956	2 237	719	6,5
Collateral deposits	691	595	96	5,1
Cash and cash equivalents	6 042	5 193	849	4,7
Loans and receivables				
Loans	863	184	679	8,0
Held-to-maturity				
Loan receivables to joint ventures	4		4	nil
Total	66 752	20 395	46 357	

[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	**14 695**	12 458
1 – 5 years	**17 835**	17 995
6 – 10 years	**14 575**	14 911
11 – 20 years	**13 905**	10 873
Over 20 years	**4 630**	4 905
Variable	**5 154**	5 610
Total	**70 794**	66 752

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	**679**	**679**		**4,7**
At amortised cost				
Callable capital bonds	**2 037**		**2 037**	**7,4**
2011				
Held for trading				
Collateral deposits	381	381		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.*

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.3 Currency risk

The table below segregates the currency exposure by major currency at 31 December (excluding interests in foreign subsidiaries):

Assets	British pound		US dollar		Euro		Japanese yen		Australian dollar		Other	
Rm	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Debt instruments	**380**	341	**4 483**	2 468	**1 223**	633	**326**	347	**258**	175	**995**	654
Equity instruments	**2 035**	1 547	**9 681**	9 532	**1 274**	1 172	**1 256**	1 304	**352**	303	**4 582**	3 288
Mutual funds	**249**	270	**11 005**	8 320	**451**	532	**68**	68				22
Prepayments, insurance and other receivables			**201**	193							**1**	
Derivatives	**2**		**10**		**2**		**2**					
Collateral deposits				1		1						
Policies			**926**									
Cash and cash equivalents	**35**	53	**1 131**	1 180	**61**	76	**18**	5	**7**	6	**81**	25
Total	**2 701**	2 211	**27 437**	21 694	**3 011**	2 414	**1 670**	1 724	**617**	484	**5 659**	3 989
Gross foreign currency exposure	**197**	177	**3 236**	2 661	**269**	231	**16 975**	16 520	**70**	59		
Derivatives protection[1]	**8**	5	**(121)**	(116)	**(7)**	(27)	**1 523**	1 705	**(24)**	(21)		
Net foreign currency exposure	**205**	182	**3 115**	2 545	**262**	204	**18 498**	18 225	**46**	38		
Exchange rate[2]												
Closing rate at 31 December	**13,71**	12,48	**8,48**	8,09	**11,18**	10,46	**0,10**	0,10	**8,79**	8,22		
Average rate during the year	**13,01**	11,62	**8,21**	7,25	**10,55**	10,18	**0,10**	0,09	**9,03**	7,49		

[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.*

The group has exposure to the foreign exposure of its foreign subsidiary companies. Through its investment in Liberty Life Uganda Assurance Limited the group has a gross foreign exposure of Uganda shilling 11 813 million (2011: Uganda shilling 7 328 million) and a net foreign exposure after non-controlling interest of Uganda shilling 6 025 million (2011: Uganda shilling 3 737). Through its investment in Total Health Trust Limited the group has a foreign exposure of Nigeria niara 1 467 million (2011: Nigeria niara 653 million) and a net foreign exposure after non-controlling interests of Nigeria niara 751 million (2011: Nigeria niara 653 million). The rand equivalent of the net exposure to Uganda shilling is R19 million (2011: R12 million) and to Nigeria niara is R41 million (2011: R30 million).

Notes to the group 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	**767**	375
Gross carrying amount of assets	**6 091**	3 086
Gross carrying amount of liabilities	**(5 324)**	(2 711)
Derivatives held for hedging	**(60)**	(8)
Gross carrying amount of asset	**35**	13
Gross carrying amount of liabilities	**(95)**	(21)
Net carrying value	**707**	367

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	238	129	400	767	6 091	(5 324)	
Foreign exchange derivatives	(13)	(121)	32	(102)	2	(104)	
Forwards	(5)			(5)	5	(10)	1 008
Swaps	(8)	(121)	32	(97)	(3)	(94)	2 281
Interest rate derivatives	118	272	368	758	5 978	(5 220)	
Forwards	22			22	54	(32)	21 383
Swaps	96	272	259	627	5 815	(5 188)	134 562
Futures							(6)
Swaptions			109	109	109		166
Equity derivatives	133	(22)		111	111		
Futures	133			133	133		(1 699)
Options							48
Other		(22)		(22)	(22)		19
Derivatives held for hedging		(72)	12	(60)	35	(95)	
Foreign exchange derivatives							
Swaps		(72)	12	(60)	35	(95)	1 981
Total derivative assets/(liabilities)	238	57	412	707	6 126	(5 419)	
2011							
Derivatives held for trading	(95)	344	126	375	3 086	(2 711)	
Foreign exchange derivatives	(6)	(10)	(28)	(44)	10	(54)	
Forwards	(8)			(8)	8	(16)	846
Swaps		(10)	(28)	(38)		(38)	296
Options (dollar denominated)	2			2	2		10
Interest rate derivatives	(63)	372	154	463	2 992	(2 529)	
Forwards	85		(11)	(96)	211	(307)	26 185
Swaps	22	372	70	464	2 686	(2 222)	107 038
Swaptions			95	95	95		7 580
Equity derivatives	(26)	(18)		(44)	84	(128)	
Forwards	(22)			(22)	1	(23)	(22)
Futures	(8)	2		(6)	9	(15)	(3 242)
Options	4	(29)		(25)	65	(90)	23
Other		9		9	9		19
Derivatives held for hedging	(10)	(10)	12	(8)	13	(21)	
Foreign exchange derivatives							
Swaps	(10)	(10)	12	(8)	13	(21)	1 199
Total derivative assets/(liabilities)	(105)	334	138	367	3 099	(2 732)	

[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 to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.4 Derivative assets and liabilities (continued)

Cross currency swaps

From 2011, the group 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	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	**(11)**		**(12)**	**1**
2011				
Release timing	10	1	5	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 2012 as a result of highly probable cash flows no longer being expected to occur.

1.5 Credit exposure

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

Rm	A- and above	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2012										
Debt instruments	21 072	26 316	8 570	441	2 889	3 149	470	1 943	17 474	82 324
– Listed preference shares	16	851	366	64	628	120	7	63		2 115
Local		851	352	55	628	120	7	30		2 043
Foreign	16		14	9				33		72
– Unlisted preference shares			497					118		615
– Listed term deposits	20 162	15 943	3 700	282	1 438	1 328	443	459		43 755
Local	16 399	14 830	3 292	87	663	1 318	62	63		36 714
Foreign	3 763	1 113	408	195	775	10	381	396		7 041
– Unlisted term deposits	894	9 522	4 007	95	823	1 701	20	390		17 452
Local	384	9 522	4 007	95	775	1 659	20	390		16 852
Foreign	510				48	42				600
– Loans								913		913
– Mutual funds – debt instruments									17 474	17 474
Local									12 536	12 536
Foreign									4 938	4 938
Investment policies									22 681	22 681
Prepayments, insurance and other receivables – Local	22	17	8	41	61			2 374		2 523
– Accrued income		17	8					29		54
– Reinsurance recoveries	22			41	61			76		200
– Other								2 269		2 269
Prepayments, insurance and other receivables – Foreign								249		249
Reinsurance assets	41			(2)	893		2	32		966
Derivatives and collateral deposits	1 906	4 344	375			147		138		6 910
Loan receivables from joint ventures								4		4
Cash and cash equivalents	1 016	2 914	724			13		488		5 155
Local	6	2 914	724			13		110		3 767
Foreign	1 010							378		1 388
Total assets bearing credit risk	24 057	33 591	9 677	480	3 843	3 309	472	5 229	40 155	120 813

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.5 Credit exposure (continued)

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

	Attributable to									
Rm	Above A-	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2011										
Debt instruments	20 692	22 406	10 598	1 043	2 199	1 560	49	1 465	12 195	72 207
– Listed preference shares		1 151	122	73	373	2	7			1 728
– Unlisted preference shares			590	453				185		1 228
– Listed term deposits	19 834	12 580	4 685	483	1 111	191	42	239		39 165
Local	17 448	11 871	4 202	315	610	179		42		34 667
Foreign	2 386	709	483	168	501	12	42	197		4 498
– Unlisted term deposits	858	8 085	5 338	487	715	1 367		178		17 028
Local	841	8 085	5 310	487	715	1 290		178		16 906
Foreign	17		28			77				122
Mortgage and loans								863		863
Mutual funds – debt instruments									12 195	12 195
Local									8 607	8 607
Foreign									3 588	3 588
Investment policies									16 871	16 871
Prepayments, insurance and other receivables – Local	44		18	55	90		23	2 173		2 403
– Accrued income			18					23		41
– Reinsurance recoveries	44			55	90		23	43		255
– Other								2 107		2 107
Prepayments, insurance and other receivables – Foreign								198		198
Reinsurance assets	56			(3)	828		2	15		898
Derivatives and collateral deposits	874	2 330	494	13		69		10		3 790
Loan receivables from joint ventures								4		4
Cash and cash equivalents	972	3 286	1 609	12		114		49		6 042
Local	63	3 276	1 201	12		114		26		4 692
Foreign	909	10	408					23		1 350
Total assets bearing credit risk	22 638	28 022	12 719	1 120	3 117	1 743	74	3 914	29 066	102 413

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.5 Credit exposure (continued)

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 1.5 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 group 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 group is exposed to credit risk generated by debt instruments which are invested in by mutual funds in which the group invests. The group'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 to the group 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 group 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 group.

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 R44 million (2011: negative R61 million).

1.6.2 Impairments

The table below indicates the impairments raised against financial assets.

Financial assets impaired – all rand denominated

Rm	**2012**	2011
Loans		
Gross carrying value	**942**	899
Less: Accumulated impairment	**(29)**	(36)
Net carrying value	**913**	863

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 group investment Rm	**Exposure to Standard Bank Rm**	**%**	Overall group investment Rm	Exposure to Standard Bank Rm	%
Equity instruments	**87 085**	**922**	**1,1**	79 477	1 201	1,5
Preference shares	**2 730**	**352**	**12,9**	2 956	283	9,6
Term deposits and loans	**62 120**	**8 621**	**13,9**	57 056	8 288	14,5
Cash and cash equivalents	**5 155**	**2 336**	**45,3**	6 042	1 893	31,3
Derivatives	**6 126**	**619**	**10,1**	3 099	287	9,3
Collateral deposits	**784**	**317**	**40,4**	691	394	57,0
Total exposure to Standard Bank	**164 000**	**13 167**		149 321	12 346	

The company invests in various structured entities that are credit enhanced by Standard Bank. Total value of these investments is R1 740 million (2011: R1 502 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.

Notes to the group 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.

						Collateral coverage relative to secured exposure	
Rm	**Unsecured**	**Secured**	**Total exposure**	**Netting agreements**	**Exposure after netting**	**Less than 100%**	**Greater than 100%**
2012							
Debt instruments	**81 411**	**913**	**82 324**		**82 324**		**913**
Listed preference shares on the JSE or foreign exchanges	**2 115**		**2 115**		**2 115**		
Unlisted preference shares	**615**		**615**		**615**		
Listed term deposits on BESA, JSE or foreign exchanges	**43 755**		**43 755**		**43 755**		
Loans		**913**	**913**		**913**		**913**
Unlisted term deposits	**17 452**		**17 452**		**17 452**		
Mutual funds – debt instruments	**17 474**		**17 474**		**17 474**		
Investment policies	**22 681**		**22 681**		**22 681**		
Derivatives	**6 126**		**6 126**	**(5 635)**	**492**		
Derivative collateral deposits	**784**		**784**	**(463)**	**320**		
Reinsurance assets	**966**		**966**		**966**		
Prepayments, insurance and other receivables	**2 713**	**59**	**2 772**		**2 772**		**59**
Loan receivable from joint ventures	**4**		**4**		**4**		
Cash and cash equivalents	**5 155**		**5 155**		**5 155**		
	119 840	**972**	**120 812**	**(6 098)**	**114 714**		**972**
2011							
Debt instruments	71 344	863	72 207		72 207		863
Listed preference shares on the JSE or foreign exchanges	1 728		1 728		1 728		
Unlisted preference shares	1 228		1 228		1 228		
Listed term deposits on BESA, JSE or foreign exchanges	39 165		39 165		39 165		
Loans		863	863		863		863
Unlisted term deposits	17 028		17 028		17 028		
Mutual funds – debt instruments	12 195		12 195		12 195		
Investment policies	16 871		16 871		16 871		
Derivatives	3 099		3 099	(2 834)	265		
Derivative collateral deposits	691		691	(279)	412		
Reinsurance assets	898		898		898		
Prepayments, insurance and other receivables	2 553	48	2 601		2 601		48
Loan receivable from joint ventures	4		4		4		
Cash and cash equivalents	6 042		6 042		6 042		
	101 502	911	102 413	(3 113)	99 300		911

Notes to the group 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 cash flows. 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	**679**				**679**	**679**
At amortised cost						
Callable capital bonds	**77**	**76**	**2 613**		**2 766**	**2 037**
Third party financial liabilities arising on consolidation of mutual funds	**14 465**				**14 465**	**14 465**
Insurance and other payables	**6 997**	**75**	**36**		**7 108**	**7 108**
Total	**22 218**	**151**	**2 649**		**25 018**	**24 289**
Percentage proportion (%)	**89**		**11**		**100**	
2011						
Held for trading						
Collateral deposits	381				381	381
At amortised cost						
Callable capital bond	54	2 124			2 178	2 054
Third party financial liabilities arising on consolidation of mutual funds	11 164				11 164	11 164
Insurance and other payables	5 623				5 623	5 623
Total	17 222	2 124			19 346	19 222
Percentage proportion (%)	89	11			100	

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

Notes to the group 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	**6 569**	5 205	**229**	227	**14 101**	11 749
2 – 5 years	**9 206**	7 029	**145**	36	**43 122**	33 589
6 – 10 years	**8 642**	6 119	**279**	154	**12 115**	9 949
11 – 20 years	**15 044**	12 695	**619**	484	**31 877**	29 340
Over 20 years	**26 084**	26 364	**1 537**	1 731	**30 681**	32 130
Total unit liabilities	**65 545**	57 412	**2 809**	2 632	**131 896**	116 757
Non-unit liabilities						
Within 1 year	**570**	527	**11**		**3 381**	2 785
2 – 5 years	**1 261**	1 214	**(1)**	7	**12 825**	13 854
6 – 10 years	**236**	298	**(1)**	(1)	**7 923**	8 312
11 – 20 years	**16**	34		(1)	**17 051**	15 484
Over 20 years	**(6)**	1			**39 707**	34 359
Effect of discounting cash flows	**(325)**	(412)	**2**	2	**(48 623)**	(46 340)
Total non-unit liabilities	**1 752**	1 662	**11**	7	**32 264**	28 454
Total policyholders liabilities	**67 297**	59 074	**2 820**	2 639	**164 160**	145 211

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	**164 160**	**137 282**	145 211	119 730
Investment contracts with DPF	**2 820**	**2 437**	2 639	2 430
Investment contracts	**67 297**	**66 687**	59 074	58 541
Total policyholder liabilities	**234 277**	**206 406**	206 924	180 701

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 to the group 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. 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	85 795		1 290		87 085
Listed ordinary shares on the JSE	66 614				66 614
Foreign equities listed on an exchange other than the JSE	19 181				19 181
Unlisted equities			1 290		1 290
Debt instruments	45 870	17 183	884		63 937
Preference shares listed on the JSE	2 115				2 115
Unlisted preference shares		498	117		615
Listed term deposits on BESA, JSE or foreign exchanges	43 755				43 755
Unlisted term deposits		16 685	767		17 452
Mutual funds	3 392	62 882	232		66 506
Active market	3 392	62 882			66 274
Property	6	4 048			4 054
Equity	3 370	20 240			23 610
Interest-bearing instruments	16	17 458			17 474
Mixed		21 136			21 136
Non-active market			232		232
Equity			232		232
Investment policies		22 681			22 681
Derivatives		6 126			6 126
Equity		6 126			6 126
Assets subject to fair value hierarchy analysis	135 057	108 872	2 406		246 335
Assets not subject to fair value hierarchy analysis					
Derivatives collateral deposits					784
Loans				913	913
Reinsurance assets					966
Prepayments, insurance and other receivables					2 772
Loan receivables from joint ventures				4	4
Cash and cash equivalents					5 155
Properties					26 630
	135 057	108 872	2 406	917	283 559

Notes to the group 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	78 398		1 079		79 477
Listed ordinary shares on the JSE	61 252				61 252
Foreign equities listed on an exchange other than the JSE	17 146				17 146
Unlisted equities			1 079		1 079
Debt instruments	40 893	17 368	888		59 149
Preference shares listed on the JSE	1 695				1 695
Foreign preference shares listed on an exchange other than the JSE	33				33
Unlisted preference shares		1 081	147		1 228
Listed term deposits on BESA,JSE or foreign exchanges	39 165				39 165
Unlisted term deposits		16 287	741		17 028
Mutual funds	3 392	45 775	1 110		50 277
Active market	3 392	45 775			49 167
Property	5	1 934			1 939
Equity	3 371	12 097			15 468
Interest-bearing instruments	16	11 774			11 790
Mixed		19 970			19 970
Non-active market			1 110		1 110
Equity			705		705
Interest-bearing instruments			405		405
Investment policies		16 871			16 871
Derivatives		3 099			3 099
Equity		3 099			3 099
Assets subject to fair value hierarchy analysis	122 683	83 113	3 077		208 873
Assets not subject to fair value hierarchy analysis					
Derivative collateral deposits					691
Loans				863	863
Reinsurance assets					898
Prepayments, insurance and other receivables					2 601
Loan receivables to joint ventures				4	4
Cash and cash equivalents					6 042
Properties					25 941
	122 683	83 113	3 077	867	245 913

Notes to the group 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	**3 077**	3 547
Fair value adjustment	**278**	59
Additions/advances	**1 443**	481
Disposals/repayments	**(2 392)**	(1 010)
Balance at end of year	**2 406**	3 077

R2 258 million (2011: R2 924 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 group's overall profit or loss is not significantly sensitive to the inputs of the models applied to derive fair value.

Notes to the group 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		**67 287**	**10**		**67 297**
Policyholders		**67 287**			**67 287**
Embedded derivatives			**10**		**10**
Third party liabilities arising on consolidation of mutual funds		**14 465**			**14 465**
Derivatives		**5 419**			**5 419**
Liabilities subject to fair value hierarchy analysis		**87 171**	**10**		**87 181**
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					**164 160**
Investment contracts with DPF					**2 820**
Short-term insurance liabilities					**21**
Financial liabilities at amortised cost				**2 037**	**2 037**
Derivative collateral deposit					**679**
Insurance and other payables					**7 108**
		87 171	**10**	**2 037**	**264 006**
2011					
Investment contract liabilities		59 046	28		59 074
Policyholders		59 046			59 046
Embedded derivatives			28		28
Third party financial liabilities arising on consolidation of mutual funds		11 164			11 164
Derivatives		2 732			2 732
Liabilities subject to fair value hierarchy analysis		72 942	28		72 970
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					145 211
Investment contracts with DPF					2 639
Financial liabilities at amortised cost				2 054	2 054
Derivative collateral deposit					381
Insurance and other payables					5 623
		72 942	28	2 054	228 878

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)**	
Changes due to non-economic assumptions	**(1)**	(4)
Changes due to economic assumptions	**(1)**	(3)
Balance at the end of the year	**10**	28

Notes to the group 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 twelve month period from the financial position date. Each range used is broadly based on applying 25% and 75% confidence levels to the relevant historical experience. These ranges are adjusted accordingly for management's views. The sensitivity analysis does not cover extreme or irregular events that may occur.

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

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

Sensitivities on expected taxation have not been provided.

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

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

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

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

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

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

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

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

Notes to the group 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	319	(230)
	-2	(321)	231
Annuitant longevity	+4[(1)]	233	(162)
	-4[(2)]	(223)	154
Morbidity	+5	419	(294)
	-5	(419)	295
Withdrawals	+8[(3)]	232	(168)
	-8	(240)	174
Expense per policy	+5	268	(192)
	-5	(268)	192
Market assumptions			
Interest rate yield curve	+12	(2 912)	(170)
	-12	3 448	83
Option price volatilities	+20	241	(149)
	-20	(198)	119
Equity prices	+15	15 541	1 049
	-15	(15 448)	(1 075)
Rand exchange rates	+12[(4)]	(3 061)	(512)
	-12[(5)]	3 079	520

(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 to the group 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	220	(158)
	-2	(220)	158
Annuitant longevity	+4[1]	216	(150)
	-4[2]	(206)	143
Morbidity	+5	324	(227)
	-5	(323)	226
Withdrawals	+8[3]	329	(237)
	-8	(362)	261
Expense per policy	+5	227	(162)
	-5	(225)	161
Market assumptions			
Interest rate yield curve	+12	(2 892)	(284)
	-12	3 466	187
Option price volatilities	+20	289	(177)
	-20	(259)	156
Equity prices	+15	13 770	843
	-15	(13 634)	(869)
Rand exchange rates	+12[4]	(2 582)	(425)
	-12[5]	2 606	428

(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 to the group 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	**67 904**	62 331	**19 181**	17 146	**87 085**	79 477
Listed ordinary shares on the JSE	**66 614**	61 252			**66 614**	61 252
Listed ordinary shares on foreign exchanges			**19 181**	17 146	**19 181**	17 146
Unlisted	**1 290**	1 079			**1 290**	1 079
Debt instruments	**57 137**	55 359	**7 713**	4 653	**64 850**	60 012
Listed preference shares on the JSE or foreign exchanges	**2 043**	1 695	**72**	33	**2 115**	1 728
Unlisted preference shares	**615**	1 228			**615**	1 228
Listed term deposits[1] on BESA, or JSE or foreign exchanges	**36 714**	34 667	**7 041**	4 498	**43 755**	39 165
Loans	**913**	863			**913**	863
Unlisted term deposits[1]	**16 852**	16 906	**600**	122	**17 452**	17 028
Mutual funds[2]	**54 733**	41 066	**11 773**	9 211	**66 506**	50 277
Active market	**54 501**	40 231	**11 773**	8 936	**66 274**	49 167
Property	**3 964**	1 854	**90**	85	**4 054**	1 939
Equity instruments	**18 785**	12 711	**4 825**	2 757	**23 610**	15 468
Interest-bearing instruments	**12 536**	8 477	**4 938**	3 313	**17 474**	11 790
Mixed assets classes	**19 216**	17 189	**1 920**	2 781	**21 136**	19 970
Non-active market	**232**	835		275	**232**	1 110
Equity instruments	**232**	705			**232**	705
Interest-bearing instruments		130		275		405
Investment policies	**21 755**	16 871	**926**		**22 681**	16 871
Interest linked	**1**	3			**1**	3
Mixed assets classes	**21 754**	16 868	**926**		**22 680**	16 868
Reinsurance assets	**964**	896	**2**	2	**966**	898
Derivatives	**6 247**	3 075	**(121)**	24	**6 126**	3 099
Derivative collateral deposits	**784**	689		2	**784**	691
Prepayments, insurance and other receivables	**2 523**	2 403	**249**	198	**2 772**	2 601
Current balances related to						
– Insurance contracts	**615**	688	**8**	2	**623**	690
– Investment contracts	**210**	116			**210**	116
Other prepayments, insurance and other receivables	**1 698**	1 599	**241**	196	**1 939**	1 795
Loan receivables from joint ventures	**4**	4			**4**	4
Cash and cash equivalents	**3 767**	4 692	**1 388**	1 350	**5 155**	6 042
Property	**26 618**	25 941	**12**		**26 630**	25 941
	242 436	213 327	**41 123**	32 586	**283 559**	245 913

[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 to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

1.10 Summary of the group'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	**26 630**	25 941
Properties under development	**13**	
Owner-occupied properties	**1 307**	1 539
Investment properties	**24 063**	23 410
Operating leases – accrued income	**1 277**	1 085
Operating leases – accrued expense	**(30)**	(93)
Held-to-maturity financial instruments with joint ventures	**4**	4
Reinsurance assets	**966**	898
Interest in associates – mutual funds	**13 837**	11 697
Financial investments	**227 285**	194 940
Derivative assets	**6 910**	3 790
Prepayments, insurance and other receivables	**2 772**	2 601
Cash and cash equivalents	**5 155**	6 042
Total financial, property and insurance assets	**283 559**	245 913

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				234 277
Unit-linked (excluding discretionary participation features (DPF))	117 163	65 874		183 037
Business with DPF	19 296		2 820	22 116
Non-participating annuities (including disability income in claim)	19 710	1 413		21 123
Guaranteed capital endowments	9 917			9 917
Retail pure risk (excluding disability income annuities in claim)	(5 638)			(5 638)
Group risk (excluding group disability income annuities in claim)	482			482
Embedded derivatives[(1)]	3 230	10		3 240
Short-term insurance liabilities				21
Third party financial liabilities arising on consolidation of mutual funds				14 465
Financial liabilities at amortised cost				2 037
Derivatives				5 419
Derivative collateral deposits				679
Insurance and other payables				7 108
Current balance related to insurance contracts				3 578
Current balance related to investment contracts				157
Other				3 373
	164 160	67 297	2 820	264 006

[(1)] *The increase in the embedded derivatives reserve is largely explained by the reclassification of the reserves set up for persistency bonuses, net of performance fees, from unit linked to embedded derivatives during 2012. This led to a switch of approximately R1,4 billion between these two line items. This reclassification followed a review of the liability modelling on a particular set of products which established that this persistency bonus feature could be modelled separately as an embedded derivative.*

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

1. Risk disclosures (continued)

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

1.10.3 Liabilities per class (continued)

	Policyholder liability class			Total per statement of financial position Rm
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	
2011				
Policyholders liabilities				206 924
Unit-linked (excluding discretionary participation features (DPF))	102 646	57 715		160 361
Business with DPF	18 274		2 639	20 913
Non-participating annuities (including disability income in claim)	18 047	1 331		19 378
Guaranteed capital endowments	8 772			8 772
Retail pure risk (excluding disability income annuities in claim)	(4 829)			(4 829)
Corporate risk (excluding group disability income annuities in claim)	464			464
Embedded derivatives	1 837	28		1 865
Third party financial liabilities arising on consolidation of mutual funds				11 164
Financial liabilities at amortised cost				2 054
Derivatives				2 732
Derivative collateral deposits				381
Insurance and other payables				5 623
Current balance related to insurance contracts				2 866
Current balance related to investment contracts				93
Other				2 664
	145 211	59 074	2 639	228 878

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

2. Segment information

Liberty is a matrix organisation with products and services managed by various business units along geographical lines and risk components. Operations are structured to align the group's services and related products to retail and institutional markets.

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

The group accounts for inter-segment revenues and transfers 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 group's revenues.

The profit or loss information follows a similar format to the consolidated statement of comprehensive income. The group's revenue generating business units are structured into three business unit clusters, each headed up by a chief executive, who reports directly to the group's chief executive. These executives, along with the group's financial director, head of LibFin, and the group's executive strategic services, are considered to be the chief operating decision makers within the group. The group 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 acts in various territories. 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.

Short-term insurance

Products and services relating to property, personal and commercial risk protection, including *inter alia* the provision of medical expense risk, fire, theft and personal accident under short-term insurance acts in various territories.

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 group regulatory requirements.
Central costs	Costs associated with the group's central administration and shareholder services, including certain corporate social investment and black empowerment activities.

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 to the group 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 Individual	Long-term insurance Corporate	Short-term insurance	Other	Total	Reporting adjustments[(1)]	IFRS reported
Policyholder premiums	31 106	8 641	205		39 952	(11 373)	28 579
Service fee income from policyholder investment contracts						878	878
Investment returns	30 524	6 955	3	1 809	39 291	4 045	43 336
Fee revenue	87		(3)	25	109		109
Defined benefit pension fund employer surplus				(45)	(45)		(45)
Total revenue	61 717	15 596	205	1 789	79 307	(6 450)	72 857
Net claims and policyholder benefits	(25 014)	(10 812)	(129)		(35 955)	12 207	(23 748)
Change in policyholders liabilities	(23 806)	(3 493)			(27 299)	8 106	(19 193)
Fair value adjustment to policyholders' liabilities under investment contracts						(9 949)	(9 949)
Fair value adjustment on third party mutual fund interests						(2 979)	(2 979)
Acquisition costs	(3 131)	(237)	(6)	(24)	(3 398)		(3 398)
Marketing and administration expenses	(4 190)	(920)	(73)	(500)	(5 683)	(489)	(6 172)
Finance costs	(79)			(125)	(204)		(204)
Profit share allocations	(772)	(2)			(774)		(774)
Profit before taxation	4 725	132	(3)	1 140	5 994	446	6 440
Taxation	(2 425)	(33)	(7)	(13)	(2 478)	(66)	(2 544)
Total earnings	2 300	99	(10)	1 127	3 516	380	3 896
Other comprehensive income							
Owner occupied properties – fair value adjustment	(179)	(18)			(197)		(197)
Cash flow hedge – fair value adjustment	(29)				(29)		(29)
Foreign currency translation	(1)		4		3		3
Change in policyholders liabilities (application of shadow accounting)	119	12			131		131
Income and capital gains tax relating to:							
– owner-occupied properties	60	6			66		66
– cash flow hedges	8				8		8
Total comprehensive income	2 278	99	(6)	1 127	3 498	380	3 878
Attributable to:							
Minorities	(7)		(5)		(12)	(380)	(392)
Equity holders	2 271	99	(11)	1 127	3 486	–	3 486

(1) Reporting adjustments include the distribution of profits from subsidiaries, the consolidation of unincorporated property partnerships and the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

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

Restated	Long-term insurance					
Rm	Individual	Corporate	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	27 771	7 562		35 333	(9 633)	25 700
Service fee income from policyholder investment contracts					859	859
Investment returns	13 796	3 093	872	17 761	1 931	19 692
Fee income	87		7	94		94
Other			(4)	(4)		(4)
Total revenue	41 654	10 655	875	53 184	(6 843)	46 341
Net claims and policyholder benefits	(23 144)	(8 265)		(31 409)	9 552	(21 857)
Change in policyholders liabilities	(8 256)	(1 315)		(9 571)	3 329	(6 242)
Fair value adjustment to policyholders' liabilities under investment contracts					(4 033)	(4 033)
Fair value adjustment on third party mutual fund interests					(1 230)	(1 230)
Acquisition costs	(2 642)	(226)	(27)	(2 895)		(2 895)
Marketing and administration expenses	(3 876)	(797)	(519)	(5 192)	(518)	(5 710)
Finance costs	(40)		(185)	(225)		(225)
Profit share allocations	(606)			(606)		(606)
Profit on sale of subsidiary			(4)	(4)		(4)
Equity accounted earnings from joint ventures	7	1	2	10		10
Profit before taxation	3 097	53	142	3 292	257	3 549
Taxation	(1 317)	27	65	(1 225)	41	(1 184)
Total earnings	1 780	80	207	2 067	298	2 365
Other comprehensive income				–		
Owner occupied properties – fair value adjustment	105	10		115		115
Cash flow hedge – fair value adjustment	14			14		14
Foreign currency translation	4		1	5		5
Change in policyholders liabilities (application of shadow accounting)	(68)	(6)		(74)		(74)
Income and capital gains tax relating to:				–		–
– owner-occupied properties	(37)	(4)		(41)		(41)
– cash flow hedges	(4)			(4)		(4)
Total comprehensive income	1 794	80	208	2 082	298	2 380
Attributable to:				–		
Minorities	(4)			(4)	(298)	(302)
Equity holders	1 790	80	208	2 078	–	2 078

[(1)] Reporting adjustments include the distribution of profits from subsidiaries, the consolidation of unincorporated property partnerships and the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.

Notes to the group financial statements *(continued)*

for the year ended 31 December 2012

	2012 Rm	2011 Rm
3. Equipment and owner-occupied properties under development		
Cost at the beginning of the year	**2 101**	2 092
Additions through business acquisition	**7**	
Additions	**276**	99
Disposals	**(63)**	(91)
Foreign currency translation	**9**	1
Cost at the end of the year	**2 330**	2 101
Accumulated depreciation and impairment at the beginning of the year	**(1 349)**	(1 240)
Disposals	**51**	78
Depreciation	**(192)**	(187)
Foreign currency translation	**(8)**	
Accumulated depreciation and impairment at the end of the year	**(1 498)**	(1 349)
Net carrying amount at the end of the year	**832**	752

	Balance at the beginning of the year Rm	Business acquisition Rm	Additions Rm	Disposals Rm	Depreciation Rm	Transfers Rm	Foreign currency translation Rm	Balance at the end of the year Rm	Net book value Rm
2012									
Cost – movement									
Properties under development			13					13	13
Computer equipment	871	2	97	(35)			1	936	193
Purchased computer software	110		20	(6)				124	25
Fixtures, furniture and fittings	937	1	116	(5)				1 049	508
Office equipment	118	1	9	(2)			2	128	56
Motor vehicles	65	3	21	(15)			6	80	37
	2 101	7	276	(63)			9	2 330	832
Accumulated depreciation and impairment – movement									
Computer equipment	(700)			31	(73)		(1)	(743)	
Purchased computer software	(83)				(16)			(99)	
Fixtures, furniture and fittings	(464)			5	(82)			(541)	
Office equipment	(65)			2	(8)		(1)	(72)	
Motor vehicles	(37)			13	(13)		(6)	(43)	
	(1 349)			51	(192)		(8)	(1 498)	

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	Balance at the beginning of the year Rm	Business acqui-sition Rm	Additions Rm	Dis-posals Rm	Depre-ciation Rm	Transfers Rm	Foreign currency trans-lation Rm	Balance at the end of the year Rm	Net book value Rm
3. Equipment and owner-occupied properties under development (continued)									
2011									
Cost – movement									
Computer equipment	868		51	(48)				871	171
Purchased computer software	103		6				1	110	27
Fixtures, furniture and fittings	935		26	(24)				937	473
Office equipment	119		5	(6)				118	53
Motor vehicles	67		11	(13)				65	28
	2 092		99	(91)			1	2 101	752
Accumulated depreciation and impairment – movement									
Computer equipment	(672)			47	(75)			(700)	
Purchased computer software	(69)				(14)			(83)	
Fixtures, furniture and fittings	(402)			18	(80)			(464)	
Office equipment	(60)			2	(7)			(65)	
Motor vehicles	(37)			11	(11)			(37)	
	(1 240)			78	(187)			(1 349)	

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

Notes to the group 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	**8**	(71)
Cost at the end of the year	**730**	720
Accumulated depreciation at the beginning and end of the year[1]	**(57)**	(57)
Cost less accumulated depreciation	**673**	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 to the group 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.

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.

	2012 Rm	2011 Rm
Fair value at the beginning of the year	**23 410**	21 521
Revaluations net of lease straight-lining	**1 177**	896
Revaluations	**1 432**	925
Net movement on straight-lining operating leases	**(255)**	(29)
Additions – property acquired	**32**	
Additions – capitalised subsequent expenditure	**46**	900
Additions through business combinations	**11**	
Disposals	**(651)**	
Reclassifications from owner-occupied properties	**37**	93
Foreign currency translation	**1**	
Fair value at the end of the year	**24 063**	23 410
At the end of the year investment properties comprised the following property types:		
Office buildings	**1 297**	1 197
Shopping malls	**20 750**	20 022
Hotels	**2 536**	2 536
Other	**727**	647
Total investment properties	**25 310**	24 402
Located in:		
South Africa	**25 298**	24 402
Nigeria	**12**	
Investment properties at fair value	**24 063**	23 410
Operating leases – accrued income	**1 277**	1 085
Operating leases – accrued expense	**(30)**	(93)

The investment properties were independently valued as at 31 December 2012 by registered 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 group from its investment property, all of which is leased out under operating leases, amounted to R2 285 million (2011: R1 904 million). Direct operating expenses arising on the investment property amounted to R555 million (2011: R513 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 (R25 310 million) is R26 617 million (2011: R25 941 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 to the group financial statements *(continued)*

for the year ended 31 December 2012

	2012 Rm	2011 Rm
6. Intangible assets		
Cost at the beginning of the year	**2 313**	2 307
Additions through business acquisition	**40**	
Additions	**25**	6
Foreign currency translation	**3**	
Cost at the end of the year	**2 381**	2 313
Accumulated amortisation and impairment at the beginning of the year	**(1 787)**	(1 624)
Impairment and derecognition	**(44)**	
Amortisation	**(152)**	(163)
Accumulated amortisation and impairment at the end of the year	**(1 983)**	(1 787)
Net carrying amount at the end of the year	**398**	526
Summary of net carrying value		
Goodwill[(1)]		
Computer software – internally generated	**44**	75
Customer relationships and contracts	**35**	
Present value of in-force policyholder contracts[(2)]	**319**	451

	Balance at beginning of year Rm	Additions through business acquisition Rm	Additions Rm	Foreign currency translation Rm	Impairment and derecog-nition Rm	Amorti-sation Rm	Balance at end of year Rm	Amorti-sation period
2012								
Cost – movement								
Goodwill	**397**						**397**	
Computer software – internally generated	**292**		**25**				**317**	
Customer relationships and contracts		**40**		**3**			**43**	
Present value of in-force policyholder contracts	**1 624**						**1 624**	
	2 313	**40**	**25**	**3**			**2 381**	
Accumulated amortisation and impairment – movement								
Goodwill	**(397)**						**(397)**	
Computer software – internally generated	**(217)**				**(44)**	**(12)**	**(273)**	**Up to 7 years**
Customer relationships and contracts						**(8)**	**(8)**	**Up to 7 years**
Present value of in-force policyholder contracts	**(1 173)**					**(132)**	**(1 305)**	**Up to 15 years**
	(1 787)				**(44)**	**(152)**	**(1 983)**	

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	Balance at beginning of year Rm	Additions through business acquisition Rm	Additions Rm	Foreign currency translation Rm	Impairment and derecog-nition Rm	Amorti-sation Rm	Balance at end of year Rm	Amorti-sation period
6. Intangible assets (continued)								
2011								
Cost – movement								
Goodwill	397						397	
Computer software – internally generated	286		6				292	
Present value of in-force policyholder contracts	1 624						1 624	
	2 307		6				2 313	
Accumulated amortisation and impairment – movement								
Goodwill	(397)						(397)	
Computer software – internally generated	(213)					(4)	(217)	Up to 7 years
Present value of in-force policyholder contracts	(1 014)					(159)	(1 173)	Up to 15 years
	(1 624)					(163)	(1 787)	

[1] Goodwill relates to the acquisition of a previously held subsidiary Capital Alliance Holdings Limited, which was fully impaired.
[2] 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.

Goodwill impairment testing

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows from continuing use defined as cash-generating units (CGU).

	2012 Rm	2011 Rm
7. Deferred acquisition costs		
Balance at the beginning of the year	**389**	364
Cost of new business acquired	**249**	219
Amortisation realised through profit or loss	**(199)**	(194)
Balance at the end of the year	**439**	389
Current	**132**	122
Non-current	**307**	267
Deferred acquisition costs are amounts incurred on acquiring policyholder investment contracts. They are amortised to income over the contract period.		

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
8. Interests in joint ventures		
8.1 Summary		
Equity loans and ordinary shares at cost	**64**	106
Loans and receivables[1]	**4**	4
Share of post-acquisition reserves	**309**	326
– recognised in profit or loss	**309**	328
– foreign currency translation		(2)
Impairment provision		(14)
Total interests in joint ventures	**377**	422
8.2 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[2]	**(46)**	
Balance at the end of the year	**64**	106
Loans and receivables		
Balance at the beginning of the year	**4**	4
Balance at the end of the year	**4**	4
Share of post-acquisition reserves		
Balance at the beginning of the year	**326**	320
Earnings recognised in profit or loss		10
Foreign currency translation		1
Ordinary dividends received	**(15)**	(5)
Derecognition of Total Health Trust Limited[2]	**(2)**	
Balance at the end of the year	**309**	326
Impairment provision		
Balance at the beginning of the year	**(14)**	(14)
Derecognition of Total Health Trust Limited[2]	**14**	
Balance at the end of the year	**–**	(14)

[1] *Loans and receivables comprise:*
R4 million (2011: R4 million) on demand interest free loan receivable extended to The Financial Services Exchange (Proprietary) Limited. The fair value of the loan receivable is less than R1 million (2011: R1 million) and is long-term nature.

[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 2011 and 1 January 2012, two further 5,0% equity stakes were acquired bringing the total ownership to 45,3% and 51,2% respectively. Total Health Trust Limited is now accounted for a subsidiary.*

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

8. Interests in joint ventures (continued)

	Percentage ownership		Equity loans and shares held at cost		Held-to-maturity financial instruments		Share of post-acquisition reserves		Impairment		Total interest		Equity accounted earnings	
	2012 %	2011 %	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**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	**(1)**	(1)			**3**	3		1
The Cullinan Hotel (Proprietary Limited) *(hotel developer and manager)*	**50,0**	50,0	**64**	64			**310**	325			**374**	389		7
Total Health Trust Limited[2] *(health risk services organisation)*		45,3		42				2		(14)		30		2
Total			**64**	106	**4**	4	**309**	326		(14)	**377**	422		10

	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**	131
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.*

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
9. Interest in associates		
Other associates		
Ordinary shares at cost	14	
Summarised financial information of associates		
Total assets	19	
Total liabilities	(8)	
Total revenue	60	
Net profit for the year	3	
9.1 Movements analysis		
Ordinary shares at cost		
Acquisition during the year	14	
Balance at the end of the year	14	

9.2 Details of interests

Name	Ownership 2012 %	Cost 2012 Rm
Hereford Financial Services	20	9
Eq-Fin Proprietary Limited	26	5
Total		14

In terms of the shareholders' agreements relating to these investments the group's interests do not carry divided rights to annual profits. Therefore no post-acquisition reserves are equity accounted. The group investments, however, do have rights to net assets on liquidation or proceeds on sale.

	2012 Rm	2011 Rm
10. Interest in associates – mutual funds		
Fair value of associates held at fair value through profit or loss	13 837	11 697
Summarised financial information of associates:		
Total investments	37 656	31 362
Current assets	4 842	7 078
Current liabilities	(101)	(37)
Total revenue[(1)(2)]	2 092	1 848

(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.*

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

10. Interest in associates – mutual funds (continued)

Fair value of associates held at fair value through profit or loss (continued)

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

Name	Percentage of participation rights in total issued units		Fair value	
	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 Balanced Fund	**26**	26	**777**	560
STANLIB Value Fund	**48**	48	**738**	686
Investec Gilt Fund	**26**		**671**	
STANLIB Balanced Cautionary Fund	**26**	22	**549**	283
STANLIB Multi-Manager Equity Fund	**38**	40	**469**	634
Synergy Income Fund Limited	**38**	47	**387**	247
STANLIB Global Equity Feeder Fund	**37**	34	**323**	284
STANLIB Moderately Conservative Fund of Funds	**30**	37	**322**	253
STANLIB Multi-Manager Real Return Feeder Fund	**22**	22	**285**	267
STANLIB Multi-Manager Low Equity Fund of Funds	**26**	27	**255**	275
STANLIB Multi-Manager Medium Equity Fund of Funds	**27**	28	**192**	190
STANLIB Moderate Fund of Funds	**28**	28	**185**	146
STANLIB Managed Flexible Fund	**27**	27	**158**	172
STANLIB Resources Fund	**23**	23	**139**	153
Kruger STANLIB Balanced Fund	**23**		**119**	
Kruger STANLIB Prudential Fund	**39**		**106**	
STANLIB Quants Funds[(1)]	**50**	50	**84**	77
STANLIB Multi-Manager National Fund	**27**	31	**75**	64
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**	24	**53**	52
STANLIB Aggressive Income Fund[(2)]		28		373
Ermitage Money Market Funds[(2)]		24		263
STANLIB Global Property Feeder Fund[(2)]		34		100
Oasis Balanced Fund[(2)]		26		90
Total interest in associates			**13 837**	11 697

[(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 to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
11. Financial investments and derivative assets and liabilities		
11.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market		
Listed	**131 946**	120 082
Equities	**85 795**	78 398
Preference shares	**2 115**	1 728
Commercial term deposits	**15 551**	12 446
Mututal funds	**281**	791
Government, municipal and utility stocks	**28 204**	26 719
Unlisted	**69 840**	54 817
Commercial term deposits	**17 409**	16 997
Mutual funds	**52 388**	37 789
Government, municipal and utility stocks	**43**	31
Unquoted and unlisted	**24 586**	19 178
Equities	**1 290**	1 079
Preference shares	**615**	1 228
Investment policies	**22 681**	16 871
Loans and receivables		
Loans[(1)]	**913**	863
Total financial investments	**227 285**	194 940
11.2 Derivative assets and liabilities:		
Assets:		
Held for trading	**6 875**	3 777
Derivatives	**6 091**	3 086
Collateral deposits	**784**	691
Held for hedging		
Cash flow hedge assets	**35**	13
	6 910	3 790
Liabilities:		
Held for trading	**6 003**	3 092
Derivatives	**5 324**	2 711
Collateral deposits	**679**	381
Held for hedging		
Derivatives	**95**	21
	6 098	3 113

[(1)] *The fair value of loans is R813 million (2011: R788 million).*

Notes to the group 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
11. Financial investments and derivative assets and liabilities (continued)					
11.3 Movement analysis:					
2012					
Balance at the beginning of the year	(8)	685	205 774	863	207 314
Financial investments			194 077	863	194 940
Held for trading assets		3 777			3 777
Held for trading liabilities		(3 092)			(3 092)
Held for hedging asset	13				13
Held for hedging liabilities	(21)				(21)
Interests in associates – mutual funds			11 697		11 697
Redesignated to cash flow hedges	4	(4)			
Additions (purchasings and issuings)		9 430	176 370	120	185 920
Disposals (sales and redemptions)		(8 567)	(172 287)		(180 854)
Accrued interest				77	77
Repayments				(146)	(146)
Fair value adjustments – income statement	(27)	(804)	29 581		28 750
Derivative assets	30	5 615			
Derivative liabilities	(57)	(6 419)			
Fair value adjustments – other comprehensive income	(29)				(29)
Derivative assets	6				6
Derivative liabilities	(35)				(35)
Impairment				(1)	(1)
Movement on third party share of financial instruments in mutual funds		132	773		905
Foreign currency translation			(2)		(2)
Balance at the end of the year	(60)	872	240 209	913	241 934
Financial investments			226 372	913	227 285
Held for trading assets		6 875			6 875
Held for trading liabilities		(6 003)			(6 003)
Held for heding assets	35				35
Held for hedging liabilities	(95)				(95)
Interest in associates – mutual funds			13 837		13 837

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

11. Financial investments and derivative assets and liabilities (continued)
11.3 Movement analysis (continued):

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
2011					
Balance at the beginning of the year		750	196 097	810	197 657
Financial investments			190 283	810	191 093
Held for trading assets		2 659			2 659
Held for trading liabilities		(1 909)			(1 909)
Interests in associates – mutual funds			5 814		5 814
Additions (purchasings and issuings)	18	19 323	162 915	127	182 383
Impairment reversal				5	5
Disposals (sales and redemptions)	(26)	(18 895)	(159 515)		(178 436)
Redesignated to cash flow hedges	113	(113)			
Accrued interest				73	73
Repayments				(152)	(152)
Fair value adjustments – income statement	(127)	(375)	7 986		7 394
Derivative assets	(52)	2 843			
Derivative liabilities	(75)	(3 218)			
Fair value adjustment – other comprehensive income	14				14
Derivative assets	10				10
Derivative liabilities	4				4
Movement on third party share of financial instruments in mutual funds		(5)	(1 623)		(1 628)
Foreign currency translation			4		4
Balance at the end of the year	(8)	685	205 774	863	207 314
Financial investments			194 077	863	194 940
Hedge for hedging assets	13				13
Hedge for hedging liabilities	(21)				(21)
Held for trading assets		3 777			3 777
Held for trading liabilities		(3 092)			(3 092)
Interest in associates – mutual funds			11 697		11 697

Notes to the group financial statements *(continued)*

for the year ended 31 December 2012

	2012 Rm	2011 Rm
11. Financial investments and derivative assets and liabilities (continued)		
11.4 Maturity profile of commercial term deposits, government, municipal and utility stocks and loans:		
Less than 1 year	**10 749**	8 054
1 – 5 years	**17 301**	17 447
5 – 10 years	**14 740**	16 090
10 – 20 years	**13 740**	10 873
Over 20 years	**4 677**	3 729
Open ended[1]	**913**	862
Total	**62 120**	57 055

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
11.5 Cash flow hedging reserve			
2012			
Balance at the beginning of the year	**14**	**(4)**	**10**
Release in accordance with cash flows	**(29)**	**8**	**(21)**
Balance at the end of the year	**(15)**	**4**	**(11)**
2011			
Release in accordance with cash flows	(123)	34	(89)
Deferral of fair value adjustments on designated derivatives	137	(38)	99
Balance at the end of the year	14	(4)	10

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
12. Prepayments, insurance and other receivables		
Current balances related to insurance contracts	**623**	690
Outstanding premium receivables	**423**	435
Reinsurance recoveries	**200**	255
Current balances related to investment contracts		
Outstanding premium receivables	**210**	116
Current balances related to insurance and investment contracts	**833**	806
Accrued income	**54**	41
Investment debtors	**598**	213
Consolidated mutual funds' receivables	**492**	198
Property consortiums' receivables	**40**	49
Loans and current accounts	**227**	737
Agents, brokers and intermediaries	**120**	93
Other debtors	**408**	464
Total prepayments, insurance and other receivables[1]	**2 772**	2 601

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

	2012 Rm	2011 Rm
13. Cash and cash equivalents		
Cash at bank and at hand	**750**	399
Short-term cash deposits	**4 405**	5 643
Total cash and cash equivalents	**5 155**	6 042

Notes to the group 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
14. Long-term policyholder liabilities and reinsurance assets						
Balance at the beginning of the year	**145 211**	**2 639**	**(898)**	138 849	2 634	(847)
Inflows	**55 486**	**839**	**(885)**	38 486	497	(824)
Insurance premiums	**28 700**	**485**	**(811)**	26 117	337	(754)
Investment returns	**26 786**	**354**	**(74)**	12 361	160	(70)
Unwinding of discount rate	**1 141**	**1**	**(73)**	1 014		(70)
Investments	**25 645**	**353**	**(1)**	11 347	160	
Equity accounted earnings from joint ventures				8		
Outflows	**(34 009)**	**(679)**	**665**	(30 187)	(486)	616
Claims and policyholders' benefits	**(23 555)**	**(653)**	**589**	(21 952)	(448)	543
Claims and policyholders' benefits under insurance contracts	**(23 555)**	**(358)**	**589**	(21 952)	(209)	543
Switches between investment with DPF to investment without DPF		**(295)**			(239)	
Acquisition costs associated with insurance contracts	**(3 141)**	**(9)**	**1**	(2 664)	(10)	3
Profit share allocations	**(774)**			(606)		
Finance costs	**(45)**			(27)		
General marketing and administration expenses	**(4 059)**	**(25)**	**2**	(3 700)	(23)	2
Expenses recovered from other group companies	**87**			87		
Taxation	**(2 522)**	**8**	**73**	(1 325)	(5)	68
Net income from insurance operations	**(2 528)**	**21**	**152**	(1 937)	(6)	157
Changes in assumptions	**(501)**		**(28)**	(498)		(4)
Discretionary and compulsory margins and other variances	**(3 735)**	**29**	**248**	(2 540)	(11)	228
New business	**275**		**2**	143		
Shareholder taxation on transfer of net income	**1 433**	**(8)**	**(70)**	958	5	(67)
Balance at the end of the year	**164 160**	**2 820**	**(966)**	145 211	2 639	(898)
Current	**17 482**	**240**	**(154)**	14 534	227	(165)
Non-current	**146 678**	**2 580**	**(812)**	130 677	2 412	(733)

[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 to the group financial statements *(continued)*
for the year ended 31 December 2012

14. Long-term policyholder liabilities and reinsurance assets (continued)

14.1 Process used to decide on assumptions and changes in assumptions for South African life companies

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 requirements of APN 105 issued by the Actuarial Society of South Africa (ASSA). The rates are defined using the appropriate ASSA models 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 investigations are 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 product type. Typically the assumptions 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 current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. The rate averaged across the blocks of business (excluding annuity and guaranteed capital bond business) is 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 in accordance with SAP 104 issued by the Actuarial Society of South Africa.

For life annuity and guaranteed endowments, 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 statement of financial position 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.

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 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.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

14. Long-term policyholder liabilities and reinsurance assets (continued)

14.1 Process used to decide on assumptions and changes in assumptions for South African life companies (continued)

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 statement of financial position 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 simulaltions, 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 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 to the group financial statements *(continued)*
for the year ended 31 December 2012

14. Long-term policyholder liabilities and reinsurance assets (continued)

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

The TOP 40 index above is a capital 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

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

14. Long-term policyholder liabilities and reinsurance assets (continued)

14.2 Process used to decide on assumptions and changes in assumptions for non-South African life companies

Assumptions used in the valuation of policyholder liabilities are set by references to local guidance and where applicable to the Actuarial Society of South Africa guidance. Economic assumptions are set by reference to local economic conditions at the valuation date. Margins are allowed for as prescribed by local guidance and regulations.

Long-term policyholder liabilities held within non-South African life companies total R43 million or 0,02% of total group long-term policyholder liabilities (R35 million or 0,02% for 2011) . Given the low proportion, as well as low risk insurance exposures for the group, detailed descriptions of the various bases used are not considered necessary.

14.3 Changes in assumptions

Modelling and other assumption changes were made to realign valuation assumptions with expected future experience. These changes resulted in a net decrease in long-term policyholder liabilities of R529 million in 2012 compared to a decrease of R502 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 R183 million (2011: decrease of 624 million).
- A change in future mortality and morbidity assumptions to reflect expected future experience, amounting to a decrease in the liability of R223 million (2011: increase of R104 million).
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R330 million (2011: decrease of R32 million).
- Weakening of the annuitant longevity assumptions resulted in a decrease in the liability of R90 million (2011: increase of R435 million).
- A change in the expense valuation assumptions resulted in a decrease in the liability of R5 million. (2011: increase of R154 million).
- A change in the tax relief on expenses assumptions resulted in a decrease in the liability of R156 million.
- A change in the modelling resulted in an increase in liabilities of R164 million.
- The balance of other changes resulted in a decrease in liabilities of R72 million (2011: decrease of R241 million).
- In 2011 there was a change in the modelling for policies being made paid-up resulting in a decrease in the liabilities of R108 million. No further changes were required for 2012.
- In 2011 there was a change in the life annuities and guaranteed endowments illiquidity premium methodology resulting in a decrease in the liability of R190 million. No further changes were required for 2012.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
15. Long-term policyholders liabilities under investment contracts		
Balance at the beginning of the year	**59 074**	55 832
Fund inflows from investment contracts (excluding switches)	**11 373**	9 633
Net fair value adjustment	**9 949**	4 033
Fund outflows under investment contracts (excluding switches)	**(12 502)**	(9 791)
Switches between investment with DPF to investment without DPF	**295**	239
Service fee income	**(892)**	(872)
Balance at the end of the year	**67 297**	59 074
Current	**7 139**	5 732
Non-current	**60 158**	53 342
Net income from investment contracts[1]	**8**	62
Service fee income	**892**	872
Expenses		
Property expenses applied to investment returns	**464**	405
Shareholder taxation on transfer of net income	**(17)**	(28)
Acquisition costs	**(269)**	(222)
General marketing and administration expenses	**(1 028)**	(952)
Finance costs	**(34)**	(13)

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

16. Short-term insurance liabilities

	2012 Liability Rm	2012 Reinsurance assets Rm	2012 Net liability Rm
16.1 Short-term insurance liabilities comprise			
Claims incurred but not reported	**1**		**1**
Unearned premiums	**20**		**20**
Total short-term insurance liabilities	**21**		**21**
16.2 Movements analysis			
Claims incurred but not reported			
Additions through business acquisition	**1**		**1**
Cash-settled claims	**(183)**	**54**	**(129)**
New claims provided for	**183**	**(54)**	**129**
Balance at the end of the year	**1**		**1**
Unearned premiums			
Additions through business acquisition	**15**		**15**
Gross premiums received/accrued	**277**	**(68)**	**209**
Recognised to revenue	**(273)**	**68**	**(205)**
Foreign currency translation	**1**		**1**
Balance at the end of the year	**20**		**20**

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
17. Financial liabilities at amortised cost		
Callable capital bonds[3]	**2 037**	2 054
– 2005 issue[1]		2 054
– 2012 August issue[2]	**1 024**	
– 2012 October issue[2]	**1 013**	
Total financial liabilities at amortised cost	**2 037**	2 054
Current	**35**	2 054
Non-current	**2 002**	
Movement analysis		
Balance at the beginning of the year	**2 054**	2 054
Arising through business acquisition		
Interest accrued	**173**	179
Bond issues	**2 000**	
Capitalisation of bond issue expenses	**(12)**	
Repayments	**(2 178)**	(179)
Balance at the end of the year	**2 037**	2 054

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

(2) 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.

(3) The fair value of the callable capital bond which matures on 13 August 2017 is R1 108 million and for the bond which matures on 3 April 2018 R1 098 million (2011: R2 098 million).

	2012 Rm	2011 Rm
18. Third party financial liabilities arising on consolidation of mutual funds		
Movement analysis		
Balance at the beginning of the year	**11 164**	11 000
Additional mutual funds classified as subsidiaries	**692**	918
Repayments through withdrawal or change in effective ownership	**(261)**	(420)
Mutual funds no longer classified as subsidiaries	**(109)**	(1 564)
Fair value adjustment	**2 979**	1 230
Balance at the end of the year	**14 465**	11 164

Certain mutual funds have been classified as investments in subsidiaries. Consequently fund interests not held by the group are classified as third party liabilities as they represent demand deposit liabilities measured at fair value. Maturity analysis is not possible as it is dependent on external unit holders' behaviour outside of Liberty's control.

Liberty's own credit risk is not applicable in the measurement of these liabilities as these liabilities are specifically referenced to assets and liabilities contained in a separate legal structure that could not be attached in the event of a group entity holding the controlling units defaulting.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	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	**468**	368
Post-retirement medical aid benefit	19.4(b)	**362**	448
Total liability		**830**	816

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	**54**	59	**314**	242	**368**	301
Additional provision raised	**87**	69	**372**	261	**459**	330
Utilised during the year	**(84)**	(74)	**(275)**	(189)	**(359)**	(263)
At the end of the year	**57**	54	**411**	314	**468**	368

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 group 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.

Short-term incentive schemes (cash-settled)

All permanent employees are eligible to receive a short-term incentive bonus in terms of the various board approved short-term incentives schemes. These recognise both individual and financial performance (both of the respective business unit and group). Awards are approved by the remuneration committee and are subject to deferrals at certain levels. The non-deferred amounts are cash-settled.

Accruals for the short-term cash incentive schemes as at 31 December 2012 comprise of R256 million (2011: R218 million) senior management group incentive scheme, R105 million (2011: R73 million) general staff incentive schemes and R50 million (2011: R23 million) investment professional schemes.

19.3 Details of funds

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

Liberty Group Defined Benefit Pension Fund

The group 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.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

19. Employee benefits (continued)

19.3 Details of funds (continued)

Liberty Defined Contribution Pension Fund[1]

ACA Defined Benefit Fund

Capital Alliance Life Limited, a subsidiary of Capital Alliance Holdings Limited (CAHL), operates the ACA funded, paid up, defined benefit pension scheme.

Rentmeester Defined Benefit Fund

Liberty Growth Limited (formerly Rentmeester Limited), a subsidiary of CAHL, operates a funded, paid up, defined benefit pension scheme.

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.

Rentmeester Defined Contribution Pension Fund[1]

Liberty Growth Limited (formerly Rentmeester Limited), a subsidiary of CAHL, operates a funded paid up defined contribution pension scheme in terms of section 1 of the Income Tax Act, 1962. The Rentmeester Defined Contribution Pension Fund offers a benefit to Liberty Growth employees based on the accumulated contributions and investment returns at retirement.

Capital Alliance Holdings (CAH) Defined Contribution Pension Fund[1]

Capital Alliance Holdings Limited operates a funded defined contribution scheme in terms of section 1 of the Income Tax Act, 1962. The CAH defined contribution fund offers a benefit to Capital Alliance employees based on the accumulated contributions and investment returns at retirement.

(1) All these schemes are defined contribution schemes, therefore, there can be no future obligation against the group 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 group 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 Funds Act, 1956, as amended.

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	Liberty Group Defined Pension Fund					ACA Defined Benefit Fund[(1)]		Rentmeester Defined Benefit Fund[(1)]	
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 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	**6**	5	**2**	2
Valuation adjustment[(2)]				(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		1		
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	**6**	6	**2**	2
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	**8**	7	**3**	3
Valuation adjustment[(2)]				(13)					
Expected return on plan assets	**117**	118	117	88	164	**1**	1		
Actuarial gain/(loss)	**150**	9	37	76	(438)				
Employer contribution[(3)]	**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[(4)]	**1 541**	1 367	1 342	1 280	1 197	**9**	8	**3**	3
Excess not recognised	**103**	109	108	92	86	**3**	2	**1**	1
Analysis of the defined benefit pension fund obligation movement									
Current service cost	**13**	13	13	12	14				
Interest cost	**62**	67	66	52	59		1		
Expected return on plan assets	**(117)**	(118)	(117)	(88)	(164)	**(1)**	(1)		
Net actuarial loss recognised in the year	**48**	37	22	18	458				
Total	**6**	(1)	(16)	(6)	367	**(1)**	–		

(1) *The ACA Defined Benefit Fund and Rentmeester Defined Benefit Fund form part of the Capital Alliance Life group, which was acquired on 1 April 2005. Due to the relative insignificance of the liability to the group only one year of comparison is provided.*

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

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

(4) *The fair value of the plan assets for 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 to the group 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 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

Adjustment to employee surplus account arising from statutory valuations[1]	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 surplus 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 to the group 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**	n/a
Discount rate (%)	**7,99**	8,76	**8,40**	8,78
Future salary increases (excluding increases on promotion) (%)	**6,36**	6,11	**7,06**	
Medical cost trend rate				7,38
Mortality assumption – pre-retirement	[2]	[2]	[3]	[3]
– post-retirement	[4]	[5]	[5]	[5]
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] The Rentmeester Defined Benefit is a paid up fund and therefore assumptions are not applicable. Post- and pre-retirement mortality assumptions were the same as those described for the Liberty Group Defined Benefit Fund.

[2] No pre-retirement mortality has been allowed for in 2011.

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

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

[5] For both the Liberty Group Defined Pension Fund 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 to the group 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 group has made on behalf of the employees during the year are as follows:

	2012 R'000	2011 R'000
Retirement		
Defined benefit funds	**11**	7
Defined contribution funds	**191**	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 Funds Limited	**214**	167
Standard Bank bonds, deposits and money market investments	**30**	47

Notes to the group 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 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
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 Active Provident Fund		
Balance at 1 January and 31 December	**1**	1
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
Capital Alliance Holdings Defined Contribution Pension Fund		
Balance at 1 January	**174**	165
Fair value adjustments	**23**	25
Withdrawals	**(12)**	(16)
Balance at 31 December	**185**	174
Rentmeester Defined Contribution Pension Fund		
Balance at 1 January	**5**	4
Fair value adjustments		1
Withdrawals	**(4)**	
Balance at 31 December	**1**	5

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
20. Deferred revenue		
Balance at the beginning of the year	152	139
Released to profit or loss	(18)	(15)
Deferred income relating to new business	32	28
Balance at the end of the year	166	152
Current	19	17
Non-current	147	135

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.

	Liability at the beginning of the year Rm	(Provision)/ release for the year Rm	CST inclusion rate change Rm	Additions through business acquisitions Rm	Liability at the end of the year Rm
21. Deferred taxation					
Normal taxation	(1 431)	(356)		(1)	(1 788)
Policyholder liabilities difference between statutory and accounting basis	(1 520)	(213)			(1 733)
Utilisation of tax losses and special transfers	348	(162)			186
Intangible assets – PVIF	(125)	38			(87)
Deferred acquisition costs	(109)	(14)			(123)
Deferred revenue liability	43	4			47
Customer relationships and contracts	(17)				(17)
Provisions	(51)	(9)		(1)	(61)
Capital gains taxation	(1 242)	450	(22)		(814)
Total	(2 673)	94	(22)	(1)	(2 602)

	2012 Rm	2011 Rm
Movement summary		
Balance at the beginning of the year	(2 673)	(2 334)
Additions through business acquisitions	(1)	
Release/(Charge) through statement of comprehensive income	72	(339)
Balance at the end of the year	(2 602)	(2 673)
Deferred tax assets		
Non-current	73	79
Deferred tax liabilities		
Non-current	(2 675)	(2 752)

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm
22. Deemed disposal taxation liability	**918**

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 R306 million has been included in current taxation and the expected future tax obligation for the 2013 – 2015 tax years of R918 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.

	Restru-cturing	Retirement fund administration		Possible claims		Total	
	2012 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	**19**		93	**35**	165	**54**	258
Unwinding of discount rate		**8**	8			**8**	8
Utilised during the year		**(46)**	(45)	**(7)**	(19)	**(53)**	(64)
Balance at the end of the year	**19**	**127**	165	**192**	199	**338**	364

Restructuring

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

Retirement fund administration

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

Possible claims

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

Notes to the group 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	**3 578**	2 866
Outstanding claims and surrenders	**3 307**	2 563
Commission creditors	**271**	303
Current balances related to investment contracts		
Outstanding claims and surrenders	**157**	93
Total current balances related to insurance and investment contracts	**3 735**	2 959
Total other payables	**3 373**	2 664
Sundry payables	**1 999**	1 506
Preference share dividend	**755**	583
Investment creditors	**619**	575
Total insurance and other payables	**7 108**	5 623
Current	**7 072**	5 592
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 to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
26. Premiums		
Insurance premiums	**29 458**	26 454
Long-term	**29 185**	26 454
Short-term	**273**	
Reinsurance premiums	**(879)**	(754)
Long-term	**(811)**	(754)
Short-term	**(68)**	
Net insurance premiums	**28 579**	25 700
Fund inflows from investment contracts	**11 373**	9 633
Net premium income from insurance contracts and inflows from investment contracts	**39 952**	35 333
Long-term insurance	**39 747**	35 333
Retail	**25 688**	23 103
Corporate	**8 641**	7 562
Immediate annuities	**5 418**	4 668
Short-term insurance		
Medical risk	**205**	
Comprising:		
Recurring	**22 808**	20 564
Retail	**16 169**	14 550
Corporate	**6 434**	6 014
Medical risk	**205**	
Single	**17 144**	14 769
Retail	**9 519**	8 553
Corporate	**2 207**	1 548
Immediate annuities	**5 418**	4 668
Net premium income from insurance contracts and inflows from investment contracts	**39 952**	35 333
27. Service fee income from policyholder investment contracts		
Service fee income from investment contracts	**892**	872
Released to profit or loss	**18**	15
Deferred income relating to new business	**(32)**	(28)
Total service fee income from policyholder investment contracts	**878**	859

Notes to the group 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	6 458	6 124
Dividends received	3 432	2 676
Listed shares	2 828	2 153
Unlisted instruments[3]	604	523
Proceeds on sale of dividends		58
Investment properties		
Rental income from investment properties	2 285	1 904
Financial instruments held-to-maturity		
Interest income	77	73
Sundry income	47	9
Investment return on defined benefit pension fund surplus	47	15
Total investment income	12 346	10 859

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

	2012 Rm	2011 Rm
29. Investment gains		
Investment properties	1 177	896
Financial instruments held at fair value through profit or loss	29 581	7 904
Quoted instruments	26 041	5 786
Unquoted instruments	1 159	1 203
Consolidated mutual funds to the group	2 381	915
Financial instruments held for trading	(831)	(502)
Impairment of loans to group companies reversal/(raised)	355	(131)
Foreign exchange differences on loans with subsidiaries	(12)	(17)
Adjustment to joint venture purchase price		4
Total investment gains	30 270	8 154
30. Fee revenue and reinsurance commission		
Management fees on assets under management	8	7
Health administration fees	12	
Reinsurance commission earned on short-term insurance business	2	
Other fee revenue	87	87
Total fee revenue and reinsurance commission	109	94

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
31. Claims and policyholders' benefits		
Claims and policyholders' benefits under insurance contracts	**24 391**	22 400
Long-term	**24 208**	22 400
Short-term	**183**	
Payments under investment contracts	**12 207**	9 552
	36 598	31 952
Insurance claims recovered from re-insurers	**(643)**	(543)
Long-term	**(589)**	(543)
Short-term	**(54)**	
Net claims and policyholders' benefits	**35 955**	31 409
Comprising:		
Long-term insurance: Retail	**25 014**	22 995
Death and disability claims	**4 532**	4 173
Policy maturity claims	**3 909**	4 697
Policy surrender claims	**12 762**	10 709
Annuity payments	**3 811**	3 416
Corporate	**10 812**	8 265
Death and disability claims	**1 626**	1 591
Scheme terminations and member withdrawals	**281**	301
Annuity payments	**8 905**	6 373
Short-term insurance		
Medical risk	**129**	
Customer claims provision		149
Total claims and policyholders' benefits	**35 955**	31 409
32. Acquisition costs		
Long-term insurance	**3 368**	2 868
Insurance contracts	**3 149**	2 671
Investment contracts	**219**	197
Short-term insurance	**6**	
Asset management and other	**24**	27
Total acquisition costs	**3 398**	2 895
Incurred during the year	**3 448**	2 920
Deferred acquisition costs	**(249)**	(219)
Amortisation and impairment of deferred acquisition costs	**199**	194

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

	2012 Rm	2011 Rm
33. General marketing and administration expenses		
Comprising		
Employee costs	**1 902**	1 716
Office costs	**1 510**	1 358
Training and development costs	**291**	249
Other	**2 469**	2 387
Total general marketing and administration expenses	**6 172**	5 710
General marketing and administration expenses include the following:		
Amortisation of intangible assets	**152**	163
Auditors' remuneration	**28**	34
Audit fees – Current year	**28**	34
Consulting fees	**320**	233
Depreciation	**192**	187
Computer equipment	**73**	75
Purchased computer software	**16**	14
Fixtures, furniture and fittings	**82**	80
Office equipment and office machines	**8**	7
Motor vehicles	**13**	11
Direct operating expenses – on investment properties	**555**	734
– on owner-occupied properties	**38**	33
– on hotel operations	**540**	501
Impairment of intangible asset	**44**	
Asset management fees	**601**	546
Operating lease charges – equipment	**2**	4
– property	**91**	84
Other related South African taxes	**344**	289
Financial services levy	**22**	20
Non-recoverable value-added taxation	**322**	269
Provision for retirement fund administration		93
Provision for possible claims		164
Provision for restructuring	**19**	
Staff costs	**1 902**	1 716
Salaries and wages	**1 285**	1 128
Defined benefit pension fund contributions	**12**	15
Medical aid contributions	**(6)**	113
Staff and management incentives	**351**	252
Share-based payment expense – equity-settled schemes	**53**	30
– cash-settled schemes	**36**	22
Other post-retirement benefits	**92**	84
Other	**79**	72

Notes to the group financial statements *(continued)*
for the year ended 31 December 2012

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

Equity-settled remuneration schemes

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 Plans. 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.

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.

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.

Notes to the group financial statements *(continued)*

for the year ended 31 December 2012

34. Share-based payments (continued)

Equity-settled remuneration (continued)

Participants under both plans are entitled to receive dividends. As the dividends are already priced into the fair value of the shares on grant date, any receipt of dividends to participants is accounted for as a reduction in the share-based payments reserve held at Liberty Holdings Limited. 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 relevant company. The Liberty Group Limited 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

Liberty Group Share Incentive Scheme, Liberty Life Equity Growth Scheme and Liberty Equity Growth Scheme

The following is a summary of the movements of the applicable share options and rights granted for the Liberty Holdings Limited group:

			Number	
Reconciliation	**Price range 2012**	Price range 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 Liberty Holdings Limited 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 R24 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 to the group financial statements *(continued)*
for the year ended 31 December 2012

34. Share-based payments (continued)

Liberty Share Incentive Schemes (continued)

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

Movement summary	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 respectively. 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.

Liberty Holdings group restricted plan (deferred plan)

Movement summary	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% at 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 group 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 group 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 charged to profit or loss.

Reconciliation of participation rights under phantom share scheme	2012 Number	2011 Number
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 to the group financial statements *(continued)*
for the year ended 31 December 2011

	2012 Rm	2011 Rm
35. Finance costs		
Interest expense:		
– interest paid on policyholder claims and supplier balances	**31**	46
– interest on financial liabilities at amortised cost	**173**	179
Total finance costs	**204**	225

36. Business acquisition

36.1 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 to the group financial statements *(continued)*
for the year ended 31 December 2012

36. Business acquisition (continued)

36.2 Disposal of Liberty Life Botswana (Proprietary) Limited

On 1 January 2011 the group disposed of its wholly owned subsidiary Liberty Life Bostwana (Proprietary) Limited to its company, Liberty Holdings Limited.

These assets and liabilities disposed of are as follows:

	2011 Rm
Equipment and owner-occupied properties under development	1
Financial investments	13
Prepayments, insurance and other receivables	1
Cash and cash equivalents	5
Insurance contracts	(5)
Insurance and other payables	(7)
Net assets disposed of	8
Proceeds	4
Loss on disposal of subsidiary	(4)

37. Taxation

37.1 Sources of taxation

	2012 Rm	2011 Rm
South African normal taxation	**1 489**	939
Current year taxation	**1 216**	876
Overprovision prior year current taxation	**(84)**	(158)
Current deferred taxation	**357**	208
Overprovision prior year deferred taxation		13
South African capital gains taxation	**899**	231
Current year taxation	**409**	111
Deemed disposal taxation liability	**918**	
Attributable to deferred taxation rate change	**22**	
Deferred taxation	**(450)**	120
Foreign normal taxation	**13**	2
Current year taxation	**14**	5
Current year deferred taxation	**(1)**	(3)
Other related taxes	**69**	57
Secondary tax on companies[1]		57
Dividend withholding taxation associated with policyholder investments[1]	**69**	
Total taxation	**2 470**	1 229
Other comprehensive income	**2 544**	1 184
Profit or loss	**(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.*

Notes to the group financial statements *(continued)*

for the year ended 31 December 2011

37. Taxation (continued)

37.2 Taxation rate reconciliation

2012	CIT[1] Rm	CGT[2][5] Rm	Total Rm
Taxation per profit or loss	1 630	914	2 544
Taxation on other comprehensive income	(59)	(15)	(74)
Total taxation	1 571	899	2 470
Taxation attributable to capital gains tax rate change		(22)	(22)
Taxation specific to policyholder tax funds[3]	(264)	(796)	(1 060)
Shareholder taxation	1 307	81	1 388
Profit before taxation per statement of comprehensive income	5 602	838	6 440
Taxable revenue directly charged to reserves	(95)		(95)
Ordinary dividends paid			
Adjustment for the revenue offset to policyholder taxation	(1 060)		
Total	4 447	838	
Effective rate of shareholder taxation[4]	29,4	9,7	
Adjustments due to:			
Income exempt from normal taxation:			
Dividends received			
Non-tax deductible expenses	3,3		
Under provision of taxes in respect of prior years	(5,2)		
Utilised tax losses and special transfers	0,5		
Amounts excluded from capital gains tax		5,9	
Base cost difference to historical cost		(1,6)	
Standard rate of South African taxation	28,0	14,0	

Notes to the group financial statements *(continued)*
for the year ended 31 December 2011

37. Taxation (continued)

37.2 Taxation rate reconciliation (continued)

2011	CIT[1] Rm	STC[2] Rm	CGT[3][5] Rm	Total Rm
Taxation per profit or loss	908	57	219	1 184
Taxation on other comprehensive income	33		12	45
Total taxation	941	57	231	1 229
Taxation specific to policyholder tax funds[4]	(150)		(249)	(399)
Shareholder taxation	791	57	(18)	830
Profit before taxation per statement of comprehensive income	3 471		78	3 549
Taxable revenue directly charged to reserves	55			55
Dividends paid		2 369		2 369
Ordinary		1 783		1 783
Preference		586		586
Adjustment for the revenue offset to policyholder taxation	(399)			(399)
Total	3 127	2 369	78	
Effective rate of shareholder taxation	25,3	2,4	(22,4)	
Adjustments due to:				
Income exempt from normal taxation:				
Dividends received	4,0			
Equity accounted earnings	0,1			
Non-tax deductible expenses	(5,7)			
Other provision of taxes in respect of prior years	3,8			
Utilised tax losses and special transfers	0,5			
Amounts excluded from capital gains tax			12,4	
Base cost different from historic cost			24,0	
Secondary taxation relief obtained		7,6		
Standard rate of South African taxation	28,0	10,0	14,0	

[1] CIT represents corporate income taxation.

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

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

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

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

Notes to the group financial statements *(continued)*
for the year ended 31 December 2011

	2012 Rm	Restated 2011 Rm
38. Reconciliation of total earnings to cash generated from operations		
Total earnings	**3 896**	2 365
Adjustments for:		
Interest received	**(6 535)**	(6 197)
Interest paid	**204**	225
Dividends received	**(3 432)**	(2 676)
Taxation	**2 544**	1 184
Settlement of share based payment expenses	**(1)**	(3)
Service fee income deferred on new business	**32**	28
Deferred acquisition costs on new business	**(249)**	(219)
	(3 541)	(5 293)
Adjustments for non-cash items:		
Policyholders' liability transfers	**27 416**	9 484
Movement on short-term insurance liabilities	**4**	
Amortisation of deferred acquisition costs	**199**	194
Release of deferred revenue liability	**(18)**	(15)
Amortisation of intangible assets	**152**	163
Retained income of joint venture	**15**	(5)
Derecognition and impairment of intangible assets	**44**	
Depreciation of equipment	**192**	187
Movement on defined benefit pension fund surplus	**13**	3
Loss on sale of subsidiary		(4)
Share-based payment expense	**25**	
Investment gains	**(30 270)**	(8 154)
Investment gains attributable to third party mutual fund financial liabilities	**2 979**	1 230
Income attributable to non-controlling preference shareholders in subsidiaries	**741**	583
Movement on provisions	**(26)**	201
	(2 075)	(1 426)
Working capital changes:	**1 157**	258
Prepayments, insurance and other receivables	**(154)**	404
Insurance and other payables and employee benefits	**1 311**	(146)
Cash utilised in operations	**(918)**	(1 168)
39. Dividends paid		
Dividends as per statement of changes in shareholders' funds	**(2 055)**	(1 283)
Distributions paid to non-controlling interests in subsidiaries	**(569)**	(350)
Dividends received on preference shares held in relation to BEE transaction	**126**	112
Total dividends paid	**(2 498)**	(1 521)

Notes to the group financial statements *(continued)*
for the year ended 31 December 2011

	2012 Rm	2011 Rm
40. Taxation paid		
Taxation payable at the beginning of the year	**(539)**	(689)
Acquired through business acquisition	**(4)**	
Taxation attributable to normal taxation	**(2 542)**	(891)
Taxation payable at the end of the year	**1 566**	539
Total taxation paid	**(1 519)**	(1 041)

41. 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. Subsidiaries

A.1 Administration fees
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

A.2 The Liberty Life Educational Foundation (educational foundation)
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 2011 the deposit balance was R3,1 million (2011: R5,4 million) and interest earned was R259 859 (2011: R278 876).

A.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).

A.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

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

Notes to the group financial statements *(continued)*
for the year ended 31 December 2011

41. Related party disclosures (continued)

Summary of related party transactions (continued)

A. Subsidiaries (continued)

A.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 R202 712 million (2011: R151 284 million). Fees charged for the year were R377 million (2011: R354 million).

B. 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).

	2012 Rm	2011 Rm
42. Commitments		
42.1 Operating lease commitments		
Equipment	**42**	83
Within 1 year	**20**	35
1 to 5 years	**22**	48
Properties	**136**	216
Within 1 year	**82**	137
1 to 5 years	**54**	79
42.2 Capital commitments		
Business acquisitions[1]		5
Under contracts		5
Equipment	**471**	231
Under contracts	**65**	1
Authorised by the directors but not contracted	**406**	230
Investment properties	**1 654**	1 181
Under contracts	**700**	477
Authorised by the directors but not contracted	**954**	704
Owner-occupied properties	**17**	35
Under contracts	**2**	2
Authorised by the directors but not contracted	**15**	33
Total commitments	**2 320**	1 751

The above 2012 expenditure will be financed by available bank facilities, existing cash resources and internally generated funds.

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 group 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 group 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 group 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 group 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 group. Details of the amortisation methodology, amortisation charge and useful lives are contained in accounting policy 6 and note 6 on the group 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 group 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 group's valuation methodologies have been set out in accounting policies 8, 9, 10 and 16. 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 group financial statements.

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 16 and 17, the insurance risk and sensitivity analysis components of note 1 on the group financial statements and note 14 on the group 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 group 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 34 on the group financial statements.

Provisions

Provisions are made for known present obligations at reporting date that are likely to result in a future outflow of the group resources. Judgement is applied as to the quantum and timing of these resources considering all available information. Refer to note 23 on the group 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.

44. Events after the reporting period

There are no material events after the reporting period to report.

45. Change in accounting policy

The group 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	**(18 949)**	**(131)**	**(19 080)**	(6 362)	74	(6 288)
Profit before taxation	**6 571**	**(131)**	**6 440**	3 475	74	3 549
Total earnings	**4 027**	**(131)**	**3 896**	2 291	74	2 365
Other comprehensive income	**(149)**	**131**	**(18)**	89	(74)	15
Other comprehensive income items	**(149)**		**(149)**	89		158
Change in long-term policyholder insurance liabilities (application of shadow accounting)		**131**	**131**		(74)	(74)
Total comprehensive income	**3 878**		**3 878**	2 380		2 380

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

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 to the group financial statements: Segment information for the year ended 31 December 2011).
- Note 10 to the group financial statements: Long-term policyholder liabilities and reinsurance assets-movement analysis only.
- Note 38 to the group financial statements: Reconciliation of total earnings to cash utilised by operations.