# LIBERTY GROUP LIMITED

2013 AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

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# Directorate and administration

## Directors

AWB Band *(Lead independent director)*
AP Cunningham
T Dloti *(Appointed 4 November 2013)*
JB Hemphill
MW Hlahla
SJ Macozoma *(Chairman)*
JH Maree *(Resigned 7 March 2013)*
MP Moyo
TDA Ross
SP Sibisi
SL Botha *(Appointed 19 August 2013)*
SIM Braudo *(Appointed 4 November 2013)*
JH Sutcliffe
CG Troskie
BS Tshabalala
SK Tshabalala *(Appointed 2 April 2013)*
PG Wharton-Hood *(Resigned 14 August 2013)*

## 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 2013.

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 2013 annual financial statements of the group for the year ended 31 December 2013 were approved by the board of directors on 26 February 2014 and signed on its behalf by

**SJ Macozoma**
*Chairman*

**JB Hemphill**
*Chief executive*

Johannesburg
26 February 2014

## 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 2013, and that all such returns are true, correct and up to date.

**J Parratt**
*Company secretary*

**Johannesburg**
26 February 2014

# 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 17 to 179, which comprise the statement of financial position as at 31 December 2013, 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 2013, 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 2013, 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.

**PricewaterhouseCoopers Inc.**

Director: **J Goncalves**
*Registered Auditor*

**Johannesburg**
26 February 2014

## 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 group and company. Six scheduled meetings were held in 2013, four of which were the quarterly meetings in line with the scheduled board meetings. The other two meetings were held prior to the six monthly results determination in order to review assumptions used in the actuarial valuation of policyholder liabilities and embedded value and then recommend the assumption set, including any changes, to the board for approval. An additional working session to review the 2012 annual report prior to recommending its approval to the board also took place. These meetings enabled the members to fulfil 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 17 May 2013. The composition of the committee and details of their attendance at committee meetings are contained in the governance section of Liberty Holdings Limited 2013 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 2013 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 2013 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 and company, has occurred during the year and up to the date of this report.

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

The GAAC has reviewed the annual consolidated and company financial statements and recommended these reports to the board for approval.

**TDA Ross**
*Chairman*
*Group audit and actuarial committee*

**Johannesburg**
26 February 2014

# Report of the statutory actuary

*for the year ended 31 December 2013*

## 1. Statement of excess assets, liabilities & capital adequacy requirement

| Published Reporting Basis (Liberty Group Ltd) | 31 December 2013 Rm | Restated 31 December 2012 Rm |
|---|---|---|
| **Assets** | | |
| Total assets as per balance sheet | **298 485** | 225 452 |
| **Less liabilities** | **283 142** | 213 565 |
| Liabilities under insurance contracts | **179 955** | 119 682 |
| Liabilities under investment contracts with DPF | **7 730** | 2 808 |
| Liabilities under investment contracts | **73 174** | 73 795 |
| Other liabilities | **22 283** | 17 280 |
| **Excess of assets over liabilities** | **15 343** | 11 887 |

| Statutory Basis (Liberty Group Ltd) | 31 December 2013 Rm | 31 December 2012 Rm |
|---|---|---|
| **Assets** | | |
| Total assets | **270 813** | 199 008 |
| **Less liabilities** | **259 138** | 191 450 |
| Policyholder Liabilities | **243 861** | 179 655 |
| Other liabilities | **15 277** | 11 795 |
| **Excess of assets over liabilities** | **11 675** | 7 558 |
| **Represented by:** | | |
| Shareholders' funds | **11 675** | 7 558 |
| **Capital adequacy requirement** | **4 564** | 2 791 |
| Capital adequacy requirement: times covered | **2,56** | 2,71 |

In regard to the financial position of the Long Term Insurance subsidiary of Liberty Group Limited (Frank Life), reliance has been placed on the actuarial investigation performed by the statutory actuary of that company. He has certified that assets are sufficient to meet the liabilities that will emerge under existing policies and to cover the capital adequacy requirement of that company.

I have conducted an investigation into the financial position of Liberty Group Limited at 31 December 2013. I certify that:

- the valuation on the Statutory basis of Liberty Group Limited as at 31 December 2013, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Standards of Actuarial Practice and Actuarial Practice Notes; and
- Assets exceeded liabilities plus the Capital Adequacy Requirements at the valuation date;
- The company met the asset spreading requirements of the Long Term Insurance Act at the valuation date; and
- In my opinion the Company is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financial soundness includes meeting the asset spreading requirements as prescribed by the Long Term Insurance Act.

**PA Lancaster** BSc, FASSA
Statutory Actuary

**Johannesburg**

25 February 2014

## Report of the statutory actuary *(continued)*

*for the year ended 31 December 2013*

### 2. Reconciliation of statutory basis to published reporting basis

| Reconciliation of Excess Assets between Published Reporting Basis and Statutory Basis (Liberty Group Ltd) | 31 December 2013 Rm | Restated 31 December 2012 Rm |
|---|---|---|
| Excess of assets over liabilities – Statutory Basis | **11 675** | 7 558 |
| Excess of assets over liabilities – Published Reporting Basis | **15 343** | 11 887 |
| **Difference** | **(3 668)** | (4 329) |
| **Items of difference** | **(3 668)** | (4 329) |
| CAR requirements of subsidiaries | **(10)** | (1 929) |
| Adjustment of subsidiaries from cost to NAV | **(460)** | 744 |
| Debt instruments | **3 074** | 2 000 |
| Difference between published and statutory valuation methodologies | **(5 604)** | (4 868) |
| Inadmissable assets | **(668)** | (276) |

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

The amount of R5 604 million (2012: R4 868 million) relates mainly to the elimination of negative Rand reserves on Lifestyle Protector business on the statutory valuation basis.

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

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

| Analysis of change in excess assets Published Reporting Basis (Liberty Group Ltd) | 31 December 2013 Rm | Restated 31 December 2012 Rm |
|---|---|---|
| Excess assets as at end of the period | **15 343** | 11 887 |
| Excess assets as at beginning of the year | **11 887** | 10 681 |
| Change in excess assets over the period | **3 456** | 1 206 |
| This change in excess assets is due to the following items: | | |
| Investment return generated by shareholders' funds | | |
| Investment income | **3 146** | 888 |
| Capital appreciation | **(877)** | 625 |
| Total investment return (net of finance costs) | **2 269** | 1 513 |
| Operating profit | **2 573** | 1 671 |
| Changes in valuation bases/methods/assumptions | **(144)** | 295 |
| Shareholders' tax | **(61)** | (16) |
| Management expenses | **(456)** | (356) |
| Total earnings | **4 181** | 3 107 |
| BEE preference dividends | **171** | 126 |
| Dividends paid | **(1 653)** | (2 055) |
| Share-based payments | **53** | 24 |
| Funding of Restricted Share Plan | **(50)** | (56) |
| Cash flow hedging reserve | **(132)** | (20) |
| Post-retirement obligations | **36** | 80 |
| Life Licence Rationalisation | **850** | |
| **Total change in excess assets** | **3 456** | 1 206 |

## Report of the statutory actuary *(continued)*

*for the year ended 31 December 2013*

### 4. Description of published reporting basis

**4.1 Assets**

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

**4.2 Insurance Contracts and Investment Contracts with Discretionary Participation Features**

Provision has been made for the best estimate of future experience, plus compulsory margins as required in terms of guidance note SAP104 issued by the Actuarial Society of South Africa. In addition, selected discretionary margins are held.

The best estimate assumptions relating to future mortality, morbidity, withdrawals and maintenance expenses were derived from and are consistent with recent experience. Detailed experience investigations were carried out during 2013 and reflect the experience of policies up to 30 September 2013. Future maintenance expenses have been set according to the Liberty group cost per policy basis. In setting the assumptions, provision was made for expected AIDS-related claims and for the effect of future inflation in maintenance expenses at 5,15% p.a. (31 December 2012: 4,15% p.a.) or 5,67% p.a. after the addition of the prescribed margin.

Future investment returns were related to the medium-term government stock interest rate prevailing at the valuation date and were set at 9,82% p.a. (31 December 2012: 9,15% p.a.) taking into account the asset mix of the fund. The before-tax discount rates were set at the same rates. Future tax and tax relief were allowed for at rates and on bases applicable to Section 29A of the Income Tax Act and full allowance has been made for capital gains tax. Provision was made for capital gains tax on unrealised gains at the valuation date at the full undiscounted value.

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

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

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

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

Policyholder reasonable benefit expectations have been allowed for as follows:

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

In respect of with-profit business where bonuses are smoothed, bonus stabilisation reserves are held arising from the past difference between the after-tax investment performance of the assets net of the relevant management fees and the quantum of bonuses declared. The total of the stabilisation reserves amounted to R5 103m as at 31 December 2013 (R4 056m as at 31 December 2012).

**4.3 Investment Contracts without Discretionary Participation Features**

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

## Report of the statutory actuary *(continued)*
*for the year ended 31 December 2013*

### 4. Description of published reporting basis (continued)

#### 4.4 Minimum Investment Return Guarantees

A reserve for minimum investment return guarantees is held, calculated on a stochastic basis using Monte Carlo simulation techniques in accordance with APN110.

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

**Vanilla Options**

| Maturity (years) | Strike | Underlying | Price December 2013 | Price December 2012 | Implied Volatilities December 2013 | Implied Volatilities December 2012 |
|---|---|---|---|---|---|---|
| 1 | Spot | Equity Index | **6,01%** | 9,41% | **18,91%** | 27,08% |
| 1 | 0.8*Spot | Equity Index | **1,49%** | 2,23% | **23,57%** | 26,65% |
| 1 | Forward | Equity Index | **7,10%** | 10,47% | **18,34%** | 27,10% |
| 5 | Spot | Equity Index | **8,76%** | 12,25% | **23,64%** | 24,68% |
| 5 | $(1.04^5)$*Spot | Equity Index | **15,40%** | 21,99% | **22,36%** | 25,19% |
| 5 | Forward | Equity Index | **17,02%** | 19,10% | **22,14%** | 25,03% |
| 20 | Spot | Equity Index | **2,67%** | 4,76% | **28,60%** | 25,84% |
| 20 | $(1.04^{20})$*Spot | Equity Index | **12,26%** | 21,46% | **29,61%** | 26,96% |
| 20 | Forward | Equity Index | **29,37%** | 26,31% | **30,51%** | 27,20% |

**"Other" Options**

| Maturity (years) | Strike | Underlying | Price December 2013 | Price December 2012 |
|---|---|---|---|---|
| 5 | $(1.04^5)$*Spot | 60% Equity Index, 40% Bond Index with annual rebalancing | **6,66%** | 11,94% |
| 20 | Forward | Simulated 5 year spot rate in 20 years time | **0,41%** | 0,54% |

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

**Yield Curve**

| Maturity (years) | Yield (NACC) December 2013 | Yield (NACC) December 2012 |
|---|---|---|
| 1 | **5,51%** | 4,94% |
| 2 | **6,12%** | 5,01% |
| 3 | **6,64%** | 5,26% |
| 4 | **7,06%** | 5,53% |
| 5 | **7,41%** | 5,79% |
| 10 | **8,45%** | 6,87% |
| 15 | **9,21%** | 7,31% |
| 20 | **9,28%** | 7,29% |
| 25 | **9,17%** | 7,28% |
| 30 | **8,97%** | 7,12% |
| 35 | **9,00%** | 7,18% |
| 40 | **9,02%** | 7,25% |
| 45 | **8,94%** | 7,28% |
| 50 | **8,86%** | 7,27% |

## Report of the statutory actuary *(continued)*

*for the year ended 31 December 2013*

### 5. Capital adequacy

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

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

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

In calculating the OCAR, the resilience requirement includes the effect of the asset shocks described above on the investment guarantee reserve held in accordance with the latest APN110 guidance. In addition, allowance has been made for credit risk and operational risk in accordance with the latest version of SAP104.

In calculating the capital adequacy requirement it has been assumed that, in the investment resilience scenario, discretionary margins on Lifestyle Protector would be set up only to the extent as calculated if no allowance for automatic contribution increases were made.

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

In the calculation of CAR, the Termination capital adequacy requirement (TCAR) amounted to R4 548 million and the ordinary capital adequacy requirement (OCAR) was calculated as R4 564 million, and thus the capital adequacy requirement has been based on the OCAR calculation.

I am satisfied that the excess of assets over liabilities is sufficient to meet the capital adequacy requirement which amounted to R4 564 million at 31 December 2013 (R2 791 million at 31 December 2012).

### 6. Material changes in published valuation basis since the previous valuation

Modelling and other changes were made to the valuation to re-align valuation assumptions with expected future experience. These changes resulted in a increase of actuarial liabilities of R144 million.

| Basis/assumption change | **December 2013 Rm** | December 2012 Rm |
|---|---|---|
| Economic valuation assumptions | **(187)** | 316 |
| Mortality valuation assumptions | **5** | 160 |
| Annuitant mortality | **26** | (14) |
| Persistency | **(96)** | (164) |
| Expenses and commission | **74** | 48 |
| Inflation methodology change | | (2) |
| Modelling | **11** | (184) |
| Tax relief on expenses | **16** | 81 |
| Other | **7** | 54 |
| **Total** | **(144)** | 295 |

# 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 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.

## South African life licence rationalisation

The proposed life licence rationalisation was successfully completed with effect from 1 September 2013. The rationalisation was focused on certain South African life licence companies in the group, combining the businesses of Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited into Liberty Group Limited. The rationalisation should result in more efficient capital management and a reduction in administrative requirements. Refer to note 41.1 for more details.

## Review of results

Ordinary shareholders' attributable earnings for the group were R3 472 million, compared to R3 425 million in 2012. Detailed commentary on the 2013 financial results is contained in the various notes throughout this report, commencing on page 48. The results are materially affected by actuarial valuations of policyholder liabilities. These valuations are undertaken under South African actuarial practice and guidance.

## 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 2014.

## Accounting policies

The 2013 annual financial statements of Liberty Group have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and comply with the South African Companies Act No. 71 of 2008.

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or after 1 January 2013. The accounting policies are consistent with those adopted in the previous year except for significant changes as detailed below.

### *Adoption of control suite of standards and revisions*

The group has compulsorily adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 (Revised) *Separate Financial Statements*, IAS 28 (Revised) *Investments in Associates and Joint Ventures* which deal with the accounting treatment for the group's involvement in investments in entities for which the group is assessed to have more than an insignificant influence as well as IFRS 12 *Disclosures of Interests in Other Entities.* These have resulted in changes in accounting policies effective for the year commencing 1 January 2013 and have been applied retrospectively in line with the transitional requirements. The group consequently re-examined the combined impact of these standards on all of its investments and certain reclassifications of investments in mutual funds were required. There have been no reclassifications of investments in other types of entities.

Previously, investments in mutual funds that amounted to between 20% and 50% of the total fund value or voting rights were considered to be interests in associates – held at fair value (mutual funds), and those greater than 50% were considered to be subsidiaries. As a result of the adoption of IFRS 10, which has redefined the definition of control, the group has removed the reference to specific percentage holdings in the group's accounting policy as the defining parameter. This has led to a change in the number of mutual funds being classified as subsidiaries or associates at a consolidated level, as well as reclassifications between these categories and financial instruments. No investments in mutual funds have met the new definition of joint arrangements.

The group continues to account for its interests in associates – mutual funds, as at fair value through profit or loss by applying the measurement exemption for investment-linked insurance funds in IAS 28.

## Directors' report *(continued)*

The revised IAS 28 *Investments in Associates and Joint Ventures* allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss.

Liberty elected to apply this exemption to the measurement of its interest in the joint venture, The Cullinan Hotel (Pty) Limited, on adoption of the revised standard, which resulted in a change in accounting policy. As the fair value equated to the carrying value of the investment in the joint venture including equity accounted earnings, there was no resultant change to the group's total earnings, comprehensive income, shareholders' funds or net asset value.

IFRS 12 *Disclosures of Interests in Other Entities* mandates the disclosure requirements related to subsidiaries, associates, joint arrangements and unconsolidated structured entities and is applicable retrospectively. There was no impact on net earnings or earnings per share as a result of the adoption of IFRS 12.

***Amendments to IAS 19 Employee Benefits***

The group has adopted the amendments to IAS 19 *Employee Benefits*, which has resulted in a change in accounting policy effective for the year commencing 1 January 2013, with retrospective application. The amendments have changed the basis for recognition of movements in post-retirement employee benefits liabilities or assets, with certain remeasurements of the relevant liability or asset now being mandatory recognised in other comprehensive income. In prior periods the group recognised all remeasurements in post-retirement employee benefit plan liabilities or assets in profit or loss as previously allowed or mandated in IAS 19.

***IFRS 13 Fair Value Measurement***

The group has adopted IFRS 13 *Fair Value Measurement* which is effective for years commencing 1 January 2013. IFRS 13 defines fair value and describes in a single standard a framework for measuring fair value. IFRS 13 defines fair value on the basis of an exit price notion which results in a market-based, rather than entity-specific measurement. The standard introduces enhanced disclosure requirements, amongst others the inclusion of all assets and liabilities measured at fair value in a fair value hierarchy table (previously this was limited to financial assets and liabilities). There were no significant measurement changes to the valuations of any assets or liabilities as a consequence of the adoption of IFRS 13.

***Voluntary adoption of new accounting policy***

During the year under review, the group has entered into certain agreements of sale and repurchase of financial instruments as part of the group's asset/liability matching processes. This necessitated the adoption of a new accounting policy as follows:

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. Such securities are measured in accordance with the measurement policy as described under the accounting policy for financial assets. The liability to the counterparty is included under investment creditors within insurance and other payables on the statement of financial position.

The difference between the repurchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method and disclosed as finance costs in the statement of comprehensive income. The transactions entered into during 2013 have been accounted for in compliance with this new accounting policy.

***Summary***

All significant accounting policies applied in the preparation of the group's 2013 annual financial results are contained in this report on pages 16 to 42.

# Directors' report *(continued)*

## Corporate governance

During 2013, 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 has been rolled out resulting in Liberty being fully compliant by the deadline of two years from promulgation, which was the end of May 2013.

Liberty continues to report against the King III principles and further progress was made during 2013 in addressing certain areas where improvement was required.

Compliance disclosures are included in the 2013 Liberty Holdings Limited integrated annual report in the Governance at Liberty section.

## 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 29 to the group's annual financial statements.

## Shareholder distributions

### Ordinary shareholders

***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 was paid on 22 March 2013.

***2013 interim***

On 31 July 2013, the directors declared an ordinary interim dividend of R500 million to shareholders recorded at the close of business on 16 August 2013 and was paid on 19 August 2013. A further dividend in specie of R318 million being the loan claims the company had against V-Medical Solutions Proprietary Limited was declared.

***2013 final***

On 26 February 2014, the directors declared an ordinary final dividend of R850 million to shareholders recorded at the close of business on 26 February 2014 which will be paid on 27 February 2014.

## Directorate and secretary

Mr JH Maree resigned from the board on 7 March 2013 and Mr SK Tshabalala was appointed to the board on 2 April 2013. Mr PG Wharton-Hood resigned from the board on 14 August 2013 and Ms SL Botha was appointed to the board on 19 August 2013. Messrs SIM Braudo and T Dloti were appointed to the board on 4 November 2013. With effect from 1 March 2014 Mr JB Hemphill accepted a broader executive position at Standard Bank and stepped down as chief executive. He remains a board member on Liberty's board.

Mr T Dloti was appointed as the new chief executive and Mr SIM Braudo as the deputy chief executive at the same date.

Particulars of the board of directors and company secretary are contained on page 1.

The company secretary is Jill Parratt. The address of the company secretary is that of the registered office, namely Liberty Life Centre, 1 Ameshoff Street, Braamfontein, Johannesburg, 2000.

## Directors' report *(continued)*

### Non-executive directors' remuneration

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

| Non-executive directors | Directors of LHL and LGL R'000 | Committee fees [(6)] R'000 | Directors of STANLIB Limited R'000 | Other Standard Bank Group[(1)] R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| AWB Band (Lead independent director) | **300** | **713** | | | **1 013** |
| SL Botha (appointed 19 August 2013) | **104** | **19** | | | **123** |
| AP Cunningham[(2)] | **1 736** | **57** | | | **1 793** |
| MW Hlahla | **250** | **37** | **68** | | **355** |
| SJ Macozoma (Chairman)[(4)] | **2 200** | | | **1 092** | **3 292** |
| JH Maree[(5)] (resigned 7 March 2013) | | | | **2 842** | **2 842** |
| MP Moyo | **250** | **499** | | | **749** |
| TDA Ross | **250** | **790** | | | **1 040** |
| SP Sibisi | **250** | **156** | | | **406** |
| JH Sutcliffe[(3)] | **1 961** | **76** | | | **2 037** |
| BS Tshabalala | **250** | **234** | **137** | | **621** |
| SK Tshabalala[(5)] (appointed 2 April 2013) | | | | **28 682** | **28 682** |
| PG Wharton-Hood[(5)] (resigned 14 August 2013) | | | | **6 101** | **6 101** |
| **Total** | **7 551** | **2 581** | **205** | **38 717** | **49 054** |
| 2012 | | | | | |
| AWB Band (Lead independent director) | 280 | 443 | | | 723 |
| AP Cunningham[(2)] | 1 008 | | 130 | | 1 138 |
| MW Hlahla (appointed 1 August 2012) | 84 | | | | 84 |
| SJ Macozoma (Chairman)[(4)] | 2 080 | | | 976 | 3 056 |
| JH Maree[(5)] | | | | 18 012 | 18 012 |
| MP Moyo | 202 | 384 | | | 586 |
| L Patel | 101 | 35 | | | 136 |
| TDA Ross | 202 | 552 | | | 754 |
| SP Sibisi | 202 | 148 | | | 350 |
| JH Sutcliffe[(3)] | 1 207 | | 130 | | 1 337 |
| BS Tshabalala | 202 | 186 | 130 | | 518 |
| PG Wharton-Hood[(5)] | | | | 23 865 | 23 865 |
| **Total** | 5 568 | 1 748 | 390 | 42 853 | 50 559 |

(1) *Other Standard Bank group is defined as Standard Bank Group Limited and its subsidiaries excluding Liberty.*
(2) *Mr AP Cunningham is an international director and receives a composite fee of £100 000 (2012: £73 500) as a member of the board, committees and subsidiary boards. 2013 rand equivalent is R1 736 000. In addition ad hoc committee and board, attendance fees of R57 000 were paid.*
(3) *Mr JH Sutcliffe is an international director and receives a composite fee of £120 000 (2012: £89 000) as a member of the board, committees, subsidiary boards and chairman of a committee. 2013 rand equivalent is R1 961 000. In addition ad hoc committee and board, attendance fees of R76 000 were paid.*
(4) *The chairman of the board received a composite fee in lieu of committee fees and his services as a director of Liberty Holdings Limited, Liberty Group Limited and STANLIB Limited.*
(5) *Messrs JH Maree, SK Tshabalala and PG Wharton-Hood, whilst directors of Liberty, were full time employees of the Standard Bank group and therefore did not receive directors' fees or other remuneration from Liberty.*
(6) *With effect from 1 January 2013 shareholders approved fees for ad hoc meetings. These fees are included as committee fees and account for most of the increase over 2012.*

## 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 | Other benefits | Retire-ment contri-butions | Total fixed | Cash bonus | Deferred bonus | Total variable | Value of restricted shares/ rights granted(2) | Total LTI | Total com-pensation for the year |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **2013** | | | | | | | | | | |
| JB Hemphill(3) | **4 657** | **160** | **295** | **5 112** | **8 350** | **4 150** | **12 500** | **9 400** | **9 400** | **27 012** |
| CG Troskie(3) | **2 798** | **81** | **306** | **3 185** | **4 500** | **1 583** | **6 083** | **8 000** | **8 000** | **17 268** |
| T Dloti(3) | **3 366** | **127** | **299** | **3 792** | **7 257** | **3 422** | **10 679** | **18 500** | **18 500** | **32 971** |
| SIM Braudo | **3 449** | **90** | **300** | **3 839** | **6 407** | **2 854** | **9 261** | **17 400** | **17 400** | **30 500** |
| Total | **14 270** | **458** | **1 200** | **15 928** | **26 514** | **12 009** | **38 523** | **53 300** | **53 300** | **107 751** |
| 2012 | | | | | | | | | | |
| JB Hemphill(3) | 4 424 | 387 | 132 | 4 943 | 7 900 | 3 850 | 11 750 | 7 000 | 7 000 | 23 693 |
| CG Troskie(3) | 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 |

(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) *Executive director.*

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

At the date of is report, the directors held interests, directly and indirectly, of 212 035 (2012: 207 706) ordinary shares in the holding company's issued share capital as detailed in the Governance at Liberty section of the 2013 Liberty Holdings Limited integrated annual report.

Information on options or rights to the holding company's ordinary shares granted to executive directors under the equity-settled remuneration schemes are contained in the Governance at Liberty section of the 2013 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 26 February 2014.

### Ordinary shares/rights under option

Liberty 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 2013 is included in Appendix D of the 2013 Liberty Holdings Limited integrated annual report.

### Contracts

Shareholders are referred to the directors' remuneration in the Governance at Liberty section and related party disclosure in note 42 to the group financial statements of 2013 Liberty Holdings Limited integrated annual report.

### 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.

# Directors' report *(continued)*

## Holding company
At 31 December 2013, the group's holding company, Liberty Holding Limited, held 100% (2012: 100%) of Liberty Group Limited' s issued ordinary shares. The group's ultimate holding company, Standard Bank of South Africa Limited, held 100% of the issued redeemable preference 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.

In December 2013, the rationalisation of the South African life licence companies in the group was finalised. Pursuant to this rationalisation, preference shares were created in Liberty Group Limited, and issued to Standard Bank of South Africa Limited in order to facilitate the payment of the profit share to Standard Bank in South Africa. This was previously being paid from the company's wholly owned subsidiary, Liberty Active Limited, which was affected by the life licence rationalisation

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 non-controlling shareholders.

## Acquisitions and disposals during the year
Liberty Group Limited disposed of its interests in the following subsidiaries effective 31 December 2013, to its holding company, Liberty Holdings Limited: Liberty Life Swaziland Limited, Standard Insurance Limited (Swaziland), Liberty Life Uganda Assurance Limited and Total Health Trust Limited. Refer to note 41.2 of the group annual financial statements.

## 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 11, 13 and 14 to the group annual financial statements.

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

## Special resolutions during the year 2013
No special resolutions were passed during the year.

## 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.

## 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 2013, to the date of approval of the consolidated annual report, namely 26 February 2014.

# Accounting policies

## Summary of significant accounting policies

## 1. Basis of preparation

The 2013 consolidated and company financial statements of Liberty Group Limited have been prepared in accordance with and containing information required by 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 2013. The accounting policies are consistent with those adopted in the previous year except as detailed in 1.1 to 1.3 below.

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 17 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 45 to the financial statements.

### 1.1 Mandatory changes in accounting policies resulting from adoption of new and revised standards or amendments to standards with retrospective application

#### 1.1.1 IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *(Revised) Separate Financial Statements*, IAS 28 *(Revised) Investments in Associates and Joint Ventures*

The group has adopted the above suite of IFRS and revisions which deal with the accounting treatment for the group's involvement in investments in entities for which the group is assessed to have more than an insignificant influence. These have resulted in changes in accounting policies effective for the year commencing 1 January 2013 and have been applied retrospectively in line with the transitional requirements. The group consequently re-examined the combined impact of these standards on all of its investments and certain reclassifications of investments in mutual funds were required. There have been no reclassifications of investments in other types of entities.

# Accounting policies *(continued)*

## 1. Basis of preparation (continued)

### 1.1 Mandatory changes in accounting policies resulting from adoption of new and revised standards or amendments to standards with retrospective application (continued)

#### *1.1.1* IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *(Revised) Separate Financial Statements*, IAS 28 *(Revised) Investments in Associates and Joint Ventures (continued)*

Previously, investments in mutual funds that amounted to between 20% and 50% of the total fund value or voting rights were considered to be interests in associates – held at fair value (mutual funds), and those greater than 50% were considered to be subsidiaries. As a result of the adoption of IFRS 10, which has redefined the definition of control, the group has removed the reference to specific percentage holdings in the group's accounting policy as the defining parameter. This has led to a change in the number of mutual funds being classified as subsidiaries or associates at a consolidated level, as well as reclassifications between these categories and financial instruments. No investments in mutual funds have met the new definition of joint arrangements.

The group continues to account for its interests in associates – mutual funds, as at fair value through profit or loss by applying the measurement exemption for investment-linked insurance funds in IAS 28.

Refer to accounting policy 2 for more detail.

#### *1.1.2* IFRS 12 *Disclosures of Interests in Other Entities*

IFRS 12 provides the disclosure requirements related to subsidiaries, associates, joint arrangements and unconsolidated structured entities and is applicable retrospectively. There is no impact on net earnings or earnings per share as a result of the adoption of IFRS 12.

#### *1.1.3 Amendments to* IAS 19 *Employee Benefits*

The group has adopted the amendments to IAS 19 Employee Benefits, which has resulted in a change in accounting policy effective for the year commencing 1 January 2013, with retrospective application. The amendments have changed the basis for recognition of movements in post-retirement employee benefits liabilities or assets, with certain remeasurements of the relevant liability or asset now being mandatory recognised in other comprehensive income. In prior periods the group recognised all remeasurements in post-retirement employee benefit plan liabilities or assets in profit or loss as previously allowed or mandated in IAS 19. Refer accounting policy 23 for more detail.

#### *1.1.4 Amendments to* IAS 1 *Presentation of Financial Statements*

As a result of amendments to IAS 1 the presentation of items in other comprehensive income within the Statement of Other Comprehensive Income has been modified to present separately items that would be reclassified to profit or loss from those that would never be reclassified. Comparative information has been restated in line with the amendments.

#### *1.1.5 Amendments to* IFRS 7 *Offsetting Financial Assets and Liabilities*

As a result of amendments to IFRS 7, the group has presented enhanced disclosures regarding the offsetting of financial assets and liabilities. Comparative information has accordingly been presented.

# Accounting policies *(continued)*

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

**1.1 Mandatory changes in accounting policies resulting from adoption of new and revised standards or amendments to standards with retrospective application** (continued)

***1.1.6 Other minor amendments***

The following amendments to published standards and new interpretation were mandatory for the group's accounting periods beginning on or after 1 January 2013:

| Standard/interpretation | Scope |
|---|---|
| IFRS 1 *First-time Adoption of IFRSs* | • Repeated application of IFRS 1<br>• Borrowing costs<br>• Government Loans |
| Amendments IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* | Transitional guidance for the suite of control standards |
| IAS 1 *Presentation of Financial Statements* | Clarification of the requirements for comparative information |
| IAS 16 *Property, 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 Interpretation 20 | Stripping Costs in the Production Phase of a Surface Mine |

The above amendments and interpretation did not significantly impact the group or company's financial results or disclosures for the periods presented.

**1.2 Mandatory changes in accounting policies resulting from the adoption of the new standard IFRS 13 *Fair Value Measurement* with prospective application**

The group has adopted IFRS 13 *Fair Value Measurement* which is effective for years commencing 1 January 2013. IFRS 13 defines fair value and describes in a single standard a framework for measuring fair value. IFRS 13 defines fair value on the basis of an exit price notion which results in a market-based, rather than entity-specific measurement. The standard introduces enhanced disclosure requirements, amongst others the inclusion of all assets and liabilities measured at fair value in a fair value hierarchy table (previously this was limited to financial assets and liabilities).

There were no significant measurement changes to the valuations of assets or liabilities as a consequence of the adoption of IFRS 13.

**1.3 Voluntary adoption of a new accounting policy**

During the year under review, the group has entered into certain agreements of sale and repurchase of financial instruments as part of the group's asset/liability matching processes. This necessitated the adoption of a new accounting policy as follows:

***1.3.1 Repurchase agreements***

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. Such securities are measured in accordance with the measurement policy as described under the accounting policy for financial assets. The liability to the counterparty is included under investment creditors within insurance and other payables on the statement of financial position.

The difference between the repurchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method and disclosed as finance costs in the statement of comprehensive income. The transactions entered into during 2013 have been accounted for in compliance with this new accounting policy.

# 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)

#### *1.3.2 Election to measure joint venture at fair value*

The Revised IAS 28 Investments in Associates and Joint Ventures which was effective for years commencing 1 January 2013, with retrospective application, allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss.

Liberty elected to apply this exemption to the measurement of The Cullinan Hotel (Pty) Limited on adoption of the revised standard, which resulted in a change in accounting policy. As the fair value equated to the carrying value of the investment in the joint venture including equity accounted earnings, there was no resultant change to the group's total earnings, comprehensive income, shareholders' funds or net asset value.

### 1.4 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 which are held indirectly by investment-linked insurance funds are designated on initial recognition as at fair value through profit or loss (accounting policy 2);
- Mutual fund associate investments, held by investment-linked insurance funds, in which the group has significant influence, 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 5);
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 6);
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 7);
- In general, financial assets are designated as at fair value through profit or loss (accounting policy 9);
- Application of cash flow hedge accounting for certain investments (accounting policy 11); and
- 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 17).

### 1.5 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)

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

| Standard/ interpretation | Scope | Potential impact to the group |
|---|---|---|
| IFRS 9 *Financial Instruments*<br><br>The previous mandatory effective date for annual periods beginning on or after 1 January 2015, with retrospective application has been delayed by the IASB. A new date will be decided upon once the entire IFRS 9 project is closer to completion. Early application is still 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.<br><br>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.<br><br>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).<br><br>IFRS 9 is partially complete with impairment measurement on amortised cost designated assets and the above mentioned limited amendments outstanding. The IFRS on hedge accounting was issued in November 2013 and is unlikely to have a significant impact on the group. | The implications to the group are at this stage difficult to assess and will be clearer when the limited amendments to classification and measurement, and impairment are completed.<br><br>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.<br><br>It will be important to minimise the accounting mismatches in total earnings in the statement of comprehensive income that may occur on application of the two future standards (IFRS 9 and IFRS 4). |

## Accounting policies *(continued)*

### 1. Basis of preparation (continued)

#### 1.6 The following narrow scope amendments and interpretations have been issued by the IASB, which are not yet effective

***Effective annual periods beginning on or after 1 January 2014***

- Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32)
- 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
- Amendments to IAS 39 and IFRS 9 – *Novation of Derivatives and Continuation of Hedge Accounting*
- IFRIC 21 *Levies*

***Effective annual periods beginning on or after 1 July 2014***

- IFRS 2 *Share-based Payment* – Definition of vesting condition
- IFRS 3 *Business Combination* – Accounting for contingent consideration in a business combination
- IFRS 8 *Operating Segments* – Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 13 *Fair Value Measurement* – Short-term receivables and payables
- IAS 16 *Property, Plant and Equipment* – Revaluation method – proportionate restatement of accumulated depreciation
- IAS 24 *Related Party Disclosures* – Key management personnel services
- IAS 38 *Intangible Assets* – Revaluation method – proportionate restatement of accumulated depreciation
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Meaning of 'effective IFRSs'
- IFRS 3 *Business Combinations* – Scope exemptions for joint ventures
- IFRS 13 *Fair Value Measurement* – Scope of paragraph on portfolio exemption
- IAS 40 *Investment Property* – Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

#### 1.7 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
- Leases

During the year the IASB issued revised exposures drafts on Insurance Contracts and Leases. Given the significant comment received on both of these exposure drafts and the wide implications to business, re-deliberations on these projects by the IASB will continue during 2014. An IFRS on Revenue Recognition is expected in early 2014, with an expected application date not earlier than years commencing 1 January 2017.

The revised exposure draft on Insurance Contracts sets out the proposals for the accounting for insurance contracts, with targeted key areas for comment. The earliest date for IFRS 4 Phase II to become effective is expected to be 1 January 2018. One of the proposals is the compulsory requirement to separate out impacts of discount rate changes in insurance contract measurement in other comprehensive income. Generally insurers in South Africa currently follow the practice of reflecting these changes in insurance contract measurement in profit and loss.

At this stage there is still insufficient clarity to be able to report on the implications of these proposed new standards.

# Accounting policies *(continued)*

## 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, mutual funds and structured entities.

Subsidiaries are defined as entities that are controlled by the group. In order for control to exist, the group must have power over the investee, exposure, or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the group's returns. The group must possess all three elements to conclude that it controls an investee. In certain cases, the assessment of control requires the application of significant judgement. The current ability to direct the relevant activities of the investee (rather than the actual exercise of power), the nature of substantive or protective rights and voting rights are all considered when assessing whether the group controls another entity.

Mutual funds, in which the group has the irrevocable asset management agreement over the mutual funds and in which the group has invested significantly, are consolidated. For other mutual funds, other factors such as the existence of control through voting rights held by the group in the fund, or significant economic power in the fund, are considered in the assessment of control. The consolidation principles applied to these mutual funds are consistent with those applied to consolidated subsidiary companies.

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.

Interests in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment.

### 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.

# Accounting policies *(continued)*

## 2. Basis of consolidation (continued)

**Interests in joint arrangements**

Joint arrangements are arrangements whereby the group and one or more parties have joint control. The classification of a joint arrangement as either a joint operation or a joint venture depends on the contractual rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. For interests in joint operations, the group recognises its share of assets, liabilities, revenues and expenses. The group accounts for the assets, liabilities, revenue and expenses in accordance with the relevant IFRSs applicable to those assets, liabilities, revenues and expenses.

***Interests in joint ventures – equity accounted***

Interests in joint ventures in the group financial statements 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 these 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. At each reporting date the group determines whether there is objective evidence that the interests in joint ventures are impaired. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in accounting policy 8. 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 joint ventures are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment in line with accounting policy 8.

***Interests in joint ventures – held at fair value through profit or loss***

Investments in joint ventures which are held specifically to provide investment returns to investment-linked insurance policies are designated upon initial recognition as at fair value through profit or loss in accordance with the measurement exemption in IAS 28 *Investments in Associates and Joint Ventures*. These interests in joint ventures are subsequently measured at fair value through profit or loss.

**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. Judgement is applied in assessing which entities the group has the ability to exercise significant influence. In the case of voting rights, it is generally demonstrated by the group holding 20% or more of the voting power of the investee.

***Interests in associates – equity accounted***

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 8. 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 joint ventures are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment in line with accounting policy 8.

# Accounting policies *(continued)*

## 2. Basis of consolidation (continued)

**Interests in associates** (continued)

***Interests in associates held at fair value– mutual funds***

Those mutual funds in which the group has exposure to economic interest in the fund and has the irrevocable management agreement over the fund's asset manager, 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 measurement exemption in IAS 28 *Investments in Associates and Joint Ventures* 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.

Distributions or dividends receipts of loan claims with fellow subsidiaries or holding companies that remain (after distribution) within the consolidated group are measured at the demand value of the loan.

**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.

**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

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.

## Accounting policies *(continued)*

### 3. Foreign currencies (continued)

**Transactions and balances**

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

**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. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. In estimating the fair value of an asset or liability, the group takes into account the characteristics of the asset or liability that a market participant would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs. Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. Refer accounting policies 9, 10 and 11 for more detail on subsequent measurement.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value.

## Accounting policies *(continued)*

### 5. 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.

**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.

### 6. 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 fair value which takes into account characteristics that market participants would consider 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. Refer to accounting policy 4 for more detail. 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

## Accounting policies *(continued)*

### 6. Properties (continued)

**Measurement** (continued)

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.

### 7. 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. 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.

## Accounting policies *(continued)*

### 7. Intangible assets (continued)

**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.

**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.

**Distribution forces**

The group capitalises the value attributed to contracted distribution forces that are acquired through business combinations that provide a competitive advantage to procure future new business. Values attributable to distribution forces are capitalised at the date of acquisition at the fair value determined by an independent valuer. The fair values are determined by an excess earnings valuation methodology.

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.

**Tradenames**

The group capitalises marketing-related tradenames acquired through business combinations. Tradenames are words, names or symbols used in trade to indicate the source of a product and to distinguish it from the service or products of other entities. Tradenames are capitalised at the date of acquisition at the fair value determined by an independent valuer. The fair values are determined by a relief-from-royalty method which entails quantifying royalty payments, which would be required if the tradename were owned by a third party and licenced to the company. Subsequent to initial recognition, tradenames are amortised on a straight-line basis over their estimated economically beneficial lives. The estimated life is re-evaluated on an annual basis.

**Computer software development costs**

**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
- Distribution forces 5 – 10 years
- Tradenames 5 – 10 years

### 8. 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:

## Accounting policies *(continued)*

**8. Impairment** (continued)

**Financial assets carried at amortised cost** (continued)

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

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

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

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

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

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.

## Accounting policies *(continued)*

### 9. 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 measurement exemption in IAS 28 *Investments in Associates and Joint Ventures* applies.

**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 group has exposure to economic interest in the fund and has the irrevocable management agreement over the fund's asset manager, thereby 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 measurement 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 market 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.

## Accounting policies *(continued)*

### 9. Financial assets (continued)

**Subsequent measurement** (continued)

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

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

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

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

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

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

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

***Swaps***

Swaps are fair valued using a discounted cash flow model. Cash flows are projected 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.

## Accounting policies *(continued)*

### 9. Financial assets (continued)

***Pledged assets***

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets. Such securities are measured in accordance with the measurement policy as described under the accounting policy for financial assets. The liability to the counter-party is included under investment creditors within Insurance and other payables on the statement of financial position. The difference between the re-purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method and disclosed as finance costs over the period of the agreement in the statement of comprehensive income.

Financial assets pledged as collateral on derivative positions are disclosed with pledged assets on the statement of financial position.

***Financial assets classified as held-to-maturity***

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

***Loans and receivables***

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

### 10. Financial liabilities

Financial liabilities comprise subordinated notes, 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 11.

The subordinated notes 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 accounting policy 17.

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.

### 11. Derivative financial instruments

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

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

## Accounting policies *(continued)*

### 11. Derivative financial instruments (continued)

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

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

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

**Hedge accounting**

***Derivatives that qualify for cash flow hedge accounting***

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

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The 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.

### 12. 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.

### 13. 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 an initial term of three months or less from the acquisition date.

# Accounting policies *(continued)*

## 14. 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.

### Treasury shares

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is on consolidation deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity. Any net income in relation to treasury shares (both fair value movements and dividends) is eliminated from group profit for the year. The number of shares in the earnings per share calculation is reduced for treasury shares held during the period on a weighted average basis.

## 15. 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.

## 16. 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.

## 17. 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, long-term insurance, long-term investment with discretionary participation feature (DPF), long-term investment without DPF and short-term insurance.

### 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

## Accounting policies *(continued)*

### 17. Policyholder insurance and investment contracts (continued)

**Insurance and investment contract classification** (continued)

(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.

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.

**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.

Profits emerge over the lifetime of the contracts in line with the risks borne by the group. 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)*

**17. 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.

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)*

**17. 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.

***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.

## Accounting policies *(continued)*

### 17. Policyholder insurance and investment contracts (continued)

***Deferred acquisition costs (DAC) in respect of investment contracts** (continued)*

Amortisation periods are as follows:

| | |
|---|---|
| • Linked annuities | 10 – 16 years |
| • Corporate investment business | 1 year |
| • 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 9.

**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 on short-term contracts***

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 on short-term contracts***

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 on short-term contracts***

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) on short-term contracts***

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.

## Accounting policies *(continued)*

### 17. Policyholder insurance and investment contracts (continued)

***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.

***Receivables and payables related to short-term 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.

### 18. 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.

### 19. Offsetting

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current 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.

### 20. 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 8. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

### 21. 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.

### 22. 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.

# Accounting policies *(continued)*

## 23. 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.

The group's current service costs, any past service cost and gain or loss on settlement plus any net interest on the net defined benefit liability (asset) are recognised in profit or loss. . Actuarial gains or losses, return on plan assets and any change in the effect of the asset ceiling (excluding amounts recognised in net interest) are included in other comprehensive income. Net interest is determined by multiplying the net defined benefit liability (asset) (after allowing for the effect of limiting a net defined benefit asset to the asset ceiling) by the discount rate determined as at the start of the annual reporting period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. Net interest on the defined benefit liability (asset) therefore comprises the expected return on plan assets, interest cost on the defined benefit obligation and interest on the effect of applying the asset ceiling.

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.

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 other comprehensive income immediately. Appointed qualified actuaries value these obligations annually.

## Accounting policies *(continued)*

### 24. 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 arrangements (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.

### 25. 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.

### 26. 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.

### 27. 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 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

## Accounting policies *(continued)*

### 27. Share-based payment transactions (continued)

***Equity growth scheme** (continued)*

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.

### 28. 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.

### 29. 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
*as at 31 December 2013*

| | Notes | Group 2013 Rm | Group Restated 31 December 2012 Rm | Group Restated 1 January 2012 Rm | Company 2013 Rm | Company Restated 31 December 2012 Rm | Company Restated 1 January 2012 Rm |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Equipment and owner-occupied properties under development | 3 | **973** | 832 | 752 | **921** | 736 | 666 |
| Owner-occupied properties | 4 | **1 277** | 1 307 | 1 539 | **1 277** | 1 307 | 1 539 |
| Investment properties | 5 | **27 217** | 24 063 | 23 410 | **24 644** | 21 919 | 21 149 |
| Intangible assets | 6 | **282** | 398 | 526 | **282** | 41 | 73 |
| Defined benefit pension fund employer surplus | 23 | **210** | 186 | 199 | **210** | 186 | 199 |
| Deferred acquisition costs | 7 | **513** | 439 | 389 | **513** | 437 | 386 |
| Interest in subsidiaries | 8 | | | | **469** | 3 837 | 2 953 |
| Interest in subsidiaries – mutual funds | 9 | | | | **22 968** | 17 218 | 3 012 |
| Interest in consolidated structured entities | 10 | | | | **10** | | |
| Interest in joint ventures | 11 | **403** | 377 | 422 | **404** | 378 | 421 |
| Reinsurance assets | 18 | **1 126** | 966 | 898 | **1 120** | 431 | 425 |
| Operating leases – accrued income | 5 | **1 315** | 1 277 | 1 085 | **469** | 535 | 430 |
| Pledged assets | 12 | **1 348** | | | **1 348** | | |
| Derivative assets | 15 | **6 369** | 6 890 | 3 790 | **6 324** | 6 137 | 3 199 |
| Interest in associates – equity accounted | 13 | **14** | 14 | | **14** | 14 | |
| Interest in associates – measured at fair value | 14 | **2 176** | 1 519 | 1 093 | **2 176** | 1 429 | 992 |
| Financial investments | 15 | **251 548** | 226 722 | 195 865 | **228 423** | 166 831 | 157 147 |
| Deferred taxation | 25 | **100** | 73 | 79 | | | |
| Prepayments, insurance and other receivables | 16 | **2 523** | 2 591 | 2 449 | **2 070** | 1 964 | 2 292 |
| Cash and cash equivalents | 17 | **5 073** | 3 682 | 4 816 | **4 843** | 2 052 | 1 411 |
| **Total assets** | | **302 467** | 271 336 | 237 312 | **298 485** | 225 452 | 196 294 |
| **Liabilities** | | | | | | | |
| Long-term policyholder liabilities | | **260 788** | 234 277 | 206 924 | **260 859** | 196 285 | 172 644 |
| Insurance contracts | 18 | **179 884** | 164 160 | 145 211 | **179 955** | 119 682 | 107 041 |
| Investment contracts with discretionary participation features | 18 | **7 730** | 2 820 | 2 639 | **7 730** | 2 808 | 2 631 |
| Financial liabilities under investment contracts | 19 | **73 174** | 67 297 | 59 074 | **73 174** | 73 795 | 62 972 |
| Short-term insurance liabilities | 20 | | 21 | | | | |
| Financial liabilities at amortised cost | 21 | **3 074** | 2 037 | 2 054 | **3 074** | 2 037 | 2 054 |
| Third party liabilities arising on consolidation of mutual funds | 22 | **461** | 379 | 176 | | | |
| Employee benefits | 23 | **931** | 830 | 816 | **923** | 801 | 794 |
| Deferred revenue | 24 | **185** | 166 | 152 | **185** | 163 | 148 |
| Deferred taxation | 25 | **3 523** | 2 675 | 2 752 | **3 514** | 2 215 | 2 501 |
| Deemed disposal taxation liability | 26 | **544** | 918 | | **544** | 861 | |
| Provisions | 27 | **195** | 338 | 364 | **195** | 338 | 364 |
| Operating leases – accrued expense | 5 | | 30 | 93 | | 30 | 93 |
| Derivative liabilities | 15 | **4 844** | 6 082 | 3 113 | **4 844** | 5 642 | 2 772 |
| Insurance and other payables | 28 | **8 485** | 6 655 | 5 554 | **8 174** | 4 648 | 3 920 |
| Current taxation | | **863** | 648 | 539 | **830** | 545 | 323 |
| **Total liabilities** | | **283 893** | 255 056 | 222 537 | **283 142** | 213 565 | 185 613 |
| **Equity** | | | | | | | |
| Ordinary shareholders' interests | | **15 070** | 13 270 | 11 774 | **15 343** | 11 887 | 10 681 |
| Share capital | 29 | **29** | 29 | 29 | **29** | 29 | 29 |
| Retained surplus | | **15 622** | 13 822 | 12 217 | **15 895** | 12 438 | 11 120 |
| Other reserves | | **(581)** | (581) | (472) | **(581)** | (580) | (468) |
| Non-controlling interests | | **3 504** | 3 010 | 3 001 | | | |
| **Total equity** | | **18 574** | 16 280 | 14 775 | **15 343** | 11 887 | 10 681 |
| **Total equity and liabilities** | | **302 467** | 271 336 | 237 312 | **298 485** | 225 452 | 196 294 |

## Statement of comprehensive income
*for the year ended 31 December 2013*

| | Notes | Group 2013 Rm | Group Restated 2012 Rm | Company 2013 Rm | Company Restated 2012 Rm |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Insurance premium revenue | 30 | **34 182** | 29 458 | **26 023** | 16 928 |
| Reinsurance premiums | 30 | **(1 013)** | (879) | **(754)** | (616) |
| **Net insurance premiums** | | **33 169** | 28 579 | **25 269** | 16 312 |
| Service fee income from investment contracts | 31 | **899** | 878 | **868** | 852 |
| Investment income | 32 | **10 726** | 11 450 | **10 523** | 8 091 |
| Hotel operation sales | | **809** | 720 | **692** | 618 |
| Investment gains | 33 | **26 845** | 27 913 | **24 785** | 24 354 |
| Fee revenue and reinsurance commission | 34 | **95** | 109 | **81** | 110 |
| Distribution of profits from subsidiaries – unincorporated property partnerships | | | | **531** | 501 |
| **Total revenue** | | **72 543** | 69 649 | **62 749** | 50 838 |
| Claims and policyholders' benefits under insurance contracts | 35 | **(24 606)** | (24 391) | **(18 064)** | (16 465) |
| Insurance claims recovered from reinsurers | | **805** | 643 | **615** | 427 |
| Change in long-term policyholder liabilities | | **(20 498)** | (19 193) | **(20 372)** | (12 943) |
| Insurance contracts | | **(15 739)** | (19 080) | **(15 637)** | (12 772) |
| Investment contracts with discretionary participation features | | **(4 926)** | (181) | **(4 922)** | (177) |
| Applicable to reinsurers | | **167** | 68 | **187** | 6 |
| Fair value adjustment to policyholders' liabilities under investment contracts | 19 | **(9 990)** | (9 949) | **(10 444)** | (10 743) |
| Fair value adjustment on third party mutual fund interests | 22 | **(92)** | (30) | | |
| Acquisition costs | 36 | **(3 725)** | (3 398) | **(2 656)** | (1 942) |
| General marketing and administration expenses | 37 | **(6 479)** | (6 025) | **(4 748)** | (3 920) |
| Finance costs | 39 | **(277)** | (204) | **(275)** | (201) |
| Profit share allocations under bancassurance and other agreements | | **(950)** | (774) | **(306)** | |
| **Profit before taxation** | | **6 731** | 6 328 | **6 499** | 5 051 |
| Taxation | 40 | **(2 694)** | (2 512) | **(2 318)** | (1 944) |
| **Total earnings** | | **4 037** | 3 816 | **4 181** | 3 107 |
| **Other comprehensive income** | | **(65)** | 62 | **(96)** | 60 |
| ***Items that may be reclassified subsequently to profit and loss*** | | **(101)** | (18) | **(132)** | (20) |
| Net change in fair value on cash flow hedges | | **(183)** | (29) | **(185)** | (28) |
| Income and capital gains tax relating to net change in fair value on cash flow hedges | | **53** | 8 | **53** | 8 |
| Foreign currency translation | | **29** | 3 | | |
| ***Items that may not be reclassified subsequently to profit and loss*** | | **36** | 80 | **36** | 80 |
| Owner occupied properties – fair value adjustment | | **33** | (197) | **33** | (197) |
| Income and capital gains tax relating to owner occupied properties fair value adjustment | | **(11)** | 66 | **(11)** | 66 |
| Change in long-term policyholder insurance liabilities (application of shadow accounting) | | **(22)** | 131 | **(22)** | 131 |
| Actuarial gains on post-retirement medical aid liability | | **24** | 127 | **24** | 127 |
| Income tax relating to post-retirement medical aid liability | | **(7)** | (36) | **(7)** | (36) |
| Net adjustments to defined benefit pension fund | | **26** | (15) | **26** | (15) |
| Income tax relating to defined benefit pension fund | | **(7)** | 4 | **(7)** | 4 |
| **Total comprehensive income** | | **3 972** | 3 878 | **4 085** | 3 167 |
| Total earnings attributable to: | | | | | |
| Ordinary shareholders' interests | | **3 472** | 3 425 | | |
| Non-controlling interests | | **565** | 391 | | |
| | | **4 037** | 3 816 | | |
| Total comprehensive income attributable to: | | | | | |
| Ordinary shareholders' interests | | **3 393** | 3 486 | | |
| Non-controlling interests | | **579** | 392 | | |
| | | **3 972** | 3 878 | | |

## Statement of changes in group shareholders' funds

*for the year ended 31 December 2013*

| | Share capital and share premium Rm | CRRF Rm | FCTR Rm | Cash flow hedging reserve Rm | Owner occupied properties Rm | Empowerment reserve Rm | Share based payment reserve Rm | Retained surplus Rm | Non controlling interests Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 29 | 5 | (3) | 10 | 584 | (1 075) | 7 | 12 217 | 3 001 | 14 775 |
| Disposal of Alberton City consortium | | | | | | | | | (234) | (234) |
| Acquisition of interest in subsidiary | | | | | | | | | 33 | 33 |
| Realised FCTR recycled through profit or loss | | | 2 | | | | | | | 2 |
| Total comprehensive income | | | 2 | (21) | (131) | | | 3 636[1] | 392 | 3 878 |
| Ordinary dividends | | | | | | | | (2 055) | | (2 055) |
| Unincorporated property partnerships | | | | | | | | | (182) | (182) |
| Capital contribution | | | | | | | | | 2 | 2 |
| Distribution | | | | | | | | | (184) | (184) |
| BEE transaction | | | | | | 63 | | 63 | | 126 |
| Share based payments | | | | | | | 25 | | | 25 |
| Payments on settlement of equity share options | | | | | | | (1) | | | (1) |
| Transfer of vested equity options reserve | | | | | | | (5) | 5 | | |
| Funding of restricted share plan | | | | | | | | (87) | | (87) |
| Transfer of owner occupied properties | | | | | (43) | | | 43 | | |
| **Balance at 31 December 2012** | **29** | **5** | **1** | **(11)** | **410** | **(1 012)** | **26** | **13 822** | **3 010** | **16 280** |
| Disposal of interests in subsidiaries | | | | | | | | **(61)** | **(77)** | **(138)** |
| Realised FCTR recycled through profit or loss | | | **(16)** | | | | | | | **(16)** |
| Total comprehensive income | | | **15** | **(130)** | **22** | | | **3 486**[1] | **579** | **3 972** |
| Ordinary dividends | | | | | | | | **(1 653)** | | **(1 653)** |
| Unincorporated property partnerships | | | | | | | | | **(6)** | **(6)** |
| Capital contribution | | | | | | | | | **184** | **184** |
| Distribution | | | | | | | | | **(190)** | **(190)** |
| Non-controlling interest share of subsidiary dividend | | | | | | | | | **(2)** | **(2)** |
| BEE transaction | | | | | | **107** | | **64** | | **171** |
| Share based payments | | | | | | | **53** | | | **53** |
| Transfer of vested equity options reserve | | | | | | | **(1)** | **1** | | |
| Funding of restricted share plan | | | | | | | | **(87)** | | **(87)** |
| Transfer of owner occupied properties | | | | | **(50)** | | | **50** | | |
| **Balance at 31 December 2013** | **29** | **5** | | **(141)** | **382** | **(905)** | **78** | **15 622** | **3 504** | **18 574** |

[1] *Includes change in long-term policyholder insurance liabilities (application of shadow accounting), post-retirement obligations, together with total earnings attributable to ordinary shareholders interests*

## Statement of changes in company shareholders' funds

*for the year ended 31 December 2013*

| | Share capital and share premium Rm | CRRF Rm | Cash flow hedging reserve Rm | Owner occupied properties Rm | Empower-ment reserve Rm | Share based payment reserve Rm | Retained surplus Rm | Total Rm |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2012 (restated) | 29 | 5 | 11 | 584 | (1 075) | 7 | 11 120 | 10 681 |
| Total comprehensive income | | | (20) | (131) | | | 3 318[1] | 3 167 |
| Ordinary dividends | | | | | | | (2 055) | (2 055) |
| BEE transaction | | | | | 63 | | 63 | 126 |
| Share based payments | | | | | | 25 | | 25 |
| Funding of restricted share plan | | | | | | | (56) | (56) |
| Payment on settlement of share options | | | | | | (1) | | (1) |
| Transfer of owner occupied properties | | | | (43) | | | 43 | |
| Transfer of vested equity options reserve | | | | | | (5) | 5 | |
| **Balance at 31 December 2012** | **29** | **5** | **(9)** | **410** | **(1 012)** | **26** | **12 438** | **11 887** |
| Excess over net asset value acquired as a result of life license rationalisation | | | | | | | **850** | **850** |
| Total comprehensive income | | | **(132)** | **22** | | | **4 195[1]** | **4 085** |
| Ordinary dividends | | | | | | | **(1 653)** | **(1 653)** |
| BEE transaction | | | | | **107** | | **64** | **171** |
| Share based payments | | | | | | **53** | | **53** |
| Transfer of vested equity options reserve | | | | | | **(1)** | **1** | |
| Funding of restricted share plan | | | | | | | **(50)** | **(50)** |
| Transfer of owner occupied properties | | | | **(50)** | | | **50** | |
| **Balance at 31 December 2013** | **29** | **5** | **(141)** | **382** | **(905)** | **78** | **15 895** | **15 343** |

[1] *Includes change in long-term policyholder insurance liabilities (application of shadow accounting), post-retirement obligations, together with total earnings attributable to ordinary shareholders interests*

## Statement of cash flows
*for the year ended 31 December 2013*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| **Cash flows from operating activities** | | **4 936** | 3 855 | **10 125** | 2 823 |
| Cash generated from/(utilised in) operations | 42 | **1 200** | (826) | **3 504** | (1 238) |
| Cash receipts from policyholders | | **47 393** | 40 831 | **29 860** | 29 860 |
| Cash paid to policyholders, intermediaries, suppliers and employees | | **(46 193)** | (41 657) | **(26 356)** | (31 098) |
| Interest received | | **6 036** | 6 377 | **4 654** | 4 182 |
| Interest paid | | **(277)** | (204) | **(275)** | (201) |
| Distribution of profits from subsidiaries – unincorporated property partnerships | | | | **531** | 501 |
| Distribution to non-controlling interest in unicorporated property partnerships | | **(190)** | (184) | | |
| Dividends received | | **2 428** | 2 709 | **4 726** | 2 613 |
| Dividends paid | 43 | **(2 262)** | (2 498) | **(1 482)** | (1 929) |
| Taxation paid | 44 | **(1 999)** | (1 519) | **(1 533)** | (1 105) |
| **Cash flows from investing activities** | | **(4 562)** | (4 919) | **(11 379)** | (2 109) |
| Net (purchases)/sales of investment and owner-occupied properties | | **(559)** | 337 | **(382)** | 317 |
| Purchase of equipment and owner-occupied properties under development | | **(419)** | (276) | **(434)** | (256) |
| Proceeds on sale of equipment | | **4** | 12 | **5** | 11 |
| Net purchases of financial instruments[1] | | **(3 604)** | (4 949) | **(10 446)** | (1 274) |
| Net movements in loans with subsidiaries | 8.2 | | | **(34)** | (78) |
| Shares issued in subsidiaries | | | | **(96)** | (772) |
| Acquisition of intangibles | | **(44)** | (25) | **(44)** | (39) |
| Proceeds on disposal of African subsidiaries | 41.2 | **52** | | **52** | |
| Proceeds on sale of intangible assets | | **8** | | | |
| Acquisition of Total Health Trust Limited | 41.3 | | (4) | | (4) |
| Acquisition of associates | | | (14) | | (14) |
| **Cash flow from financing activities** | | **1 134** | (102) | **987** | (73) |
| Repayment of financing liabilities at amortised cost | | **38** | (2 005) | **38** | (2 005) |
| Advance of financial liabilities at amortised cost | | **999** | 1 988 | **999** | 1 988 |
| Capital movement in non-controlling interests in unincorporated property partnerships | | **184** | 2 | | |
| Funding of restricted share plan | | **(87)** | (87) | **(50)** | (56) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1 508** | (1 166) | **(267)** | 641 |
| Cash and cash equivalents at the beginning of the year | | **3 682** | 4 816 | **2 052** | 1 411 |
| Cash and cash equivalents acquired through business acquisition | 41.3 | | 29 | | |
| Cash and cash equivalents disposed of through business disposals | 41.2 | **(127)** | | | |
| Transfer of insurance business arising from life license rationalisation | 41.1 | | | **3 058** | |
| Foreign currency translation | | **10** | 3 | | |
| **Cash and cash equivalents at the end of the year** | | **5 073** | 3 682 | **4 843** | 2 052 |

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

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 1. Risk disclosures

This note only contains company specific information relating to Liberty Group Limited group and Liberty Group Limited company. 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:

| Group<br>Retail sums assured at risk (R) | Before reinsurance<br>Rm | %| After reinsurance<br>Rm | % |
|---|---|---|---|---|
| **2013** | | | | |
| **0 – 1 499 999** | **352 195** | **40** | **340 417** | **45** |
| 1 500 000 – 2 999 999 | **182 966** | **21** | **165 629** | **22** |
| 3 000 000 – 7 499 999 | **215 540** | **25** | **187 007** | **25** |
| 7 500 000 and above | **125 427** | **14** | **61 941** | **8** |
| **Total** | **876 128** | **100** | **754 994** | **100** |
| 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 |

| Company<br>Retail sums assured at risk (R) | Before reinsurance<br>Rm | % | After reinsurance<br>Rm | % |
|---|---|---|---|---|
| **2013** | | | | |
| 0 – 1 499 999 | **347 351** | **40** | **337 026** | **45** |
| 1 500 000 – 2 999 999 | **181 125** | **21** | **164 632** | **22** |
| 3 000 000 – 7 499 999 | **214 316** | **25** | **186 684** | **25** |
| 7 500 000 and above | **125 138** | **14** | **61 908** | **8** |
| **Total** | **867 930** | **100** | **750 250** | **100** |
| 2012 | | | | |
| 0 – 1 499 999 | 210 796 | 32 | 201 282 | 36 |
| 1 500 000 – 2 999 999 | 163 384 | 24 | 148 378 | 26 |
| 3 000 000 – 7 499 999 | 189 531 | 28 | 166 125 | 29 |
| 7 500 000 and above | 105 146 | 16 | 51 181 | 9 |
| **Total** | 668 857 | 100 | 566 966 | 100 |

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)
### 1.1 Significant classes of business most affected by insurance risk (continued)
#### (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:

| Group and company<br>Annuity amount per annum (R) | **2013**<br>**Number of life and disability annuities in payment** | <br>**Annual annuity amount exposure Rm** | 2012<br>Number of life and disability annuities in payment | <br>Annual annuity amount exposure Rm |
|---|---|---|---|---|
| 0 – 240 000 | **86 949** | **1 794** | 89 199 | 1 766 |
| 240 000 – 480 000 | **740** | **231** | 651 | 203 |
| 480 000 – 720 000 | **101** | **59** | 93 | 54 |
| 720 000 and above | **41** | **41** | 36 | 37 |
| **Total** | **87 831** | **2 125** | 89 979 | 2 060 |

#### (c) *Corporate risk business*
The following table provides the split by industry class of annual premium income received on corporate risk business:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| **Industry class** | **2013**<br>**%** | 2012<br>% | **2013**<br>**%** | 2012<br>% |
| Administrative/professional | **30** | 33 | **30** | 20 |
| Retail | **23** | 23 | **23** | 36 |
| Light manufacturing | **28** | 29 | **28** | 26 |
| Heavy manufacturing | **16** | 13 | **16** | 13 |
| Heavy industrial and other high risk | **3** | 2 | **3** | 5 |
| **Total** | **100** | 100 | **100** | 100 |

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 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:

| Group | Before reinsurance | | After reinsurance | |
|---|---|---|---|---|
| Corporate sums assured at risk (R) | Rm | % | Rm | % |
| **2013** | | | | |
| 0 – 1 499 999 | **167 513** | **60** | **166 387** | **64** |
| 1 500 000 – 2 999 999 | **51 544** | **19** | **51 034** | **20** |
| 3 000 000 – 7 499 999 | **45 334** | **16** | **35 656** | **14** |
| 7 500 000 and above | **15 169** | **5** | **4 998** | **2** |
| Total | **279 560** | **100** | **258 075** | **100** |
| 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 |

| Company | Before reinsurance | | After reinsurance | |
|---|---|---|---|---|
| Corporate sums assured at risk (R) | Rm | % | Rm | % |
| **2013** | | | | |
| 0 – 1 499 999 | **167 242** | **60** | **166 387** | **64** |
| 1 500 000 – 2 999 999 | **51 544** | **19** | **51 034** | **20** |
| 3 000 000 – 7 499 999 | **45 334** | **16** | **35 656** | **14** |
| 7 500 000 and above | **15 169** | **5** | **4 998** | **2** |
| Total | **279 289** | **100** | **258 075** | **100** |
| 2012 | | | | |
| 0 – 1 499 999 | 71 325 | 69 | 70 544 | 72 |
| 1 500 000 – 2 999 999 | 16 837 | 16 | 16 204 | 17 |
| 3 000 000 – 7 499 999 | 12 370 | 12 | 9 729 | 10 |
| 7 500 000 and above | 3 069 | 3 | 938 | 1 |
| Total | 103 601 | 100 | 97 415 | 100 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**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 for the group and with subsidiaries and the group companies for the company 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.

| **Group**<br>**Financial instrument investments** | **Carrying value**<br>**Rm** | **Exposed to cash flow interest rate risk**<br>**Rm** | **Exposed to fair value interest rate risk**<br>**Rm** | **Effective interest rate[1]**<br>**%** |
|---|---|---|---|---|
| **2013** | | | | |
| *Held at fair value through profit or loss* | | | | |
| Government, municipal and utility stocks | **27 122** | **42** | **27 080** | **7,2** |
| Commercial term deposits | **30 588** | **18 034** | **12 554** | **7,1** |
| Preference shares | **2 629** | **2 474** | **155** | **6,8** |
| Collateral deposits | **1 431** | **1 339** | **92** | **5,1** |
| Cash and cash equivalents | **5 073** | **4 282** | **791** | **4,4** |
| *Loans and receivables* | | | | |
| Loans | **977** | **191** | **786** | **8,8** |
| *Held-to-maturity* | | | | |
| Loan receivables from joint ventures | **4** | | **4** | **Nil** |
| **Total** | **67 824** | **26 362** | **41 462** | |
| Restated | | | | |
| 2012 | | | | |
| *Held at fair value through profit or loss* | | | | |
| Government, municipal and utility stocks | 24 950 | | 24 950 | 7,8 |
| Commercial term deposits | 30 912 | 15 928 | 14 984 | 7,9 |
| Investment policies | 1 | 1 | | Nil |
| Preference shares | 2 621 | 2 500 | 121 | 6,6 |
| Collateral deposits | 784 | 749 | 35 | 5,2 |
| Cash and cash equivalents | 3 682 | 3 587 | 95 | 5,0 |
| *Loans and receivables* | | | | |
| Mortgage and loans | 913 | 184 | 729 | 8,0 |
| Loan receivable to joint ventures | 4 | | 4 | Nil |
| **Total** | 63 867 | 22 949 | 40 918 | |

(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 financial statements *(continued)*
*for the year ended 31 December 2013*

1. **Risk disclosures** (continued)

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

| Company<br>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] % |
|---|---|---|---|---|
| **2013** | | | | |
| *Held at fair value through profit or loss* | | | | |
| Government, municipal and utility stocks | **12 301** | **42** | **12 259** | **8,5** |
| Commercial term deposits | **27 215** | **17 927** | **9 288** | **7,8** |
| Preference shares | **2 629** | **2 474** | **155** | **6,8** |
| Collateral deposits | **1 431** | **1 339** | **92** | **5,1** |
| Cash and cash equivalents | **4 843** | **4 052** | **791** | **4,5** |
| *Loans and receivables* | | | | |
| Loans | **977** | **191** | **786** | **8,8** |
| *Held-to-maturity* | | | | |
| Loan receivables from joint ventures | **4** | | **4** | **Nil** |
| **Total** | **49 400** | **26 025** | **23 375** | |
| 2012 | | | | |
| *Held at fair value through profit or loss* | | | | |
| Government, municipal and utility stocks | 6 771 | | 6 771 | 6,5 |
| Commercial term deposits | 15 684 | 9 080 | 6 604 | 6,1 |
| Preference shares | 1 948 | 1 826 | 122 | 6,6 |
| Collateral deposits | 754 | 721 | 33 | 5,2 |
| Cash and cash equivalents | 2 052 | 2 042 | 10 | 4,4 |
| *Loans and receivables* | | | | |
| Loans | 183 | 183 | | 8,0 |
| *Held-to-maturity* | | | | |
| Loan receivables from joint ventures | 4 | | 4 | Nil |
| **Total** | 27 396 | 13 852 | 13 544 | |

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| Carrying amount by maturity date | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | 2012 Rm |
| Within 1 year | **10 376** | 13 693 | **10 318** | 7 302 |
| 1 – 5 years | **17 729** | 16 284 | **15 739** | 7 173 |
| 6 – 10 years | **16 858** | 13 284 | **7 078** | 4 962 |
| 11 – 20 years | **11 249** | 13 261 | **4 947** | 4 035 |
| Over 20 years | **5 107** | 3 635 | **5 020** | 1 983 |
| Variable | **6 505** | 3 710 | **6 298** | 1 941 |
| **Total** | **67 824** | 63 867 | **49 400** | 27 396 |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)
#### 1.2 Interest rate risk applicable to financial instrument assets and liabilities (continued)

| Group<br>Financial instrument liabilities | Carrying value<br>Rm | Exposed to cash flow interest rate risk<br>Rm | Exposed to fair value interest rate risk<br>Rm | Effective interest rate[1]<br>% |
|---|---|---|---|---|
| **2013** | | | | |
| *At amortised cost* | | | | |
| Subordinated notes | **3 069** | | **3 069** | **7,9** |
| 2012 | | | | |
| *Held for trading* | | | | |
| Collateral deposits | 679 | 679 | | 4,7 |
| *At amortised cost* | | | | |
| Subordinated notes | 2 037 | | 2 037 | 7,4 |

| Company<br>Financial instrument liabilities | Carrying value<br>Rm | Exposed to cash flow interest rate risk<br>Rm | Exposed to fair value interest rate risk<br>Rm | Effective interest rate[1]<br>% |
|---|---|---|---|---|
| **2013** | | | | |
| *At amortised cost* | | | | |
| Subordinated notes | **3 069** | | **3 069** | **7,9** |
| 2012 | | | | |
| *Held for trading* | | | | |
| Collateral deposits | 459 | 459 | | 4,5 |
| *At amortised cost* | | | | |
| Subordinated notes | 2 037 | | 2 037 | 7,4 |

[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 financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.3 Currency risk

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

| Group Assets | British pound | | US dollar | | Euro | | Japanese yen | | Australian dollar | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rm | 2013 | Restated 2012 | 2013 | Restated 2012 | 2013 | Restated 2012 | 2013 | Restated 2012 | 2013 | Restated 2012 | 2013 | Restated 2012 |
| Debt instruments | 247 | 84 | 4 135 | 2 274 | 330 | 516 | | | | | | |
| Equity instruments | 77 | 6 | 145 | 53 | 4 | | | | | | 150 | 126 |
| Mutual funds | 198 | 136 | 28 472 | 23 492 | 720 | 449 | 90 | 64 | | | | |
| Prepayments, insurance and other receivables | | | 16 | 192 | | | | | | | | |
| Derivatives | | | | | | | | | | | | |
| Collateral deposits | | | | | | | | | | | | |
| Policies | | | 1 068 | 926 | | | | | | | | |
| Cash and cash equivalents | (33) | 35 | 147 | 1 323 | 33 | 61 | 8 | 18 | | 7 | | (111) |
| Total | 489 | 261 | 33 983 | 28 260 | 1 087 | 1 026 | 98 | 82 | | 7 | 150 | 15 |
| Gross foreign currency exposure | 28 | 19 | 3 239 | 3 333 | 75 | 92 | 981 | 833 | | 1 | | |
| Derivatives protection[1] | (16) | | (829) | (115) | (29) | | | | | | | |
| Net foreign currency exposure | 12 | 19 | 2 410 | 3 218 | 46 | 92 | 981 | 833 | | 1 | | |
| Exchange rate[2] | | | | | | | | | | | | |
| Closing rate at 31 December | 17,36 | 13,71 | 10,49 | 8,48 | 14,44 | 11,18 | 0,10 | 0,10 | 9,36 | 8,79 | | |
| Average rate during the year | 15,09 | 13,01 | 9,64 | 8,21 | 12,81 | 10,55 | 0,10 | 0,10 | 9,31 | 9,03 | | |

[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 investment in foreign subsidiaries Liberty Life Uganda Assurance Limited and Total Health Trust Limited were disposed of to Liberty Holdings Limited effective 31 December 2013. Therefore at 31 December 2013 the group has no exposure to the foreign exposure of its foreign subsidiary companies. At 31 December 2012 through its investment in Liberty Life Uganda Assurance Limited the group has a gross foreign exposure of Uganda shilling 11 813 million and a net foreign exposure after non-controlling interest of Uganda shilling 6 025 million. Through its investment in Total Health Trust Limited the group has a foreign exposure of Nigeria niara 1 467 million and a net foreign exposure after non-controlling interests of Nigeria niara 751 million. The rand equivalent of the net exposure to Uganda shilling is R19 million and to Nigeria niara is R41 million.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)
#### 1.3 Currency risk (continued)

| Company Assets | British pound | | US dollar | | Euro | | Japanese yen | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rm | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | Restated 2012 | **2013** | 2012 |
| Debt instruments | **247** | 52 | **4 135** | 1 851 | **330** | 2 | | | | |
| Equity instruments | **77** | 5 | **145** | 52 | **4** | | | | **47** | 31 |
| Mutual funds | **198** | 133 | **29 519** | 21 360 | **720** | 420 | **90** | 43 | | |
| Cash and cash equivalents | **(33)** | 6 | **109** | 81 | **33** | 23 | **8** | 7 | | |
| Total | **489** | 196 | **33 908** | 23 344 | **1 087** | 445 | **98** | 50 | **47** | 31 |
| Gross foreign currency exposure | **28** | 14 | **3 232** | 2 754 | **75** | 40 | **981** | 508 | | |
| Derivatives protection[1] | **(16)** | | **(829)** | (115) | **(29)** | | | | | |
| Net foreign currency exposure | **12** | 14 | **2 403** | 2 639 | **46** | 40 | **981** | 508 | | |
| Exchange rate[2] | | | | | | | | | | |
| Closing rate at 31 December | **17,36** | 13,71 | **10,49** | 8,48 | **14,44** | 11,18 | **0,10** | 0,10 | | |
| Average rate during the year | **15,09** | 13,01 | **9,64** | 8,21 | **12,81** | 10,55 | **0,10** | 0,10 | | |

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

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

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)

#### 1.4 Derivative assets and liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | 2012 Rm |
| **Derivatives held for trading** | **931** | 763 | **886** | 237 |
| Gross carrying amount of assets | **4 938** | 6 071 | **4 893** | 5 348 |
| Gross carrying amount of liabilities | **(4 007)** | (5 308) | **(4 007)** | (5 111) |
| Derivatives held for hedging | **(837)** | (60) | **(837)** | (37) |
| Gross carrying amount of asset | | 35 | | 35 |
| Gross carrying amount of liabilities | **(837)** | (95) | **(837)** | (72) |
| **Net carrying value** | **94** | 703 | **49** | 200 |

**Open derivative positions at 31 December**

| Group | 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 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Derivatives held for trading | **28** | **1 280** | **(377)** | **931** | **4 938** | **(4 007)** | |
| Foreign exchange derivatives | | **(2)** | **(13)** | **(15)** | | **(15)** | |
| Futures | | | | | | | **196** |
| Options | | | | | | | **(2)** |
| Swaps | | **(2)** | **(13)** | **(15)** | | **(15)** | **146** |
| Interest rate derivatives | **(61)** | **177** | **(364)** | **(248)** | **3 712** | **(3 960)** | |
| Forwards | **18** | **(16)** | | **2** | **84** | **(82)** | **41 234** |
| Swaps | **(79)** | **139** | **(401)** | **(341)** | **3 537** | **(3 878)** | **144 091** |
| Swaptions | | **54** | **37** | **91** | **91** | | **8 280** |
| Equity derivatives | **89** | **1 105** | | **1 194** | **1 226** | **(32)** | |
| Futures | **18** | | | **18** | **26** | **(8)** | **2 021** |
| Options | **26** | | | **26** | **26** | | **(55)** |
| Other | **45** | **1 105** | | **1 150** | **1 174** | **(24)** | **1 077** |
| Derivatives held for hedging | **(41)** | **(391)** | **(405)** | **(837)** | | **(837)** | |
| Swaps | **(41)** | **(391)** | **(405)** | **(837)** | | **(837)** | **3 762** |
| **Total derivative assets/(liabilities)** | **(13)** | **889** | **(782)** | **94** | **4 938** | **(4 844)** | |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Group | 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 |
|---|---|---|---|---|---|---|---|
| | Maturity analysis of net fair value | | | | | | |
| Restated 2012 | | | | | | | |
| Derivatives held for trading | 231 | 133 | 399 | 763 | 6 071 | (5 308) | |
| Foreign exchange derivatives | (8) | (121) | 44 | (85) | 9 | (94) | |
| Futures | | | | | | | 10 |
| Swaps | (8) | (121) | 44 | (85) | 9 | (94) | 299 |
| Interest rate derivatives | 121 | 276 | 355 | 752 | 5 966 | (5 214) | |
| Forwards | 22 | | | 22 | 54 | (32) | 21 383 |
| Swaps | 98 | 276 | 246 | 620 | 5 802 | (5 182) | 134 417 |
| Futures | 1 | | | 1 | 1 | | (6) |
| Swaptions | | | 109 | 109 | 109 | | 166 |
| Equity derivatives | 118 | (22) | | 96 | 96 | | |
| Futures | 118 | | | 118 | 118 | | (1 681) |
| Options | | | | | | | 48 |
| Other | | (22) | | (22) | (22) | | 19 |
| Derivatives held for hedging | | (72) | 12 | (60) | 35 | (95) | |
| Swaps | | (72) | 12 | (60) | 35 | (95) | 1982 |
| **Total derivative assets/(liabilities)** | 231 | 61 | 411 | 703 | 6 106 | (5 403) | |

(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 financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Company | 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 |
| **2013** | | | | | | | |
| Derivatives held for trading | **(17)** | **1 280** | **(377)** | **886** | **4 893** | **(4 007)** | |
| Foreign exchange derivatives | | **(2)** | **(13)** | **(15)** | | **(15)** | |
| Swaps | | **(2)** | **(13)** | **(15)** | | **(15)** | **146** |
| Futures | | | | | | | **196** |
| Options | | | | | | | **(2)** |
| Interest rate derivatives | **(61)** | **177** | **(364)** | **(248)** | **3 712** | **(3 960)** | |
| Forwards | **18** | **(16)** | | **2** | **84** | **(82)** | **41 234** |
| Swaps | **(79)** | **139** | **(401)** | **(341)** | **3 537** | **(3 878)** | **144 091** |
| Swaptions | | **54** | **37** | **91** | **91** | | **8 280** |
| Equity derivatives | **44** | **1 105** | | **1 149** | **1 181** | **(32)** | |
| Forwards | | | | | | | |
| Futures | **18** | | | **18** | **26** | **(8)** | **2 021** |
| Options | **26** | | | **26** | **26** | | **(55)** |
| Other | | **1 105** | | **1 105** | **1 129** | **(24)** | **1 032** |
| Derivatives held for hedging | **(41)** | **(391)** | **(405)** | **(837)** | | **(837)** | |
| Foreign exchange derivatives | | | | | | | |
| Swaps | **(41)** | **(391)** | **(405)** | **(837)** | | **(837)** | **3 762** |
| **Total derivative assets/(liabilities)** | **(58)** | **889** | **(782)** | **49** | **4 893** | **(4 844)** | |
| Restated 2012 | | | | | | | |
| Derivatives held for trading | 34 | (69) | 272 | 237 | 5 348 | (5 111) | |
| Foreign exchange derivatives | (8) | (27) | 44 | 9 | 9 | | |
| Swaps | (8) | (27) | 44 | 9 | 9 | | 315 |
| Forwards | | | | | | | 10 |
| Interest rate derivatives | 42 | (20) | 228 | 250 | 5 361 | (5 111) | |
| Futures | 1 | | | 1 | 1 | | (6) |
| Forwards | 16 | | | 16 | 35 | (19) | 15 063 |
| Swaps | 25 | (20) | 119 | 124 | 5 216 | (5 092) | 117 020 |
| Swaptions | | | 109 | 109 | 109 | | 166 |
| Equity derivatives | | (22) | | (22) | (22) | | |
| Forwards | | | | | | | |
| Futures | | | | | | | (1 624) |
| Options | | | | | | | 51 |
| Other | | (22) | | (22) | (22) | | 19 |
| Derivatives held for hedging | | (49) | 12 | (37) | 35 | (72) | |
| Foreign exchange derivatives | | | | | | | |
| Swaps | | (49) | 12 | (37) | 35 | (72) | 1 790 |
| **Total derivative assets/(liabilities)** | 34 | (118) | 284 | 200 | 5 383 | (5 183) | |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

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

***Cross currency swaps***
From 2011, the group and company use 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:

| **Group Rm** | **Total reserve** | **More than 1 year but less than 5 years** | **More than 5 years** |
|---|---|---|---|
| **2013** | | | |
| Release timing | **(141)** | **(38)** | **(103)** |
| 2012 | | | |
| Release timing | (11) | (12) | 1 |

| **Company Rm** | **Total reserve** | **More than 1 year but less than 5 years** | **More than 5 years** |
|---|---|---|---|
| **2013** | | | |
| Release timing | **(141)** | **(38)** | **(103)** |
| 2012 | | | |
| Release timing | (9) | (11) | 2 |

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

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)
### 1.5 Credit exposure
The following tables provides information regarding the aggregated credit risk exposure for the group for debt instruments categorised by credit ratings (if available) at 31 December.

| Group Rm | A- and above | BBB+ | BBB | BBB- | BB+ | BB | BB- and below | Not rated | Pooled funds | Total carrying value |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | |
| Debt instruments | **608** | **35 982** | **6 160** | **11 998** | **1 810** | **2 996** | **598** | **1 164** | **22 888** | **84 204** |
| – Listed preference shares | **5** | **443** | **154** | **255** | **54** | **572** | **6** | | | **1 489** |
| Local | | **443** | **154** | **255** | **54** | **572** | **6** | | | **1 484** |
| Foreign | **5** | | | | | | | | | **5** |
| – Unlisted preference shares | | **532** | | **403** | | **77** | | **128** | | **1 140** |
| – Listed term deposits | **270** | **28 660** | **3 700** | **8 081** | **249** | **967** | **210** | **59** | | **42 196** |
| Local | **270** | **26 645** | **3 035** | **6 345** | **249** | **967** | **210** | **59** | | **37 780** |
| Foreign | | **2 015** | **665** | **1 736** | | | | | | **4 416** |
| – Unlisted term deposits | **333** | **6 347** | **2 306** | **3 259** | **1 507** | **1 380** | **382** | | | **15 514** |
| Local | **333** | **6 347** | **2 306** | **3 021** | **1 507** | **1 327** | **382** | | | **15 223** |
| Foreign | | | | **238** | | **53** | | | | **291** |
| – Loans | | | | | | | | **977** | | **977** |
| – Mutual funds – debt instruments | | | | | | | | | **22 888** | **22 888** |
| Local | | | | | | | | | **18 361** | **18 361** |
| Foreign | | | | | | | | | **4 527** | **4 527** |
| Investment policies | | | **1 994** | | | | | **23 651** | | **25 645** |
| Prepayments, insurance and other receivables – Local | | **11** | **24** | **130** | | **51** | **8** | **2 283** | | **2 507** |
| – Accrued income | | **11** | **5** | | | | | **43** | | **59** |
| – Reinsurance recoveries | | | **19** | **130** | | **51** | **8** | **95** | | **303** |
| – Other | | | | | | | | **2 145** | | **2 145** |
| Prepayments, insurance and other receivables – Foreign | | | | | | | | **16** | | **16** |
| Reinsurance assets | | | **35** | **1 026** | | **3** | **29** | **33** | | **1 126** |
| Derivatives and collateral deposits | **1 004** | **3 755** | **1 450** | **128** | | | | **32** | | **6 369** |
| Loan receivables from joint ventures | | | | | | | | **4** | | **4** |
| Cash and cash equivalents | **175** | **3 588** | **1 132** | **5** | | **57** | | **116** | | **5 073** |
| Local | **126** | **3 524** | **1 132** | **5** | | **57** | | **74** | | **4 918** |
| Foreign | **49** | **64** | | | | | | **42** | | **155** |
| **Total assets bearing credit risk** | **1 787** | **43 336** | **10 795** | **13 287** | **1 810** | **3 107** | **635** | **27 299** | **22 888** | **124 944** |

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group Rm** | Above A- | BBB+ | BBB | BBB- | BB+ | BB | BB- and below | Not rated | Pooled funds | Total carrying value |
| Restated 2012 | | | | | | | | | | |
| Debt instruments | 17 758 | 25 780 | 8 164 | 238 | 2 664 | 3 130 | 394 | 1 268 | 20 575 | 79 971 |
| – Listed preference shares | | 851 | 352 | 56 | 619 | 120 | 8 | | | 2 006 |
| Local | | 851 | 352 | 47 | 619 | 120 | 8 | | | 1 997 |
| Foreign | | | | 9 | | | | | | 9 |
| – Unlisted preference shares | | | 497 | | | | | 118 | | 615 |
| – Listed term deposits | 16 864 | 15 429 | 3 325 | 87 | 1 232 | 1 309 | 366 | 65 | | 38 677 |
| Local | 16 304 | 14 625 | 3 251 | 87 | 663 | 1 309 | 62 | 65 | | 36 366 |
| Foreign | 560 | 804 | 74 | | 569 | | 304 | | | 2 311 |
| – Unlisted term deposits | 894 | 9 500 | 3 990 | 95 | 813 | 1 701 | 20 | 172 | | 17 185 |
| Local | 384 | 9 500 | 3 990 | 95 | 765 | 1 659 | 20 | 172 | | 16 585 |
| Foreign | 510 | | | | 48 | 42 | | | | 600 |
| – Loans | | | | | | | | 913 | | 913 |
| – Mutual funds – debt instruments | | | | | | | | | 20 575 | 20 575 |
| Local | | | | | | | | | 12 363 | 12 363 |
| Foreign | | | | | | | | | 8 212 | 8 212 |
| Investment policies | | | | | | | | | 22 681 | 22 681 |
| Prepayments, insurance and other receivables – Local | 22 | 17 | 8 | 41 | 61 | | | 2 202 | | 2 351 |
| – Accrued income | | 17 | 8 | | | | | 29 | | 54 |
| – Reinsurance recoveries | 22 | | | 41 | 61 | | | 76 | | 200 |
| – Other | | | | | | | | 2 097 | | 2 097 |
| Prepayments, insurance and other receivables – Foreign | | | | | | | | 240 | | 240 |
| – Other | | | | | | | | 240 | | 240 |
| Reinsurance assets | 41 | | | (2) | 893 | | 2 | 32 | | 966 |
| Derivatives and collateral deposits | 1 906 | 4 345 | 375 | | | 147 | | 117 | | 6 890 |
| Loan receivables from joint ventures | | | | | | | | 4 | | 4 |
| Cash and cash equivalents | 59 | 2 702 | 662 | | | | | 259 | | 3 682 |
| Local | 6 | 2 702 | 662 | | | | | 85 | | 3 455 |
| Foreign | 53 | | | | | | | 174 | | 227 |
| **Total assets bearing credit risk** | 19 786 | 32 844 | 9 209 | 277 | 3 618 | 3 277 | 396 | 4 122 | 43 256 | 116 785 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.5 Credit exposure** (continued)

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

| Company Rm | Above A- | BBB+ | BBB | BBB- | BB+ | BB | BB- and below | Not rated | Pooled funds | Total carrying value |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | |
| Debt instruments | **608** | **22 631** | **4 938** | **8 607** | **1 810** | **2 791** | **598** | **1 139** | **40 898** | **84 020** |
| – Listed preference shares – local | | **443** | **154** | **255** | **54** | **572** | **6** | | | **1 484** |
| – Listed preference shares – foreign | **5** | | | | | | | | | **5** |
| – Unlisted preference shares | | **532** | | **403** | | **77** | | **128** | | **1 140** |
| – Listed term deposits | **270** | **15 309** | **2 478** | **4 690** | **249** | **762** | **210** | **34** | | **24 002** |
| Local | **270** | **13 294** | **1 813** | **2 954** | **249** | **762** | **210** | **34** | | **19 586** |
| Foreign | | **2 015** | **665** | **1 736** | | | | | | **4 416** |
| – Unlisted term deposits | **333** | **6 347** | **2 306** | **3 259** | **1 507** | **1 380** | **382** | | | **15 514** |
| Local | **333** | **6 347** | **2 306** | **3 021** | **1 507** | **1 327** | **382** | | | **15 223** |
| Foreign | | | | **238** | | **53** | | | | **291** |
| – Loans | | | | | | | | **977** | | **977** |
| – Mutual funds – debt instruments | | | | | | | | | **40 898** | **40 898** |
| Local | | | | | | | | | **36 371** | **36 371** |
| Foreign | | | | | | | | | **4 527** | **4 527** |
| Investments policies | | | **1 994** | | | | | **22 584** | | **24 578** |
| Prepayments, insurance and other receivables – Local | | **11** | **24** | **130** | | **51** | **8** | **1 846** | | **2 070** |
| – Accrued income | | **11** | **5** | | | | | **43** | | **59** |
| – Reinsurance recoveries | | | **19** | **130** | | **51** | **8** | **91** | | **299** |
| – Other | | | | | | | | **1 712** | | **1 712** |
| Reinsurance assets | | | **35** | **1 026** | | **3** | **29** | **27** | | **1 120** |
| Derivatives and collateral deposits | **1 004** | **3 710** | **1 450** | **128** | | | | **32** | | **6 324** |
| Loan receivables from joint ventures | | | | | | | | **4** | | **4** |
| Cash and cash equivalents | **77** | **3 588** | **1 099** | | | **37** | | **42** | | **4 843** |
| Local | **28** | **3 524** | **1 099** | | | **37** | | **38** | | **4 726** |
| Foreign | **49** | **64** | | | | | | **4** | | **117** |
| **Total assets bearing credit risk** | **1 689** | **29 940** | **9 540** | **9 891** | **1 810** | **2 882** | **635** | **25 674** | **40 898** | **122 959** |

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.5 Credit exposure (continued)

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

| **Company** **Rm** | Above A- | BBB+ | BBB | BBB- | BB+ | BB | BB- and below | Not rated | Pooled funds | Total carrying value |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | | | | |
| Debt instruments | 6 752 | 12 078 | 2 427 | 106 | 1 268 | 1 408 | 32 | 515 | 28 657 | 53 243 |
| – Listed preference shares – local | | 425 | 248 | 25 | 526 | 93 | 7 | | | 1 324 |
| – Listed preference shares – foreign | | | | 9 | | | | | | 9 |
| – Unlisted preference shares | | | 498 | | | | | 117 | | 615 |
| – Listed term deposits | 5 882 | 5 328 | 775 | 22 | 592 | 118 | 5 | 64 | | 12 786 |
| Local | 5 322 | 4 756 | 733 | 22 | 423 | 118 | 5 | 64 | | 11 443 |
| Foreign | 560 | 572 | 42 | | 169 | | | | | 1 343 |
| – Unlisted term deposits | 870 | 6 325 | 906 | 50 | 150 | 1 197 | 20 | 151 | | 9 669 |
| Local | 360 | 6 325 | 906 | 50 | 150 | 1 154 | 20 | 151 | | 9 116 |
| Foreign | 510 | | | | | 43 | | | | 553 |
| – Loans | | | | | | | | 183 | | 183 |
| – Mutual funds – debt instruments | | | | | | | | | 28 657 | 28 657 |
| Local | | | | | | | | | 20 974 | 20 974 |
| Foreign | | | | | | | | | 7 683 | 7 683 |
| Investments policies – mixed asset classes | | | | | | | | | 23 303 | 23 303 |
| Prepayments, insurance and other receivables – Local | 19 | 13 | 6 | 40 | 10 | | | 1 876 | | 1 964 |
| – Accrued income | | 13 | 6 | | | | | 25 | | 44 |
| – Reinsurance recoveries | 19 | | | 40 | 10 | | | 65 | | 134 |
| – Other | | | | | | | | 1 786 | | 1 786 |
| Reinsurance assets | 34 | | | | 365 | | | 32 | | 431 |
| Derivatives and collateral deposits | 1 755 | 3 997 | 261 | | | 124 | | | | 6 137 |
| Loan receivables from joint ventures | | | | | | | | 4 | | 4 |
| Cash and cash equivalents | 6 | 1 397 | 472 | | | | | 177 | | 2 052 |
| Local | 6 | 1 397 | 472 | | | | | 60 | | 1 935 |
| Foreign | | | | | | | | 117 | | 117 |
| **Total assets bearing credit risk** | 8 566 | 17 485 | 3 166 | 146 | 1 643 | 1 532 | 32 | 2 604 | 51 960 | 87 134 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

**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.

***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 and company are 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 ratings were undertaken. However at any one time there will always be some 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.

***Pooled funds***

The group and company invests in mutual funds through which it is also exposed to credit risk of the underlying assets in which the mutual funds are invested. The group and company's exposure to mutual funds are 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 and company is exposed to counterparty credit risk in respect of investment policies as well as the underlying debt instruments supporting the valuation of the policy.

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

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.6 Credit risk

#### *1.6.1 Credit assessment changes recognised in profit or loss*

Fair value instruments

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

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

For 2013, the change in the fair value movement recognised in profit or loss, with respect to unlisted debt instruments in a non-active market is R30 million negative (2012: positive R44 million) for the group and R30 million negative (2012: positive R41 million) for the company.

#### *1.6.2 Impairments*

The table below indicates the impairments raised against financial assets.

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| *Loans* | | | | |
| Gross carrying value | **1 016** | 942 | **1 016** | 183 |
| Less: Accumulated impairment | **(39)** | (29) | **(39)** | |
| Net carrying value | **977** | 913 | **977** | 183 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)
#### 1.6 Credit risk (continued)
##### *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.

| Group | Overall group investment 2013 Rm | Exposure to Standard Bank 2013 Rm | 2013 % | Overall group investment Restated 2012 Rm | Exposure to Standard Bank Restated 2012 Rm | Restated 2012 % |
|---|---|---|---|---|---|---|
| Equity instruments | **68 641** | **914** | **1,3** | 61 944 | 922 | 1,5 |
| Preference shares | **2 629** | **202** | **7,7** | 2 621 | 352 | 13,4 |
| Term deposits and loans | **58 687** | **9 949** | **17,0** | 56 775 | 8 621 | 15,2 |
| Cash and cash equivalents | **5 073** | **3 382** | **66,7** | 3 682 | 2 453 | 66,6 |
| Derivative assets | **4 938** | **868** | **17,6** | 6 106 | 619 | 10,1 |
| Derivative collateral deposits | **1 431** | **826** | **57,7** | 784 | 317 | 40,4 |
| Total asset exposure to Standard Bank | **141 399** | **16 141** | **11,4** | 131 912 | 13 284 | 10,1 |
| Derivative liabilities | **(4 844)** | **(1 271)** | **26,2** | (5 403) | (1 835) | 34,0 |
| **Total exposure to Standard Bank** | **136 555** | **14 870** | **10,9** | 126 509 | 11 449 | 9,0 |

| Company | Overall company investment 2013 Rm | Exposure to Standard Bank 2013 Rm | 2013 % | Overall company investment Restated 2012 Rm | Exposure to Standard Bank Restated 2012 Rm | Restated 2012 % |
|---|---|---|---|---|---|---|
| Equity instruments | **65 338** | **693** | **1,1** | 52 157 | 660 | 1,3 |
| Preference shares | **2 629** | **188** | **7,2** | 1 948 | 179 | 9,2 |
| Term deposits and loans | **40 493** | **6 169** | **15,2** | 22 638 | 5 633 | 24,9 |
| Cash and cash equivalents | **4 843** | **2 196** | **45,3** | 2 052 | 1 406 | 68,5 |
| Derivative assets | **4 893** | **868** | **17,7** | 5 383 | 2 164 | 40,2 |
| Derivative collateral deposits | **1 431** | **826** | **57,7** | 754 | 291 | 38,6 |
| Total asset exposure to Standard Bank | **119 627** | **10 940** | **9,1** | 84 932 | 10 333 | 12,2 |
| Derivative liabilities | **(4 844)** | **(1 271)** | **26,2** | (5 183) | (1 696) | 32,7 |
| **Total exposure to Standard Bank** | **114 783** | **9 669** | **8,4** | 79 749 | 8 637 | 10,8 |

The group and the company invests in various structured entities that are credit enhanced by Standard Bank. Total value of these investments is R1 224 million (2012: R1 740 million) for the group and R1 224 million (2012: R985 million) for the company.

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

1. **Risk disclosures** (continued)
   1.6 **Credit risk** (continued)
   ***1.6.4 Collateral***

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

| Group<br>Rm | Unsecured | Secured | Total exposure | Netting agreements | Exposure after netting | Collateral coverage relative to secured exposure<br>Less than 100% | Greater than 100% |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Debt instruments | **83 227** | **977** | **84 204** | | **84 204** | | **977** |
| Listed preference shares on the JSE or foreign exchanges | **1 489** | | **1 489** | | **1 489** | | |
| Unlisted preference shares | **1 140** | | **1 140** | | **1 140** | | |
| Listed term deposits on BESA, JSE or foreign exchanges | **42 196** | | **42 196** | | **42 196** | | |
| Loans | | **977** | **977** | | **977** | | **977** |
| Unlisted term deposits | **15 514** | | **15 514** | | **15 514** | | |
| Mutual funds – debt instruments | **22 888** | | **22 888** | | **22 888** | | |
| Investment policies | **25 645** | | **25 645** | | **25 645** | | |
| Derivatives | **4 938** | | **4 938** | **(4 671)** | **267** | | |
| Derivative collateral deposits | **1 431** | | **1 431** | | **1 431** | | |
| Reinsurance assets | **1 126** | | **1 126** | | **1 126** | | |
| Prepayments, insurance and other receivables | **2 464** | **59** | **2 523** | | **2 523** | | **59** |
| Loan receivable from joint ventures | **4** | | **4** | | **4** | | |
| Cash and cash equivalents | **5 073** | | **5 073** | | **5 073** | | |
| | **123 908** | **1 036** | **124 944** | **(4 671)** | **120 273** | | **1 036** |
| Restated | | | | | | | |
| 2012 | | | | | | | |
| Debt instruments | 79 058 | 913 | 79 971 | | 79 971 | | 913 |
| Listed preference shares on the JSE or foreign exchanges | 2 006 | | 2 006 | | 2 006 | | |
| Unlisted preference shares | 615 | | 615 | | 615 | | |
| Listed term deposits on BESA, JSE or foreign exchanges | 38 677 | | 38 677 | | 38 677 | | |
| Loans | | 913 | 913 | | 913 | | 913 |
| Unlisted term deposits | 17 185 | | 17 185 | | 17 185 | | |
| Mutual funds – debt instruments | 20 575 | | 20 575 | | 20 575 | | |
| Investment policies | 22 681 | | 22 681 | | 22 681 | | |
| Derivatives | 6 106 | | 6 106 | (5 619) | 487 | | |
| Derivative collateral deposits | 784 | | 784 | (463) | 321 | | |
| Reinsurance assets | 966 | | 966 | | 966 | | |
| Prepayments, insurance and other receivables | 2 532 | 59 | 2 591 | | 2 591 | | 59 |
| Loan receivable from joint ventures | 4 | | 4 | | 4 | | |
| Cash and cash equivalents | 3 682 | | 3 682 | | 3 682 | | |
| | 115 813 | 972 | 116 785 | (6 082) | 110 703 | | 972 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.6 Credit risk** (continued)

***1.6.4 Collateral*** *(continued)*

| Company<br>Rm | Unsecured | Secured | Total exposure | Netting agreements | Exposure after netting | Collateral coverage relative to secured exposure<br>Less than 100% | Greater than 100% |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Debt instruments | **83 043** | **977** | **84 020** | | **84 020** | | **977** |
| Listed preference shares on the JSE or foreign exchanges | **1 489** | | **1 489** | | **1 489** | | |
| Unlisted preference shares | **1 140** | | **1 140** | | **1 140** | | |
| Listed term deposits on BESA, JSE or foreign exchanges | **24 002** | | **24 002** | | **24 002** | | |
| Loans | | **977** | **977** | | **977** | | **977** |
| Unlisted term deposits | **15 514** | | **15 514** | | **15 514** | | |
| Mutual funds – debt instruments | **40 898** | | **40 898** | | **40 898** | | |
| Investment policies | **24 578** | | **24 578** | | **24 578** | | |
| Derivatives | **4 893** | | **4 893** | **(4 671)** | **222** | | |
| Derivative collateral deposits | **1 431** | | **1 431** | | **1 431** | | |
| Reinsurance assets | **1 120** | | **1 120** | | **1 120** | | |
| Prepayments, insurance and other receivables | **2 011** | **59** | **2 070** | | **2 070** | | **59** |
| Loans receivables from joint ventures | **4** | | **4** | | **4** | | |
| Cash and cash equivalents | **4 843** | | **4 843** | | **4 843** | | |
| | **121 923** | **1 036** | **122 959** | **(4 671)** | **118 288** | | **1 036** |
| 2012 | | | | | | | |
| Debt instruments | 53 060 | 183 | 53 243 | | 53 243 | | 183 |
| Listed preference shares on the JSE or foreign exchanges | 1 333 | | 1 333 | | 1 333 | | |
| Unlisted preference shares | 615 | | 615 | | 615 | | |
| Listed term deposits on BESA, JSE or foreign exchanges | 12 786 | | 12 786 | | 12 786 | | |
| Loans | | 183 | 183 | | 183 | | 183 |
| Unlisted term deposits | 9 669 | | 9 669 | | 9 669 | | |
| Mutual funds – debt instruments | 28 657 | | 28 657 | | 28 657 | | |
| Investment policies | 23 303 | | 23 303 | | 23 303 | | |
| Derivatives | 5 383 | | 5 383 | (5 179) | 204 | | |
| Derivative collateral deposits | 754 | | 754 | (463) | 291 | | |
| Reinsurance assets | 431 | | 431 | | 431 | | |
| Prepayments, insurance and other receivables | 1 905 | 59 | 1 964 | | 1 964 | | 59 |
| Loans receivables from joint ventures | 4 | | 4 | | 4 | | |
| Loans receivables from subsidiaries | 79 | | 79 | | 79 | | |
| Cash and cash equivalents | 2 052 | | 2 052 | | 2 052 | | |
| | 86 971 | 242 | 87 213 | (5 642) | 81 571 | | 242 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.6 Credit risk** (continued)

***1.6.5 Offsetting***

The group and company does not have any financial assets or financial liabilities that are currently subject to offsetting in accordance with IAS 32 *Financial Instruments: Presentation*.

**Group**

However of the gross derivatives assets recognised of R6 369 million (31 December 2012: R6 890 million) and gross derivative liabilities R4 844 million (31 December 2012: R6 082 million), derivative assets of R6 265 million (31 December 2012: R6 890 million) and derivative liabilities of R4 671 million (31 December 2012: R6 082 million) are subject to master netting arrangements, with a net exposure of R1 594 million (31 December 2012: R808 million).

**Company**

However of the gross derivatives assets recognised of R6 324 million (31 December 2012: R6 137 million) and gross derivative liabilities R4 844 million (31 December 2012: R5 642 million), derivative assets of R6 265 million (31 December 2012: R6 137 million) and derivative liabilities of R4 671 million (31 December 2012: R5 642 million) are subject to master netting arrangements, with a net exposure of R1 594 million (31 December 2012: R495 million).

**1.7 Maturity profile of liabilities**

***1.7.1 Maturity profiles of the company's financial instrument liabilities***

The tables below summarises the maturity profile of the financial liabilities of the group and 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.

| **Group**<br>**Contractual cash flows (Rm)** | **0 – 3 months**[1] | **3 – 12 months** | **1 – 5 years** | **6 – 10 years** | **Total** | **Total carrying value** |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| *At amortised cost* | | | | | | |
| Subordinated notes | **85** | **160** | **2 865** | **1 183** | **4 293** | **3 069** |
| Third party financial liabilities arising on consolidation of mutual funds | **461** | | | | **461** | **461** |
| Insurance and other payables | **8 375** | **60** | **49** | **1** | **8 485** | **8 485** |
| Total | **8 921** | **220** | **2 914** | **1 184** | **13 239** | **12 015** |
| Percentage proportion (%) | **67** | **2** | **22** | **9** | **100** | |
| Restated | | | | | | |
| 2012 | | | | | | |
| *Held for trading* | | | | | | |
| Collateral deposits | 679 | | | | 679 | 679 |
| *At amortised cost* | | | | | | |
| Subordinated notes | 77 | 76 | 2 613 | | 2 766 | 2 037 |
| Third party financial liabilities arising on consolidation of mutual funds | 379 | | | | 379 | 379 |
| Insurance and other payables | 6 544 | 75 | 36 | | 6 655 | 6 655 |
| Total | 7 679 | 151 | 2 649 | | 10 479 | 9 750 |
| Percentage proportion (%) | 73 | 2 | 25 | | 100 | |

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

1. **Risk disclosures** (continued)

**1.7 Maturity profile of liabilities** (continued)

***1.7.1 Maturity profiles of the company's financial instrument liabilities*** *(continued)*

| **Company** Contractual cash flows (Rm) | 0 – 3 months[1] | 3 – 12 months | 1 – 5 years | 6 – 10 years | Total | Total carrying value |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| *At amortised cost* | | | | | | |
| Subordinated notes | **85** | **160** | **2 865** | **1 183** | **4 293** | **3 069** |
| Insurance and other payables | **8 074** | **53** | **46** | **1** | **8 174** | **8 174** |
| Total | **8 159** | **213** | **2 911** | **1 184** | **12 467** | **11 243** |
| Percentage proportion (%) | **65** | **2** | **23** | **10** | **100** | |
| 2012 | | | | | | |
| *Held for trading* | | | | | | |
| Collateral deposits | 459 | | | | 459 | 459 |
| *At amortised cost* | | | | | | |
| Subordinated notes | 77 | 76 | 2 613 | | 2 766 | 2 037 |
| Insurance and other payables | 4 537 | 75 | 36 | | 4 648 | 4 648 |
| Total | 5 073 | 151 | 2 649 | | 7 873 | 7 144 |
| Percentage proportion (%) | 64 | 2 | 34 | | 100 | |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 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.

| **Group** **Expected cash flows** | **Investment contracts** | | **Investment with DPF** | | **Insurance contracts** | |
|---|---|---|---|---|---|---|
| **Unit liabilities** | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| Within 1 year | **4 236** | 6 569 | **389** | 229 | **13 461** | 14 101 |
| 2 – 5 years | **9 604** | 9 206 | **183** | 145 | **51 305** | 43 122 |
| 6 – 10 years | **9 000** | 8 642 | **690** | 279 | **9 879** | 12 115 |
| 11 – 20 years | **16 901** | 15 044 | **1 739** | 619 | **36 127** | 31 877 |
| Over 20 years | **31 726** | 26 084 | **4 729** | 1 537 | **39 799** | 30 681 |
| **Total unit liabilities** | **71 467** | 65 545 | **7 730** | 2 809 | **150 571** | 131 896 |
| **Non-unit liabilities** | | | | | | |
| Within 1 year | **556** | 570 | | 11 | **1 763** | 3 381 |
| 2 – 5 years | **1 301** | 1 261 | | (1) | **12 915** | 12 825 |
| 6 – 10 years | **190** | 236 | | (1) | **7 249** | 7 923 |
| 11 – 20 years | **27** | 16 | | | **18 478** | 17 051 |
| Over 20 years | **13** | (6) | | | **47 117** | 39 707 |
| Effect of discounting cash flows | **(380)** | (325) | | 2 | **(58 209)** | (48 623) |
| **Total non-unit liabilities** | **1 707** | 1 752 | | 11 | **29 313** | 32 264 |
| **Total policyholders liabilities** | **73 174** | 67 297 | **7 730** | 2 820 | **179 884** | 164 160 |

| **Company** **Expected cash flows** | **Investment contracts** | | **Investment with DPF** | | **Insurance contracts** | |
|---|---|---|---|---|---|---|
| **Unit liabilities** | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| Within 1 year | **4 236** | 4 994 | **389** | 228 | **13 461** | 14 194 |
| 2 – 5 years | **9 604** | 9 459 | **183** | 145 | **51 305** | 36 151 |
| 6 – 10 years | **9 000** | 7 832 | **690** | 280 | **9 879** | 11 460 |
| 11 – 20 years | **16 901** | 15 497 | **1 739** | 619 | **36 127** | 28 331 |
| Over 20 years | **31 726** | 34 261 | **4 729** | 1 537 | **39 799** | 13 568 |
| **Total unit liabilities** | **71 467** | 72 043 | **7 730** | 2 809 | **150 571** | 103 704 |
| **Non-unit liabilities** | | | | | | |
| Within 1 year | **556** | 570 | | | **1 770** | 508 |
| 2 – 5 years | **1 301** | 1 261 | | (1) | **12 961** | 2 806 |
| 6 – 10 years | **190** | 236 | | (1) | **7 279** | 5 640 |
| 11 – 20 years | **27** | 16 | | (1) | **18 503** | 13 379 |
| Over 20 years | **13** | (6) | | | **47 125** | 28 170 |
| Effect of discounting cash flows | **(380)** | (325) | | 2 | **(58 254)** | (34 525) |
| **Total non-unit liabilities** | **1 707** | 1 752 | | (1) | **29 384** | 15 978 |
| **Total policyholders liabilities** | **73 174** | 73 795 | **7 730** | 2 808 | **179 955** | 119 682 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)

#### 1.7 Maturity profile of liabilities (continued)

##### *1.7.3 Cash surrender values*

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

| Group Rm | 2013 Carrying value | 2013 Surrender value | 2012 Carrying value | 2012 Surrender value |
|---|---|---|---|---|
| Insurance contracts | **179 884** | **153 784** | 164 160 | 137 282 |
| Investment contracts with DPF | **7 730** | **7 078** | 2 820 | 2 437 |
| Investment contracts | **73 174** | **72 323** | 67 297 | 66 687 |
| **Total policyholder liabilities** | **260 788** | **233 185** | 234 277 | 206 406 |

| Company Rm | 2013 Carrying value | 2013 Surrender value | 2012 Carrying value | 2012 Surrender value |
|---|---|---|---|---|
| Insurance contracts | **179 955** | **153 784** | 119 682 | 100 220 |
| Investment contracts with DPF | **7 730** | **7 078** | 2 808 | 2 425 |
| Investment contracts | **73 174** | **72 323** | 73 795 | 73 212 |
| **Total policyholder liabilities** | **260 859** | **233 185** | 196 285 | 175 857 |

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.

#### 1.8 Fair value hierarchy

##### *1.8.1 Asset hierarchy*

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. The company adopted the amendments to IFRS 7 with effect from 1 January 2009 and IFRS 13 fair value measurement with effect from 1 January 2013. 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.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Group | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| **2013** | | | | | |
| *Assets* | | | | | |
| Equity instruments | **68 584** | **7** | **450** | | **69 041** |
| Listed ordinary shares on the JSE | **68 208** | | | | **68 208** |
| Foreign equities listed on an exchange other than the JSE | **376** | | | | **376** |
| Unlisted equities | | **7** | **50** | | **57** |
| Interest in joint ventures – measured at fair value | | | **400** | | **400** |
| Debt instruments | **40 855** | **19 356** | **128** | | **60 339** |
| Preference shares listed on the JSE or foreign exchanges | **1 489** | | | | **1 489** |
| Unlisted preference shares | | **1 012** | **128** | | **1 140** |
| Listed term deposits on BESA, JSE or foreign exchanges | **39 366** | **2 830** | | | **42 196** |
| Unlisted term deposits | | **15 514** | | | **15 514** |
| Mutual funds | | **99 224** | **246** | | **99 470** |
| Active market | | **97 048** | | | **97 048** |
| Property | | **4 992** | | | **4 992** |
| Equity | | **38 854** | | | **38 854** |
| Interest-bearing instruments | | **22 888** | | | **22 888** |
| Mixed | | **30 314** | | | **30 314** |
| Non-active market | | **2 176** | **246** | | **2 422** |
| Equity | | **2 176** | **90** | | **2 266** |
| Mixed | | | **156** | | **156** |
| Investment policies | | **25 645** | | | **25 645** |
| Derivatives | | **4 938** | | | **4 938** |
| Equity | | **1 226** | | | **1 226** |
| Interest rate | | **3 712** | | | **3 712** |
| Properties (investment and owner-occupied) | | | **29 809** | | **29 809** |
| Assets subject to fair value hierarchy analysis | **109 439** | **149 170** | **30 633** | | **289 242** |
| Assets not subject to fair value hierarchy analysis | | | | | |
| Derivatives collateral deposits | | | | | **1 431** |
| Loans | | | | **977** | **977** |
| Reinsurance assets | | | | | **1 126** |
| Prepayments, insurance and other receivables | | | | | **2 523** |
| Loan receivables from joint ventures | | | | **4** | **4** |
| Cash and cash equivalents | | | | | **5 073** |
| | **109 439** | **149 170** | **30 633** | **981** | **300 376** |

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.8 Fair value hierarchy (continued)

#### *1.8.1 Asset hierarchy (continued)*

| Group | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| Restated | | | | | |
| 2012 | | | | | |
| *Assets* | | | | | |
| Equity instruments | 61 786 | | 532 | | 62 318 |
| Listed ordinary shares on the JSE | 61 601 | | | | 61 601 |
| Foreign equities listed on an exchange other than the JSE | 185 | | | | 185 |
| Unlisted equities | | | 158 | | 158 |
| Interest in joint ventures – measured at fair value | | | 374 | | 374 |
| Debt instruments | 40 683 | 16 916 | 884 | | 58 483 |
| Preference shares listed on the JSE | 2 006 | | | | 2 006 |
| Unlisted preference shares | | 498 | 117 | | 615 |
| Listed term deposits on BESA, JSE or foreign exchanges | 38 677 | | | | 38 677 |
| Unlisted term deposits | | 16 418 | 767 | | 17 185 |
| Mutual funds | 3 855 | 79 001 | 1 364 | | 84 220 |
| Active market | 3 855 | 79 001 | | | 82 856 |
| Property | 398 | 5 522 | | | 5 920 |
| Equity | 3 256 | 31 623 | | | 34 879 |
| Interest-bearing instruments | 191 | 20 384 | | | 20 575 |
| Mixed | 10 | 21 472 | | | 21 482 |
| Non-active market | | | 1 364 | | 1 364 |
| Equity | | | 1 364 | | 1 364 |
| Investment policies | | 22 681 | | | 22 681 |
| Derivatives | | 6 106 | | | 6 106 |
| Equity | | 96 | | | 96 |
| Interest rate | | 5 966 | | | 5 966 |
| Foreign exchange | | 44 | | | 44 |
| Properties | | | 26 630 | | 26 630 |
| Assets subject to fair value hierarchy analysis | 106 324 | 124 704 | 29 410 | | 260 438 |
| Assets not subject to fair value hierarchy analysis | | | | | |
| Derivatives collateral deposits | | | | | 784 |
| Loans | | | | 913 | 913 |
| Reinsurance assets | | | | | 966 |
| Prepayments, insurance and other receivables | | | | | 2 591 |
| Loan receivables from joint ventures | | | | 4 | 4 |
| Cash and cash equivalents | | | | | 3 682 |
| | 106 324 | 124 704 | 29 410 | 917 | 269 378 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Company | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| **2013** | | | | | |
| *Assets* | | | | | |
| Equity instruments | **65 281** | **7** | **450** | | **65 738** |
| Listed ordinary shares on the JSE | **65 008** | | | | **65 008** |
| Foreign equities listed on an exchange other than the JSE | **273** | | | | **273** |
| Unlisted equities | | **7** | **50** | | **57** |
| Interest in joint ventures – measured at fair value | | | **400** | | **400** |
| Debt instruments | **24 148** | **17 869** | **128** | | **42 145** |
| Preference shares listed on the JSE or foreign exchanges | **1 489** | | | | **1 489** |
| Unlisted preference shares | | **1 012** | **128** | | **1 140** |
| Listed term deposits on BESA,JSE or foreign exchanges | **22 659** | **1 343** | | | **24 002** |
| Unlisted term deposits | | **15 514** | | | **15 514** |
| Mutual funds | | **121 241** | **636** | | **121 877** |
| Active market | | **116 690** | | | **116 690** |
| Property | | **5 110** | | | **5 110** |
| Equity | | **41 815** | | | **41 815** |
| Interest-bearing instruments | | **39 452** | | | **39 452** |
| Mixed | | **30 313** | | | **30 313** |
| Non-active market | | **4 551** | **636** | | **5 187** |
| Equity | | **2 176** | **90** | | **2 266** |
| Interest-bearing instruments | | **1 446** | | | **1 446** |
| Mixed | | **929** | **546** | | **1 475** |
| Investment policies | | **24 578** | | | **24 578** |
| Derivatives | | **4 893** | | | **4 893** |
| Equity | | **1 181** | | | **1 181** |
| Interest rate | | **3 712** | | | **3 712** |
| Properties (investment and owner-occupied) | | | **26 390** | | **26 390** |
| Assets subject to fair value hierarchy analysis | **89 429** | **168 588** | **27 604** | | **285 621** |
| Assets not subject to fair value hierarchy analysis | | | | | |
| Derivatives collateral deposits | | | | | **1 431** |
| Loans | | | | **977** | **977** |
| Reinsurance assets | | | | | **1 120** |
| Prepayments, insurance and other receivables | | | | | **2 070** |
| Loan receivables from joint ventures | | | | **4** | **4** |
| Loan receivables from subsidiares | | | | **113** | **113** |
| Cash and cash equivalents | | | | | **4 843** |
| | **89 429** | **168 588** | **27 604** | **1 094** | **296 179** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Company | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| Restated 2012 | | | | | |
| *Assets* | | | | | |
| Equity instruments | 52 088 | | 443 | | 52 531 |
| Listed ordinary shares on the JSE | 52 000 | | | | 52 000 |
| Foreign equities listed on an exchange other than the JSE | 88 | | | | 88 |
| Unlisted equities | | | 69 | | 69 |
| Interest in joint ventures – measured at fair value | | | 374 | | 374 |
| Debt instruments | 14 119 | 9 400 | 884 | | 24 403 |
| Preference shares listed on the JSE | 1 333 | | | | 1 333 |
| Unlisted preference shares | | 498 | 117 | | 615 |
| Listed term deposits on BESA,JSE or foreign exchanges | 12 786 | | | | 12 786 |
| Unlisted term deposits | | 8 902 | 767 | | 9 669 |
| Mutual funds | 3 392 | 80 350 | 1 690 | | 85 432 |
| Active market | 3 392 | 80 350 | | | 83 742 |
| Property | 6 | 5 535 | | | 5 541 |
| Equity | 3 371 | 25 171 | | | 28 542 |
| Interest-bearing instruments | 15 | 28 642 | | | 28 657 |
| Mixed | | 21 002 | | | 21 002 |
| Non-active market | | | 1 690 | | 1 690 |
| Equity | | | 1 690 | | 1 690 |
| Investment policies | | 23 303 | | | 23 303 |
| Derivatives | | 5 383 | | | 5 383 |
| Equity | | (22) | | | (22) |
| Interest rate | | 5 361 | | | 5 361 |
| Foreign exchange | | 44 | | | 44 |
| Properties | | | 23 744 | | 23 744 |
| Assets subject to fair value hierarchy analysis | 69 599 | 118 436 | 26 761 | | 214 796 |
| Assets not subject to fair value hierarchy analysis | | | | | |
| Derivatives collateral deposits | | | | | 754 |
| Loans | | | | 183 | 183 |
| Reinsurance assets | | | | | 431 |
| Prepayments, insurance and other receivables | | | | | 1 964 |
| Loan receivables from joint ventures | | | | 4 | 4 |
| Loan receivables from subsidiares | | | | 79 | 79 |
| Cash and cash equivalents | | | | | 2 052 |
| | 69 599 | 118 436 | 26 761 | 266 | 220 263 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)
#### 1.8 Fair value hierarchy (continued)
##### *1.8.2 Fair value disclosure of financial assets and financial liabilities that are measured at amortised cost*

| Group | 2013 Amortised cost Rm | 2013 Fair value Rm | 2012 Amortised cost Rm | 2012 Fair value Rm |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | **977** | **862** | 913 | 813 |
| Loans to joint ventures[1] | **4** | | 4 | |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | **3 069** | **3 013** | 2 037 | 2 206 |
| Redeemable preference shares | **5** | **5** | | |

[1] *The fair value of the loan receivable is less than R1 million (2012: less than R1 million) and is long-term in nature.*

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

| Group 2013 | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | | | **862** | **862** |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | | **3 013** | | **3 013** |
| Redeemable preference shares | | | **5** | **5** |
| 2012 | | | | |
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | | | 813 | 813 |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | | 2 206 | | 2 206 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 1. Risk disclosures (continued)
#### 1.8 Fair value hierarchy (continued)
##### *1.8.2 Fair value disclosure of financial assets and financial liabilities that are measured at amortised cost*

| Company | 2013 Amortised cost Rm | 2013 Fair value Rm | 2012 Amortised cost Rm | 2012 Fair value Rm |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | **977** | **862** | 183 | 170 |
| Loans to joint ventures[1] | **4** | | 4 | |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | **3 069** | **3 013** | 2 037 | 2 206 |
| Redeemable preference shares | **5** | **5** | | |

[1] *The fair value of the loan receivable is less than R1 million (2012: less than R1 million) and is long-term in nature.*

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

| Company 2013 | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | | | **862** | **862** |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | | **3 013** | | **3 013** |
| Redeemable preference shares | | | **5** | **5** |
| 2012 | | | | |
| **Financial assets measured at amortised cost** | | | | |
| Loans and receivables | | | 170 | 170 |
| **Financial liabilities measured at amortised cost** | | | | |
| Subordinated notes | | 2 206 | | 2 206 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.8 Fair value hierarchy** (continued)

***1.8.3 Reconciliation of level 3 assets***

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| Balance at beginning of year | **29 410** | 29 407 | **26 760** | 25 811 |
| Fair value adjustment recognised in profit or loss as part of investment gain[1] | **2 437** | 1 695 | **2 116** | 1 599 |
| Fair value adjustment recognised in other comprehensive income | **33** | (197) | **33** | (197) |
| Additions/advances | **1 656** | 1 536 | **1 479** | 1 435 |
| Disposals/repayments | **(2 878)** | (3 043) | **(2 966)** | (1 888) |
| Transfer of business arising from life licence rationalisation | | | **182** | |
| Business acquisition/(disposals) | **(20)** | 11 | | |
| Foreign currency translation | **(5)** | 1 | | |
| Balance at end of year | **30 633** | 29 410 | **27 604** | 26 760 |
| Investment and owner-occupied properties | **29 809** | 26 630 | **26 390** | 23 744 |
| Financial instruments – equity and mutual funds | **696** | 1 896 | **1 086** | 2 132 |
| – debt | **128** | 884 | **128** | 884 |

[1] *Included in the fair value adjustment is a R2 328 million (company: R1 946 million) unrealised gain.*

***Investment and owner-occupied property***

Investment properties (including owner-occupied properties) fair values were derived by determining sustainable net rental income, to which an appropriate capitalisation rate is applied. Capitalisation rates are adjusted for occupancy levels, age of the building, location and expected future benefit of recent alterations.

The capitalisation rates applied at 31 December 2013 range between 7,0% to 11,0%. This compares to the ten year government yield of 8,14%. The non observable adjustments included in the valuation can therefore be referenced to the variance to the ten year government rate.

The table below indicates the sensitivity of the aggregate market values for a 0,5% change in the capitalisation rate. It should be noted that as both the investment and the owner-occupied properties are entirely linked to policyholder benefits (group and company) and consortium non-controlling interests (group) there is no impact to company or group ordinary shareholder comprehensive income or equity for any changes in the fair value measurement.

| **Group** | | **Change in capitalisation rate** | |
|---|---|---|---|
| **2013** | **Rm** | **0,5% increase** | **0,5% decrease** |
| Properties between 7,0 – 9,0% capitalisation rate | **22 550** | **21 083** | **24 237** |
| Properties between 9,1 – 11,0% capitalisation rate | **7 258** | **6 868** | **7 693** |
| **Total** | **29 808** | **27 951** | **31 930** |

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.8 Fair value hierarchy (continued)

#### *1.8.3 Reconciliation of level 3 assets*

| **Company** | | **Change in capitalisation rate** | |
|---|---|---|---|
| **2013** | **Rm** | **0,5% increase** | **0,5% decrease** |
| Properties between 7,0 – 9,0% capitalisation rate | **19 419** | **18 137** | **20 893** |
| Properties between 9,1 – 11,0% capitalisation rate | **6 970** | **6 593** | **7 389** |
| **Total** | **26 389** | **24 730** | **28 282** |

***Financial instrument assets***

Equities and mutual funds R696 million (company: R1 086 million) – earnings multiples applied of 9 times.

Debt instruments R128 million (group and company) – discount rates of 10% applied.

Approximately 81% (company: 87%) of these assets are allocated to policyholder unit linked portfolios and therefore changes in estimates would be offset by equal changes in liability values.

The net shareholder exposure is approximately R159 million (company: R159 million). Changes to discount rates applied of 0,5% would result in between positive R7 million to negative R6 million (group and company) after taxation net impact to profit or loss and shareholder funds.

As the financial instruments intercompany loan assets of R263 million (2012: R79 million) in the company are currently interest free and repayable on demand the carrying value cannot be below the demand deposit floor amount at reporting date. Consequently sensitivity analysis on the carrying value of these assets and liabilities is not relevant.

#### *1.8.4 Group's valuation process*

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

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.8 Fair value hierarchy** (continued)

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

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.8 Fair value hierarchy** (continued)

***12.8 Valuation techniques used in determining the fair value of assets and liabilities classified within Level 3***

| Instrument | Valuation basis/techniques | Main assumptions |
|---|---|---|
| Investment and owner-occupied properties | DCF | Capitalisation rate<br>Price per square meter<br>Long-term net operating income margin<br>Vacancies<br>Market rental trends (average net rental growth of between 2,3% – 2,5%)<br>Economic outlook<br>Location<br>Hotel income trends/inflation based<br>Hotel occupancy (range between 50% – 75%) |
| | Sale price (if held for sale) | Not applicable |
| Unlisted equities, including interest in joint ventures – measured at fair value | DCF/earnings multiple | Cost of capital<br>Bond and interbank swap interest rate curves<br>Consumer price index<br>Gross domestic product<br>If a property investment entity, then assumptions applied are as above under investment and owner-occupied propertiessorry still at work |
| | Recent arm's length transactions | Not applicable |
| Unlisted preference shares | DCF | Bond and interbank swap interest rate curves<br>Agreement interest curves<br>Issuer credit ratings<br>Liquidity spreads |
| | Recent arm's length transactions | Not applicable |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**1. Risk disclosures** (continued)

**1.8 Fair value hierarchy** (continued)

***1.8.6 Liability hierarchy***

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

| Group | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Investment contract liabilities | | **73 174** | | | **73 174** |
| Policyholders | | **73 174** | | | **73 174** |
| Third party liabilities arising on consolidation of mutual funds | | **461** | | | **461** |
| Derivatives | | **4 844** | | | **4 844** |
| Liabilities subject to fair value hierarchy analysis | | **78 479** | | | **78 479** |
| Liabilities not subject to fair value hierarchy analysis | | | | | |
| Insurance contracts | | | | | **179 884** |
| Investment contracts with DPF | | | | | **7 730** |
| Financial liabilities at amortised cost | | | | **3 074** | **3 074** |
| Insurance and other payables | | | | | **8 485** |
| | | **78 479** | | **3 074** | **277 652** |
| Restated 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 | | 379 | | | 379 |
| Derivatives | | 5 403 | | | 5 403 |
| Liabilities subject to fair value hierarchy analysis | | 73 069 | 10 | | 73 079 |
| 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 | | | | | 6 655 |
| | | 73 069 | 10 | 2 037 | 249 451 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

1. **Risk disclosures** (continued)
   1.8 **Fair value hierarchy** (continued)
   ***1.8.6 Liability hierarchy** (continued)*

| Company | Level 1 Rm | Level 2 Rm | Level 3 Rm | Held at amortised cost Rm | Total Rm |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Investment contract liabilities | | **73 174** | | | **73 174** |
| Policyholders | | **73 174** | | | **73 174** |
| Derivatives | | **4 844** | | | **4 844** |
| Liabilities subject to fair value hierarchy analysis | | **78 018** | | | **78 018** |
| Liabilities not subject to fair value hierarchy analysis | | | | | |
| Insurance contracts | | | | | **179 955** |
| Investment contracts with DPF | | | | | **7 730** |
| Financial liabilities at amortised cost | | | | **3 074** | **3 074** |
| Insurance and other payables | | | | | **8 174** |
| | | **78 018** | | **3 074** | **276 951** |
| 2012 | | | | | |
| Investment contract liabilities | | 73 785 | 10 | | 73 795 |
| Policyholders | | 73 785 | | | 73 785 |
| Embedded derivatives | | | 10 | | 10 |
| Derivatives | | 5 183 | | | 5 183 |
| Liabilities subject to fair value hierarchy analysis | | 78 968 | 10 | | 78 978 |
| Liabilities not subject to fair value hierarchy analysis | | | | | |
| Insurance contracts | | | | | 119 682 |
| Investment contracts with DPF | | | | | 2 808 |
| Financial liabilities at amortised cost | | | | 2 037 | 2 037 |
| Derivative collateral deposit | | | | | 459 |
| Insurance and other payables | | | | | 4 648 |
| | | 78 968 | 10 | 2 037 | 208 612 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 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.*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

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.

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.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Group | Change in variable | Impact on policyholders liabilities | Impact on ordinary shareholders' equity and attributable profit after taxation |
|---|---|---|---|
| **31 December 2013 Assumption description** | **%** | **Rm** | **Rm** |
| *Insurance assumptions*[1] | | | |
| Mortality | | | |
| Assured lives | **+2** | **227** | **(163)** |
| | **-2** | **(228)** | **164** |
| Annuitant longevity | **+4**[2] | **226** | **(162)** |
| | **-4**[3] | **(217)** | **156** |
| Morbidity | **+5** | **361** | **(260)** |
| | **-5** | **(360)** | **259** |
| Withdrawals[4] | **+8** | **473** | **(341)** |
| | **-8** | **(536)** | **386** |
| Expense per policy | **+5** | **254** | **(183)** |
| | **-5** | **(254)** | **183** |
| *Market assumptions* | | | |
| Interest rate yield curve | **+12** | **(3 007)** | **(220)** |
| | **-12** | **3 541** | **143** |
| Option price volatilities | **+20** | **106** | **(55)** |
| | **-20** | **(74)** | **33** |
| Equity prices | **+15** | **18 454** | **1 185** |
| | **-15** | **(18 444)** | **(1 183)** |
| Rand exchange rates | **+12**[5] | **(3 862)** | **(536)** |
| | **-12**[6] | **3 873** | **533** |
| 31 December 2012 Assumption description | % | Rm | Rm |
| *Insurance assumptions* | | | |
| Mortality | | | |
| Assured lives | +2 | 319 | (230) |
| | -2 | (321) | 231 |
| Annuitant longevity | +4[2] | 233 | (162) |
| | -4[3] | (223) | 154 |
| Morbidity | +5 | 419 | (294) |
| | -5 | (419) | 295 |
| Withdrawals[7] | +8 | 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[5] | (3 061) | (512) |
| | -12[6] | 3 079 | 520 |

(1) *On certain classes of business management action is being taken to mitigate the impact of changes in assumptions on those classes of business. This action has been taken into account in these sensitivities.*
(2) *Annuitant life expectancy increases i.e. annuitant mortality reduces.*
(3) *Annuitant life expectancy reduces i.e. annuitant mortality increases.*
(4) *The impact from a major class of business, where withdrawals would reduce the overall impact of the stress, has been removed in line with management action being taken for that class.*
(5) *Strengthening of the rand.*
(6) *Weakening of the rand.*
(7) *Withdrawal rates on all classes of business increase. In some cases an increase in withdrawals reduces the overall impact.*

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 1. Risk disclosures (continued)

### 1.9 Sensitivity analysis (continued)

| Company | Change in variable | Impact on policyholders liabilities | Impact on ordinary shareholders' equity and attributable profit after taxation |
|---|---|---|---|
| **31 December 2013** | | | |
| **Assumption description** | **%** | **Rm** | **Rm** |
| *Insurance assumptions[1]* | | | |
| Mortality | | | |
| Assured lives | **+2** | **226** | **(163)** |
| | **-2** | **(227)** | **163** |
| Annuitant longevity | **+4(2)** | **226** | **(162)** |
| | **-4(3)** | **(217)** | **156** |
| Morbidity | **+5** | **360** | **(259)** |
| | **-5** | **(359)** | **259** |
| Withdrawals[4] | **+8** | **465** | **(335)** |
| | **-8** | **(526)** | **379** |
| Expense per policy | **+5** | **253** | **(182)** |
| | **-5** | **(253)** | **182** |
| *Market assumptions* | | | |
| Interest rate yield curve | **+12** | **(3 010)** | **(217)** |
| | **-12** | **3 544** | **141** |
| Option price volatilities | **+20** | **106** | **(55)** |
| | **-20** | **(74)** | **33** |
| Equity prices | **+15** | **18 454** | **1 185** |
| | **-15** | **(18 444)** | **(1 183)** |
| Rand exchange rates | **+12(5)** | **(3 862)** | **(536)** |
| | **-12(6)** | **3 873** | **533** |
| 31 December 2012 | | | |
| Assumption description | % | Rm | Rm |
| *Insurance assumptions* | | | |
| Mortality | | | |
| Assured lives | +2 | 278 | (200) |
| | -2 | (278) | 200 |
| Annuitant longevity | +4[2] | 108 | (78) |
| | -4[3] | (103) | 74 |
| Morbidity | +5 | 386 | (278) |
| | -5 | (387) | 278 |
| Withdrawals[7] | +8 | 187 | (135) |
| | -8 | (194) | 140 |
| Expense per policy | +5 | 153 | (110) |
| | -5 | (153) | 110 |
| *Market assumptions* | | | |
| Interest rate yield curve | +12 | (2 092) | (169) |
| | -12 | 2 496 | 103 |
| Option price volatilities | +20 | 187 | (110) |
| | -20 | (153) | 87 |
| Equity prices | +15 | 13 920 | 812 |
| | -15 | (13 854) | (819) |
| Rand exchange rates | +12[5] | (2 622) | (460) |
| | -12[6] | 2 638 | 470 |

(1) *On certain classes of business management action is being taken to mitigate the impact of changes in assumptions on those classes of business. This action has been taken into account in these sensitivities.*
(2) *Annuitant life expectancy increases i.e. annuitant mortality reduces.*
(3) *Annuitant life expectancy reduces i.e. annuitant mortality increases.*
(4) *The impact from a major class of business, where withdrawals would reduce the overall impact of the stress, has been removed in line with management action being taken for that class.*
(5) *Strengthening of the rand.*
(6) *Weakening of the rand.*
(7) *Withdrawal rates on all classes of business increase. In some cases an increase in withdrawals reduces the overall impact.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**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***

| Group | Rand denominated | | Foreign | | Total | |
|---|---|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| Equity instruments | **68 265** | 61 759 | **376** | 185 | **68 641** | 61 944 |
| Listed ordinary shares on the JSE | **68 208** | 61 601 | | | **68 208** | 61 601 |
| Listed ordinary shares on foreign exchanges | | | **376** | 185 | **376** | 185 |
| Unlisted | **57** | 158 | | | **57** | 158 |
| Debt instruments | **56 604** | 56 476 | **4 712** | 2 920 | **61 316** | 59 396 |
| Listed preference shares on the JSE or foreign exchanges | **1 484** | 1 997 | **5** | 9 | **1 489** | 2 006 |
| Unlisted preference shares | **1 140** | 615 | | | **1 140** | 615 |
| Listed term deposits[1] on BESA, or JSE or foreign exchanges | **37 780** | 36 366 | **4 416** | 2 311 | **42 196** | 38 677 |
| Loans | **977** | 913 | | | **977** | 913 |
| Unlisted term deposits[1] | **15 223** | 16 585 | **291** | 600 | **15 514** | 17 185 |
| Mutual funds[2] | **69 990** | 60 079 | **29 480** | 24 141 | **99 470** | 84 220 |
| Active market | **67 568** | 58 715 | **29 480** | 24 141 | **97 048** | 82 856 |
| Property | **4 949** | 5 901 | **43** | 19 | **4 992** | 5 920 |
| Equity instruments | **17 385** | 20 521 | **21 469** | 14 358 | **38 854** | 34 879 |
| Interest-bearing instruments | **18 361** | 12 363 | **4 527** | 8 212 | **22 888** | 20 575 |
| Mixed assets classes | **26 873** | 19 930 | **3 441** | 1 552 | **30 314** | 21 482 |
| Non-active market | **2 422** | 1 364 | | | **2 422** | 1 364 |
| Equity instruments | **2 266** | 1 364 | | | **2 266** | 1 364 |
| Mixed | **156** | | | | **156** | |
| Investment policies | **24 577** | 21 755 | **1 068** | 926 | **25 645** | 22 681 |
| Interest linked | | 1 | | | | 1 |
| Mixed assets classes | **24 577** | 21 754 | **1 068** | 926 | **25 645** | 22 680 |
| Reinsurance assets | **1 126** | 964 | | 2 | **1 126** | 966 |
| Derivatives | **5 025** | 6 243 | **(87)** | (137) | **4 938** | 6 106 |
| Derivative collateral deposits | **1 431** | 784 | | | **1 431** | 784 |
| Prepayments, insurance and other receivables | **2 507** | 2 351 | **16** | 240 | **2 523** | 2 591 |
| Current balances related to – Insurance contracts | **774** | 615 | | 8 | **774** | 623 |
| – Investment contracts | **76** | 210 | | | **76** | 210 |
| Other prepayments, insurance and other receivables | **1 657** | 1 526 | **16** | 232 | **1 673** | 1 758 |
| Loan receivables from joint ventures | **4** | 4 | | | **4** | 4 |
| Cash and cash equivalents | **4 918** | 3 455 | **155** | 227 | **5 073** | 3 682 |
| Property | **29 809** | 26 618 | | 12 | **29 809** | 26 630 |
| | **264 256** | 240 488 | **35 720** | 28 516 | **299 976** | 269 004 |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

## 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*

| Company | Rand denominated | | Foreign | | Total | |
|---|---|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| Equity instruments | **65 065** | 52 069 | **273** | 88 | **65 338** | 52 157 |
| Listed ordinary shares on the JSE | **65 008** | 52 000 | | | **65 008** | 52 000 |
| Listed ordinary shares on foreign exchanges | | | **273** | 88 | **273** | 88 |
| Unlisted | **57** | 69 | | | **57** | 69 |
| Debt instruments | **38 410** | 22 681 | **4 712** | 1 905 | **43 122** | 24 586 |
| Listed preference shares on the JSE or foreign exchanges | **1 484** | 1 324 | **5** | 9 | **1 489** | 1 333 |
| Unlisted preference shares | **1 140** | 615 | | | **1 140** | 615 |
| Listed term deposits[1] on BESA, or JSE or foreign exchanges | **19 586** | 11 443 | **4 416** | 1 343 | **24 002** | 12 786 |
| Loans | **977** | 183 | | | **977** | 183 |
| Unlisted term deposits[1] | **15 223** | 9 116 | **291** | 553 | **15 514** | 9 669 |
| Mutual funds[2] | **91 350** | 63 475 | **30 527** | 21 957 | **121 877** | 85 432 |
| Active market | **87 092** | 61 785 | **29 598** | 21 957 | **116 690** | 83 742 |
| Property | **4 949** | 5 410 | **161** | 131 | **5 110** | 5 541 |
| Equity instruments | **20 346** | 16 680 | **21 469** | 11 862 | **41 815** | 28 542 |
| Interest-bearing instruments | **34 925** | 20 974 | **4 527** | 7 683 | **39 452** | 28 657 |
| Mixed assets classes | **26 872** | 18 721 | **3 441** | 2 281 | **30 313** | 21 002 |
| Non-active market | **4 258** | 1 690 | **929** | | **5 187** | 1 690 |
| Equity instruments | **2 266** | 1 690 | | | **2 266** | 1 690 |
| Interest-bearing instruments | **1 446** | | | | **1 446** | |
| Mixed assets classes | **546** | | **929** | | **1 475** | |
| Investment policies | **24 578** | 23 303 | | | **24 578** | 23 303 |
| Mixed assets classes | **24 578** | 23 303 | | | **24 578** | 23 303 |
| Reinsurance assets | **1 120** | 431 | | | **1 120** | 431 |
| Derivatives | **4 981** | 5 521 | **(88)** | (138) | **4 893** | 5 383 |
| Derivative collateral deposits | **1 431** | 754 | | | **1 431** | 754 |
| Prepayments, insurance and other receivables | **2 070** | 1 964 | | | **2 070** | 1 964 |
| Current balances related to | | | | | | |
| – Insurance contracts | **770** | 187 | | | **770** | 187 |
| – Investment contracts | **76** | 209 | | | **76** | 209 |
| Other prepayments, insurance and other receivables | **1 224** | 1 568 | | | **1 224** | 1 568 |
| Loan receivables from joint ventures | **4** | 4 | | | **4** | 4 |
| Loan receivables from subsidiaries | **113** | 79 | | | **113** | 79 |
| Cash and cash equivalents | **4 726** | 1 935 | **117** | 117 | **4 843** | 2 052 |
| Property | **26 390** | 23 744 | | | **26 390** | 23 744 |
| | **260 238** | 195 960 | **35 541** | 23 929 | **295 779** | 219 889 |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

**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***

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| Properties | **29 809** | 26 630 | **26 390** | 23 744 |
| Properties under development | | 13 | | 13 |
| Owner-occupied properties | **1 277** | 1 307 | **1 277** | 1 307 |
| Investment properties | **27 217** | 24 063 | **24 644** | 21 919 |
| Operating leases – accrued income | **1 315** | 1 277 | **469** | 535 |
| Operating leases – accrued expense | | (30) | | (30) |
| Interests in subsidiaries – loans receivable | | | **113** | 79 |
| Interest in subsidiary mutual funds | | | **22 968** | 17 218 |
| Held-to-maturity financial instruments with joint ventures | **4** | 4 | **4** | 4 |
| Reinsurance assets | **1 126** | 966 | **1 120** | 431 |
| Interest in associates – measured at fair value | **2 176** | 1 519 | **2 176** | 1 429 |
| Financial investments | **251 548** | 226 722 | **228 423** | 166 831 |
| Pledged assets | **1 348** | | **1 348** | |
| Derivative assets | **6 369** | 6 890 | **6 324** | 6 137 |
| Prepayments, insurance and other receivables | **2 523** | 2 591 | **2 070** | 1 964 |
| Cash and cash equivalents | **5 073** | 3 682 | **4 843** | 2 052 |
| **Total financial, property and insurance assets** | **299 976** | 269 004 | **295 779** | 219 889 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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***

| | Policyholder liability class | | | |
|---|---|---|---|---|
| Group | Insurance contracts Rm | Investment contracts Rm | Investment contracts with DPF Rm | Total per statement of financial position Rm |
| **2013** | | | | |
| Policyholders liabilities | | | | **260 788** |
| Unit-linked (excluding discretionary participation features (DPF)) | **135 163** | **71 807** | | **206 970** |
| Business with DPF | **20 771** | | **7 730** | **28 501** |
| Non-participating annuities (including disability income in claim) | **18 560** | **1 399** | | **19 959** |
| Guaranteed capital endowments | **8 856** | | | **8 856** |
| Retail pure risk (excluding disability income annuities in claim) | **(5 921)** | | | **(5 921)** |
| Group risk (excluding group disability income annuities in claim) | **433** | | | **433** |
| Embedded derivatives[1] | **2 022** | **(32)** | | **1 990** |
| Third party financial liabilities arising on consolidation of mutual funds | | | | **461** |
| Financial liabilities at amortised cost | | | | **3 074** |
| Derivatives | | | | **4 844** |
| Insurance and other payables | | | | **8 485** |
| Current balance related to insurance contracts | | | | **4 538** |
| Current balance related to investment contracts | | | | **92** |
| Other | | | | **3 855** |
| | **179 884** | **73 174** | **7 730** | **277 652** |
| Restated 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 | | | | 379 |
| Financial liabilities at amortised cost | | | | 2 037 |
| Derivatives | | | | 5 403 |
| Derivative collateral deposits | | | | 679 |
| Insurance and other payables | | | | 6 655 |
| Current balance related to insurance contracts | | | | 3 578 |
| Current balance related to investment contracts | | | | 157 |
| Other | | | | 2 920 |
| | 164 160 | 67 297 | 2 820 | 249 451 |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

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 | | | |
|---|---|---|---|---|
| **Company** | **Insurance contracts Rm** | **Investment contracts Rm** | **Investment contracts with DPF Rm** | **Total per statement of financial position Rm** |
| **2013** | | | | |
| Policyholders liabilities | | | | **260 859** |
| Unit-linked (excluding discretionary participation features (DPF)) | **135 163** | **71 807** | | **206 970** |
| Business with DPF | **20 771** | | **7 730** | **28 501** |
| Non-participating annuities (including disability income in claim) | **18 557** | **1 399** | | **19 956** |
| Guaranteed capital endowments | **8 856** | | | **8 856** |
| Retail pure risk (excluding disability income annuities in claim) | **(5 847)** | | | **(5 847)** |
| Group risk (excluding group disability income annuities in claim) | **433** | | | **433** |
| Embedded derivatives | **2 022** | **(32)** | | **1 990** |
| Financial liabilities at amortised cost | | | | **3 074** |
| Derivatives | | | | **4 844** |
| Insurance and other payables | | | | **8 174** |
| Current balance related to insurance contracts | | | | **4 531** |
| Current balance related to investment contracts | | | | **92** |
| Other | | | | **3 551** |
| | **179 955** | **73 174** | **7 730** | **276 951** |
| 2012 | | | | |
| Policyholders liabilities | | | | 196 285 |
| Unit-linked (excluding discretionary participation features (DPF)) | 95 173 | 72 372 | | 167 545 |
| Business with DPF | 15 551 | | 2 808 | 18 359 |
| Non-participating annuities (including disability income in claim) | 12 533 | 1 413 | | 13 946 |
| Guaranteed capital endowments | 13 | | | 13 |
| Retail pure risk (excluding disability income annuities in claim) | (5 313) | | | (5 313) |
| Group risk (excluding group disability income annuities in claim) | 189 | | | 189 |
| Embedded derivatives | 1 536 | 10 | | 1 546 |
| Financial liabilities at amortised cost | | | | 2 037 |
| Derivatives | | | | 5 183 |
| Derivative collateral deposits | | | | 459 |
| Insurance and other payables | | | | 4 648 |
| Current balance related to insurance contracts | | | | 2 839 |
| Current balance related to investment contracts | | | | 126 |
| Other | | | | 1 683 |
| | 119 682 | 73 795 | 2 808 | 208 612 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 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 as if the transaction were with third parties. Given the nature of the operations there is no single external customer that provides 10% or more of the 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 two business unit clusters, each headed up by a chief executive, who reports directly to the group's chief executive. These executives, along with the group's financial director, head of LibFin, and the group's executive strategic services, are considered to be the chief operating decision makers within the group. 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 financial statements *(continued)*
*for the year ended 31 December 2013*

### 2. Segment information (continued)

**Segment earnings for the year ended 31 December 2013:**

| Group<br>Rm | Long-term insurance<br>Retail | <br>Corporate | Short-term insurance | Asset management | Other | Total | Reporting adjustments[1] | IFRS reported |
|---|---|---|---|---|---|---|---|---|
| Policyholder premiums | **35 314** | **10 820** | **246** | | | **46 380** | **(13 211)** | **33 169** |
| Service fee income from policyholder investment contracts | | | | | | | **899** | **899** |
| Investment returns | **30 253** | **5 900** | **6** | | **1 310** | **37 469** | **911** | **38 380** |
| Fee revenue | **65** | | **18** | | **12** | **95** | | **95** |
| **Total revenue** | **65 632** | **16 720** | **270** | | **1 322** | **83 944** | **(11 401)** | **72 543** |
| Net claims and policyholder benefits | **(29 175)** | **(10 865)** | **(167)** | | | **(40 207)** | **16 406** | **(23 801)** |
| Change in policyholders liabilities | **(22 135)** | **(4 240)** | | | | **(26 375)** | **5 877** | **(20 498)** |
| Fair value adjustment to policyholders' liabilities under investment contracts | | | | | | | **(9 990)** | **(9 990)** |
| Fair value adjustment on third party mutual fund interests | | | | | | | **(92)** | **(92)** |
| Acquisition costs | **(3 427)** | **(263)** | **(6)** | | **(29)** | **(3 725)** | | **(3 725)** |
| Marketing and administration expenses | **(4 477)** | **(1 081)** | **(94)** | **(5)** | **(580)** | **(6 237)** | **(242)** | **(6 479)** |
| Finance costs | **(276)** | | | | **(1)** | **(277)** | | **(277)** |
| Profit share allocations | **(948)** | **(2)** | | | | **(950)** | | **(950)** |
| Profit before taxation | **5 194** | **269** | **3** | **(5)** | **712** | **6 173** | **558** | **6 731** |
| Taxation | **(2 579)** | **(70)** | **(5)** | **1** | **(41)** | **(2 694)** | | **(2 694)** |
| **Total earnings** | **2 615** | **199** | **(2)** | **(4)** | **671** | **3 479** | **558** | **4 037** |
| **Other comprehensive income** | | | | | | | | |
| Owner-occupied properties – fair value adjustment | **30** | **3** | | | | **33** | | **33** |
| Net change in fair value on cash flow hedge | **(183)** | | | | | **(183)** | | **(183)** |
| Post-retirement obligations | **21** | **3** | | | **26** | **50** | | **50** |
| Foreign currency translation | **13** | | **16** | | | **29** | | **29** |
| Change in policyholders liabilities (application of shadow accounting) | **(20)** | **(2)** | | | | **(22)** | | **(22)** |
| Income and capital gains tax relating to: | | | | | | | | |
| – owner-occupied properties | **(10)** | **(1)** | | | | **(11)** | | **(11)** |
| – net change in fair value on cash flow hedges | **53** | | | | | **53** | | **53** |
| – post-retirement obligations | **(6)** | **(1)** | | | **(7)** | **(14)** | | **(14)** |
| **Total comprehensive income** | **2 513** | **201** | **14** | **(4)** | **690** | **3 414** | **558** | **3 972** |
| Attributable to: | | | | | | | | |
| Non-controlling interests | **(10)** | **(4)** | **(7)** | | | **(21)** | **(558)** | **(579)** |
| Equity holders | **2 503** | **197** | **7** | **(4)** | **690** | **3 393** | | **3 393** |

[1] *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of mutual fund subsidisaries, 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 financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Group Rm | Long-term insurance Retail | 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 | 1 779 | 39 261 | 822 | 40 083 |
| Fee revenue | 87 | | (3) | 25 | 109 | | 109 |
| **Total revenue** | 61 717 | 15 596 | 205 | 1 804 | 79 322 | (9 673) | 69 649 |
| 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 | | | | | | (30) | (30) |
| Acquisition costs | (3 131) | (237) | (6) | (24) | (3 398) | | (3 398) |
| Marketing and administration expenses | (4 304) | (933) | (73) | (500) | (5 810) | (215) | (6 025) |
| Finance costs | (79) | | | (125) | (204) | | (204) |
| Profit share allocations | (772) | (2) | | | (774) | | (774) |
| Profit before taxation | 4 611 | 119 | (3) | 1 155 | 5 882 | 446 | 6 328 |
| Taxation | (2 393) | (29) | (7) | (17) | (2 446) | (66) | (2 512) |
| **Total earnings** | 2 218 | 90 | (10) | 1 138 | 3 436 | 380 | 3 816 |
| **Other comprehensive income** | | | | | | | |
| Owner-occupied properties – fair value adjustment | (179) | (18) | | | (197) | | (197) |
| Net change in fair value on cash flow hedge | (29) | | | | (29) | | (29) |
| Post-retirement obligations | 114 | 13 | | (15) | 112 | | 112 |
| 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 |
| – net change in fair value on cash flow hedges | 8 | | | | 8 | | 8 |
| – post-retirement obligations | (32) | (4) | | 4 | (32) | | (32) |
| **Total comprehensive income** | 2 278 | 99 | (6) | 1 127 | 3 498 | 380 | 3 878 |
| Attributable to: | | | | | | | |
| Non-controlling interests | (7) | | (5) | | (12) | (380) | (392) |
| Equity holders | 2 271 | 99 | (11) | 1 127 | 3 486 | | 3 486 |

[1] *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of mutual fund subsidiaries, 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 financial statements *(continued)*

*for the year ended 31 December 2013*

## 3. Equipment and owner-occupied properties under development

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| Cost at the beginning of the year | **2 330** | 2 101 | **2 140** | 1 942 |
| Additions through business acquisition | | 7 | | |
| Disposals through business disposals | **(36)** | | | |
| Additions | **419** | 276 | **434** | 256 |
| Disposals | **(194)** | (63) | **(155)** | (58) |
| Foreign currency translation | **6** | 9 | | |
| Reclassification to owner-occupied properties | **(47)** | | **(47)** | |
| Cost at the end of the year | **2 478** | 2 330 | **2 372** | 2 140 |
| Accumulated depreciation and impairment at the beginning of the year | **(1 498)** | (1 349) | **(1 404)** | (1 276) |
| Disposals through businesss disposals | **19** | | | |
| Disposals | **190** | 51 | **150** | 47 |
| Depreciation | **(213)** | (192) | **(197)** | (175) |
| Foreign currency translation | **(3)** | (8) | | |
| Accumulated depreciation and impairment at the end of the year | **(1 505)** | (1 498) | **(1 451)** | (1 404) |
| **Net carrying amount at the end of the year** | **973** | 832 | **921** | 736 |
| **Summary of net carrying value** | | | | |
| Owner-occupied properties under development | | 13 | | 13 |
| Computer equipment | **267** | 193 | **265** | 187 |
| Purchased computer software | **39** | 25 | **72** | 24 |
| Fixtures, furniture and fittings | **561** | 508 | **489** | 434 |
| Office equipment | **72** | 56 | **62** | 45 |
| Motor vehicles | **34** | 37 | **33** | 33 |

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

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

| Group | Balance at the beginning of the year Rm | Business acqui-sition Rm | Business disposals Rm | Additions Rm | Dis-posals Rm | Depre-ciation Rm | Reclass-fication Rm | Foreign currency trans-lation Rm | Balance at the end of the year Rm |
|---|---|---|---|---|---|---|---|---|---|
| ***2013*** | | | | | | | | | |
| ***Cost – movement*** | | | | | | | | | |
| Owner-occupied properties under development[1] | **13** | | | **34** | | | **(47)** | | |
| Computer equipment | **936** | | **(4)** | **163** | **(46)** | | | | **1 049** |
| Purchased computer software | **124** | | **(11)** | **33** | **(29)** | | | **2** | **119** |
| Fixtures, furniture and fittings | **1 049** | | **(4)** | **145** | **(87)** | | | **1** | **1 104** |
| Office equipment | **128** | | **(5)** | **26** | **(6)** | | | **1** | **144** |
| Motor vehicles | **80** | | **(12)** | **18** | **(26)** | | | **2** | **62** |
| | **2 330** | | **(36)** | **419** | **(194)** | | **(47)** | **6** | **2 478** |
| ***Accumulated depreciation and impairment – movement*** | | | | | | | | | |
| Computer equipment | **(743)** | | **2** | | **45** | **(86)** | | | **(782)** |
| Purchased computer software | **(99)** | | **6** | | **29** | **(15)** | | **(1)** | **(80)** |
| Fixtures, furniture and fittings | **(541)** | | **2** | | **87** | **(91)** | | | **(543)** |
| Office equipment | **(72)** | | **3** | | **6** | **(8)** | | **(1)** | **(72)** |
| Motor vehicles | **(43)** | | **6** | | **23** | **(13)** | | **(1)** | **(28)** |
| | **(1 498)** | | **19** | | **190** | **(213)** | | **(3)** | **(1 505)** |
| ***2012*** | | | | | | | | | |
| ***Cost – movement*** | | | | | | | | | |
| Owner-occupied properties under development[1] | | | | 13 | | | | | 13 |
| Computer equipment | 871 | 2 | | 97 | (35) | | | 1 | 936 |
| Purchased computer software | 110 | | | 20 | (6) | | | | 124 |
| Fixtures, furniture and fittings | 937 | 1 | | 116 | (5) | | | | 1 049 |
| Office equipment | 118 | 1 | | 9 | (2) | | | 2 | 128 |
| Motor vehicles | 65 | 3 | | 21 | (15) | | | 6 | 80 |
| | 2 101 | 7 | | 276 | (63) | | | 9 | 2 330 |
| ***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) |

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

| Company | Balance at the beginning of the year Rm | Additions Rm | Dis-posals Rm | Depre-ciation Rm | Reclassi-fication Rm | Balance at the end of the year Rm |
|---|---|---|---|---|---|---|
| ***2013*** | | | | | | |
| ***Cost – movement*** | | | | | | |
| Owner-occupied properties under development[1] | **13** | **34** | | | **(47)** | |
| Computer equipment | **911** | **162** | **(30)** | | | **1 043** |
| Purchased computer software | **119** | **64** | **(31)** | | | **152** |
| Fixtures, furniture and fittings | **916** | **135** | **(70)** | | | **981** |
| Office equipment | **112** | **24** | **(3)** | | | **133** |
| Motor vehicles | **69** | **15** | **(21)** | | | **63** |
| | **2 140** | **434** | **(155)** | | **(47)** | **2 372** |
| ***Accumulated depreciation and impairment – movement*** | | | | | | |
| Computer equipment | **(724)** | | **29** | **(83)** | | **(778)** |
| Purchased computer software | **(95)** | | **31** | **(16)** | | **(80)** |
| Fixtures, furniture and fittings | **(482)** | | **70** | **(80)** | | **(492)** |
| Office equipment and office machines | **(67)** | | **3** | **(7)** | | **(71)** |
| Motor vehicles | **(36)** | | **17** | **(11)** | | **(30)** |
| | **(1 404)** | | **150** | **(197)** | | **(1 451)** |
| *2012* | | | | | | |
| ***Cost – movement*** | | | | | | |
| Owner-occupied properties under development | | 13 | | | | 13 |
| Computer equipment[1] | 849 | 95 | (33) | | | 911 |
| Purchased computer software | 104 | 21 | (6) | | | 119 |
| Fixtures, furniture and fittings | 818 | 102 | (4) | | | 916 |
| Office equipment | 107 | 7 | (2) | | | 112 |
| Motor vehicles | 64 | 18 | (13) | | | 69 |
| | 1 942 | 256 | (58) | | | 2 140 |
| ***Accumulated depreciation and impairment – movement*** | | | | | | |
| Computer equipment | (682) | | 30 | (72) | | (724) |
| Purchased computer software | (82) | | | (13) | | (95) |
| Fixtures, furniture and fittings | (414) | | 4 | (72) | | (482) |
| Office equipment and office machines | (62) | | 2 | (7) | | (67) |
| Motor vehicles | (36) | | 11 | (11) | | (36) |
| | (1 276) | | 47 | (175) | | (1 404) |

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group and Company | |
|---|---|---|
| | **2013** **Rm** | 2012 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 | **1 307** | 1 539 |
| Additions – capitalised subsequent expenditure | | 2 |
| Revaluations | **33** | (197) |
| Reclassifications from properties under development | **47** | |
| Reclassifications to investment properties | **(110)** | (37) |
| **Fair value at the end the of the year** | **1 277** | 1 307 |

The cost less accumulated depreciation of the owner-occupied properties is provided below. The allowed alternative method as described by IAS 16 is fair value, which has been adopted by the group

| | **2013** **Rm** | 2012 Rm |
|---|---|---|
| Cost at the beginning of the year | **730** | 720 |
| Additions – capitalised subsequent expenditure | | 2 |
| Reclassifications from properties under development | **47** | |
| Reclassifications to investment properties | **(40)** | 8 |
| Cost at the end of the year | **737** | 730 |
| Accumulated depreciation at the beginning and end of the year[1] | **(57)** | (57) |
| **Cost less accumulated depreciation** | **680** | 673 |

[1] *No depreciation was provided in 2013 or 2012 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 2013.

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 2013. 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 2013. 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 financial statements *(continued)*
*for the year ended 31 December 2013*

**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% to 11% (2012: 7% to 12%) on a property by property basis. Exit capitalisation rates generally range from 7% to 11% (2012: 7% to 12%).

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.

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **5. Investment properties** | | | | |
| *Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.* | | | | |
| Fair value at the beginning of the year | **24 063** | 23 410 | **21 919** | 21 149 |
| Revaluations net of lease straight-lining | **2 510** | 1 177 | **2 233** | 1 052 |
| Revaluations | **2 578** | 1 432 | **2 197** | 1 220 |
| Net movement on straight-lining operating leases | **(68)** | (255) | **36** | (168) |
| Additions – property acquired | **42** | 32 | **42** | 32 |
| Additions – capitalised subsequent expenditure | **546** | 46 | **369** | 65 |
| Additions through business acquisitions | | 11 | | |
| Disposal through business disposals | **(20)** | | | |
| Disposals | **(29)** | (651) | **(29)** | (416) |
| Reclassifications from owner-occupied properties | **110** | 37 | **110** | 37 |
| Foreign currency translation | **(5)** | 1 | | |
| **Fair value at the end of the year** | **27 217** | 24 063 | **24 644** | 21 919 |
| At the end of the year investment properties comprised the following property types: | | | | |
| Office buildings | **1 358** | 1 297 | **1 439** | 941 |
| Shopping malls | **23 852** | 20 750 | **20 766** | 18 120 |
| Hotels | **2 455** | 2 536 | **2 329** | 2 892 |
| Other | **867** | 727 | **579** | 471 |
| **Total investment properties** | **28 532** | 25 310 | **25 113** | 22 424 |
| Located in: | **28 532** | 25 310 | **25 113** | 22 424 |
| South Africa | **28 532** | 25 298 | **25 113** | 22 424 |
| Nigeria | | 12 | | |
| Disclosed in statement of financial position as: | **28 532** | 25 310 | **25 113** | 22 424 |
| Investment properties at fair value | **27 217** | 24 063 | **24 644** | 21 919 |
| Operating leases – accrued income | **1 315** | 1 277 | **469** | 535 |
| Operating leases – accrued expense | | (30) | | (30) |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 5. Investment properties (continued)

The investment properties were independently valued as at 31 December 2013 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 2013 unlet space amounted to 6% (2012: 7,1%) of available lease area in the investment properties held by the company. The average net rental growth is 2,3% (2012: 2,5%).

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R2 200 million (2012: R2 285 million) for the group, and R1 084 million (2012: R1 239 million) for the company. Direct operating expenses arising on the investment property amounted to R610 million (2012: R555 million) for the group and R585 million (2012: R539 million) for the company.

***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 2013 of owner-occupied properties (R1 277 million) and investment properties (R27 217 million) is R29 809 million (2012: R26 617 million) for the group and owner-occupied properties (R1 277 million) and investment properties (R24 644 million) is R26 390 million (2012: R23 731 million) for the company. A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R4,1 billion (2012: R3,7 billion) if the assumption decreased, and decrease the total fair value by R3,1 billion (2012: R2,8 billion) if the assumption increased.

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **6. Intangible assets** | | | | |
| Cost at the beginning of the year | **2 381** | 2 313 | **498** | 459 |
| Additions through business acquisition | | 40 | | |
| Disposal through business disposals | **(52)** | | | |
| Transfer of insurance business arising from life license rationalisation | | | **1 435** | |
| Additions | **44** | 25 | **44** | 39 |
| Disposals | **(8)** | | | |
| Foreign currency translation | **9** | 3 | | |
| Cost at the end of the year | **2 374** | 2 381 | **1 977** | 498 |
| Accumulated amortisation and impairment at the beginning of the year | **(1 983)** | (1 787) | **(457)** | (386) |
| Disposal through business disposals | **21** | | | |
| Impairment and derecognition | | (44) | | (44) |
| Transfer of insurance business arising from life license rationalisation | | | **(1 192)** | |
| Amortisation | **(127)** | (152) | **(46)** | (27) |
| Foreign currency translation | **(3)** | | | |
| Accumulated amortisation and impairment at the end of the year | **(2 092)** | (1 983) | **(1 695)** | (457) |
| **Net carrying amount at the end of the year** | **282** | 398 | **282** | 41 |
| **Summary of net carrying value** | | | | |
| Goodwill[1] | | | | |
| Computer software – internally generated | **74** | 44 | **74** | 37 |
| Customer relationships and contracts | | 35 | | |
| Present value of in-force policyholder contracts[2] | **208** | 319 | **208** | 4 |

[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.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 6. Intangible assets (continued)

| Group | Balance at beginning of year Rm | Business acquisition Rm | Business disposals Rm | Additions Rm | Disposals Rm | Foreign currency translation Rm | Impairment and derecognition Rm | Amortisation Rm | Balance at end of year Rm | Amortisation period |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | |
| **Cost – movement** | | | | | | | | | | |
| Goodwill | **397** | | | | | | | | **397** | |
| Computer software – internally generated | **317** | | | **44** | **(8)** | | | | **353** | |
| Customer relationships and contracts | **43** | | **(52)** | | | **9** | | | | |
| Present value of in-force policyholder contracts | **1 624** | | | | | | | | **1 624** | |
| | **2 381** | | **(52)** | **44** | **(8)** | **9** | | | **2 374** | |
| **Accumulated amortisation and impairment – movement** | | | | | | | | | | |
| Goodwill | **(397)** | | | | | | | | **(397)** | |
| Computer software – internally generated | **(273)** | | | | | | | **(6)** | **(279)** | **Up to 7 years** |
| Customer relationships and contracts | **(8)** | | **21** | | | **(3)** | | **(10)** | | **Up to 7 years** |
| Present value of in-force policyholder contracts | **(1 305)** | | | | | | | **(111)** | **(1 416)** | **Up to 15 years** |
| | **(1 983)** | | **21** | | | **(3)** | | **(127)** | **(2 092)** | |
| 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 financial statements *(continued)*

*for the year ended 31 December 2013*

### 6. Intangible assets (continued)

| Company | Balance at beginning of year Rm | Additions Rm | Amortisation Rm | Impairment and derecognition Rm | Transfer of insurance business arising from life license rationalisation Rm | Balance at end of year Rm | Amortisation period |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| **Cost – movement** | | | | | | | |
| Computer software – internally generated | **309** | **44** | | | | **353** | |
| Present value of in-force policyholder contracts | **189** | | | | **1 435** | **1 624** | |
| | **498** | **44** | | | **1 435** | **1 977** | |
| **Accumulated amortisation and impairment movement** | | | | | | | |
| Computer software – internally generated | **(272)** | | **(7)** | | | **(279)** | **Up to 7 years** |
| Present value of in-force policyholder contracts | **(185)** | | **(39)** | | **(1 192)** | **(1 416)** | **Up to 10 years** |
| | **(457)** | | **(46)** | | **(1 192)** | **(1 695)** | |
| 2012 | | | | | | | |
| **Cost – movement** | | | | | | | |
| Computer software – internally generated | 270 | 39 | | | | 309 | |
| Present value of in-force policyholder contracts | 189 | | | | | 189 | |
| | 459 | 39 | | | | 498 | |
| **Accumulated amortisation and impairment movement** | | | | | | | |
| Computer software – internally generated | (216) | | (12) | (44) | | (272) | Up to 7 years |
| Present value of in-force policyholder contracts | (170) | | (15) | | | (185) | Up to 10 years |
| | (386) | | (27) | (44) | | (457) | |

**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).

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **7. Deferred acquisition costs** | | | | |
| Balance at the beginning of the year | **439** | 389 | **437** | 386 |
| Transfer of insurance business arising from life license rationalisation | | | **1** | |
| Cost of new business acquired | **293** | 249 | **293** | 249 |
| Amortisation realised through profit or loss | **(219)** | (199) | **(218)** | (198) |
| **Balance at the end of the year** | **513** | 439 | **513** | 437 |
| Current | **151** | 132 | **151** | 131 |
| Non-current | **362** | 307 | **362** | 306 |

Deferred acquisition costs are amounts incurred on acquiring policyholder investment contracts. They are amortised to income over the contract period.

| | Company | |
|---|---|---|
| | **2013 Rm** | 2012 Rm |
| **8. Interest in subsidiaries** | | |
| **8.1 Summary** | | |
| Shares at cost | **2 200** | 4 155 |
| Intergroup balances | **113** | 79 |
| Impairment provision | **(1 844)** | (397) |
| **Total interest in subsidiaries** | **469** | 3 837 |
| **8.2 Movement analysis** | | |
| ***Shares at cost*** | | |
| Shares at cost at the beginning of the year | **4 155** | 3 349 |
| Transfer from interest in joint venture[3] | | 32 |
| Remeasurement to acquisition date fair value[3] | | 2 |
| In specie capital reduction | **(1 830)** | |
| Intangible assets net of deferred tax recognised as a result of life license rationalisation | **(169)** | |
| Disposals | **(52)** | |
| Increase of capital | **96** | 772 |
| **Shares at cost at the end of the year** | **2 200** | 4 155 |
| ***Intergroup balances*** | | |
| Intergroup balances at the beginning of the year | **79** | 1 |
| Advances | **34** | 79 |
| Arising from life licence rationalisation transaction | **(2 153)** | |
| In specie capital reduction | **1 830** | |
| In specie dividends from subsidiaries | **323** | |
| Repayments | | (1) |
| **Intergroup balances at the end of the year** | **113** | 79 |
| ***Impairment provision*** | | |
| Impairment provision at the beginning of the year | **(397)** | (397) |
| Impairment provision raised | **(1 447)** | |
| **Impairment provision at the end of the year** | **(1 844)** | (397) |

[3] *On 1 January 2012, Liberty acquired a further 5,96% interest in Total Health Trust Limited (refer to note 41), which resulted in the interest being transferred from joint ventures to interests in subsidiaries. The previously held equity interest was remeasured to its acquisition date fair value.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| Company | Amount of issued share capital 2013 R | Percentage of issued share capital 2013 % | 2012 % | Shares at cost 2013 Rm | 2012 Rm | Intergroup balances[1] 2013 Rm | 2012 Rm | Impairment provision 2013 Rm | 2012 Rm |
|---|---|---|---|---|---|---|---|---|---|
| **8. Interest in subsidiaries** (continued) | | | | | | | | | |
| **8.3 Subsidiaries (unlisted) – directly owned** | | | | **2 200** | 4 155 | **113** | 79 | **(1 844)** | (397) |
| *Long-term insurance* | | | | | | | | | |
| Capital Alliance Life Limited | **2 562 001** | **100** | 100 | **1 855** | 2 917 | | | **(1 844)** | (397) |
| Frank Life Limited | **69 653 173** | **100** | 100 | **70** | 57 | | | | |
| Liberty Active Limited | **5 750 075** | **100** | 100 | **6** | 943 | | | | |
| Liberty Life Assurance Uganda Limited | | | 51 | | 5 | | | | |
| Liberty Life Swaziland Limited | | | 100 | | 10 | | | | |
| *Investment holding* | | | | | | | | | |
| LPH Properties Limited | **869 083** | **100** | 100 | **1** | 1 | | | | |
| *Social responsibility* | | | | | | | | | |
| The Liberty Life Educational Foundation | **n/a** | **100** | 100 | | | | | | |
| *Other* | | | | | | | | | |
| General Staff Scheme Share Trust [2004 General staff scheme] | **n/a** | **100** | 100 | | | | | | |
| Frank Financial Services Proprietary Limited [*Marketing and administration services*] | **265 380 709** | **100** | 100 | **265** | 185 | **113** | 79 | | |
| Liberty Private Fund Administrators Proprietary Limited *[Fund administrators]* | **100** | **100** | 100 | | | | | | |
| Total Health Trust Limited *[Health risk services organisation]* | | | 51 | | 34 | | | | |
| Liberty Linked Investment Platform Proprietary Limited | **3 000 100** | **100** | | **3** | | | | | |
| *Dormant* | | | | | | | | | |
| North City Brokers Limited | **40 000** | **100** | 100 | | | | | | |
| Sandton Hotels Proprietary Limited | **1 000** | | 100 | | | | | | |
| Standard Insurance Limited (Swaziland) | | | 100 | | 3 | | | | |
| Wedelin Investments' Proprietary Limited | **Liquidated** | | 100 | | | | | | |
| Liberty Hotels Proprietary Limited | **Liquidated** | | 100 | | | | | | |

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

| | Percentage share of partnership 2013 % | 2012 % |
|---|---|---|
| **8.4 Unincorporated property partnerships** | | |
| *Offices and shopping centres* | | |
| Sandton City | **75,0** | 75,0 |
| Sandton Convention Centre | **60,0** | 60,0 |
| *Hotel operations* | | |
| Sandton Sun and Towers | **75,0** | 75,0 |
| Garden Court Sandton City | **75,0** | 75,0 |

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Place of incorporation | Company: Participation rights in total issued units 2013 % | Restated 2012 % | Units held at fair value 2013 Rm | Restated 2012 Rm |
|---|---|---|---|---|---|
| **9. Interest in subsidiaries – mutual funds** | | | | | |
| STANLIB Prudential Bond Fund | South Africa | **100** | 93 | **16 655** | 13 664 |
| STANLIB SWIX 40 Exchange Traded Fund | South Africa | **96** | 88 | **2 556** | 2 016 |
| Investec International High Yield Fund | Guernsey | **100** | | **1 445** | |
| Global Insurance Settlements Fund PLC | Ireland | **83** | 79 | **929** | 671 |
| STANLIB Global Bond Feeder Fund | South Africa | **93** | | **470** | |
| STANLIB ETF Top 40 Bond | South Africa | **79** | | **406** | |
| RMB Liberty Progressive Bonus Absolute Return Portfolio | South Africa | **100** | 100 | **390** | 415 |
| Standard Global Emerging Markets Property Fund | Ireland | **100** | 100 | **117** | 110 |
| Ermitage Asset Selection Fund | Jersey | | 69 | | 193 |
| Ermitage Distressed and Event Fund | Jersey | | 97 | | 149 |
| **Total interests in subsidiary mutual funds** | | | | **22 968** | 17 218 |

| | Company 2013 Rm |
|---|---|
| **10. Interest in consolidated structured entities** | |
| ***Debt instrument at fair value*** | **10** |
| Summarised financial information of consolidated structured entities | |
| Total assets | **10** |
| Total liabilities | **(10)** |

**Details of interests**

| Name | Percentage of participation rights 2013 % | Fair value 2013 Rm |
|---|---|---|
| Passives Funding Proprietary Limited | **100** | **10** |
| Total | | **10** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group 2013 Rm | Group Restated 2012 Rm | Company 2013 Rm | Company Restated 2012 Rm |
|---|---|---|---|---|
| **11. Interest in joint ventures** | | | | |
| **11.1 Summary** | | | | |
| Interest in joint ventures – equity accounted | **3** | 3 | **4** | 4 |
| Interest in joint ventures – measured at fair value | **400** | 374 | **400** | 374 |
| | **403** | 377 | **404** | 378 |
| Non-current | **403** | 377 | **404** | 378 |
| **11.2 Summary – equity accounted joint ventures** | | | | |
| Loans and receivables[1] | **4** | 4 | **4** | 4 |
| Share of post-acquisition reserves | **(1)** | (1) | | |
| **Total interests in joint ventures** | **3** | 3 | **4** | 4 |
| **11.3 Movement analysis – equity accounted joint ventures** | | | | |
| ***Equity loans and ordinary shares at cost*** | | | | |
| Balance at the beginning of the year | | 42 | | 42 |
| Acquisition of Total Health Trust Limited ordinary shares[2] | | 4 | | 4 |
| Derecognition of Total Health Trust Limited[2] | | (46) | | (46) |
| **Balance at the end of the year** | | | | |
| ***Loans and receivables[1]*** | | | | |
| Balance at the beginning of the year | **4** | 4 | **4** | 4 |
| **Balance at the end of the year** | **4** | 4 | **4** | 4 |
| ***Share of post-acquisition reserves*** | | | | |
| Balance at the beginning of the year | **(1)** | 1 | | |
| Derecognition of Total Health Trust Limited[2] | | (2) | | |
| **Balance at the end of the year** | **(1)** | (1) | | |
| ***Impairment provision*** | | | | |
| Balance at the beginning of the year | | (14) | | (14) |
| Derecognition of Total Health Trust Limited[2] | | 14 | | 14 |
| **Balance at the end of the year** | | | | |

(1) *Loans and receivables comprise:*
*R4 million (2012: 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 (2012: less than R1 million) and is long-term nature.*

(2) *Since 1 February 2009, Liberty had a non-controlling equity stake in Total Health Trust Limited (THT) which is registered and conducts health risk-related services in Nigeria. With effect from 1 January 2012 a further 5,0% equity stake was acquired bringing the total ownership to 51,2% and control was obtained. THT was accounted for as a subsidiary from 1 January 2012. As at 31 December 2013 THT was disposed of (refer note 41.3) to Liberty Holdings Limited.*

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

## 11. Interest in joint ventures (continued)

### 11.4 Interest in joint ventures comprise

| Group | Percentage ownership | | Loans and receivables | | Share of post-acquisition reserves | | Total interest | |
|---|---|---|---|---|---|---|---|---|
| (2012 restated) | **2013 %** | 2012 % | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 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 |
| **Total** | | | **4** | 4 | **(1)** | (1) | **3** | 3 |

### 11.5 Aggregate amounts related to interest in joint ventures – equity accounted

| | **2013 Rm** | Restated 2012 Rm |
|---|---|---|
| **Statement of financial position extracts**[3] | | |
| Non-current assets | **2** | 2 |
| Current assets | **4** | 2 |
| Current liabilities | **(3)** | (2) |
| **Statement of comprehensive income extracts**[3] | | |
| Income | **12** | 12 |
| Expenses | **(12)** | (12) |

[3] *Represents the group's proportionate share in the joint ventures.*

### 11.6 Summarised financial information for joint venture measured at fair value

| | Group and Company | |
|---|---|---|
| **The Cullinan Hotel (Pty) Limited**[1] | **2013 Rm** | Restated 2012 Rm |
| Fair value of joint venture measured at fair value through profit or loss | **400** | 374 |
| Dividends received | | 15 |
| **Summarised financial information of joint venture**[2]**:** | | |
| Current assets | **132** | 93 |
| Non-current assets | **714** | 712 |
| Cash and cash equivalents | **18** | 6 |
| Current liabilities | **(64)** | (62) |
| Total revenue | **215** | 163 |
| Interest income | **6** | 5 |
| Taxation | **(17)** | (15) |
| Total comprehensive income | **52** | 20 |
| Commitments | | |
| Capital commitments – authorised by directors but not contracted | **9** | 4 |
| Investment properties | **5** | 2 |
| Equipment | **4** | 2 |

[1] *The Cullinan Hotel (Pty) Limited is a 50,0% held joint venture. It is a hotel developer and manager with its principal place of business being South Africa. This entity has a 31 March year end and therefore management accounts as at 31 December are used to account for the result.*

[2] *Summarised information disclosed as amounts recognised in total by the joint venture and not the group's proportionate share.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group and Company 2013 Rm |
|---|---|
| **12. Pledged assets measured at fair value through profit or loss** | |
| ***Repurchase agreements*** | |
| Government, municipal and utility bonds | **1 126** |
| ***Collateral*** | |
| Government, municipal and utility bonds | **222** |
| | **1 348** |
| **Maturity analysis** | |
| The maturities represent periods to contractual redemption of the pledged assets recorded | |
| Maturity between 0 – 3 months | **1 126** |
| Undated | **222** |
| | **1 348** |

| | Group and Company 2013 Rm | Group and Company 2012 Rm |
|---|---|---|
| **13. Interest in associates – equity accounted** | | |
| ***Ordinary shares at cost*** | **14** | 14 |
| Summarised financial information of associates | | |
| Total assets | **28** | 19 |
| Total liabilities | **(7)** | (8) |
| Total revenue | **81** | 60 |
| Net profit for the year | **11** | 3 |
| **13.1 Movements analysis** | | |
| ***Ordinary shares at cost*** | | |
| Balance at the beginning of the year | **14** | |
| Acquisition during the year | | 14 |
| **Balance at the end of the year** | **14** | 14 |

**13.2 Details of interests**

| Name | Percentage of issued share capital 2013 % | Percentage of issued share capital 2012 % | Cost 2013 Rm | Cost 2012 Rm |
|---|---|---|---|---|
| Hereford Financial Services Proprietary Limited | **20** | 20 | **9** | 9 |
| Eq-Fin Proprietary Limited | **26** | 26 | **5** | 5 |
| Total | | | **14** | 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.

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| **14. Interest in associates – measured at fair value** | | | | |
| **Fair value of associates held at fair value through profit or loss** | **2 176** | 1 519 | **2 176** | 1 429 |

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

| **Group** | **Percentage of participation rights in total issued units** | | **Fair value** | |
|---|---|---|---|---|
| **Name** | **2013 %** | Restated 2012 % | **2013 Rm** | Restated 2012 Rm |
| South Africa Infrastructure Fund | **31** | 6 | **1 869** | 1 132 |
| Africa Infrastructure Fund | **20** | | **307** | |
| Synergy Income Fund[(1)] | | 38 | | 387 |
| Total interest in associates | | | **2 176** | 1 519 |

[(1)] *This interest is no longer disclosed as an associate as the group's exposure to economic interest in this fund is below what is considered to be significant influence.*

| **Associates material to the group:** | **South Africa Infrastructure Fund** | |
|---|---|---|
| | **2013 Rm** | Restated 2012 Rm |
| Fair value of associates held at fair value through profit or loss | **1 869** | 1 132 |
| Distributions received[(1)] | **10** | 10 |
| Summarised financial information of associates: | | |
| Current assets | **339** | 164 |
| Non-current assets | **8 150** | 3 981 |
| Current liabilities | **(2)** | (18) |
| Total revenue[(2)(3)] | **312** | 560 |
| Total comprehensive income[(4)] | **270** | 524 |

[(1)] *Distributions received comprise dividends and interest.*
[(2)] *Total revenue is defined as interest, dividend and sundry income.*
[(3)] *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.*
[(4)] *Total comprehensive income is net income before distributions.*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 14. Interest in associates – measured at fair value (continued)

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

| Company | Percentage of participation rights in total issued units | | Fair value | |
|---|---|---|---|---|
| Name | **2013** **%** | Restated 2012 % | **2013** **Rm** | Restated 2012 Rm |
| South Africa Infrastructure Fund | **31** | 6 | **1 869** | 1 042 |
| Africa Infrastructure Fund | **20** | | **307** | |
| Synergy Income Fund[(1)] | | 38 | | 387 |
| Total interest in associates | | | **2 176** | 1 429 |

[(1)] *This interest is no longer disclosed as an associate as the group's exposure to economic interest in this fund is below what is considered to be significant influence.*

| Associates material to the company: | South Africa Infrastructure Fund | |
|---|---|---|
| | **2013** **Rm** | Restated 2012 Rm |
| Fair value of associates measured at fair value through profit or loss | **1 869** | 1 042 |
| Distributions received[(1)] | **10** | 10 |
| Summarised financial information of associates: | | |
| Current assets | **339** | 164 |
| Non-current assets | **8 150** | 3 981 |
| Current liabilities | **(2)** | (18) |
| Total revenue[(2) (3)] | **312** | 560 |
| Total comprehensive income[(4)] | **270** | 524 |

[(1)] *Distributions received comprise dividends and interest.*
[(2)] *Total revenue is defined as interest, dividend and sundry income.*
[(3)] *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.*
[(4)] *Total comprehensive income is net income before distributions.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 Rm | Restated 2012 Rm | 2013 Rm | Restated 2012 Rm |
| **15. Financial investments and derivative assets and liabilities** | | | | |
| **15.1 Financial investments comprise:** | | | | |
| ***Financial assets designated at fair value through profit or loss*** | | | | |
| **Quoted in an active market** | | | | |
| **Listed** | **140 406** | 102 750 | **118 406** | 66 488 |
| Equities | **68 584** | 61 786 | **65 281** | 52 088 |
| Preference shares | **1 489** | 2 006 | **1 489** | 1 333 |
| Commercial term deposits | **15 074** | 13 770 | **11 701** | 6 015 |
| Mututal funds | **29 485** | 281 | **28 982** | 281 |
| Government, municipal and utility stocks | **25 774** | 24 907 | **10 953** | 6 771 |
| **Unlisted** | **83 323** | 99 605 | **83 265** | 76 173 |
| Commercial term deposits | **15 514** | 17 142 | **15 514** | 9 669 |
| Mutual funds | **67 809** | 82 420 | **67 751** | 66 504 |
| Government, municipal and utility stocks | | 43 | | |
| **Unquoted and unlisted** | **26 842** | 23 454 | **25 775** | 23 987 |
| Equities | **57** | 158 | **57** | 69 |
| Preference shares | **1 140** | 615 | **1 140** | 615 |
| Investment policies | **25 645** | 22 681 | **24 578** | 23 303 |
| ***Loans and receivables*** | | | | |
| Loans[(1)] | **977** | 913 | **977** | 183 |
| **Total financial investments** | **251 548** | 226 722 | **228 423** | 166 831 |
| **15.2 Derivative assets and liabilities:** | | | | |
| ***Assets:*** | | | | |
| *Held for trading* | **6 369** | 6 855 | **6 324** | 6 102 |
| Derivatives | **4 938** | 6 071 | **4 893** | 5 348 |
| Collateral deposits | **1 431** | 784 | **1 431** | 754 |
| *Held for hedging* | | | | |
| Cash flow hedge assets | | 35 | | 35 |
| | **6 369** | 6 890 | **6 324** | 6 137 |
| ***Liabilities:*** | | | | |
| *Held for trading* | **4 007** | 5 987 | **4 007** | 5 570 |
| Derivatives | **4 007** | 5 308 | **4 007** | 5 111 |
| Collateral deposits | | 679 | | 459 |
| *Held for hedging* | | | | |
| Derivatives | **837** | 95 | **837** | 72 |
| | **4 844** | 6 082 | **4 844** | 5 642 |

[(1)] *The fair value of loans is R862 million (2012: R813 million) for the group and R862 million (2012: R170 million) for the company.*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| Group | Derivatives held for hedging Rm | Derivatives held for trading Rm | Fair value through profit or loss Rm | Loans and receivables Rm | Total Rm |
|---|---|---|---|---|---|
| **15. Financial investments and derivative assets and liabilities** (continued) | | | | | |
| **15.3 Movement analysis:** | | | | | |
| **2013** | | | | | |
| Balance at the beginning of the year | **(60)** | **868** | **227 328** | **913** | **229 049** |
| Financial investments | | | **225 809** | **913** | **226 722** |
| Held for trading assets | | **6 855** | | | **6 855** |
| Held for trading liabilities | | **(5 987)** | | | **(5 987)** |
| Held for hedging asset | **35** | | | | **35** |
| Held for hedging liabilities | **(95)** | | | | **(95)** |
| Interests in associates – mutual funds | | | **1 519** | | **1 519** |
| Redesignated to cash flow hedges | **(23)** | **23** | | | |
| Disposals through business disposals | | | **(130)** | | **(130)** |
| Additions (purchasings and issuings) | | **6 517** | **173 488** | **131** | **180 136** |
| Disposals (sales and redemptions) | | **(2 958)** | **(173 425)** | | **(176 383)** |
| Accrued interest | | | | **82** | **82** |
| Repayments | | | | **(146)** | **(146)** |
| Fair value adjustments – income statement | **(571)** | **(2 010)** | **26 885** | | **24 304** |
| Fair value adjustments – other comprehensive income | **(183)** | | | | **(183)** |
| Impairment | | | | **(3)** | **(3)** |
| Movement on third party share of financial instruments in mutual funds | | **(78)** | **(67)** | | **(145)** |
| Foreign currency translation | | | **16** | | **16** |
| **Balance at the end of the year** | **(837)** | **2 362** | **254 095** | **977** | **256 597** |
| Financial investments | | | **250 571** | **977** | **251 548** |
| Held for trading assets | | **6 369** | | | **6 369** |
| Held for trading liabilities | | **(4 007)** | | | **(4 007)** |
| Held for hedging liabilities | **(837)** | | | | **(837)** |
| Pledged assets | | | **1 348** | | **1 348** |
| Interest in associates – mutual funds | | | **2 176** | | **2 176** |

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| Group | Derivatives held for hedging Rm | Derivatives held for trading Rm | Fair value through profit or loss Rm | Loans and receivables Rm | Total Rm |
|---|---|---|---|---|---|
| **15. Financial investments and derivative assets and liabilities** (continued) | | | | | |
| **15.3 Movement analysis:** | | | | | |
| Restated 2012 | | | | | |
| Balance at the beginning of the year | (8) | 685 | 196 095 | 863 | 197 635 |
| Financial investments | | | 195 002 | 863 | 195 865 |
| 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 | | | 1 093 | | 1 093 |
| 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) | 27 239 | | 26 408 |
| Fair value adjustments – other comprehensive income | (29) | | | | (29) |
| Impairment | | | | (1) | (1) |
| Movement on third party share of financial instruments in mutual funds | | 128 | (87) | | 41 |
| Foreign currency translation | | | (2) | | (2) |
| **Balance at the end of the year** | (60) | 868 | 227 328 | 913 | 229 049 |
| Financial investments | | | 225 809 | 913 | 226 722 |
| Held for trading assets | | 6 855 | | | 6 855 |
| Held for trading liabilities | | (5 987) | | | (5 987) |
| Held for heding assets | 35 | | | | 35 |
| Held for hedging liabilities | (95) | | | | (95) |
| Interest in associates – mutual funds | | | 1 519 | | 1 519 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| Company | Derivatives held for hedging Rm | Derivatives held for trading Rm | Fair value through profit or loss Rm | Loans and receivables Rm | Total Rm |
|---|---|---|---|---|---|
| **15. Financial investments and derivative assets and liabilities** (continued) | | | | | |
| **15.3 Movement analysis:** | | | | | |
| **2013** | | | | | |
| Balance at the beginning of the year | **(37)** | **532** | **185 295** | **183** | **185 973** |
| Financial investments | | | **166 648** | **183** | **166 831** |
| Held for trading assets | | **6 102** | | | **6 102** |
| Held for trading liabilities | | **(5 570)** | | | **(5 570)** |
| Held for hedging assets | **35** | | | | **35** |
| Held for hedging liabilities | **(72)** | | | | **(72)** |
| Interests in associates – mutual funds | | | **1 429** | | **1 429** |
| Interest in subsidiaries – mutual funds | | | **17 218** | | **17 218** |
| Transfer of insurance business arising from life licence rationalisation | **(70)** | **(55)** | **48 216** | **763** | **48 854** |
| Cancellation of intergroup investment policies following life license ratoionalisation | | | **(11 245)** | | **(11 245)** |
| Redesignated as derivatives held for hedging | **(23)** | **23** | | | |
| Additions (purchasings and issuings) | | **5 906** | **153 537** | **66** | **159 509** |
| Disposals (sales and redemptions) | | **(2 895)** | **(147 565)** | | **(150 460)** |
| Accrued interest | | | | **40** | **40** |
| Repayments | | | | **(75)** | **(75)** |
| Fair value adjustments – total earnings | **(522)** | **(1 194)** | **25 700** | | **23 984** |
| Fair value adjustments – other comprehensive income | **(185)** | | | | **(185)** |
| **Balance at the end of the year** | **(837)** | **2 317** | **253 938** | **977** | **256 395** |
| Financial investments | | | **227 446** | **977** | **228 423** |
| Held for trading assets | | **6 324** | | | **6 324** |
| Held for trading liabilities | | **(4 007)** | | | **(4 007)** |
| Held for hedging liabilities | **(837)** | | | | **(837)** |
| Pledged assets | | | **1 348** | | **1 348** |
| Interest in associates – mutual funds | | | **2 176** | | **2 176** |
| Interest in subsidiaries – mutual funds | | | **22 968** | | **22 968** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| Company | Derivatives held for hedging Rm | Derivatives held for trading Rm | Fair value through profit or loss Rm | Loans and receivables Rm | Total Rm |
|---|---|---|---|---|---|
| **15. Financial investments and derivative assets and liabilities** (continued) | | | | | |
| **15.3 Movement analysis:** | | | | | |
| Restated 2012 | | | | | |
| Balance at the beginning of the year | 2 | 425 | 160 967 | 184 | 161 578 |
| Financial investments | | | 156 963 | 184 | 157 147 |
| Held for trading assets | | 3 186 | | | 3 186 |
| Held for trading liabilities | | (2 761) | | | (2 761) |
| Held for hedging assets | 13 | | | | 13 |
| Held for hedging liabilities | (11) | | | | (11) |
| Interests in associates – mutual funds | | | 992 | | 992 |
| Interest in subsidiaries – mutual funds | | | 3 012 | | 3 012 |
| Redesignated as derivatives held for hedging | 4 | (4) | | | |
| Additions (purchasings and issuings) | | 3 549 | 115 695 | 28 | 119 272 |
| Disposals (sales and redemptions) | | (2 639) | (115 153) | | (117 792) |
| Accrued interest | | | | 16 | 16 |
| Repayments | | | | (45) | (45) |
| Fair value adjustments – total earnings | (15) | (799) | 23 786 | | 22 972 |
| Fair value adjustments – other comprehensive income | (28) | | | | (28) |
| **Balance at the end of the year** | (37) | 532 | 185 295 | 183 | 185 973 |
| Financial investments | | | 166 648 | 183 | 166 831 |
| Held for trading assets | | 6 102 | | | 6 102 |
| Held for trading liabilities | | (5 570) | | | (5 570) |
| Held for hedging assets | 35 | | | | 35 |
| Held for hedging liabilities | (72) | | | | (72) |
| Interest in associates – mutual funds | | | 1 429 | | 1 429 |
| Interest in subsidiaries – mutual funds | | | 17 218 | | 17 218 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 Rm | Restated 2012 Rm | 2013 Rm | 2012 Rm |
| **15. Financial investments and derivative assets and liabilities** (continued) | | | | |
| **15.4 Maturity profile of commercial term deposits, redeemable preference shares, government, municipal and utility stocks and loans:** | | | | |
| Less than 1 year | **8 358** | 9 884 | **8 322** | 4 800 |
| 1 – 5 years | **16 824** | 15 750 | **14 834** | 6 675 |
| 5 – 10 years | **16 304** | 13 284 | **6 524** | 4 962 |
| 10 – 20 years | **11 249** | 13 261 | **4 947** | 4 035 |
| Over 20 years | **4 709** | 3 683 | **4 623** | 1 983 |
| Open ended[1] | **977** | 913 | **977** | 183 |
| Total | **58 421** | 56 775 | **40 227** | 22 638 |

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.*

### 15.5 Cash flow hedging reserve

| Group | Gross value Rm | Income taxation Rm | Net value Rm |
|---|---|---|---|
| **2013** | | | |
| Balance at beginning of the year | **(15)** | **4** | **(11)** |
| Net change in fair value on cash flow hedge | **(183)** | **53** | **(130)** |
| Balance at the end of the year | **(198)** | **57** | **(141)** |
| 2012 | | | |
| Balance at beginning of the year | 14 | (4) | 10 |
| Net change in fair value on cash flow hedge | (29) | 8 | (21) |
| Balance at the end of the year | (15) | 4 | (11) |
| **Company** | | | |
| **2013** | | | |
| Balance at beginning of year | **(13)** | **4** | **(9)** |
| Net change in fair value on cash flow hedge | **(185)** | **53** | **(132)** |
| Balance at the end of the year | **(198)** | **57** | **(141)** |
| 2012 | | | |
| Balance at beginning of year | 15 | (4) | 11 |
| Net change in fair value on cash flow hedge | (28) | 8 | (20) |
| Balance at the end of the year | (13) | 4 | (9) |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | 2012 Rm |
| **16. Prepayments, insurance and other receivables** | | | | |
| Current balances related to insurance contracts | **774** | 623 | **770** | 187 |
| Outstanding premium receivables | **471** | 423 | **471** | 53 |
| Reinsurance recoveries | **303** | 200 | **299** | 134 |
| Current balances related to investment contracts | | | | |
| Outstanding premium receivables | **76** | 210 | **76** | 209 |
| Current balances related to insurance and investment contracts | **850** | 833 | **846** | 396 |
| Accrued income | **59** | 54 | **59** | 44 |
| Investment debtors | **503** | 598 | **503** | 515 |
| Consolidated mutual funds receivables | **375** | 311 | | |
| Property consortiums receivables | **48** | 40 | | |
| Loans and current accounts | **160** | 227 | **150** | 530 |
| Agents, brokers and intermediaries | **142** | 120 | **142** | 92 |
| Other debtors | **386** | 408 | **370** | 387 |
| **Total prepayments, insurance and other receivables**[1] | **2 523** | 2 591 | **2 070** | 1 964 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | 2012 Rm |
| **17. Cash and cash equivalents** | | | | |
| Cash at bank and at hand | **1 063** | 750 | **973** | 416 |
| Short-term cash deposits | **4 010** | 2 932 | **3 870** | 1 636 |
| **Total cash and cash equivalents** | **5 073** | 3 682 | **4 843** | 2 052 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Insurance contracts** | **Investment contracts with DPF[1]** | **Reinsurance assets** | Insurance contracts | Investment contracts with DPF[1] | Reinsurance assets |
| | | **2013** | | | Restated 2012 | |
| | **Rm** | **Rm** | **Rm** | Rm | Rm | Rm |
| **18. Long-term policyholder liabilities and reinsurance assets** | | | | | | |
| Balance at the beginning of the year | **164 160** | **2 820** | **(966)** | 145 211 | 2 639 | (898) |
| Disposal through business disposal | **(44)** | **(20)** | **8** | | | |
| Inflows | **57 358** | **2 403** | **(992)** | 55 486 | 839 | (885) |
| Insurance premiums | **32 296** | **1 553** | **(926)** | 28 700 | 485 | (811) |
| Investment returns | **25 062** | **850** | **(66)** | 26 786 | 354 | (74) |
| Unwinding of discount rate | **942** | **1** | **(66)** | 1 141 | 1 | (73) |
| Investments | **24 120** | **849** | | 25 645 | 353 | (1) |
| Outflows | **(38 740)** | **(705)** | **774** | (34 071) | (385) | 665 |
| Claims and policyholders' benefits | **(27 073)** | **(514)** | **740** | (23 555) | (358) | 589 |
| Acquisition costs associated with insurance contracts | **(3 411)** | **(120)** | **6** | (3 141) | (9) | 1 |
| Profit share allocations | **(950)** | | | (774) | | |
| Finance costs | **(208)** | | | (45) | | |
| General marketing and administration expenses | **(4 464)** | **(77)** | **8** | (4 145) | (26) | 2 |
| Expenses recovered from other group companies | **65** | | | 87 | | |
| Taxation | **(2 699)** | **6** | **20** | (2 498) | 8 | 73 |
| Switches between investment with DPF and investment without DPF | | **3 213** | | | (295) | |
| Net income from insurance operations | **(2 857)** | **15** | **51** | (2 466) | 22 | 152 |
| Changes in assumptions | **218** | | **(2)** | (501) | | (28) |
| Discretionary and compulsory margins and other variances | **(4 715)** | **21** | **68** | (3 649) | 30 | 248 |
| New business | **59** | | **2** | 275 | | 2 |
| Shareholder taxation on transfer of net income | **1 581** | **(6)** | **(17)** | 1 409 | (8) | (70) |
| Foreign currency translation | **7** | **4** | **(1)** | | | |
| **Balance at the end of the year** | **179 884** | **7 730** | **(1 126)** | 164 160 | 2 820 | (966) |
| Current | **15 224** | **389** | **(186)** | 17 482 | 240 | (154) |
| Non-current | **164 660** | **7 341** | **(940)** | 146 678 | 2 580 | (812) |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **Insurance contracts** | **Investment contracts with DPF**[1] | **Reinsurance assets** | Insurance contracts | Investment contracts with DPF[1] | Reinsurance assets |
| | | **2013** | | | Restated 2012 | |
| | **Rm** | **Rm** | **Rm** | Rm | Rm | Rm |
| **18. Long-term policyholder liabilities and reinsurance assets** (continued) | | | | | | |
| Balance at the beginning of the year | **119 682** | **2 808** | **(431)** | 107 041 | 2 631 | (425) |
| Transfer of insurance business arising from life licence rationalisation | **44 614** | | **(502)** | | | |
| Inflows | **47 369** | **2 396** | **(797)** | 36 854 | 832 | (650) |
| Insurance premiums | **24 476** | **1 547** | **(754)** | 16 448 | 480 | (616) |
| Investment returns | **22 893** | **849** | **(43)** | 20 406 | 352 | (34) |
| Unwinding of discount rate | **243** | | **(43)** | 28 | | (34) |
| Investments | **22 650** | **849** | | 20 378 | 352 | |
| Outflows | **(29 278)** | **(701)** | **614** | (22 081) | (381) | 496 |
| Claims and policyholders' benefits under insurance contracts | **(20 767)** | **(510)** | **615** | (15 814) | (356) | 427 |
| Acquisition costs associated with insurance contracts | **(2 372)** | **(121)** | | (1 717) | (9) | |
| Profit share allocations | **(306)** | | | | | |
| Finance costs | **(208)** | | | (43) | | |
| General marketing and administration expenses | **(3 414)** | **(76)** | | (2 678) | (24) | |
| Expenses recovered from other group companies | **81** | | | 110 | | |
| Taxation | **(2 292)** | **6** | **(1)** | (1 939) | 8 | 69 |
| Switches between investment with DPF and investment without DPF | | **3 213** | | | (295) | |
| Net income from insurance operations | **(2 432)** | **14** | **(4)** | (2 132) | 21 | 148 |
| Changes in estimates | **145** | | **(1)** | (266) | | (29) |
| Planned margins and other variances | **(3 539)** | **20** | **(4)** | (2 647) | 29 | 246 |
| New business | **(238)** | | | (172) | | |
| Shareholder taxation on transfer of net income | **1 200** | **(6)** | **1** | 953 | (8) | (69) |
| **Balance at the end of the year** | **179 955** | **7 730** | **(1 120)** | 119 682 | 2 808 | (431) |
| Current | **15 231** | **389** | **(183)** | 14 702 | 228 | (61) |
| Non-current | **164 724** | **7 341** | **(937)** | 104 980 | 2 580 | (370) |

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

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

#### 18.1 Process used to decide on assumptions and changes in assumptions

***Mortality***

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

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

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

In setting the assumptions provision is made for expected AIDS-related claims. Allowance for AIDS related deaths is made in the base mortality rates at rates consistent with the requirement of APN 105 issued by the Actuarial Society of South Africa. The rates are defined using an appropriate Actuarial Society of South Africa models calibrated to reflect Liberty's assurance lives.

For contracts insuring survivorship, an allowance is made for future mortality improvements based on expected future trends.

***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 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 and for certain policy categories by age. These withdrawal rates vary considerably by duration, policy term and policy 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:

- Gilts – Effective 10-year yield curve rate at the balance sheet date: 8,14% (2012: 6,89%);
- Equities – Gilt rate plus 3,5 percentage points as an adjustment for risk: 11,64% (2012: 10,39%);
- Property – Gilt rate plus 1 percentage point as an adjustment for risk: 9,14% (2012: 7,89%); and
- Cash – Gilt rate less 1,5 percentage points: 6,64% (2012: 5,39%).

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 endowments business) is 10,5% per annum in 2013 (2012: 9,2% per annum). Where appropriate the investment return assumption is 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, disability in payment and guaranteed endowments business, discount rates are set at risk free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

***Expenses***

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

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

***Expense inflation***

The inflation rate is set at 60% of the risk free rate (gilt rate) when the risk free rate is below 6.5%. The inflation rate is set at the risk free rate less 3% when the risk free rate is above 8.5%. At risk free rates between 6.5% and 8.5% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 5.15% at 31 December 2013 (2012 : 4.15%). The expense inflation assumption is set taking into consideration the expected future development of the number of in force policies, as well as the expected future profile of maintenance expenses.

***Taxation***

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act at the balance sheet date. The 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 35.85% (2012: 30.22%). Correlations between asset classes are set based on historical data. Over sixteen thousand simulations are performed in calculating the liability.

Using the simulated investment returns, but based on two thousand simulations, as at 31 December 2013 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 | **6,01%** | **18,91%** |
| A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot | **1,49%** | **23,57%** |
| A 1-year at-the-money (forward) put on the FTSE/JSE TOP 40 index | **7,10%** | **18,34%** |
| A 5-year at-the-money (spot) put on the FTSE/JSE TOP 40 index | **8,76%** | **23,64%** |
| A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1,04^5$ of spot | **15,40%** | **22,36%** |
| A 5-year at-the-money (forward) put on the FTSE/JSE TOP 40 index | **17,02%** | **22,14%** |
| 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 | **6,66%** | **N/A** |
| A 20-year at-the-money (spot) put on the FTSE/JSE TOP 40 index | **2,67%** | **28,60%** |
| A 20-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1,04^{20}$ of spot | **12,26%** | **29,61%** |
| A 20-year at-the-money (forward) put on the FTSE/JSE TOP 40 index | **29,37%** | **30,51%** |
| 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 | **0,41%** | **N/A** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 18. Long-term policyholder liabilities and reinsurance assets (continued)
#### 18.1 Process used to decide on assumptions and changes in assumptions (continued)

Using the simulated investment returns, as at 31 December 2012 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 |

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 method used in setting the volatility of the simulated investment returns was refined as at 31 December 2013 to reflect the volatility skew in short-dated options. The results shown above at 31 December 2012 are consistent with the methodology used to value the embedded derivatives at that date and have not been restated for this refinement in methodology.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

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

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

| Model output yield curve (%) | 2013 | 2012 |
|---|---|---|
| 1 year | **5,51** | 4,94 |
| 2 years | **6,12** | 5,01 |
| 3 years | **6,64** | 5,26 |
| 4 years | **7,06** | 5,53 |
| 5 years | **7,41** | 5,79 |
| 10 years | **8,45** | 6,87 |
| 15 years | **9,21** | 7,31 |
| 20 years | **9,28** | 7,29 |
| 25 years | **9,17** | 7,28 |
| 30 years | **8,97** | 7,12 |
| 35 years | **9,00** | 7,18 |
| 40 years | **9,02** | 7,25 |
| 45 years | **8,94** | 7,28 |
| 50 years | **8,86** | 7,27 |

#### 18.2 Changes in assumptions

**Group**

Modelling and other changes were made to realign valuation assumptions with future experience. These changes resulted in a net increase in policyholders liabilities of R216 million in 2013 compared to a decrease of R529 million in 2012.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in an increase in the liability of R98 million (2012: increase of R183 million);
- A change in future mortality and morbidity assumptions to reflect expected future experience, amounting to a decrease in the liability of R6 million (2012: decrease of R223 million);
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in an increase in the liability of R286 million (2012: decrease of R330 million);
- The assumptions for annuitant longevity were weakened, resulting in a decrease in the liability of R56 million (2012: decrease of R90 million);
- A change in the expense valuation assumptions resulted in a decrease in the liability of R74 million (2012: decrease of R5 million);
- A change in the tax relief on expenses assumptions resulted in a decrease in the liability of R16 million (2012: decrease of R156 million); and
- The balance of modelling and other changes resulted in a decrease in liabilities of R16 million (2012: increase of R92 million).

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

#### 18.2 Changes in assumptions

**Company**

Modelling and other changes were made to realign valuation assumptions with future experience. These changes resulted in a net increase in policyholders liabilities of R144 million in 2013 compared to a decrease of R295 million in 2012.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in an increase in the liability of R96 million (2012: increase of R164 million);
- Future mortality and morbidity assumptions were adjusted to reflect expected future experience, amounting to a decrease in the liability of R5 million (2012: decrease of R158 million);
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in an increase in the liability of R187 million (2012: decrease of R316 million);
- The assumptions for annuitant longevity were weakened, resulting in a decrease in the liability of R26 million (2012: increase of R14 million);
- A change in the expense valuation assumption resulted in a decrease in the liability of R74 million (2012: decrease of R48 million);
- A change in the tax relief on expenses resulted in a decrease in reserves of R16 million (2012: decrease of R81 million); and
- The balance of modelling and other changes resulted in a decrease in liabilities of R18 million (2012: increase of R130 million).

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| **19. Long-term policyholders liabilities under investment contracts** | | | | |
| Balance at the beginning of the year | **67 297** | 59 074 | **73 795** | 62 972 |
| Transfer of insurance business arising from the life license rationalisation | | | **3 260** | |
| Cancellation of intergroup policies following life license rationalisation | | | **(11 245)** | |
| Fund inflows from investment contracts (excluding switches) | **13 211** | 11 373 | **14 010** | 12 932 |
| Fair value adjustment | **9 990** | 9 949 | **10 444** | 10 743 |
| Fund outflows under investment contracts (excluding switches) | **(13 193)** | (12 502) | **(12 989)** | (12 280) |
| Switches between investment with DPF and investment without DPF | **(3 213)** | 295 | **(3 213)** | 295 |
| Service fee income | **(918)** | (892) | **(888)** | (867) |
| **Balance at the end of the year** | **73 174** | 67 297 | **73 174** | 73 795 |
| Current | **4 792** | 7 139 | **4 792** | 5 564 |
| Non-current | **68 382** | 60 158 | **68 382** | 68 231 |
| **Net income from investment contracts[1]** | **(32)** | (20) | **(48)** | (33) |
| Service fee income | **918** | 892 | **888** | 867 |
| Expenses | | | | |
| Property expenses applied to investment returns | **369** | 464 | **369** | 464 |
| Shareholder taxation on transfer of net income | **13** | (5) | **19** | |
| Acquisition costs | **(239)** | (269) | **(238)** | (267) |
| General marketing and administration expenses | **(1 025)** | (1 068) | **(1 019)** | (1 063) |
| Finance costs | **(68)** | (34) | **(67)** | (34) |

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

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 20. Short-term insurance liabilities

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Liability** | **Reinsurance assets** | **Net liability** | Liability | Reinsurance assets | Net liability |
| | | | **2013** | | | 2012 | |
| | | **Rm** | **Rm** | **Rm** | Rm | Rm | Rm |
| **20.1** | **Short-term insurance liabilities comprise** | | | | | | |
| | Claims incurred but not reported | | | | 1 | | 1 |
| | Unearned premiums | | | | 20 | | 20 |
| | **Total short-term insurance liabilities** | | | | 21 | | 21 |
| **20.2** | **Movements analysis** | | | | | | |
| | ***Claims incurred but not reported*** | | | | | | |
| | Balance at the beginning of the year | **1** | | **1** | | | |
| | Additions through business acquisition | | | | 1 | | 1 |
| | Disposal through business disposal | **(3)** | | **(3)** | | | |
| | Cash-settled claims | **(230)** | **65** | **(165)** | (183) | 54 | (129) |
| | New claims provided for | **232** | **(65)** | **167** | 183 | (54) | 129 |
| | **Balance at the end of the year** | | | | 1 | | 1 |
| | ***Unearned premiums*** | | | | | | |
| | Balance at the beginning of the year | **20** | | **20** | | | |
| | Additions through business acquisition | | | | 15 | | 15 |
| | Disposal through business disposal | **(52)** | | **(52)** | | | |
| | Gross premiums received/accrued | **359** | **(87)** | **272** | 277 | (68) | 209 |
| | Recognised to revenue | **(333)** | **87** | **(246)** | (273) | 68 | (205) |
| | Foreign currency translation | **6** | | **6** | 1 | | 1 |
| | **Balance at the end of the year** | | | | 20 | | 20 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group and Company | |
|---|---|---|
| | **2013** | 2012 |
| | **Rm** | Rm |
| **21. Financial liabilities at amortised cost** | | |
| Subordinated notes[3] | **3 069** | 2 037 |
| – 2012 August issue[1] | **1 025** | 1 024 |
| – 2012 October issue[1] | **1 014** | 1 013 |
| – 2013 August issue[1] | **1 030** | |
| Redeemable preference shares[2][3] | **5** | |
| **Total financial liabilities at amortised cost** | **3 074** | 2 037 |
| Current | **84** | 35 |
| Non-current | **2 990** | 2 002 |
| *Movement analysis* | | |
| Balance at the beginning of the year | **2 037** | 2 054 |
| Interest accrued | **191** | 173 |
| Note issues | **1 000** | 2 000 |
| Preference shares issue | **5** | |
| Capitalisation of note issue expenses | **(6)** | (12) |
| Repayments | **(153)** | (2 178) |
| **Balance at the end of the year** | **3 074** | 2 037 |

(1) *On 13 August 2012, Liberty Group Limited issued a R1 billion subordinated note maturing on 13 August 2017. The note 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 note maturing on 3 April 2018. The note was issued at a fixed coupon of 7,64% payable semi-annually on 3 April and 3 October each year until 3 April 2018.*
*On 14 August 2013, Liberty Group Limited issued a R1 billion subordinated note maturing on 14 August 2020. The note was issued at a fixed coupon of 9,165% payable semi-annually on 14 August and 14 February each year until 14 August 2020.*
*The notes 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 note 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.*

(2) *5 000 cumulative, participating non-convertible redeemable preference shares valued at R1 000 each were issued by the wholly owned subsidiary Liberty Group Limited during 2013. These preference shares are executionary in nature facilitating the payment of profit share amounts that accrue in terms of the bancassurance agreement with Standard Bank. The preference shares are redeemable as and when the bancassurance agreement is terminated.*

(3) *The fair value of the subordinated note which matures on 13 August 2017 is R1 004 million (2012: R1 108 million) and for the note which matures on 3 April 2018 is R979 million (2012: R1 098 million) and for the note which matures on 14 August 2020 is R1 030 million. The fair value of the redeemable preference share is R5 million.*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | |
|---|---|---|
| | **2013** | Restated 2012 |
| | **Rm** | Rm |
| **22. Third party financial liabilities arising on consolidation of mutual funds** | | |
| ***Movement analysis*** | | |
| Balance at the beginning of the year | **379** | 176 |
| Additional mutual funds classified as subsidiaries | **149** | 184 |
| Repayments through withdrawal or change in effective ownership | **(68)** | 13 |
| Mutual funds no longer classified as subsidiaries | **(86)** | (21) |
| Distributions | **(5)** | (3) |
| Fair value adjustment | **92** | 30 |
| **Balance at the end of the year** | **461** | 379 |

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.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| | Note | **Rm** | Rm | **Rm** | Rm |
| **23. Employee benefits** | | | | | |
| **23.1 Summary** | | | | | |
| Asset: | | | | | |
| Defined benefit pension fund employer surplus | 23.5 | **210** | 186 | **210** | 186 |
| Liabilities: | | | | | |
| Short-term employee benefits | 23.2 | **565** | 468 | **557** | 439 |
| Post-retirement medical aid benefit | 23.6 | **366** | 362 | **366** | 362 |
| **Total liability** | | **931** | 830 | **923** | 801 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 23. Employee benefits (continued)
#### 23.2 Short-term employee benefits

| Group | Leave pay 2013 Rm | Leave pay 2012 Rm | Short-term incentive schemes 2013 Rm | Short-term incentive schemes 2012 Rm | Total 2013 Rm | Total 2012 Rm |
|---|---|---|---|---|---|---|
| At the beginning of the year | **57** | 54 | **411** | 314 | **468** | 368 |
| Disposals through business disposals | | | **(3)** | | **(3)** | |
| Additional provision raised | **120** | 87 | **456** | 372 | **576** | 459 |
| Utilised during the year | **(101)** | (84) | **(375)** | (275) | **(476)** | (359) |
| **At the end of the year** | **76** | 57 | **489** | 411 | **565** | 468 |

| Company | Leave pay 2013 Rm | Leave pay 2012 Rm | Short-term incentive schemes 2013 Rm | Short-term incentive schemes 2012 Rm | Total 2013 Rm | Total 2012 Rm |
|---|---|---|---|---|---|---|
| At the beginning of the year | **37** | 39 | **402** | 307 | **439** | 346 |
| Transfer of insurance business arising from life license rationalisation | **33** | | | | **33** | |
| Additional provision raised | **83** | 53 | **449** | 365 | **532** | 418 |
| Utilised during the year | **(78)** | (55) | **(369)** | (270) | **(447)** | (325) |
| **At the end of the year** | **75** | 37 | **482** | 402 | **557** | 439 |

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.

***Group***
Accruals for the short-term cash incentive schemes as at 31 December 2013 comprise of R246 million (2012: R256 million) senior management group incentive scheme, R151 million (2012: R105 million) general staff incentive schemes and R92 million (2012: R50 million) investment professional schemes.

***Company***
Short-term cash incentive schemes as at 31 December 2013 comprise of R243 million (2012: R274 million) senior management group incentive scheme, R147 million (2012: R102 million) general staff incentive schemes and R92 million (2012: R26 million) investment professional schemes.

#### 23.3 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 and the company operate 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 financial statements *(continued)*

*for the year ended 31 December 2013*

### 23. Employee benefits (continued)

#### 23.3 Details of funds (continued)

***ACA Defined Benefit Fund [(1)]***

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 [(1)]***

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 [(2)]***

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 [(2)]***

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 [(2)]***

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.

***Rentmeester Defined Contribution Pension Fund [(2)]***

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 [(2)]***

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.

***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.

(1) *The liabilities in respect of the ACA Defined Benefit Fund and the Rentmeester Defined Benefit Fund are significant to the group with obligations and plan assets both being less than R10 million. Both funds have excess assets not recognised. No detailed disclosure is therefore provided.*

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

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 23. Employee benefits (continued)

### 23.4 Retirement benefit obligation

| | Liberty Group Defined Benefit Pension Fund | | | | |
|---|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | Restated 2011 Rm | Restated 2010 Rm | Restated 2009 Rm |
| *Change in defined benefit funded obligation* | | | | | |
| Present value of funded obligation at the beginning of the year | **1 252** | 1 059 | 1 032 | 1 018 | 967 |
| Valuation adjustment[1] | | | | | (13) |
| Service cost benefits earned during the year | **16** | 15 | 13 | 13 | 12 |
| Interest cost on projected benefit obligation | **96** | 60 | 67 | 66 | 52 |
| Actuarial (gain)/loss | **(18)** | 211 | 49 | 27 | 68 |
| Benefits paid | **(81)** | (93) | (102) | (92) | (68) |
| **Present value of funded obligation at the end of the year** | **1 265** | 1 252 | 1 059 | 1 032 | 1 018 |
| **Change in plan assets** | | | | | |
| Fair value of plan assets at the beginning of the year | **1 541** | 1 367 | 1 342 | 1 280 | 1 197 |
| Valuation adjustment[1] | | | | | (13) |
| Expected return on plan assets | **120** | 117 | 118 | 117 | 88 |
| Actuarial gain from return on plan assets | **139** | 150 | 9 | 37 | 76 |
| Employer contribution[2] | **14** | 15 | 14 | 9 | 8 |
| Reduction in employer surplus account[2] | **(14)** | (15) | (14) | (9) | (8) |
| Benefits paid | **(81)** | (93) | (102) | (92) | (68) |
| **Fair value of plan assets at the end of the year[3]** | **1 719** | 1 541 | 1 367 | 1 342 | 1 280 |
| **Surplus** | **454** | 289 | 308 | 310 | 262 |
| Effect of limiting net defined benefit asset to the asset ceiling | **244** | 103 | 109 | 108 | 92 |
| **Net defined benefit asset** | **210** | 186 | 199 | 202 | 170 |

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 Pension Fund was financially sound.

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

(2) *The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2014 is nil as it is anticipated the contributions will be funded from the employer portion of the surplus account.*

(3) *The fair value of the plan assets for 2013 constitutes: 37,20% cash, 7,41% bonds, 35,06% equities, 20,16% international funds and 0,17% property (2012: 36,85% cash, 11,58% bonds, 36,31% equities, 15,10% international funds and 0,16% property).*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Liberty Group Defined Benefit Pension Fund | | | | |
|---|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | Restated 2011 Rm | Restated 2010 Rm | Restated 2009 Rm |
| **23. Employee benefits** (continued) | | | | | |
| **23.4 Retirement benefit obligation** (continued) | | | | | |
| *Change in defined benefit funded obligation* (continued) | | | | | |
| **Components of comprehensive income** | **(2)** | 2 | 4 | 2 | (2) |
| Net interest on the net defined benefit asset | **14** | 17 | 17 | 15 | 10 |
| Current service cost | **(16)** | (15) | (13) | (13) | (12) |
| **Components of other comprehensive income** | **26** | (15) | (7) | 30 | 28 |
| Actuarial gains/(losses) | **18** | (211) | (49) | (27) | (68) |
| Demograhic assumptions | **(18)** | (53) | (17) | (16) | (34) |
| Financial assumptions | **36** | (158) | (32) | (11) | (34) |
| Return on plan assets excluding interest cost and expected income on employer surplus | **149** | 190 | 43 | 73 | 102 |
| Change in the effect of the asset ceiling | **(141)** | 6 | (1) | (16) | (6) |
| **23.5 Defined benefit pension fund employer surplus** | | | | | |
| Balance at the beginning of the year | **186** | 199 | 202 | 170 | 144 |
| Investment gains | **38** | 47 | 15 | 30 | 21 |
| Expected return | **14** | 17 | 17 | 15 | 10 |
| Variance to expected | **24** | 30 | (2) | 15 | 11 |
| Agreed contribution to member benefit enhancements | **(14)** | (15) | (31) | (9) | (8) |
| Expected contributions | **(16)** | (15) | (13) | (13) | (12) |
| Variance to expected | **2** | | (18) | 4 | 4 |
| Apportionment of surplus/(deficit) in terms of section 15C of Pension Funds Act | | (45) | 13 | 11 | 13 |
| Other actuarial gains/(losses) | **141** | (51) | 14 | 27 | 19 |
| Change in the effect of the asset ceiling | **(141)** | 6 | (1) | (16) | (6) |
| **Balance at the end of the year** | **210** | 186 | 199 | 202 | 170 |
| Current | **14** | 15 | 14 | 9 | 8 |
| Non-current | **196** | 171 | 185 | 193 | 162 |

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

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Liberty Group Defined Benefit Pension Fund | | | | |
|---|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | 2011 Rm | 2010 Rm | 2009 Rm |
| **23. Employee benefits** (continued) | | | | | |
| **23.6 Post-retirement benefit medical aid obligation** | | | | | |
| ***Change in post-retirement medical aid benefit obligation*** | | | | | |
| Present value of unfunded obligation at the beginning of the year | **371** | 459 | 400 | 354 | 344 |
| Service cost benefits earned during the year | **8** | 9 | 8 | 6 | 6 |
| Interest cost on projected benefit obligation | **30** | 40 | 34 | 34 | 29 |
| Benefits paid | **(10)** | (10) | (9) | (8) | (7) |
| Actuarial (gain)/loss included in other comprehensive income | **(24)** | (127) | 26 | 14 | (18) |
| **Present value of unfunded obligation at the end of the year** | **375** | 371 | 459 | 400 | 354 |
| **Net liability recognised in financial position** | **366** | 362 | 448 | 390 | 344 |
| Current | **8** | 10 | 9 | 8 | 7 |
| Non-current | **358** | 352 | 439 | 382 | 337 |

The liability obligation has been updated after the most recent statutory actuarial valuation as at 1 January 2014.

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 23. Employee benefits (continued)

#### 23.7 Assumptions used in the valuation of obligations

| The valuation was based on the following principal actuarial assumptions: | | Liberty Group Defined Benefit Pension Fund 2013 | Liberty Group Defined Benefit Pension Fund 2012 | Post-Retirement Medical Aid Benefit 2013 | Post-Retirement Medical Aid Benefit 2012 |
|---|---|---|---|---|---|
| Anticipated after taxation returns on investments | | **9,84%** | 7,99% | *Unfunded liability and therefore there is no asset-backing portfolio* | |
| Discount rate | | *Nominal government bond curve* | 7,99% | *Nominal government bond curve.* | 8,40% |
| Future salary increases (excluding increases on promotion) | | *Future salary increases based on inflation curve plus 1% p.a. to each point on the curve* | 6,36% | | |
| Medical cost trend rate (applicable to members who retired before 1 January 2013) | | *Not applicable* | | *Inflation curve adjusted upwards by 1% p.a.* | 7,06% |
| Medical cost trend rate (applicable to members who retired after 1 January 2013) | | *Not applicable* | | *Curve implied by the difference between a nominal government bond curve and an index linked gilt* | 7,06% |
| Mortality assumption | – pre-retirement | *No pre-retirement mortality has been allowed for* | | *Based on the PA (90) Tables for Pensioners (Ultimate Rates)* | |
| | – post-retirement | *Based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years* | | *Based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years* | |
| Retirement age | – executives | **63** | 63 | **63** | 63 |
| | – others | **60 or 65** | 60 or 65 | **60 or 65** | 60 or 65 |

#### 23.8 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:

| | Group and company Decrease/(increase) in liability 2013 Rm | Group and company Decrease/(increase) in liability 2012 Rm |
|---|---|---|
| Variable | | |
| 1% decrease in medical inflation rate | | |
| – active members | **29** | 33 |
| – pensioners | **13** | 13 |
| 1% increase in medical inflation rate | | |
| – active members | **(36)** | (41) |
| – pensioners | **(15)** | (15) |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 23. Employee benefits (continued)

#### 23.9 Transactions between group companies and the funds

***23.9.1*** The contributions which the group has made on behalf of the employees during the year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 R'000** | 2012 R'000 | **2013 R'000** | 2012 R'000 |
| Retirement | | | | |
| Defined benefit funds | **11** | 11 | **9** | 8 |
| Defined contribution funds | **190** | 191 | **175** | 144 |
| Medical | | | | |
| Post-retirement medical benefit paid | **9** | 8 | **9** | 8 |

***23.9.2*** 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:

| | Group and company | | | |
|---|---|---|---|---|
| | Balance deposited | | Interest received | |
| | **2013 R'000** | 2012 R'000 | **2013 R'000** | 2012 R'000 |
| Balance at 1 January | **71** | 76 | | |
| Balance at 31 December | **55** | 71 | **14** | 17 |

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

| | Group and company | |
|---|---|---|
| | **2013 R'000** | 2012 R'000 |
| Liberty Group Defined Benefit Pension Fund | **436** | 240 |

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

| | Group and company | |
|---|---|---|
| | **2013 Rm** | 2012 Rm |
| STANLIB Funds Limited | **347** | 214 |
| STANLIB Prudential Bond Fund | **129** | |
| STANLIB Institutional Money Market Fund | **32** | |
| Standard Bank bonds, deposits and money market investments | **1** | 30 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 23. Employee benefits (continued)

#### 23.9 Transactions between group companies and the funds (continued)

*23.9.5* 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:

| Group and company | Fund value | |
|---|---|---|
| | **2013 Rm** | 2012 Rm |
| **Liberty Defined Contribution Pension Fund** | | |
| Balance at 1 January | **367** | 292 |
| Premiums | **48** | 46 |
| Transfers in from Capital Alliance Holdings Defined Contribution Pension Fund | **103** | |
| Fair value adjustments | **72** | 65 |
| Withdrawals | **(40)** | (36) |
| **Balance at 31 December** | **550** | 367 |
| **Liberty Provident Fund** | | |
| Balance at 1 January | **2 261** | 1 829 |
| Premiums | **268** | 202 |
| Fair value adjustments | **380** | 400 |
| Withdrawals | **(261)** | (170) |
| **Balance at 31 December** | **2 648** | 2 261 |
| **Liberty Agency Fund** | | |
| Balance at 1 January | **1 024** | 935 |
| Premiums | **61** | 56 |
| Fair value adjustments | **162** | 154 |
| Withdrawals | **(91)** | (121) |
| **Balance at 31 December** | **1 156** | 1 024 |
| **Liberty Active Provident Fund** | | |
| **Balance at 1 January and 31 December** | **1** | 1 |
| **Liberty Franchise Umbrella Fund** | | |
| Balance at 1 January | **46** | 37 |
| Premiums | **10** | 9 |
| Fair value adjustments | **7** | 3 |
| Withdrawals | **(2)** | (3) |
| **Balance at 31 December** | **61** | 46 |
| **Capital Alliance Holdings Defined Contribution Pension Fund** | | |
| Balance at 1 January | **185** | 174 |
| Fair value adjustments | **15** | 23 |
| Transfers out to Liberty Defined Contribution Pension Fund | **(103)** | |
| Withdrawals | **(3)** | (12) |
| **Balance at 31 December** | **94** | 185 |
| **Rentmeester Defined Contribution Pension Fund** | | |
| Balance at 1 January | **1** | 5 |
| Withdrawals | | (4) |
| **Balance at 31 December** | **1** | 1 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 23. Employee benefits (continued)
#### 23.9 Transactions between group companies and the funds (continued)

***23.9.6*** The various funds detailed above have contracted Liberty to manage the funds. The total of fees paid is as follows:

| Group and company | 2013 Rm | 2012 Rm |
|---|---|---|
| Administration and consulting fees | **14** | 10 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **24. Deferred revenue** | | | | |
| Balance at the beginning of the year | **166** | 152 | **163** | 148 |
| Transfer of insurance business arising from life licence rationalisation | | | **2** | |
| Released to profit or loss | **(21)** | (18) | **(20)** | (17) |
| Deferred income relating to new business | **40** | 32 | **40** | 32 |
| **Balance at the end of the year** | **185** | 166 | **185** | 163 |
| Current | **22** | 19 | **22** | 18 |
| Non-current | **163** | 147 | **163** | 145 |

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.

| | Group | | | | |
|---|---|---|---|---|---|
| | Balance at the beginning of the year Rm | (Provision)/ release for the year Rm | Disposal through business disposal Rm | Foreign currency translation Rm | Balance at the end of the year Rm |
| **25. Deferred taxation** | | | | | |
| **Normal taxation** | (1 788) | **(195)** | **(5)** | **1** | **(1 987)** |
| Investment properties surplus revaluation | | **1** | **(1)** | | |
| Policyholder liabilities difference between statutory and accounting basis | (1 733) | **(221)** | **(4)** | **1** | **(1 957)** |
| Utilisation of tax losses and special transfers | 186 | **7** | **(82)** | | **111** |
| Intangible assets – PVIF | (87) | **29** | | | **(58)** |
| Deferred acquisition costs | (123) | **(21)** | | | **(144)** |
| Deferred revenue liability | 47 | **5** | | | **52** |
| Customer relationships and contracts | (17) | | **17** | | |
| Provisions | (61) | **5** | **65** | | **9** |
| **Capital gains taxation** | (814) | **(622)** | | | **(1 436)** |
| **Total** | (2 602) | **(817)** | **(5)** | **1** | **(3 423)** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Company | | | | |
|---|---|---|---|---|---|
| | Balance at the beginning of the year Rm | (Provision)/ release for the year Rm | Transfer of shareholder assets arising from life licence rarionali-sation Rm | Transfer of insurance business arising from life licence rationali-sation Rm | Balance at the end of the year Rm |
| **25. Deferred taxation** (continued) | | | | | |
| **Normal taxation** | (1 588) | **(209)** | | **(280)** | **(2 077)** |
| Policyholder liabilities difference between statutory and accounting basis | (1 513) | **(208)** | | **(213)** | **(1 934)** |
| Intangible assets – PVIF | (1) | **10** | | **(67)** | **(58)** |
| Deferred acquisition costs | (122) | **(22)** | | | **(144)** |
| Deferred revenue liability | 45 | **7** | | | **52** |
| Provisions | 3 | **4** | | | **7** |
| **Capital gains taxation** | (627) | **(580)** | **(12)** | **(218)** | **(1 437)** |
| | (2 215) | **(789)** | **(12)** | **(498)** | **(3 514)** |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **Movement summary** | | | | |
| Balance at the beginning of the year | **(2 602)** | (2 673) | **(2 215)** | (2 501) |
| Additions through business acquisitions | | (1) | | |
| Transfer of insurance business arising from life licence rationalisation | | | **(498)** | |
| Transfer of shareholder assets arising from life licence rationalisation | | | **(12)** | |
| Disposal through business disposal | **(5)** | | | |
| Foreign currency translation | **1** | | | |
| (Charge)/release through statement of comprehensive income | **(817)** | 72 | **(789)** | 286 |
| **Balance at the end of the year** | **(3 423)** | (2 602) | **(3 514)** | (2 215) |
| **Deferred tax assets** | | | | |
| Non-current | **100** | 73 | | |
| **Deferred tax liabilities** | | | | |
| Non-current | **(3 523)** | (2 675) | **(3 514)** | (2 215) |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **26. Deemed disposal taxation liability** | | | | |
| Balance at the beginning of the year | **918** | | **861** | |
| Liability raised | | 918 | | 861 |
| Over provision released to profit or loss | **(90)** | | **(45)** | |
| Current balance to taxation liability | **(284)** | | **(272)** | |
| Balance at the end of the year | **544** | 918 | **544** | 861 |

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

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

The consequential taxation payable for the 2013 tax year of R284 million for the group (2012: R306 million) and R272 million for the company (2012: R287 million) has been included in current taxation and the expected future tax obligation for the 2014 – 2015 tax years of R544 million for the group (2012: R918 million) and R544 million for the company (2012: R861 million) has been accounted for and described as a deemed disposal taxation liability. The expected liability does not attract interest and has not been discounted to current values.

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

| | Group and Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Restructuring | | Retirement fund administration | | Possible claims | | Total | |
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **27. Provisions** | | | | | | | | |
| Balance at the beginning of the year | **19** | | **127** | 165 | **192** | 199 | **338** | 364 |
| Provisions no longer required | **(2)** | | | | **(55)** | (35) | **(57)** | (35) |
| Provision raised | | 19 | | | | 35 | | 54 |
| Unwinding of discount rate | | | **5** | 8 | | | **5** | 8 |
| Utilised during the year | **(17)** | | **(71)** | (46) | **(3)** | (7) | **(91)** | (53) |
| **Balance at the end of the year** | | 19 | **61** | 127 | **134** | 192 | **195** | 338 |

**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 was provided for 31 December 2012 to cover legal and associated costs including required communication with policyholders. The rationalisation took place in 2013 and no further associated costs are expected.

**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 be completed in 2014.

**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 financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 Rm | Restated 2012 Rm | 2013 Rm | 2012 Rm |
| **28. Insurance and other payables** | | | | |
| Current balances related to insurance contracts | **4 538** | 3 578 | **4 531** | 2 839 |
| Outstanding claims and surrenders | **4 237** | 3 307 | **4 230** | 2 605 |
| Commission creditors | **301** | 271 | **301** | 234 |
| Current balances related to investment contracts | **92** | 157 | **92** | 126 |
| Outstanding claims and surrenders | **87** | 157 | **87** | 126 |
| Other | **5** | | **5** | |
| Total current balances related to insurance and investment contracts | **4 630** | 3 735 | **4 623** | 2 965 |
| Total other payables | **3 855** | 2 920 | **3 551** | 1 683 |
| Sundry payables | **1 632** | 1 376 | **1 463** | 1 466 |
| Consolidated mutual funds payables | **77** | 118 | | |
| Property consortiums payables | **58** | 52 | | |
| Preference share dividend | **815** | 755 | **815** | |
| Investment creditors | **1 273** | 619 | **1 273** | 217 |
| **Total insurance and other payables** | **8 485** | 6 655 | **8 174** | 4 648 |
| Current | **8 435** | 6 619 | **8 127** | 4 612 |
| Non-current | **50** | 36 | **47** | 36 |

| | Group and Company | |
|---|---|---|
| | 2013 Rm | 2012 Rm |
| **29. 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 financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **30. Premiums** | | | | |
| Insurance premiums | **34 182** | 29 458 | **26 023** | 16 928 |
| Long-term | **33 849** | 29 185 | **26 023** | 16 928 |
| Short-term | **333** | 273 | | |
| Reinsurance premiums | **(1 013)** | (879) | **(754)** | (616) |
| Long-term | **(926)** | (811) | **(754)** | (616) |
| Short-term | **(87)** | (68) | | |
| Net insurance premiums | **33 169** | 28 579 | **25 269** | 16 312 |
| Fund inflows from investment contracts | **13 211** | 11 373 | **14 010** | 12 932 |
| **Net premium income from insurance contracts and inflows from investment contracts** | **46 380** | 39 952 | **39 279** | 29 244 |
| Long-term insurance | **46 134** | 39 747 | **39 279** | 29 244 |
| Retail | **28 597** | 25 688 | **22 544** | 16 262 |
| Corporate | **10 820** | 8 641 | **10 021** | 7 564 |
| Immediate annuities | **6 717** | 5 418 | **6 714** | 5 418 |
| Short-term insurance | | | | |
| Medical risk | **246** | 205 | | |
| **Comprising:** | | | | |
| Recurring | **24 709** | 22 808 | **18 958** | 15 079 |
| Retail | **17 261** | 16 169 | **12 531** | 9 717 |
| Corporate | **7 202** | 6 434 | **6 427** | 5 362 |
| Medical risk | **246** | 205 | | |
| Single | **21 671** | 17 144 | **20 321** | 14 165 |
| Retail | **11 336** | 9 519 | **10 013** | 6 545 |
| Corporate | **3 618** | 2 207 | **3 594** | 2 202 |
| Immediate annuities | **6 717** | 5 418 | **6 714** | 5 418 |
| **Net premium income from insurance contracts and inflows from investment contracts** | **46 380** | 39 952 | **39 279** | 29 244 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **31. Service fee income from policyholder investment contracts** | | | | |
| Service fee income from investment contracts | **918** | 892 | **888** | 867 |
| Released to profit or loss | **21** | 18 | **20** | 17 |
| Deferred income relating to new business | **(40)** | (32) | **(40)** | (32) |
| **Total service fee income from policyholder investment contracts** | **899** | 878 | **868** | 852 |

| | Group | | Company | |
|---|---|---|---|---|
| | | Restated | | Restated |
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **32. Investment income** | | | | |
| ***Financial assets held at fair value through profit or loss*** | | | | |
| Interest income | **5 954** | 6 300 | **4 614** | 4 166 |
| Dividends received | **2 428** | 2 709 | **2 196** | 2 293 |
| Listed shares | **1 966** | 2 105 | **1 785** | 1 804 |
| Unlisted instruments | **462** | 604 | **411** | 489 |
| ***Investment properties*** | | | | |
| Rental income from investment properties | **2 200** | 2 285 | **1 084** | 1 239 |
| ***Financial instruments held-to-maturity*** | | | | |
| Interest income | **82** | 77 | **40** | 16 |
| ***Subsidiaries and joint ventures*** | | | | |
| Dividends [1] | | 15 | **2 530** | 320 |
| ***Sundry income*** | **48** | 47 | **45** | 40 |
| ***Investment return on defined benefit pension fund surplus*** | **14** | 17 | **14** | 17 |
| **Total investment income** | **10 726** | 11 450 | **10 523** | 8 091 |
| [1] *Dividends received from subsidiaries:* | | | | |
| *Capital Alliance Life Limited* | | | **1 829** | 305 |
| *Liberty Active Limited* | | | **699** | |
| *Total Health Trust Limited (Nigeria)* | | | **2** | |
| *Dividends received from joint ventures:* | | | | |
| *The Cullinan Hotel Proprietary Limited* | | 15 | | 15 |
| *Total* | | 15 | **2 530** | 320 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | | Restated | | Restated |
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **33. Investment gains** | | | | |
| Investment properties | **2 510** | 1 177 | **2 233** | 1 052 |
| Financial instruments held at fair value through profit or loss | **26 885** | 27 239 | **25 700** | 23 786 |
| Quoted instruments | **23 817** | 26 041 | **22 531** | 20 007 |
| Unquoted instruments | **3 027** | 1 159 | **3 169** | 3 779 |
| Consolidated mutual funds to the group | **41** | 39 | | |
| Financial instruments held for trading | **(2 581)** | (831) | **(1 716)** | (814) |
| Impairment raised on subsidiary companies | | | **(1 447)** | |
| Impairment reversal of loans to group companies | | 355 | | 354 |
| Foreign exchange differences on loans with subsidiaries | **5** | (12) | **(11)** | (11) |
| Joint ventures – measured at fair value | **26** | (15) | **26** | (15) |
| Adjustment to joint venture purchase price | | | | 2 |
| **Total investment gains** | **26 845** | 27 913 | **24 785** | 24 354 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **34. Fee revenue and reinsurance commission** | | | | |
| Management fees on assets under management | **12** | 8 | | |
| Health administration fees | **18** | 12 | | |
| Reinsurance commission earned on short-term insurance business | | 2 | | |
| Other fee revenue | **65** | 87 | **81** | 110 |
| Total fee revenue and reinsurance commission | **95** | 109 | **81** | 110 |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **35. Claims and policyholders' benefits** | | | | |
| Claims and policyholders' benefits under insurance contracts | **24 606** | 24 391 | **18 064** | 16 465 |
| Long-term | **24 374** | 24 208 | **18 064** | 16 465 |
| Short-term | **232** | 183 | | |
| Payments under investment contracts | **16 406** | 12 207 | **16 202** | 11 985 |
| | **41 012** | 36 598 | **34 266** | 28 450 |
| Insurance claims recovered from re-insurers | **(805)** | (643) | **(615)** | (427) |
| Long-term | **(740)** | (589) | **(615)** | (427) |
| Short-term | **(65)** | (54) | | |
| **Net claims and policyholders' benefits** | **40 207** | 35 955 | **33 651** | 28 023 |
| **Comprising:** | | | | |
| Long-term insurance: Retail | **29 175** | 25 014 | **23 531** | 18 253 |
| Death and disability claims | **4 850** | 4 532 | **4 001** | 3 153 |
| Policy maturity claims | **4 852** | 3 909 | **3 346** | 2 474 |
| Policy surrender claims | **15 348** | 12 762 | **12 428** | 9 377 |
| Annuity payments | **4 125** | 3 811 | **3 756** | 3 249 |
| Corporate | **10 865** | 10 812 | **10 120** | 9 770 |
| Death and disability claims | **1 625** | 1 626 | **998** | 696 |
| Scheme terminations and member withdrawals | **8 885** | 8 905 | **8 768** | 8 793 |
| Annuity payments | **355** | 281 | **354** | 281 |
| Short-term insurance | | | | |
| Medical risk | **167** | 129 | | |
| **Total claims and policyholders' benefits** | **40 207** | 35 955 | **33 651** | 28 023 |
| **36. Acquisition costs** | | | | |
| Long-term insurance | **3 690** | 3 368 | **2 656** | 1 942 |
| Insurance contracts | **3 525** | 3 149 | **2 493** | 1 726 |
| Investment contracts | **165** | 219 | **163** | 216 |
| Short-term insurance | **6** | 6 | | |
| Asset management and other | **29** | 24 | | |
| **Total acquisition costs** | **3 725** | 3 398 | **2 656** | 1 942 |
| Incurred during the year | **3 799** | 3 448 | **2 731** | 1 993 |
| Deferred acquisition costs | **(293)** | (249) | **(293)** | (249) |
| Amortisation and impairment of deferred acquisition costs | **219** | 199 | **218** | 198 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| **37. General marketing and administration expenses** | | | | |
| **Comprising** | | | | |
| Employee costs | **2 282** | 2 029 | **1 812** | 1 378 |
| Office costs | **1 633** | 1 510 | **1 174** | 951 |
| Training and development costs | **333** | 291 | **209** | 138 |
| Other | **2 231** | 2 195 | **1 553** | 1 453 |
| **Total general marketing and administration expenses** | **6 479** | 6 025 | **4 748** | 3 920 |
| **General marketing and administration expenses include the following:** | | | | |
| Amortisation of intangible assets | **127** | 152 | **46** | 27 |
| Impairment of intangible assets | | 44 | | 44 |
| Auditors' remuneration | **31** | 28 | **28** | 22 |
| Audit fees – Current year | **31** | 28 | **28** | 22 |
| Consulting fees | **385** | 320 | **303** | 192 |
| Depreciation | **213** | 192 | **197** | 175 |
| Computer equipment | **86** | 73 | **83** | 72 |
| Purchased computer software | **15** | 16 | **16** | 13 |
| Fixtures, furniture and fittings | **91** | 82 | **80** | 72 |
| Office equipment and office machines | **8** | 8 | **7** | 7 |
| Motor vehicles | **13** | 13 | **11** | 11 |
| Direct operating expenses | | | | |
| – on investment properties | **610** | 555 | **585** | 539 |
| – on owner-occupied properties | **45** | 38 | **45** | 38 |
| – on hotel operations | **567** | 540 | **463** | 452 |
| Asset management fees | **453** | 601 | **401** | 371 |
| Operating lease charges | | | | |
| – equipment | **1** | 2 | **1** | 1 |
| – property | **89** | 91 | **60** | 64 |
| Other related South African taxes | **386** | 344 | **278** | 191 |
| Financial services levy | **27** | 22 | **23** | 19 |
| Non-recoverable value-added taxation | **359** | 322 | **255** | 172 |
| Provision for restructuring | | 19 | | |
| Staff costs | **2 282** | 2 029 | **1 812** | 1 378 |
| Salaries and wages | **1 433** | 1 285 | **1 066** | 836 |
| Defined benefit pension fund contributions | **11** | 12 | **9** | 9 |
| Medical aid contributions | **100** | 121 | **85** | 102 |
| Staff and management incentives | **405** | 351 | **372** | 244 |
| Share-based payment expense | | | | |
| – equity-settled schemes | **69** | 49 | **69** | 49 |
| – cash-settled schemes | **19** | 40 | **19** | 35 |
| Other post-retirement benefits | **103** | 92 | **80** | 63 |
| Other | **142** | 79 | **112** | 40 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group and Company | |
|---|---|---|
| | **2013** | 2012 |
| | **Rm** | Rm |
| **38. Share-based payments – equity settled** | | |
| *Reconciliation of reserve* | | |
| Equity growth scheme (rights) | | |
| Liberty Group Limited or Liberty Holdings Limited ordinary shares | | 1 |
| Restricted share plan | | |
| Liberty Holdings Limited ordinary shares | **78** | 25 |
| **Total share-based payments reserve** | **78** | 26 |
| *Movement for the year* | **52** | 19 |
| Equity settled schemes (share options and rights) – per profit or loss | **16** | 25 |
| Restricted share plan – per profit or loss | **53** | 25 |
| Reserved in Liberty Holdings Limited | **(16)** | (25) |
| Transfer of vested options to retained surplus | **(1)** | (5) |
| Company cancellations – per profit or loss | | (1) |
| Expense on equity settled schemes recognised in profit or loss | **69** | 49 |

***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; and
- 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 financial statements *(continued)*
*for the year ended 31 December 2013*

### 38. 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:

| **Movement summary** | **Price range 2013** | **Number 2013** | Price range 2012 | Number 2012 |
|---|---|---|---|---|
| Options/rights outstanding at the beginning of the year | | 11 406 402 | | 13 920 850 |
| Granted | | | R79,48 – R89,40 | 119 052 |
| Exercised | **R46,15 – R95,50** | (2 600 161) | R46,15 – R89,75 | (1 890 950) |
| Lapsed/cancelled | **R60,00 – R80,25** | (342 394) | R58,83 – R89,71 | (742 550) |
| Options/rights outstanding at the end of the year | | 8 463 847 | | 11 406 402 |

The weighted average Liberty Holdings Limited share price for the year was R119,39 (2012: R92,97).

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. No rights were granted in 2013. The weighted average fair value per right granted in 2012 was R24,59.

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 2012 and the assumptions used are as follows:

| | 2012 |
|---|---|
| Exercise price | R79,48 – R89,40 |
| Expected volatility[1] | 28,48% – 28,83% |
| Right life | 5 years |
| Dividend yield | 5,42% – 5,84% |

Share-based payment expense recognised during 2013 relating to the share options and rights was R16 million (2012: R24 million) for the group and R16 million (2012: R25 million) for the company.

[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 financial statements *(continued)*
*for the year ended 31 December 2013*

### 38. Share-based payments (continued)
***Liberty Share Incentive Schemes** (continued)*

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

| Movement summary | Price range 2013 | Number 2013 | Price range 2012 | Number 2012 |
|---|---|---|---|---|
| Shares outstanding at the beginning of the year | | **652 312** | | |
| Granted | **R115,00 – R126,01** | **477 023** | R87,90 – R93,51 | 652 312 |
| Cancellations | **R87,90 – R121,02** | **(80 055)** | | |
| Shares outstanding at the end of the year | | **1 049 280** | | 652 312 |

For the long-term plan, awards granted prior to 28 February 2013 vest 33⅓% at the end of the year 2, 3 and 4 respectively, while awards granted subsequently vest 33⅓% at the end of year 3, 4 and 5 respectively. The restricted shares are subject to service and performance conditions. The share-based payment expense recognised during 2013relating to the Liberty restricted share plan (long-term plan) was R26 million (2012: R14 million).

*Liberty Holdings group restricted plan (deferred plan)*

| Movement summary | Price range 2013 | Number 2013 | Price range 2012 | Number 2012 |
|---|---|---|---|---|
| Shares outstanding at the beginning of the year | | **332 617** | | |
| Granted | **R121,02** | **370 259** | R87,90 | 334 090 |
| Cancellations | **R87,90 – R121,02** | **(41 837)** | R87,90 | (1 473) |
| Vested | **R87,90** | **(98 544)** | | |
| Shares outstanding at the end of the year | | **562 495** | | 332 617 |

For the deferred plan, the 2011 awards vest 33⅓% at the end of 18 months, 30 months and 42 months respectively.

The share-based payment expense recognised during 2013 relating to the Liberty restricted share plan (deferred plan) was R27 million (2012: 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 2013 was R1 million (2012: R4 million) which was charged to profit or loss.

| Reconciliation of participation rights under phantom share scheme | Number 2013 | Number 2012 |
|---|---|---|
| Options outstanding at the beginning of the year | **120 087** | 150 445 |
| Exercised | **(69 042)** | (30 358) |
| **Options outstanding at the end of the year** | **51 045** | 120 087 |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **39. Finance costs** | | | | |
| Interest expense: | | | | |
| – interest paid on policyholder claims and supplier balances | **34** | 31 | **32** | 28 |
| – interest on financial liabilities at amortised cost | **191** | 173 | **191** | 173 |
| – interest paid on repurchase agreements | **52** | | **52** | |
| **Total finance costs** | **277** | 204 | **275** | 201 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | Restated 2012 Rm | **2013 Rm** | Restated 2012 Rm |
| **40. Taxation** | | | | |
| **40.1 Sources of taxation** | | | | |
| South African normal taxation | **1 668** | 1 489 | **1 324** | 1 094 |
| Current year taxation | **1 478** | 1 216 | **1 115** | 915 |
| Overprovision prior year current taxation | **(8)** | (84) | | (13) |
| Current deferred taxation | **198** | 357 | **209** | 192 |
| South African capital gains taxation | **865** | 899 | **858** | 758 |
| Current year taxation | **348** | 409 | **338** | 375 |
| Deemed disposal taxation liability | **(90)** | 918 | **(45)** | 861 |
| Overprovision prior year | **(15)** | | **(15)** | |
| Attributable to deferred taxation rate change | | 22 | | 22 |
| Deferred taxation | **622** | (450) | **580** | (500) |
| Foreign normal taxation | **11** | 13 | | |
| Current year taxation | **14** | 14 | | |
| Current year deferred taxation | **(3)** | (1) | | |
| Other related taxes | **122** | 69 | **108** | 51 |
| Dividend withholding taxation associated with policyholder investments | **122** | 69 | **108** | 51 |
| Total taxation | **2 666** | 2 470 | **2 290** | 1 902 |
| Profit or loss | **2 694** | 2 512 | **2 318** | 1 944 |
| Other comprehensive income | **(28)** | (42) | **(28)** | (42) |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 40. Taxation (continued)
#### 40.2 Taxation rate reconciliation

| Group 2013 | CIT[1] Rm | CGT[2][3] Rm | Total Rm |
|---|---|---|---|
| Taxation per profit or loss | **1 831** | **863** | **2 694** |
| Taxation on other comprehensive income | **(30)** | **2** | **(28)** |
| Total taxation | **1 801** | **865** | **2 666** |
| Taxation specific to policyholder tax funds[4] | **(354)** | **(758)** | **(1 112)** |
| **Shareholder taxation** | **1 447** | **107** | **1 554** |
| Profit before taxation per statement of comprehensive income | **5 671** | **1 060** | **6 731** |
| Taxable revenue directly charged to reserves | **(122)** | | **(122)** |
| Preference dividends paid | **840** | | **840** |
| Adjustment for the revenue offset to policyholder taxation | **(1 112)** | | **(1 112)** |
| **Total** | **5 277** | **1 060** | **6 337** |
| | **%** | **%** | |
| Effective rate of shareholder taxation[4] | **27,4** | **10,09** | |
| Adjustments due to: | | | |
| Income exempt from normal taxation: | | | |
| Dividends received | **1,0** | | |
| Non-tax deductible expenses | **(0,2)** | | |
| Amounts disregarded from capital gains tax | | **9,41** | |
| Special allowances and inclusions | **(0,1)** | | |
| Base cost difference to historical cost | | **(6,34)** | |
| Overprovision of taxes in respect of prior years | | **5,50** | |
| Equity accounted earnings from joint ventures | **(0,1)** | | |
| **Standard rate of South African taxation** | **28,0** | **1 8,66** | |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 40. Taxation (continued)

#### 40.2 Taxation rate reconciliation (continued)

| Group<br>Restated<br>2012 | CIT[1]<br>Rm | CGT[2][3]<br>Rm | Total<br>Rm |
|---|---|---|---|
| Taxation per profit or loss | 1 598 | 914 | 2 512 |
| Taxation on other comprehensive income | (27) | (15) | (42) |
| Total taxation | 1 571 | 899 | 2 470 |
| Taxation attributable to capital gains tax rate change | | (22) | (22) |
| Taxation specific to policyholder tax funds[4] | (264) | (796) | (1 060) |
| **Shareholder taxation** | 1 307 | 81 | 1 388 |
| Profit before taxation per statement of comprehensive income | 5 490 | 838 | 6 328 |
| Taxable revenue directly charged to reserves | 17 | | 17 |
| Adjustment for the revenue offset to policyholder taxation | (1 060) | | (1 060) |
| **Total** | 4 447 | 838 | 5 285 |
| Effective rate of shareholder taxation[4] | % | % | |
| Adjustments due to: | 29,4 | 9,7 | |
| 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 financial statements *(continued)*
*for the year ended 31 December 2013*

### 40. Taxation (continued)
#### 40.2 Taxation rate reconciliation

| Company<br>2013 | CIT(1)<br>Rm | CGT(2)(3)<br>Rm | Total<br>Rm |
|---|---|---|---|
| Taxation per profit or loss | 1 462 | 856 | 2 318 |
| Taxation on other comprehensive income | (30) | 2 | (28) |
| Total taxation | 1 432 | 858 | 2 290 |
| Taxation specific to policyholder tax funds(4) | (337) | (755) | (1 092) |
| **Shareholder taxation** | 1 095 | 103 | 1 198 |
| Profit before taxation per statement of comprehensive income | 7 375 | (876) | 6 499 |
| Taxable revenue directly charged to reserves | (124) | | (124) |
| Preference dividends paid | 306 | | 306 |
| Adjustment for the revenue offset to policyholder taxation | (1 092) | | (1 092) |
| **Total** | 6 465 | (876) | 5 589 |
| | % | % | |
| Effective rate of shareholder taxation(4) | 16,9 | (11,76) | |
| Adjustments due to: | | | |
| Income exempt from normal taxation: | | | |
| Dividends received | 11,5 | | |
| Non-tax deductible expenses | (0,2) | | |
| Amounts disregarded from capital gains tax | | 31,21 | |
| Special allowances and inclusions | (0,1) | | |
| Base cost difference to historical cost | | (7,78) | |
| Overprovision of taxes in respect of prior years | | 6,99 | |
| Equity accounted earnings from joint ventures | (0,1) | | |
| **Standard rate of South African taxation** | 28,0 | 18,66 | |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 40. Taxation (continued)
#### 40.2 Taxation rate reconciliation (continued)

| **Company**<br>Restated<br>2012 | CIT[(1)]<br>Rm | CGT[(2)(3)]<br>Rm | Total<br>Rm |
|---|---|---|---|
| Taxation per profit or loss | 1 171 | 773 | 1 944 |
| Taxation on other comprehensive income | (27) | (15) | (42) |
| Total taxation | 1 144 | 758 | 1 902 |
| Taxation attributable to capital gains rate change | | (22) | (22) |
| Taxation specific to policyholder tax funds[(4)] | (256) | (677) | (933) |
| **Shareholder taxation** | 888 | 59 | 947 |
| Profit before taxation per statement of comprehensive income | 4 409 | 642 | 5 051 |
| Taxable revenue directly charged to reserves | 18 | | 18 |
| Adjustment for the revenue offset to policyholder taxation | (933) | | (933) |
| **Total** | 3 494 | 642 | 4 136 |
| | % | % | |
| Effective rate of shareholder taxation[(4)] | 25,4 | 9,1 | |
| Adjustments due to: | | | |
| Income exempt from normal taxation: | | | |
| Dividends received | 3,2 | | |
| Non-tax deductible expenses | (0,6) | | |
| Amounts excluded from capital gains tax | | 4,9 | |
| Standard rate of South African taxation | 28,0 | 14,0 | |

(1) *CIT represents corporate income taxation.*

(2) *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.*

(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.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 41. Business acquisitions and disposals

#### 41.1 Summary of life licence rationalisation transaction

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

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

With all the Financial Services Board's (FSB) conditions being met and following the High Court approval for the transaction on 27 August 2013, all business in Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited has been transferred to Liberty Group Limited in terms of section 37 of the Long-term Insurance Act with effect from 1 September 2013.

The FSB announced in the Government Gazette on 6 December 2013 that under section 13(3)(a) of the Long-term Insurance Act that the registrations of the respective life licences as long-term insurers had been cancelled with effect from 31 August 2013.

Following the life licence rationalisation transaction, the present value of in-force policyholder contracts (PVIF) intangible assets and related deferred taxes, that previously arose on consolidation of these subsidiaries, were capitalised in Liberty Group Limited. These intangible assets and deferred taxation liabilities were raised as a reduction in the investment in subsidiary in respect of those relating to Capital Alliance Life Limited acquired business, and transferred via loan account in respect of those relating to Liberty Growth Limited.

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

| | Liberty Active Limited 2013 Rm | Liberty Growth Limited 2013 Rm | Capital Alliance Life Limited 2013 Rm | PVIF capitalised (previously arising on consolidation) 2013 Rm | Total 2013 Rm |
|---|---|---|---|---|---|
| Intangible assets | | **1** | | **242** | **243** |
| Deferred acquisition costs | **1** | | | | **1** |
| Reinsurance assets | **2** | | **500** | | **502** |
| Derivative assets | **420** | **1** | **46** | | **467** |
| Financial investments | **29 552** | **2 080** | **17 347** | | **48 979** |
| Prepayments, insurance and other receivables | **440** | **10** | **163** | | **613** |
| Long-term policyholder liabilities | **(29 479)** | **(1 766)** | **(16 629)** | | **(47 874)** |
| Insurance contracts | **(27 330)** | **(1 729)** | **(15 555)** | | **(44 614)** |
| Financial liabilities under investment contracts | **(2 149)** | **(37)** | **(1 074)** | | **(3 260)** |
| Employee benefits | **(26)** | | **(7)** | | **(33)** |
| Deferred revenue | **(1)** | **(1)** | | | **(2)** |
| Deferred taxation liabilities | **(162)** | **(30)** | **(238)** | **(68)** | **(498)** |
| Derivative liabilities | **(465)** | **(3)** | **(124)** | | **(592)** |
| Insurance and other payables | **(1 066)** | **(25)** | **(601)** | | **(1 692)** |
| Intergroup loan arising from transaction[1] | **(1 445)** | **(218)** | **(485)** | | **(2 148)** |
| Intergroup loan arising from recognition of intangible asset | | | | **(5)** | **(5)** |
| Net assets and liabilities assumed | **(2 229)** | **49** | **(28)** | **169** | **(2 039)** |
| Settled via reduction in investment in subsidiaries | | | | **(169)** | **(169)** |
| Cash acquired | **2 548** | **16** | **494** | | **3 058** |
| Excess purchase price accounted for directly in equity | **319** | **65** | **466** | | **850** |

[1] *These loans have subsequently been settled via capital reductions and dividends in specie declarations from the subsidiary companies to Liberty Group Limited (refer to note 8).*

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 41 Business acquisitions and disposals (continued)
#### 41.2 Disposal of African subsidiaries

Effective 31 December 2013, Liberty Group Limited disposed of the following subsidiaries to Liberty Holdings Limited: Liberty Life Swaziland Limited, Standard Insurance Limited (Swaziland), Liberty Life Uganda Assurance Limited and Total Health Trust Limited.

These subsidiaries were disposed of at book value (cost less impairment provision) and as these are disposed of to the holding company, the transaction is therefore defined as a common control transaction. In terms of the group's accounting policies, the shortfall received over the net carrying value was accounted for directly in equity.

The assets and liabilities disposed of are as follows:

| Total recognised values | Liberty Life Swaziland Limited 2013 Rm | Standard Insurance Limited 2013 Rm | Liberty Life Uganda Limited 2013 Rm | Total Health Trust Limited 2013 Rm | Total 2013 Rm |
|---|---|---|---|---|---|
| Equipment and owner-occupied properties under development | **1** | | **5** | **11** | **17** |
| Invesment properties | | | | **20** | **20** |
| Intangible assets | | | | **31** | **31** |
| Reinsurance assets | **5** | | **3** | | **8** |
| Financial investments | **53** | | **76** | **1** | **130** |
| Deferred taxation asset | | | **4** | **1** | **5** |
| Prepayments, insurance and other receivables | **2** | **3** | **13** | | **18** |
| Cash | **4** | | **22** | **101** | **127** |
| Long-term policyholder liabilities | **(22)** | | **(42)** | | **(64)** |
| Insurance contracts | **(22)** | | **(22)** | | **(44)** |
| Investment contracts with discretionary participation features | | | **(20)** | | **(20)** |
| Short-term insurance liabilities | | | | **(55)** | **(55)** |
| Employee benefits | **(1)** | | **(2)** | | **(3)** |
| Insurance and other payables | **(9)** | | **(15)** | **(11)** | **(35)** |
| Current taxation | **(2)** | | | **(7)** | **(9)** |
| Net assets and liabilities disposed of | **31** | **3** | **64** | **92** | **190** |
| Cash proceeds received | **(10)** | **(3)** | **(5)** | **(34)** | **(52)** |
| Excess purchase price accounted for directly in equity | **21** | | **59** | **58** | **138** |
| Attributable to: | | | | | |
| Equity shareholders | **21** | | **27** | **13** | **61** |
| Non-controlling interests | | | **32** | **45** | **77** |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 41. Business acquisitions and disposals (continued)

#### 41.3 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 financial statements *(continued)*

*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** **Rm** | Restated 2012 Rm | **2013** **Rm** | Restated 2012 Rm |
| **42. Reconciliation of total earnings to cash generated from operations** | | | | |
| Total earnings | **4 037** | 3 816 | **4 181** | 3 107 |
| **Adjustments for:** | | | | |
| Interest received | **(6 036)** | (6 377) | **(4 654)** | (4 182) |
| Interest paid | **277** | 204 | **275** | 201 |
| Dividends received | **(2 428)** | (2 709) | **(4 726)** | (2 613) |
| Taxation | **2 694** | 2 512 | **2 318** | 1 944 |
| Settlement of share based payments | | (1) | | (1) |
| Net fund outflows after service fees on policyholder investment contracts | **(4 113)** | (1 726) | **(3 080)** | 80 |
| Net outflows from third party financial liabilities arising on consolidation of mutual funds | **(5)** | 176 | | |
| Distributions to third party financial liabilities arising on consolidation of mutual funds | **(5)** | (3) | | |
| Distribution of profits from subsidiaries-unincorporated property partnerships | | | **(531)** | (501) |
| Service fee income deferred on new business | **40** | 32 | **40** | 32 |
| Deferred acquisition costs on new business | **(293)** | (249) | **(293)** | (249) |
| | **(5 832)** | (4 325) | **(6 470)** | (2 182) |
| **Adjustments for non-cash items:** | | | | |
| Policyholders liability transfers | **30 488** | 29 142 | **30 816** | 23 686 |
| Movement on short-term insurance liabilities | **28** | 4 | | |
| Amortisation of deferred acquisition costs | **219** | 199 | **218** | 198 |
| Release of deferred revenue liability | **(21)** | (18) | **(20)** | (17) |
| Amortisation of intangible assets | **127** | 152 | **46** | 27 |
| Derecognition and impairment of intangible assets | | 44 | | 44 |
| Depreciation of equipment | **213** | 192 | **197** | 175 |
| Movement on defined benefit pension fund surplus | **2** | (2) | **2** | (2) |
| Remeasure of THT to acquisition value | | | | (2) |
| In specie capital reduction from subsidiaries | | | **1 830** | |
| Impairment provision raised on subsidiaries | | | **1 447** | |
| Share-based payment expense | **53** | 25 | **53** | 25 |
| Investment gains | **(26 845)** | (27 913) | **(24 785)** | (24 354) |
| Investment gains attributable to third party financial liabilities arising on consolidation of mutual funds | **92** | 30 | | |
| Income attributable to non-controlling preference shareholders in subsidiaries | **838** | 741 | | |
| Movement on provisions | **(143)** | (26) | **(143)** | (26) |
| | **(781)** | (1 755) | **3 191** | (2 428) |
| **Working capital changes:** | **1 981** | 929 | **313** | 1 190 |
| Prepayments, insurance and other receivables | **50** | (125) | **(1 634)** | 328 |
| Insurance and other payables and employee benefits | **1 931** | 1 054 | **1 947** | 862 |
| **Cash generated from/(utilised in) operations** | **1 200** | (826) | **3 504** | (1 238) |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Rm** | Rm | **Rm** | Rm |
| **43. Dividends paid** | | | | |
| Dividends as per statement of changes in shareholders' funds | **(1 653)** | (2 055) | **(1 653)** | (2 055) |
| Distributions paid to non-controlling interests in subsidiaries | **(780)** | (569) | | |
| Dividends received on preference shares held in relation to BEE transaction | **171** | 126 | **171** | 126 |
| **Total dividends paid** | **(2 262)** | (2 498) | **1 482** | (1 929) |
| **44. Taxation paid** | | | | |
| Taxation payable at the beginning of the year | **(1 566)** | (539) | **(1 406)** | (323) |
| Acquired through business acquisition | | (4) | | |
| Disposed of through business disposals | **9** | | | |
| Taxation attributable to normal taxation | **(1 849)** | (2 542) | **(1 501)** | (2 188) |
| Taxation payable at the end of the year | **1 407** | 1 566 | **1 374** | 1 406 |
| **Total taxation paid** | **(1 999)** | (1 519) | **(1 533)** | (1 105) |

### 45. 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 Derivatives***

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

Company transaction summary:

| | Underlying principle/notional amount traded | | Fair value | | Amount included in profit or loss | | Underlying principle/notional position | | Open maturity dates |
|---|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | |
| | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm | |
| **Interest rate** | | | | | | | | | |
| Swaps | **4 327** | 3 294 | **(434)** | 392 | **(729)** | 262 | **38 578** | 32 763 | <1 – 29 years |
| Swaptions | | | **23** | 65 | **(43)** | 7 | **4 580** | 4 580 | 5 – 15 years |
| Forwards | **62 458** | 80 547 | **8** | 10 | **(37)** | (43) | **4 647** | 7 449 | <1 year |
| **Equity** | | | | | | | | | |
| Options | | 1 930 | | | | 4 | | | N/A |
| | | | **(403)** | 467 | **(809)** | 230 | | | |

There are collateral deposits of Rnil with Standard Bank supporting derivative liabilities to the bank (2012: R392 million). In addition, collateral deposits of R826 million as at 31 December 2013(2012: R291 million) are deposited in Standard Bank bank accounts as collateral supporting South African Futures Exchange traded derivatives.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 45. Related party disclosures (continued)

**Summary of related party transactions** (continued)

**A. Subsidiaries** (continued)

***A.2 Administration fees, loans and dividends***

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

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

The table below indicates the derived allocation percentages:

| | Company | |
|---|---|---|
| | **2013** | 2012 |
| | **%** | % |
| Liberty Group Limited | **78** | 64 |
| Liberty Active Limited | **17** | 25 |
| Capital Alliance Life Limited | **4** | 10 |
| Liberty Growth Limited | **1** | 1 |
| | **100** | 100 |

Applicable costs are therefore linked to the above proportions.

Long-term and working capital loans are provided to various subsidiaries by Liberty Group Limited, details of outstanding amounts and relevant terms are provided in note 8. Details of dividends received from subsidiaries are provided in note 32.

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

| | Group and company | |
|---|---|---|
| | **2013** | 2012 |
| | **Rm** | Rm |
| Liberty Group Properties Proprietary Limited | **177** | 156 |
| STANLIB Limited | **26** | 50 |
| **Total** | **203** | 206 |

***A.3 The Liberty Life Educational Foundation (educational foundation)***

The educational foundation in the company received R16 million in contributions from Liberty Group Limited (2012: R8 million).

The educational foundation has its banking arrangements with Standard Bank of South Africa Limited.

The cash balance at 31 December 2013 was R0,6 million (2012: R0,1 million). Interest earned for the year amounted to R6 329 (2012: R10 020).

Fees charged for the year were R14 299 (2012: R13 109).

The educational foundation also held deposits with STANLIB Limited at various times during the year.

At 31 December 2013 the deposit balance was R1,3 million (2012: R3,1 million) and interest earned was R143 374 (2012: R259 859).

***A.4 Property leases***

Liberty Group Properties Proprietary Limited lease properties from Liberty Group Limited for business operations purposes. These leases are negotiated annually. Total lease income earned was R3 million (2012: R2 million).

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 45. Related party disclosures (continued)

**Summary of related party transactions** (continued)

**A. Subsidiaries** (continued)

***A.5 Reinsurance arrangements***

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

| | 2013 Rm | 2012 Rm |
|---|---|---|
| **Held as financial instrument assets by Liberty Group Limited**[1] | | |
| Balance at 1 January | **22 051** | 17 254 |
| New policies issued | **4 091** | 3 360 |
| Claims | **(4 716)** | (1 766) |
| Fair value adjustments | **2 910** | 3 203 |
| Cancelled – Transfer of insurance business arising from life licence rationalisation | **(24 336)** | |
| **Balance at 31 December** | | 22 051 |
| **Held as financial instrument assets by Liberty Active Limited**[2] | | |
| Balance at 1 January | **8 034** | 5 418 |
| Policies cancelled/matured | | |
| New policies issued | **836** | 1 630 |
| Fair value adjustments | **588** | 986 |
| Cancelled – Transfer of insurance business arising from life licence rationalisation | **(9 458)** | |
| **Balance at 31 December** | | 8 034 |

(1) *Includes reinsurance arrangements with Liberty Active Limited and STANLIB Multi-Manager Limited.*

***A.6 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 2013 was R194 839 million (2012: R202 712 million) for the group and R194 839 million (2012: R189 368 million) for the company. Fees charged for the year were R381 million (2012: R377 million) for the group and R358 million (2012: R347 million) for the company.

**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 (2012: R1 million).

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 Rm** | 2012 Rm | **2013 Rm** | 2012 Rm |
| **46. Commitments** | | | | |
| **46.1 Operating lease commitments** | | | | |
| Equipment | **41** | 42 | **41** | 42 |
| Within 1 year | **35** | 20 | **35** | 20 |
| 1 to 5 years | **6** | 22 | **6** | 22 |
| Properties | **159** | 136 | **143** | 116 |
| Within 1 year | **52** | 82 | **45** | 75 |
| 1 to 5 years | **107** | 54 | **98** | 41 |
| **46.2 Capital commitments** | | | | |
| Business acquisitions | | | | 25 |
| Authorised by the directors but not contracted | | | | 25 |
| Equipment | **431** | 471 | **431** | 468 |
| Under contracts | **12** | 65 | **12** | 65 |
| Authorised by the directors but not contracted | **419** | 406 | **419** | 403 |
| Investment properties | **3 159** | 1 654 | **3 159** | 1 654 |
| Under contracts | **251** | 700 | **251** | 700 |
| Authorised by the directors but not contracted | **2 908** | 954 | **2 908** | 954 |
| Owner-occupied properties | **2** | 17 | **2** | 17 |
| Under contracts | **2** | 2 | **2** | 2 |
| Authorised by the directors but not contracted | | 15 | | 15 |
| Total commitments | **3 792** | 2 320 | **3 776** | 2 322 |

The group's share of commitments of joint ventures amounting to R9 million (2012: R4 million) to be financed by the existing facilities in the joint venture operations, is disclosed in note 11. The above 2013 capital commitments will be financed by available bank facilities existing cash resources, internally generated funds and R218 million (2012: R198 million) from non-controlling interests in unincorporated property partnerships. In accordance with various investment mandates, commitments have been made to invest in certain structured entities as detailed in note 51.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 47. 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 section 4 of the accounting policies and details of depreciation charged in note 3 to the financial statements.

**Fair value measurements**
Fair value measurement is required for a number of the group's financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability that is not quoted in an active representative market, the use of market observable data is maximised. Fair values are categorised into different levels in a fair value hierarchy based on the source of inputs used in the valuation techniques and their materiality to the measurement value. Where inputs are material to the instrument and not observable to market participants, these assets or liabilities are categorised as level three in the hierarchy.

Further information relating to the inputs used in fair value measurement is included in note 1.8.

**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 taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. These include various inputs relating to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. The group makes judgement regarding the unit of account, i.e. whether it should be valued as a stand-alone property or as a group of properties. Determination of fair value for a non-financial asset also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible. Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer note 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. Given the number of management judgements applied in the valuation, these assets are considered to be level three in the hierarchy.

**Financial assets and liabilities including held for trading or held for hedging assets and liabilities and interests in associates – measured at fair value**

***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 sections 8, 9, 10, 11 and 16 of the accounting policies. 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. Financial instruments that are measured using the most advantageous active market quoted prices are measured on the market's reported closing price at 31 December. The closing price is often the particular markets defined "ruling price" commonly accepted by market participants as a practical expediency to reflect exit price. Full disclosure of unquoted financial instruments, valuation hierarchy and sensitivities are contained in the risk management section of this report. Given the number of management judgements applied in the valuation of unqualified equity instruments most are considered to be level three in the hierarchy.

With regard 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.

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

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

### Interests in subsidiaries

*Unincorporated property partnerships*

The group owns majority stakes in certain properties and controls the management of those properties. The group has power over all significant decisions around the use and maintenance of those properties and it has therefore classified these as businesses and hence classified these interests as subsidiaries.

*Interests in subsidiaries and associates – mutual funds*

The group has assessed its interests in the various mutual fund investments in which the group has the irrevocable asset management agreement over the mutual funds and in which the group has invested significantly. For other mutual funds, other factors such as the existence of control through voting rights held by the group in the fund, or significant economic power in the fund, are considered in the assessment of control. Judgement is required in the assessment of whether the group has control or significant influence in terms of the variability of returns from the group's involvement in the funds, the ability to use power to affect those returns and the significance of the group's investment in the funds. Based on the assessment of control or significant influence over these mutual funds, certain funds have been either classified as subsidiaries or associates respectively.

### Unconsolidated structured entities – mutual funds

The group invests in various mutual funds which are widely recognised as investment trusts that are regulated by government agencies, marketed and open to public investment. These funds provide investors with access to returns on underlying assets in terms of pre-defined mandates. Pricing information is publically available.

Management do not consider these vehicles to be unconsolidated structured entities as defined under IFRS 12.

### 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 section 6 of the accounting policies and note 6 to the financial statements.

Goodwill: In assessing possible impairment of recognised goodwill the relevant supporting cash-generating units are required to be defined. Details of these are contained in note 6 to the 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 24 for details of amounts recognised in profit or loss.

### Current and deferred taxation

***Liability determination:*** The group is subject to taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group 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.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

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

**Policyholder liabilities under long-term 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 the insurance risk and sensitivity analysis components of the risk disclosure note of this report, in section 17 and 18 of the accounting policies and in note 18 to the group financial statements.

**Policyholder liabilities under short-term insurance contracts and related reinsurance assets**
Short-term insurance liabilities include the provisions for outstanding reported claims, claims incurred but not reported (IBNR) and unearned premiums. Outstanding reported claims represent the group's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled. Unearned premiums represent the amount of income set aside by the group to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in-force at the statement of financial position date. At each reporting date an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision can be made, based on information available at the reporting date, for any estimated future underwriting losses relating to unexpired risks (unexpired risk provision). At 31 December 2013 no unexpired risk provision was deemed necessary. The IBNR provision is management's best estimate of the ultimate cost of claims where the loss event has occurred prior to financial position date, but which has not been reported. Significant uncertainty pertains to the IBNR provision and management's best estimate of the ultimate cost of claims is guided off past trends using acceptable actuarial modelling techniques.

**Policyholder liabilities under short-term insurance contracts and related reinsurance assets** (continued)
Estimates of expected reinsurance recoveries on outstanding reported claims and IBNR are calculated with reference to the terms of reinsurance treaties and the estimated distributions and nature of the claims.

**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 23 on the group financial statements.

***Defined Benefit Pension Fund and application of the asset ceiling:*** The group has underwritten the Liberty Defined Benefit Pension Fund which currently is reporting a surplus position based on actuarial valuations performed for group IFRS reporting purposes. The trustees have previously resolved that surpluses are allocated 50% to the employer and 50% to potentially enhancing employee benefits.

The allocation of surpluses are however conditional on a three yearly regulatory valuation approved by the Financial Services Board. Consequently management judge the net surplus in between the three yearly regulatory valuations as conditional and the asset ceiling is referenced to the most recent FSB approved valuation. Refer to note 23 in the group financial statement for more detail.

**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 23 and 38 to 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 27 to 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 (including goodwill) and receivables. Further details are contained in the accounting policies.

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

### 48. Details of non-wholly owned subsidiaries that have significant non-controlling interests

#### 48.1 Summary

| | | Accumulated non-controlling interests 2013 Rm | 2012 Rm |
|---|---|---|---|
| Subsidiaries[1] | | **1** | 58 |
| Unincorporated property partnerships | 48.2 | **3 503** | 2 952 |
| Total non-controlling interests | | **3 504** | 3 010 |

#### 48.2 Unincorporated property partnerships

| Name of property partnership | Location | Percentage of ownership interest held by non-controlling interest 2013 | 2012 | Profit/(loss) allocated to non-controlling interest 2013 Rm | 2012 Rm | Accumulated non-controlling interests 2013 Rm | 2012 Rm |
|---|---|---|---|---|---|---|---|
| Sandton City consortium | South Africa | **25,0%** | 25,0% | **491** | 335 | **3 131** | 2 629 |
| Sandton Convention | South Africa | **40,0%** | 40,0% | **69** | 35 | **288** | 244 |
| Liberty Hotels (Pty) Ltd | South Africa | **25,0%** | 25,0% | **(2)** | (4) | **84** | 79 |
| Alberton City consortium | South Africa | | 35,7% | | 14 | | |
| **Total** | | | | **558** | 380 | **3 503** | 2 952 |

#### 48.3 Summarised financial information – non-controlling interests' share

**Unincorporated property partnerships**

| | Sandton City consortium 2013 Rm | 2012 Rm | Sandton Convention 2013 Rm | 2012 Rm | Liberty Hotels (Pty) Ltd 2013 Rm | 2012 Rm | Alberton City consortium 2013 Rm | 2012 Rm |
|---|---|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | | | |
| Non-current assets | **3 135** | 2 632 | **288** | 244 | **76** | 74 | | |
| Current assets | **10** | 7 | | | **27** | 23 | | |
| Non-current liabilities | **(3)** | | | | **(16)** | | | |
| Current liabilities | **(46)** | (39) | | | **(2)** | (20) | | |
| Loans to group entities | **35** | 29 | | | | | | |
| **Comprehensive income** | | | | | | | | |
| Gross revenue | **572** | 410 | **74** | 40 | **118** | 102 | | 19 |
| Total comprehensive income/(loss) | **491** | 335 | **69** | 35 | **(2)** | (4) | | 14 |

All the above entities have a 31 December year end.

(1) There were no significant non-controlling interests in subsidiaries therefore no further information is provided

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 49. Changes in accounting policies

**Adoption of control suite of standards and revisions**

***Group and Company***

The impact of the changes in accounting policies regarding IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 (Revised) *Separate Financial Statements*, IAS 28 (Revised) *Investments in Associates and Joint Ventures* are detailed in appendix A of the annual financial statements. The adoption of these IFRS and revisions resulted in certain reclassifications of mutual funds where required and was applied retrospectively in line with the transitional requirements. This has led to a change in the number of mutual funds being classified as subsidiaries or associates at a consolidated level, as well as reclassifications between these categories and financial instruments. These reclassifications of mutual funds have resulted in a number of changes to items presented in both the statement of comprehensive income and financial position for the years ended 31 December 2013 and 2012. There were however, no resultant changes to the group's total earnings, comprehensive income, shareholders' funds or net asset value for the reclassification of mutual funds.

The table below itemises the change in classification between subsidiaries, interests in associates measured at fair value and financial investments as a result of the above reclassifications as at 1 January 2012. Entities that were not effected are not reflected.

| Name of entity | Previous classification | New classification |
|---|---|---|
| Ermitage Global Wealth Management Strategies | Subsidiary | Financial investment |
| STANLIB Funds Limited | Subsidiary | Financial investment |
| STANLIB Multi-Manager Property Fund | Subsidiary | Financial investment |
| STANLIB Multi-Manager Flexible Property Fund | Subsidiary | Financial investment |
| STANLIB Africa Property Fund | Subsidiary | Financial investment |
| STANLIB Top 40 Exchange Traded Fund | Subsidiary | Financial investment |
| Ermitage Global Multi Strategy Fund | Subsidiary | Financial investment |
| Standard Bank Institutional Money Market Fund | Interest in associate | Financial investment |
| STANLIB Institutional Property Fund | Interest in associate | Financial investment |
| STANLIB Value Fund | Interest in associate | Financial investment |
| STANLIB Multi-Manager Equity Fund | Interest in associate | Financial investment |
| STANLIB Balanced Fund | Interest in associate | Financial investment |
| STANLIB Aggressive Income Fund | Interest in associate | Financial investment |
| STANLIB Balanced Cautionary Fund | Interest in associate | Financial investment |
| STANLIB Multi-Manager Low Equity Fund of Funds | Interest in associate | Financial investment |
| STANLIB Multi-Manager Real Return Feeder Fund | Interest in associate | Financial investment |
| Ermitage Money Market Funds | Interest in associate | Financial investment |
| STANLIB Moderately Conservative Fund of Funds | Interest in associate | Financial investment |
| STANLIB Global Equity Feeder Fund | Interest in associate | Financial investment |
| STANLIB Multi-Manager Medium Equity Fund of Funds | Interest in associate | Financial investment |
| STANLIB Managed Flexible Fund | Interest in associate | Financial investment |
| STANLIB Resources Fund | Interest in associate | Financial investment |
| STANLIB Moderate Fund of Funds | Interest in associate | Financial investment |
| STANLIB Global Property Feeder Fund | Interest in associate | Financial investment |
| Oasis Balanced Fund | Interest in associate | Financial investment |
| STANLIB Quants Fund | Interest in associate | Financial investment |
| STANLIB Small Cap Fund | Interest in associate | Financial investment |
| STANLIB Multi-Manager All Stars Equity Fund of Funds | Interest in associate | Financial investment |
| STANLIB Nationbuilder Fund | Interest in associate | Financial investment |
| South Africa Infrastructure Fund | Financial investment | Interest in associate |

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 49. Changes in accounting policies (continued)

***Election to measure interest in joint venture at fair value***

**Group**

The Revised IAS 28 *Investments in Associates and Joint Ventures* which was effective for years commencing 1 January 2013, with retrospective application, allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss.

Liberty elected to apply this exemption to the measurement of The Cullinan Hotel (Pty) Limited on adoption of the revised standard, which resulted in a change in accounting policy. As the fair value equated to the carrying value of the investment in the joint venture and equity accounted earnings from The Cullinan Hotel (Pty) Ltd was nil in 2012, there was no resultant change to the group's total earnings, comprehensive income, shareholders' funds or net asset value.

**Company**

The change in accounting policy as a result of the election to measure the Cullinan Hotel (Pty) Limited at fair value through profit and loss led to a change to the company's total earnings, comprehensive income and shareholder's funds for the year ended 31 December 2012 and 1 January 2012 and to net asset value as at 31 December 2012 and 1 January 2012.

**Amendments to IAS 19 *Employee Benefits***

***Group and company***

The group has adopted the amendments to IAS 19 *Employee Benefits,* which has resulted in a change in accounting policy effective for the year commencing 1 January 2013, with retrospective application. The amendments have changed the basis for recognition of movements in post-retirement employee benefits liabilities or assets, with certain remeasurements of the relevant liability or asset now being mandatory recognised in other comprehensive income. In prior periods the group recognised all remeasurements in post-retirement employee benefit plan liabilities or assets in profit or loss as previously allowed or mandated in IAS 19. This resulted in a restatement of earnings as detailed in the table that follows.

In addition to the statement of comprehensive income, statements of financial position, statement of changes in company shareholders' funds and the statement of cash flows, the following 2012 notes have been restated in compliance with IAS 1 *Presentation of Financial Statements.*

**Risk disclosures**

- Note 1.2 Interest rate risk applicable to financial instrument assets and liabilities (group)
- Note 1.3 Currency risk (group and company)
- Note 1.4 Derivative assets and liabilities (group and company)
- Note 1.5 Credit exposure (group)
- Note 1.6.3 Credit risk – Standard Bank Group Limited (Standard Bank) credit risk concentration (group and company)
- Note1.6.4 Credit risk – collateral (group)
- Note 1.7.1 Maturity profile of liabilities – maturity profiles of the company's financial instrument liabilities (group)
- Note 1.8.1 Fair value hierarchy – asset hierarchy (group and company)
- Note 1.8.3 Fair value hierarchy – reconciliation of level 3 assets (group and company)
- Note 1.8.6 Fair value hierarchy – liability hierarchy (group)
- Note 1.10.1 Summary of the company's financial, property and insurance assets and liabilities per class – assets per class (group and company)
- Note 1.10.2 Summary of group's financial, property and insurance assets and liabilities per class – reconciliation of financial asset classes to financial position (group and company)
- Note 1.10.3 Summary of group's financial, property and insurance asset and liabilities per class – liabilities per class (group)

**Financial statements**

- Note 2 Segment information (group)
- Note 9 Interest in subsidiaries – mutual funds (company)
- Note 11 Interest in joint ventures (group and company)
- Note 14 Interest in associates – measured at fair value (group and company)
- Note 15 Financial investments and derivative assets and liabilities (group and company)
- Note 16 Prepayments, insurance and other receivables (group)
- Note 17 Cash and cash equivalents (group)
- Note 18 Long-term policyholder liabilities and reinsurance assets (group and company)
- Note 19 Long-term policyholders liabilities under investment contracts (group and company)
- Note 22 Third party financial liabilities arising on consolidation of mutual funds (group)
- Note 23 Employee benefits (group and company)
- Note 28 Insurance and other payables (group)

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 49. Changes in accounting policies (continued)
**Financial statements** (continued)

- Note 32 Investment income (group and company)
- Note 33 Investment gains (group and company)
- Note 37 General marketing and administration expenses (group and company)
- Note 40 Taxation (group and company)
- Note 42 Reconciliation of total earnings to cash utilised by operations (group and company)
- Note 47 Key judgements in applying assumptions on application of accounting policies (group and company)

Updated disclosure requirements have been provided to accommodate IFRS 12 *Interests in Disclosure of Other Entities* with retrospective application.

The adoption of IFRS 13 *Fair Value Measurement* (prospective application) has not resulted in any material measurement changes for the group in 2013. The additional disclosure requirements in terms of IFRS 13 have been voluntarily applied to 2012.

The financial statement impact of IAS 19 amendments are disclosed in the table below. Line items that are not affected by the change have not been included and as a result the totals cannot be recalculated from the numbers provided.

The financial statement impact of this change is:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Prior to adoption of amendments to IAS 19[(1)]** | **Impact of amendments to IAS 19** | **Including the amendments to IAS 19** | Prior to adoption of amendments to IAS 19[(1)] | Impact of amendments to IAS 19 | Restated |
| | **31 December 2013** | | | 31 December 2012 | | |
| **Financial statement line item** | **Rm** | **Rm** | **Rm** | Rm | Rm | Rm |
| Investment income | **10 752** | **(26)** | **10 726** | 11 480 | (30) | 11 450 |
| Adjustment to defined benefit pension fund employer surplus | | | | (45) | 45 | |
| **Total revenue** | **72 569** | **(26)** | **72 543** | 69 634 | 15 | 69 649 |
| General marketing and administration expenses | **(6 455)** | **(24)** | **(6 479)** | (5 898) | (127) | (6 025) |
| **Profit before taxation** | **6 781** | **(50)** | **6 731** | 6 440 | (112) | 6 328 |
| Taxation | **(2 708)** | **14** | **(2 694)** | (2 544) | 32 | (2 512) |
| **Total earnings** | **4 073** | **(36)** | **4 037** | 3 896 | (80) | 3 816 |
| Other comprehensive income | **(101)** | **36** | **(65)** | (18) | 80 | 62 |
| Other comprehensive income items | **(101)** | | **(101)** | (18) | | (18) |
| Actuarial gains on post-retirement medical liability | | **24** | **24** | | 127 | 127 |
| Income tax relating to post-retirement medical liability | | **(7)** | **(7)** | | (36) | (36) |
| Net adjustments to defined benefit pension fund | | **26** | **26** | | (15) | (15) |
| Income tax relating to defined benefit pension fund | | **(7)** | **(7)** | | 4 | 4 |
| **Total comprehensive income** | **3 972** | | **3 972** | 3 878 | | 3 878 |

(1) *The column "Prior to adoption of amendments to IAS 19" includes adjustments from the reclassifications of mutual funds and the election to measure joint venture at fair value, which had no impact on total earnings or total comprehensive earnings.*

# Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

## 49. Changes in accounting policies (continued)

The financial statement impact of the IAS 19 amendments are disclosed in the table below. Line items that were not affected by the change have not been included and as a result the totals cannot be recalculated from the numbers provided.

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 31 December 2013 | | | 31 December 2012 | | |
| Financial statement line item | Prior to amendments to IAS19 and election to measure joint venture at fairvalue Rm | Changes in accounting policies Rm | As reported Rm | Prior to amendments to IAS19 and election to measure joint venture at fair value[1] Rm | Changes in accounting policies Rm | Restated Rm |
| Investment income | **10 549** | **(26)** | **10 523** | 8 121 | (30) | 8 091 |
| Investment gains/(losses) | **24 759** | **26** | **24 785** | 24 369 | (15) | 24 354 |
| Adjustment to defined benefit pension fund employer surplus | | | | (45) | 45 | |
| **Total revenue** | **62 749** | | **62 749** | 50 838 | | 50 838 |
| General marketing and administration expenses | **(4 724)** | **(24)** | **(4 748)** | (3 793) | (127) | (3 920) |
| **Profit before taxation** | **6 523** | **(24)** | **6 499** | 5 178 | (127) | 5 051 |
| Taxation | **(2 332)** | **14** | **(2 318)** | (1 976) | 32 | (1 944) |
| **Total earnings** | **4 191** | **(10)** | **4 181** | 3 202 | (95) | 3 107 |
| Other comprehensive income | **(132)** | **36** | **(96)** | (20) | 80 | 60 |
| Other comprehensive income items | **(132)** | | **(132)** | (20) | | (20) |
| Actuarial gains on post-retirement medical liability | | **24** | **24** | | 127 | 127 |
| Income tax relating to post-retirement medical aid liability | | **(7)** | **(7)** | | (36) | (36) |
| Net adjustments to defined benefit fund | | **26** | **26** | | (15) | (15) |
| Income tax relating to defined benefit pension fund | | **(7)** | **(7)** | | 4 | 4 |
| **Total comprehensive income** | **4 059** | **26** | **4 085** | 3 182 | (15) | 3 167 |

[1] *The column "Prior to adoption of amendments to IAS 19 and election to measure joint venture at fair value" includes adjustments from the reclassifications of mutual funds which had no impact on total earnings or total comprehensive earnings.*

## 50. Group restrictions on assets and liabilities

Liberty does not have any significant restrictions on its ability to access or use its assets and settle its liabilities, other than those required by supervisory regulatory frameworks.

The group is largely constituted of various long-term insurance entities. These entities require licences to operate in and are bound by various regulations including requirements to minimum capital as stipulated. The company, Liberty Group Limited, has issued various subordinated notes that have prescribed liquidity requirements. Liberty Group Limited, is a South African licenced long-term insurer and by size is the most significant entity within the group.

For further detail refer to the capital management chapter in the risk management section.

## Notes to the financial statements *(continued)*
*for the year ended 31 December 2013*

### 51. Interests in unconsolidated structured entities

The table below summarises the types of structured entities that the group does not consolidate but in which it holds an interest. The maximum exposure to loss is the carrying value of the assets held.

| Name of unconsolidated structured entity | Asset type | Nature and purpose of business |
|---|---|---|
| Blue Diamond Investments No 3 (Pty) Ltd. | Listed notes in a vehicle that houses South African listed bonds/notes | Blue Diamond is a Standard Bank SPV that repacks and houses South African listed debt into a single instrument which investors can purchase |
| Blue Granite Investments No 2 (Pty) Ltd. | Residential mortgage backed securitisation | Standard Bank securitisation vehicle |
| Blue Granite Investments No 4 (Pty) Ltd. | Residential mortgage backed securitisation | Standard Bank securitisation vehicle |
| Calibre Mortgage Fund (Pty) Ltd. | Senior, secured loan | Special purpose vehicle (SPV) set up by SA Home Loans (SAHL) into which it originates home loans. The SPV is funded by debt provided by Liberty and equity provided by SA Home loans |
| Nitro Securitisation 4 Issuer Trust | Vehicle loan backed assets | RMB securitisation vehicle |
| Opiconsivia Investments 266 (Pty) Ltd. | Senior, secured loan | SPV set up by Standard Bank and Liberty to fund secured property exposures to Growthpoint, Resilient and Redefine |
| SA Taxi Finance Solutions (Pty) Ltd. | Senior, unrated debentures secured by underlying assets | SPV set up by SA Taxi to raise debt funding which it in turn uses to originate taxi loans |
| SA Taxi Securitisation (Pty) Ltd. | Senior ranking, listed, rated debt notes secured by underlying assets | Securitisation SPV set up by SA Taxi to raise debt funding which it in turn uses to originate taxi loans |
| Siyakha Fund (Pty) Ltd. | Residential mortgage backed securitisation | Standard Bank securitisation vehicle |
| The Thekwini Fund 8 (Pty) Ltd. | Residential mortgage backed securitisation | SA Home loans securitisation vehicle |
| The Thekwini Fund 9 (Pty) Ltd. | Residential mortgage backed securitisation | SA Home loans securitisation vehicle |
| The Thekwini Fund 10 (RF) Ltd. | Residential mortgage backed securitisation | SA Home loans securitisation vehicle |
| The Thekwini Fund 11 (Pty) Ltd. | Residential mortgage backed securitisation | SA Home loans securitisation vehicle |

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

| Activities | How is the structured entity financed? | Ongoing capital commitment | Carrying value [(1)] 2013 Rm | Carrying value [(1)] 2012 Rm | Income received [(2)] 2013 Rm | Income received [(2)] 2012 Rm |
|---|---|---|---|---|---|---|
| Providing credit protection in the form of credit linked notes | Credit linked notes issued to third party investors | None | **402** | 457 | **15** | 25 |
| Raising funding in the securitisation market | Debt funders in the securitisation market | None | **257** | 257 | **17** | 18 |
| Raising funding in the securitisation market | Debt funders in the securitisation market | None | **252** | 259 | **20** | 15 |
| SPV set up by SAHL as a funding vehicle into which Liberty can lend on a secured basis. | Liberty as debt provider | Undrawn commitment of R352 million. Drawing is subject to covenant checks by Liberty. | **1 148** | | **33** | |
| Raising funding in the securitisation market | Debt funders in the securitisation market | None | **160** | 209 | **13** | 15 |
| Raising and housing secured funding from Standard Bank and Liberty | Debt provided by Standard Bank and Liberty | R157 million liquidity line subject to drawdown conditionality and 60 days notice. | **235** | | **1** | |
| Taxi loans | Local and foreign debt funders | None | **27** | 34 | **3** | 1 |
| Taxi loans | Debt funders in the securitisation market | None | **297** | 140 | **24** | 9 |
| Raising funding in the securitisation market | Debt funders in the securitisation market | None | **313** | 797 | **10** | 105 |
| SPV set up by SAHL to raise funding in the securitisation market which it in turn uses to originate home loans. | Debt funders in the securitisation market | None | **11** | 11 | **1** | 1 |
| SPV set up by SAHL to raise funding in the securitisation market which it in turn uses to originate home loans. | Debt funders in the securitisation market | None | **155** | 155 | **10** | 9 |
| SPV set up by SAHL to raise funding in the securitisation market which it in turn uses to originate home loans. | Debt funders in the securitisation market | None | **171** | 203 | **20** | 7 |
| SPV set up by SAHL to raise funding in the securitisation market which it in turn uses to originate home loans. | Debt funders in the securitisation market | None | **14** | | **1** | |

(1) Carrying values are disclosed in the Statement of Financial Position as a financial investment

(2) Income received comprises interest income and investment gains/(losses).

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements** (continued)
**Statement of Financial Position**
as at 1 January 2012

| Group (Audited) | As previously reported Rm | Reclassification of mutual funds Rm | Restated 1 January 2012 Rm |
|---|---|---|---|
| **Assets** | | | |
| Equipment and owner-occupied properties under development | 752 | | 752 |
| Owner-occupied properties | 1 539 | | 1 539 |
| Investment properties | 23 410 | | 23 410 |
| Intangible assets | 526 | | 526 |
| Defined benefit pension fund employer surplus | 199 | | 199 |
| Deferred acquisition costs | 389 | | 389 |
| Interests in joint ventures | 422 | | 422 |
| Reinsurance assets | 898 | | 898 |
| Operating leases – accrued income | 1 085 | | 1 085 |
| Derivative assets | 3 790 | | 3 790 |
| Interest in associates – mutual funds | 11 697 | (10 604) | 1 093 |
| Financial investments | 194 940 | 925 | 195 865 |
| Deferred taxation | 79 | | 79 |
| Prepayments, insurance and other receivables | 2 601 | (152) | 2 449 |
| Cash and cash equivalents | 6 042 | (1 226) | 4 816 |
| **Total assets** | 248 369 | (11 057) | 237 312 |
| **Liabilities** | | | |
| Long-term policyholders' liabilities | 206 924 | | 206 924 |
| Insurance contracts | 145 211 | | 145 211 |
| Investment contracts with discretionary participation features | 2 639 | | 2 639 |
| Financial liabilities under investment contracts | 59 074 | | 59 074 |
| Short-term liabilities | | | |
| Financial liabilities at amortised cost | 2 054 | | 2 054 |
| Third party liabilities arising on consolidation of mutual funds | 11 164 | (10 988) | 176 |
| Employee benefits | 816 | | 816 |
| Deferred revenue | 152 | | 152 |
| Deferred taxation | 2 752 | | 2 752 |
| Provisions | 364 | | 364 |
| Operating leases – accrued expense | 93 | | 93 |
| Derivative liabilities | 3 113 | | 3 113 |
| Insurance and other payables | 5 623 | (69) | 5 554 |
| Current taxation | 539 | | 539 |
| **Total liabilities** | 233 594 | (11 057) | 222 537 |
| **Equity** | | | |
| Ordinary shareholders' interest | 11 774 | | 11 774 |
| Share capital | 29 | | 29 |
| Retained surplus | 12 217 | | 12 217 |
| Other reserves | (472) | | (472) |
| Minority interests | 3 001 | | 3 001 |
| **Total equity** | 14 775 | | 14 775 |
| **Total equity and liabilities** | 248 369 | (11 057) | 237 312 |

[1] *Applying IFRS 10 and the revised IAS 28 has led to certain investments in mutual funds being reclassified between subsidiaries, associates and financial instruments. For further detailed explanation, refer to the accounting policies section.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements**
**Statement of Financial Position**
as at 31 December 2012

| Group (Audited) | As previously reported Rm | Reclassification of mutual funds[1] Rm | Restated 31 December 2012 Rm |
|---|---|---|---|
| **Assets** | | | |
| Equipment and owner-occupied properties under development | 832 | | 832 |
| Owner-occupied properties | 1 307 | | 1 307 |
| Investment properties | 24 063 | | 24 063 |
| Intangible assets | 398 | | 398 |
| Defined benefit pension fund employer surplus | 186 | | 186 |
| Deferred acquisition costs | 439 | | 439 |
| Interests in joint ventures | 377 | | 377 |
| Reinsurance assets | 966 | | 966 |
| Operating leases – accrued income | 1 277 | | 1 277 |
| Derivative assets | 6 910 | (20) | 6 890 |
| Interest in associates – equity accounted | 14 | | 14 |
| Interest in associates – measured at fair value | 13 837 | (12 318) | 1 519 |
| Financial investments | 227 285 | (563) | 226 722 |
| Deferred taxation | 73 | | 73 |
| Prepayments, insurance and other receivables | 2 772 | (181) | 2 591 |
| Cash and cash equivalents | 5 155 | (1 473) | 3 682 |
| **Total assets** | 285 891 | (14 555) | 271 336 |
| **Liabilities** | | | |
| Long-term policyholders' liabilities | 234 277 | | 234 277 |
| Insurance contracts | 164 160 | | 164 160 |
| Investment contracts with discretionary participation features | 2 820 | | 2 820 |
| Financial liabilities under investment contracts | 67 297 | | 67 297 |
| Short-term liabilities | 21 | | 21 |
| Financial liabilities at amortised cost | 2 037 | | 2 037 |
| Third party liabilities arising on consolidation of mutual funds | 14 465 | (14 086) | 379 |
| Employee benefits | 830 | | 830 |
| Deferred revenue | 166 | | 166 |
| Deferred taxation | 2 675 | | 2 675 |
| Deemed disposal taxation liability | 918 | | 918 |
| Provisions | 338 | | 338 |
| Operating leases – accrued expense | 30 | | 30 |
| Derivative liabilities | 6 098 | (16) | 6 082 |
| Insurance and other payables | 7 108 | (453) | 6 655 |
| Current taxation | 648 | | 648 |
| **Total liabilities** | 269 611 | (14 555) | 255 056 |
| **Equity** | | | |
| Ordinary shareholders' interest | 13 270 | | 13 270 |
| Share capital | 29 | | 29 |
| Retained surplus | 13 822 | | 13 822 |
| Other reserves | (581) | | (581) |
| Minority interests | 3 010 | | 3 010 |
| **Total equity** | 16 280 | | 16 280 |
| **Total equity and liabilities** | 285 891 | (14 555) | 271 336 |

[1] *Applying IFRS 10 and the revised IAS 28 has led to certain investments in mutual funds being reclassified between subsidiaries, associates and financial instruments. For further detailed explanation, refer to the accounting policies section.*

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements** (continued)
**Statement of Comprehensive Income**
for the year ended 31 December 2012

| Group (Audited) | As previously reported Rm | Reclassification of mutual funds[1] Rm | IAS 19 Amendments Rm | Election to measure joint venture at fair value through profit and loss[3] Rm | Restated 31 December 2012 Rm |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Insurance premium revenue | 29 458 | | | | 29 458 |
| Reinsurance premiums | (879) | | | | (879) |
| **Net insurance premiums** | 28 579 | | | | 28 579 |
| Service fee income from investment contracts | 878 | | | | 878 |
| Investment income | 12 346 | (881) | (30) | 15 | 11 450 |
| Hotel operation sales | 720 | | | | 720 |
| Investment gains/(losses) | 30 270 | (2 342) | | (15) | 27 913 |
| Fee revenue and reinsurance commission | 109 | | | | 109 |
| Defined benefit pension fund employer surplus | (45) | | 45 | | |
| **Total revenue** | 72 857 | (3 223) | 15 | | 69 649 |
| Claims and policyholders benefits under insurance contracts | (24 391) | | | | (24 391) |
| Insurance claims recovered from reinsurers | 643 | | | | 643 |
| Change in long-term policyholders' liabilities | (19 193) | | | | (19 193) |
| Insurance contracts | (19 080) | | | | (19 080) |
| Investment contracts with discretionary participation features | (181) | | | | (181) |
| Applicable to reinsurers | 68 | | | | 68 |
| Fair value adjustment to policyholders' liabilities under investment contracts | (9 949) | | | | (9 949) |
| Fair value adjustment on third party mutual fund interests | (2 979) | 2 949 | | | (30) |
| Acquisition costs | (3 398) | | | | (3 398) |
| General marketing and administration expenses | (6 172) | 274 | (127) | | (6 025) |
| Finance costs | (204) | | | | (204) |
| Profit share allocations under bancassurance and other agreements | (774) | | | | (774) |
| **Profit before taxation** | 6 440 | | (112) | | 6 328 |
| Taxation | (2 544) | | 32 | | (2 512) |
| **Total earnings** | 3 896 | | (80) | | 3 816 |
| **Other comprehensive income** | (18) | | 80 | | 62 |
| ***Items that may be reclassified subsequently to profit and loss*** | (18) | | | | (18) |
| Net change in fair value on cash flow hedges | (29) | | | | (29) |
| Income and capital gains tax relating to net change in fair value on cash flow hedges | 8 | | | | 8 |
| Foreign currency translation | 3 | | | | 3 |
| ***Items that may not be reclassified subsequently to profit and loss*** | | | 80 | | 80 |
| Owner-occupied properties – fair value adjustment | (197) | | | | (197) |
| Income and capital gains tax relating to owner-occupied properties fair value adjustment | 66 | | | | 66 |
| Change in long-term policyholder insurance liabilities (application of shadow accounting) | 131 | | | | 131 |
| Actuarial gains on post-retirement medical aid liability | | | 127 | | 127 |
| Income tax relating to post-retirement medical aid liability | | | (36) | | (36) |
| Net adjustments to defined benefit pension fund[2] | | | (15) | | (15) |
| Income tax relating to defined benefit pension fund | | | 4 | | 4 |
| **Total comprehensive income** | 3 878 | | | | 3 878 |
| Total earnings attributable to: | | | | | |
| Ordinary shareholders' interests | 3 505 | | (80) | | 3 425 |
| Non-controlling interests | 391 | | | | 391 |
| | 3 896 | | (80) | | 3 816 |
| Total comprehensive income attributable to: | | | | | |
| Ordinary shareholders' interests | 3 486 | | | | 3 486 |
| Non-controlling interests | 392 | | | | 392 |
| | 3 878 | | | | 3 878 |

(1) *Applying IFRS 10 and the revised IAS 28 has led to certain investments in mutual funds being reclassified between subsidiaries, associates and financial instruments. For further detailed explanation, refer to the accounting policies section.*

(2) *Net adjustments to defined benefit pension fund include actuarial gains or losses, return on plan assets, reduced by the interest on the net defined benefit asset, and the effect of the application of the asset ceiling.*

(3) *The revised IAS 28 Investments in Associates and Joint Ventures allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss. Liberty elected to apply this exemption to the measurement of its interest in the joint venture, The Cullinan Hotel (Pty) Limited.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements** (continued)
**Statement of Financial Position**
as at 1 January 2012

| **Company (Audited)** | As previously reported Rm | Reclassification of mutual funds[1] Rm | Election to measure joint venture at fair value through profit and loss[2] Rm | Restated 1 January 2012 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Equipment and owner-occupied properties under development | 666 | | | 666 |
| Owner-occupied properties | 1 539 | | | 1 539 |
| Investment properties | 21 149 | | | 21 149 |
| Intangible assets | 73 | | | 73 |
| Defined benefit pension fund employer surplus | 199 | | | 199 |
| Deferred acquisition costs | 386 | | | 386 |
| Interests in subsidiaries | 2 953 | | | 2 953 |
| Interests in subsidiaries – mutual funds | 17 766 | (14 754) | | 3 012 |
| Interests in joint ventures | 96 | | 325 | 421 |
| Reinsurance assets | 425 | | | 425 |
| Operating leases – accrued income | 430 | | | 430 |
| Derivative assets | 3 199 | | | 3 199 |
| Interest in associates – measured at fair value | 11 402 | (10 410) | | 992 |
| Financial investments | 131 983 | 25 164 | | 157 147 |
| Deferred taxation | | | | |
| Prepayments, insurance and other receivables | 2 292 | | | 2 292 |
| Cash and cash equivalents | 1 411 | | | 1 411 |
| **Total assets** | 195 969 | | 325 | 196 294 |
| **Liabilities** | | | | |
| Long-term policyholders' liabilities | 172 644 | | | 172 644 |
| Insurance contracts | 107 041 | | | 107 041 |
| Investment contracts with discretionary participation features | 2 631 | | | 2 631 |
| Financial liabilities under investment contracts | 62 972 | | | 62 972 |
| Financial liabilities at amortised cost | 2 054 | | | 2 054 |
| Employee benefits | 794 | | | 794 |
| Deferred revenue | 148 | | | 148 |
| Deferred taxation | 2 501 | | | 2 501 |
| Provisions | 364 | | | 364 |
| Operating leases – accrued expense | 93 | | | 93 |
| Derivative liabilities | 2 772 | | | 2 772 |
| Insurance and other payables | 3 920 | | | 3 920 |
| Current taxation | 323 | | | 323 |
| **Total liabilities** | 185 613 | | | 185 613 |
| **Equity** | | | | |
| Ordinary shareholders' interest | | | | |
| Share capital | 29 | | | 29 |
| Share premium | | | | |
| Retained surplus | 10 795 | | 325 | 11 120 |
| Other reserves | (468) | | | (468) |
| **Total equity** | 10 356 | | 325 | 10 681 |
| **Total equity and liabilities** | 195 969 | | 325 | 196 294 |

[1] *Applying IFRS 10 and the revised IAS 28 has led to certain investments in mutual funds being reclassified between subsidiaries, associates and financial instruments. For further detailed explanation, refer to the accounting policies section.*

[2] *The revised IAS 28 Investments in Associates and Joint Ventures allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss. Liberty elected to apply this exemption to the measurement of its interest in the joint venture, The Cullinan Hotel (Pty) Limited.*

# Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements** (continued)
**Statement of Financial Position**
as at 31 December 2012

| Company (Audited) | As previously reported Rm | Reclassification of mutual funds[1] Rm | Election to measure joint venture at fair value through profit and loss[2] Rm | Restated 31 December 2012 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| Equipment and owner-occupied properties under development | 736 | | | 736 |
| Owner-occupied properties | 1 307 | | | 1 307 |
| Investment properties | 21 919 | | | 21 919 |
| Intangible assets | 41 | | | 41 |
| Defined benefit pension fund employer surplus | 186 | | | 186 |
| Deferred acquisition costs | 437 | | | 437 |
| Interests in subsidiaries | 3 837 | | | 3 837 |
| Interests in subsidiaries – mutual funds | 34 135 | (16 917) | | 17 218 |
| Interests in joint ventures | 68 | | 310 | 378 |
| Reinsurance assets | 431 | | | 431 |
| Operating leases – accrued income | 535 | | | 535 |
| Derivative assets | 6 137 | | | 6 137 |
| Interest in associates | 14 | | | 14 |
| Interest in associates – measured at fair value | 12 836 | (11 407) | | 1 429 |
| Financial investments | 138 507 | 28 324 | | 166 831 |
| Deferred taxation | - | | | |
| Prepayments, insurance and other receivables | 1 964 | | | 1 964 |
| Cash and cash equivalents | 2 052 | | | 2 052 |
| **Total assets** | 225 142 | | 310 | 225 452 |
| **Liabilities** | | | | |
| Long-term policyholders' liabilities | 196 285 | | | 196 285 |
| Insurance contracts | 119 682 | | | 119 682 |
| Investment contracts with discretionary participation features | 2 808 | | | 2 808 |
| Financial liabilities under investment contracts | 73 795 | | | 73 795 |
| Financial liabilities at amortised cost | 2 037 | | | 2 037 |
| Employee benefits | 801 | | | 801 |
| Deferred revenue | 163 | | | 163 |
| Deferred taxation | 2 215 | | | 2 215 |
| Deemed disposal taxation liability | 861 | | | 861 |
| Provisions | 338 | | | 338 |
| Operating leases – accrued expense | 30 | | | 30 |
| Derivative liabilities | 5 642 | | | 5 642 |
| Insurance and other payables | 4 648 | | | 4 648 |
| Current taxation | 545 | | | 545 |
| **Total liabilities** | 213 565 | | | 213 565 |
| **Equity** | | | | |
| Ordinary shareholders' interest | | | | |
| Share capital | 29 | | | 29 |
| Share premium | | | | |
| Retained surplus | 12 128 | | 310 | 12 438 |
| Other reserves | (580) | | | (580) |
| **Total equity** | 11 577 | | 310 | 11 887 |
| **Total equity and liabilities** | 225 142 | | 310 | 225 452 |

[1] *Applying IFRS 10 and the revised IAS 28 has led to certain investments in mutual funds being reclassified between subsidiaries, associates and financial instruments. For further detailed explanation, refer to the accounting policies section.*

[2] *The revised IAS 28 Investments in Associates and Joint Ventures allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss. Liberty elected to apply this exemption to the measurement of its interest in the joint venture, The Cullinan Hotel (Pty) Limited.*

## Notes to the financial statements *(continued)*

*for the year ended 31 December 2013*

**Appendix A – Restatement of prior period financial statements** (continued)
**Statement of Comprehensive Income**
for the year ended 31 December 2012

| **Company (Audited)** | As previously reported Rm | IAS 19 Amendments | Election to measure joint venture at fair value through profit and loss[2] Rm | Restated 31 December 2012 Rm |
|---|---|---|---|---|
| **Revenue** | | | | |
| Insurance premium revenue | 16 928 | | | 16 928 |
| Reinsurance premiums | (616) | | | (616) |
| **Net insurance premiums** | 16 312 | | | 16 312 |
| Service fee income from investment contracts | 852 | | | 852 |
| Investment income | 8 121 | (30) | | 8 091 |
| Hotel operation sales | 618 | | | 618 |
| Investment gains/(losses) | 24 369 | | (15) | 24 354 |
| Fee revenue | 110 | | | 110 |
| Distribution of profits from subsidiary – unincorporated property partnerships | 501 | | | 501 |
| Defined benefit pension fund employer surplus | (45) | 45 | | |
| **Total revenue** | 50 838 | 15 | (15) | 50 838 |
| Claims and policyholders benefits under insurance contracts | (16 465) | | | (16 465) |
| Insurance claims recovered from reinsurers | 427 | | | 427 |
| Change in long-term policyholders' liabilities | (12 943) | | | (12 943) |
| Insurance contracts | (12 772) | | | (12 772) |
| Investment contracts with discretionary participation features | (177) | | | (177) |
| Applicable to reinsurers | 6 | | | 6 |
| Fair value adjustment to policyholders' liabilities under investment contracts | (10 743) | | | (10 743) |
| Acquisition costs | (1 942) | | | (1 942) |
| General marketing and administration expenses | (3 793) | (127) | | (3 920) |
| Finance costs | (201) | | | (201) |
| **Profit before taxation** | 5 178 | (112) | (15) | 5 051 |
| Taxation | (1 976) | 32 | | (1 944) |
| **Total earnings** | 3 202 | (80) | (15) | 3 107 |
| **Other comprehensive income** | (20) | 80 | | 60 |
| ***Items that may be reclassified subsequently to profit or loss*** | (20) | | | (20) |
| Net change in fair value on cash flow hedges | (28) | | | (28) |
| Income and capital gains tax relating to net change in fair value on cash flow hedges | 8 | | | 8 |
| ***Items that may not be reclassified subsequently to profit or loss*** | | 80 | | 80 |
| Owner-occupied properties – fair value adjustment | (197) | | | (197) |
| Income and capital gains tax relating to owner-occupied properties – fair value adjustment | 66 | | | 66 |
| Change in policyholder insurance liabilities (application of shadow accounting) | 131 | | | 131 |
| Actuarial gain on post-retirement medical aid liability | | 127 | | 127 |
| Income tax relating to post-retirement medical aid liability | | (36) | | (36) |
| Net adjustment to defined benefit pension fund[1] | | (15) | | (15) |
| Income tax relating to defined benefit plans | | 4 | | 4 |
| **Total comprehensive income** | 3 182 | | (15) | 3 167 |

[1] *Net adjustments to defined benefit pension fund include actuarial gains or losses, return on plan assets, reduced by the interest on the net defined benefit asset, and the effect of the application of the asset ceiling.*

[2] *The revised IAS 28 Investments in Associates and Joint Ventures allows entities to apply the measurement exemption for interests in joint ventures which are held indirectly by investment-linked insurance funds to be designated on initial recognition as at fair value through profit or loss. Liberty elected to apply this exemption to the measurement of its interest in the joint venture, The Cullinan Hotel (Pty) Limited.*