LIBERTY

Liberty Holdings Limited

Integrated annual report, including audited annual financial statements 2012

For the year ended 31 December

Volume 1

Highlights

BEE normalised headline earnings per share
up 39%

return on BEE normalised group equity value
21%

value of long-term insurance new business
up 69%

long-term insurance new business margin
2,0%

long-term insurance indexed new business
up 18%

customer net cash inflows
R19,2 billion

assets under management
up 16%

Normal dividends
up 10%

Liberty Group Limited CAR cover
2,7 times

Common abbreviations

BEE	Black Economic Empowerment
BU	Business unit
CAR	Capital adequacy requirement
CE	Chief executive
CGT	Capital Gains Tax
DPF	Discretionary participation features
FSB	Financial Services Board
GAAC	Group audit and actuarial committee
GBSMC	Group balance sheet management committee
GROC	Group risk oversight committee
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
LGL	Liberty Group Limited
OCAR	Ordinary capital adequacy requirement
SAM	Solvency Assessment and Management
TCF	Treating Customers Fairly

Navigation quick guide

Further information:
This refers you to further information contained within this integrated annual report

Further information (Web reference):
This refers you to find more information on Liberty's website www.liberrty.co.za

Further financial information:
This refers to additional detail contained in the annual financial statements.

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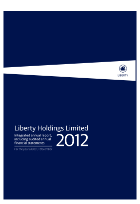
Further reading and navigation



Results presentation and JSE SENS announcement available at www.liberty.co.za

Liberty's website www.liberty.co.za

Throughout this report Liberty Holdings Limited and its subsidiaries is referred to as 'Liberty' or 'the group'.
The 'company' refers to Liberty Holdings Limited.
A condensed Integrated Annual Report is available from the company secretary on request.
Various other abbreviations thoughout this report are utilised. Please refer to Appendix I.

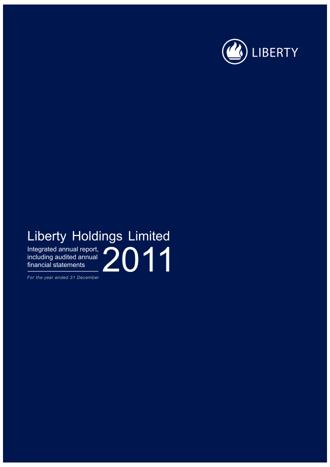
Introduction

Liberty Holdings Limited's integrated annual report for the year ended 31 December 2012 is the second annual report under the new integrated reporting framework.

The board fully support developments in reporting that will provide to our stakeholders improved, balanced and relevant information that gives insight into the group's strategy, governance, performance and value creation prospects.

We are proud of our first integrated report, covering the 2011 year, which has been independently acknowledged as noted below. I am confident that this 2012 report will be equally well received.

Saki Macozoma, board chairman



2011 Integrated Annual Report recognition

The group's integrated annual report, for the year ended 31 December 2011, has been independently recognised as follows:

- Rated as one of the top ten integrated reports of companies listed on the JSE in the 2012 Ernst & Young Excellence in Integrated Reporting Survey.
- Winner of the Mid Cap category for the Annual Report Awards 2012 for companies listed on the JSE as adjudicated by the Chartered Secretaries Southern African and the JSE.

Scope, material sustainability issues, guiding principles and assurance

Scope
This integrated annual report covers the 2012 performance of the Liberty Holdings Limited group with relevant comparison to prior periods. Materiality considerations are applied which results in more emphasis being placed on the group's South African operations.

Material sustainability issues
The board is committed to ensuring Liberty is a sustainable business and a respected corporate citizen. Following an extensive engagement with stakeholders and management, the board approved five material sustainability issues as follows:

Deliver sustainable financial results
The primary objective of the group is to deliver a sustainable attractive return on investment to shareholders. Whilst short-term profitability is important it should not detract from the longer term objective.

Provide compliant and responsible financial services
Liberty strives to deliver products and services with integrity, including complying with required regulation, upholding high ethical standards and minimising the environmental impact.

Focus on our customers
As the source of revenue, customers are essential to the success of the business and significant investment is made to continue delivering innovative products supported by appropriate high quality service that meet customer needs. Increasing access to products and educating consumers on the benefits of sound financial planning is a top priority.

Attract and retain quality employees
Employees are integral to delivering the group's strategies. Consequently remuneration structures are designed to create a high performance culture with the necessary balance between short and long-term objectives. Skills development, engagement processes and wellness support are designed to assist retention and maximise productivity.

Continue the transformation journey
The Liberty board has chosen to embrace transformation as best practice and not adopt a minimum compliance approach. Substantial progress has been made against set regulatory frameworks in respect of transforming South African society.

Appropriate management of the group's activities to address these issues is overseen by the social, ethics and transformation committee (SET), with co-ordination of implementation devolved to the chief executive and group executive – group strategic services.

Throughout this report strategies and performance reviews are cross referenced by using the applicable icon to the particular issue they address.

Reporting frameworks
Where applicable, the information provided in this report complies with International Financial Reporting Standards, the South African Companies Act No. 71 of 2008, the JSE Listings Requirements and the King Code of Governance Principles for South Africa 2009. In addition, the group is guided by the Global Reporting Initiative's G3 Guidelines (GRI), the Department of Trade and Industry's Codes for Broad-Based Black Economic Empowerment, the JSE Limited's Socially Responsible Investment Index and AccountAbility's AA1000 Principles.

Guiding principles

Liberty subscribes to and reports under a number of national and international frameworks and organisations as a matter of best practice, the more significant of which are the following:

Logo	Framework
	King Code of Governance Principles for South Africa 2009
	Global Reporting Initiative G3 Guidelines
	Johannesburg Stock Exchange Socially Responsible Investment Index
	Code for Responsible Investing in South Africa
	United Nations Principles of Responsible Investment
	Financial Sector Charter

Logo	Framework
	South African Department of Trade and Industry Broad-Based Black Economic Empowerment Codes of Good Practice
	Association for Savings & Investment SA codes, standards and guidelines
	South African Carbon Disclosure Project
	Green Building Council of South Africa guidelines
	AA1000 AccountAbility Principles
	International Financial Reporting Standards

Assurance

The board has approved the issue of this report on 27 February 2013 and mandated the SET to take responsibility for the reporting on the key sustainability issues with the preparation of the entire report being overseen by the GAAC. The board has confirmed compliance with AA1000 Principles and declared a GRI B+ application level. Liberty's external auditors, PricewaterhouseCoopers Inc., have expressed an unmodified opinion on the fair presentation of the annual financial statements (page 233) and have provided assurance on the group's equity value report (page 32) as well as the statement below on sustainability information.

PwC report on sustainability information

The summarised sustainability information as set out in the key performance indicators, 2012 performance review, six year review and Liberty's people sections of this Integrated Annual Report have been extracted from the 2012 online Integrated Annual Report. PwC Inc. has provided assurance over selected sustainability information contained in the 2012 online Integrated Annual Report in which we express an unmodified conclusion on the identified sustainability information.

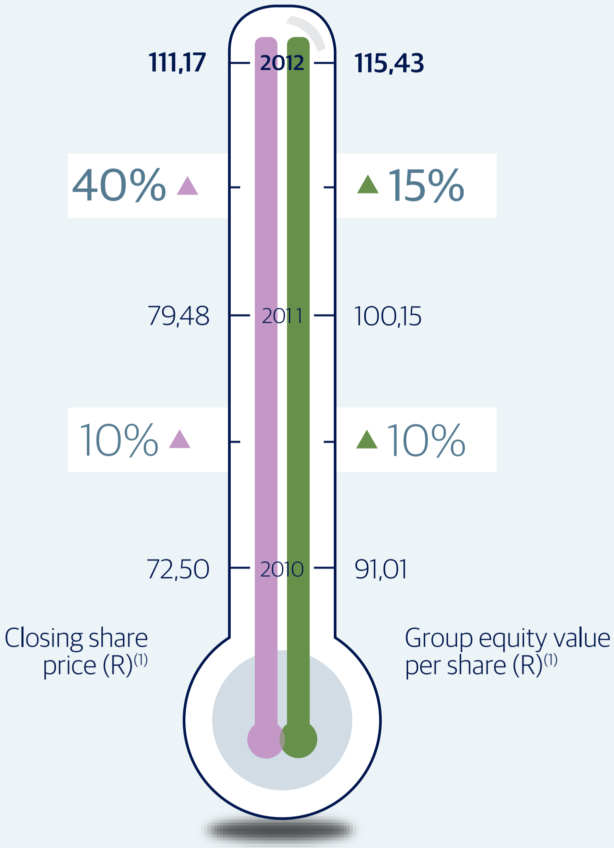
For a proper understanding of the group's sustainability performance, as well as the scope of our assurance process, the extracted sustainability information in this report should be read in conjunction with the full 2012 online Integrated Annual Report (available on Liberty's website) containing our assurance report.

PricewaterhouseCoopers Inc.

Johannesburg
27 February 2013

Key performance indicators

Deliver sustainable financial results (BEE normalised)



Headline earnings (R million)[1]

2012	2011
3 768	2 737

Return on group equity value (%)[1]

2012	2011
20,8	15,3

Return on average group equity value (%)[1]

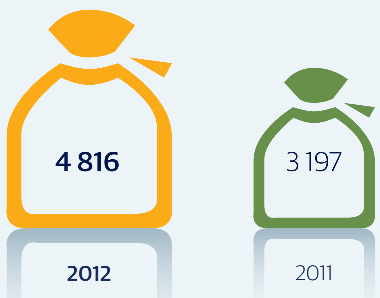
2012	2011
24,5	20,2

Normal distributions per ordinary share (cents)[1]

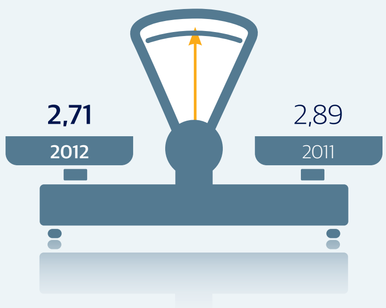
2012	2011
528	480

Provide compliant and responsible financial services

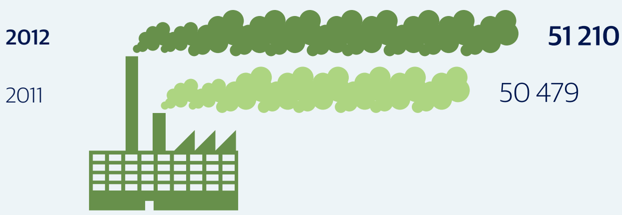
Taxes collected on behalf of the South African government (R million)[1]



Capital adequacy cover of Liberty Group Limited (times covered)[1]



South African CO_2 emissions (tonnes)[4]



Focus on our customers

Assets under management (R billion)(2)

2012	2011
528	455

Death and disability claims (R million)(1)

2012	2011
6 271	5 944

Insurance indexed new business (R million)(2)

2012	2011
6 055	5 152

Asset management net cash flows (R million)(2)

2012	2011
14 327	(91)

Attract and retain quality employees

Salaried employees(2)

2012	2011
6 281	5 752

Commission-renumerated agents(2)

2012	2011
3 168	2 771

South African voluntary staff turnover (%)(2)

2012	2011
10,31	10,95

Continue the transformation journey

dti score(3)

2012	2011
89.32	85.70

South African corporate social investment spend (R million)(2)

2012	2011
37,0	32,5

46 2012 Performance review section

Assurance provided

(1) Full assurance (PwC)
(2) Limited assurance (PwC)
(3) Verified (Empowerdex)
(4) Limited assurance on certain components of this indicator (PwC)

Chairman's letter to stakeholders

Business environment and performance

Liberty has again delivered a strong operating performance during 2012. This took place in a year that was dominated by macro-economic concerns, particularly in the Euro-area and USA. Sub-Saharan Africa once again outperformed most other regions in the world, growing by a solid 4,8% in 2012. South Africa faced its own economic and socio-political challenges during the year. Against this backdrop and resulting market volatility, we continued to execute our strategy and delivered value to our customers, shareholders and other stakeholders.

Building a sustainable business

The continued progress and achievement against strategies implemented over the last three years contributed to Liberty's strong performance in 2012. Retail SA has again made its presence felt in the South African retail affluent market, having strengthened its distribution capability and released innovative new products which have been well received by the market. Improved investment performance at STANLIB contributed to substantial cash inflows. Our businesses in Africa are starting to deliver to business case and leverage the bancassurance opportunities. Sound management of our balance sheet has resulted in our capital position remaining strong.

Transforming of our business

Liberty's transformation efforts are aligned to the dti's Codes of Good Practice as well as the Financial Sector Charter (FSC). I am pleased to report that while Liberty maintained its BEE level 2 rating and again performed well against both scorecards, our efforts have gone beyond legal compliance. We are committed to increasing the pace and impact of our transformation journey for the benefit of our investors, clients, staff, suppliers and the society we serve.

The background against which we operate is constantly changing and we face some major regulatory changes ahead. Although the implementation of the new solvency regime, SAM, will entail higher solvency capital requirements and greater compliance costs, the SAM solvency framework is generally regarded as sound policy to improve the reporting and management of risk in the insurance industry. We will continue to be active participants in the ongoing regulatory dialogue. It is vital to our future that we innovate to meet our customers changing needs and operate our businesses efficiently to maintain and grow these businesses for the long-term.

Appreciation

Prof Leila Patel resigned from the board after eight years of service. My thanks go to Leila for her contribution during this time and I wish her well in her future endeavours.

In August 2012, we welcomed Monhla Hlahla to the board as an independent non-executive director.

The board will continue to focus on the sustainable growth of the group, ensuring that there is strong leadership and robust risk management in place in all markets we operate in. Our board members take their governance and stewardship responsibilities very seriously, both in relation to the conduct of the group's affairs and how we exercise our influence in the wider community. I would like to thank each one of them for their candour, unwavering support and contribution throughout the year.

> We are proud to have paid out over R6 billion of death and disability claims in 2012

I would like to express my sincere appreciation to the management team, employees and our financial advisers for their outstanding efforts during 2012 and their commitment to the ongoing success of the group. My final word of thanks goes to you, our loyal shareholders, for your confidence in us. It is our privilege, while meeting our obligations to all our stakeholders, to continue to build shareholder value for you over the long-term.

Saki Macozoma
Chairman

27 February 2013

Q&A

Are you comfortable with the executive team?

Our executive team has a broad range of skills that they have obtained from experience outside and within Liberty. The cumulative experience in the financial services industry of the group's executive committee is over 250 years. The achievements of 2012 are proof of the team's ability to deliver ahead of target and on strategy.

What are your plans in Africa for growth, will this be through acquisition or organic?

We currently have a significant presence in Southern Africa and the Eastern region of Africa. We are underrepresented in West Africa and are therefore pursuing opportunities in that region. We believe a combined strategy of appropriate acquisition as well as organic growth will lead to meaningful value creation for the group in the medium term.

Do you think you have fully utilised your partnership with Standard Bank?

We have in the past perhaps been slow to extract value from the relationship in Africa, however, the new bancassurance agreement signed in 2011 now encompasses a wider range of products in all applicable African regions. 2012 has seen good growth in business under this agreement and we are confident that there are considerable further growth prospects.

How has Liberty prepared and responded to the impending regulatory changes, particularly the impact on capital requirements?

We have prepared as much as possible for all the impending regulatory changes. We are supportive and encourage dialogue with the regulator through various forums and participation in industry bodies. Our work to prepare for the new proposed solvency regime in South Africa currently indicates that we are sufficiently capitalised.

Directors' approval of the integrated annual report

The board of directors is responsible for the preparation of the integrated report and annual financial statements. The board acknowledges its duty to ensure balanced content and fair presentation in the report that provides a comprehensive assessment of the performance of the company and group for the financial year ended 31 December 2012. The integrated report has been prepared in line with internationally recognised best practice and complies with the recommendations of the King III Code, principle 9.1.

In accordance with Companies Act requirements, the annual financial statements, which conform with International Financial Reporting Standards (IFRS), fairly present the state of affairs of the company and 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 233.

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 integrated report and 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, are provided in the governance and risk management sections of the 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 and company, has occurred during the year and up to the date of this report.

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

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

SJ Macozoma
Chairman

JB Hemphill
Chief executive

Johannesburg
27 February 2013

Company secretary compliance statement

In terms of section 88(2)(e) of the Companies Act No. 71 of 2008, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act No. 71 of 2008 in respect of the year ended 31 December 2012, and that all such returns are true, correct and up-to-date.

JM Parratt
Company secretary

Johannesburg
27 February 2013

Profile

of Liberty

Our vision, purpose and values

LIBERTY

Our Vision

To become the market leading investment and insurance provider in Africa

We will make a difference to people's lives by being the group most trusted to make financial freedom possible

Our Purpose

It is our **passion** to make a **difference** to people's lives by making **financial freedom** possible

We aspire to be the guiding light in the industry, trusted as the company that knows how to always find a way of delivering excellence

Our Values

- Always passionate, positive, professional and having fun
- Maintaining open channels of communication that encourage freedom of expression
- Interacting with respect and integrity, by being honest, trustworthy and transparent
- Working together to achieve common goals
- Taking responsibility for our attitudes, actions and development
- Providing excellent customer service, from end to end, all the time
- Creating a culture of sharing knowledge and expertise

What we do

As a group of companies Liberty offers an extensive, market-leading range of products and services to help customers build and protect long-term wealth. These include life and health-related insurance, investment management and retirement income facilitation. Customers have flexible choices and the input provided by Liberty's advisers equips them with the knowledge and expert advice they need to make the right decisions with confidence, no matter what their stage of life.

How we add value

An important role in South Africa's economy

By helping people to save, Liberty plays an important part in gathering the nation's savings, and so providing capital to all sectors of the economy. With in excess of R500 billion of assets under management, Liberty continues to be the custodian of a sizeable portion of South Africa's savings.

A large contributor to the South African fiscus

During the 2012 calendar year, Liberty contributed R4,8 billion in tax revenue to the South African Revenue Services directly in the form of corporate taxes and as agent in respect of its employees and policyholders via personal income tax as well as other indirect taxes such as value added tax.

Positive contributor in a changing regulatory environment

Liberty employees serve on various industry, regulatory and government forums and are well respected. They provide considerable contributions in shaping the regulatory and social framework in the territories in which the group operates.

An enabler in Africa

Liberty has a presence across 15 African countries. Its products touch the lives of millions of customers across the continent as it grows into a formidable financial services provider at a time when Africa is experiencing exciting growth potential.

Products protect customers' futures

With almost 6 million retail policies in-force as well as over 400 000 members under corporate schemes administered, Liberty ensures that customers continue to benefit from a range of products that protect them in the event of personal tragedy, enhance the value of their savings and provide for their future.

A major employer

With 8 410 employees and agents in South Africa and 1 039 across other Africa territories, Liberty is a significant employer. By actively driving transformation and embracing diversity, Liberty is committed to creating a workplace that is equitable and which develops skills and leadership.

Solid investment

With a market capitalisation of over R31 billion on the JSE, it ranks as one of the 50 largest companies in South Africa and continues to deliver value for its shareholders. The company is known as a consistent provider of substantial dividends to shareholders. Over R23 per ordinary share has been paid during the past five years.

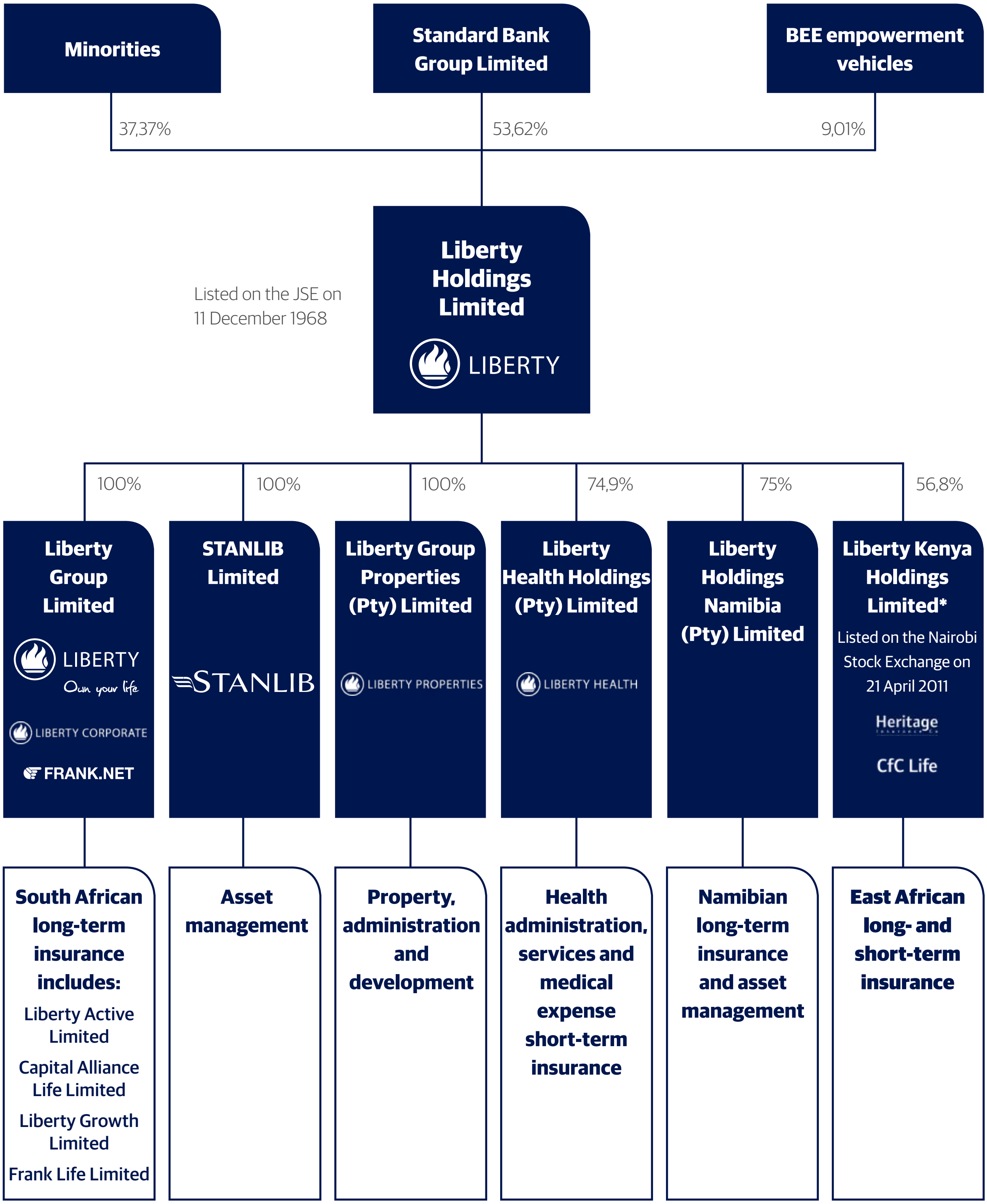
Contributions to communities

In the past five years, Liberty has contributed over R162 million in corporate social investment initiatives and donations to the communities in which it operates.

Over 50 years of serving customer needs

Group entity structure

(only significant holding or operating subsidiaries are depicted)



* *Previously CfC Insurance Holdings Limited*

Refer to note 40 for full details of related parties

Liberty organisational structure

Liberty Holdings Board of Directors

Liberty Holdings Executive Committee

Retail SA

Provides retail insurance, investment products and services that protect and generate wealth for South African individuals.

Incorporates management of:
- financial advisers
- end-to-end customer experience
- initiatives in the emerging consumer market
- product development to meet customer needs
- insurance risk

Institutional and asset management

Comprises the group's entire asset management operations and provides insurance and investment solutions to South African institutional customers.

Incorporates the following business units:

Liberty Corporate
STANLIB
Liberty Properties

Business development cluster

Manages the expansion of insurance products and services in Africa. Oversees the group's health administration services and the Standard Bank bancassurance opportunity. Develops alternative direct-to-customer channels.

Incorporates the following business units:

Liberty Health
Liberty Insurance Africa
Direct Financial Services

LibFin

Manages market and credit risk inherent in South African insurance operations, originates credit portfolios and oversees investment management of the group's capital.

Supported and enabled by the following group functions:

Information Technology
Finance and Support
Risk and Compliance
Strategic Services

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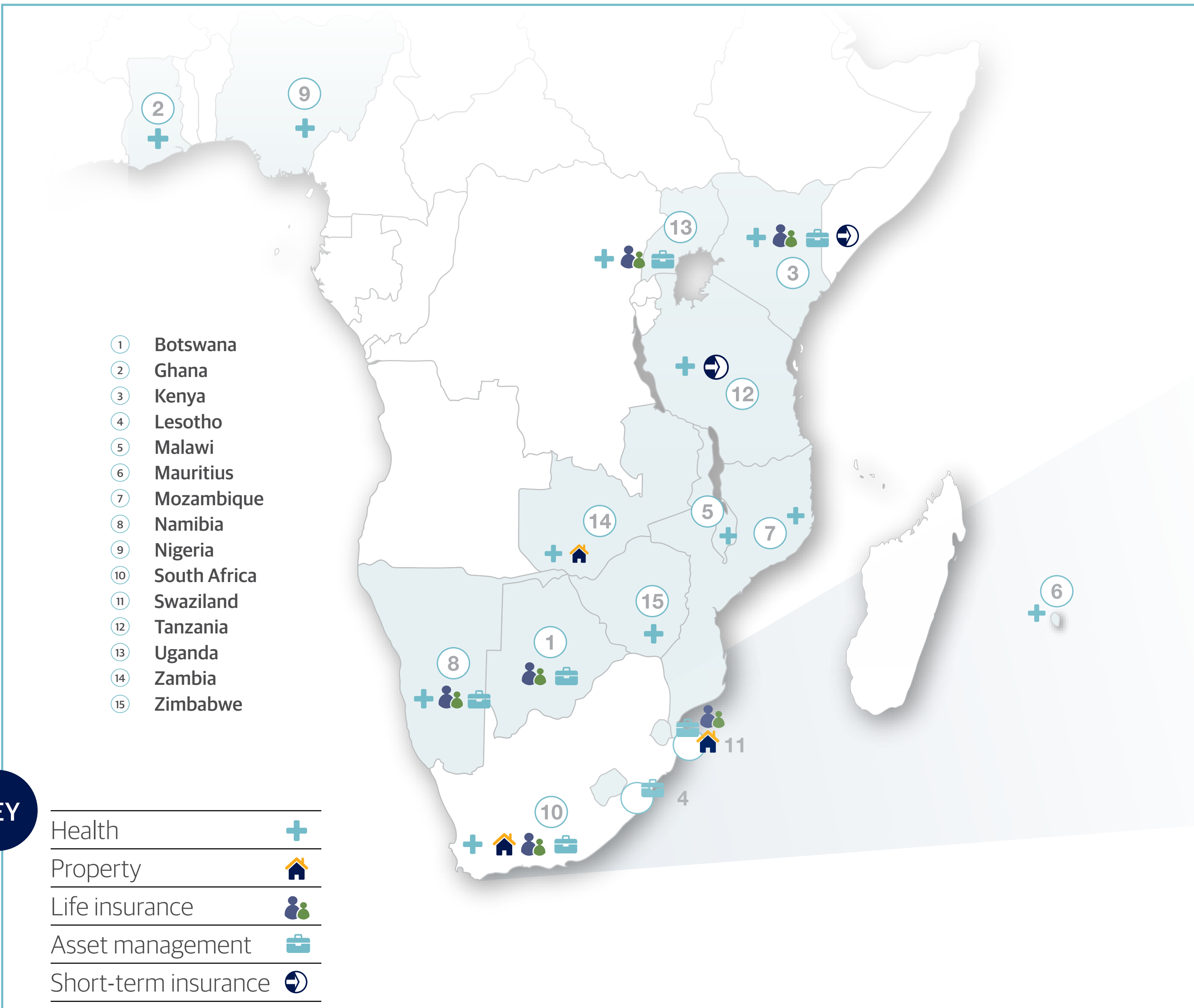
Business unit reviews

Liberty's expansion into Africa



Corporate finance milestones in Liberty's journey

1957
Liberty Life registered

1962
Liberty Life lists on the JSE, later renamed Liberty Group Limited (LGL)

1968
Liberty Holdings Limited (LHL) listed and acquires 75% of LGL

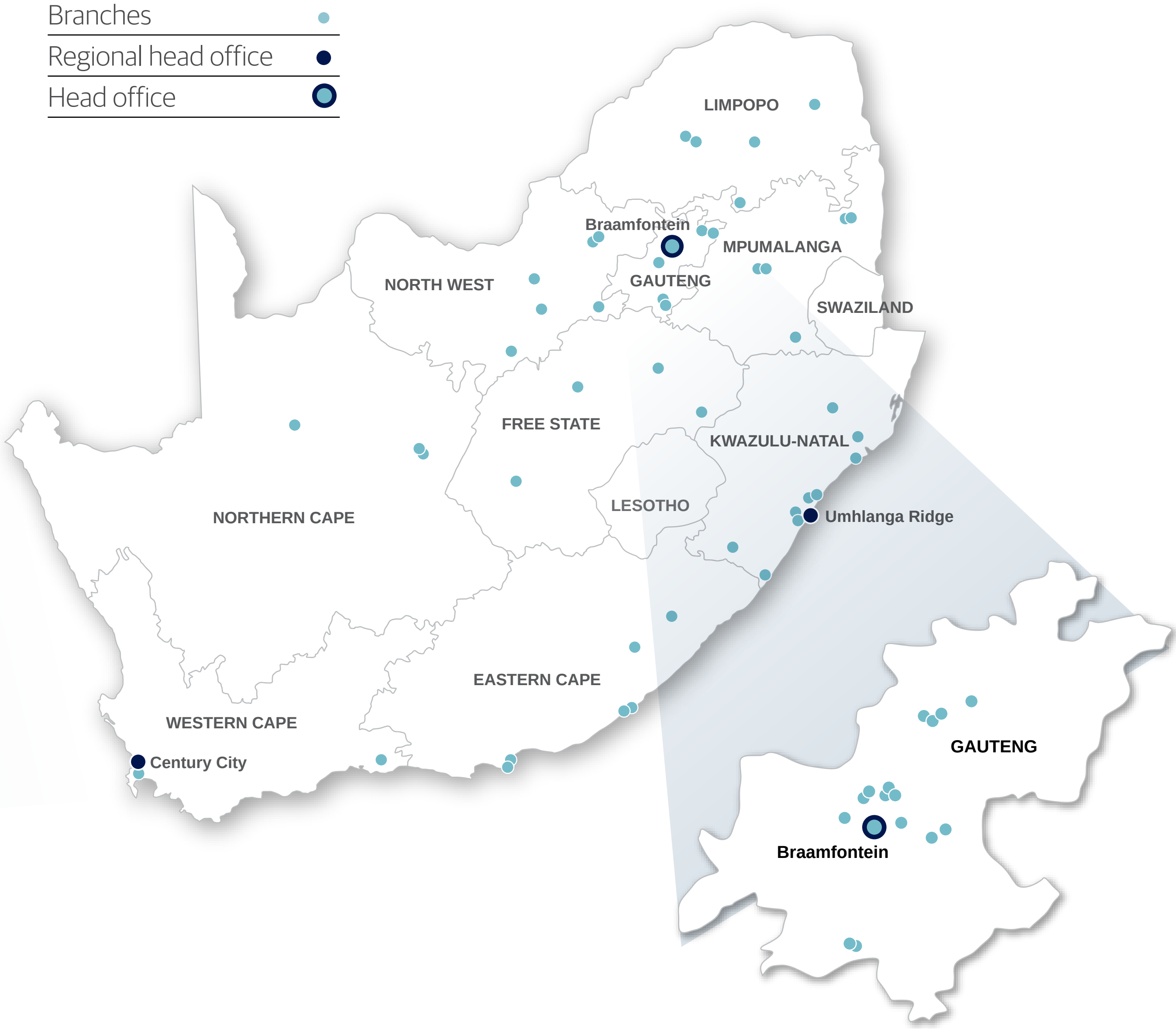
1999
Standard Bank Group acquires controlling interest in LGL through LHL

2002
STANLIB is established as a joint venture with Standard Bank

Liberty's presence in South Africa

KEY

Branches	•
Regional head office	●
Head office	◉



2005
- LGL purchases Capital Alliance Holdings Limited
- Commences participation on JSE's Socially Responsible Investment Index (SRI)
- LGL successfully issues R2 billion secondary capital callable bond

2007
- Liberty purchases remaining shares in STANLIB
- Commences diversification from a life company to a broader wealth company

2008
- Removal of LHL/LGL/Standard Bank control structure
- LGL delisted and LHL becomes sole listed company
- Standard Bank acquires additional shares to control 53,65% of LHL

2009
- Liberty expands into ten African countries with launch of Liberty Health risk products and increased insurance operations in Namibia

2011
- Acquisition of controlling interest in CfC Insurance Holdings, listed on Nairobi stock exchange
- Acquisition of Standard Bank interests in jointly controlled STANBIC asset management businesses in six African territories

2012
- R2 billion 2005 bond redeemed and successfully replaced with two R1 billion bond tranches in LGL

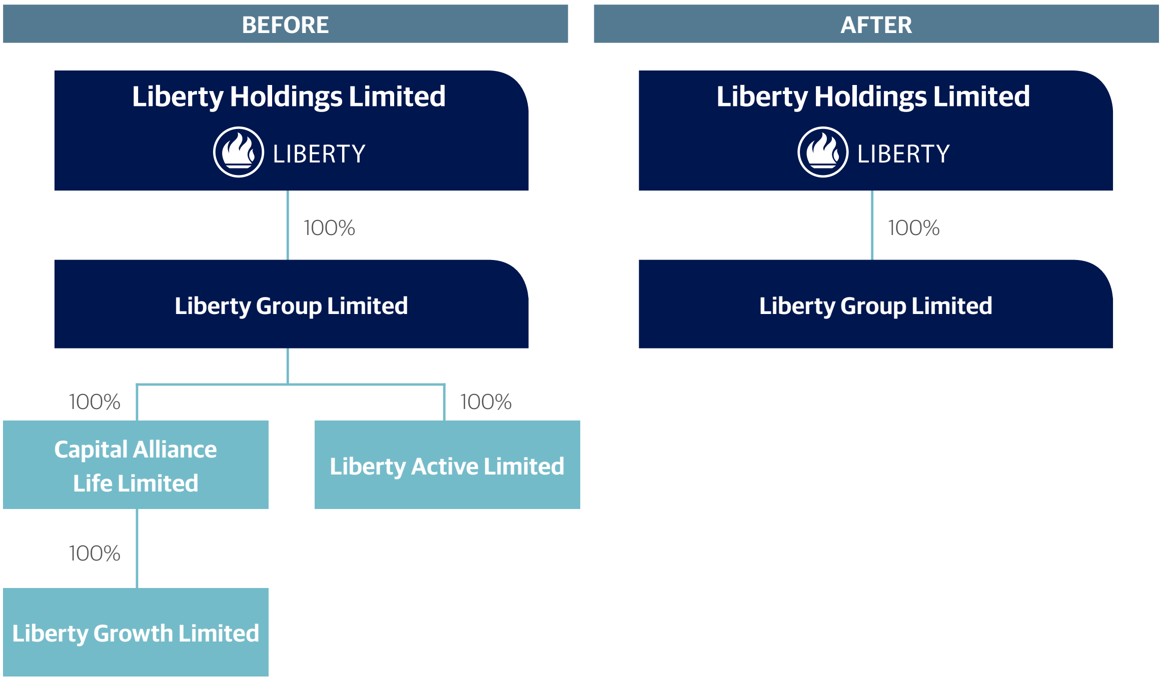
South African life licence rationalisation

Introduction

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

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

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



Benefits

The main benefits of the proposed rationalisation are:

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

Process and timelines

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

Impact on capital adequacy requirements (CAR) cover ratio

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

Value creation

through strategy

Top ten reasons to invest in Liberty

Leading writer of risk business in South Africa **1**	• Largest writer of retail risk products in the affluent segment comprising 27% market share at 31 December 2012 • Extensive distribution capability with over 3 000 tied distribution heads and in excess of 600 Standard Bank financial consultants • Innovative financial adviser remuneration model which aligns the advisers remuneration to the profitability of their book of business to Liberty
Growth opportunities **2**	• Maximising opportunities under the Standard Bank bancassurance joint venture across the African continent • Extending and growing products and services into African territories. Liberty is currently represented in 15 African countries • Leveraging the established direct channel capability through affinity partnerships • Utilising long dated liability commitments to acquire appropriate illiquid matching assets to generate higher credit yields • Introducing alternative asset classes for third party investors at STANLIB. In 2012 the infrastructure and direct property franchises were launched • Capturing a greater share of the South African emerging consumer market
Attractive returns to shareholders including high dividend yields **3**	• Ordinary share price growth of 40% during 2012 and 61% over three years • Cumulative R23 paid to ordinary shareholders as distributions over past five years. In addition, share buy-backs of R415 million executed in 2012 • 10% increase in ordinary share dividends (528 cps) plus a special dividend of 130 cps in 2012
Capital strength supported by active capital management **4**	• Capital adequacy cover ratio of the main long-term insurance subsidiary, Liberty Group Limited, above 2,6 times for five successive years • Successful 2012 issue of R2 billion subordinated bonds at competitive rates • Fitch National Insurer Financial Strength ranking unchanged at AA(zaf) – outlook stable • All group regulated entities capital position ahead of targets
Effective risk management **5**	• Three lines of defence model adopted at Liberty • Investments in market and credit risk skilled expertise • Business conducted under a risk appetite framework. In 2012, Liberty was managed within all risk appetite measures • The risk management capability built over the past three years will greatly assist in implementing the Solvency Assessment Management regulations

World class balance sheet management 6	• Establishment of LibFin in 2008, to be a center of excellence for management of market, liquidity and credit risk and to ensure appropriate investment performance from the group's asset managers • Successfully managed asset-liability positions and demonstrated reduced volatility of earnings within a narrow target range for three consecutive years • Established an alternative sustainable revenue source comprising credit margins contributing R500 million to group equity value in 2012 • Achieved above benchmark returns on the Shareholder Investment Portfolio in 2012 (gross return of 16%)
Superior investment returns 7	• STANLIB awarded five Raging Bull awards for unit trust performance • First quartile ranking of STANLIB by Alexander Forbes Global Investment View Survey for global balanced funds • Property portfolio extended double digit investment returns to 29 consecutive years • More than R19 billion of net customer cash inflows in 2012
Wealth of industry experience 8	• The group executive committee has an average experience in the financial services industry of 21 years per executive • The directors combined service to the Liberty group is 74 years with the chairman and lead independent director each with nine years • Two of the directors are qualified actuaries with extensive insurance industry experience
Innovative products 9	• Leading provider of innovative insurance products in the South African market over the past two years • South African market firsts launched in 2011/2012: – Whole of life capital disability and income protection – Flexible annuity – Evolve growth share • Significant other 2012 product developments in all business units including index trackers and expanded bulk annuities, as well as several risk product enhancements • Launch of the Own your life REWARDS loyalty scheme in 2012
Trusted brand 10	• A brand presence for over fifty years in South Africa • >5,9 million retail policies in-force • >R500 billion assets under management • Listed on the JSE since 1962 with a market capitalisation of R31 billion at 31 December 2012

Shareholder and customer value creation

In order for Liberty to successfully and sustainably create value to shareholders and customers a business model that balances the requirement of both stakeholder groups is essential.

Liberty is a wealth management company deriving value by providing the following insurance products and financial services:

- Providing risk cover through insurance contracts to individuals and institutions that provides financial assistance to the customer in the event of death, sickness or disability and retrenchment. In certain regions, risk cover for assets and personal liability are also offered;
- Managing customer wealth through investment advice, active and passive asset management services and the provision of minimum investment return guarantees on certain investment products;
- Providing retirement financial assistance to pensioners with the provision of monthly payments through the group's various annuity products; and
- Administration and consulting services to health risk insurers.

The components of value have several influences or value drivers, certain of which can be controlled by active management. Others, such as investment market returns, are less controllable and are therefore managed through application of risk appetite limits.

The sources of value that management focus on and related benefits to shareholders and customers are depicted below:

Shareholder Benefit		SOURCE OF VALUE		Customer Benefit
Margins in premiums for death, disability and other risk benefits	←	RISK PRODUCTS	→	Benefits paid at times of need
Charges usually measured relative to assets	←	SAVINGS AND INVESTMENT PRODUCTS	→	Competitive returns on savings and investments
Charges for services	←	ADMINISTRATION SERVICES	→	Accurate administration
Investment return on assets backing capital	←	CAPITAL	→	Security and increased certainty that contracts will be met

How we measure shareholder value creation

Value performance metrics

This section summarises, at a high level, the key shareholder value performance metrics. Management targets as measured by these metrics are integrated into management performance contracts and are constantly monitored by the group's various governance forums.

The nature of the business results in a significant portion of the various contracts that are sold to customers requiring long durations that span between one to potentially up to one hundred years in certain cases. In addition, contract durations are often variable as they depend on events that are not under the control of management, such as when a customer dies or their policy lapses. Consequently determining value and assessing performance requires comprehensive valuation models with numerous assumptions that forecast future trends in investment markets and policyholder behaviour.

Understanding trends and having appropriate valuation models and assessment is therefore critical to managing risk and ensuring a sustainable business model. Liberty invests considerable resources in skilled financial and actuarial resources, model development and utilises consultants to benchmark and advise on best practice to assist in remaining competitive. In addition, relevant value metrics are required to monitor performance and assess the success of the business strategies.

Liberty has chosen the following primary metrics to assess performance and value creation:

- ***IFRS earnings, earnings per share, return on equity and financial position***
  This provides the net profit related to the group's activity during the period under review as well as a summary of the group's assets and obligations at reporting date. The indicators are compiled in accordance with an internationally recognised accounting framework and generally accepted accounting policies. Earnings are additionally expressed as an amount per ordinary share and as a return on average equity employed. It should be noted that earnings in a long-term insurer tend to be more volatile than most other financial service entities as they are significantly influenced by actual investment market performance for the period as well as changes to economic or non-economic assumptions used in valuing contract liabilities. These changes to assumptions result in a 'capitalised' or multiplier effect which is the consequence of the change being modelled over the remaining duration of contracts, which generally have durations well in excess of one year.
- ***Equity and embedded value, value profits and return on equity value***
  Embedded value is a widely utilised financial reporting framework in the long-term insurance industry. There are several methodologies available to calculate embedded values, with Liberty's choice being the guidance (referred to as APN 107) provided by the Actuarial Society of South Africa. Liberty utilises embedded value as a representation of the value of the existing long-term in-force insurance contracts and combines this with the estimated current values of the various non-long-term insurance businesses. The combined value provides a total group equity value. It should be noted the group's ability to generate value by writing future long-term insurance new business is however, not reflected in this calculated value. Value profits are derived through the analysis of year on year movements that are split between capital flows and profit. The analysis and attribution of sources of profit are an important indicator of performance as it allows for the identification of the reliability of previous assumptions as well as specific reasons for value creation or destruction. Equity value is also expressed as an amount per ordinary share which provides a broad basis for shareholders to assess inherent value compared against current ruling share prices. Return on equity value is a profit efficiency measure indicating a return on investment. The group has in recent times targeted a long-term sustainable return of 4% above the ten year government bond yield per annum for this metric.
- ***Value of long-term insurance new business and margin***
  Utilising embedded value principles, the new long-term insurance and investment contracts entered into by regulated long-term insurance licenced entities, during the reporting period, are modelled to derive an amount which represents the estimated current value those contracts will provide to the group over their expected duration. A margin is then calculated as a ratio of this value divided by the present value of expected premiums to be received from those contracts.

Group entity value

Utilising the above, an indicative group entity value can be derived as the sum of:

1. Group net asset value excluding any possible duplications inherent in calculating the values in 2 and 3 below; plus
2. Embedded value of long-term in-force insurance contracts; plus
3. Value of the other operations (generally calculated as a multiple of expected future sustainable earnings); plus
4. Multiple of the long-term insurance value of new business reflecting the ability to generate future value in the long-term insurance operations.

Group equity value

Reported group equity value includes items 1 –3 under group entity value.

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Group equity value report

Shareholder value drivers

61 Business unit reviews

46 2012 performance review

This diagram depicts the sources of shareholder value by each significant business segment. The key underlying drivers of each value component are referenced to the various metrics contained throughout this report that give an indication of performance. These metrics are contained and commented on in the applicable business unit reviews with overall group metrics assessed in the 2012 performance review section.

Long-term insurance

Value component	Value drivers	
In-force contracts at embedded value	Cost of servicing Policyholder behaviour Cost of required capital Risk discount rate Investment return	Policyholder behaviour ← Lapse and withdrawal Mortality and morbidity Contract extensions and alterations

Significant metrics: Maintenance cost per policy, net customer cash flow value of in-force covered business, analysis of sources of changes to value of in-force covered business and cost of required capital

Value component	Value drivers	
New business (contracts entered during reporting period) valued using embedded value at point of sale	Sales volume	Distribution capacity Productivity New products and markets
	Margin	Cost of acquisition and servicing Product mix Average premiums Policyholder behaviour Risk discount rate

Significant metrics: Indexed new business, value of new business and new business margin

Short-term insurance

Value component	Value drivers
Multiple of underwriting IFRS earnings adjusted for abnormal loss events	Cost of servicing Extent and frequency of loss events Premium rates

Significant metrics: Claims loss ratios, annual premium and net customer cash flows

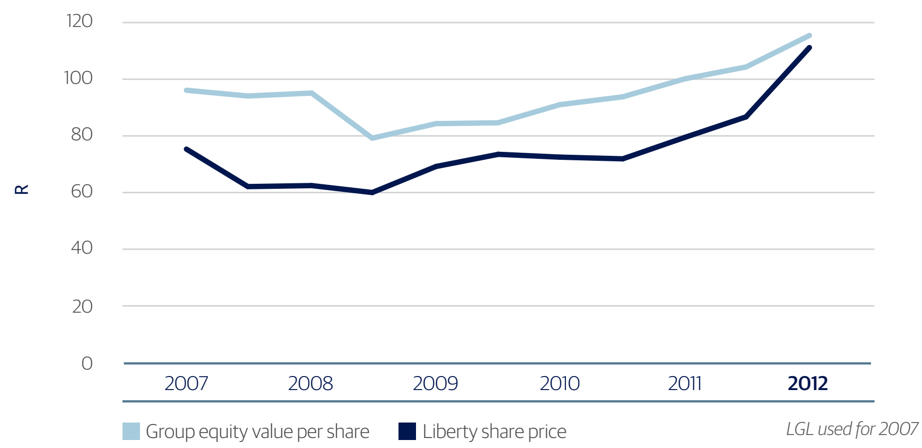
Asset management

Value component	Value drivers	
Multiple of sustainable IFRS earnings	Assets under management	Net customer cash flows Investment performance
	Service and performance fees	Investment performance
	Expenses	Acquisition Management and administration

Significant metrics: Assets under management, net customer cash flows, service fee margin and cost to income ratio

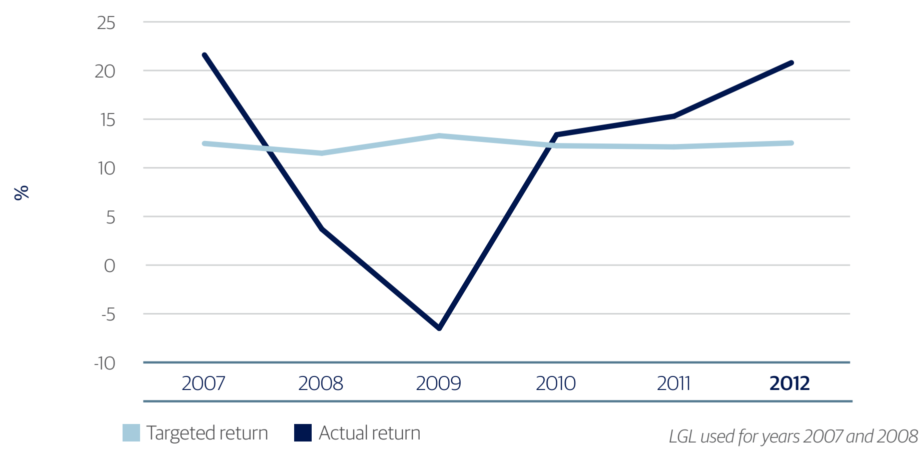
Graphical six year review of shareholder value creation

BEE normalised group equity value per share compared to share price



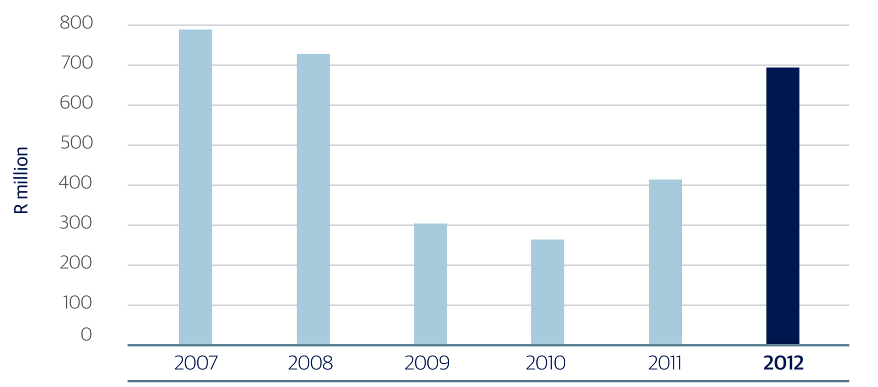
The discount of the share price to group equity value has narrowed substantially during 2012.

BEE normalised return on group equity value compared to target



The key measure of value being the return on group equity value has performed ahead of target for three consecutive years, recovering from the financial crisis and policyholder persistency issues experienced in 2008/2009.

Value of long-term insurance new business



Innovative new products, good marketing and distribution management combined with cost effectiveness have led to substantial increases in value of long-term insurance new business in 2012.

Update on strategy and scorecard

Introduction

Liberty's directors and management typically focus on developing detailed three to five year rolling strategic plans with a directional view further in the future.

Within the three to five year time frame, these plans have focused on the African continent and on providing investment and risk solutions.

In September each year, Liberty's directors and management conduct an annual strategic review. This annual review is part of the formal strategic process which includes quarterly business unit review sessions, performance updates at each board meeting, and an annual update by each business unit and group function of its three year plan and the investigation of short and long-term external factors driving or inhibiting business success.

This section provides a brief overview of the group's strategy including Liberty's strategic response to the regulatory and tax changes, South African reform debates, increased sales regulation, the improving African economic situation and a continuing volatile global economy.

Regulatory and reform trends

The South African government's social reform policies and regulatory developments which are following international trends are significantly influencing changes to the traditional insurance groups' business models. These developments include:

- Increased regulation of intermediated distribution;
- Increased consumer protection within the financial services sector;
- A drive to enhance investment returns to the customer by eliminating costs in the value chain;
- Implementation of standardised insurance products to the lower income market;
- The potential competition of the South African government in the lower income market and the potential elimination of corporate umbrella schemes through the proposed implementation of a mandatory national social security fund; and
- The possible implementation of South African national health insurance which will change the landscape for medical aid providers.

Banks are expected to move more towards an origination and distribution model under Basel III which provides opportunity for life insurers to utilise their balance sheets more effectively by reallocating capital to achieve improved returns for policyholders and shareholders.

The Solvency Assessment Management (SAM) regime is the risk-based solvency regime expected to be implemented in South Africa across the short- and long-term insurance industry in 2015. SAM is likely to emphasise economic balance sheet performance, and more robust corporate governance and risk management processes.

Under SAM and Basel III, the distinction between off and on balance sheet management of assets between banks, insurers and asset managers is becoming more blurred. Broader financial services groups should be in a better position to manage the impact.

Liberty is well positioned with its strong bancassurance relationship with Standard Bank and the ability to leverage its balance sheet whilst also attracting third party off balance sheet investment funds into its wholly owned asset manager STANLIB.

It is likely that the implementation of SAM will lead to further consolidation in the South African insurance industry. Companies that are well capitalised and have built sophisticated ALM capability should be well positioned to take advantage of these opportunities.

Technology

Increased use of innovative technology solutions has resulted in improved service, improved customer satisfaction, greater brand loyalty, increased productivity and lower costs. User friendly applications have enabled insurers and asset managers to target customers who would prefer to do their own research, compare competing product offerings, determine their own risk and investment requirements and make informed decisions for themselves.

In addition, by using combinations of digital, data analytics and customer relationship management technology insureres have been able to better equip their intermediary sales forces to provide more customised services to customers which better meets their needs through their life phases and events.

Liberty continues to invest significantly in technology and is focused on using digital advancement to stay in the forefront of channel and customer demands.

South African landscape

Distribution

It is anticipated that the South African distribution landscape will see a shift from the traditional independent and tied channels to also include hybrid or alternative distribution models. Liberty has been active in developing these models and has been effective in attracting significant additional distribution capacity. The group now has a complete footprint across all distribution channels, ranging from traditional intermediated models and strategic alliances with brokerages, to direct and affinity models.

Due to increased levels of financial literacy, access to information through the internet, service differentiation rather than product differentiation is becoming a competitive advantage. Advisory relationships will remain very important, however, the remuneration model will need to adapt given the increasing customer expectation for good service which is compliant with regulation and which treats customers fairly. Liberty is actively participating in the FSB's retail distribution review.

Low interest rate / low yield environment

South Africa has a growing young middle class that has increasing ability to save and is financially literate. There is also an ageing segment of the population with low levels of retirement savings, creating the need for greater retirement savings and more flexible drawdown products.

The low interest rate / low yield environment will increase pressure on the industry to reduce administrative, distribution and guarantee costs to enable the provision of adequate returns to customers and will result in lower returns being generated on shareholder capital.

Customers will continue seeking increased yield and will focus on after-fee investment returns. To encourage savings, government may regulate maximum fees and prescribe low cost defaults which cut out advice fees. Liberty is adapting to this environment and will be launching a number of low cost investment products in the near future. The first of these (Evolve single premium) was launched in October 2012 and has been a great success with strong sales to date.

Liberty has developed a unique competency in LibFin to assist the group with the navigation of this new economic and regulatory environment. Strong capabilities have been established to manage the asset-liability mismatches in the life insurance business and minimise capital requirements, price and risk manage guarantees, manufacture, and price and manage illiquid assets as well as construct appropriate investment portfolios and manage liquidity risk. In a low yield, SAM/Basel III, LibFin is very well placed to originate and manage higher yielding assets for shareholders and policyholders, thus providing the underpin for the creation and management of innovative investment products that will be attractive in a low interest rate/low yield environment.

The rise of alternative investments

Growth in alternative asset classes is expected to continue as a result of increasing allocations into this class by institutional investors as they look for diversification and yield.

This trend is driven by a shift in investment frameworks from relative to absolute return and a convergence of traditional and alternative asset classes, investment managers and products.

STANLIB has developed suitable capabilities for investors seeking higher uncorrelated returns. Three franchises (unlisted credit, infrastructure and direct property) have been established with the potential to raise significant assets and fees over the next five years on the sub-Saharan African continent and in European markets.

Sub-Saharan Africa (excluding South Africa)

While insurers have been investing in Africa for some time, the level of activity is intensifying as companies search for opportunities to further expand existing operations or make new acquisitions.

The sub-Saharan insurance retail market is generally a lower income mass market, similar to the ECM market in South Africa. The main products sold are vanilla life products, last expense policies and credit life through bancassurance. Hence administrative capability needs to be efficient and distribution cost tightly managed to optimise margin.

Significant effort and investment is required to manage existing agent and broker networks profitably. Liberty's strategy makes extensive use of retail and corporate distribution through affinities and direct financial services channels. Liberty's direct channel capability and affinity partnerships with Standard Bank and Vodacom, as well as its established relationships with pan-African brokers, will be of great assistance.

The anticipated transformation of public pension funds is expected to create growth opportunities for asset managers in a number of key African markets. However, this will be a tightly contested area and local presence will be an advantage as will be a trusted brand. STANLIB already has a local presence in six countries and is well placed to compete, having established good relationships with corporates and government agencies. This will also be supported by LibFin's capability as and when required.

Rapid and substantial growth is also anticipated in the investment grade commercial property market in selected geographies. STANLIB is establishing an unlisted pan-African property fund to take advantage of these opportunities.

Liberty has a distinct advantage having Standard Bank as its partner with its extensive network and country representation throughout Africa.

Liberty's key strategic opportunities

The key strategic opportunities for each business unit are reflected on the scorecard that follows on pages 26 to 31.

The board is confident that Liberty, through its people, including its strong management, will be successful in optimising the selected opportunities. Not only will this improve sustainability in the best interests of all the group's stakeholders, but should provide attractive returns to shareholders.

Update on strategy and scorecard (continued)

Scorecard and 2013 update

A summary of the significant group strategic objectives described in the 2011 integrated annual report, an assessment of progress made in 2012 and the key approved strategic objectives for 2013 follow.

Business	2012 Objectives	Self-assessment
Retail SA	**Persistency** Manage persistency levels within assumption	✓
Retail SA	**Sales and distribution** • Build on the strength and history of the Liberty brand with a unique positioning in the market around segmented customer value propositions • Multi-channel approach but with a particular focus on intermediated sales and advice channels, and direct service channels (call centre, digital and mobile) • Build on the existing distribution force and strive to make it simple for the distribution channel to do business • Provide further innovative products, particularly in the investment arena • Continue to improve profitability of the ECM business	✓
Retail SA	**Cost and margins** • Optimise the end-to-end Retail SA operating model for cost-effectiveness • Improve new business margin	✓
Retail SA	*Retail SA's key strategic opportunities*	
LibFin	**Balance sheet management** • Continue to ensure appropriate risk-adjusted investment performance for the group's policyholders and shareholders • Maintain reduced volatility of earnings from life fund exposures • Maximise the Shareholder Investment Portfolio (SIP) after tax return over the longer term • Continue to support product innovation • Grow diversified earnings base without significantly increasing capital requirements	✓
LibFin	*LibFin's key strategic opportunities*	

62 Business unit reviews

69 Business unit reviews

✓	*Substantially achieved*
¾✓	*Good progress*
½✓	*Moderate progress*

Achievements in 2012	Objectives for 2013
The Customer retention team continued to improve defence processes with record monthly retentions achieved. Knowledge gained has been embedded in processes and procedures and is being used to inform the emerging consumer market acquisition strategy. Lapse rates are below actuarial assumption on key risk products. Withdrawal rates are stable and in line with assumption on investment products.	• Manage persistency levels within assumption
Various advertising campaigns were undertaken, including radio and television advertisements directed by segmentation insights. Tactical TV programme associations were also implemented. Sales remuneration structures and practices were realigned, with channel incentive schemes implemented. Electronic commission statements were launched. The Own your life REWARDS programme was launched as were two pioneering investments products. The Risk Explorer application for tablet devices was developed and launched. The ECM business was stabilised and is regaining market share. Significantly increased sales (indexed premium R5 186 million) were achieved in 2012 up 21% on 2011. Financial adviser headcount grown by over 15%.	• Launch additional innovative investment products • Grow membership of the Own your life REWARDS programme • Build ability to increase share of the ECM customer segment • Enhance Retail SA's digital offerings • Ensure implementation of regulatory change requirements • Grow overall sales ahead of inflation levels
Expenses were below assumptions for the 2012 year and a reduction in the acquisition cost per policy was achieved. Phase I of the contact centre consolidation was completed. The new business margin improved to 2,3% in comparison to 1,6% in 2011.	Optimise cost effectiveness through: • Life licence rationalisation • IT and application architecture improvements • Contact centre consolidation (phase II) • Shared service restructure • Group synergies • Contract management • Strengthening Retail SA's capabilities around data and information management • Continue to improve margins through increased volumes, better sales mix and new products

In the traditional market segment, leverage Retail SA's dominant distribution, product and LibFin capabilities to grow market share and margin in the risk and investment product markets. In the ECM market segment, build on the product capability, group distribution footprint and brand to access this growing segment in South Africa.

Ongoing development of data analytics and models has reached a stage where LibFin has created a competitive advantage for the group in a SAM (risk based capital) environment. Above benchmark returns have been delivered consistently during 2012 and the SIP was managed within risk appetite throughout the year. A range of local index tracker funds were launched which formed the basis of the new Retail Evolve product and Corporate Stable Growth product. The sustainable nature of the profits arising from the credit portfolio backing the annuity and guaranteed capital bond liabilities was recognised in the group equity value (R500 million).	• Optimise the SIP after tax returns over the longer term within group risk appetite • Construct asset portfolios that match Liberty's liability portfolios as closely as possible • Continue to meet the investment objectives of the group's policyholders and shareholders • Generate an alternative, diversified revenue source for the group through the efficient management of shareholder assets and exposures • Enable investment product innovation through portfolio construction and risk management expertise

Continue to manage ALM, deliver returns and build sustainable revenue streams while leveraging the capabilities that have been built to take advantage of the changes in the regulatory landscape brought about by SAM and Basel III.

Update on strategy and scorecard (continued)

Business	2012 Objectives	Self-assessment
Institutional and asset management	**STANLIB** • Complete implementation of the new operating model • Implement the new retail strategy • Continue to enhance investment capabilities	✓
	STANLIB's key strategic opportunities	
	Liberty Corporate • Restructure operations for growth • Improve operational effectiveness and resolve legacy administration issues • Grow new business via the launch of competitive new products, particularly targeting medium to large retirement funds	✓
	Liberty Corporate's key strategic opportunities	
	Liberty Properties • Expand asset management offering to third-party institutional investors in select African markets through attractive investment vehicles • Rejuvenate the development business to take advantage of growing demand for retail and commercial property in select African markets and in growth pockets within South Africa	✓ ¾
	Liberty Properties' key strategic opportunities	

73 Business unit reviews

✓ *Substantially achieved*
¾ *Good progress*
½ *Moderate progress*

Achievements in 2012	Objectives for 2013
New investment management capabilities were implemented and are operating successfully. Phase I of the new retail strategy, which included specification of the value proposition and client segmentation, was delivered. Existing franchises have been enhanced through the appointment of key individuals, there was a soft launch of Direct Property and considerable work completed to support the planned 2013 launch of infrastructure funds. The investment performance track record is significantly improved, with five Raging Bull awards received in January 2013.	• Activate and execute brand positioning and capability profiling • Continue to build and execute alternative asset funds • Grow presence in selected African markets • Launch Liberty branded unit trusts • Maintain and continue to improve fund performance

Leverage the excellent performance track record, stability and maturity of the investment team to grow market share in the third party market in South Africa and sub-Saharan Africa in both the retail and institutional markets, while leveraging new capabilities to raise funds from investors in the alternative asset classes in South Africa and sub-Saharan Africa.

Achievements in 2012	Objectives for 2013
Good progress has been made on the corporate administration transformation programme. The administration business has been restructured to improve operational effectiveness, enhance customer service and position the business for growth. The fund terminations backlog project was completed one year ahead of schedule. Developed and launched a new flagship retirement investment product, the Liberty Stable Growth Fund. Developed an index-tracking investment range. Launched the expanded bulk annuity and liability driven investment solution range.	• Continue with the launch of the new umbrella range • Continue to build presence and secure sales growth in the large corporate segment • Continue to drive administrative and other efficiencies, while investing in growth opportunities • Complete the corporate administration transformation programme • Implement the new IT application architecture • Roll out new intermediary remuneration and accreditation models

Leverage the investments made in the business to improve the offering to the existing target market which is the lower segment of the corporate market, while simultaneously leveraging the actuarial consulting, ALM (LibFin), product and balance sheet capabilities to access larger corporates in South Africa and sub-Saharan Africa.

Achievements in 2012	Objectives for 2013
In partnership with STANLIB, the African Direct Property Development Fund will be launched in 2013 and will offer investors appropriate commercial retail property opportunities in target countries, including Nigeria and Kenya. Accreditation of the Property Development company team as green building specialists. Double digit return on property portfolio has now been extended to a record 29 successive years.	Direct Property Investment: • Launch Africa Direct Development Fund • Execute product framework strategy • Raise strategic funding from large capital providers Development company: • Secure revenue generating projects in South Africa and rest of Africa • Build capabilities Property Management company: • Business optimisation and achieve a double digit return on the property portfolio

Leverage the investment in the asset management capability to raise third party assets while leveraging the property management and development capabilities for scale.

Update on strategy and scorecard (continued)

Business	2012 Objectives	Self-assessment
Business development cluster	**Liberty Africa** • Deliver the business cases for new businesses (UFI and CfC) • Deliver the affinity and Standard Bank institutional business models • Continue to build scalable delivery models and add scale to the existing footprint • Build standard processes, systems and expertise to position the business for further growth	✓
	Liberty Africa's key strategic opportunities	
	Liberty Health • Continue the strategy of effective growth in the rest of Africa, whilst also improving efficiencies and scale in South Africa • Improve risk product claims loss ratios	3/4 ✓
	Liberty Health's key strategic opportunities	
	Bancassurance • Focus on delivering results in line with the business case, using the now integrated joint business model • Improve sales volumes from the South African Standard Bank distribution channel • Complete all arrangements and model delivery in chosen African markets	✓
	Bancassurance key strategic opportunities	
	Alternative distribution platform • Deliver the Frank Life business case, focusing on improved take-up rates, profitability and increased sales • Further leverage the technology and infrastructure with new direct Standard Bank life products and on-line capability • Increase the distribution network through the addition of further FRANK.NET branded products alongside the current risk products • Grow access to products through web and mobile technology • Secure additional affinities to support wider access to the direct transactional market	3/4 ✓
	Direct Financial Services key strategic opportunities	

87 Business unit reviews

✓ *Substantially achieved*
¾ *Good progress*
½ *Moderate progress*

Achievements in 2012	Objectives for 2013
Significant improvement in financial performance during 2012. UFI and CfC above business case. Substantial affinity and bancassurance business secured. Value of new business increased by 31%. Liberty share of R36 million	• Continued to grow value of new business • Expand footprint, particularly in West Africa • Continue to grow the Kenyan business • Implement the institutional model in Southern Africa
Leverage the bancassurance relationship with Standard Bank and investments in Southern and East Africa to secure greater market share at appropriate margin, while completing the footprint by executing the plan to enter West Africa.	
Operating environment improved with regards to standardisation and synergies. Substantial improvement in medical risk claims loss ratio and new business margins.	• Continue to improve systems capability and efficiency to mitigate operational risk and generate economies of scale • Grow headline earnings and ROI • Grow Liberty Blue risk lives • Grow IT commercial and administration lives • Grow lives post operational stabilisation and price renewals
Leverage the investment made in administration, product, and distribution to grow market share in South Africa through group retail and corporate channels while positioning the business as the partner of choice for schemes looking for consolidation opportunities driven by the changing regulatory environment. The business will also leverage the investment in sub-Saharan Africa to build a significant health insurance business across the sub continent and create the platform for a broader corporate business in time. Liberty Health will also leverage the IT capability to secure the sustainability of the South African and sub-Saharan African businesses while securing additional IT lives in both markets.	
Increased volumes (indexed premium up 21%) of new business. Bancassurance value of new business of R1,5 billion up 53% on 2011.	• Further penetrate business banking base • Enhance Kenyan bancassurance business • Explore short-term bancassurance businesses in Africa • Sustainably grow new business from bancassurance channels
Leverage the low cost customer acquisition opportunities provided by bancassurance arrangements with Standard Bank.	
Secured Vodacom Life affinity Leveraged and enhanced the technology to support the Vodacom and Standard Bank Life Direct affinity businesses. Launch of FRANK.NET Hospital Cash Back plan. Frank Life business case revised following rapid take on of the affinity businesses. Developed and implemented transactional new business website for Standard Bank Direct Life affinity.	• Achieving better persistency levels and improved profitability in FRANK.NET • Launch of Vodacom Comprehensive Life offering • Deliver on individual value drivers per affinity on the direct platform • Build a productive and long-term sustainable capability through industry leading models • Expand channels for new business and for servicing existing business e.g. transactional web/mobile capabilities
Leverage the investments in product and technology to build a large scale affinities business seeking to generate returns by adding value to other large corporates in South Africa and sub-Saharan Africa by delivering product and services to their customers quickly, cheaply and easily.	

Report of the independent auditors on the group equity value

To the shareholders of Liberty Holdings Limited

We have audited the group equity value report of Liberty Holdings Limited for the year ended 31 December 2012 on pages 33 to 37, which has been prepared in accordance with the equity value basis set out in section 2 of the group equity value report. This report should be read in conjunction with the audited annual financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, which are on pages 239 to 354.

Directors' responsibility for the group equity value report

The company's directors are responsible for the preparation and presentation of the group equity value report in terms of the group equity value basis set out in section 2 of the group equity value report, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of the group equity value report that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the group equity value report. 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 group equity value report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the group equity value report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the group equity value report, 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 group equity value report 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 the group equity value principles used and the reasonableness of valuation estimates made by the directors, as well as evaluating the overall presentation of the group equity value report.

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 group equity value report has been prepared in all material respects in accordance with the basis set out in section 2 of the group equity value report.

Basis of Accounting and Restriction on Use

Without qualifying our opinion, we draw attention to section 2 of the group equity value report, which describes the basis of accounting. The group equity value report is prepared to reflect the combined value of the various components of Liberty's businesses. As a result, the group equity value report may not be suitable for another purpose. Our report is intended solely for the directors of Liberty Holdings Limited and should not be used by any other parties. We agree to the publication of our report in the integrated annual report of Liberty Holdings Limited provided it is clearly understood by the recipients of the integrated annual report that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: **V Muguto**
Registered auditor

Johannesburg
27 February 2013

Group equity value report

1. Introduction

Liberty presents a "group equity value" report to reflect the combined value of the various components of Liberty's businesses.

Section 2 below describes the valuation bases used for each reported component. It should be noted the group equity value is presented to provide additional information to shareholders to assess performance of the group. The total equity value is not intended to be a fair value calculation of the group but should provide indicative information of the inherent value of the component parts.

2. Component parts of the group equity value and valuation techniques used

Group equity value has been calculated as the sum of the various component parts:

2.1 South African covered business:

The wholly owned subsidiary, Liberty Group Limited, comprises the cluster of South African long-term insurance entities and related asset holding entities. The embedded value methodology in terms of Actuarial Practice Note 107 issued by the Actuarial Society of South Africa continues to be used to derive the value of this business cluster described as "South African covered business". The embedded value report of the South African covered business has been reviewed by the group's statutory actuary and audited by PricewaterhouseCoopers Inc. The full embedded value report is included in Appendix B.

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Appendices

2.2 Other businesses:

STANLIB	Valued using a 10 times (2011: 10 times) multiple of estimated sustainable earnings.
Liberty Properties	Valued using a 10 times (2011: 10 times) multiple of estimated sustainable earnings.
Fountainhead	Fountainhead has been valued at Liberty's share of the contracted sale price.
Liberty Health	As Liberty Health has yet to establish a history to support a sustainable earnings calculation, IFRS net asset value is applied.
Liberty Africa	Liberty Africa is an emerging cluster of wealth businesses located outside South Africa. A combination of valuation techniques including embedded value, discounted cash flow and earnings multiples have been applied to value these businesses. The combined value of this cluster is not material relative to the other components of group equity value and therefore a detailed analysis of this valuation has not been presented.
LibFin Credit	LibFin originates appropriate illiquid assets that provide acceptable illiquidity premiums. The value of this origination is reflected at a 10 times multiple of estimated sustainable earnings adjusting for related expenses and prudential margin.

2.3 Other adjustments:

These comprise the net market value of assets and liabilities held by the Liberty Holdings Limited company excluding investments in subsidiaries valued separately, the fair value of share options/rights allocated to staff not employed by the South African covered businesses and allowance for certain shareholder recurring costs incurred in Liberty Holdings Limited capitalised at a multiple of 9 times (December 2011: 9 times).

Group equity value report (continued)

3. BEE normalised group equity value

3.1 Analysis of BEE normalised group equity value

Audited 31 December 2012 Rm	SA covered business	Other busi-nesses	Group funds invested	Adjust-ments	Net worth[1]	Value of in-force: SA covered business	Total
SA insurance operations (excluding Direct Financial Services)	9 424		9 424	(4 796)	4 628	20 204	24 832
Retail SA						18 525	
Corporate						1 679	
Direct Financial Services	75		75		75	64	139
Value of in-force acquired	230		230	(230)			
Working capital	3 460		3 460	(416)	3 044		3 044
South African insurance operations	13 189		13 189	(5 442)	7 747	20 268	28 015
Other group businesses:							
STANLIB		262	262	4 438	4 700		4 700
Properties		45	45	355	400		400
Liberty Health (including Total Health Trust)	41	186	227		227		227
Liberty Africa	40	433	473	150	623	33	656
LibFin Credit				500	500		500
Liberty Holdings		1 214	1 214	37	1 251		1 251
Cost of capital						(1 477)	(1 477)
Net equity as reported under IFRS	13 270	2 140	15 410	38	15 448	18 824	34 272
BEE preference funding	1 012		1 012		1 012		1 012
Allowance for future shareholders costs		(236)	(236)		(236)	(1 785)	(2 021)
Allowance for employee share options/rights	(305)	(218)	(523)		(523)		(523)
BEE normalised equity value	13 977	1 686	15 663	38	15 701	17 039	32 740
Summary of adjustments:							
Negative rand reserves	(4 796)		(4 796)				
Deferred acquisition costs	(439)		(439)				
Deferred revenue liability	165		165				
Internally generated software	(37)	37					
Carrying value of in-force business acquired	(230)		(230)				
Fair value adjustment of non SA covered business	(100)	5 443	5 343				
Impact of discounting on deferred tax asset	(5)		(5)				
	(5 442)	5 480	38				

[1] Reconciliation to SA covered business net worth.

Net equity of SA covered business as reported under IFRS	*13 270*
Adjustments as above	*(5 442)*
Allowance for employee share options/rights	*(305)*
BEE preference share funding	*1 012*
Net worth as reported in appendix B	*8 535*

3. BEE normalised group equity value (continued)

3.1 Analysis of BEE normalised group equity value (continued)

Audited 31 December 2011 Rm	SA covered business	Other busi-nesses	Group funds invested	Adjust-ments	Net worth[1]	Value of in-force: SA covered business	Total
SA insurance operations (excluding Direct Financial Services)	7 227		7 227	(3 857)	3 370	17 789	21 159
Retail SA						16 175	
Corporate						1 614	
Direct Financial Services	116		116	(14)	102	38	140
Value of in-force acquired	325		325	(325)			
Working capital	3 994		3 994	(291)	3 703		3 703
South African insurance operations	11 662		11 662	(4 487)	7 175	17 827	25 002
Other group businesses:							
STANLIB		234	234	3 566	3 800		3 800
Properties (including Fountainhead)		270	270	684	954		954
Liberty Health (including Total Health Trust)	81	97	178		178		178
Liberty Africa	31	354	385		385	33	418
Liberty Holdings		482	482	54	536		536
Cost of capital						(1 167)	(1 167)
Net equity as reported under IFRS	11 774	1 437	13 211	(183)	13 028	16 693	29 721
BEE preference funding	1 075		1 075		1 075		1 075
Allowance for future shareholders costs		(145)	(145)		(145)	(1 690)	(1 835)
Allowance for employee share options/rights	(180)	(142)	(322)		(322)		(322)
BEE normalised equity value	12 669	1 150	13 819	(183)	13 636	15 003	28 639
Summary of adjustments:							
Negative rand reserves	(3 857)		(3 857)				
Deferred acquisition costs	(389)		(389)				
Deferred revenue liability	152		152				
Internally generated software	(54)	54					
Direct Financial Services allowance for future expenses	(14)		(14)				
Carrying value of in-force business acquired	(325)		(325)				
Fair value adjustment of non SA covered business		4 250	4 250				
	(4 487)	4 304	(183)				

[1] Reconciliation to SA covered business net worth.

Net equity of SA covered business as reported under IFRS	*11 774*
Adjustments as above	*(4 487)*
Allowance for employee share options/rights	*(180)*
BEE preference share funding	*1 075*
Net worth as reported in appendix B	*8 182*

Group equity value report (continued)

3. BEE normalised group equity value (continued)

3.2 BEE normalised group equity value earnings and value per share

Audited Rm	31 December 2012 SA covered business	31 December 2012 Other businesses	31 December 2012 Total	31 December 2011 SA covered business	31 December 2011 Other businesses	31 December 2011 Total
BEE normalised equity value at end of the year	25 574	7 166	32 740	23 185	5 454	28 639
BEE preference shares	1 012		1 012	1 075		1 075
Equity value at the end of the year	24 562	7 166	31 728	22 110	5 454	27 564
Adjustments from group restructure				15	(15)	
Capital transactions		389	389		19	19
Funding of restricted share plan	87	(87)				
Intergroup dividends	1 701	(1 701)		1 283	(1 283)	
Dividends paid		1 396	1 396		1 353	1 353
BEE normalised equity value at beginning of the year	(23 185)	(5 454)	(28 639)	(21 504)	(4 526)	(26 030)
Equity value at beginning of the year	(22 110)	(5 454)	(27 564)	(20 385)	(4 526)	(24 911)
BEE preference shares	(1 075)		(1 075)	(1 119)		(1 119)
BEE normalised equity value earnings	4 177	1 709	5 886	2 979	1 002	3 981
BEE normalised return on group equity value	18,0%	33,7%	20,8%	13,9%	22,1%	15,3%
BEE normalised number of shares (000's)			283 635			285 961
Number of shares in issue (000's)			256 440			260 165
Shares held for the employee restricted share scheme (000's)			1 399			
Adjustment for BEE ordinary shares (000's)			25 796			25 796
BEE normalised group equity value per share (Rand)			115,43			100,15

3.3 Sources of BEE normalised group equity value earnings

Audited Rm	31 December 2012 SA covered business	31 December 2012 Other businesses	31 December 2012 Total	31 December 2011 SA covered business	31 December 2011 Other businesses	31 December 2011 Total
Value of new business	660	31	691	389	21	410
Expected return on value of in-force	1 763		1 763	1 640		1 640
Operating assumptions	37	(149)	(112)	949	(55)	894
Operating experience variances	131	(42)	89	286	(11)	275
Operating assumption changes	272	(107)	165	273	(44)	229
Changes in modelling methodology	(366)		(366)	390		390
Headline earnings of other businesses	(45)	547	502	(108)	527	419
Operational equity value profits	2 415	429	2 844	2 870	493	3 363
Non headline earnings adjustment	(2)	73	71			
Development costs	(78)		(78)	(61)		(61)
Investment return on net worth	760	120	880	458	174	632
Investment variances	700		700	(279)		(279)
Changes in economic assumptions	507		507	(12)		(12)
Increase in fair value adjustments on value of other businesses		1 163	1 163		145	145
Change in allowance for share options/rights	(125)	(76)	(201)	3	(67)	(64)
Change in STC allowance					257	257
Group equity value earnings	4 177	1 709	5 886	2 979	1 002	3 981

3. BEE normalised group equity value (continued)

3.4 Analysis of value of long-term insurance, new business and margin

Audited Rm	31 Dec 2012	31 Dec 2011
South African covered business:		
Retail SA		
– Traditional Life	1 052	793
– Emerging Consumer Markets	185	111
– Credit Life	128	86
Liberty Corporate	110	95
Direct Financial Services	55	51
Gross value of new business	1 530	1 136
Overhead acquisition costs impact on value of new business	(782)	(687)
Cost of required capital	(88)	(60)
Net value of South African covered new business	660	389
South African life licences	655	381
Liberty Africa subsidiaries	5	8
Present value of future expected premiums	33 510	28 329
Margin	2,0%	1,4%
Liberty Africa:		
Net value of new business	31	21
Present value of future expected premiums	311	229
Margin	10,0%	9,2%
Total group net value of new business	691	410
Total group margin	2,0%	1,4%

Bancassurance agreement with Standard Bank

Strategic rationale

Partnering with Standard Bank is a source of competitive advantage for Liberty, primarily from the perspective of expanding market share and the revenue base in South Africa and facilitating entry into new markets in the rest of Africa.

The bancassurance joint venture arrangements between Liberty and Standard Bank are based on a master agreement which establishes the overall framework for bancassurance between the two parties and is supplemented by country-specific operational agreements which detail how bancassurance will be implemented in each country.

Negotiations to renew and expand the scope of the bancassurance joint venture arrangements between Liberty and Standard Bank to include asset management, investment, short-term and health products commenced in 2010, with the re-negotiated master agreement being signed in January 2011. The agreement remains an evergreen agreement with a 24 month notice period for termination, but neither party may give notice of termination before June 2014 for the Africa businesses or February 2014 for the South African business. The required country-specific operational agreements are in place in Namibia, Lesotho, Swaziland and Botswana and are being rolled out in other countries subject to meeting regulatory constraints around bancassurance. To ensure that Liberty's interests were taken into account, the renewal of the bancassurance joint venture master agreement was considered by, and took place under the oversight of, a specifically mandated board committee comprising three independent non-executive directors, namely Peter Moyo, Jim Sutcliffe and Angus Band, the lead independent director, as chairman.

Key benefits of the arrangements to Liberty are:

- Utilisation of the extensive Standard Bank branch network as an additional distribution channel, which provides access to local markets where Liberty does not have distribution reach at a lower cost than traditional distribution;
- Diversification of revenue streams from the traditional distribution channels, e.g. the new transactional direct platform was launched in November 2011;
- Provides access to customers, both retail and corporate, that would not otherwise be reachable by Liberty. ;
- Expansion beyond the borders of South Africa by utilising the established infrastructure of Standard Bank's market presence in Africa;
- Ability to attract and retain scarce talent, by providing extended career opportunities; and
- Ability to leverage cost and operational synergies as well as best practices.

Economic benefits

The importance of the bancassurance relationship is underpinned by the substantial contribution made by these arrangements to Liberty's long-term insurance new business volumes and STANLIB's cash flows.

The profit share agreed on by the parties is directly dependent on the nature of the business sold, the distribution channel and the relative administrative functions performed by each party and are summarised in the page that follows.

Bancassurance indexed long-term insurance new business sales (Rm)

	2012			2011			
	Single premium	Re-curring premium	Total	Single premium	Re-curring premium	Total	% change
South Africa	390	2 024	2 414	373	1 616	1 989	21
Other Africa	2	41	43	2	40	42	2
Total	392	2 065	2 457	375	1 656	2 031	21

	Nature of business	Profit share/economic benefit
South Africa	**Embedded business** Comprises the selling of an insurance product on an "embedded in product" and/or "embedded in process" basis, where the sale is integrally linked to the sale of the Standard Bank product and integrated in the bank's systems and processes.	Liberty's profit share on embedded business, commensurate with functions performed, contribution to administration and risk borne, amounts to 10%.
	Advisory business Relates to the selling of insurance, investment and health products in a personal advisory relationship/engagement where the product is not integrally linked to a bank product. A Standard Bank appointed adviser provides advice through a comprehensive financial needs analysis.	Advisory business is administered by Liberty and distributed by Standard Bank Financial Consultants. Liberty's profit share amounts to 50%.
	Transactional business Relates to the sale of a wealth product on a single sale basis through a Standard Bank point of customer engagement, where the sale is not integrally linked to the sale of a bank product, giving limited advice which could typically take the form of a single needs analysis and providing product information, but not specifically dependent on a comprehensive financial needs analysis.	The administration and infrastructure for this business is generally provided by Liberty but the Standard Bank branch infrastructure and personnel are used to access customers. Profit shares range between 50% and 65% depending on the nature of the business. The method of sharing is based on an adjusted statutory earnings basis, with a deduction for the cost of capital.
Specified African territories	Products are sold through Standard Bank branches and Liberty utilises the Standard Bank distribution network in Africa. Liberty therefore does not have to incur significant infrastructural costs to meet its expansion objectives. Pricing of the products is determined by Liberty.	Economic sharing formulas are aligned to the respective acquisition models and include all business lines (life, pensions, health, short-term and investment) with Liberty's profit share ranging between 40% and 75% depending on the respective responsibilities.
STANLIB	STANLIB gains significant advantage by having access to the branch network and customer base of Standard Bank, one of the largest banks in Africa. A substantial share of the cash flows and assets under management generated by STANLIB originates from Standard Bank.	STANLIB earns asset management and other fees on funds sourced through the Standard Bank channel. Profit shares ranging between 60% and 75% will accrue to Liberty on new business levels in excess of agreed hurdle rates.

New business premium income in respect of bancassurance business and profit shares paid to Standard Bank in terms of the bancassurance arrangements are included in the related party disclosures, refer to note 40 to the group financial statements.

Bancassurance benefits to Liberty

Liberty share	2012 Rm	2011 Rm	% change
Credit Life			
IFRS headline earnings	**151**	111	36
Embedded value of in-force contracts	**412**	380	8
Other insurance products			
Embedded value of new business	**24**	11	>100
Embedded value of in-force contracts	**858**	753	14
STANLIB			
Net service fees on assets under management sourced from Standard Bank distribution	**395**	357	11

BUSINESSREPORT
Liberty Holdings Dividend and 42% profit rise lift stock
Liberty Holdings, the insurer controlled by Standard Bank,
share increased to R14.37, beating the R12.63 median estimate of eight analysts. Profit surged after a 23 percent gain on the JSE boosted the value of Liberty's investments. It has operations in 14 African countries outside its home market after following Standard Bank in expanding in fast-growing parts of the continent. "Earnings
on the group's shareholder capital and strong operating performances by the core retail
Sharenet
Liberty final results December 2012
LIBERTY
Liberty Holdings Limited Aud
For the year ended 31 December 2012
Financial highlights
return on group equity value
15,3%
BEE normalised group equity value
up 10%
adjusted core operating earnings
up 16%
long-term insurance indexed new business
up 19%
value of long-term insurance new business
up 57%
STANLIB headline earnings
up 15%
BEE normalised headline earnings
R2 663 million
long-term insurance cash inflows
Overview of results
Strategy update
BDlive
Business / Financial Services
Liberty earnings up 39% as African business grows
In this article
LIBERTY Holdings, South Africa's third-largest insurer by market value, on Thursday posted an expected 39% hike in full-year earnings after a strong performance by its investment portfolio and its African operations.
The insurer — majority owned by Africa's biggest lender, Standard Bank — said BEE normalised headline earnings per share came in at 1,328c from a restated 957c in the previous year.
Liberty said its investment portfolio yielded a gross return of 16%. It raised its normal
The African insurance business had a three-fold increase in Liberty's share of
Standard Bank is due to report its earnings on March 7.
Liberty's shares have risen more than 3% so far this year after a flat perf
Reuters
Ná 'n paar maer jare, is Liberty weer op koers
Johannesburg. – Liberty Holdings is ná 'n paar moeilike jare weer op k een van die groot rolspelers in die Suid-Afrikaanse finansiëledienstebed word.
Bruce Hemphill, uitvoerende hoof, het gister met die bekendmaking van d se syfers vir die boekjaar tot einde Desember gesê die resultate is gesond belangriker is dat Liberty hom hervestig het in die Suid-Afrikaanse ma
Die groep het markaandeel gewen en daarin geslaag om sy Hemphill sê al die afdelings het bygedra tot die styging
Growing African business boosts Liberty
Johannesburg - South Africa's third-largest insurer by market value, Liberty Hold hike in full-year earnings after a strong performance by its investment owned by Africa's biggest lender Standard Bank Group in at 1,328 cents from a restated 957c in
INSURANCEGATEWAY
Professionals: Retirement » Press Room
Liberty's earnings surge 38% as key businesses grow market share
Financial highlights 2012

Performance

2012

Chief executive's review

The group delivered another strong set of results in 2012. Particularly impressive was the value of new business generated by all business units, and the overall growth in earnings and equity value.

IFRS reported BEE normalised headline earnings of R3 768 million increased by 37,7% (2011: R2 737 million), and were positively impacted by the investment performance of the group's shareholder capital represented by the low risk balanced Shareholder Investment Portfolio (SIP). The operational earnings only reflect a 2% increase after adjusting for investment market performance. However, the 2011 base contains the once-off positive impact of the Retail SA persistency assumption changes. After adjusting for this, other once-off changes and the increase in new business strain in 2012, operating earnings increased by 15%.

Group net cash inflows of R19 billion are also impressive. Group asset management net cash inflows of R14 billion are equally impressive when compared to the breakeven result achieved in 2011. STANLIB South Africa had a particularly good year, attracting R20 billion of net cash flows into higher margin assets. Assets under management across the group grew by 16% to R528 billion.

Capital levels in the group's main licence remain strong at 2,7 times the required regulatory minimum.

Equity value per share of R115,43 is 15% up on 2011 and reflects R5,9 billion of equity value profits which amount to a 21% return on group equity value. This is the result of positive investment markets, the growth in value of new business, strong operational performances from Retail SA and STANLIB, recognition of LibFin's ability to add value through the credit origination business and good management of the SIP.

A sustainable platform for growth

The 2012 performance highlights the integrity of our strategic plan and management's ability to execute it while building the business for the future. Significantly, all the business units are beginning to perform in line with, or ahead of expectation, and the group now has a stable platform off which to drive its strategy for growth. The 2012 performance also reflects the more cohesive nature of the group as we begin to leverage new and current capabilities to support other businesses through innovation, risk management and knowledge sharing.

During 2012, the management team:

- Established Retail SA as the dominant player in our traditional market in South Africa and increased market share in the emerging consumer market (ECM);
- Established STANLIB as a top asset manager in South Africa and added alternative asset classes to our offerings;
- Established Liberty Health as a meaningful competitor in South Africa and sub-Saharan Africa;
- Continued to entrench LibFin as a world class market risk manager and added significant value in terms of product development and new revenue streams;
- Improved the customer offering in the Corporate business and opened up new opportunities in the larger corporate market in South Africa;
- Established sustainable businesses in East and sub-Saharan Africa, and finalised the strategy for West Africa; and
- Expanded our alternative sales channels and service capabilities through Direct Financial Services (DFS).

South African long-term insurance

Retail SA

Retail SA again produced an excellent set of operating results. The main contributors to earnings outperformance were ongoing significant positive persistency variances and good mortality experience. Earnings have also absorbed the build cost of the transactional joint venture with Standard Bank and investments in the ECM business during the year.

The value proposition for financial advisers, which recognises the important balance between persistency, book size and quality of new business, is producing the ideal balance of attracting quality new business and enhancing the value of the existing client base. Various significant developments in the product and distribution area continued, including the May launch of an innovative annuity product incorporating a longevity bonus feature and the October launch of the single premium Evolve investment product which provides low costs and introduces a unique component of investment return risk sharing. Initial take up of this product has exceeded expectations.

The combination of strong Retail SA insurance sales and continuing improved persistency resulted in the insurance in-force book growing for the first time since the acquisition of Capital Alliance in 2005. In addition, lower risk discount rates, better product mix and good expense control all combined to produce what is probably the highlight of 2012, a 72% growth in embedded value of insurance new business at significantly improved margins.

Retail SA's focus in the traditional market segment will be to leverage our dominant distribution, product and LibFin capabilities to grow market share and margin. In the ECM market segment, we will build on the product capability, group distribution footprint and brand to improve access to this growing segment of the South African market.

Liberty Corporate

Liberty Corporate is displaying good operational improvements which should translate into improved customer service experience and new business volumes. The management team has been strengthened and the first phase of the legacy administration project was completed a year ahead of schedule. Good mortality experience was the main driver of improved corporate profits.

Liberty Corporate will leverage the investments made in the business to improve the offering to the existing target market, while simultaneously leveraging actuarial consulting, LibFin, product and balance sheet capabilities to further improve the product offering and access larger corporates in South Africa and sub-Saharan Africa.

Balance sheet management

LibFin's leading balance sheet management capability continues to ensure shareholder exposures to asset-liability mismatching are well within risk parameters.

The SIP was managed within risk appetite and the portfolio produced a gross return of 16,0% (2011: 8,1%) which was above benchmark.

LibFin markets continued to demonstrate its ability to manage the group's asset-liability mismatches effectively. LibFin continues to successfully invest in appropriate illiquid assets with acceptable illiquidity premia by using the ability to hold longer term assets. The key objective is to steadily increase net earnings and improve the competitiveness of the policyholder investment product proposition. This capability and the establishment of a sustainable earnings base has been recognised in the group equity value at 31 December 2012, contributing R500 million of value uplift.

LibFin will continue to manage the asset liability mismatch, deliver returns and build sustainable revenue streams while leveraging the capabilities that have been built to take advantage of the changes in the regulatory landscape brought about by SAM and Basel III.

Asset management

STANLIB

STANLIB's investment performance continues to improve as is evidenced by the 5 Raging Bull awards which it recently received and strong net cash inflows of R20 billion. Earnings growth of 12% was satisfactory considering the once-off costs associated with embedding investment processes and disciplines to ensure the sustainability of short-term improvements over the longer term as well as the significant investments that were made in the alternative asset class and management capabilities during 2012.

The improved overall performance is the result of STANLIB management's focus on stabilising the operating environment, rebuilding the investment team, and building new capabilities over the last three years.

STANLIB will continue to leverage its excellent performance track record, stability and maturity of the investment team to grow market share in the third party market in South Africa and sub-Saharan Africa in both the retail and institutional segments, while leveraging new capabilities to raise funds from investors in the alternative asset classes in South Africa and sub-Saharan Africa.

Chief executive's review (continued)

Liberty Properties

Liberty Properties, which comprises property management and development, has benefited from growth in property management fees supported by increases in rental areas at the flagship shopping centres. However, delays in securing development mandates have resulted in reduced development fee income.

In 2013, Liberty Properties will leverage the investment in the asset management capability to raise third party assets while seeking opportunities to leverage the property management and development capabilities for scale.

Business development

Liberty Health

Significant improvements in operational efficiency have been achieved, however the business does not, as yet, have sufficient scale to leverage the investment in systems and processes. The focus on addressing pricing issues and strengthening the risk management capability in Africa resulted in a significant improvement in the medical claims loss ratio in 2012.

Liberty Health will now leverage the investment made in administration, product, and distribution capabilities to grow market share in South Africa through group retail and corporate channels while positioning the business as the partner of choice for schemes looking for consolidation opportunities driven by the changing regulatory environment. The business will also leverage the investment in sub-Saharan Africa to build a significant health insurance business across the sub-continent and create the platform for a broader corporate business in time. Liberty Health will also leverage the IT capability to secure the sustainability of the South African and sub-Saharan African businesses while securing additional IT lives in both markets.

Liberty Africa

Liberty Africa had a good year, with Liberty's share of earnings increasing by R48 million. Improved investment market conditions in Kenya as well as the inclusion of CfC for a full year, as opposed to nine months last year, contributed to this outcome. In addition, the short-term insurance business reported improved claims loss ratios. Both CfC and UFI in Namibia are now performing to business case.

Liberty Africa will now leverage its bancassurance relationship with Standard Bank and its investments in Southern and East Africa to secure greater market share at appropriate margin, while completing Liberty's footprint in sub-Saharan Africa by executing our plan to enter West Africa.

Direct Financial Services

The group's direct capability, which enables access to customers far more cheaply than traditional insurance offerings is now firmly established in the market following the addition of the Vodacom Life and Standard Bank affinity businesses. The business has grown its capacity to effectively service multiple brands.

FRANK.NET, which currently provides simple life cover products through an alternative direct distribution channel, has achieved good brand presence, however, conversion of leads and persistency need to be improved.

DFS will now leverage the investments in product and technology to build a large scale affinities business seeking to generate returns by adding value to other large corporates in South Africa and sub-Saharan Africa by delivering product and services to their customers quickly, cheaply and easily.

Bancassurance

The group has a sizeable footprint in Africa and a partner in Standard Bank off which to grow our embedded, corporate, asset management and health businesses. Our bancassurance arrangements provide a source of competitive advantage, enabling us to expand our market share and revenue base in South Africa and facilitate our entry into new markets on the African continent.

In South Africa, the embedded sales channel has continued to deliver above expectation. In the advisory channel, management's focus on persistency and manpower management is paying off with a healthy increase in margins being recorded. The transactional business has delivered on its first year's operational budget.

The initiatives embarked on outside of South Africa during 2012 have delivered some positive results with stronger collaboration between the Liberty and Standard Bank teams in country and an increase in leads in the specialist sales channel. The value of new business resulting from these activities has increased from R83 million in 2011 to R109 million in 2012.

Indexed sales of insurance products from bancassurance channels increased by 21% over 2011.

We will continue to take advantage of the opportunities presented by the bancassurance arrangements, with a specific focus on institutional sales in selected African territories.

Regulation

We continue to prepare for the implementation of the proposed new long-term insurance solvency regime and do not anticipate significant changes to our existing capital position.

Transformation

Good progress continued to be made against all the components of the scorecard and Liberty received an improved overall dti score, maintaining the group's classification as a level two contributor in terms of the dti Codes relating to Broad-Based Black Economic Empowerment.

Material sustainability issues

Liberty is committed to creating sustainable value for all its stakeholders. Our top five sustainability issues are as follows:

1. Deliver sustainable financial results;
2. Provide compliant and responsible financial services;
3. Focus on our customers;
4. Attract and retain quality employees; and
5. Continue the transformation journey.

The 2012 performance review which follows provides more details of how we have progressed against these issues. We have fully embraced the necessity of being good corporate entities in all countries in which we operate and we support transparent and relevant integrated reporting thereon.

Prospects

We trust that shareholders are pleased with the group's 2012 performance and we believe that the group is now well positioned to achieve sustainable growth in the future. Our core insurance and asset management businesses are performing well and we anticipate that they will continue to attract higher levels of new business at improved margin despite the expected ongoing pressure on consumer disposable income. We believe our balance sheet management capability will enable us to continue managing our investment market risk exposures within risk appetite and competently deal with the probable protracted period of volatility in investment markets and low interest rates.

Appreciation

The successes of 2012 were the result of the hard work and commitment of all our people. I would like to thank the board, the management team, our staff members and financial advisers for their contribution in 2012 and commitment to the future of Liberty.

Bruce Hemphill
Chief Executive

27 February 2013

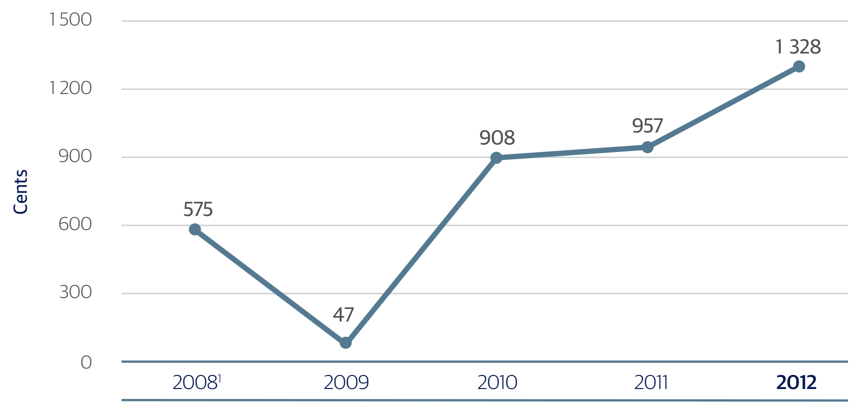
2012 Performance review

Deliver sustainable financial results

The primary objective of the group is to deliver a sustainable attractive return on investment to shareholders. Whilst short-term profitability is important, it should not detract from the longer term objective.

Liberty's 2012 financial performance was positive across all indicators. Particularly impressive was the new business obtained by all business units and overall growth in earnings and equity value. BEE normalised headline earnings of R3 768 million were 38% up, positively impacted by the investment performance on the group's shareholder capital. This converts to a 39% increase in BEE normalised headline earnings per ordinary share to R13,28 (2011: restated R9,57). Return on equity of 25% compares to 20% achieved in 2011.

BEE normalised headline earnings per share

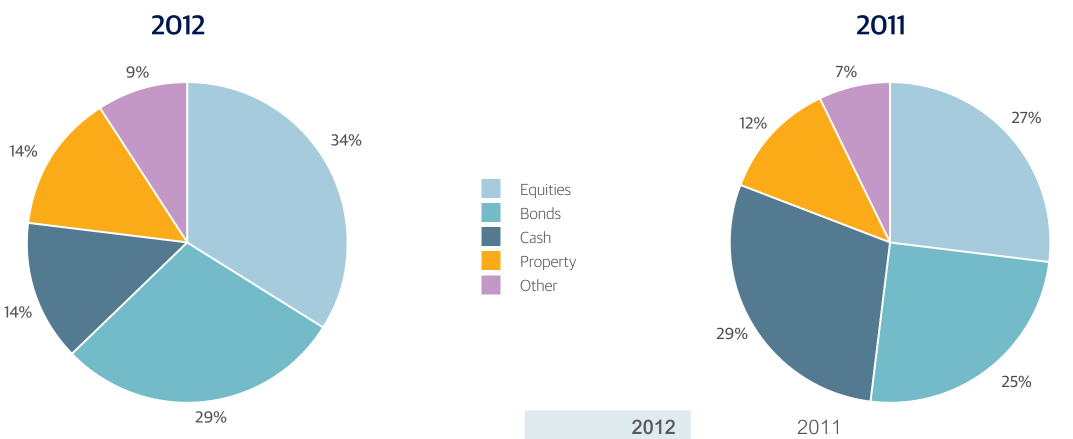


[1] *Liberty Group Limited used for 2008*

Equity value per share of R115 is 15% up on 2011 and reflects R5,9 billion of equity value profits, or a 21% return on group equity value. This is considerably higher than the target of 12,6% and is not only a function of the positive investment markets, but reflects the growth in value of new business, the strong operational business unit performances and LibFin's ability to add value through its credit origination business.

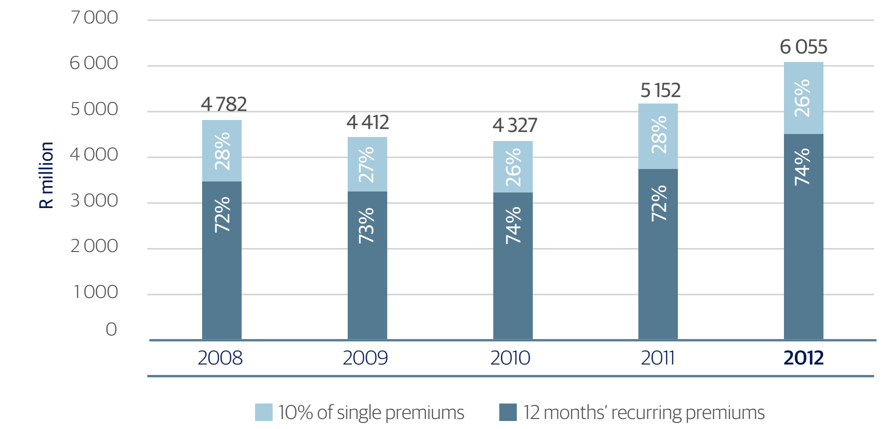
The Shareholder Investment Portfolio (SIP) produced a gross return of 16% (2011: 8%), which was ahead of benchmark, translating into earnings of R1 965 million. Growth in operating earnings (which excludes earnings from the SIP) appears low at 2%, however it should be noted that the 2011 result included the once off positive impacts of Retail SA assumption changes arising from the resolution of the persistency issue. Normalising for these as well as the Retail SA new business strain component of earnings, reflects a 2012 operating earnings increase of 15%. This demonstrates the impact of the ongoing operational improvement particularly in the core insurance and asset management businesses.

Shareholder Investment Portfolio at 31 December



	2012	2011
Portfolio size (R billion)	20,8	20,4
Gross return (%)	16,0	8,1
Local/foreign split (%)	73:27	82:18

Strong growth in long-term indexed insurance sales (up 18%) was supported by the launch of a number of innovative products. This, combined with the lower risk discount rate, better product mix and good expense control produced a 69% improvement in group embedded value of long-term insurance new business to R691 million at an overall margin of 2,0% (2011: 1,4%).



Group asset management net cash inflows of R14 billion are much improved compared to the break even flows in 2011. This was achieved despite the drawdown of R6 billion of assets under a government mandate in East Africa. STANLIB's South African business had a particularly good year attracting R20 billion of net cash flows of which R17 billion went into higher margin non money market retail and institutional mandates. Assets under management across the group grew by 16% to R528 billion.

Asset management net client cash flows (excluding intergroup)

R billion	2008	2009	2010	2011	2012
STANLIB					
Institutional and retail	(14,2)	(12,3)	(3,4)	7,9	**16,5**
Money market	19,3	10,8	19,1	(13,4)	**3,8**
Other Africa					
Institutional and retail	7,5	3,7	4,8	5,7	**(4,8)**
Money market	0,8	0,6	1,7	(0,3)	**(1,2)**
Total	13,4	2,8	22,2	(0,1)	**14,3**
Assets under management	337	396	442	455	**528**
South African sourced	94%	94%	93%	91%	**93%**

It is also encouraging to report various positive developments within our business development cluster, including the Vodacom affinity in Direct Financial Services and the significant improvement in the medical loss ratio in Liberty Health. The revised terms of the commercial bancassurance joint venture relationship with Standard Bank, which broaden the available distribution channels, product sets and geographies are making an increased contribution to new business volumes and earnings. Sales on an indexed basis of insurance products from bancassurance channels were 21% higher than 2011. Attributable Liberty earnings from credit life were R135 million, up 41% from last year, and STANLIB received a 11% growth in net asset management fees related to assets acquired through the Standard Bank distribution channel. The total embedded value of in-force contracts sold under the agreement attributable to Liberty at 31 December 2012 is R1,2 billion (2011: R1,1 billion).

This section is a summary of the group's performance. Detailed analysis is available in the other sections of this report and the online integrated annual report available on www.liberty.co.za

2012 Performance review (continued)

A disappointing feature of the past year was the inability to secure various targeted property development mandates by Liberty Properties mainly due to socio-political factors in the various sub-Saharan African countries in which the group operates.

LibFin continues to demonstrate its ability to manage the group's market risk within risk appetite. The group's capital position is strong with the capital adequacy ratio in the group's main licence being 2,7 times the regulatory minimum despite the funding of share buy backs of R415 million at an average purchase price of R89 per share. The group successfully issued two R1 billion subordinated bond tranches in August and October 2012 at fixed coupon rates of 7,67% and 7,64% respectively. The previous R2 billion callable bond was called and repaid in September.

Liberty Holdings sold its 50% joint venture in Fountainhead Property Trust Management Limited and Evening Star Trading 768 (Pty) Limited to Redefine Properties Limited for R335 million resulting in a profit on sale of R117 million.

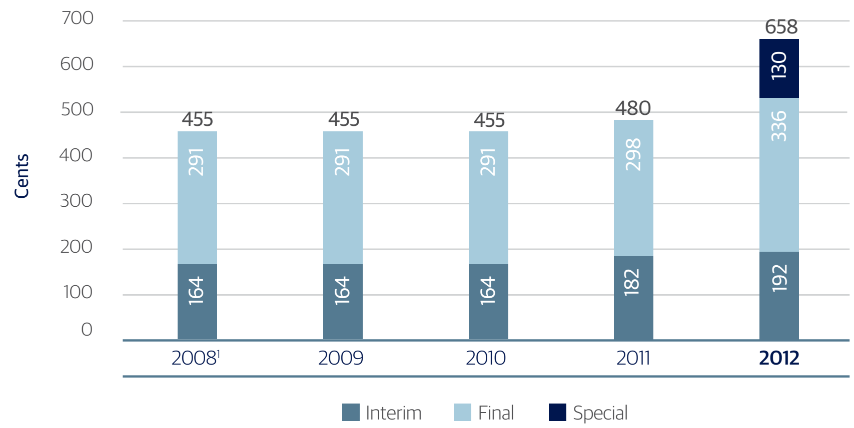
The 2012 performance further supports the appropriateness of Liberty's strategic plan and management's ability to execute to plan. The group's strategic focus can be summarised as:

- managing the core South African insurance operations within acceptable sustainable long-term assumption sets, whilst profitably capturing greater shares of both the existing and developing markets;
- developing innovative products to service targeted customer segments;
- optimising the balance sheet within board approved risk appetite limits;
- improving asset management capability, while leveraging off the strong property, fixed income, balanced and money market franchises and new alternative capability to capture a larger share of the retail and institutional fund flows;
- achieving the business cases of business development initiatives across the group;
- expanding the geographical footprint into expected high growth regions of sub-Saharan Africa; and
- maximising opportunities under the Standard Bank bancassurance agreement.

In line with the group's dividend policy, the board has approved and declared a gross final dividend of 336 cents per ordinary share. Given the substantial increase in earnings in the current year and after taking into account additional capital required by the strong new business flows, the directors have declared a gross special dividend of 130 cents per ordinary share.

In summary, Liberty's 2012 financial performance had many highlights. BEE normalised headline earnings were up 38%, long-term indexed insurance new business up 18%, long-term insurance value of new business up 69%, assets under management up 16% and return on equity reached 25%. Capital is well in excess of regulatory requirements and the board has been able to recommend not only a normal dividend increase of 10% reflecting the core earnings growth, but also a special dividend of 130 cents per ordinary share which further reflects the overall success achieved in 2012.

Distributions per ordinary share



[1] Liberty Group Limited used for 2008

Contributions to earnings by business unit

	2012 Rm	% change	2011 Rm
South African long-term insurance			
Retail SA[1]	**1 299**	(6%)	1 382
Corporate[1]	**75**	79%	42
LibFin Markets	**151**	(3%)	155
LibFin Investments	**1 965**	>100%	969
Asset management			
STANLIB[2]	**489**	12%	435
Liberty Properties[2]	**48**	(36%)	75
Business development			
Liberty Africa	**69**	>100%	21
Asset management operations	**48**	33%	36
Insurance operations	**21**	>100%	(15)
Liberty Health	**(42)**	35%	(65)
Direct Financial Services	**(38)**	19%	(47)
Central overheads, development costs and sundry income	**(310)**	(5%)	(296)
Headline earnings	**3 706**	39%	2 671
BEE preference share adjustment	**62**	(6%)	66
BEE normalised headline earnings	**3 768**	38%	2 737

(1) *2011 earnings have been restated for the change in accounting policy relating to the adoption of shadow accounting.*
(2) *2011 restated to reflect the transfer of the Liberty Properties asset management business to STANLIB from 1 January 2012.*

Refer to the annual results presentation announcement for more detailed analysis.

Provide compliant and responsible financial services

Liberty strives to deliver products and services with integrity, while complying with required regulation, upholding high ethical standards and minimising its environmental impact.

"Behave ethically"

Liberty upholds the highest levels of professionalism and integrity in its business and in its relationships with stakeholders. The group's code of ethics (available at www.liberty.co.za) outlines its ethical and moral attitudes to conducting business and sets expectations for all employees in South Africa and in other parts of Africa. The code was first approved by the board in 2004 and will be reviewed in the coming year to ensure its continued relevance.

Liberty's internal audit services division conducts periodic reviews of the group's ethical performance as part of its wider governance reviews. The 2011 review found that Liberty's approach to ethics and governance was adequately aligned to the recommendations of King III.

"Comply with regulation and engage legislators"

Liberty's businesses operate within a complex regulatory environment with compliance being monitored by group legal services, group compliance and risk functions.

The group's management interact with a cross section of government bodies and legislators in all jurisdictions in which the group operates. The primary regulator in South Africa is the Financial Services Board (FSB) to which the various licenced group entities in South Africa regularly report.

2012 Performance review (continued)

One of the key protections to ensure policyholder contract terms are met, is that the various regulated entities need to hold sufficient capital to withstand various scenarios. Under the current measure of capital and adequacy thereof, all the group's South African licenced entities at 31 December 2012 are well ahead of regulatory minimum requirements and ahead of self-imposed capital requirements. In the other jurisdictions in which the group operates, all group subsidiaries were adequately capitalised at 31 December 2012.

The group's statutory actuaries have given the board comfort around the dividend declarations necessary to support the group's declared 2012 final and special dividends.

Summary capital requirements and cover for licenced group entities with net asset values in excess of R1 billion

	Capital requirement			Capital adequacy cover			Target cover
	2012 Rm	2011 Rm	2010 Rm	**2012 Times**	2011 Times	2010 Times	**Times**
Liberty Group Limited	**2 791**	2 495	2 688	**2,7**	2,9	2,7	**1,7**
Liberty Active Limited	**1 025**	764	482	**1,6**	1,6	1,8	**1,5**
Capital Alliance Life Limited	**749**	729	782	**2,9**	2,1	2,1	**1,5**

The reason for the significant growth in capital requirements in Liberty Active Limited is largely due to the writing of significant levels of recurring premium investment business with corresponding surrender values and guaranteed endowment business.

The group continues to prepare for the implementation of the proposed new long-term insurance solvency regime in South Africa. Management believe the group is appropriately positioned from a capital perspective.

During 2012 no significant regulatory penalties were imposed within the group for non compliance. Some exposure to sanction still remains in the Liberty Corporate business unit where, in prior years, significant backlogs of administrative requirements built up relating to administered stand alone retirement funds.

During the past few years proactive engagement with the FSB supported by dedicated project focus, have led to this backlog being substantially reduced. Various work streams have been completed up to a year ahead of agreed deadlines. Management remains dedicated to resolving all residual issues and processes have been embedded to ensure this situation does not arise again.

Liberty plays an active role in tax collection, not only through direct taxes but also as an administrative agency in respect of income taxes due by the group's staff and policyholders. Over the past five years the group has collected and paid taxes across to the South African government totalling R16,5 billion, with R4,8 billion accruing for 2012.

"Manage fraud and corruption"

The financial services sector remains vulnerable to threats posed by fraud and corruption and Liberty remains vigilant to these risks. The dedicated group forensic services (GFS) unit works to proactively detect and investigate instances of possible fraud.

In 2012 Liberty refreshed its anti-fraud and corruption policy, renaming it the financial crime risk policy. The policy applies to all staff, contractors, suppliers and financial advisers. GFS led a communication campaign to educate employees about ethics and fraud, and to create awareness of the fraud hotline. Furthermore, GFS provided 2 117 employees with anti-fraud training.

Liberty fraud hotline numbers: 0800 204557 (South Africa)
+27 12 543 5383 (International)

Of the 727 incidents recorded for further investigation during the year, most originated from Retail SA (86%) and were reported via internal staff reporting mechanisms. In 2012, the group took 60 (2011: 63) actions against fraud and corruption and achieved group-wide fraud savings of R101 million (2011: R74 million).

In 2013 GFS intends to enhance its capacity to combat fraud and corruption by increasing its headcount. In addition, a new internal fraud and incident management system is expected to be implemented.

"Invest responsibly"

Liberty seeks to invest in companies whose policies and practices promote long-term value creation. The group is signatory to the Code for Responsible Investing by Institutional Investors in South Africa and to the UN Principles of Responsible Investment.

In 2012 STANLIB introduced a formal responsible investment policy. The policy incorporates environment, social and governance issues into its investment decisions through the 'stewardship' pillar of its research process. The business continually conducts training to raise the responsible investment competency of its analysts and portfolio managers.

To meet the needs of its Islamic clients, STANLIB has two targeted socially responsible investment funds: the Shari'ah Equity Fund and Liberty Balanced Shari'ah Fund which together had R328 million in assets under management at the end of 2012.

Liberty is committed to managing its business with a view to minimising the impact on the environment taking cognisance of the group's business objectives. Recognition is given to the key role the directly owned and managed properties business has on the environment, resulting in applicable lease contract terms with tenants specifically on direct environmental impacts. The group has an environmental commitment statement and overall responsibility for environmental impact lies with the chief executive of Liberty Properties.

"Limit the impact on the environment"

Summary of CO_2 emissions and water consumption

	2012	% change	2011
Total measured CO_2 emissions[1] (tonnes)	**51 210**	(1%)	50 479
Total scope 1 and 2 emissions per FTE	**5,59**	10%	6,20
Purchased electricity[1] (million kWh)	**45,2**		45,2
Purchased water[1] (kilolitres)	**127 389**	33%	190 329

[1] *Liberty owned and leased buildings*

In 2012 Liberty's carbon footprint increased marginally (1%) to 51 210 tonnes of CO_2 emissions. This is largely due to increased air travel related to the group's expansion into other parts of Africa.

An initiative to use space more efficiently at Liberty's head office reduced total space occupied by 22%, lowering demand for lighting and air-conditioning. The group replaces old equipment and light fittings with energy-efficient alternatives as a matter of ongoing maintenance.

Liberty made substantial improvements in its recycling efforts during the year, increasing the tonnage of paper recycled by 169% to 102 tonnes in its Liberty Life Centre and Libridge buildings.

Liberty Properties expects to receive its first Green Building Council of South Africa green building certification in 2013 for Phase 3 of the Liberty Midlands Mall and the retrofitting of the Atrium on Fifth in Sandton City. Both projects were designed to lower electricity consumption by between 40 – 50% and water consumption by between 30 – 40%.

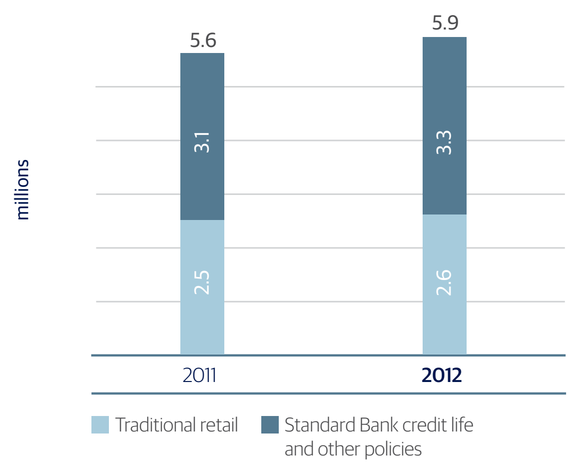
Focus on our customers

As the source of revenue, customers are essential to the success of the business and significant investment is made to continue delivering innovative products supported by appropriate high quality service that meets customer needs. Increasing access to products and educating consumers on the benefits of sound financial planning are top priorities.

Through its products and services, Liberty impacts the financial wellbeing of many people in Africa. Product sales, customer cashflows and assets under management are summarised and commented on under the "Deliver sustainable financial results" section above.

Death and disability protection is the cornerstone of the groups' insurance product offerings. In 2012 total death and disability claims grew 5,5% to R6,3 billion, providing much needed financial relief at times of significant stress.

Summary of number of retail policies in-force



2012 Performance review (continued)

"Treat customers fairly"

Liberty continues to enhance the principles of Treating Customers Fairly (TCF) in its businesses. TCF regulations are expected to come into effect in South Africa in January 2014 and Liberty's objective is to ensure that the six TCF fairness outcomes are an integral part of a customers' experience with the group. The aim is to ensure strong long-term customer relationships based on trust and respect.

"Ensure products and services meet customer needs"

Liberty conducts ongoing market research to understand the needs of its customers, the results of which are reflected in a dynamic and evolving product portfolio. New product innovations in 2012 included Retail SA's two pioneering investment products, the Flexible Annuity with income enhancer benefit and the Liberty Evolve range with growth share. Retail SA also launched risk product enhancements, the market-first Income Protector retrenchment benefit, and several improvements to the Living Lifestyle benefits.

Liberty Corporate launched a new flagship retirement investment product, the Liberty Stable Growth Fund, as well as an index tracking investment range and an expanded bulk annuity and liability driven investment solution range.

Liberty Health launched Platinum Prestige and three new select options for the Liberty Medical Scheme. The new Own your life REWARDS loyalty scheme programme was successfully launched late in 2012. Liberty Africa introduced new education plans in Swaziland and Namibia. Direct Financial Services established two affinity operations, Standard Bank Direct Life Insurance Services and Vodacom.

STANLIB established two new investment capabilities, namely direct property and infrastructure franchises.

"Manage customer investments"

Liberty is committed to delivering superior risk-adjusted performance for its customers over the long term. The group fund control committee is responsible for ensuring the appropriate management of policyholder assets and that investment portfolios deliver on their expectations.

In 2012, LibFin, who is mandated to oversee the management of policyholder assets, performed comprehensive due diligence reviews on its main asset managers. This created an opportunity to improve the managers' investment offerings in line with the needs of policyholders.

"Offer accessible products to low-income consumers"

Liberty is committed to ensuring that the previously disadvantaged can benefit from products and services that enhance their financial well-being.

The emerging consumer market (ECM) is defined as individuals with a personal income below R11 000 per month. The group's financial products provided to this market are easy to understand, transparent and clearly linked to defined needs such as funeral cover and savings toward education. Access through existing community-based channels plays an important role in extending the reach of financial services in the ECM segment.

Following the growth of the ECM sales force in 2012, sales grew in this segment across each product category, with increasing demand for funeral and savings plans.

"Strengthen distribution channels"

Most of Liberty's products are sold through intermediaries in the form of tied or independent financial advisers. In line with its growth strategy, the number of tied agents in South Africa increased from 2 369 in 2011 to 2 754 in 2012. In other parts of Africa, the number of tied agents increased from 402 in 2011 to 414 in 2012.

South African distribution headcount

	2012	% change	2011
Tied	**2 754**	16	2 369
Agency	**874**	8	813
Liberty entrepreneurs	**832**	19	697
Liberty@work	**1 048**	22	859
SBFC	**630**	9	576
Broker consultants	**250**	2	244
	3 634	14	3 189

Supporting its tied and independent financial advisers is a critical component of growing Liberty's market share, and thus bolstering the group's long-term viability. Enhancement of Retail SA's financial adviser value proposition continued to build on the success of the 2011 implementation. A comprehensive learning programme to assist financial advisers to prepare for the FAIS regulatory examinations was developed and 95% of Retail SA's tied agents passed the examinations, compared to the industry average of 85%.

The group customer relations department oversees customer satisfaction through regular satisfaction surveys as well as analysis of retention patterns and complaint volumes and causes. It also facilitates the resolution of high-level escalated complaints.

"Enhance customer satisfaction"

Liberty's Retail SA business has been addressing the full experience of its customers by considering their perspective and establishing minimum service standards for all customer-facing activities. The business conducted its annual Voice of the Customer survey again in 2012 and achieved an average rating of 7,0 compared to 7,4 in 2011 and 7,7 in 2010 (using a scale where 0 = poor, and 10 = excellent). Liberty is concerned at the decline in customer satisfaction and expects a reversal of the trend as its customer experience framework is embedded in the business.

The number of complaints and servicing requests escalated to group customer relations in 2012 reduced by 27% to 2 718 (2011: 3 728). Of these, 312 (11%) remained unresolved at year-end. Most related to poor service, inadequate responses to requests for policy information, and non-payment of policy advances and surrenders.

Attract and retain quality employees

Employees are integral to delivering the group's strategies. Consequently remuneration structures are designed to create a high performance culture with the necessary balance between short and long-term objectives. Skills development, engagement processes and wellness support are designed to assist retention and maximise productivity.

	2012	% change	2011
Total number of employees (including tied agents)	**9 449**	11%	8 523
Women employees (%)	**56**	(2%)	57
Black employees (African, Indian, Coloured) (%)	**73**	4%	70
South African voluntary employee turnover (%)	**10,31**	6%	10,95
Training expenditure as a % of staff costs	**1,4**	75%	0,8

In 2012 Liberty aligned its human resource practices within each of its business units. The group also established an organisational development function, reporting to the chief executive for group strategic services, charged with encouraging initiatives that bolster a culture of performance within the group. It is expected that the new function will also enhance Liberty's ability to execute strategy and manage change.

The 11% growth in employee headcount is mainly due to the inclusion of a new subsidiary, Total Health Trust Limited, for the first time in 2012 as well as investments in the emerging consumer market division, tied distribution and Direct Financial Services.

South African 2012 voluntary employee turnover improved to 10,31% and was under the group target of 11,0%. Total employee turnover for 2012 is 12,1%. The group is targeting 11,0% for both metrics in 2013. The group's emphasis on equipping its workforce through direct training continues to gain momentum with higher training effort and expenditure evidenced across the group in 2012.

The group's remuneration philosophy, methodology and structures were further refined during the year to take account of shareholder feedback provided post the 2011 annual general meeting. Details are provided in the overview from the chairman of the remuneration committee on page 115.

The company was awarded Best Employer status by the Corporate Research Foundation for the fourth consecutive year, ranking ninth out of 20 in the large-sized employer category and 14th out of 73 African companies overall.

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For more detail, refer to the Liberty's people section

2012 Performance review (continued)

Continue the transformation journey

The Liberty board has chosen to embrace transformation as best practice and not adopt a minimum compliance approach. Substantial progress has been made against set regulatory frameworks in respect of investing in and transforming South African society.

	2012	% change	2011
Liberty dti B-BBEE score	89.32	4%	85.70
Liberty dti B-BBEE level	2	–	2
Total BEE procurement spend (Rbn)	2,7	(18%)	3,3
South African CSI spend (Rm)	37,0	14%	32,5
Number of people educated in financial literacy	42 132	84%	22 861

A transformation vision was developed in 2012 (refer page 110) that will serve as a guide for the group's policies and activities going forward. This vision aims to align business priorities and stakeholder expectations with the ultimate goal of driving transformation.

Liberty maintained its B-BBEE level 2 status in 2012 with a total score of 89.32 out of 100, up from 85.70 in 2011. STANLIB also achieved level 2 status in 2012 with a score of 85.18. Liberty was ranked 19th in the 2011 Empowerdex Top 100 Empowerment Companies list, up from 50th in 2010.

The Financial Services Sector code was gazetted in November 2012 and is now binding. Liberty is confident of adhering to this code in 2013 onwards.

"Procure preferentially"

Liberty's total BEE procurement spend in 2012 was R2,7 billion, down from R3,3 billion in 2011. This decline was disappointing and is expected to be addressed by Liberty's new procurement policy introduced in 2012 which shifts purchasing from a decentralised, business unit-led model to one in which procurement is largely conducted at a group level.

"Invest in communities"

The group's long-term sustainability depends on the ability of the societies in which it operates to procure the group's products and services. Corporate Social Investment (CSI) is fundamental in assisting in providing education and thereby the tools to support upliftment of communities. Pure CSI spend during the year totalled R35,3 million, focused primarily on children's education. R1,7 million was spent on CSI administration costs.

Liberty's CSI strategy targets beneficiaries in the specific geographies in which the ECM business operates and the existing mathematics and science focus for grades 10-12 will be expanded to other critical points of education delivery to both children and adults, with an ultimate vision of supporting a lifetime of learning. During the year, Liberty supported 70 schools across South Africa as well as programmes to develop related professionals such as teachers, principals and administrators.

In 2013 Liberty will roll out its updated CSI strategy and introduce a network of ten regional CSI committees staffed by Liberty's ECM employees and tasked with understanding and addressing local needs.

"Promote financial literacy"

Low levels of financial literacy pose a substantial challenge to financial inclusion, with a direct impact on consumers' well-being. Liberty conducts financial literacy training in the workplaces of its customers as well as in the communities in which it operates and reached 26 750 people during the year. STANLIB's new Smartbucks programme uses an hour-long educational comedy film and booklet to teach high school learners about the importance of budgeting, debt management, savings and investment. Audiences of the film surpassed the anticipated target and reached 15 382 learners from 104 schools. These programmes will be continued in 2013.

2012 Performance dashboard and 2013 targets

		2012			2013
		Actual	Target	Achievement	Target
Financial indicators	Return on embedded value	20,8%	14,5%	●	**>ten year South African government bond rate plus 4%**
	Liberty Group Limited CAR cover	2,7 times	>1,7 times	●	>1,7 times
	Retail SA new business margin	2,3%	>1,6% (medium-term target 2,0%)	●	>2,0%
	Retail SA maintenance expense inflation	5,15%	5,15%	●	4,15%
	Shareholder Investment Portfolio performance	> benchmark	Board approved benchmark reference	●	**Board approved benchmark reference**
Non-financial indicators	South African voluntary staff turnover	10,3%	<11%	●	<11%
	dti score	89.32	87.74	●	86.10[1]
	Corporate social investment spend	R37 million	1% of adjusted net operating profit after tax	●	**1% of adjusted net operating profit after tax**

[1] *The dti have adjusted targets across certain pillars for the years 2013 to 2017. Consequently Liberty 2013 target scores have been revised.*

Key

● *Fully achieved* ● *Not achieved*

Economic review

Global growth remained relatively subdued during 2012, with a below-average performance in the mature economies being partially offset by somewhat higher growth in emerging economies. The United States continued to recover at a moderate pace, although the Euro-area fell back into recession and Japan was dragged lower by a weak export performance and increased political tension with China. Encouragingly, the outlook for the global economy in 2013 is more promising given the somewhat enhanced financial stability in the Euro-area, improved economic data in China and a pick-up in United States housing activity. Sub-Saharan Africa, once again, outperformed most other regions of the world, growing by a solid 4,8% in 2012, having achieved an average growth rate of 5,5% over the past ten years. South Africa has experienced 13 consecutive quarters of positive growth, following the recession in 2008/2009, but urgently needs to lift the pace of the recovery through increased fixed investment activity, including infrastructural development as well as job creation.

The United States maintained a tepid recovery in 2012, growing by 2,2%, up from 1,8% in 2011. The latest growth rate is still well below the long-term average GDP growth rate of 3%, although the economy has regained all the economic value lost in the global financial market crisis. Importantly, the household sector has paid down debt in almost every quarter since the start of the financial market crisis in 2008, reducing their total debt from a peak of slightly over $14 trillion in the third quarter of 2008 to around $13 trillion in the early part of 2012. The consumer is now showing signs of being able and willing to borrow again; hopefully under more prudent lending standards. In addition, the household sector net wealth has increased by an impressive $13,5 trillion since the beginning of 2009 and should soon surpass the previous record high. This has helped to underpin consumer spending, including vehicle sales and general retail spending. In particular, consumers can now fully benefit from record low mortgage rates and significantly improved affordability of home buying. Recent increases in home sales and prices have turned the housing sector positive. The labour market has also improved, with non-farm payrolls gaining an average of 181 000 jobs per month in 2012.

President Obama was re-elected with a comfortable electoral majority in November 2012. He also won the popular vote, but the United States Congress remains split, with the Republicans controlling the House of Representatives, and the Democrats controlling the Senate. The split in Congress is feeding concerns that the political gridlock will lead to a lack of action in resolving key economic issues, including the need for appropriate fiscal discipline, and act to restrict economic growth in 2013.

The Euro-area fell back into recession during 2012, and continues to face major structural challenges. In particular, the unemployment rate has reached a record high of almost 12%, and is likely to deteriorate further. Germany recorded a sharp decline in activity towards year-end, after holding up well at the start of the year. The decline was especially evident in the manufacturing and export sectors. Fortunately, forward looking indicators turned a little more positive at year-end. France continues to flirt with recession, while the Spanish economy deteriorated sharply through 2012, with the economic weakness contributing to another significant over-run of the Spanish budget deficit.

Miraculously, the Greek fiscal adjustment process has survived five years of increasingly traumatic recession, as well as two very contentious elections in 2012. After years of disappointment, the Greek government managed to meaningfully narrow its fiscal deficit in 2012. This paved the way for further financial assistance in the form of debt buybacks, a deferral of interest payments, and the extension of maturities on loans.

It is widely accepted that the Euro-area needs more integration in order to prosper, with formation of a bank union and a region-wide bank supervisor a key priority. The introduction of the Outright Monetary Transactions (OMT) programme by the European Central Bank, in the second half of 2012, has clearly calmed market fears and provided the Euro-area with a vital opportunity to implement important structural changes. This need for structural adjustment is encapsulated in the fact that although the region represents only 7% of the world's population it accounts for 50% of the world total spending on social services.

China's economic growth has shown signs of picking up, after a noticeable and worrying slowdown during the middle of 2012. This improvement included an up-tick in industrial production as well as retail sales. Underpinning the growth reacceleration has been a recovery in exports with growth of 25% year-on-year at 31 December 2012, well up from a mere 1% year-on-year in July 2012. Fixed investment spending by the central government has also turned around sharply. These developments should help underpin GDP growth in the 7,5% to 8,0% range, in line with the government's announced target. Improved visibility of China's growth prospects in late 2012 has reduced an important source of uncertainty about the global economy and the commodity markets. However, the Chinese government will likely continue with its efforts to rebalance growth away from export and fixed investment towards more domestic and personal consumption.

South Africa has experienced 14 consecutive quarters of positive growth, following the recession in 2008/2009. Retail activity has played a dominant role during the recent economic recovery. This is mostly explained by relatively high wage increases of above 8% for the past few years, as well as an increase in government employment. The combination led to a strong rise in real household disposable income. Unfortunately, because most South African households do not have a culture of saving, almost all the rise in disposable income was spent on a range of consumer goods and services. More recently, there has also been a surge in unsecured credit, which has also helped to buoy retail spending in 2012.

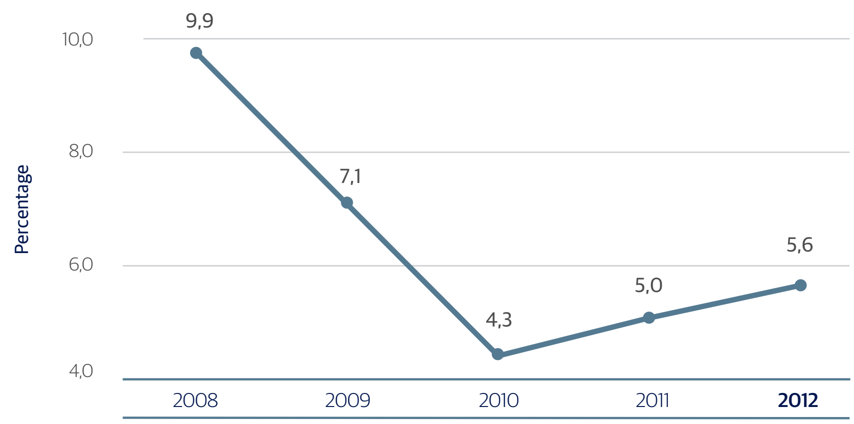
On a trend basis, however, there is clear evidence to suggest that South Africa's consumer activity is facing increasing strain. This is partly due to the fact that consumers are trying to cope with a range of cost increases that are systematically eroding their spending power. These include higher energy costs, transport costs, education fees, medical service costs and water costs. Households cannot avoid these increases, as they relate to necessities or essential goods, forcing consumers to either cut-back on non-essential purchases or take on additional debt. Hence, without a sustained rise in employment, consumer activity is expected to lose momentum.

The South African corporate sector has managed to systematically improve its financial position, despite an uncertain market environment. This is reflected in solid earnings growth, an elevated cash position and low gearing. Unfortunately, the corporate sector's willingness to expand and employ has been dampened by a combination of poor global economic conditions (especially in the Euro-area), domestic policy uncertainty, disruptions to the local power-supply, a lack of transport infrastructure (including rail and port capacity) as well as a rise in labour market unrest.

Recent government comments and initiatives, reflected in the February 2013 National Budget, suggest that the authorities are becoming increasingly focused on reducing the high level of unemployment through the expansion of infrastructure. An enhanced and expanded transport infrastructure, together with further progress in alleviating the electricity supply constraints, should encourage a broadening and strengthening of private sector fixed investment activity over the next few years. Currently imports and exports combined represent over 50 percent of South Africa's gross domestic product. Therefore, any expansion and modernisation of the country's transport infrastructure will directly impact a very significant portion of the South African economy.

For 2012 as a whole, South Africa's consumer inflation rate averaged 5,6%. This is up from an average of 5,0% in 2011 and 4,3% in 2010. In 2012, South Africa's inflation rate was impacted by higher energy and transport costs as well as an increase in food inflation towards the end of the year. This upward bias in inflation is unlikely to pose a significant concern for the monetary authorities, especially in an environment where global economic activity is still relatively subdued and global inflation is projected to remain mostly well contained.

Average South Afican consumer inflation



In the third quarter of 2012, South Africa recorded a current account deficit equivalent to a substantial 6,4% of GDP. This compares with a deficit of 3,6% of GDP at the end of 2011. The recent sharp increase in the current account deficit was mainly due to a deterioration of the trade account, which largely reflects a decline in exports, although there has also been a rise in import intensity. The Rand exchange rate weakened by almost 5% against the US Dollar during 2012, which is relatively modest given the extent of the decline in the trade deficit. This modest weakening was helped by a record inflow of foreign portfolio investment into the South African bond market, despite a recent downgrade of the country's foreign credit rating by all the major rating agencies. Foreign investors now own well in excess of 30% of both South Africa's government issued bonds as well as South Africa's listed equities.

Kevin Lings
Chief Economist

STANLIB

27 February 2013

Six year review

	2012	2011	2010	2009	2008	2007
Earnings performance						
BEE normalised headline earnings (Rm)[1]	**3 768**	2 737[4]	2 597	135	1 573	3 129
BEE normalised headline earnings per share (cents)[1]	**1 328,3**	956,7[4]	907,6	47,2	574,6	1 100,4
BEE normalised headline return on average IFRS equity (%)[2]	**24,5**	20,2[4]	21,2	1,1	12,5	26,1
Solvency						
IFRS Liberty shareholders' funds (Rm)[2]	**15 410**	13 211	11 716	10 515	11 633	11 029
Main life licence companies:						
CAR requirement (Rm)						
Liberty Group Limited	**2 791**	2 495	2 688	2 542	3 020	4 102
Liberty Active Limited	**1 025**	764	482	424	404	264
Capital Alliance Life Limited	**749**	729	782	801	886	1 116
CAR ratio (times covered)						
Liberty Group Limited	**2,71**	2,89	2,67	2,81	2,66	2,03
Liberty Active Limited	**1,64**	1,55	1,76	1,75	1,48	2,82
Capital Alliance Life Limited	**2,87**	2,07	2,13	1,59	1,42	1,58
Group equity value metrics						
BEE normalised group equity value (Rm)[1]	**32 740**	28 639	26 030	24 118	27 207	27 250
Adjusted net asset value	**9 792**	8 350	7 538	6 980	8 495	9 060
Net value of in-force life business – SA covered business	**17 039**	15 003	13 549	12 547	14 188	14 191
Non SA covered business subsidiaries	**5 909**	5 286	4 943	4 591	4 524	3 999
BEE normalised group equity value per share (Rand)[2]	**115,43**	100,15	91,01	84,32	95,12	96,10
BEE normalised group equity value profits (Rm)[1]	**5 886**	3 981	3 223	(1 777)	1 000	4 961
BEE normalised return on group equity value (%)[1]	**20,8**	15,3	13,4	(6,5)	3,7	21,6
Group embedded value of insurance new business written (Rm)	**691**	410	261	301	724	785
Insurance new business margin (%)	**2,0**	1,4	1,2	1,3	2,6	2,8
Sustainability metrics (non-financial)						
Group employees	**9 449**	8 523	7 607	8 009	7 876	7 071
Salaried	**6 281**	5 752	5 318	5 564	5 334	4 561
Commission-remunerated	**3 168**	2 771	2 289	2 445	2 542	2 510
dti scorecard[3]	**89.32**	85.70	75.03	69.19		
Financial Services Charter scorecard[3]					93	86
Corporate social investment spend (Rm)	**37**	33	31	33	28	21
Taxes collected and paid on behalf of SA government (Rm)	**4 816**	3 197	3 416	2 626	2 394	3 831
CO_2 emissions (tonnes)	**51 210**	50 479	46 525	47 372	45 953	44 358
Customer complaint volumes (elevated to group level)	**2 718**	3 728	4 380	4 326	5 390	6 558
Share statistics[7]						
Share price (Rand)						
Closing	**111,17**	79,48	72,50	69,20	62,46	75,33
High	**116,01**	88,50	82,33	75,25	76,67	80,00
Low	**78,16**	66,30	62,30	54,41	50,11	65,67
Total number of shares in issue at 31 December (millions)	**286**	286	286	286	286	147
Weighted average number of shares in issue (millions)	**284**	286	286	286	159	139
Distribution per ordinary share declared (cents)	**658**	480	455	455	259	352
Distribution as a percentage of opening equity value (%)[1]	**6,6**	5,3	5,4	4,8	4,5	4,5
Market capitalisation (Rm)	**31 817**	22 747	20 737	19 793	17 864	11 095
JSE all share index	**39 250**	31 986	32 119	27 666	21 509	28 958
Life insurance index	**25 578**	17 642	15 213	13 865	9 390	18 846

(1) *Liberty Group Limited used as a comparative for 2007 and 2008.*

(2) *Liberty Group Limited used as a comparative for 2007.*

(3) *In 2007 and 2008 the scorecard was measured against the Financial Services Charter targets. From 2009 the figures reflect the scorecard as measured against the dti Codes of Good Practice.*

(4) *Restated to reflect adoption of shadow accounting (refer to note 45 of the group financial statements).*

	2012	2011	2010	2009	2008	2007
Insurance activities						
Long-term insurance new business[8] (Rm)						
Recurring premiums and inflows	**4 451**	3 727	3 210	3 217	3 437	2 987
Retail SA	**3 779**	3 058	2 722	2 921	2 966	2 584
Corporate	**523**	533	437	265	417	379
Direct Financial Services	**18**	28				
Liberty Africa	**131**	108	51	31	54	24
Single premiums and inflows	**16 039**	14 256	11 170	11 950	13 458	13 642
Retail SA	**15 069**	13 171	9 950	10 739	11 882	12 282
Corporate	**892**	1 053	1 051	1 202	1 567	1 348
Liberty Africa	**65**	32	169	9	9	12
Indexed new business (Rm)	**6 055**	5 152	4 327	4 412	4 782	4 351
Cash flows (Rm)						
Premium income and inflows	**41 355**	36 054	30 932	30 075	31 346	34 752
Claims and policyholder benefits	**(36 454)**	(31 716)	(31 205)	(28 808)	(34 207)	(30 459)
Net cash inflow/(outflow) (Rm)	**4 901**	4 338	(273)	1 267	(2 861)	4 293
Long-term:						
Retail SA	**6 030**	4 767	990	2 966	408	1 882
Corporate (including STANLIB Multi-Manager)	**(1 795)**	(770)	(1 536)	(1 776)	(3 319)	2 371
Direct Financial Services	**28**	17				
Liberty Africa	**309**	216	259	77	50	40
Short-term[5]	**329**	108	14			
Death and disability claims paid (Rm)	**6 271**	5 944	5 761	4 910	5 134	4 812
Annuity claims paid (Rm)	**4 091**	3 717	3 476	3 170	3 201	2 858
Retail SA maintenance costs per policy (Rand)						
– complex products[6]	**439,00**	415,69	363,25	333,50	315,65	283,61
Asset management activities						
Net cash flows (Rm)	**14 327**	(91)	22 179	2 755	13 374	13 107
STANLIB	**20 312**	(5 488)	15 699	(1 572)	5 115	8 888
Liberty Africa	**(5 985)**	5 397	6 480	4 327	8 259	4 219
Assets under management (Rbn)	**528**	455	442	396	337	357
STANLIB	**402**	341	355	318	299	328
Liberty Africa	**36**	39	29	23	19	12
LibFin	**32**	25	10			
Liberty Properties	**35**	27	25	22	19	17
Externally managed[9]	**23**	23	23	33		
Cost to income ratio (%)						
STANLIB	**54,2**	54,0	54,7	51,6	50,3	46,2
Liberty Health[5]						
Lives ('000)						
Under administration	**519**	498	528	460	267	
Licenced on proprietary IT platforms	**921**	1 107	1 085	863	1 351	
Insured under Liberty Blue product range	**84**	68	33	17		
Risk net claims loss ratio (%)	**86**	114	114			

(5) *Liberty Health risk products applicable from 2009 and the business unit from 2008.*
(6) *Simple products are weighted either 25% or 50% of a complex product.*
(7) *2007 share prices have been restated to adjust for the 3:1 share split in 2008 as if it occurred at the beginning of 2007.*
(8) *Excluding annual contribution increases.*
(9) *Not reported prior to 2009.*

Value added statement – five year review

for the year ended 31 December 2012

Rm	2012	2011	2010	2009	2008
Wealth created					
Premium income and reinsurance recoveries	**42 027**	36 681	31 490	30 678	31 881
Investment and other operating income	**42 369**	20 559	27 892	20 728	(69)
Commissions paid to agents and brokers	**(3 818)**	(3 268)	(2 906)	(3 114)	(2 822)
Payments to outside suppliers	**(3 305)**	(2 970)	(2 745)	(2 627)	(2 565)
Total wealth created	**77 273**	51 002	53 731	45 665	26 425
Wealth distributed among stakeholders					
Employees (salaries and other benefits)	**2 956**	2 543	2 270	1 957	1 859
Government (in the form of taxes)	**3 200**	1 916	2 098	1 221	923
Policyholders					
Policyholder claims, benefits and increase in reserves	**65 344**	42 077	45 375	41 081	20 839
Providers of capital	**2 995**	2 342	2 159	2 014	1 282
Ordinary dividends paid to shareholders	**1 396**	1 353	1 301	1 301	372
Earnings attributable to preference shareholders	**802**	630	506	368	310
Distribution to non-controlling interests	**200**	171	167	146	397
Finance cost	**182**	188	185	199	203
Share buy-back	**415**				
Retentions to support future growth	**2 778**	2 124	1 829	(608)	1 522
Retained surplus	**2 255**	1 663	1 269	(1 057)	1 174
Depreciation, amortisation and impairments	**523**	461	560	449	348
Wealth distributed	**77 273**	51 002	53 731	45 665	26 425
Percentage of wealth distributed (excluding suppliers and policyholders)					
Employees (%)	**23**	25	24	24	27
Government (%)	**25**	19	22	15	13
Providers of capital (%)	**23**	23	23	24	19
Agents and brokers (%)	**29**	33	31	37	41
	100	100	100	100	100

The defined format of the value added statement does not fully provide context to the business of a long-term insurer. This is due to the dominance of policyholder transactions that are largely investment flows and not directly reflective of wealth created. The value added statement is included in this report for completeness and to provide certain information that may be useful for users.

Key points to note are:

1. Government's share of wealth is correlated largely to investment markets and related South African capital gains taxation. In 2012 government share of wealth has increased due to increased effective capital gains tax rates applicable to shareholder and policyholder funds with effect from 1 March 2012, coupled with a strong investment market performance.
2. The global investment market crash in 2008 resulted in the negative investment and other operating issues in that year.
3. Outperformance incentives and the acquisition of CfC are the main reasons for the growth in employee share of wealth in 2011.

Performance

2012 **Business unit reviews**

Retail SA

Steven Braudo
Chief Executive – **Retail SA**

Contribution to earnings

R1 299 million

Indexed new business

- R5 286

Employees

- 2 441

Retail SA is responsible for the development, marketing, distribution, servicing and administration of retail insurance and retail investment products in support of the financial advice provided to South African customers through its distribution channels.

Retail SA's core functions include:

- Customer research and analytics enabling the business to understand the market, identify available opportunities and meet the needs of customers on a segmented basis;
- Product innovation, development of products and enhancements to existing products based on customer research and financial adviser feedback, as well as delivering marketing campaigns for these products;
- Sale and distribution of products through various distribution channels, and the provision of technical support to improve sales and distribution efficiency and productivity;
- Delivery of an excellent end-to-end customer relationship experience throughout the product life cycle;
- Providing services to existing and prospective customers and financial advisers, including the ongoing development of technology applications to enhance customer service and intermediary advice;
- Managing insurance risk, specifically mortality and morbidity risk, persistency risk and expense risk; and
- Administration of key operational processes, such as:
  - premium collection;
  - policy maintenance;
  - policy benefits assessment and payment;
  - financial management and control; and
  - customer communication through customer preferred media.

2012 highlights

Deliver sustainable financial results	• 21% increase in indexed new business despite difficult market conditions • Regained market share and remained the largest writer of risk products, new business and recurring premium business in the SA retail affluent market
Provide compliant and reliable financial services	• Stabalised the emerging customer market business and started to regain market share
Focus on our customers	• Launched two pioneering investment products, the Flexible Annuity with income enhancer benefit and the Liberty Evolve range with growth share, thus enhancing Liberty's reputation for product development innovation • Launched risk product enhancements, the Income Protector retrenchment benefit, and several improvements to the Living Lifestyle benefits • Further enhanced the customer experience by: – Launching the Own your life REWARDS programme through the distribution force – Enhancing underwriting processes by introducing the SA-first finger prick HIV and urine Cotinine tests and equipped "nurses on the road" with iPads to enable immediate submission of test results and streamline the underwriting process – Launching the Risk Explorer and Liberty Rewards mobile applications • Completing Phase I of the call centre consolidation project • Continued improvement in customer retention and sales efforts resulting in a positive net growth of the in-force book
Attract and retain quality employees	• Significantly improved productivity and success rates of new advisers and retention of experienced advisers
Continue the transformation journey	• 2012 employment equity targets achieved • Financial literacy training provided to approximately 27 000 people

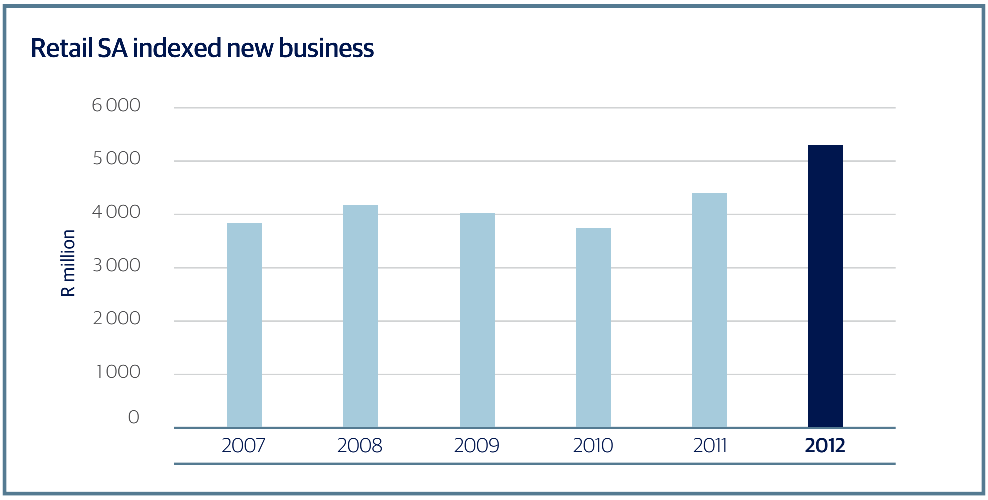
Performance review

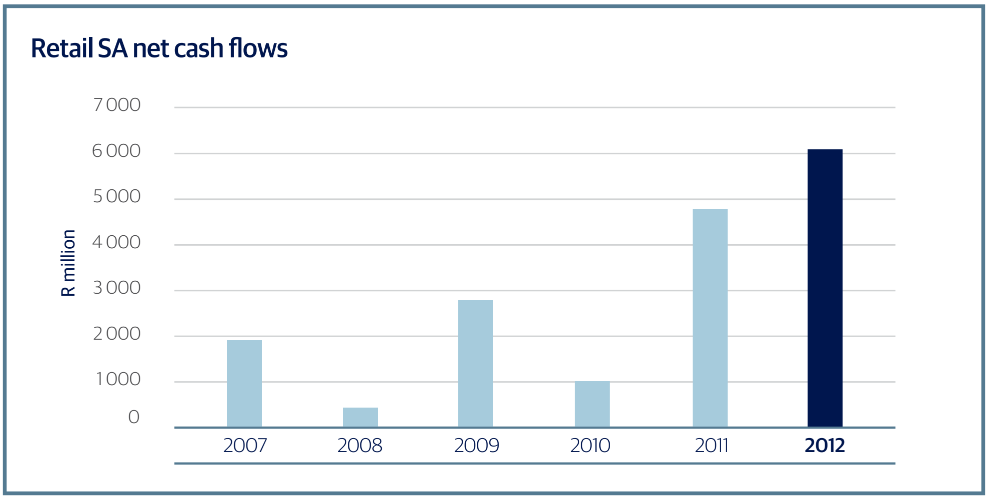
Performance indicators	2012	Restated[1] 2011
Headline earnings (Rm)	**1 299**	1 382
Expected profit and premium escalations (Rm)	**2 095**	2 016
Variances, modelling and assumption changes (Rm)	**564**	587
Project, outperformance incentive and non cost per policy expenses (Rm)	**(369)**	(328)
New business strain (Rm)	**(569)**	(475)
Other (Rm)	**(28)**	61
Taxation (Rm)	**(488)**	(509)
Earnings before bancassurance (Rm)	**1 205**	1 352
Credit life – bancassurance (net of all taxes) (Rm)	**135**	96
Complex bancassurance preference dividend including STC (Rm)	**(41)**	(66)
Headline earnings normalised for assumption changes (Rm)	**1 181**	1 090
Indexed new business (Rm)	**5 286**	4 375
Recurring (Rm)	**3 779**	3 058
Single (Rm)	**1 507**	1 317
Net cash flows (Rm)	**6 030**	4 767
Embedded value of new business (Rm)	**619**	361
Embedded value of new business margin (%)	**2,3**	1,6
Maintenance cost per complex policy (R)[1]	**439**	418
Total policies in-force ('000)	**2 571**	2 538

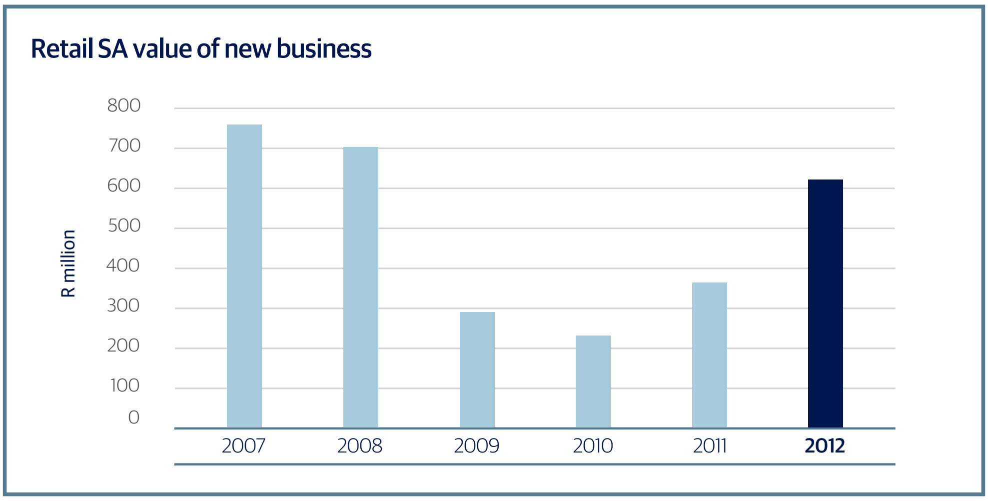
[1] *2011 earnings have been restated for the change in accounting policy relating to the adoption of shadow accounting. Refer note 45 to the group annual financial statements.*

Retail SA (continued)

Performance review (continued)







Headline earnings decreased slightly over 2012 to R1 299 million. This was achieved despite the changes to the valuation basis at 31 December 2011 in respect of persistency assumptions and the new business strain in 2012 driven by the 21% increase in indexed new business.

The expected profit and premium escalations represents the profit expectation as modelled on the existing in-force book and the earnings effect of automatic contribution increases on in-force policies.

Positive experience variances were achieved in respect of both risk and persistency experience and were greater than those experienced in 2011. This largely made up for the lower assumption basis changes in 2012 compared with 2011.

Headline earnings normalised for assumption changes increased by 8% to R1 181 million.

New business strain consists of recognised profits or losses at point of sale. The excess of upfront acquisition expenses, commissions, claims and maintenance costs over policy premiums, gives rise to a strain on most classes of business. The total impact of new contracts written is a cost of R569 million before tax.

In terms of the existing agreement with Standard Bank, Liberty is entitled to 10% of risk profits on simple credit life products sold by Standard Bank's distribution channels. Liberty's share increased to R135 million on the back of increased sales.

Indexed new business premiums for the year amounted to R5 286 million, an increase of 21% on the 2011 comparative. Good increases were achieved for all product lines, however increases were particularly good for the emerging consumer market (ECM) products, Credit Life and Complex Risk Products.

The value of new business increased significantly to R619 million and the margin to 2,3%, which is within the medium term target. These improvements are largely due to the lower interest rate environment, increased sales volumes, cost control initiatives and better product mix.

Net cash flows of R6 030 million are significantly higher than the R4 767 million achieved in 2011. This is the combined effect of higher premium income, improved retention, and only a small increase in claims despite the increase in investment values over 2012. This reflects the success of sales strategies and the retention programme, which are now embedded in the business.

Total policies in-force increased by 33 000 policies over the year, which almost replaced the 35 000 policies lost in 2011. This is the first time the in-force policy book has increased since acquiring the closed to new business books of Capital Alliance. The operational gearing that this creates is significant and continuing this turn around should assist with solving the expense strains experienced over the last few years.

Report back on focus areas for 2012

Retail SA's strategy for 2012 was focused on further unlocking value through the ongoing management of its existing book of business and pursuing initiatives to grow the business further. Progress made is summarised as follows:

Providing a superb end-to-end customer experience

Customer management

Customer research and customer satisfaction surveys continued with the intention of improving customer management practices and overall experience. Over 3 000 customers and approximately 2 000 intermediaries provided feedback through the Voice of the Customer surveys. The average rating for Liberty was 7 out of 10 (slightly down from 7,4 in 2011). The insights obtained from the research are being used to transform the way the business interacts with its customers across all sales and service touch-points.

The business unit continued to implement its 2011 customer operating model designed along the customer value proposition. The aim of the model is to bring together all customer-facing departments, allowing for end-to-end ownership of the customer experience.

Additional initiatives deployed included:

- Continued roll-out of the experience delivery framework. The framework views service from the customer's perspective and aims to improve service at all customer touch-points to ensure that customers experience high quality service and benefits;
- Improved management information systems for both staff and intermediaries;
- Continued tracking the behaviour of customer segments which include: young achiever, mid-market families, affluent and mature markets. The work performed has delivered insights that have been used in product development, marketing and retention strategies;
- Initiated a 'welcome call' to over 130 000 segment-specific customers upon commencement of their policy. Besides enhancing the customer experience, the initiative has shown to improve first-year lapse rates;
- Improved the on-line self-service portal by ensuring improved accessibility, better functionality, improved policy information and reduced downtime. By 31 December 2012 there were over 145 000 registered users and queries using only self-help options had increased from 15% in 2011 to 54% in 2012;

Retail SA (continued)

- Conducted an extensive review of internal processes, including customer and intermediary behaviour patterns which resulted in:
  - The integration of a number of functions to deliver a seamless support service to financial advisers;
  - Enhancing underwriting processes by introducing the SA-first finger prick HIV and urine Cotinine tests;
  - Equipping the Liberty 'nurses on the road' with iPads to further simplify the underwriting process; and
  - Completion of Phase I of its call centre consolidation project.
- Continued to deliver on the promise to pay all valid claims, and maintain full transparency on claim payments to all new and existing customers.
- Enhanced the content of the monthly customer newsletter thereby providing relevant, consumer-focused information. At 31 December 2012 over 845 000 customers were receiving the newsletter.
- Launched marketing campaigns across TV, media and print in support of sales and product initiatives.

Product innovation

The retail insurance sector remains competitive and developing new and innovative products that grow the business and address the existing Retail SA customer segments' needs is an imperative.

Insights gained from customer and intermediary surveys are used to inform the new product development process to ensure that products launched are relevant to today and tomorrow's customers thereby ensuring the future sustainability of the business.

Consequently the business launched the following:

- The Flexible Annuity with income enhancer benefit aimed at investors who require income and investment flexibility after retirement;
- The Liberty Evolve range with growth share aimed at investors saving for a specific goal or for retirement;
- Several improvements to the Living Lifestyle benefits, including new claims definitions, improved pay-out levels and Medical Advancement Protection benefit which pays a lump sum on diagnosis of a critical illness or trauma related event; and
- Launched the Lifestyle Protector Risk Explorer application for iPad, which enables customers at all life stages and advisers to understand the risk product range on an interactive basis.

In addition to the above, Retail SA played a pivotal role in launching and distributing Liberty's new Own your life REWARDS programme, which provides customers with a suite of non-insurance services from over 80 services providers, to suit their individual needs and preferences. Furthermore, a Liberty Own your life REWARDS mobile application was launched.

Retention

During 2012 management converted the knowledge it had gained over the past three years regarding persistency into processes and procedures that have now been embedded into the business. The business continues to track persistency levels on an ongoing basis and remains proactive in identifying, investigating and determining reasons for cancellation or withdrawal in order to take remedial action. This includes extensive communication with customers.

The success of the retention efforts is reflected in the reduction of lapses across all the major product sets, with the lapse rates remaining below actuarial assumptions on the business unit's key risk products. The withdrawal rates on investment products remain stable.

To ensure and monitor continued alignment between the business, financial adviser and customers, the roll-out of the adviser quality category model continued. This unique model aims to ensure that existing business is retained and quality new business is written,

The combined effect of delivery strategies over the past few years has resulted in Retail SA experiencing positive net growth of its in-force book for the first time since acquiring the Capital Alliance closed book in 2005.

Treating customers fairly (TCF)

Ensuring customers are treated fairly is a core objective and is incorporated in everything that the business plans and delivers. Formal TCF regulations are expected to come into effect in South Africa in 2014 and Liberty participated in the FSB's TCF self-assessment exercise in 2011. The aim of the assessment was to identify gaps in current processes based on the six pre-defined TCF outcomes. A number of gaps were identified during the exercise and substantial progress has been made in addressing these during the year under review.

Strengthening distribution channels

Enhancement of the financial adviser value proposition (FAVP) continued across the tied and independent distribution channels, building on the success of the 2011 implementation.

A holistic approach was applied to the process, focusing not only on the compensation paid to intermediaries but also on personal and professional development, business growth opportunities as well as technology and service support. The ultimate aim is to ensure that the advice given to Liberty's customers is of the highest quality.

Notable successes included significantly improved productivity and success rates of new financial advisers, as well as the retention of experienced and profitable advisers. These successes are already bearing fruit in terms of enhanced distribution capacity.

To further support its intermediary force, a comprehensive learning programme to assist financial advisers and key individuals to prepare for the regulatory examinations implemented by the FSB was developed. Although mandatory compliance has been put on hold, 99% of Retail SA's tied agents have passed the examinations in comparison to the industry average of 85%.

In November 2011, the FSB issued a discussion paper around proposed changes to the remuneration of intermediaries of retail financial services products, referred to as the retail distribution review (RDR). Retail SA provided detailed feedback and input to ASISA in the first quarter of 2012, which was consolidated into the ASISA response to the FSB. Liberty undertook a national road-show, during which Retail SA sales management engaged with independent and tied financial advisers to give them insight into the changes proposed by the RDR and to allow them to provide their own perspectives.

During 2012 the business also:

- Continued to focus on engaging high calibre intermediaries and being more effective for them and their customers. This resulted in increased risk sales with significant volumes being written by advisers who did not write Liberty business in 2011;
- Developed electronic commission statements that provide useful information for advisers;
- Invested significantly in recruiting and retaining new tied agents resulting in a headcount growth of more than 15%; and
- Decentralised new business administration functions into the regional structures.

In direct support of these sales efforts, marketing campaigns were refreshed to focus on driving sales of life insurance, retirement planning and education saving products. The importance of financial advice as part of the overall value proposition was reiterated.

Due to management action and increased sales efforts over the last three years, as at July 2012 the business had regained market share and remained the largest writer of new business (31%) and recurring premium business (40%) in the SA retail affluent market (as reported in the UBS Investment Research report South African insurance sector Market Share monitor of 26 September 2012).

Grow the emerging consumer market (ECM) business

Liberty remains committed to providing appropriate financial solutions to the ECM segment, defined as those individuals earning a monthly income below R11 000. These customers form an integral component of the overall Retail SA growth strategy and there is wide recognition of the importance, profit potential and growth within this segment of the market.

A number of initiatives have been implemented resulting in a growth in the size of the existing ECM book, continued improvements in premium collection rates as well as an increase in the average premium size. This has resulted in improved risk premium margins as well as a better value of new business. These initiatives include:

- Enhancing the internal sales call centre capacity and capability;
- Growing the sales footprint in the tied agency space;
- Signing an affinity relationship agreement with the South African Football Players Association;
- Enhancing the technological capabilities for ECM business administration, including sales and claims processes; and
- Launching CSI initiatives that have enhanced the ECM brand in the market.

The ECM strategy aims to position Liberty as a credible competitor with a significant presence in the emerging middle income segment. Management is targeting to at least double its market share in the medium term.

Meeting regulatory requirements

The financial services industry operates in a complex regulatory and legislative environment, which is constantly under review. Management actively engages with the FSB and other industry and government bodies regarding the formulation of the regulatory environment and wider policy. Ensuring compliance with new and impending regulations is achieved through careful impact assessment, planning and project management.

During 2012 progress was made:

- Implementing the necessary processes and procedures to address the requirements of the revised Regulation 28 of the Pension Fund Act;
- Implementing TCF action plans;
- Training the intermediary force to assist with the FSB's FAIS regulatory exams;
- Readying the business to meet the requirements of the Protection of Personal Information Act;
- Developing systems and valuation models to meet the requirements of the FSB's Solvency Assessment and Management (SAM) regulations;
- Assessing probable changes in revenue recognition arising from IFRS 4, phase II; and
- Proactively engaging with industry and the FSB in order to provide data and assistance for the proposed retail distribution review.

Retail SA (continued)

26 Update on strategy

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Target defined consumer segments with specific value propositions	✓
2. Re-establish sales capacity and drive profitable growth into the chosen market segments	✓
3. Enhance tenure and share of wallet of existing customers	Ongoing
4. Getting back to competitive persistency levels	✓
5. Increase the delivery capacity of the Retail SA business	✓

✓ *Substantially achieved*

The way forward

The business operating environment in South Africa remains very challenging, with unstable economic conditions and increasingly stringent regulatory requirements. Retail SA nevertheless continues to deliver value for its customers, staff and shareholders, while maintaining risks within acceptable levels. Management expects to continue delivering on its customer-focused strategic priorities during 2013, and achieving targeted contributions to the group's value creation.

Objectives for 2013 include:

- Continue to develop and enhance products that provide risk and investment solutions that meet customers' needs;
- Extend and enrich the Own your life REWARDS programme;
- Further expand sales capacity and grow share of market, with particular emphasis on ECM;
- Improve cost and operational effectiveness through fundamental review of operations;
- Strengthen data and information handling capabilities; implement new technologies for call centre operations and variable debit order collections; and
- Prepare the business to adapt as required to regulatory requirements.

Retail SA summarised product offering

Products	Product name	Product description
Risk products	**Lifestyle protector range**	Provides life protection, loss of income protection, lifestyle protection risk and policy protection. The product is aimed at all segments and offers cover to meet customers' changing needs through life.
	ECM product range	Life cover plan – Provides life cover and disability benefits. Accident plan – Life insurance contract that provides cover for death and permanent disability due to an accident. Funeral plans – Standard, comprehensive and parents funeral plans.
Investment and savings products	**Liberty Evolve Investment Plan**	A single premium life insurance investment policy aimed at the affluent and mature market.
	Investment plan (with income option)	A single premium life insurance investment policy, with a minimum term of five years, aimed at the affluent and mature market.
	Education Builder	A regular premium pure investment product with the focus on saving for the cost of a policyholder's child's education. This product is aimed at the mid-market family segment.
	Investment plan	A recurring premium investment product with longevity bonuses.
Retirement planning	**Liberty Evolve Retirement Annuity Plan**	A single premium life insurance investment policy aimed primarily at the affluent and mature market segments.
	Retirement Annuity Builder	A regular premium retirement annuity, with the option to invest additional premiums at any time, allowing a member to provide retirement income and capital upon retirement at the selected retirement age. The product is aimed at all segments.

The full product set and description can be found at www.liberty.co.za

Liberty Financial Solutions (LibFin)

Giles Heeger: *Chief Executive* – Liberty Financial Solutions

Contribution to earnings

Investments R1 965 million

Markets R151 million

Shareholder investments under management
- R21 billion

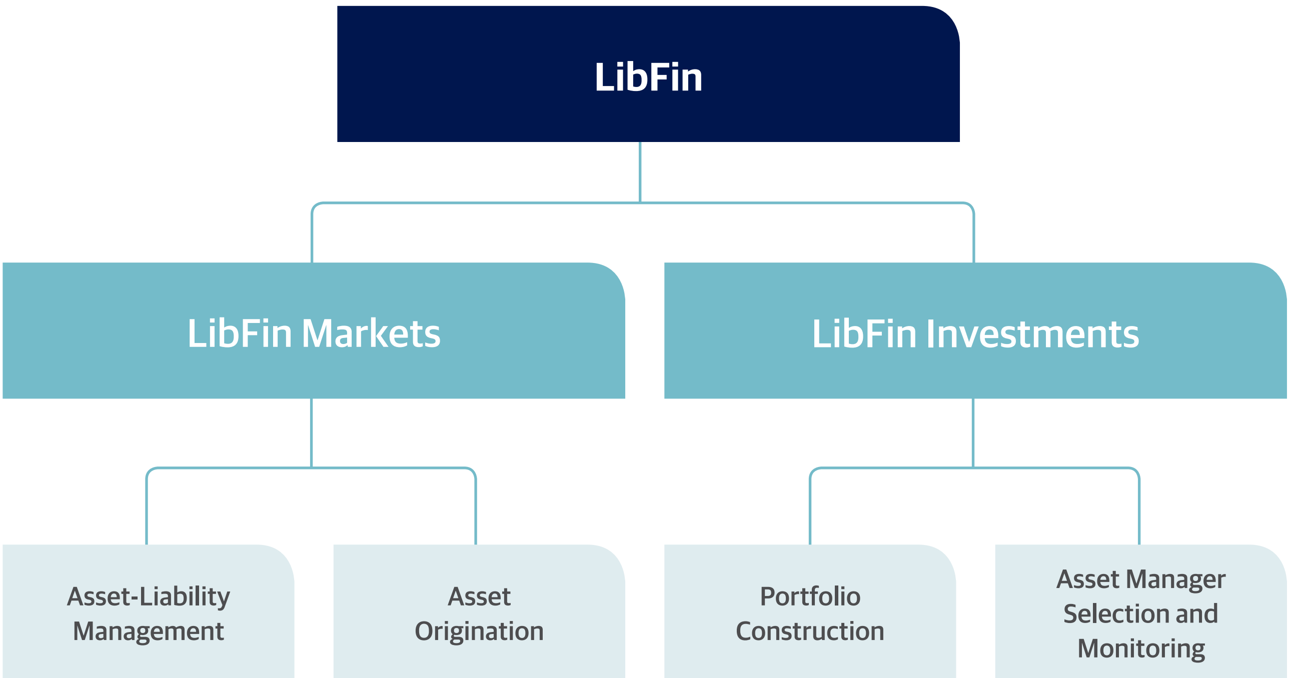
Employees
- 33

As part of the group's risk management strategy, LibFin was established as a centre of excellence for the management of market, credit and liquidity risk and to ensure appropriate investment performance from the asset managers managing shareholder and policyholder assets.

The business unit's core objectives are to:
- Optimise the Shareholder Investment Portfolio (SIP) after tax returns over the longer term within group risk appetite;
- Construct asset portfolios that match Liberty's liabilities as closely as possible;
- Continue to meet the investment objectives of the group's policyholders and shareholders;
- Generate an alternative, diversified revenue source for the group through the efficient management of shareholder assets and exposures; and
- Enable investment product innovation through portfolio construction and risk management expertise.

Structure

LibFin's structure recognises the different strategic approaches and skill sets needed to manage these portfolios. This is displayed diagrammatically as follows:



Liberty Financial Solutions (LibFin) (continued)

LibFin Markets

LibFin Markets is responsible for managing the market risk exposure arising from the asset-liability mismatches within the life insurance business. These are represented in the ALM portfolio and arise as a result of the following exposures:

- Annuities and guaranteed capital bonds;
- Embedded derivatives (including investment guarantees)
- Guaranteed index trackers and
- Negative rand reserves implicit in the policyholder liability valuations.

LibFin Markets aims to invest in assets that closely match these liability exposures, and ensure that the income from these assets meets or exceeds the obligations of the underlying liabilities. The team also manages approximately R32 billion of assets backing the annuity and guaranteed capital bond liabilities, seeking to extract value by investing in a well-diversified portfolio of government and corporate debt instruments.

LibFin Investments

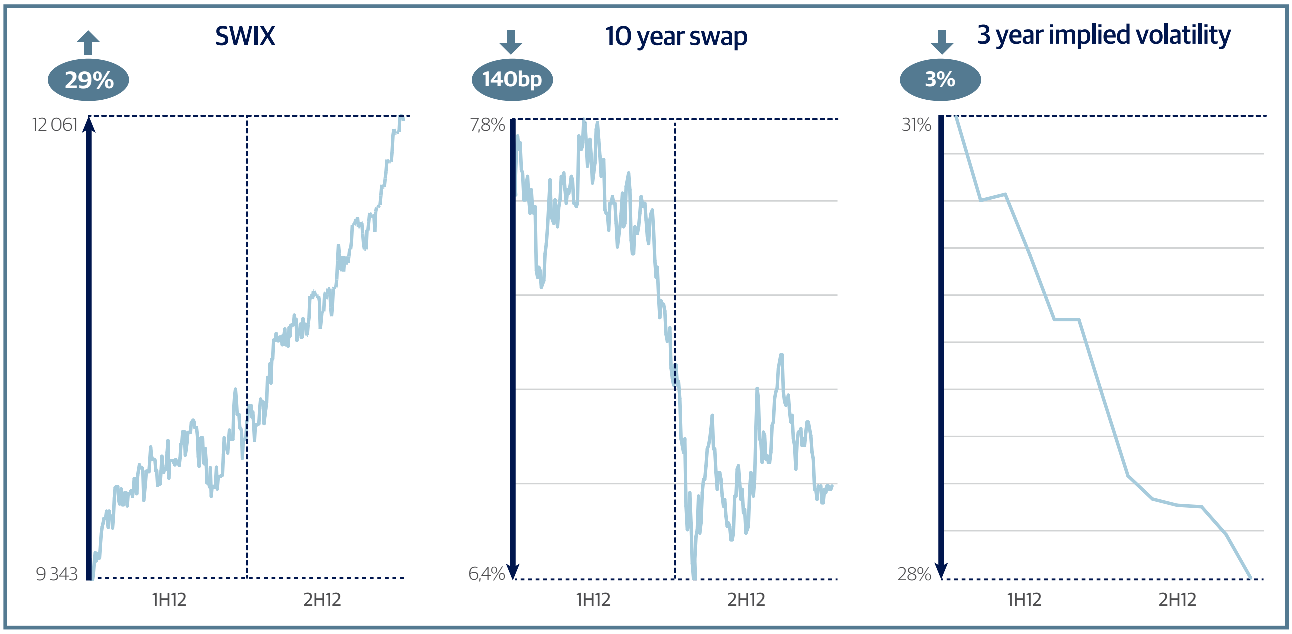
LibFin Investments oversees the management of approximately R250 billion of shareholder and policyholder exposures and is tasked with improving asset manager performance over the long term. Appropriate portfolio construction and fund allocation to underlying specialist asset managers, along with ongoing performance evaluation, ensures quality investment performance.

2012 highlights

Deliver sustainable financial results	• The SIP delivered good returns in a relatively positive yet uncertain market environment
Provide compliant and reliable financial services	• Earnings volatility arising from market risk on the asset-liability management (ALM) positions remained well contained despite challenging market conditions • Returns on credit instruments in the annuity and guaranteed bond portfolios improved from the prior year and the portfolio was further diversified
Focus on our customers	• The majority of policyholder investment portfolios outperformed their respective benchmarks over the medium term • Innovative new investment products were developed with the Retail SA and Liberty Corporate teams
Attract and retain quality employees	• LibFin continues to attract and retain high calibre investment professionals
Continue the transformation journey	• LibFin remains committed to its social goals whilst exceeding industry targets

Performance review

Performance indicators			2012	2011
Total headline earnings (Rm)			**2 116**	1 124
LibFin Investments (Rm)			**1 965**	969
LibFin Markets (Rm)			**151**	155
Shareholder exposures under management as part of the SIP (Rm)	Local	Foreign	**20 772**	20 426
Equities (Rm)	3 751	3 296	**7 047**	5 585
Preference shares (Rm)	1 343		**1 343**	1 471
Cash, fixed income, property and other (Rm)	10 010	2 371	**12 381**	13 370
ALM assets under management (Rbn)			**32**	25



The SIP, managed by LibFin Investments, delivered a net profit of R1 965 million for the year (equivalent gross return of 16,0%), which was above its benchmark and ahead of prior year. Favourable financial markets and value-add from active management were key drivers of the 2012 performance. During the year, a higher proportion of the portfolio was invested in defensive assets, with a strong focus on capital preservation. Exposure to local equities was reduced in favour of foreign assets to protect against the rand depreciation, given growing concerns on South Africa's widening current account deficit.

LibFin Markets delivered a profit of R151 million for the 2012 year, in line with the prior year yet once again ahead of long term expectation. Prior year profitability was bolstered by several positive non-recurring items, while profitability in the first half of 2012 (R99 million) was primarily due to fairly benign markets over this period leading to higher than expected profits in the ALM portfolio. LibFin Markets continues to improve the diversification and risk adjusted returns of the credit assets backing the annuity and guaranteed capital bond exposures.

Report back on focus areas for 2012

Managing market risk

The first line management of market risk, credit risk, and liquidity risk is entrusted by the group to LibFin Markets. Following significant build and development work in the last three years, 2012 was characterised by a strong focus on enhancing processes and "business as usual".

Asset-liability management

The ALM position was managed with a positive financial result for the year driven by the relatively benign markets in the first half of 2012. Capital usage and earnings volatility was maintained at levels within the group's risk appetite. It is anticipated that as LibFin continues to build a track record in the management of complex asset-liability exposures, this will allow the group to continue to deploy capital previously consumed by these exposures to activities that produce a higher return on equity.

LibFin Markets also continued to work with Retail SA and Liberty Corporate to design appropriate guaranteed investment products for their respective customer bases, specifically the new Liberty Evolve product range and Stable Growth fund for which LibFin Markets will be managing the related guaranteed index tracker funds.

Asset origination

LibFin Markets invests the assets backing the annuities and guaranteed capital bond liabilities (approximately R32 billion assets under management) in a diversified portfolio of government and corporate debt instruments. Over the 2012 year:

- The portfolio was further diversified, improving the mix of counterparties and reducing the group's concentration risks to large state owned enterprises and local banks;
- The return on capital of the aggregate portfolio was improved; and
- Significant progress was made in implementing an IT solution to assist with the management and pricing of less liquid debt instruments.
- The sustainable nature of the profits arising from this activity resulted in R500 million being recognised in the group equity value.

Managing investment performance

LibFin's responsibility to customers is to invest assets appropriately and ensure superior risk-adjusted performance. LibFin is mandated to oversee the management of shareholder and policyholder assets originating from South African investors, with an emphasis on improving underlying asset manager performance over the long term and delivery of quality investment performance to policyholders. This is achieved through appropriate portfolio construction, ongoing performance evaluation and asset manager due diligence reviews. The same discipline applied in managing shareholders' investments is used to ensure delivery to policyholders' investment objectives.

From a governance perspective, LibFin Investments is also accountable to Liberty's fund control committee. This committee has a mandate to ensure policyholders receive the appropriate level of performance.

Liberty Financial Solutions (LibFin) (continued)

Portfolio construction

The redesign of relevant portfolios and asset manager mandates to achieve improved performance delivery for Liberty policyholders remained a key focus in 2012. At the end of 2012, the majority of policyholder portfolios were outperforming their respective benchmarks over the medium term (three to five years) and many ranked in the top quartile relative to market peers. The 2011 project to rationalise and refine mandates to asset managers and improve overall investment strategy for policyholder portfolios is also contributing to improved performance metrics on various strategies.

The team continued to work on changes to fund strategies and the refinement of asset allocation and risk objectives in investment mandates. In addition, LibFin Investments played a key role in the portfolio construction and strategy design for Retail SA's new product range, Liberty Evolve.

This work has also contributed to strong investment performance from the SIP despite another year of challenging economic conditions. The SIP strategy has been further refined and consequential adjustments to the portfolio's construction are anticipated in 2013 to continue improving the overall return on capital deployed.

Asset manager selection and monitoring

LibFin ensures that its asset managers receive the appropriate investment mandates and perform according to those mandates to deliver satisfactory long term investment performance to policyholders. The group's preferred main asset managers are STANLIB Asset Management (STANLIB) and Investec Asset Management (Investec). STANLIB manages the majority of Liberty's policyholder assets and certain asset classes within the SIP, while Investec manages a significant portion of assets within Capital Alliance Limited, a subsidiary of Liberty Group Limited.

Systems and infrastructure continue to be built to enhance performance monitoring, portfolio analytics and performance reporting through enabling a deeper analysis of manager style and performance. An example of the benefits of this analysis is that a previously underperforming fund had begun to show a pleasing turnaround by 31 December 2012 resulting from strategic initiatives to change the underlying managers and management strategy.

Formal annual due diligence reviews of the main asset managers in 2012 again ensured LibFin Investments was able to assess new initiatives and communicate accordingly to the business. Improved integration with other business units through various committees and projects has provided a strong foundation for continued mandate improvements and focused asset manager reviews on behalf of customers.

Responsible investing

Liberty is a signatory to The Code for Responsible Investing in South Africa (CRISA) which is based on the United Nations-backed Principles for Responsible Investment Initiative (UN PRI). Responsible investing is considered by LibFin in mandating and directing the asset managers of Liberty policyholder investments. While managers are encouraged to consider these factors, the primary focus remains the outperformance of the respective benchmark or investment objectives. Voting behaviour by the group's asset managers is monitored to ensure consistency with its environmental, social and governance (ESG) principles and the customers' investment objectives. An objective for 2013 is to improve the communication of these ESG principles to policyholders.

LibFin continues to advise on a portfolio of investments that allows Liberty to remain compliant with the empowerment financing requirements of both the Financial Services Charter as well as the Code of Good Practice published by the Department of Trade and Industry. In addition, LibFin seeks investments that contribute toward the advancement of black economic empowerment goals while meeting its own investment criteria.

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Continue to ensure appropriate risk adjusted investment performance for the group's policyholders and shareholders	✓
2. Drive investment product innovation together with Retail SA and Liberty Corporate	✓
3. Enhance the Liberty customer experience through improving the end-to-end investment process	✓
4. Grow the diversified earnings base without significantly increasing capital requirements	✓
5. Manage market and credit risk within the group's agreed risk appetite framework	✓
6. Continue to ensure that the SIP maximises after tax returns over the longer term, within the group's risk appetite framework	✓

✓ *Substantially achieved*

The way forward

Objectives for 2013 include:

LibFin aims to deliver to its core strategic objectives which are to:

- Optimise the SIP after tax returns over the longer term within group risk appetite;
- Construct asset portfolios that match Liberty's liabilities as closely as possible;
- Continue to meet the investment objectives of the group's policyholders and shareholders;
- Generate an alternative, diversified revenue source for the group through the efficient management of shareholder assets and exposures; and
- Enable investment product innovation through portfolio construction and risk management expertise.

26 Update on strategy

In delivering to these objectives a focus will be placed on:

- Enabling investment product innovation; and
- Ongoing enhancement of the Liberty customer experience through assisting in the end-to-end investment process.

Institutional and asset management

Institutional and asset management

Thabo Dloti: *Chief Executive* – **Institutional and asset management cluster**

Institutional and asset management comprises:

STANLIB: Provides wealth and investment management solutions for individuals and institutional investors.

Liberty Properties: Responsible for the development and management of Liberty's extensive commercial, retail and hospitality property portfolio and provides property development services to third party clients.

Liberty Corporate: Provides financial security and wealth creation solutions for institutional customers and groups of employees and pensioners.

Institutional and asset management – STANLIB

Contribution to earnings

R489 million

Assets under management and administration
- R437 billion

Employees
- 650

STANLIB's vision is to be the leading asset manager in South Africa and in the other African markets that it serves. It provides wealth and investment management solutions for individual and institutional investors. These include Liberty policyholders, a variety of third party investors such as provincial governments, municipalities, parastatals, retirement funds and medical schemes, as well as more than 400,000 individual investors.

STANLIB's competitive advantage:
- South Africa's largest retail unit trust manager by asset size. At 31 December 2012, STANLIB managed and administered investments in excess of R437 billion on behalf of its customers.
- A growing Africa presence with operations in seven countries in Africa, namely South Africa, Namibia, Botswana, Lesotho, Swaziland, Kenya and Uganda, where the business manages in excess of R36 billion of investments for its customers.
- A multi-investment-franchise business which leverages at its core the strength of diversity and power of focus.
- Expertise in bank and insurance distribution channels.

2012 highlights

Deliver sustainable financial results	• Grew earnings by 12% relative to 2011 – STANLIB has grown earnings between by 12% – 15% in the last three years • Continued to grow the retail business to become a significant market player – Re-igniting the retail business through a renewed strategy – Ranked first in the South African industry by assets under management and third by net cash flows in the third quarter of 2012
Provide compliant and reliable financial services	• Continued to grow and diversify revenue and assets through new offerings and markets – Established two new investment capabilities – Direct Property and Infrastructure franchises
Focus on our customers	• Continued to deliver competitive investment returns – Investment performance of at least two thirds of retail, institutional and multi-manager funds continues to rank in the top half of industry peers – STANLIB won five Raging Bull awards in January 2013 and retained its Plexcrown fund rating as South Africa's top offshore fund manager • Policy for responsible investing in place and part of the investment research process • Continued to enhance brand presence across the continent and ensure an operationally streamlined business throughout the continent – Re-branded Kenya, Uganda and Botswana businesses to STANLIB Kenya, STANLIB Uganda and STANLIB Botswana
Attract and retain quality employees	• Continued to improve staff morale and reduce staff turnover
Continue the transformation journey	• Continued to drive the national transformation agenda – STANLIB is a Level Two accredited company

Performance review

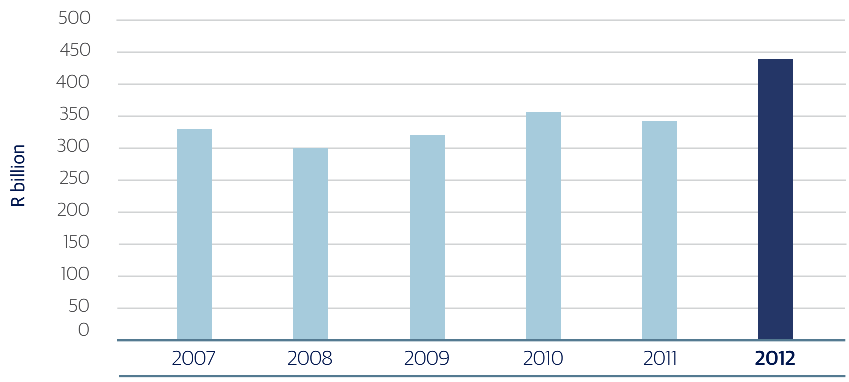
Performance indicators	2012	2011
Headline earnings (Rm)	489	435[2]
Net cash flows[1] (Rm)	20 312	(5 488)
Retail (Rm)	17 511	10 004
Institutional (Rm)	(911)	(2 085)
Money market (Rm)	3 792	(13 407)
Assets under management and administration (Rbn)	437	368
Retail (Rbn)	182	156
Institutional (Rbn)	107	82
Liberty unlisted properties[2] (Rbn)	35	27
Liberty intergroup (Rbn)	113	103
Operating cost to income ratio[2] (%)	54,2	53,1
Service fee margin (%)	0,34	0,33

[1] *Excludes intercompany life funds.*
[2] *Restated to include Liberty Properties asset management business transferred to STANLIB on 1 January 2012.*

STANLIB successfully leveraged off the platform built and successes achieved over the past three years, in line with the strategy introduced in 2010. Earnings grew by over 12% in 2012 despite the investment in new franchises such as Infrastructure and Direct Property. The business in South Africa has now achieved earnings growth of between 12% and 15% over the last three years.

The retail business in South Africa celebrated record net cash flows in the year, with an improved asset mix towards higher margin products such as Fixed Income, Asset Allocation and Property funds. The institutional business had a strong turn around in net flows and is beginning to win significant mandates. The combined effect of these net inflows and the strong market growth in 2012 has significantly enhanced the sustainability of STANLIB's revenue stream into the future.

Assets under management and administration – South Africa



STANLIB in Africa

With effect from 1 July 2012 the primary management of the group's asset management business in regions outside of South Africa was transferred from the Liberty Africa business unit to STANLIB.

For 2012 reporting purposes, however, the results of these asset management operations have been included in the Liberty Africa business unit review.

Going forward these operations will be included under STANLIB's reporting.

Institutional and asset management – STANLIB (continued)

Report back on 2012 focus areas

The turnaround strategy implemented at STANLIB since 2010 has created a stable organisational environment which has enabled the business to achieve its strategic goals.

Improving investment performance

Investment performance continues to improve across all measurement periods, notably over the critical three-year period. STANLIB's aim is for at least two thirds of its funds to outperform the investment returns of their first and second quartile industry peers over time. Over the three years to 31 December 2012, 73% of the retail funds, 75% of institutional funds and 67% of multi-manager funds were in the first and second quartiles of peers.

STANLIB has continued to grow its reputation for the quality of both its strategic and tactical asset allocation capability. The Balanced Fund relative performance is a good reflection of this; now ranked first in its peer group over three years to 31 December 2012. Encouragingly, The Core Equity Fund has also shown steady improvement ranking first amongst its peers over the last three years. In addition, the long-standing highly acclaimed leadership of STANLIB's fixed income and listed property funds continued in 2012.

STANLIB received five Raging Bull awards for investment performance to the end of December 2012. These were:

- Domestic Real Estate General – STANLIB Multi-Manager Flexible Property Fund
- Best Offshore Global Fixed Interest Bond Fund (3 years) – STANLIB Global Bond Fund
- Best Offshore Global Fixed Interest Bond Fund – Risk Adjusted (5 years) – STANLIB Global Bond Fund
- Best Domestic Fixed Interest Bond Fund - STANLIB Bond Fund
- Domestic Fixed Interest Fund – STANLIB Bond Fund

STANLIB has also retained the Plexcrown Fund Ratings assessment as South Africa's Top Offshore Fund Manager, with the Global Bond Fund being the top performer, and was a runner up for the Morningstar Award for Best Fund House – Large Range.

Strengthening investment capabilities

In addition to stabilising the existing operating environment, STANLIB has continued to seek earnings diversification by geography, client type as well as by investment capability. Consequently, the direct property and infrastructure franchises were established during the course of the year.

The direct property franchise was formed through the migration of the Liberty Properties asset management business to STANLIB in January 2012. This franchise has recruited a team of experienced asset managers to continue to drive the performance for Liberty's policyholders while seeking out opportunities to meet the needs of third party institutional and high net worth individual customers, through investing in quality real estate investments in economically growing nodes on the African continent.

The Infrastructure franchise was launched in order to establish an accessible infrastructure platform for investment by South African third party clients seeking alternative assets with predictable risk and return profiles. Supported by experienced investment professionals with a good track record, it aims to receive strong support in 2013.

Embedding an invigorated culture

Concerted efforts to inculcate a new corporate culture, "The STANLIB Way", are yielding positive results. "The STANLIB Way" defines a common set of values and behaviours, co-created by STANLIB staff and expected from all categories and levels of the business. The expected result is a positive impact on the working environment that breeds a culture of accountability and high performance, and consequently solid financial outcomes. The "STANLIB Way" whilst focused on the STANLIB business unit complements the wider culture initiatives of the Liberty group.

STANLIB continues to see improved staff morale and turnover (14% in 2010 and 2011, 9,4% in 2012) especially amongst investment professionals where turnover has reduced significantly from 25% in 2010 to 4% in 2012. This has been achieved while ensuring STANLIB contributes towards driving the national transformation agenda, becoming a Level 2 accredited company in 2012.

Expansion in Africa and operational alignment

The socio-economic changes and regulatory reforms in Sub-Saharan Africa have presented a number of opportunities in the region. In general, there is now fertile ground for growth of institutional savings which are essential for the establishment of the asset management industry and fully functioning investment markets.

STANLIB is ideally placed to take advantage of these opportunities given its regional representation. Consequently, a long-term multi-pronged strategy is being pursued to be a dominant player and expand to other lucrative markets. STANLIB will continue to enhance brand visibility and during 2012, the business successfully re-branded the Kenya, Uganda and Botswana businesses to STANLIB Kenya, STANLIB Uganda and STANLIB Botswana.

The experience base that has already been built in Africa, as well as the bancassurance partnership with Standard Bank which has a sizable presence in Africa, allows for long-term relationships with both retail and institutional clients, providing a broad range of innovative and locally relevant investment solutions.

Furthermore, the planned US$150 million STANLIB African Direct Property Development Fund will offer investors appropriate commercial retail property investment opportunities in target countries, including Kenya and Nigeria.

Regulatory environment
The South African financial services industry is becoming increasingly highly regulated, and as a significant player in the industry, STANLIB ensures that its compliance and market conduct are of a high standard.

Engagement with the FSB is both direct and through the various industry associations and management proactively participates in the development of regulatory change in South Africa and engages with other regulators in the rest of Africa.

Ensuring responsible investment
STANLIB, as an investor, is active in its pursuit of good governance and responsible investment practices. STANLIB believes that environmental, social and governance (ESG) performance is a proxy for management quality and that companies that are well positioned to manage ESG risk and opportunities are likely to outperform others over the long term.

Accordingly, ESG issues are incorporated into its investment research process through the addition of a 'stewardship' pillar used by its analysts and portfolio managers.

This pillar considers issues such as remuneration, social and environmental responsibility, board independence and transparency as part of the evaluation of a potential investment's attractiveness. During 2012, the significance of the stewardship pillar was strengthened and supported by appropriate training of research analysts and portfolio managers.

Adding to this, a formal Responsible Investment policy that outlines the approach, governance and commitments to responsible investing was introduced.

STANLIB has also been a signatory to the Code for Responsible Investing in South Africa (CRISA) since its launch in 2011 and the United Nations Principles for Responsible Investment (UN PRI) since 2008.

Investing in communities
During the year under review STANLIB continued to invest in education. It partnered with Teach South Africa to recruit recent graduates, train them as teachers, and place them as ambassadors at schools. In 2012, STANLIB sponsored ten ambassadors in five Gauteng schools, funding one Maths and one English teacher per location. The programme has already achieved positive results, with the proportion of learners assessed as incompetent declining at schools with STANLIB-sponsored ambassadors. The business also provided bursaries for 15 children in 2012. Four are in grade 11 at top high schools and eleven are in tertiary education at various universities across South Africa.

STANLIB's new Smartbucks programme was launched in 2012. It uses an hour-long educational comedy film and booklet to teach high school learners about the importance of budgeting, debt management, savings and investment. The film debuted at 14 cinemas across the country reaching over 15 000 learners from 104 schools. The first film of its kind, Smartbucks attracted global media attention and has been endorsed by the national Department of Basic Education.

STANLIB encourages its staff to give to social causes by matching their donations. During the year under review it matched R28 000 of employee charitable donations on a one-to-one basis.

Delivering on commitments

Key objectives identified in 2011		Assessment
1.	Continued focus on investment performance and customer objectives	✓
2.	Optimise new investment capabilities and leverage off existing capabilities	✓
3.	Embed+ an invigorated organisational culture	✓
4.	Enhance operational alignment across business operations in Africa	¾

✓ *Substantially achieved*
¾ *Good progress*

28
Update on strategy

Institutional and asset management – STANLIB (continued)

The way forward

From being primarily directed towards stabilising and addressing the operating environment for the past three years, management focus will shift towards creating sustainable competitive advantage for the business, growing its presence in the continent and contributing significant value to the Liberty group.

Thanks to a superb effort from an outstanding team, STANLIB is a transformed organisation, capable and committed to building its reputation as a competitive top-tier asset manager of choice across all countries in which it operates.

Objectives for 2013 include:

- Sustaining the improvement in investment performance by embedding the operating model;
- Continuing to embed new investment capabilities;
- Working towards being a market leader in the Africa continent;
- Enhancing the external positioning through completion of the brand strategy implementation;
- Strengthening relationships and support from IFAs and asset consultants;
- Improving the LISP platform offering; and
- Further embedding of the "STANLIB Way" culture and managing staff morale and turnover.

STANLIB summarised product offering

Products	Product name	Product description
Retail	**Unit trusts**	A range of collective schemes, ranging from fixed interest, equity and money market funds. STANLIB has 53 single manager domestic funds, 13 offshore funds, 16 multi-manager funds, 17 Africa funds and 12 rand denominated asset swap funds. Investment into these funds can be made either directly, through the linked investment vehicle or retirement plans.
	Classic Investment Plan	A linked investment vehicle that offers investors the flexibility to tailor their investment according to a personal need and risk profile.
	Classic Retirement Annuity	A tax-efficient retirement saving vehicle that offers investors the opportunity to supplement their income at retirement.
	Classic Preservation (Pension/Provident) Plans	Flexible tax-efficient retirement saving vehicles specifically aimed at preserving the retirement benefits of members in provident or pension funds.
	Classic Linked Life Annuity	A flexible retirement vehicle that provides a retired investor with a regular income during retirement.
Institutional	**Money Market Solutions**	Money market propositions, suitable for all corporates and retirement funds in South Africa and selected African territories with excess cash on which the best possible return is required, but liquidity is necessary.
	Institutional investment products	STANLIB offers a wide range of institutional investment products (including equity, fixed interest, international and property solutions), via unit trust and pooled vehicles in South Africa and selected African territories. STANLIB's team of investment professionals can tailor segregated investment solutions to customers needs.
	Alternative investments	Investments that apply quantitative, indexation and optimisation methodologies. Products in the group include: • Exchange Traded Funds: Top 40 and SWIX 40 • Quants Fund • Enhanced Equity Index • Index tracking: ALSI40 Tracker and ALSI Tracker

The full product set and description can be found at www.stanlib.com and at www.liberty.co.za

Institutional and asset management – Liberty Properties

Contribution to earnings

R48 million

Assets under management

- R28 billion

Employees

• South Africa	310
• Other African territories	7

Liberty Properties develops and manages direct property assets and other real estate investments totaling R28 billion in the retail, commercial and hospitality sectors. Most of these properties are owned by Liberty, and provide property exposure in the asset portfolios supporting policyholder liabilities.

Liberty Properties is tasked with:

- Securing property capacity to cover property-backed investment product sales;
- Delivering above-target returns; and
- Indentifying and converting opportunities to leverage additional returns and improve concentration risk.

Liberty Properties comprises two core business areas following the migration of the asset management capability to STANLIB with effect from 1 January 2012 namely:

- Property development which focuses on property development services to the group and to third-party clients in Africa; and
- Property management which focuses on property management services for the retail and office sectors.

Liberty's prime property portfolio includes a number of super-regional shopping centres, a well-located office portfolio, as well as 13 hotels managed by Tsogo Sun.

2012 highlights

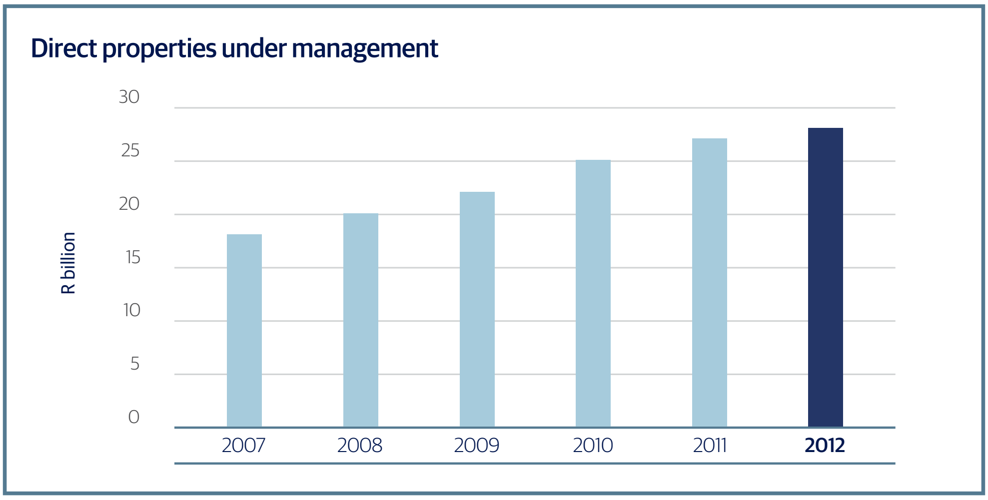
Deliver sustainable financial results	• Contributed R48 million to group earnings • Good progress made in building the development pipeline
Provide compliant and reliable financial services	• New developments and refurbishments incorporate the latest green technology
Focus on our customers	• The property portfolio again produced double digit returns in 2012, extending the duration of this impressive performance to 29 consecutive years
Attract and retain quality employees	• Attracted quality skills from the property industry and retained existing quality employees
Continue the transformation journey	• 2012 employment equity targets for senior management and professional qualified staff exceeded

Institutional and asset management – Liberty Properties (continued)

Performance review

Performance indicators	2012	Restated[1] 2011
Net fee income (Rm)	215	219
Property management (Rm)	193	150
Property development (Rm)	17	64
Hotel management (Rm)	5	5
Headline earnings (Rm)[1]	48	75
Liberty Properties (Rm)	39	64
Fountainhead (asset management) (Rm)	9	11
Value of direct properties under management (Rbn)	28	27

[1] *Restated to exclude Liberty Properties asset management business transferred to STANLIB on 1 January 2012.*



Property management income increased by 29% over 2011, benefiting from growth in property management fees supported by increases in rental areas at the flagship shopping centres. However, delays in securing development mandates have resulted in reduced development fee income. Consequently, headline earnings reduced to R48 million.

Report back on 2012 focus areas

Continuing to provide superior returns on the Liberty property portfolio

Liberty Properties delivered a total return of 10,3% on the Liberty property portfolio in 2012, maintaining an impressive run of 29 years of double digit returns to policyholders. These returns are gross before fees and tax, and include related equities and cash investments included in the portfolio construct.

Focusing the property management business on supporting Liberty owned and managed assets

A thorough review of the property management business model was conducted during 2012, focusing on further streamlining structures, processes and cost management to maintain a competitive advantage and improve the quality of its service offering to clients.

The property management business has built strong relationships over decades with retailers and other major space users across South Africa. Similar relationships have also been established with European retailers contemplating entering the South African or broader African markets.

Rejuvenating the property development business to take advantage of growing demand in select African markets and growth pockets in South Africa

2012 was a challenging year for the development business due to the inability to secure various targeted property development mandates as a result of socio-political factors in the various sub-Saharan African countries in which the group operates.

Nevertheless, substantial progress was made in positioning the development business for growth. Business plans have been aligned with the STANLIB Direct Property Investment franchise strategy, the development pipeline has been rebuilt on more rigorous principles, processes have been improved and new talent, including a new managing director, has been recruited. In order to secure development projects and also earn development profit on projects partly funded by third parties, a number of key projects have been identified and are being pursued in targeted African territories.

Leveraging bancassurance opportunities with Standard Bank

Liberty Properties continued to work with Standard Bank to unlock property development opportunities in Kenya, Ghana and Nigeria.

Environmental impact

New developments and refurbishments present an opportunity to introduce the latest green technologies into the property portfolio and notable development during 2012 include:

- Evaluating the feasibility of a 1MW solar panel installation on the roof of Sandton City in an Eskom pilot programme supporting independent onsite power producers
- Refurbishing the Libridge office building with improved natural and energy-efficient lighting and better space and water efficiency
- Commencing the planning of the John Ross Eco Junction industrial development incorporating sustainable elements such as rainwater capture, permeable paving, indigenous plant life and renewable energy sources into its design.

Portfolio consumption	2012	2011	Variance (%)
Electricity (kWh)	306 301 980	313 653 705	2,3%
Water (kl)	1 174 855	1 275 993	7,9%

During 2012, energy related initiatives included the replacement of old equipment with new energy-saving equipment, replacement of light fittings and better usage of building management systems to manage electrical loads. An agreement was entered into with Eskom so that Liberty Properties could be registered as an energy saving company and to further anticipate registration of demand side energy management projects during 2013. A benefit of this agreement is that apart from energy savings, the portfolio can benefit from potential funding of the energy saving initiatives by Eskom. Portfolio energy consumption decreased slightly by 2,3% in 2012.

Liberty Properties continues to utilise water saving techniques within its portfolio. These include the use of water saving taps (flow restrictors currently being piloted), frequent reading of meters to ascertain if there are any abnormal consumption patterns, continued installation of water meters across the portfolio, and regular inspection of critical components within the water network. Consequently, water consumption for 2012 reflected a 7,9% decrease on 2011 levels.

Two further projects are scheduled to commence in 2013 which adds to the business's commitment to environmental stewardship. The construction of Phase 3 of the Midlands Mall in Pietermaritzburg represents Liberty Properties' first building to be certified by the Green Building Council of South Africa as a green building. The retrofitting of the Atrium on Fifth in Sandton City will also similarly be certified. The certificates will be awarded upon completion of construction work. Both projects incorporate design features that will lower electricity consumption by between 40-50 percent and water consumption by between 30-40 percent.

Institutional and asset management – Liberty Properties (continued)

Regulatory environment

As one of South Africa's biggest and high profile property owners and landlords, Liberty Properties is aware of its obligations as a role model for the industry and in society at large. It complies with all building and design codes and standards, including the recently introduced South African National Standard 204-energy efficiency in buildings. These standards mark increasingly stringent building requirements, that will ultimately improve the energy and thermal efficiency of structures.

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Continue to provide superior returns on the Liberty property portfolio	✓
2. Rejuvenate development business to take advantage of growing demand for retail and commercial property in selected African markets and growth pockets in South Africa	✗
3. Focus property management business on supporting Liberty owned and managed assets	✓
4. Leverage bancassurance opportunities with Standard Bank in Africa	½

✓ *Substantially achieved*
½ *Moderate progress*
✗ *not fully achieved*

28 Update on strategy

The way forward

Property Development's aim is to build a deeper and more diversified pipeline to mitigate the inherent volatility of the business. This will enable it to transform into a genuine and competitive development company.

Property Management will continue to support the STANLIB Direct Property Franchise in extracting value from the group's property assets, optimising operational and cost efficiencies and client service levels, and minimising the environmental impact of the portfolio.

The business will also continue to invest in the skills and qualifications of its staff, and plans to send all relevant staff on training courses to enhance their green building credentials.

Objectives for 2013 include:

- Continue to provide superior returns on the Liberty property portfolio;
- Rejuvenate property development business to take advantage of growing demand for retail and commercial property in select African markets and growth pockets in South Africa;
- Diversify and strengthen the development pipeline; and
- Ensure property management costs, operating and governance structures conform with industry best practice.

Institutional and asset management – Liberty Corporate

Contribution to earnings

R75 million

Indexed new business

- R612 million

Employees

- 631

Liberty Corporate provides financial security and wealth creation solutions for institutional customers, groups of employees and pensioners. These include investment, annuity, group risk and retirement umbrella administration products, as well as specialised structuring and consulting services.

2012 highlights

Deliver sustainable financial results	• Headline earnings increased by 79% • New business enhancements to existing umbrella fund customers increased by 33% • Premium income grew by 14,8% • Improved group risk underwriting profitability
Provide compliant and reliable financial services	• Completed the termination backlog project one year ahead of schedule • Restructured the administration business to improve operational effectiveness enhance customer service and position the business for growth
Focus on our customers	• Launched a new flagship retirement investment product, the Liberty Stable Growth Fund • Launched an expanded bulk annuity and liability driven investment solution range
Attract and retain quality employees	• Strengthened management in the IT, human resources and compliance departments • Increased headcount in investment product, large corporate and bancassurance distribution
Continue the transformation journey	• 96% of permanent appointments, 73% of management or professional appointments and 78% of staff promoted were employment equity candidates

Institutional and asset management – Liberty Corporate (continued)

Performance review

Performance indicators	2012	2011
Headline earnings (Rm)[(1)]	75	42
Indexed new business (Rm)	612	638
Recurring (Rm)	523	533
Single (Rm)	89	105
Net cash flows (Rm)	(2 048)	(661)
Premium income (Rm)	8 613	7 497
Recurring premiums (Rm)	6 935	5 956
Single premiums (Rm)	1 678	1 541
Claims and benefits (Rm)	(10 661)	(8 158)
Embedded value of new business (Rm)	30	18
Embedded value new business margin (%)	0,5	0,3
Fund members under administration ('000)	378	367
Group risk members ('000)	839	864

(1) *2011 earnings have been restated for the change in accounting policy relating to the adoption of shadow accounting. Refer note 45 to the group annual financial statements.*

Headline earnings of R75 million were primarily due to an improved risk claims experience. Total premium income grew 15%, largely driven by growth in recurring premium business. This is the result of enhancements, a net increase in API (new business less terminations) in 2012 and salary increases automatically increasing contributions annually.

Whilst a distribution and product capability for larger corporates and retirement funds continues to be built, the cost of this capacity build has not adversely impacted earnings. This investment has yielded initial returns with new investment products being developed and launched as well as the sales of new annuity products improving.

Indexed new business was 4% lower, largely due to lower investment only and group risk sales. The group risk pricing revision successfully improved profitability and has resulted in an expected reduction in new business compared to the 2011 volumes which were considered exceptional. However, value of new business improved to R30 million due to an improvement in the quality and mix of new business.

Net client cash outflows were R2 048 million, primarily due to a single investment only client restructuring their retirement fund arrangements and terminating their mandate. Member claims increased, mainly due to fund withdrawals and the success of the initiative to clear old claims as part of the Corporate Administration Transformation ("CAT") programme.

Report back on 2012 focus areas

New growth path

The management team has stabilised the business and has implemented a turnaround strategy to redirect the business to contribute more meaningfully to the group's value creation. Benefits of this are already visible in enhanced profits and new product developments.

Enhancing product offerings

Liberty Corporate's new flagship retirement investment product, the Liberty Stable Growth Fund, was launched in the fourth quarter of 2012. This new generation product leverages the strength of Liberty's balance sheet and niche risk management skills to deliver on members' needs by providing stable, inflation-beating returns within a sound risk management framework. The product is expected to attract significant new flows with a consequent positive impact on earnings.

A new range of index-tracking investment portfolios as well as the Stable Income Fund were also developed for launch to the market early in 2013. The Stable Income Fund offers exposure to a unique combination of Liberty flagship capabilities, namely the Liberty unlisted property fund, STANLIB listed property and STANLIB fixed interest portfolios.

The new retirement umbrella product will be launched in the first half of 2013, further enhancing the Corporate Selection offering. This simple and cost effective retirement fund solution will be cheaper to administer and will make it easier for retail intermediaries to provide advice and service.

The annuity solution range was expanded to include a unique liability driven investment option for medium and large retirement funds. These enhancements were developed jointly by Liberty Corporate and LibFin.

Proposed pension fund reform regulations are likely to significantly change the pension funds industry in South Africa. Liberty Corporate is positioning its product offering to take advantage of the opportunities presented by these reforms.

Restructuring operations for improved service levels and growth

A significant achievement in 2012 was the completion of the first phase of the fund termination backlog project a year ahead of schedule.

As part of Liberty Corporate's fix, rejuvenate and expand strategy, the administration functions within the business were reorganised to reduce the risk in the operating environment and ensure consistency of customer service levels. This creates a solid platform from which the business can grow and new products can be delivered.

The corporate administration transformation programme was launched and is focused on simplifying and standardising processes, eliminating legacy issues, improving compliance and increasing staff capacity and skills. A new simplified IT architecture was approved and is in the process of implementation. In addition, all Corporate Selection Umbrella customers have been converted to the electronic payroll interface process and a full rollout of the platform to customers is planned incrementally. Initiatives to improve intermediary service efficiency have commenced with intermediary accreditation being undertaken to ensure customers have access to skilled advisers in an ever more complex environment.

Diversifying and strengthening distribution channels

The Liberty Corporate Intelligent Insurance business together with LibFin and the corporate investment product team have formed a multi-disciplinary team to leverage the group's capabilities and delivered an enhanced investment and annuity product range to the large retirement fund market. Consequently, there has been significant activity in the annuity market although customer decision making has been delayed due to the current low interest rate environment.

A new bancassurance distribution team has been recruited and discussions with Standard Bank Business Banking to agree a distribution model are at an advanced stage.

A key operational strength of Liberty Corporate is its access to Retail SA's distribution force and its leading knowledge in servicing the small and medium enterprises sector. This positions the business well for a post pension reform environment.

New remuneration and accreditation models for distributors of Corporate products will be rolled out in 2013, aimed at ensuring our customers have access to skilled advisers in an ever more complex environment. There are significant opportunities to increase sales through various alternative channels.

Delivering on commitments

	Key objectives identified in 2011	Assessment
1.	Introduce new umbrella range; continue to build on annuity product offering	✓½
2.	Introduce new smoothed bonus offerings and new generation investment products	✓
3.	Continue improving customer experience and delivery mechanisms	✓
4.	Fast-track fund termination backlog project	✓
5.	Manage cost base, while investing in capacity build	✓
6.	Strengthen distribution capability, including bancassurance	✓

✓ *Substantially achieved*
✓½ *Moderate progress*

The way forward

Objectives for 2013 include:

- Continue with the launch of the new umbrella product range;
- Continue to build presence and secure growth in the large corporate market segment;
- Continue to drive administrative, IT and other efficiencies, while investing in growth opportunities;
- Complete the corporate administration transformation programme;
- Roll out intermediary remuneration and accreditation models; and
- Growth in new business and value of new business.

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Update on strategy

Institutional and asset management – Liberty Corporate (continued)

Liberty Corporate summarised product offering

Product name	Product description
Retirement	Retirement fund solutions for employers with a comprehensive range of risk benefits and investment portfolios, predominantly via an umbrella fund arrangement.
Investment	An investment product offering with a wide range of portfolios for retirement funds, corporates and other institutional investors. The range includes risk-managed, balanced, guaranteed, passive and alternative investment solutions.
Liability Driven Solutions	A full range of solutions for corporates, retirement funds and other institutional investors to maximise returns or de-risk future obligations. We combine the group's diverse capabilities to create innovative solutions including liability driven investments, cash flow matching solutions and a range of CPI linked annuities.
Risk	Group risk only offering for retirement funds, employers and credit providers, including all standard risk product types with the major benefits being group life and income disability.

The full product set and description can be found at www.liberty.co.za

Business development cluster

Mukesh Mittal: *Chief Executive* – **Business development cluster**

In response to changing industry dynamics, regulation and customer buying patterns, Liberty's business development strategy is driven by diversification and growing revenues from new sources to create long-term value for the group. It seeks to identify and acquire new customer segments through innovative operating models and geographic expansion.

The business development cluster comprises:

Liberty Health: Provides health solutions, including administration, technology and insurance services to almost one million customers in emerging markets.

Liberty Africa: The business unit responsible for developing opportunities and expanding the group's presence and business interests on the continent.

Direct Financial Services: Enables Liberty and its business units to offer customised solutions in the non-traditional direct markets.

Group bancassurance relationships: Leveraging Standard Bank's existing reach and capabilities provides Liberty with a significant competitive advantage.

Further detail on the bancassurance arrangements with Standard Bank is set out on pages 38 and 39.

Business development – Liberty Health

Contribution to earnings

(R42 million)

Lives under administration ('000)

- Administration: 519
- IT: 921
- Insured risk: 84

Employees

- South Africa 690
- Other African territories 161

Liberty Health provides health solutions, including administration, technology and health insurance. Almost one million lives in Africa are now serviced by the business unit.

Liberty Health is an integral part of the group's financial services offering in South Africa as well as being a key component of the group's strategy in entering other growth markets in Africa.

Executive management's key focus in 2012 was to stabilise and grow operations through improved organisational design, operational efficiency and service excellence, and to position the business for sustainable growth through three business pillars:

- Administration – A wholly-owned subsidiary, VMed is an accredited administration and managed care organisation with customers throughout Africa. Administration services are provided to South African medical schemes;
- Insurance – The health insurance sold to Corporates to provide health risk cover for their employees in 11 African countries; and
- Information Technology (IT Commercial) – The subsidiary Neil Harvey and Associates (NHA) is an independent IT vendor in Africa providing integrated technology solutions catering for all aspects of health insurance administration and managed care. Proprietary technology platforms are used by medical expense risk providers and administration businesses.

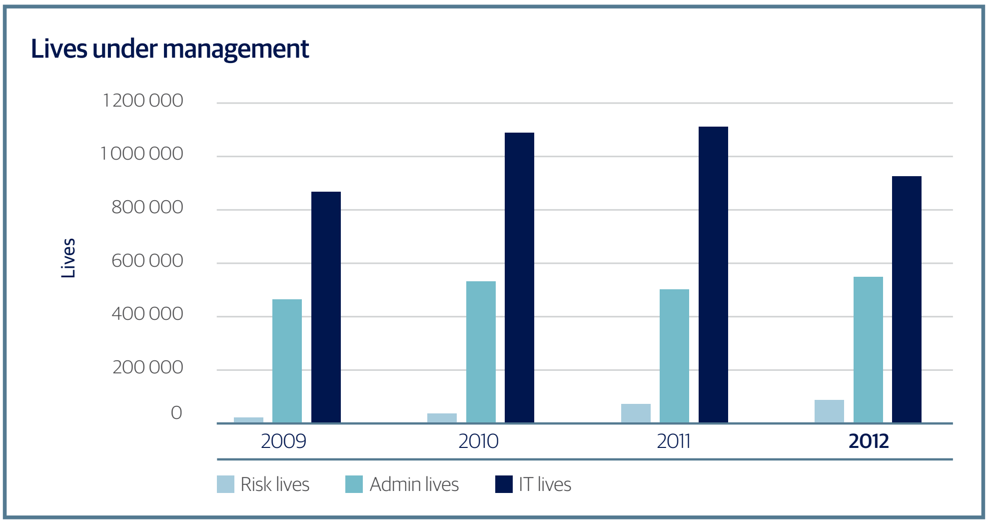
2012 highlights

Deliver sustainable financial results	• Significant increase in the number of agents accredited to sell health products, supporting an increase in sales activity • Significantly increased number of insured lives covered under Liberty Blue • Significant improvement in Liberty Blue's medical loss ratio
Provide compliant and reliable financial services	• Launched Own your life REWARDS programme available to all Liberty Medical Scheme members • Launched Platinum Prestige and three new select options for the Liberty Medical Scheme (contracted medical aid in South Africa)
Focus on our customers	• Significant improvement in service levels validated by second place ranking in the Ask Africa Orange Index awards
Attract and retain quality employees	• Investment in executives in key areas of the business
Continue the transformation journey	• Good progress made with transformation of the executive team

Performance review

Performance indicators	2012	2011
Earnings before interest, depreciation, tax and amortisation (Rm)	(38)	(33)[(1)]
Headline loss – Liberty share (Rm)	(42)	(65)
Lives under administration ('000)	519	498
Lives processed on IT platforms ('000)	921	1 107
Risk lives ('000) contracted under Liberty Blue product range in Africa	84	68

(1) *Excludes one off debtor impairments of R39 million.*



The headline loss is attributable to the investments made in the business as well as loss of administration and IT lives, offset by an improvement in the medical loss ratio of the business.

The administration and managed care business came under pressure as a result of the continued membership attrition due to the movement of members to the Government Employees Medical Scheme in 2012. This will be addressed in 2013 through increased partnership with Retail SA from a distribution perspective and an enhanced customer value proposition that includes an extended product range and the launch of the Own your life REWARDS programme by the Liberty group.

Africa risk lives have increase from 68 000 to 84 000 during 2012. The medical claims ratio for Blue insurance product has been positively impacted by price reviews, service improvement and improved operating structures.

Report back on 2012 focus areas

Administration

The strategic relationship between Liberty Health and the Liberty Medical Scheme continues to strengthen, with both parties committed to growing the scheme membership base through superior product, service and distribution. The Liberty Medical Scheme is a key component of Liberty Health's growth objectives. This will be achieved through organic membership growth through retail distribution and corporate sales, in partnership with specialist healthcare brokerages. The ongoing consolidation of the medical aid environment in South Africa should also provide growth opportunity.

The number of tied Liberty agents accredited to sell Liberty Medical Scheme was boosted from 250 to more than 1 200 during 2012. The benefits of this growth are expected to start positively impacting membership numbers in 2013.

As a result of the strong focus on operational efficiency and service excellence, service levels improved significantly during 2012. Liberty Health's second place in the medical aid category of the Ask Africa Orange Index Awards confirms the improvement in the levels of service provided to customers.

Business development – Liberty Health (continued)

The Liberty Medical Scheme product suite was enhanced by the introduction of the Platinum Prestige option for customers seeking market leading comprehensive coverage for medical expenses and three new discounted Scheme options for members accessing healthcare services at designated service providers. Gateway, a new low-income option for corporate schemes was approved by the Council for Medical Schemes in December 2012 and will be launched to the market in the first quarter of 2013.

Distribution will also be driven by value added services and Liberty Health, together with the broader group, has launched the Own your life REWARDS programme. This programme provides customers of Retail SA, Liberty Corporate and Liberty Health with a suite of non-insurance services from over 80 service providers, at significantly discounted prices, to suit their individual needs and preferences.

Insurance

The initial strategic assessment, on which the establishment of the Liberty Blue product proposition was based, remains positive confirming the need for health financing solutions on the African continent. The target market of formally employed lives in sub-Saharan Africa is substantial, and demand for the product is strong, particularly among multinational employers.

This is reflected in the highly satisfactory growth in insured lives on Liberty Blue, which increased by 24% from 68 000 to 84 000 during 2012.

The Liberty Blue medical loss ratio improved significantly during the year, largely as a result of the implementation of revised pricing strategies at annual reviews and improved risk management. With repricing in all African operations completed by the year-end, the medical loss ratio of 114% at the start of the year had improved to 86% by 31 December 2012. The longer-term medical loss ratio is targeted at below 85%.

The overall distribution strategy involves leveraging bancassurance and other relationships, obtaining growth through employer and other groups, as well as broker networks.

IT Commercial

IT Commercial provides a differentiating capability of integrated administration and managed healthcare information technology services. Providing access to these capabilities forms an important proposition for African health markets.

The current strategy remains focused on the licensing of the proprietary Medware software to new clients throughout the African continent as well as expanding the existing range of IT service offerings.

There is also significant potential to leverage Liberty Health's expertise within the wider group to focus on technology integration and eventual progression to a single view of the client.

Managed Care

Key managed care projects include a provider profiling model, a general practitioner network to improve the clinical risk management initiatives for the Liberty Medical Scheme, and enhancement of the data warehouse reporting capability to improve the analysis of clinical information in order to reduce claim costs.

Bancassurance

The bancassurance channel negotiated with Standard Bank presents Liberty Health with particularly strong opportunities to expand its presence on the African continent.

Initiatives include attractive product design with mutually acceptable pricing and superior service improvements to both front and back office structures within Liberty Health.

Pilot projects are currently underway with Standard Bank workplace marketing in Zambia and Zimbabwe, and good progress is being made in Nigeria, where multiple opportunities are being pursued with Stanbic IBTC.

Regulatory and social development environment

The South African health market is set to evolve as the industry migrates towards a National Health Insurance model. Opportunities for industry players with established distribution channels are likely to emerge and Liberty Health will continue to leverage the Retail SA distribution footprint to grow the Liberty Medical Scheme. Continued consolidation is expected as medical schemes seek to increase the size of their risk pools, presenting possible merger opportunities. Since product differentiation is likely to become a key competitive advantage, product innovation remains a key focus for the business.

Recent regulatory proposals could see the discontinuation of hospital cash and gap cover insurance products in the South African market. Liberty Health is participating in the unfolding regulatory process, with the aim of protecting such products, for which there is still a need to complement medical scheme products.

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Develop and manage a loyalty rewards programme	✓
2. Increase size of risk pool by growing Blue insured lives with the right profile	¾
3. Address medical claims loss ratio issues	¾
4. Reduce cost base while investing in key areas of the business	¾
5. Leverage bancassurance for health product distribution in Africa and South Africa	¾

✓ *Substantially achieved*
¾ *Good progress*

The way forward

Several opportunities exist under each of the business's three pillars, and Liberty Health is well positioned to take advantage of these opportunities, both in South Africa and across the continent.

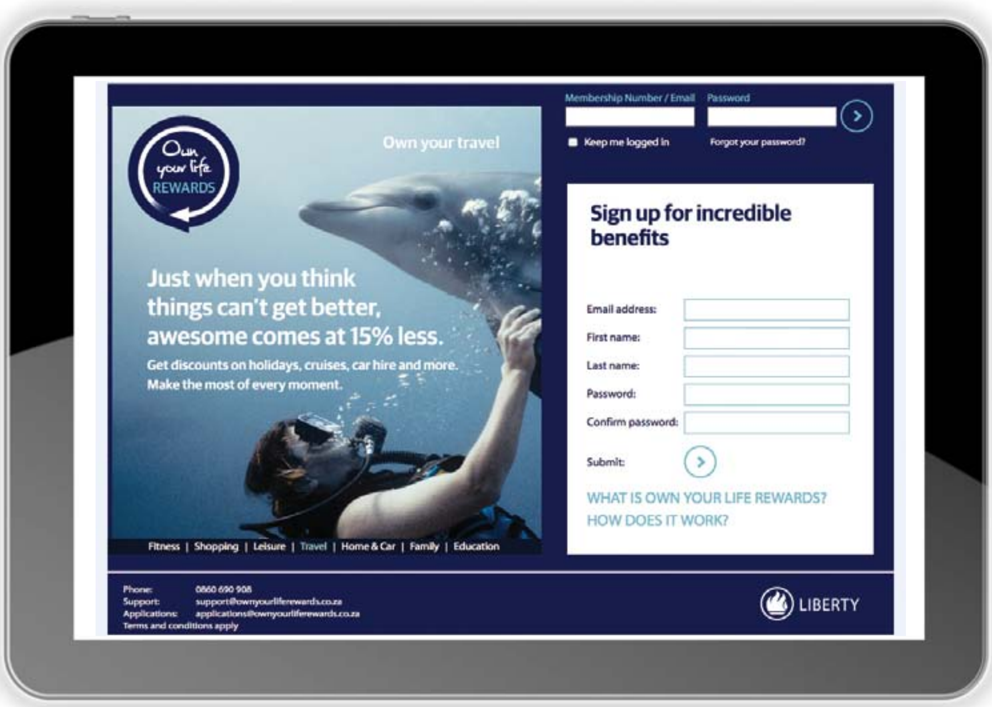
Objectives for 2013 include:

- Local sales growth through Liberty Retail, on the back of product innovation and Own your life REWARDS;
- Continue strong growth for Blue in Africa, including distribution, expanded product offering, service excellence and control of medical loss ratios;
- Improve quality of member lives, and of member and intermediary experience;
- Mitigate compliance, debt management and servicing risks in Africa, and ensure same levels of service excellence are achieved throughout Liberty Health's business; and
- Increase penetration of IT Commercial.

30 Update on strategy

Liberty Health product offering

Product name	Product description
Liberty Blue	A health insurance product developed for employees (including those of corporate entities, multi-national organisations, governmental and non-governmental organisations) operating in Africa. The product offers a number of healthcare benefits .



Further information at website www.ownyourliferewards.co.za.

Business development – Liberty Africa

Contribution to earnings

R69 million

Assets under management

- R36 billion

Employees

- South Africa 23
- Other African territories 457

Liberty's goal is to become a leading wealth management company in Africa. Liberty Africa is the business unit responsible for developing opportunities and expanding the group's presence and business interests on the continent.

The business unit supports Liberty's growth strategy by providing access into the rest of Africa for the following product or business pillars:

- Life insurance;
- Short-term insurance;
- Asset management;
- Health; and
- Property management and development.

The asset management and health pillars are aligned to and managed by STANLIB and Liberty Health respectively and utilise South African shared services and back office operations where possible. Property management and development is managed by Liberty Properties and direct property development funds by STANLIB.

Liberty Africa utilises the group's proven capabilities with regard to governance structures, process design, technical and technological competency, as well as the capacity to enter international and pan-African agreements.

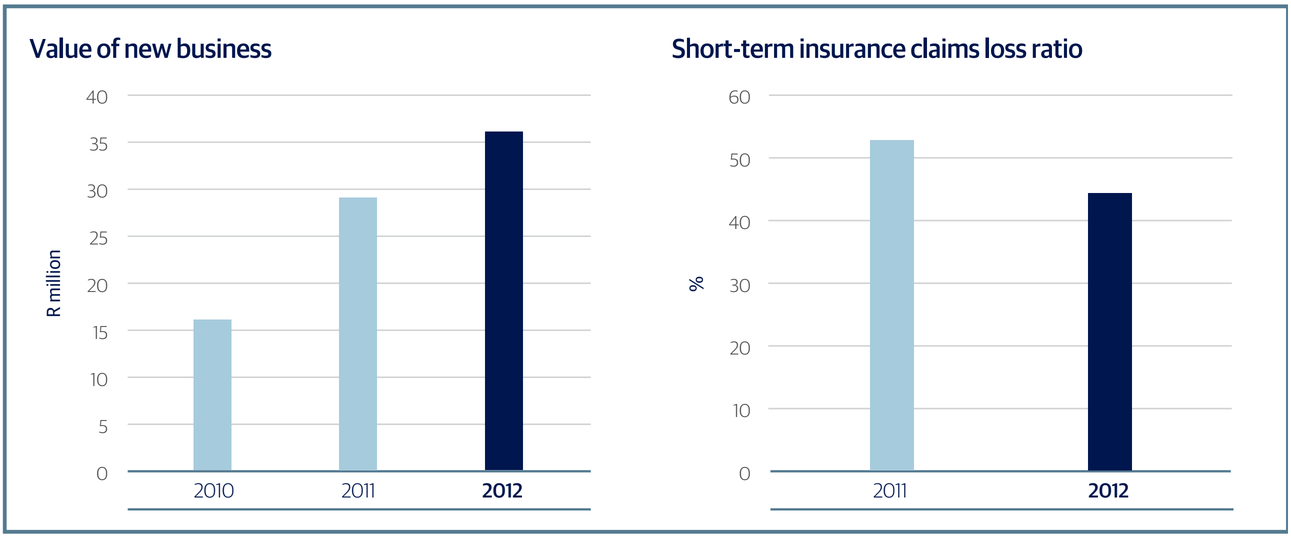
These characteristics provide Liberty Africa with a relatively low-risk commercially led expansion model.

2012 highlights

Deliver sustainable financial results	• Improved bancassurance collaboration, structures and relationships • Systems implemented in Kenya to enable group risk business and affinity partnerships • Significant growth in earnings and value of new business
Provide compliant and reliable financial services	• Good progress made in establishing stronger governance, improved data quality and improved administration and IT processes • Successful consumer education and brand building initiatives
Focus on our customers	• New-to-market education plans launched in Swaziland and Namibia • A number of new partnerships were established including the successful launch of the Vodacom affinity in Tanzania and the BOMaid affinity in Botswana
Attract and retain quality employees	• Additional senior actuarial and finance staff recruited in Kenya

Performance review

Performance indicators	2012	2011
Headline earnings (Liberty share) (Rm)	69	21
Insurance operations (Rm)	76	27
Asset management (Rm)	48	35
Head office expenses (Rm)	(55)	(41)
Insurance operations		
Indexed new business (Rm)	138	111
Net insurance cash flows (Rm)	460	306
Asset management operations		
Net asset management cash (outflows)/inflows (Rm)	(5 985)	5 397
Assets under management (Rm)	35 906	38 742



Liberty Africa generated a profit of R69 million in 2012 compared to R21 million in 2011. Investment markets in the East Africa region contributed a high proportion of the increase in earnings. The inclusion of CfC for a full year as opposed to nine months in 2011 also contributed to this outcome. In addition the short-term insurance business reported improved claims loss ratios. Both CfC and UFI in Namibia are now performing ahead of business case.

Despite significant outflows from a few key clients to meet their short-term funding requirements, earnings of the asset management business increased significantly by 37% . This was due to improved fees from the East Africa region, as well as better expense management in the Southern Africa region. The asset and client mix was further diversified through the strong growth in pension mandates in East Africa as well as longer duration products in Southern Africa. Similar to the South African business, the businesses in other African countries have experienced inflows into higher margin asset classes combined with strong growth in performance fees in these regions.

Assets under management remained high at R36 billion.

Report back on 2012 focus areas

Growing business and managing to model in Africa

The economies of the Southern African countries in which Liberty Africa operates remain stable. In the East Africa region, elections are planned for March 2013 in Kenya and the potential impact is being closely monitored. Real GDP for sub-Saharan Africa is expected to grow at more than 5% per annum until 2020.

Political stability, localisation requirements and business transparency in the region are improving. Against this background, a new and fast-growing middle class combined with relatively low levels of insurance market penetration presents significant business opportunities for financial services providers operating in sub-Saharan Africa.

Business development – Liberty Africa (continued)

From a life insurance perspective, Liberty's business model for growth in Africa primarily focuses on simple, affordable products requiring little or no advice and with a bias to products providing education, funeral and health protection. These products are designed and marketed for local conditions using a combination of local expertise and relationships, together with specialist skills and group competencies provided out of the head office in Johannesburg. In the more mature markets with scale, Liberty does sell more complex traditional individual life and pensions products to reflect both the needs of consumers and to take advantage of the prevailing market opportunities.

A significant portion of the existing insurance (life and short- term) market in Africa is centred on employers acquiring these products on behalf of their employees at a wholesale level, or as part of a group scheme. Employers are seeking end-to-end solutions and opportunities exist to complement Liberty's health product, Blue, with the addition of risk, investment and pension product sets. As Liberty's product sets are largely standardised, the ability to scale systems, processes and other competencies also represent significant cost and speed to market advantages. Distribution into the insurance market is primarily through large brokers and bancassurance, affinity partnerships and, in selected markets, an agency force.

Developing the bancassurance channel

During 2012, Liberty Africa and Standard Bank significantly increased their collaboration, establishing in-country steering committees and a bancassurance executive committee in order to improve business co-ordination in all countries with joint business operations.

The new bancassurance agreement has been approved in Namibia, Lesotho, Swaziland and Botswana and is being rolled out in other countries subject to meeting regulatory constraints around bancassurance.

Liberty's bancassurance plan has been aligned with Standard Bank's Africa Accelerated Growth Plan. Liberty should benefit directly from growth in customers and the additional focus by Standard Bank's bancassurance team in the countries where Liberty operates.

The revised bancassurance arrangements have resulted in improved sales and margins from this channel in 2012.

Bedding down the East Africa operations

The acquisition of CfC and its listing on the Nairobi Stock Exchange was completed in April 2011. During 2012, a full business review of CfC Life was completed. This enabled significant improvements in terms of systems and administration platforms as well as financial and corporate governance to be identified and effected. This review also assisted with the development of a common framework for standardised practices for operational risk management, financial controls and governance.

Sub-standard persistency levels in CfC Life's individual life business are being addressed by re-structuring the agency force and commission arrangements, as well as significantly improving premium collection procedures and resourcing.

The channels to market for the CfC Life business have also been expanded from purely an agency force, to include broker, bancassurance, affinity and direct channels.

Product development and opportunities

Product development is a critical part of the strategy to grow earnings by enhancing and expanding product lines to support growth across all channels. Liberty has the ability to create well differentiated products suited to the various channels and market segments. This includes a range of insurance products, leveraging its health capability into a wider product range, money market funds and income funds as key asset management offerings, as well as a proposed property development fund.

During 2012, a retail funeral plan product was launched in Namibia and education plan products were launched in Namibia and Swaziland.

The SMME Quick Loan product was launched through the bancassurance channel in 2012 and significant progress has been made with implementation of a personal accident cover and a risk umbrella product into this channel.

Distribution and affinity opportunities

Access to a broad distribution network is necessary to grow sales volumes and affinity partners provide this scale and reach for a relatively low capital investment.

Good progress continues to be made in implementing the bulk acquisition strategy in all territories within which Liberty operates and focus is on acquiring institutional business and growing the affinity base. Development of the affinity proposition has resulted in the successful development of a number of affinity relationships in both Eastern and Southern Africa. Notable developments on the affinity partnership front in 2012 were the successful launches of the Vodacom affinity in Tanzania and the BOMaid affinity in Botswana. The focus in each country is on growing the affinity partner base by partnering with banks, mobile network operators, retailers, microfinance providers, agricultural cooperatives and funeral parlours, all being organisations or associations with strong brands as well as access to large customer groups.

Pan-African direct property development fund
There is a strong rationale for building a direct property development fund business, with favourable market trends in sub-Saharan Africa and strong unmet demand for high quality properties. Rapid growth is expected in the investment grade commercial property market in selected African geographies. Investor appetite for property development opportunities in sub-Saharan Africa is emerging.

An initial development fund of US$150 million is to be launched with the key objectives of establishing a track record and building operational delivery capabilities. This will be focused on developing retail and commercial properties in selected African territories, primarily Nigeria and Kenya, leveraging the existing South African experience.

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Continue to unlock value from acquisitions and meet the business cases	✓
2. Expand product lines in countries where Liberty has a presence	✓
3. Increase lives under administration in Health	✓
4. Leverage opportunities through the bancassurance agreement with Standard Bank	✓
5. Continue to improve the financial performance of CfC in East Africa	¾
6. Align risk management practices with those of the wider group	✓

✓ *Substantially achieved*
¾ *Good progress*

30 Update on strategy

The way forward
Building a wealth management business in Africa presents significant and often complex administrative and regulatory challenges, but the relatively low levels of product penetration present significant opportunities.

Liberty Africa will continue to develop the group's interests and increase its presence across the continent by continuously assessing new and organic growth opportunities, while carefully analysing and mitigating associated business risks.

Objectives for 2013 include:
- Expansion into West Africa;
- Further develop products and channels relevant to specific markets;
- Work towards 80% standardisation of back-end operations;
- Further improved local governance and risk management, in line with group standards; and
- Leverage bancassurance and support Standard Bank's Africa Accelerated Growth Plan.

Liberty Africa summarised product offering

Product name	Product description
Credit life product range	A range of products designed to cover the outstanding balances on vehicle loans, home loans, personal loans and credit cards following the death or disability of the policyholder.
Business Loan Protection	An insurance policy which pays the outstanding balance on a loan following the death or total permanent disability of the policyholder. This product has been successfully aligned to SME loans.
Funeral Plans	A variety of funeral plan options are available, providing cover to the main member or to the main member and their family. A number of ancillary benefits, such as the tombstone benefit, are also available.
Endowment – Corporate	A single premium investment policy offering the opportunity for ad hoc premiums.
Endowment – Individual	A range of endowments for individuals including both an investment and a protection element.
Group risk cover	A range of group risk benefits including life cover, lump sum, disability cover and critical illness cover.
Protection products	A range of protection products for sale through partners including an education plan, critical illness cover and an impairment benefit.
Short-term property and casualty insurance	Cover provided for fire, theft, motor, engineering, personal accident and workman's compensation related risks.

The full product set and description can be found at www.liberty.co.za

Business development – Direct Financial Services

Contribution to earnings

(R38 million)

Employees

- 275

Direct Financial Services (DFS) has developed a scalable direct business channel for the distribution of risk products. Its web-enabled platform enables Liberty and its business units to offer customised solutions in the non-traditional direct and affinity markets.

Since its launch in November 2010, DFS has established three operational businesses:

- FRANK.NET (direct)
- Standard Bank Direct Life Insurance Services (SDLIS) (affinity)
- Vodacom Life (affinity)

DFS consists of:

- Frank Life, with its own life licence;
- Frank Financial Services (FFS), a distribution company which provides a shared services support model to FRANK.NET, Vodacom and SDLIS. Once the business case has been established, FFS's business model and platform flexibility enables it to add further affinity partners. FRANK.NET operates under the Frank Life life licence; and
- SDLIS affinity bancassurance transactional capability, underwritten on the Liberty Active life licence.

2012 highlights

Deliver sustainable financial results	• Implemented the Vodacom Life affinity • Established three businesses in the direct market in the first two years of operation
Provide compliant and reliable financial services	• Optimised structures and resources to enhance capacity management
Focus on our customers	• Introduced transactional web capability for SDLIS • Enhanced customer service delivery model
Attract and retain quality employees	• Grew staff compliment from 131 in 2011 to 275 at 31 December 2012 with further growth anticipated in 2013
Continue the transformation journey	• Achieved 2012 employment equity targets

Report back on 2012 focus areas

Distribution

DFS continues to enter new target markets via the direct channels. These alternative methods enable the group to broaden its distribution footprint without compromising existing sales channels. The web-enabled technology platform is both mobile and scalable, enabling the group to deploy solutions in new markets, on either a geographic or customer-delineated basis.

Market opportunities drove the establishment of two affinity operations, SDLIS in November 2011 and Vodacom in June 2012, well in advance of DFS's original business plan. For the year to 31 December 2012, sales results from these two partnerships have exceeded expectations.

SDLIS has outperformed its business case during 2012 and, allied to the strength of the Standard Bank brand, continues to deliver pleasing results.

Vodacom sales have comprised mostly simple funeral cover policies linked to the customer's Vodacom contract generating significant in-force volumes. Increased profits will accrue to FFS when simple whole-life policies are introduced during 2013.

Early implementation of the affinity business model has improved DFS's earnings potential. However, the establishment of these two significant affinities coupled with the pace of business growth strained the capacity of DFS's original structure and resources. Following recommendations made to the FFS board in July 2012, significant strategic focus was placed on building capacity. This has been largely achieved by refining the operating model and organisational structures and optimising DFS's IT structure and recruiting key resources.

These optimisation processes have served to reinforce and stabilise the FRANK.NET branded business, DFS's original direct channel launched in November 2010, which was under-achieving against its potential due to stretched capacity. FRANK.NET is however Liberty's own direct to consumer brand in this market segment and is considered important to DFS's ambitions to attract and build new affinities.

Operations review

Key service metrics for the call centre and document delivery have all improved during 2012, and are well within expected industry standards. Retail SA's retention team has provided valuable input and assistance, enabling DFS to investigate new methods of enhancing persistency. Retention is constantly monitored and appropriate remedial efforts adapted and implemented.

As affinity business volumes increase, staffing levels will be increased to handle the expected growth in claim volumes.

DFS's claims assessment processes were reviewed by Munich Re between August and October 2012 and the outcome was pleasing.

Future growth

DFS's technology platform and infrastructure offer significant scalability, both through further affinities within South Africa or, where suitably attractive opportunities exist, in other selected African territories.

As the current affinity businesses are being bedded down and the core business at FRANK.NET is optimised, DFS will continue to consider additional affinity partnership opportunities.

Delivering on commitments

Key objectives identified in 2011	Assessment
1. Increase policy values and case-count	½
2. Focus on profitability	½
3. Increase distribution network	✓
4. Build the in-force book	¾
5. Pursue further affinity partnerships	✓

✓ *Substantially achieved*
½ *Moderate progress*
¾ *Good progress*

30
Update on strategy

The way forward

DFS is a centre of innovation, and operates at the cutting edge of developing alternative distribution in the industry. Despite a challenging economic and regulatory environment, it is well positioned to grow its business and contribute meaningfully to the group's earnings.

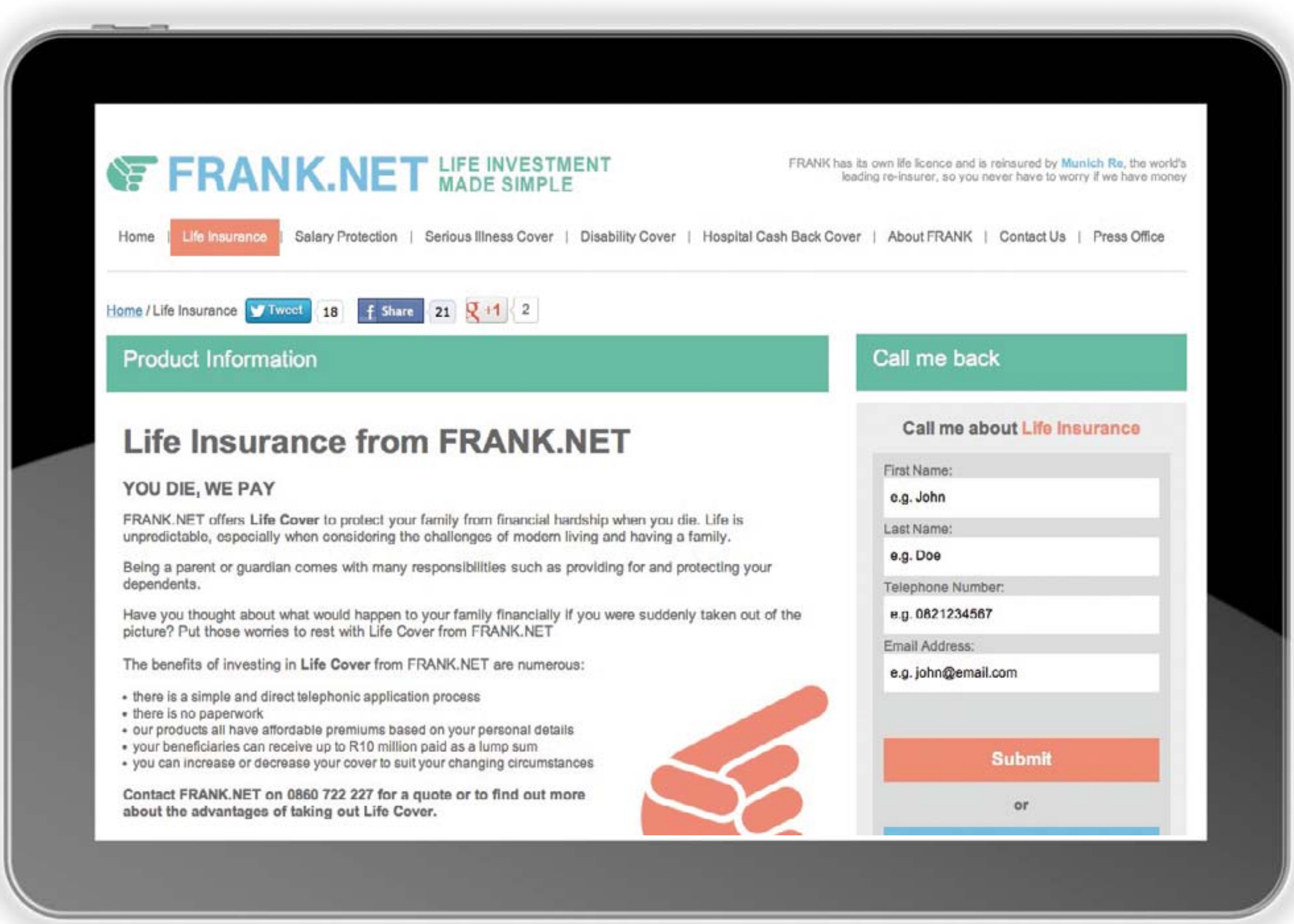
Objectives for 2013 include:

- Expand current distribution to further increase sales volumes;
- Build and launch further products across affinities;
- Expand transactional web capabilities;
- Continued development of a high quality customer value proposition focusing on products and the customer journey for FRANK.NET;
- Further reinforce structures, human resources and incentivisation; and
- Develop new and enhance existing retention strategies to improve persistency across all affinities.

Business development – Direct Financial Services (continued)

FRANK.NET summarised product offering

Product name	Product description
Life Cover	Provides life cover up to a maximum of R10 million through an automated underwriting process.
Salary Protection	Provides for salary protection against disability, serious illness and retrenchment.
Disability Cover	Provides lump sum cover for disability up to a maximum of R5 million through an automated underwriting process for own or suited occupation.
Serious Illness Cover	Provides lump sum cover through an automated underwriting process for four major conditions/illnesses.
Hospital Cash Back	Provides cover in the event of hospitalisation relating to illness or injury for three consecutive nights or more.



Further information at www.frank.net

Stakeholder

engagement

Engaging stakeholders

Liberty relies on the contribution and support of an array of stakeholders for the continued success and sustainability of its business. Effective stakeholder management is an important aspect of good governance, and can mitigate business risks, particularly those related to reputation, operations and a changing regulatory and business landscape.

A process to strengthen and formalise the stakeholder management function commenced in late 2011 with significant progress being achieved in 2012, including the delivery of a stakeholder engagement framework. The framework adopts and incorporates the principles of the internationally recognised AA1000SES – Accountability Stakeholder Engagement Standard.

The implementation of this framework will more closely align Liberty's engagement practices with the group's overall growth and development plans by:

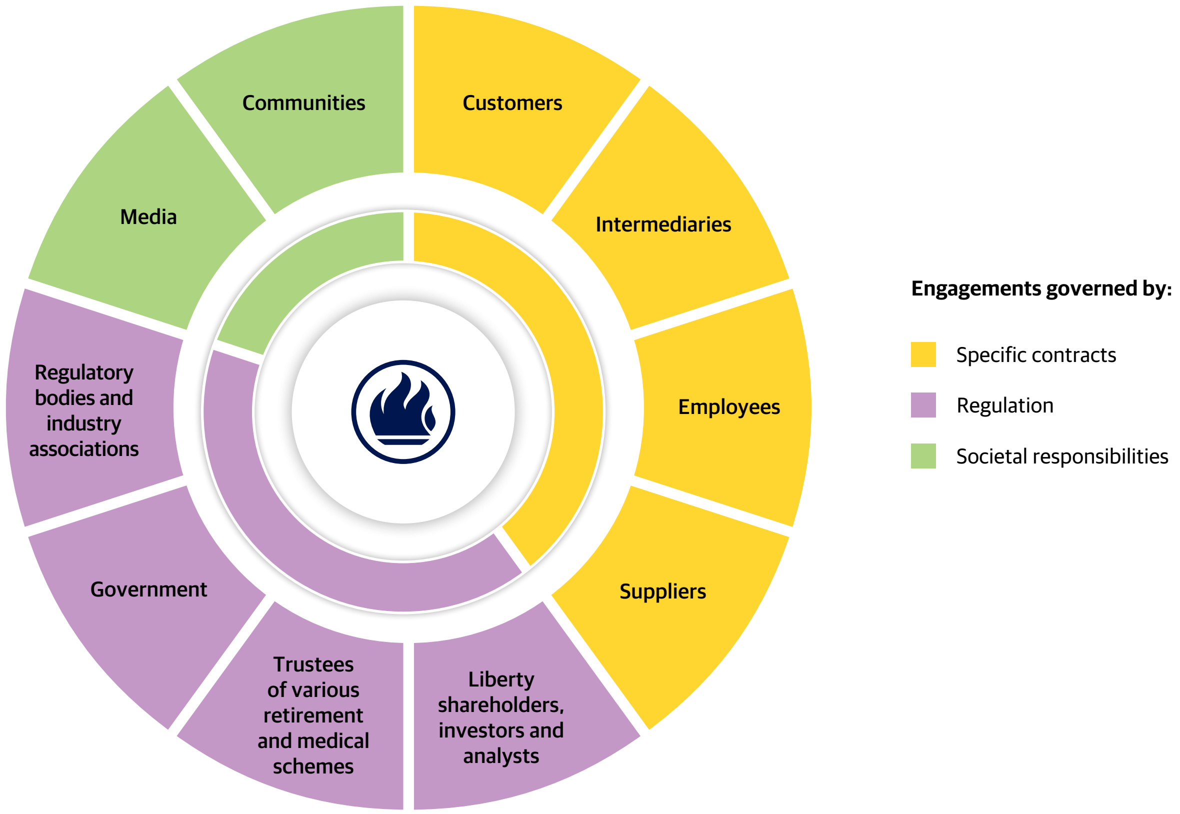
- Providing a strategic approach that builds better ongoing relationships;
- Identifying key organisational roles that act as a business interface for fostering and maintaining effective relationships;
- Providing a flexible mechanism that promotes the identification of Liberty's expectations, issues and responses;
- Highlighting risks and issues that could have high sensitivities and impact on Liberty's response; and
- Providing input into the stakeholder engagement policy and guiding effective two-way communication practices.

2012 highlights

- Establishment of a group stakeholder engagement function
- Stakeholder engagement framework developed
- Established governance structures with quarterly reporting to the social, ethics and transformation committee
- Focused on developments initiated by governments and the regulators particularly assessing impacts and opportunities to Liberty of pending regulatory changes

Liberty's key stakeholder groups

Ten key stakeholder groups have been identified (depicted below). The AA1000SES principles were applied when identifying these groups. Liberty determined each group's most material concerns and responses have been incorporated into business plans across the group. A summary of these plans is provided in the commentary that follows.



Summarised engagement plan:

Stakeholder	Strategic importance	Key expectations	Liberty's response
Customers	Liberty's revenue is derived in its entirety from customers and they therefore are central to all decisions. Understanding and meeting their needs is crucial to enhancing Liberty's competitiveness and managing its long-term sustainability. At 31 December 2012 Liberty's customer base comprised over 2,5 million retail policies and over 2,1 million credit life policies under the bancassurance agreement in South Africa and other African countries, as well as 415 000 members under corporate retirement schemes and 519 000 members of contracted medical aid schemes in South Africa and other Africa countries. STANLIB managed investments on behalf of more than 400 000 individual investors as well as a variety of third party clients.	• Superior customer experience • Delivering against contractual promise • Provision of high quality products and support to fulfil customers' needs	The Retail SA division is core to Liberty's business, housing the majority of the group's customers. The Retail operations team have developed a customer experience framework which aims to improve service delivery by identifying and responding to factors that hinder the delivery of superior service. To gauge customer satisfaction and track the effectiveness of improvements, the business conducted regular 'voice of the customer' surveys. The results of the most recent survey conducted by Retail SA during 2012 reflected that 79% of customers were "delighted" or "satisfied" with the service provided by Liberty and its financial advisers. The surveys follow-up with customers within 48 hours of their initial interaction with Liberty. In 2012, a total of 3 139 customer interviews occurred. The various other business units have similar programmes to manage the customer experience. Significant progress has been made in Liberty Corporate and Liberty Health. The Ask Afrika Orange Index independent survey ranked Liberty Health as the second best South African medical aid and administrator based on service provided. CfC Life in Kenya conduct quaterly Voice of the Customer surveys in the retail business to determine customer satisfaction levels as well as customers' perception of CfC Life. There has been a drive to improve the customer experience and ensure customer satisfaction through initiatives such as the implementation of a queue management system at the main service centre and an interactive SMS channel. The service delivery model has also been restructured at both the Nairobi head office and in branches to further enhance the customer experience. The deposit administration business unit has improved customer engagement through a quarterly newsletter and by introducing client clinics whereby a help desk is stationed at customers' offices to facilitate questions and address concerns from scheme members. Liberty has developed a significant array of products to meet customer needs at each stage of their life cycle.
Intermediaries	Liberty's 3 168 tied financial advisers (South Africa 2 754, rest of Africa 414) span a multitude of distribution channels and serve as ambassadors through their interactions with Liberty's customers. As well as advising on and retailing Liberty's products, they are well-positioned to gather and relay customer feedback.	• Regular training on Liberty products and assistance in meeting regulatory requirements • Provision of high quality products and support to fulfil customers' needs	The introduction of compulsory adviser examinations in order to be registered to provide financial advice was a risk to the future of the South African distribution force. Liberty therefore provided comprehensive examination preparation support. As a result 95% of Liberty's tied advisers successfully passed the exam during 2011/2012. The SA distribution force is supported by 250 broker consultants and support management, 58 branch and agency offices and R25,4 million of training support. Approximately 1 000 tied advisers were accredited to sell Liberty Medical Scheme products in 2012. Similar support structures to the SA distribution framework are in the process of being implemented in other African geographies. Intermediaries are made aware of the significant array of Liberty products designed to meet customer needs through training, product support and launches.

Engaging stakeholders (continued)

Summarised engagement plan: (continued)

Stakeholder	Strategic importance	Key expectations	Liberty's response
Employees	Liberty employs 9 449 people across Africa (South Africa 8 410, rest of Africa 1 039). Ongoing training, targeted recruitment, appropriate remuneration, succession planning and maintaining motivation is essential to implementing business strategies.	• Career and skill development • Performance based remuneration • Create a diverse work force	Career development is a focus area that has progressed well in 2012. Approximately 320 key employee roles were re-profiled to gain a better understanding of the career paths and the associated skills requirements. Remuneration policies and structures are designed to create a high performance culture by allocating a higher percentage opportunity of performance based pay relative to guaranteed pay. The success of this policy is evidenced in the improvement in group operational results. Liberty has a comprehensive employee value proposition as described in the Liberty's people and Remuneration of Liberty's people sections of this report. The group human resources department is coordinating a range of activities in response to feedback from the 2011 employee attitudinal survey. The group's employment equity plan, as advised to the Department of Labour, is constantly monitored and updated. Employment equity targets are one of the key indicators in the assessment of management's performance. The 2012 group targets were exceeded.
Suppliers	Liberty has over 5 000 suppliers that provide an array of products and services to support the business operations. Liberty utilises this opportunity to enhance black economic empowerment in South Africa by giving advantage to BEE compliant suppliers. Comprehensive service level agreements, responsible relationships combined with fair pricing and selection processes maximise the benefits and maintains cost efficiency.	• Clear articulation of service level requirements • Payments on time for services rendered • Drive procurement spend with BEE accredited suppliers	In order to enhance service delivery to the businesses and their suppliers, the group procurement department defined parameters, processes and procedures and identified the gaps to providing a more efficient procurement process. The findings of this exercise informed the development of the new group procurement policy, which will enforce tighter control over the purchasing process and the frequency of payments. The policy will be implemented in 2013. During 2012, 86% of total procurement spend was with accredited BEE suppliers.

Summarised engagement plan: (continued)

Stakeholder	Strategic importance	Key expectations	Liberty's response
Liberty shareholders, investors and analysts (including minority shareholders in group subsidiaries)	Liberty has more than 8 000 shareholders, ranging from major institutions to individual investors, with Standard Bank Group Limited controlling the group with its 53,6% shareholding. Through continual engagement relevant information is provided within reasonable time frames and well within set regulatory requirements. This information is provided to all JSE market participants, assisting in the attribution of a fair value to Liberty's shares. Liberty has business partners who are shareholders in certain subsidiary companies. Interacting closely with them is necessary to formulate appropriate strategy and ensure the mutually beneficial success and growth of the various businesses. Investment analysts analyse and forecast Liberty's financial and operational performance. Their views, based on their analysis, result in a "buy", "hold" or "sell" recommendation. This may impact market participants' investment decisions.	• Access to company information • Transparent, relevant and timely performance reporting • Respond to issues raised at the annual general meeting • Appropriate involvement in key decisions • Adherence to shareholder agreements and good governance • Attractive returns on their capital • Appropriate risk management • Sufficient management time is allocated to analysts • Business is managed within modelled assumption sets	In 2012, Liberty Holdings held 200 shareholder meetings amounting to an equivalent of 30 days. These included the group's bi-annual results presentations and the annual general meeting. The CE and FD participated in 95% of the investor specific conferences and roadshows outside of results, demonstrating their commitment to ensuring that shareholders are well informed regarding the financial and operational performance of Liberty. Included in the group's communication to shareholders is the provision of various other mediums of communication to enable access to company information. The group's website includes an investor relations portal which allows for requests for information and registration to receive important company alerts. The board actively engages and monitors all contractual arrangements with Standard Bank to ensure that the relationship benefits all Liberty shareholders. During the year business unit specific investor events were hosted to help communicate the more complex aspects of the business. As well as informing on the progress of new initiatives, management demonstrated progress on cost saving activities and operational efficiencies, which increased market participants' knowledge of the business. Sustainability reporting processes ensure that in-country performance on key indicators are adequately reflected and align to those which are used by Liberty for reporting purposes. Shareholder agreements as well as relevant company law governs the relationship with all minority shareholders. Liberty applies strict compliance to these agreements with the required levels of governance. Analyst relationships are diligently maintained with engagement targeted and planned through meetings hosted during the year – bi-annual results, business unit specific meetings, and meetings in response to queries where analysts need to better understand a technical issue. Informed responses during these meetings provide improved coverage in the market and help increase awareness of the technical and operational aspects of the business.
Trustees of the various retirement and medical schemes	The trustees of the separate legal entities which house customers' retirement funds and provide medical benefits. In addition includes trustees of the various funds that provide staff benefits. The trustees act as custodians of significant investments managed by the group and ensure the customer/staff promise is provided by Liberty.	• Deliver the Liberty contractual promise to members • Provide comprehensive administration services and governance support	Various management committees facilitate interaction between fund trustees and Liberty, embedding accountability in the relationships. Liberty representatives interact with trustee boards by attending relevant meetings and sub-committees. Responsibility is allocated by business units as follows: • Pension fund trustees – Liberty Corporate; • Retirement annuity fund trustees – Retail SA; • Unit trust trustees – STANLIB and Liberty Africa; • Staff benefit fund trustees – Liberty Executive Committee; and • Medical scheme trustees – Liberty Health.

Engaging stakeholders (continued)

Summarised engagement plan: (continued)

Stakeholder	Strategic importance	Key expectations	Liberty's response
Government	Included in the South African government's policies is the facilitation of more inclusive retirement and health services. Consequently both the regulatory and financial services business environment in South Africa is in a state of expected change. Liberty is involved in embracing the inclusive models by influencing legislation that ensures business sustainability and a key role for the life insurance industry.	• Adapt to pension and social reform (South Africa) • Applying fair business practices • Influence tax reform	A number of business units and executive workshops were held in 2012 to gain a better understanding of the impact and risks associated with the stated SA government proposed policy and regulatory reform. A presentation was delivered to the board detailing the technical aspects of each proposed change, potential impact on each business unit, timing and a recommended strategic position. The group is well-equipped to engage government on each of the proposals and take advantage of the likely opportunities. Management in other countries in Africa monitor legislative agendas and proactively interact with governments to protect and enhance the business objectives. Liberty is active in assessing and commenting on the impact of proposed tax changes as it affects employees, policyholder and corporate taxes.
Regulatory bodies and industry associations	Regulatory bodies establish the frameworks and constraints that shape Liberty's operating environment. Both independently and through its industry associations, the group influences and contributes to changes in relevant regulation.	• Adherence to regulation • Responsible risk management • Treating customers fairly	During 2012 a central regulatory programme management office (RPMO) was established to manage and integrate regulatory and compliance programmes across the group. Key business representatives, with RMPO oversight, regularly engage with their respective regulators. These relationships help the businesses to understand the objectives of each piece of regulation and improve Liberty's compliance in a changing regulatory environment. A regulatory steering committee which is a sub committee of Liberty Holdings exco oversees regulatory implementation and compliance and assesses the possible impacts of future developments. Liberty continues to be represented on ASISA and is actively involved in its various committees, using these as a platform to ensure that the business interests are promoted. Engagement took place with the FSB on a number of issues including SAM, Regulation 28 implementation and Treating Customers Fairly. Liberty also collaborated with Standard Bank through a joint legal and regulatory oversight committee and a working group to track and respond to legislative and regulatory issues as they arise. Management implements agreed recommendations that arise from regulatory inspections which take place from time to time. Throughout 2012, the group operated within the board approved risk appetite. Liberty continued its support of Business Unity South Africa and engaged the forum on key aspects such as transformation and amendments to the BEE codes of good practice. Liberty maintained its active corporate membership of Business Leadership South Africa and participated in the relevant industry surveys and forums utilised to gauge business' response on key government and economic matters.

Summarised engagement plan: (continued)

Stakeholder	Strategic importance	Key expectations	Liberty's response
Media	Liberty actively utilises and monitors the media to assist in ensuring that reporting is relevant and accurate, attract customers and enhance the group's reputation.	• Understanding of business and strategy • Consistent, transparent, relevant and timely performance reporting • Understanding of Liberty's brand essence	The group introduced a targeted communications and engagement plan to better explain the group strategy. The plan included directly engaging key media influencers. Supplemental positioning documents were published, giving the public further access to Liberty's vision and strategy. Some areas however require additional clarity, such as Liberty's growth strategy in its traditional markets and growth sectors. Further engagements on these topics have been planned for 2013.
Communities	Communities in the geographies in which Liberty operates are fundamental as they provide the group with employees as well as providing a customer base. Significant effort is undertaken to support education initiatives and exposure to responsible financial practices ultimately supporting Liberty's brand essence of being a guiding light toward financial freedom.	• Community involvement and upliftment from business • Understanding of Liberty's business proposition, products and services and brand essence	In 2012, the group's total corporate social investment (CSI) spend was R37 million (2011: R33 million). As in prior years the majority of this spend is directed towards educational initiatives, with a strategic focus on following the emerging market footprint when selecting beneficiary communities and schools. During the course of 2013, a comprehensive review of Liberty's CSI will be undertaken to determine the future CSI focus, with the intention to continue to support financial literacy and Liberty's brand essence. Liberty's CSI focus in 2013 will remain on education. Key social programmes and interventions will be implemented in targeted communities to address their needs.

Engaging stakeholders (continued)

Stakeholder engagement framework

- Identification of stakeholder groups and expectations – complete
- Conduct stakeholder levels of satisfaction survey and gap analysis – complete
- Develop business response – complete
- Develop the detailed stakeholder management framework within specified stakeholder groups and assign responsibilities to central services and business unit management – targeted to be complete by 31 December 2013
- Develop awareness programmes to increase understanding and involvement – in progress, target roll out 2013 and 2014
- Build the relevant capacity for stakeholders to engage – target completion 31 December 2014
- Build central monitoring and reporting – target completion 31 December 2014

Looking ahead

Liberty's new stakeholder engagement framework process will guide the multitude of relationships between the company and its stakeholders. It is a priority to continue to identify and develop the skills and organisational systems necessary for effective stakeholder engagement as Liberty implements and refines its stakeholder management framework.

The imperative is to facilitate proactive direct and meaningful relationships with the appropriate levels of group leadership. Through these relationships the group will gain further confidence that its strategy and vision more closely reflects the needs and interests of its key stakeholders.

Liberty's people

Liberty's employees play a critical role in realising the company's strategic vision, and it is therefore essential that the workforce believes in this vision and is equipped to deliver it. This requires building a diverse and inclusive workplace, planning for the future and ensuring high-performance. Education and training are key in making this possible, and therefore Liberty continues to invest in its employees' skills and qualifications.

In recent years, Liberty has achieved a number of successes through the alignment of human resource practices across its various business units. This was evidenced by being awarded Best Employer status by the Corporate Research Foundation for the fourth consecutive year. Liberty was placed 9th out of 20 in the large sized employer category and 14th out of 73 African companies overall, with special mention made of the high standard of the working conditions. 'A wide range of career opportunities', 'a well-structured talent management framework' and 'an impressive list of benefits and competitive remuneration policy' were among the features cited.

2012 highlights

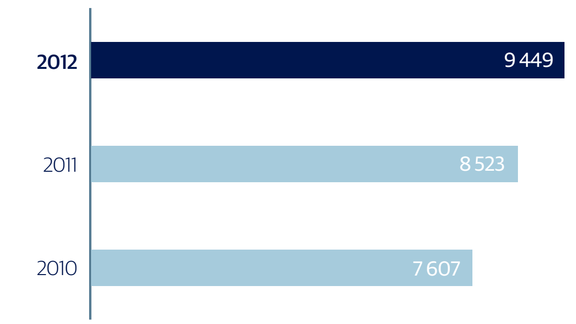
- Reduced South African salaried voluntary staff turnover rate of 10,3% (2011: 11,0%)
- 42% of senior managers in South Africa now black[1], up from 34% in 2011
- Further alignment of remuneration structures and enhanced performance management processes contributed significantly to the 2012 outperformance

[1] *Black is defined as African Black, Indian and Coloured*

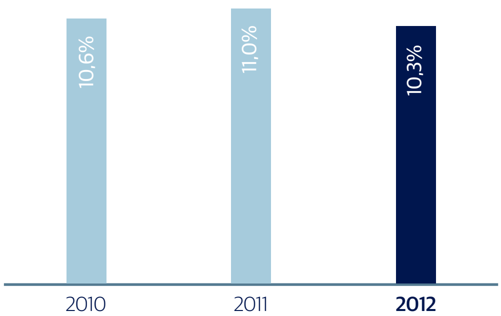
Liberty has established an organisational development function, reporting to the group strategic services chief executive and is charged with encouraging initiatives that bolster a culture of performance within the group. The function is designed to enhance Liberty's ability to execute strategy and manage change.

Key indicator summary

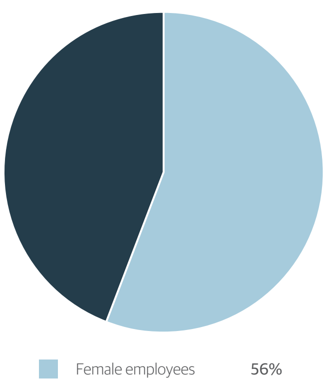
Employees and tied agents



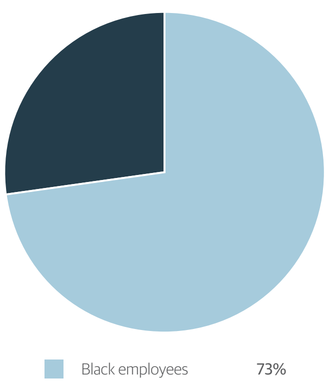
South African voluntary salaried staff turnover



Percentage female employees



Percentage black employees



Training spend represents

1,4% | of employee costs

Liberty's people (continued)

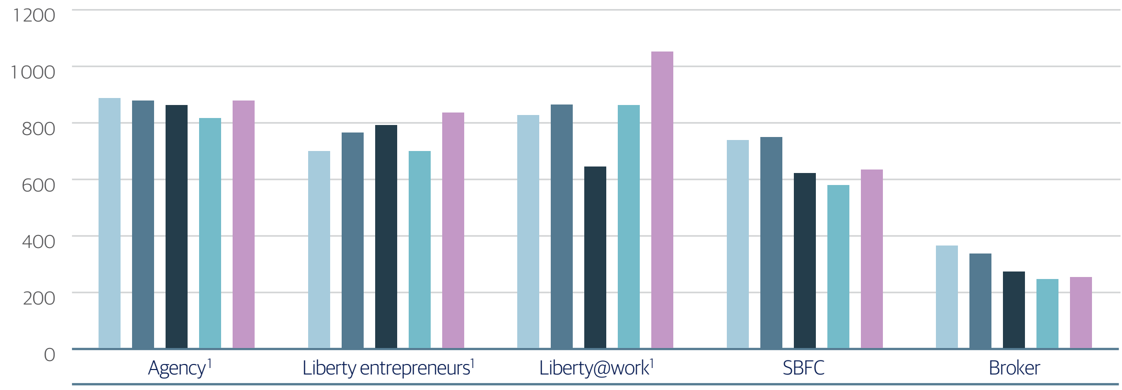
Build a diverse and inclusive workplace

Staff profile

During 2012, the group increased its staff complement by 10,9% and now has 6 281 full-time salaried employees across Africa, 5 656 of which are in South Africa. Most of this growth has occurred within Liberty's Retail SA business unit and in particular in the emerging consumer market (ECM) division. Liberty's strategy includes targeting the lower income segments throughout the ECM and Direct Financial Services initiatives and it is anticipated that growth in staff numbers will follow in these areas of the business.

Liberty has relationships with an extensive network of financial advisers to sell its products of which 3 168 are tied agents (South Africa 2 754, other Africa 414) who are exclusively contracted to Liberty and only sell Liberty products. In line with the objective of gaining market share, the tied distribution headcount has grown by 14% in 2012.

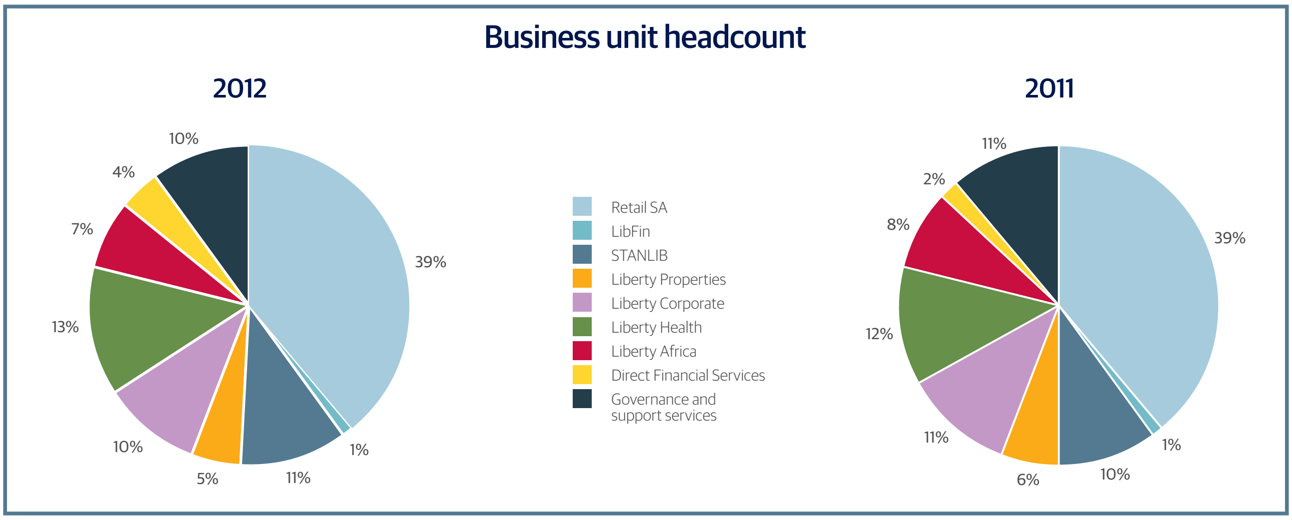
South African distribution headcount



[1] *Tied agents*

Workforce headcount	2012	2011	2010
Salaried employees – South Africa	**5 656**	5 281	5 226
Salaried employees – other Africa	**625**	471	92
Commission-remunerated agents* – South Africa	**2 754**	2 369	2 289
Commission-remunerated agents* – other Africa	**414**	402	n/a
Total	**9 449**	8 523	7 607
% Growth	**11%**	12%	(5%)
Salaried employees split by business unit (%)			
Retail SA	**39**	39	41
LibFin	**1**	1	1
STANLIB	**11**	10	11
Liberty Properties	**5**	6	6
Liberty Corporate	**10**	11	13
Liberty Health	**13**	12	13
Liberty Africa	**7**	8	2
Direct Financial Services	**4**	2	1
Governance and support services	**10**	11	12

* *Commission-remunerated tied advisers*



South African salaried employees profile

Age

The average age of Liberty employees is 37,23 years, with approximately 48% (2011: 47%) of its permanent salaried South African workforce below the age of 35 years. Liberty continued to contribute significantly to employment in this age sector in South Africa.

Age profile (%)

Age	**2012**	2011
<26 years	**10**	9
26 – 35 years	**38**	38
36 – 45 years	**31**	32
46 – 55 years	**17**	17
>55 years	**4**	4

Skills

At 31 December 2012, Liberty had 86 chartered accountants, 57 qualified actuaries, 112 student actuaries and 38 certified financial planners in its employ. The Retail SA business unit has targeted an increase in the number of certified financial planners to improve support to the distribution force.

A programme specifically designed to address youth unemployment in the broader community was launched in 2012 as part of the Harambee initiative, which helps matriculants prepare for the workplace. The programme recruited 32 unemployed matriculants and trained them as call centre agents and was nominated for the Mail & Guardian's Investing in the Future Awards.

The Liberty Learnership Programme gave a further 114 young candidates work experience and a NQF Level 4 qualification over a ten-month training period. Liberty's Graduate Development Programme continues to strengthen the group's leadership pipeline, preparing young, high-potential graduates for successful careers with the group.

Harambee youth employment accelerator programme

Harambee is a non profit organisation launched by big business to help source, train and retain staff in entry level thereby contributing in overcoming youth unemployment, one of South Africa's greatest social issues. Liberty is fully committed to supporting this initiative.

Employment equity

Liberty seeks to have a workforce that reflects the diversity of the population in which it operates. This philosophy, drawn from the South African constitution, guides the company's commitment to embedding diversity throughout its ranks. A transformation vision, introduced in 2012, provides the framework for Liberty's transformation practices. Liberty is bound by the Employment Equity Act of 1998, the dti Codes of Good Practice and the Financial Sector Charter.

Liberty's people (continued)

Liberty continued its efforts to help disabled employees (who account for approximately 1% of salaried staff in South Africa) to meet their full potential. Liberty's occupational health and safety team works with these staff on an individual basis to understand specific requirements of disabled employees and adapt the workplace to their needs. Recent adaptations include recalibrating lifts, rewriting emergency evacuation procedures in Braille and providing software that helps visually-impaired employees.

Increased disability awareness information sessions are encouraging staff to declare any disabilities and to further provide suggestions on how the workplace can be improved.

As evidenced in the table below significant progress has been made in achieving the 2013 employment equity targets contained in the third employment equity plan submitted to the South African Department of Labour.

Liberty's transformation vision

We are committed to increasing the pace and impact of our transformation journey for the benefit of our investors, clients, staff, suppliers and the society we serve. Our compass on this journey will be the South African constitution and we will actively build the society it seeks to create. Inclusivity and participation will be hallmarks of our progress. Relevant stakeholders will have a voice in charting our course and developing the process, as we make a difference in our country by providing relevant and socially responsible products and services that add value to our customers and business.

During 2012, the department conducted an audit of the group's equity practices, concluding that Liberty is positively contributing towards the social imperative of equity reform in the South African business community. The group has embraced recommendations arising from the audit, which are currently being implemented.

One such recommendation related to possible historical income differentials among 84 roles impacting 178 employees. Subsequent investigation revealed that only 21 of which required adjustment. Measures to identify and prevent future instances have been put in place and will be included in the fourth employment equity plan due to be submitted to the Department of Labour in 2013.

At 31 December 2012, overall black representation (defined as Africans, Coloureds and Indians) in the group's South African workforce increased to 73% (2011: 70%) and women accounted for 56% (2011: 57%).

Employment equity profile

Defined black representation	2012 target %	2012 actual %	2011 actual %
Top management	38,5	38,5	38,5
Senior management	40,0	42,0	33,8
Professionally qualified/ experienced specialists/ mid-management	49,6	51,2	46,0
Skilled technical and academically qualified/ junior management	71,4	73,6	71,2
Semi-skilled and discretionary decision-making	87,8	90,8	89,4
Unskilled	96,3	95,5	95,3

Liberty achieved the employment equity targets set by its SET committee across all occupational categories in 2012, and increased its dti Codes of Good Practice employment equity rating to 11,20 in 2012 (2011: 10,15). Of the 1 075 new South African appointments in 2012 88% were black, of which 52% were African defined. 52% of the total appointments were female, of which 46% were black.

The main challenge within the financial services sector is to achieve representation at senior and professionally-qualified levels. Significant progress has been made in improving representation in key decision-making positions.

The updated 2013 employment equity plan will support the group's strategic objectives, whilst continuing the journey of transformation achieving alignment with the revised dti codes and the Financial Sector Charter. A specific focus will be on senior and professionally qualified levels as well as improving the proportion of women ratios within these. Higher targets for disabled persons will also be included.

Create a sustainable future

The board recognises that a long-term view of human capital is required in order to support the sustainability of the group. Skills development, empowerment and career management are cornerstones of the investment in employees.

Career management

To facilitate human resource development and career management, Liberty's organisational development function has begun profiling approximately 600 roles within the group. By the end of 2012, 320 job profiles had been completed and the remainder are expected to be concluded by the end of 2013. The project is already contributing to an improved understanding of job levels and titles, and, when completed, will clarify development requirements and help managers and employees plan career paths within the organisation. Further benefits will include a more appropriately skilled workforce, improved recruitment and retention and better clarity and fairness around remuneration.

Talent management

A talent management framework was implemented across the group. The aim is to balance consistency with the unique needs of each business unit and ensure that high-performing employees receive appropriate support. Three categories of high-performing staff have been defined as follows:

Critical skills: Individuals who have scarce, highly developed skills and a profound understanding of the Liberty group and its operating environment, and are able to drive change within the business.

Leadership talent: Employees identified as having the potential to succeed in a business unit or Liberty Holdings executive role within the next three to five years. These are exceptional individuals who exceed job standards, think and act strategically, and have strong general management and leadership capabilities.

Young talent: Individuals under the age of 35 who have been identified as having high potential value. They are ambitious, career-centred, conceptually strong and have well-developed emotional intelligence. They are top performers, consistently exceeding job standards.

In succession planning, Liberty expects to draw on employees from these categories to fill vacancies in critical and leadership roles and therefore accelerates the development of these employees. Through this process various skill gaps have been identified and plans to address these through either intra-group transfers, grooming promising employees or external recruiting, will be formulated in 2013.

Although the average tenure of Liberty's employees in 2012 was down one year at seven years (2011: eight years), Liberty actually retained a greater proportion of its workforce in 2012. Total staff turnover across the entire group was 12,1% (excluding the newly-acquired Total Health Trust business in Nigeria). Whilst turnover has declined it is still marginally above the internal target of 11%. Voluntary turnover (i.e. excluding retrenchments, dismissals, intra-group transfers and mutually-agreed separations) among the same workforce also declined to 10,3% in 2012 (2011: 11,0%).

There was a slight decrease in retention of previously disadvantaged staff in South Africa with a turnover of 12,9% in 2012 compared with 12,1% in 2011. Turnover amongst female staff was 10,9% in 2012.

In 2012, Liberty expanded the monitoring and reporting of staff turnover in order to include operations outside of South Africa. Staff turnover in Rest of Africa operations was 13,1% for 2012.

Training

Various training programmes across the group are undertaken each year with the total expenditure on training for South Africa salaried employees being R43,7 million in 2012, representing 1,4% of total staff costs. 83% was spent on black staff, and 58% on female employees and a total of 4 472 permanent salaried employees in South Africa have benefited. Total training spending in 2012 was higher than in previous years (2011: R20,6 million) mainly due to widening the definition of training to include internal seminars and technical training.

Training statistics for South African workforce	Commission-remunerated agents 2012	Salaried employees 2012	Salaried employees 2011
Total training spend (Rm)	25,4	43,7	20,6
Average training spend per individual (R)	7 031	7 726	3 914
Average training hours per trained person	3,0	25	33
Blacks as % of staff trained (%)	41	83	76
Females as a % of staff trained (%)	46	58	58
Training spend as a % of staff costs (%)		1,4	0,8

Liberty's people (continued)

Of the total training expenditure in 2012, the greatest proportion (49%) was spent on training at the skilled technical occupational level. Liberty provides induction training for all employees, which covers ethics and fraud prevention. Training for tied agents emphasises sales skills and product knowledge.

A variety of training programmes are developed internally and offered to all business units. These include:

- **Management Development Programme:** This programme enhances the knowledge and skills of junior and middle managers through practical learning experience. It focuses on the individual's career development needs and assesses progress against them on completion. Of the 141 employees who participated in 2012, 56% were females and 42% were black.
- **Actuarial Development Programme (ADP):** This programme is designed to address the shortage of actuarial skills within Liberty and the industry as a whole. The company spent R2,3 million on 165 ADP participants in 2012 (2011: R2,3 million on 147 participants) of whom 29% were female and 42% black. Eight actuarial students qualified in 2012.
- **Liberty Learnership Programme:** The Liberty Learnership Programme, supported and funded entirely by the Insurance Sector Education and Training Authority, offers young previously disadvantaged individuals work experience, and builds skills in the insurance sector generally. Learners receive a NQF Level 4 qualification subsidised by Liberty as well as eight months work experience. 120 learners started the programme in 2012, and 114 graduated, of whom 96% were black, 68% were female and 16% were disabled. Since the programme's inception in 2004, its completion rate has been a healthy 95%, with 63% of participants subsequently accepting permanent positions with Liberty which is one of the highest conversion rates in the industry.
- **Graduate Development Programme:** This programme targets young, high-potential graduates starting work with Liberty. It is part of the entry-level talent management strategy, and helps build a leadership pipeline. Six graduates participated in the programme in 2012, all of whom are black and four of whom are female. All six graduates have been placed in permanent roles. Over 40% of all past graduate participants are still employed at Liberty.

Liberty additionally encourages skills development through its bursary programme designed to assist employees to develop their careers with the group. Liberty granted 1 044 bursaries in 2012, helping employees to gain a wide range of qualifications in the fields of finance, audit, information technology, marketing, legal, management, human resources, economics, risk management and sales.

Liberty bursary participants

	Race category – number of participants				
Gender	**African**	**Coloured**	**Indian**	**White**	**Grand Total**
Female	275	70	83	77	505
Male	252	35	94	158	539
Total	527	105	177	235	1 044

The group also paid actuarial bursaries to five students, two of whom joined Liberty in 2013 and three of whom are continuing their studies.

Ensure a high performance work culture

The group's shared vision and purpose was reviewed in 2012 to update, as necessary, and to forge an agreement at senior management level. The agreed vision resulting from this review is contained on page 10. As part of the process, a set of leadership behaviours were also agreed, refer page 160, which will guide the company's selection and development of its leaders in the future.

Employee engagement

Every second year, Liberty conducts a group-wide employee attitudinal survey (EAS) to gauge satisfaction and register concerns among employees. All permanent employees are encouraged to complete the survey, and the results are used to inform HR strategy and to refine specific practices where necessary.

The last survey, conducted in August 2011, highlighted four key areas for improvement: fair employment practices, personal development and career management, change management, and job stress. In response, specific action plans at both group and business unit level, have been agreed and progress is tracked on a quarterly basis.

Liberty will conduct its next EAS in 2013, with several changes that will improve data integrity. An internet-based survey was piloted in Liberty Kenya Holdings Limited in November 2012 and had an excellent response rate (over 80%), signalling employee trust in the survey.

Liberty supports its employees' right to freedom of association as set out by the International Labour Organisation. No collective bargaining agreements are currently in force at Liberty as only a very small proportion (207 employees, or 3.7% of total permanent South African workforce) are members of SASBO (South African Society of Bank Officials).

Although Liberty prefers to remain the first point of engagement with its employees, the group engages with SASBO in accordance with the rights afforded it under the Labour Relations Act, and is accommodating SASBO's increased involvement in the group's disciplinary and arbitration procedures. The group intends to continue maintaining effective relations with SASBO going forward. In 2012, no strike action took place.

Liberty aims to deal with potential employee issues before they become problems. This includes training staff on the company's policies as well as labour legislation. Despite this, disciplinary incidents do occasionally arise. In 2012 there were 71 such incidents (2011: 35), 18 of which were referred to the Council for Conciliation, Mediation and Arbitration (2011: 14).

Performance management

In order to enhance the culture of a 'high-performance workplace' in which employees' performance contributes directly to the success of business units, the group employees now receive feedback on performance more regularly. All staff receive a minimum of one performance review per year, with quarterly or bi-annual feedback in some business areas. In 2013, Liberty will move towards a minimum of two feedback sessions per year. Management believes that these engagements will help employees to understand the group's performance expectations better, and facilitate more accurate performance-related rewards.

In 2013, Liberty will deliver a programme of targeted leadership development, with selected senior leaders working in cross-functional teams to address strategic business challenges. Participants will be supported by expert guidance and mentoring.

Remuneration

Liberty's total group payroll cost (excluding commission earners) for 2012 was R3,0 billion, up 17% from R2,6 billion in 2011. This represents approximately 40% of the group's overall marketing and administration expense (2011: 40%). Total commission paid to tied agents increased by 16,4% to R1,1 billion. Commission is largely variable and in line with the 2012 improved group sales performance.

Full details of the group's remuneration practices are contained in the Remuneration of Liberty's people section.

Change management

Liberty has responded to feedback from the 2011 EAS by building a change management framework, introducing toolkits, and training line managers to work more effectively in times of transition. The training has been focused on business areas undergoing significant change or growth, such as Liberty's regulatory project management office, Retail SA's decentralised operations, Liberty Properties and the group procurement function.

In 2013 management plans to develop its change management structures and processes further.

Employee wellness

In 2012, the employee wellbeing programme was extended to Liberty entities throughout Africa extending access to benefits to approximately 600 employees.

To help employees assess their wellness levels and learn more about healthy lifestyles, several wellness days were held across South Africa. These increase the visibility of the company's employee wellbeing services and provide a variety of health assessments. The assessments help occupational health and safety staff to identify and address any occupational hazards employees might be facing.

The fully refurbished Liberty Fitness Centre in the Braamfontein offices opened in November 2012, and boasts state-of-the-art cardiovascular equipment and a massage therapy room. At year end 2012, fitness centre membership stood at 815.

In 2012, Liberty began developing a wellness index to gauge the health of its workforce, and facilitate a better-targeted response to health challenges. The index is being further enhanced using existing data on employee demographics, leave statistics and medical aid information. The group expects to complete the project in 2013.

Health assessments performed to date have revealed worrying levels of obesity amongst employees, with approximately 20% of people tested suffering from high blood pressure or cholesterol issues. The assessments also indicated high stress levels.

Through Liberty's Wellness Centre, employees have access to a wide range of medical professionals, including doctors, a pharmacist, occupational health nurse, optometrist, physiotherapist, dentist, oral hygienist, chiropractor, podiatrist, sports masseuse, counsellor, reflexologist, audiologist and dietician. In 2012, a stress management pilot programme provided Liberty with valuable information which will assist significantly in developing stress management initiatives planned in 2013.

Liberty's people (continued)

Occupational health and safety

Liberty's occupational health and safety (OHS) function conducted comprehensive risk assessments across the group, during 2012. This informed an update of the key risk areas and identified opportunities for strengthening health, safety and environmental practices, for example, a new fire suppression system for the IT systems was implemented.

Year-round training and awareness campaigns are conducted by OHS, including simulated disasters to verify that procedures are understood and adhered to, to assist in ensuring the appropriate response if a real event were to occur. These representatives also identify hazards in the workplace and assist in accident investigations. There are 37 representatives at head office, and 97 in other buildings housing Liberty operations.

South African salaried staff injuries and days lost	2012	2011	2010
Number of injuries	**22**	31	18
Number of injuries reported to the Department of Labour	**22**	18	8
Number of days lost	**76**	113	n/a
Injury frequency rate (per 200 000 hours)	**0,41**	n/a	n/a
Total number of sick leave days taken	**20 491**	18 827	16 786
Average sick days per employee	**3,7**	3,5	3,8
Absenteeism rate (%)	**1,4**	1,4	1,2

n/a: not available

Safety incidents on Liberty property remain low, but increased slightly from 2011 due to construction activities at head office.

Appointed safety, health and environment representatives comprising business unit employees receive specific training that extend the ability to mitigate against OHS risks. In 2012, 18 of these representatives received health and safety training.

Looking ahead

Priorities in 2013 include:

- Launching the agreed Liberty brand essence throughout the group followed by public awareness campaigns.
- Improving performance assessment and employee alignment of KPI setting to the group and business unit strategy through completing the job profiling project and implementation of improved performance data monitoring.
- Targeted leadership development with selected senior leaders working in cross functional teams.
- Further develop change management structures and processes.
- Reviewing the group's organisational design with a view to identifying opportunity for better alignment, efficiencies and utilisation of common processes
- Enhance the capability of Liberty's workforce through creating a comprehensive knowledge enabling culture.

Remuneration overview from the chairman of the remuneration committee

The remuneration committee has continued to focus on the remuneration issues that it considers imperative to delivering on the strategy approved by the board as well as ensuring that there is material alignment with the expectations of shareholders.

Constructive input was received from a number of shareholders in respect of the 2011 remuneration policy, for which I am grateful. The committee has endeavoured to incorporate the key recommendations or give explanations as to why no change is intended. Management and I also engaged with a sample of ten shareholders in person in January 2013. The discussion focused on the group's remuneration philosophy, key elements comprising total remuneration, i.e. guaranteed remuneration, short- and long-term incentive schemes and non-executive director fees, as well as proposed amendments to the policy.

While it is difficult to address all the issues raised by different shareholders we believe that the material concerns have been addressed either by amendment to the policy or through enhanced disclosure. The key issues raised by shareholders followed by the committee's actions and explanations (indicated by ✓) in response follow.

The vesting of restricted shares (long-term plan) starts as early as the second anniversary of the date of grant. Shareholders give preference to incentives that vest over longer periods of time:

✓ The vesting period has been changed to three, four and five years at 33,33% per year (previously two, three and four years at 33,33% per year) for 2013 and future allocations.

Excessive option life of 10 years on Liberty Equity Growth scheme and 12 years on the phantom share scheme:

✓ The Liberty Equity Growth scheme is no longer the primary scheme and from 2013 performance conditions will be mandatory for all future grants.

✓ The phantom scheme is a closed scheme (12 year option life). This was a once off allocation in 2006 with no subsequent allocations. Refer to page 124.

✓ Detailed disclosure of active and inactive long-term incentive schemes is included in the Remuneration of Liberty's people section on pages 120 to 127.

The number of shares for use in share schemes (10%) was considered excessive by international shareholders:

✓ Shareholder approval was granted for 29 million unissued shares to be reserved for long-term incentive purposes. This represents approximately 10% of Liberty's share capital, which is in line with South African market trends and is not considered to be excessive.

✓ This grant of shares covers all schemes over the life of the schemes. Vested shares cannot be re-issued.

✓ A detailed reconciliation table is disclosed on page 128.

Disclosure of clawback of deferrals was not provided:

✓ Detailed disclosure of clawback of deferrals is included under the description of each applicable scheme included on pages 122 to 123.

Performance conditions are not mandatory for long-term Incentives:

✓ Mandatory performance conditions have been implemented for 2013 and future long-term incentive allocations (restricted shares (long-term plan) and Equity Growth scheme).

✓ Performance conditions will be tested at vesting and shares will lapse at this point if conditions have not been met.

✓ Disclosure of performance conditions is provided under the description of each applicable scheme included on pages 122 to 123.

✓ The performance condition applicable for 2013 is that the group adjusted return on group equity value per share must exceed its cost of equity for the full award to vest. There is a sliding scale applicable for lower performance, with a minimum performance threshold of a long bond rate plus 1% for any portion of the awards to vest.

Higher short-term incentive deferral thresholds:

✓ An additional deferral level has been introduced which will result in 40% of the short-term incentive over R5,5 million being deferred with effect from 2013.

Remuneration overview from the chairman of the remuneration committee (continued)

The committee believes that Liberty's remuneration practices and policies support the delivery of the business strategy and support sustainable growth in returns to shareholders. Key principles applied include:

- A strong correlation between objectively measured performance (financial and non-financial), underpinned by our vision and values, and the levels of remuneration.
- Appropriately weighted fixed and variable pay according to seniority and roles to encourage short- and long-term performance, as well as retention.
- No reward for risk-taking outside of the board approved risk appetite.
- Market related benchmarking in line with the board approved portfolio remuneration approach[(1)].

Looking forward, the committee will continue to:

- Increase and improve engagement with shareholders regarding remuneration, specifically executive remuneration.
- Continue to balance detailed disclosure with maintaining a competitive advantage in terms of remuneration and financial target setting.
- Keep abreast of the regulatory environment and the impact this might have on remuneration, as well as local and global remuneration trends and best practice.
- Focus on attraction and retention of talent.

AWB Band

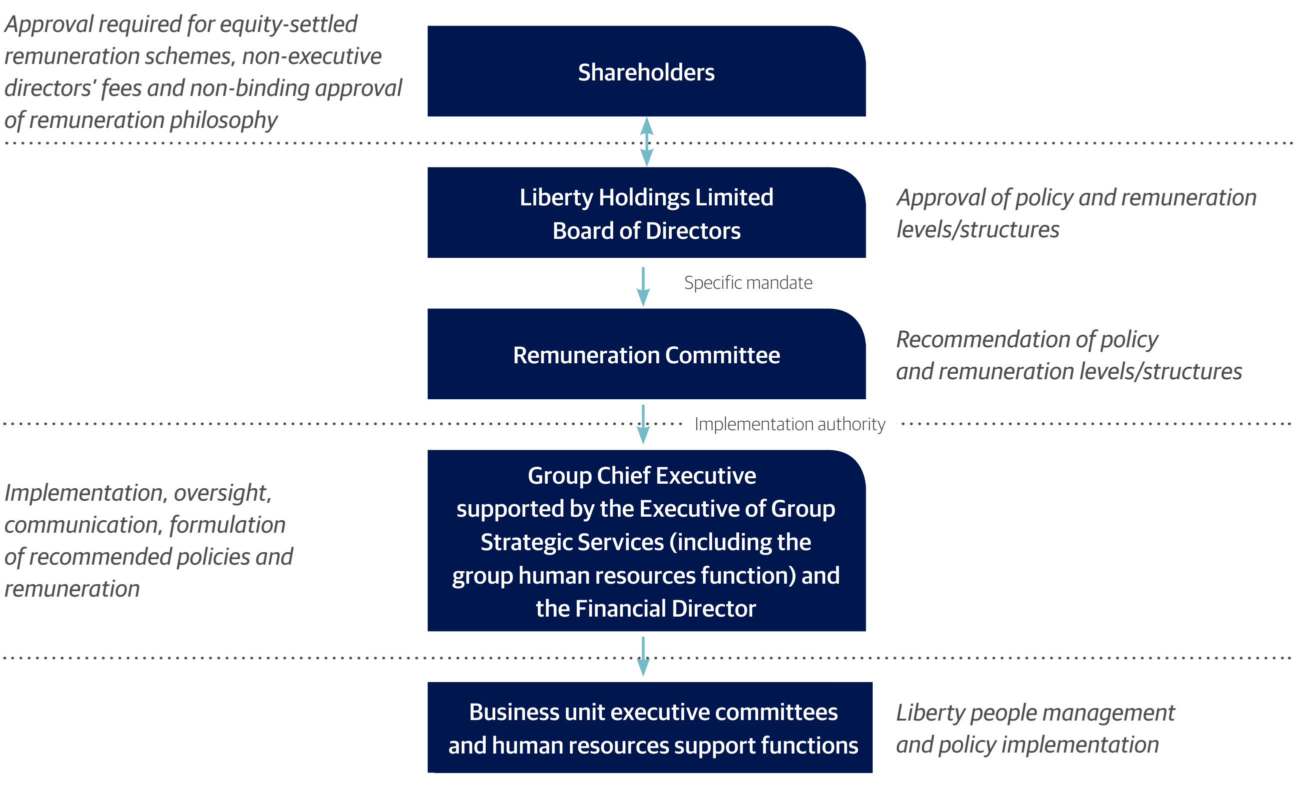
27 February 2013

(1) Portfolio remuneration approach: Remuneration structures are designed to reward employees appropriately for performance achieved in their respective business units in addition to the overall group performance. This approach considers the market sector (e.g. asset management and properties), the maturity (e.g. business units requiring turnaround) and the lifecycle (e.g. start-ups).

Remuneration of Liberty's people

Governance of remuneration

The philosophy, policies and levels of remuneration at Liberty are set within a governance framework. The diagram below outlines the main levels of authority within this framework:



Overview

The primary purpose of the Remuneration Committee (remco) is to ensure reward practices and policies support the delivery of the business strategy. The remco implements its board mandate through interaction with Standard Bank, shareholders, board members, external consultants and management. Thorough independent external research on remuneration best practice, industry and country specific trends and role profile benchmarking assist the committee in formulating policy and remuneration structures at Liberty. The committee members have unrestricted access to information to independently ensure compliance with the group risk appetite, policy and regulatory requirements. There is effective communication to the group and relevant business unit executives to manage their employees within the approved policies and are empowered in all aspects of human resource management. They are assisted by dedicated human resource experts and sub-committees which focus on specific issues. The remco is provided with reports and assistance from the group human resource function, enabling oversight and to assess effectiveness and implementation of policies. The key objective being an appropriate link of levels of reward to business performance underpinned by the group's vision, purpose and values, and effectiveness of strategy implemented within approved risk appetite.

Responsibilities and meetings

The members of the remco, their meeting attendance summary and responsibilities are summarised in the governance section on pages 146 and 150.

Recommendations for shareholder approval

Based on shareholder feedback and industry comparison, the directors are proposing the increase of vesting periods from 2, 3 and 4 years to 3, 4 and 5 years on new issues of awards in the primary long-term incentive scheme, housed within the Liberty Holdings group restricted share plan for shareholder approval at the 2013 annual general meeting.

Directors

Details of the Liberty Holdings Limited directors' remuneration and policy is covered in a separate section on pages 153 to 157.

Remuneration of Liberty's people (continued)

Remuneration policy

Remuneration philosophy and methodology

Liberty's remuneration philosophy is to ensure as far as possible that its employee and shareholder interests are aligned. Remuneration structures are linked to the group's strategy as detailed in this report. The group has adopted a portfolio remuneration approach, in terms of which remuneration structures are designed to reward employees appropriately for performance achieved in their respective business units in addition to the overall group performance. Consideration is given to the market sector, maturity and life cycle of the business unit.

The total remuneration package and its respective elements are referenced to "like-for-like" market remuneration levels adjusted for relative experience and responsibility levels. The remuneration package is geared to the employee's level of influence and role complexity in the group and the business unit and balances the need for meeting both short-term operational goals and long-term strategic objectives. This line of sight principle is core in ensuring linkage between expected performance and variable remuneration. The balance between fixed and variable pay is appropriately structured according to seniority and roles and does not reward risk-taking outside the board-approved risk mandates. All remuneration practices, policies and processes are guided by race and gender non-discrimination as well as internal and external parity and are implemented on the basis of differentiation in respect of performance. Talent attraction, retention, driving a performance culture and transformation are important elements of the total remuneration proposition in order to be an employer of choice.

The potential cost to the business is an important consideration in the design of remuneration structures and an efficient approach to remuneration is adopted, applying common structures where applicable across business units. Appropriate flexibility to respond to the market environment and motivated exceptions are allowed but these are kept to a minimum with prior justification and governance required.

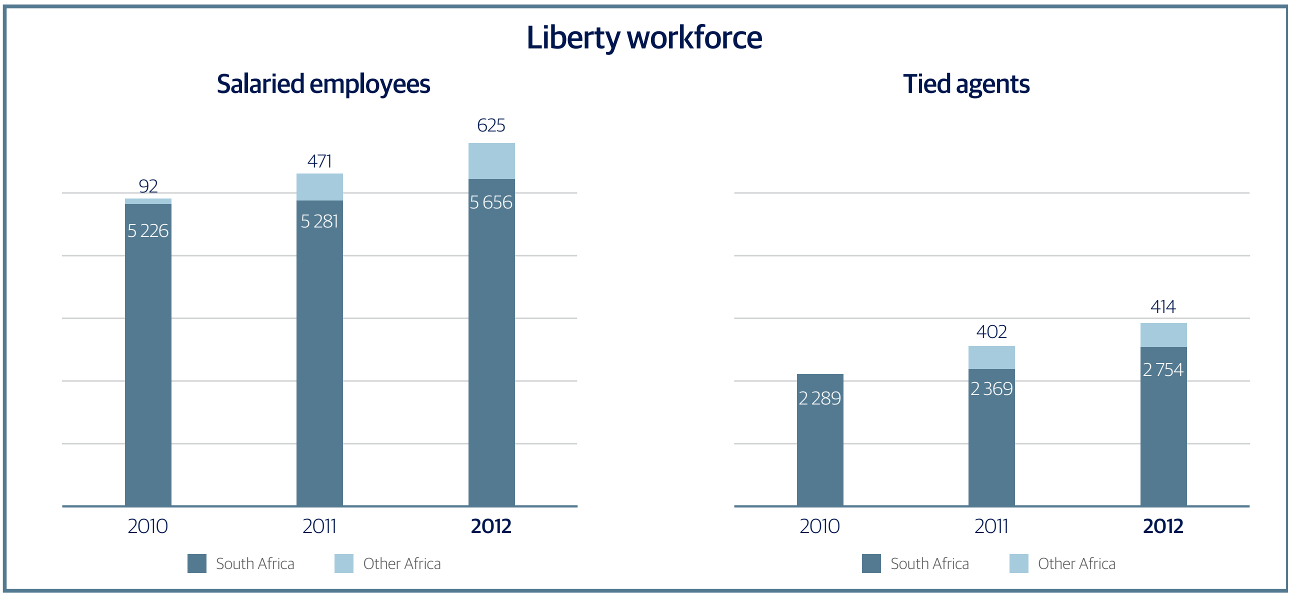
Ensuring performance

There is a strong correlation between objectively-measured performance and levels of remuneration. A performance contract exists for every position defining and clarifying the objectives and outputs required of each incumbent. Performance contracts and incentive structures identify and clarify measurable (financial and non-financial) deliverables and indicators against which performance can be measured over defined periods. Formal reviews of these performance contracts take place to ensure transparency in performance feedback, to identify development needs and to determine corrective action where appropriate. The year-end performance review provides input for increases and incentive participation. Personal development plans for all employees ensure that development needs are acted upon in a timely manner and that there is support for assisting career growth aspirations.

Benchmarking

Liberty uses various independent providers to ensure that it remunerates employees competitively and care is taken to select appropriate peer groups, ensuring comparison to a similar market sector and comparable size. Factors such as industry, revenue, profits, market capitalisation and number of employees are considered. Market surveys form the base to guide appropriate remuneration structures. Benchmarking in particular to the financial services industry is completed and reviewed at the end of the year to track market movement and to influence relevant salary scales for the following year. Ad hoc surveys are undertaken where there are indications of significant shifts in remuneration structures or levels in the market or new areas of business are developed.

During 2012, PwC Consulting undertook a review of long-term incentive performance conditions appropriate for the company and the insurance industry. 21st Century Business and Pay Solutions and Remchannel conducted further surveys on remuneration trends and benchmarking remuneration packages.



Implementation of policy

Tied agents – commission earners

Liberty distributes various insurance and investment products via several independent and tied sales channels. The tied sales channels include tied agents who are exclusively contracted to and managed by Liberty. Their remuneration structures are based on set commission rules linked to the quality, quantum and mix of products sold. There is normally a basic minimum monthly rate of earnings, however the majority of agents' commission earnings are well in excess of this minimum basic amount. Included in the commission rules are clawback provisions in the event that the customer lapses their policy or investment within prescribed periods from sale date. Various customer retention, quality and volume incentives are offered to assist in achieving sales and customer retention targets. Based on performance and grading, certain tied agents in South Africa qualify for a deferred unit trust forward purchase scheme that is used as a retention mechanism. The scheme provides award values in the form of units in designated STANLIB unit trusts with delivery periods of three years, conditional on remaining contracted with the group and minimum performance criteria. Tied agents are also eligible on a voluntary basis to join the group's sponsored medical aid scheme and various defined contribution retirement schemes. In respect of STANLIB sales management, portions of the volume awards are deferred between one and two years and are adjusted by subsequent customer retention levels.

Salaried employees

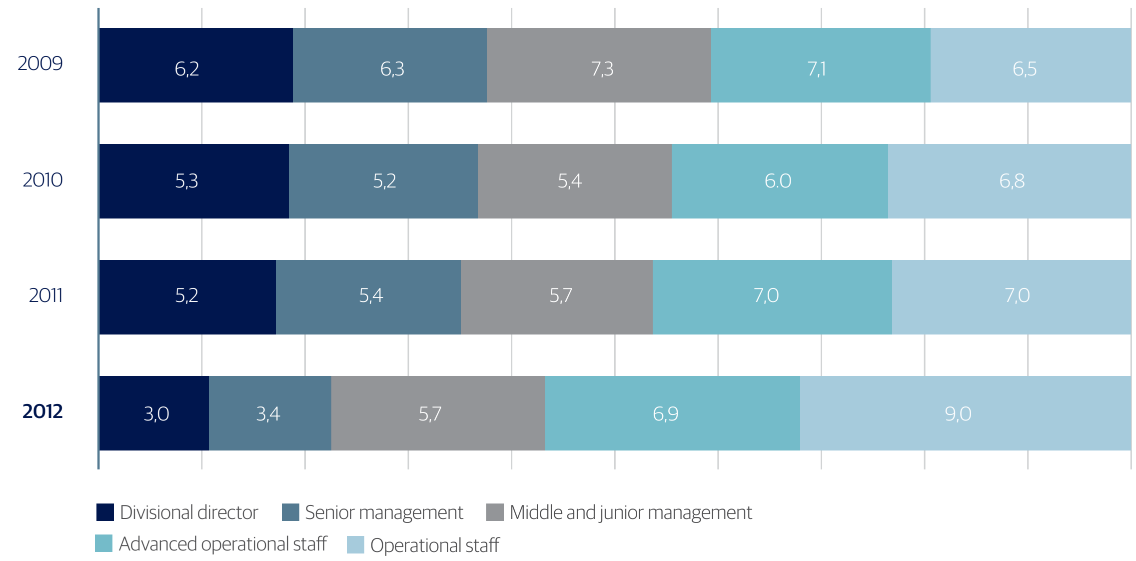
Key elements of the remuneration package

The remuneration package of salaried employees consists of guaranteed and variable elements. The variable elements consist of short-term incentive schemes for which all employees are eligible and long-term incentive schemes which typically only apply to senior management. The proportional weighting of variable remuneration generally increases in line with higher levels of authority and required skills. Service agreements are not offered and notice period do not exceed three months.

Guaranteed remuneration

The guaranteed element of remuneration comprises a basic salary, qualifying allowances and compulsory benefits, which include life and disability cover and defined contribution retirement funding. Liberty's benchmarks on remuneration are performed on the complete package value. Salary increases for South African based employees are scheduled annually effective 1 April and will reflect a market-related adjustment based on inflation, market and financial sector trends. At an individual level, the employee's performance and market comparison per job grade determines the increase. Employees are generally remunerated at the 50th percentile as advised by market survey data, taking cognisance of scarce skills. The group, mainly through historic practices, is currently at an average slightly higher than the 50th percentile on guaranteed remuneration. However, given the current economic climate and labour unrest, the remco has chosen to provide in 2013 at least inflation levels of annual increases for lower staff bands, with senior management increases being restricted to an average of between 3% – 4%. Proportionately higher guaranteed remuneration increases for lower staff levels have been implemented since 2010 in order to narrow the differentiation between management and staff. In addition, with effect from November 2012 the lowest salary packages were adjusted to a minimum of R100 000 per annum.

Average salary % increases – South African salaried employees



Remuneration of Liberty's people (continued)

Liberty recognises the value created for individual employees to allow package structuring to align with personal financial requirements including ability to increase life and disability cover, leave entitlement and contributions to retirement funds. This structuring must be within the total guaranteed remuneration.

Added benefits include being eligible for a closed, Liberty administered, medical aid scheme and a comprehensive employee well-being programme including:
- Access to counselling and support.
- An on-site créche, gym and wellness centre at the Braamfontein head office which is serviced by doctors, physiotherapists, dentist, beautician, optometrist, audiologist and nursing staff.
- Provision of canteen facilities at the Braamfontein head office complex as well as at STANLIB, and at the Cape Town and Durban regional hubs.

The added benefits assist with retention and productivity and have been benchmarked in the top quartile of employee value propositions in South Africa.

Variable remuneration

The primary role of variable remuneration is to reward out-performance and retain key employees. Incentive schemes include short- and long-term plans and ensure significant reward for out-performance. Long-term plans align management objectives closely to those expected by shareholders. The various schemes currently in place within the group is summarised in the table that follows, cross-referenced to detailed descriptions of each scheme.

The primary variable remuneration schemes that incentivise management, whilst short-term in nature, have mandatory referrals which are designed to assist in retention and deter unacceptable risk taking.

Long-term incentive schemes are utilised where there is a need to increase an individual's retention opportunity, particularly where there are insufficient deferrals of short-term incentives.

Short-term incentive schemes (STIs)

Purpose

The primary role of STIs is to align employee and company interests to achieve stated objectives in a particular year, encourage desired behaviour and reward excellent performers. The schemes are based on a series of financial targets and personal objectives. Bonus awards are on a self-funding basis which requires that financial targets need to be met inclusive of the cost of the incentives. Key principles of the short-term incentive schemes include minimum qualifying service periods in the year, *pro rata* adjustments for service periods of less than a year and a pre-condition of being in the employment of the group at award date.

The group operates four STIs for South African resident employees namely:
- Senior management incentive scheme;
- STANLIB short-term incentive scheme;
- LibFin markets scheme; and
- Liberty general staff incentive scheme.

Annual determination of financial targets

Financial targets supporting the various short-term schemes are, approved by the board annually.

Financial targets are set to drive sustainable profitable growth and not be detrimental to the group's long-term interests. Management propose targets to the board that provide appropriate incentives, are sufficiently challenging, are aligned to shareholders' interests and are within the group's risk appetite.

Targets are set both at a group and business unit level and are aligned to minimum required returns using cost of capital as a base. The entire Liberty Holdings executive as well as the majority of senior management have a minimum weighting of 20% of their financial targets aligned to group measures.

After consultation with shareholders as well as external consultants, the group financial targets comprise three measures:

- *IFRS operating earnings (45% weighting)*
  Defined as BEE normalised headline earnings excluding the performance on the shareholder investment portfolio and unhedgeable components of asset-liability mismatches. This measurement was chosen given its relevance to those earnings that managements' performance tends to influence.
- *Return on Group Equity Value (45% weighting)*
  This reflects the Group Equity Value profits normalised for the assumed annual long-term investment return and measured before dividends to Liberty Holdings Limited ordinary shareholders.

  Remco chose this measure as this reflects the best estimate of value generated by the business during the year and is normally closely correlated to share price performance.
- *LibFin Shareholder Investment Portfolio (SIP) – gross return (10% weighting)*
  This measure reflects the under or over performance of the SIP compared to set benchmark. Given the significant size of the SIP and the sensitivity of the contribution to group earnings remco chose this indicator to ensure focus by management on the performance of the SIP.

Each year targets for the financial metrics are linked to the cost of equity.

Summary of STIs currently utilised

STI – 1 Senior management incentive scheme

This scheme is applicable to senior management not included in the STANLIB or LibFin markets schemes.

The scheme is designed to incentivise senior management to achieve the group and specific business unit's annual business plans that support the board approved strategy.

There are two performance components of the scheme, the first being personal objectives with the other being financial.

At the lowest participation level 15% of guaranteed package is set for personal Key Performance Indicators (KPIs) increasing to 20% at higher participation levels. In the event that the minimum financial targets are not attained, only the KPI component, moderated through the performance management process is available to be paid as a bonus.

The financial component scale has at each participant level a predetermined percentage of guaranteed package at various reference points which then determines the amount of the incentive to be awarded. Participation levels range between 15% and 120% of guaranteed package at the "on target" level. "On target" is the performance level at which the board believes will represent an achievement above the average of realistic shareholder expectations. Amounts awarded are adjusted for achievement above or below this level with a minimum achievement of approximately 80% of "on target" set to qualify for any financial bonus. The remco also imposes a discount adjustment if certain key non-financial objectives are not met which vary from year to year. In 2012 the non financial objective was achievement of the group's agreed transformation plan at senior category levels. The remco also has the discretionary right to adjust actual financial performance for any items they determine were not in managements' control.

All participants have a minimum weighting of 20% to group financial targets with the balance apportioned to relevant specific business unit financial targets.

Bonus awards are however forfeited if risk appetite is breached and incentives over a certain threshold (established annually) are deferred into the Liberty Holdings group restricted share plan (deferred plan, see detail under the long-term incentive scheme section below). The purpose is to ensure a retention component to the STI methodology and to focus management on the longer term financial results. In addition a clawback provision is in place over the deferral portion until vesting. Unvested deferrals may be forfeited in full or in part at the remco's discretion if in their opinion the particular participant has demonstrated misconduct or has misstated financial performance in the current or prior years.

For the 2012 incentive paid in 2013:
- Amounts awarded in excess of R500 000 up to R2 million (2011: R2 million) at 20% (2011: 20%)
- Amounts awarded in excess of R2 million up to R5,5 million at 30% (2011: 30%)
- Amounts in excess of R5,5 million at 40% (2011: 30%)

Amounts are deferred into the restricted share plan (deferred plan).

STI – 2 STANLIB short-term incentive scheme

This scheme is applicable to STANLIB investment professionals and senior management. Bonus pools are calculated utilising a base level adjusted for percentages of profit growth at a franchise unit and STANLIB group level. The investment franchise pools are calculated separately for each franchise to ensure reward is aligned to the underlying success of the franchise. The bonus pool is then allocated to participants relative to their performance. Up to 50% of the awards are deferred to the STANLIB deferred bonus scheme. (Refer LTI-4 below.)

Remuneration of Liberty's people (continued)

STI – 3 LibFin markets scheme

Investment professionals in LibFin, given the specialist nature of the skill set required, are eligible for short-term incentive awards that are specifically benchmarked on an annual basis to market-related data. This is obtained from the Standard Bank Global Markets remuneration unit and other independent sources as required. The amount of the STI award is linked to the performance of each participant and the business unit against predetermined key performance targets.

For the 2012 incentive paid in 2013, amounts awarded in excess of R1 million will be deferred into the restricted share plan (deferred plan) at 30%, those in excess of R3 million will be deferred at 40% and awards over R5,5 million will be deferred at 50%.

STI – 4 Liberty general staff incentive scheme

A general staff incentive scheme (excludes all staff on the senior management incentive scheme, the STANLIB short-term incentive scheme and the LibFin markets scheme) rewards staff based on individual, business unit and group performance. This scheme includes awards of between 4% and 20% of annual total package.

Long-term incentive schemes (LTIs)

Purpose

The primary role of LTIs is to supplement deferred short-term incentive awards mainly where there is insufficient exposure to effectively assist in retention of key management and critical skills.

The remco currently grants LTI awards to management under the following schemes:

- The Liberty Holdings group restricted share plan (long-term);
- The Liberty Holdings group restricted share plan (deferred plan);
- The Liberty Equity Growth scheme; and
- The STANLIB deferred bonus scheme.

The first three schemes are accounted for as equity-settled share schemes, and the latter scheme is cash-settled, referenced to unit trust values rather than a Liberty Holdings Limited equity instrument.

In addition, staff and management have outstanding awards under the following legacy plans that will vest and be settled under the rules in force at the time of grant. The remco does not intend to make any further awards under these plans.

- Share unit rights plan;
- 2010 Liberty deferred bonus scheme;
- Phantom share scheme;
- The Liberty Group Share Incentive scheme; and
- The Liberty Life Equity Growth scheme.

The Black Managers' Trust is closed to new participants.

Summary of LTIs currently utilised and schemes with outstanding obligations

LTI – 1 The Liberty Holdings group restricted share plan (long-term)

It is intended that this long-term plan will be utilised by the remco for selected executives mainly as a retention mechanism, fully aligning the key decision-makers with shareholder interests.

Awards are in the format of fully paid-up shares in Liberty Holdings Limited which are held in a trust subject to vesting conditions (service and performance) and will be forfeited if these conditions are not met during the performance measurement period. The executive is entitled to receive dividends during the vesting period. Specific details are as follows:

Performance conditions	• Awards granted after 29 February 2012 are subject to performance conditions linked to the real growth in group equity value per share. Awards granted after 28 February 2013 are subject to performance conditions linked to the cost of equity • Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the relevant awards will lapse • Unvested shares are forfeited on termination of employment
Vesting period	2012 awards: • 2 years – 33,3% (no performance condition) • 3 years – 33,3% (no performance condition) • 4 years – 33,3% (performance condition)
Clawback	• Awards may be reduced or forfeited, in full or in part, in the remco's judgement for misconduct or materially adverse misstatement of financial measures
Other	• Applicable dividends are paid to participants as and when paid by Liberty • No voting rights are attached to the shares held in trust

LTI – 2 The Liberty Holdings group restricted share plan (deferred plan)

Annual short-term incentive performance bonus payments in excess of thresholds, arising from the senior management incentive scheme and the LibFin markets scheme determined annually by the remco, are subject to mandatory deferral. This is achieved by investing the deferred portions of the STI awards into Liberty Holdings Limited shares, which are held in a trust subject to vesting conditions. Participants are entitled to receive dividends.

Performance conditions	• Not applicable. Short-term incentive bonus was already dependent on achievement of performance targets. This scheme facilitates only the deferral of the cash payment • Unvested shares forfeited on termination of employment
Vesting period	• 18 months – 33,3% • 30 months – 33,3% • 42 months – 33,3%
Clawback	• Awards may be reduced or forfeited, in full or in part, in the remco's judgement for misconduct or materially adverse misstatement of financial measures
Other	• Applicable dividends are paid to participants as and when paid by Liberty • No awards granted if the group does not pay incentive bonuses in a particular financial year. • No voting rights are attached to the shares held in trust • Liberty Holdings Limited executives can elect to take up to 50% of the deferral award in share rights through the equity growth scheme. A 10% premium is provided on those elections to reward the greater level of uncertainty, the longer vesting period and the absence of dividend rights

LTI – 3 The Liberty Equity Growth scheme

Executives are awarded a conditional right to receive shares equal to the value of the difference between the share price at the time that the rights were granted and the share price when the rights are exercised (should the price of a Liberty Holdings Limited share appreciate in value).

Performance conditions	• The participant must have at least a fully achieved performance rating on both dates of award and vesting • Awards granted after 29 February 2012 are subject to performance conditions linked to the average real growth in group equity value per share. Awards granted after 28 February 2013 are subject to performance conditions linked to the cost of equity • Performance conditions will be tested at the date of vesting. To the extent that the conditions are not met at this point, the performance awards will lapse • Unvested rights are forfeited on termination of employment
Vesting period	• 3 years – 50% • 4 years – 25% • 5 years – 25%
Other	• No rights are issued at a pricing discount • Right holders are not entitled to dividends and do not have voting rights

LTI – 4 The STANLIB deferred bonus scheme

Annual short-term incentive performance bonus payments up to 50% are subject to mandatory deferral. This is achieved by investing the deferred portions of the STI awards into units of nominated STANLIB-managed unit trusts.

Performance conditions	• Not applicable. Short-term incentive bonus was already dependent on achievement of performance targets. This scheme facilitates only the deferral of the cash payment • Unvested awards forfeited on termination of employment
Vesting period	• 3-year cliff vesting
Other	• No awards granted if the company does not pay incentive bonuses in a particular financial year

Remuneration of Liberty's people (continued)

LTI – 5 Business unit long-term incentive schemes

Certain executives and senior management members of various business units participate in additional LTI schemes. These schemes are business unit-specific and are referenced to value created over periods of between three and seven years. Any amounts accrued under these schemes are cash-settled. Certain of the schemes have extended payment periods past vesting dates. Participants who leave the group prior to vesting or payment date forfeit any unvested or deferred amounts.

LTI – 6 Share unit rights plan

Units were allocated to executives and senior management at the discretion of remco. Each unit value is directly linked to the share price of one Liberty Holdings Limited ordinary share. The unit values are settled in cash, three years after the grant date, subject to the continued employment of the participant over the three-year period. Historical awards are not adjusted for Liberty Holdings Limited dividends paid.

LTI – 7 2010 Liberty deferred bonus scheme

The scheme was applicable to senior management incentive scheme participants who received incentives in 2011 for the 2010 performance year in excess of R1 million. Percentages ranging from 20% in excess of R1 million to 30% in excess of R6 million were deferred. Deferred amounts were converted into units, the value of which is linked to the Liberty Holdings Limited share price. The vesting date is three years from award date and the amount payable will be the equivalent of the unit value at that date plus a payment of 5% on original deferred value. Participants have the right to extend their net vesting values for a further year, which will then qualify them for an additional payment of 25% of the original deferred value.

LTI – 8 Phantom share scheme

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

Share option/right holders were 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, Liberty Group Limited 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 Liberty incurs a liability to the employee based on the price of Liberty Holdings Limited's shares.

LTI – 9 Black Managers' Trust

As part of the group's BEE transaction in 2004, 10 318 458 Liberty Holdings Limited ordinary shares (converted from Liberty Group Limited shares in terms of the 2008 section 311 scheme of arrangement) were reserved for allocation to qualifying black employees and certain non-executive directors. As at 31 December 2010, all the shares have fully vested. There are restrictive trading conditions until 31 December 2014. In terms of the group's transformation strategy, three non-executive directors were included in the scheme of which one has resigned as a director in 2012. Refer to the Remuneration of directors and prescribed officers section on page 154 for further details. After a JSE Listings rule change, there has been no subsequent entitlement by non-executives. There is no performance condition attached hereto, thus the principle of performance-based pay for non-executives is also not breached.

LTI – 10 The Liberty Group Share Incentive Scheme

Prior to the implementation of the Equity Growth Scheme, options were granted in terms of the Liberty Group Share Incentive Scheme. These options were granted to permanent employees at the discretion of the directors in terms of which shares in Liberty Holdings Limited (formerly Liberty Group Limited) may be acquired at prices prevailing at the dates of grant of the options. Delivery of such shares was acquired at future dates, which are determined at the date of implementation at the subscription price as determined on grant date. No options were issued at a pricing discount. Option holders were not entitled to dividends and do not have voting rights.

Liberty Holdings Limited executive committee remuneration

Members of the Liberty Holdings Limited executive committee (refer page 158 and 159 for details of the members) have packages comprising guaranteed remuneration, short and long-term incentives.

The remco, as far as possible, constructs these packages with a proportional weighting of approximately 40% guaranteed and 60% variable (excluding LTIs) based on "on target" reference performance. Key is the objective of aligning shareholder interests to the executive committee member performance therefore the scheme has added benefits of higher variable pay for out performance and each executive has a significant portion of their package in long term incentives linked both to share price and individual performance.

All members have a minimum of 20% weighting on short-term financial targets to the group measures and they all participate in the short term senior management scheme outlined above.

The table below summarised the average 2012 STI opportunity of the committee by component, assuming the actual financial performance has met the "on target" financial measure.

Component	Average STI award
Financial	110% of annual salary package at achievement of "on target" level (weighted between group and applicable business unit performance)
Personal objectives	Maximum of 20% of annual salary package adjusted to reflect individual performance assessment
Discount	Minus 20% of annual salary package if group employment equity targets not achieved
Financial scale 1) Below minimum threshold 2) Above "on target" measure	 Nil financial award (personal objectives not affected) Bonus increases in line with proportional scale (personal objectives not affected)
Deferral	Between R500 000 to R2 million – 20% of excess over R500 000 Above R2 million up to R5,5 million – 30% of the excess over R2 million Above R5,5 million – 40% of the excess above R5,5 million

Total Liberty Holdings Limited Executive Committee members' remuneration

	2012 R'000	2011 R'000
Guaranteed pay	**40 581**	36 240
STI awards	**60 394**	52 178
LTI awards (including STI deferral)	**59 511**	63 332
Total	**160 486**	151 750

Full details of the remuneration of the group's chief executive officer, Bruce Hemphill, and the group's financial director, Casper Troskie, are contained on pages 154 to 157 in the Remuneration of directors and prescribed officers section of this report. Mr Hemphill's 2012 total remuneration places him as the highest paid employee in the group for 2012. The next highest paid employee is approximately 80% of Mr Hemphill's total remuneration.

Remuneration of Liberty's people (continued)

Summary of incentive schemes

Description	Eligible participants	Number of participants[1] 2012	Number of participants[1] 2011	Award amounts[2] 2012 Rm	Award amounts[2] 2011 Rm
Short-term Senior management	Senior management not included in other specific schemes	**371**	353	**359**	294
STANLIB	Investment professionals and senior management employed by STANLIB	**194**	170	**160**	125
LibFin markets	Investment professionals	**12**	5	**23**	17
Liberty general staff	Staff not included in the above mentioned schemes	**5 032**	4 189	**132**	96
Long-term **Currently utilised:** Liberty Holdings group restricted share plan (long-term)	Selected executives	**188**		**85**	
Liberty Holdings group restricted share plan (deferred)	Participants of the senior management scheme that receive awards in excess of thresholds	**154**		**39**	
Liberty Equity Growth (incorporating the Liberty Life Equity Growth Scheme) "EGS"	Selected executives[8]	**399**	433	**3**	65
STANLIB deferred bonus	Investment professionals and senior management employed by STANLIB	**49**	55	**60**	32
Business unit plans[3]	Selected business unit executives	**35**	9		
Historical: Share unit rights plan	Selected executives and senior management	**32**	30	**2**	25
2010 deferred bonus	Participants of the senior management scheme that received awards for the 2010 year in excess of thresholds	**26**	33		11
Phantom share scheme	Liberty Group Limited share option holders on 12 June 2006	**140**	177		
Black managers' trust	Black qualifying managers eligible under the 2004 BEE transaction	**1 728**	1 728		
Liberty Group share incentive	All staff	**43**	65		
Total				**863**	665

[1] *Number of participants reflect, in respect of short-term schemes, the total number of individual awards granted for the reporting period and in respect of long-term schemes, participants that have outstanding awards at 31 December (either not vested or vested but not exercised).*

[2] *Award amounts reflect, in respect of short-term awards, the approved amounts relating to the financial performance for the past financial year and in respect of long-term awards the amounts awarded in the calendar year.*

[3] *Awards on long-term business units plans are only determined in the year of vesting. No awards have been made in 2011 or 2012.*

Equity or cash-settled	IFRS expense 2012 Rm	2011 Rm	Number of share options/rights and shares at 31 December 2012[4]	Reference to scheme overview and related note disclosure
	550	445		Refer note 18.2 on page 296
cash	304	250		Refer section STI-1
cash	81	71		Refer section STI-2
cash	26	23		Refer section STI-3
cash	139	101		Refer section STI-4
equity[5]	22		951 443	Refer section LTI-1 and note 33 on page 313
equity[5]	15		447 212	Refer section LTI-2 and note 33 on page 313
equity[6]	39	52	11 060 652[7]	Refer section LTI-3 and note 33 on page 313
cash	39	28		Refer section LTI-4 and note 18.3 on page 297
cash				Refer section LTI-5 and note 33 on page 313
cash	39	21	878 034	Refer section LTI-6 and note 18.3 on page 297
cash	6	4	137 562	Refer section LTI-7 and note 18.3 on page 297
cash	4	1	120 087	Refer section LTI-8 and note 33 on page 313
equity			10 318 458	Refer section LTI-9 and note 42 on page 335
equity			345 750[7]	Refer section LTI-10 and note 33 on page 313
	714	551		

4 *Number of share options/rights and shares represent the outstanding awards not as yet vested or vested but not exercised.*
5 *Award value divided by share price at award date determines the number of shares awarded.*
6 *Award value determined by using a modified binomial tree model.*
7 *Total of 11 406 402 (11 060 652 + 345 750) references to note 33 on page 313.*
8 *w.e.f. 1 January 2012 deferred bonus awards up to 50% can be elected as EGS only by Liberty Holdings Executive committee members.*

Remuneration of Liberty's people (continued)

Utilisation of shareholder approved LTI ordinary share allocation

Shareholders have approved that the aggregated number of unissued shares which may be reserved for long-term incentive purposes is 29 000 000, approximately 10% of the current issued share capital. This approval is applicable to unvested equity growth scheme awards at 1 September 2008 plus any new awards granted under any scheme thereafter. At the directors' option, settlement of obligations under the equity growth scheme can be undertaken either by a share issue or by use of treasury shares re-purchased from the market. Shares reserved for the restricted share schemes (deferred and long-term plans) can only be obtained from treasury shares acquired from the market. The table below indicates the level of utilisation as at 31 December 2012:

Utilisation of shareholder approved share incentive scheme allocation	Equity growth scheme	Deferred plan restricted shares	Long-term restricted shares	Total
Scheme allocation originally approved with effect from 1 September 2008[1]				29 000 000
Unvested awards at 1 September 2008	(7 224 181)			(7 224 181)
Awards for the period 1 September 2008 to 31 December 2011	(10 501 650)			(10 501 650)
Cancellations for the period 1 September 2008 to 31 December 2011	3 993 925			3 993 925
Available balance for scheme allocation at 31 December 2011				**15 268 094**
Awards	**(119 052)**	**(455 249)**	**(952 597)**	**(1 526 898)**
Cancellations	**748 650**	**8 037**	**1 154**	**757 841**
Available balance for scheme allocation at 31 December 2012				**14 499 037**

[1] *Date when JSE regulations changed to not allow roll over adjustments to shareholder approved allocations for awards that are implemented.*

The maximum number of shares that may be acquired by all participants in terms of the Liberty Holdings Group Restricted Share Plan, together with any other plan, adopted by the company is 29 million shares (10,13% of issued share capital) and any one participant cannot acquire in excess of 725 000 shares under the plan (0,253% of issued share capital).

Employee transfers between the Liberty and Standard Bank Group

The remuneration policy of Liberty and Standard Bank allows for portability whereby approved transfers within the group allow for the continuation of certain benefits including past unexercised equity-settled or cash-settled grants. The derived IFRS 2 costs in relation to the portion of unvested equity-settled grants on Standard Bank ordinary shares or cash-settled schemes are raised as an expense in Liberty from date of transfer. Similarly, the relevant Standard Bank business unit bears the IFRS 2 costs of unvested equity-settled and cash-settled Liberty awards if employees are transferred from Liberty to another Standard Bank group business unit. Once transfers are effective, employees are only eligible to receive further long-term incentives from the new employer. Further details of the various share incentive schemes can be found in note 33 to the group annual financial statements on page 313.

Prescribed officers

The promulgation of the Companies Act No. 71 of 2008 and associated regulations in May 2011 introduced the concept of prescribed officers and related remuneration disclosure. The group's directors' affairs and remuneration committees considered the new act and obtained legal opinion. The committees' view is to assess the prescribed officer definition from a specific company rather than group perspective. Accordingly Messrs JB Hemphill and CG Troskie meet the definition from a management perspective in respect of the Liberty Holdings Limited company. Their remuneration details are detailed in the 'Remuneration of directors and prescribed officers' section.

No other employee of the group has earned more than the chief executive in 2012 or 2011.

Retention agreements

As part of the group's strategy to retain specific and key senior employees, the group may selectively enter into agreements in terms of which retention payments are made. Retention payments have to be repaid or forfeited should the individual concerned leave within a stipulated period. Remco has in recent years limited the number of these agreements in favour of performance-related long-term incentives.

Retention awards to the value of R13 million (8 employees) are subject to future service periods after 31 December 2012.

Remuneration practices of group subsidiaries that operate in other African countries (other than South Africa)

The same remuneration philosophy and principles are practiced within group subsidiaries domiciled outside the borders of South Africa, taking cognisance of specific in-country circumstances, economic conditions and legislation.

Summary of unvested or unexercised Liberty shares under option, restricted and subject to rights at 31 December 2012

2012	Shares/options/ rights under share schemes at 1 January	Awards granted during the year	Implemented[(1)] during the year	Cancelled during the year	Shares/options/ rights under share schemes at 31 December
Share option schemes	818 075		(472 325)		345 750
Share rights schemes	13 299 975	119 052	(1 609 725)	(748 650)	11 060 652
Restricted shares – long-term plan		952 597		(1 154)	951 443
– deferred plan		455 249		(8 037)	447 212
Total	14 118 050	1 526 898	(2 082 050)	(757 841)	12 805 057

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For further detail refer to appendix D

Refer to the group equity value report on page 33 for the mark to market value of unvested shares/rights under option and on page 126 for further details.

[(1)] *Implemented represents the fulfilment of obligations by the group under each scheme.*

Accounting for remuneration

IFRS and the group's accounting policies determine the accounting treatment of each component of remuneration, with detailed disclosures within the relevant notes to the annual financial statements. In summary, costs are accounted for in relation to the applicable service rendered with deferred short-term incentives being expensed over the applicable qualifying periods, adjusted for the expected outcome of applicable performance conditions. The liability for long-term cash incentive schemes is measured annually utilising probability-adjusted future expected outcomes present valued at appropriate risk-free rates. Equity-settled share-based payments are valued at grant date and expensed over the vesting periods.

King III remuneration disclosures

We have conducted a review to ensure compliance of our remuneration principles against King III, specifically principles 2.25, 2.2.6 and 2.2.7. There were no material matters found however, further refinement of our remuneration policies and practices will be undertaken in the coming year.

Shareholder analysis

JSE share code: LBH
ISIN code: ZAE000127148
Registration number: 1968/002095/06

Authorised share capital: 400 000 000 shares
Issued share capital: 286 202 373 shares

Ordinary shareholders' spread

2012	Number of shareholders	%	Number of shares	% of issued shares
1 – 10 000 shares	8 462	93,90	5 694 282	1,99
10 001 – 100 000 shares	396	4,39	13 266 771	4,64
100 001 – 1 000 000 shares	126	1,40	34 969 322	12,22
1 000 001 – 10 000 000 shares	25	0,28	51 147 783	17,87
10 000 001 shares and over	3	0,03	181 124 215	63,28
	9 012	100,00	286 202 373	100,00
2011				
1 – 10 000 shares	7 887	93,33	5 067 842	1,77
10 001 – 100 000 shares	418	4,95	14 350 145	5,02
100 001 – 1 000 000 shares	125	1,48	38 105 880	13,31
1 000 001 – 10 000 000 shares	18	0,21	43 439 507	15,18
10 000 001 shares and over	3	0,03	185 238 999	64,72
	8 451	100,00	286 202 373	100,00

Distribution of ordinary shareholders

2012	Number of shareholders	%	Number of shares	% of issued shares
Licenced financial institutions	269	2,99	195 551 586	68,34
BEE empowerment vehicles	4	0,05	25 796 145	9,01
Other empowerment vehicles	1	0,01	835 572	0,29
Individuals	6 973	77,37	5 630 736	1,97
Mutual funds	204	2,26	24 441 587	8,54
Nominees and trusts	1 007	11,17	3 389 126	1,18
Retirement vehicles and medical aid schemes	264	2,93	27 202 163	9,50
Companies and corporations	290	3,22	3 355 458	1,17
	9 012	100,00	286 202 373	100,00
2011				
Licenced financial institutions	211	2,50	188 407 692	65,83
BEE empowerment vehicles	4	0,05	25 796 145	9,01
Other empowerment vehicles	1	0,01	835 572	0,29
Individuals	6 558	77,60	5 155 008	1,80
Mutual funds	243	2,88	30 032 989	10,50
Nominees and trusts	884	10,46	1 795 383	0,63
Retirement vehicles and medical aid schemes	275	3,25	33 172 578	11,59
Companies and corporations	275	3,25	1 007 006	0,35
	8 451	100,00	286 202 373	100,00

Company registered address: Liberty Life Centre
1 Ameshoff Street
Braamfontein, Johannesbuerg
2001

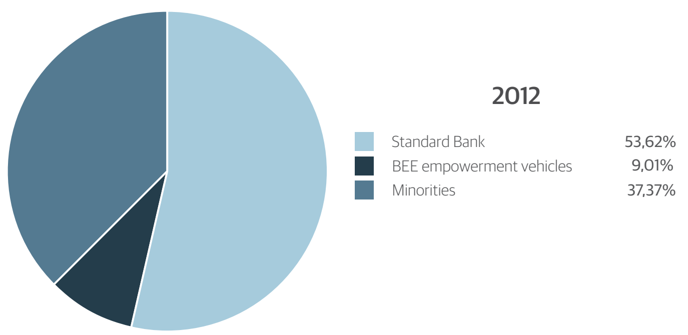
Non-public/public ordinary shareholders

2012	Number of shareholders	%	Number of shares	% of issued shares
Non-public shareholders	9	0,10	180 095 783	62,92
Standard Bank Group Limited	1	0,01	153 456 360	53,62
BEE empowerment vehicles	4	0,04	25 796 145	9,01
Other empowerment vehicles	1	0,01	835 572	0,29
Directors' holdings	3	0,04	7 706	0,00
Public shareholders	9 003	99,90	106 106 590	37,08
	9 012	100,00	286 202 373	100,00
2011				
Non-public shareholders	8	0,09	180 091 783	62,92
Standard Bank Group Limited	1	0,01	153 456 360	53,62
BEE empowerment vehicles	4	0,05	25 796 145	9,01
Other empowerment vehicles	1	0,01	835 572	0,29
Directors' holdings	2	0,02	3 706	0,00
Public shareholders	8 443	99,91	106 110 590	37,08
	8 451	100,00	286 202 373	100,00

Beneficial ordinary shareholders holding 3% or more

2012	Number of shares	% of issued shares
Standard Bank Group Limited	153 456 360	53,62
Government Employees Pension Fund	17 349 397	6,06
The Black Managers' Trust (Lexshell 622 Investments (Pty) Limited)	10 318 458	3,61
2011		
Standard Bank Group Limited	153 456 360	53,62
Government Employees Pension Fund	21 464 181	7,50
The Black Managers' Trust (Lexshell 622 Investments (Pty) Limited)	10 318 458	3,61

Ownership analysis



Shareholder analysis (continued)

Preference shareholders' spread

2012	Number of shareholders	%	Number of shares	% of issued shares
1 – 1 000 shares	23	15,23	12 940	0,09
1 001 – 10 000 shares	37	24,50	217 044	1,45
10 001 – 100 000 shares	58	38,42	2 469 706	16,46
100 001 – 1 000 000 shares	31	20,53	6 813 636	45,42
1 000 001 shares and over	2	1,32	5 486 674	36,58
	151	100,00	15 000 000	100,00
2011				
1 – 1 000 shares	22	13,92	13 176	0,09
1 001 – 10 000 shares	41	25,95	233 879	1,56
10 001 – 100 000 shares	62	39,24	2 727 593	18,18
100 001 – 1 000 000 shares	31	19,62	6 538 678	43,59
1 000 001 shares and over	2	1,27	5 486 674	36,58
	158	100,00	15 000 000	100,00

Distribution of preference shareholders

2012	Number of shareholders	%	Number of shares	% of issued shares
Individuals	112	74,17	6 519 121	43,46
Mutual funds	1	0,66	1 405 574	9,37
Nominees and trusts	25	16,56	1 875 018	12,50
Corporations	4	2,65	40 001	0,27
Private companies	8	5,30	1 079 186	7,19
Public companies	1	0,66	4 081 100	27,21
	151	100,00	15 000 000	100,00
2011				
Individuals	122	77,22	6 465 755	43,10
Mutual funds	1	0,63	1 405 574	9,37
Nominees and trusts	24	15,19	1 946 385	12,98
Corporations	1	0,63	5 000	0,03
Private companies	9	5,70	1 096 186	7,31
Public companies	1	0,63	4 081 100	27,21
	158	100,00	15 000 000	100,00

Beneficial preference shareholders holding 5% or more

2012	Number of shares	% of issued shares
Nedbank Corporate Private Equity	4 081 100	27,21
Santam RSA Equity Portfolio	1 405 574	9,37
2011		
Nedbank Corporate Private Equity	4 081 100	27,21
Santam RSA Equity Portfolio	1 405 574	9,37

Dividend policy and distributions

Dividend policy

The directors have approved a dividend policy as follows:

The group's dividend is set with reference to underlying core operating earnings taking cognisance of the need to (i) balance capital and legislative requirements, (ii) retain earnings and cash flows to support future growth, and (iii) provide a sustainable dividend for shareholders. Subject to consideration of the above, the targeted dividend cover based on underlying core operating earnings is between 2,0 and 2,5 times. The interim dividend is targeted as 40% of the previous year's full dividend.

Distributions

Shareholder category	Cents per share	Nature	Register date
Ordinary	2012 cycle		
Interim	192	Dividend	24 August 2012
Final	336	Dividend	20 March 2013
Special	130	Dividend	20 March 2013
Total	658		
Preference			
First	5,5	Dividend	29 June 2012
Second	5,5	Dividend	31 December 2012
Total	11,0		
Ordinary	2011 cycle		
Interim	182	Capital reduction	2 September 2011
Part final	77	Dividend	15 March 2012
Second final	221	Dividend	26 April 2012
Total	480		
Preference			
First	5,5	Dividend	1 July 2011
Second	5,5	Dividend	30 December 2011
Total	11,0		

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Refer six year review

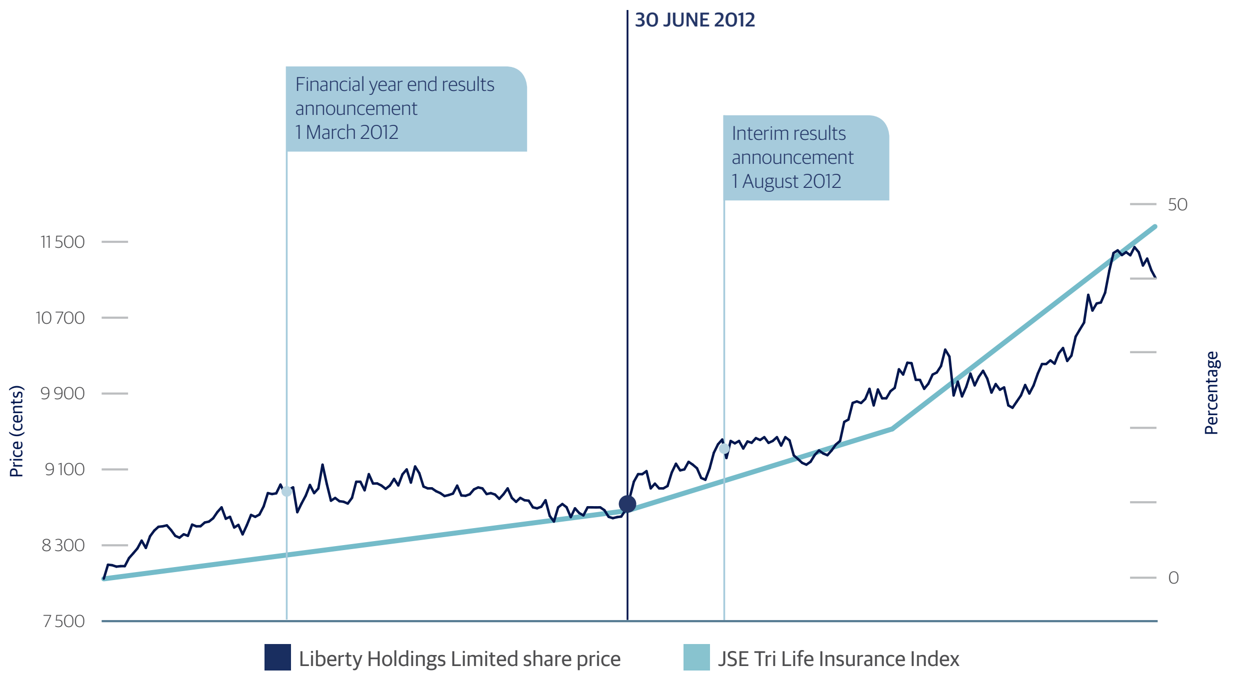
Shareholders' diary – 2013

	January	February	March	April	May	June
Results announcement for the year ended 31 December 2012		28th				
Declaration of 2012 final and 2012 special dividends to ordinary shareholders		28th				
Payment of 2012 final and 2012 special dividends to ordinary shareholders				2nd		
2012 Integrated annual report published and distributed			week commencing 25th			
Annual general meeting					17th	

	July	August	September	October	November	December
Preference shares dividend paid for the six months ended 30 June 2013	1st					
Interim results announcement for six months ended 30 June 2013		1st				
Declaration of 2013 interim ordinary shares distribution		1st				
Payment of 2013 interim ordinary shares distribution			2nd			
Preference shares dividend paid for the six months ended 31 December 2013						30th
Financial year end						31st

2012 Ordinary share price performance

Liberty Holdings Limited – 2012 share price movement



Source: Sharenet

Governance

of Liberty

Statement of commitment to governance

Application of the King III code

During 2012, Liberty made further progress in complying with the requirements of the Companies Act No. 71 of 2008 and the Companies Regulations and expects to be fully compliant by the deadline of two years from promulgation, viz. May 2013.

Whilst the board is satisfied with its level of compliance with applicable governance and regulatory requirements, it recognises that its practices can be improved, and accordingly the board has and will continuously review the company's governance framework against prevailing governance best practice. During the year under review Liberty complied with the Listings Requirements of the JSE Limited in all respects.

The board unanimously embraces the King code of governance principles (King III) and has in all material respects applied this code.

The following King III recommendations have not been fully adopted and Liberty's response is explained below:

King III code principle	Recommended practice	Liberty's response
1. The board should delegate certain functions to well structured committees without abdicating its own responsibilities.	Committees other than the risk committee should comprise a majority of non-executive directors of which the majority should be independent. (Ref 2.23.7)	The directors' affairs committee does not currently have a majority of independent directors. The board considers the composition of the committee on an annual basis.
2. A governance framework should be agreed between the group and its subsidiary boards.	The implementation and adoption of policies, processes or procedures of the holding company should be considered and approved by the subsidiary company. (Ref 2.24.3)	Governance frameworks and policies, processes and procedures in certain African subsidiaries require closer alignment with those of the holding company. This received management attention during 2012 and included the review of various mandates and governance structures.
3. Companies should remunerate directors and executives fairly and responsibly.	Non-executive fees should comprise a base fee as well as an attendance fee per meeting. (Ref 2.25.4)	The chairman is paid a composite annual fee which includes his committee membership. Board members are paid a fixed annual fee in respect of their board membership and an additional fixed fee in respect of each committee membership. The fee reflects the responsibilities of the directors that extend beyond attendance at meetings and the requirement to be available between scheduled meetings. The history of attendance indicates that there is no necessity to pay an attendance fee per meeting.
4. The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	The board should adopt formal dispute resolution processes for internal and external disputes. (Ref 8.6.1)	Liberty has various effective dispute resolution processes which are applied both internally and externally on a case by case basis. The board has not formally approved an alternative dispute resolution process.

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The full summary list of King III principles and confirmation of application thereof is included in appendix A.

Liberty is committed to a transparent governance process that provides stakeholders with a high degree of confidence that the group is being managed ethically, within prudent risk parameters and in compliance with international best practice. The board considers sound corporate governance as pivotal to delivering responsible and sustainable growth in the interests of all stakeholders.

2012 Governance developments

- The board and board standing committee mandates were amended to ensure alignment with the Insurance Laws Amendment Bill requirements and the Interim Measures Discussion Document 81 as published by the FSB. The Remuneration Committee mandate was updated in line with the new Liberty Remuneration Philosophy and the six principles prescribed by the European Insurance and Occupational Pensions Authority.
- The governance frameworks, policies, processes and procedures were strengthened in the group's non South African subsidiaries by the introduction of board mandates in line with the governance practices in place at Liberty Holdings Limited.
- The mandate of the social, ethics and transformation committee was expanded to ensure alignment with the framework for managing stakeholder relationships which was adopted during 2012.
- An internal board and board committee evaluation was completed and the recommendations were considered by the directors' affairs committee and implemented where appropriate.
- Liberty utilised the Institute of Directors' Governance Assessment Instrument to benchmark Liberty's governance practices against best practice – generally the review indicated the group has high standards of governance.
- The requisite shareholder and board approval was renewed to grant loans to interrelated parties in terms of section 45 of the new Companies Act.

2012 Shareholder Annual General Meeting

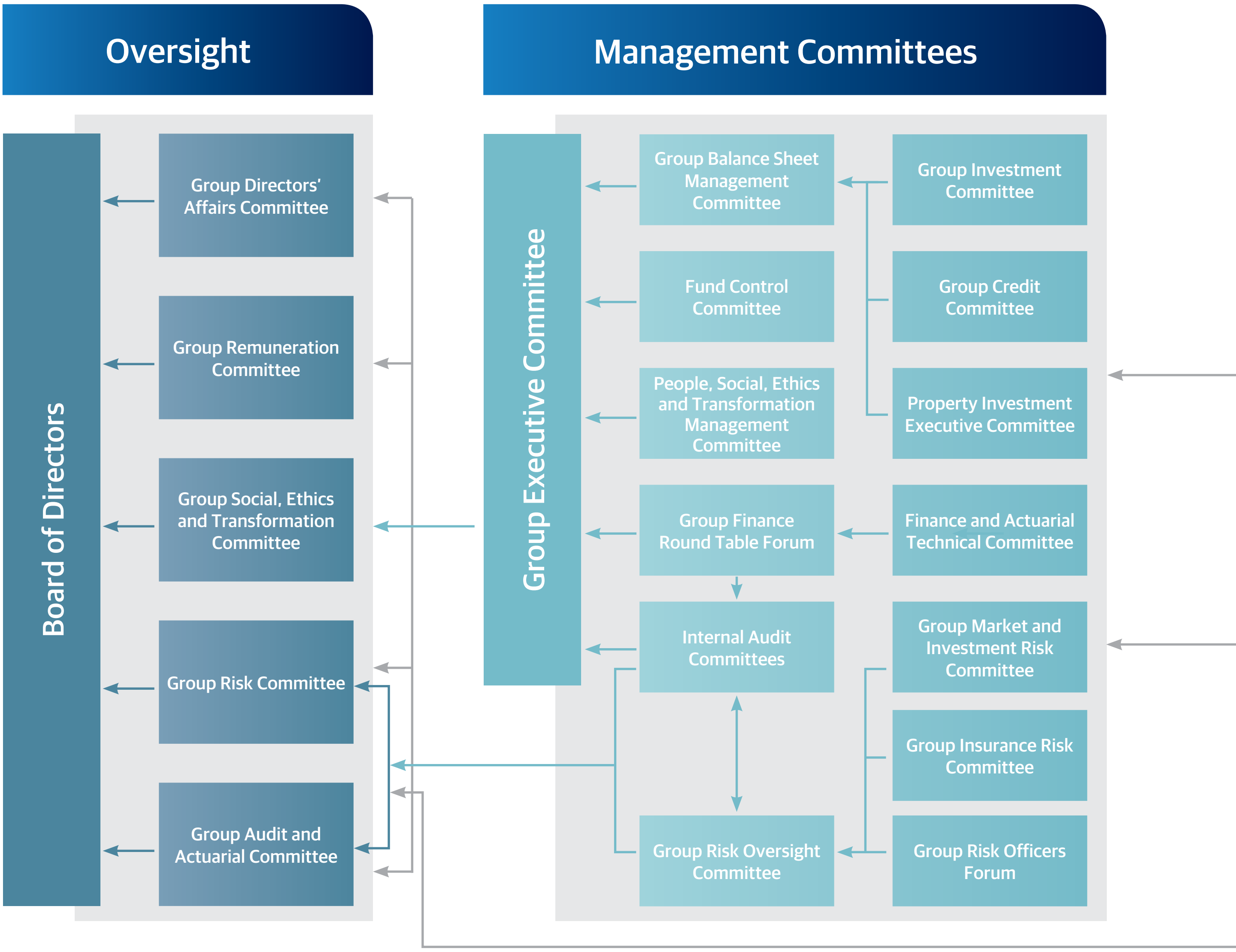
The Liberty Holdings Limited annual general meeting of shareholders was held on 18 May 2012. The following is a summary of the resolutions put to the meeting and the votes cast. All resolutions were passed.

Ordinary resolution	**Total votes for %**	**Total votes against %**	**Abstention %**
1. Adoption of annual financial statements	99,98	0,00	0,02
2. Re-election of directors	98,58 – 99,98	0,01 – 1,40	0,01 – 0,02
3. Re-appointment of independent external auditors	99,98	0,01	0,01
4. Place unissued ordinary shares under the control of the directors	97,40	2,59	0,01
5. Place unissued preference shares under the control of the directors	92,57	7,42	0,01
6. General authority to issue shares for cash	97,65	2,34	0,01
7. Election of audit and actuarial committee members	95,90 – 99,99	0,01 – 0,19	0,01 – 3,91
8. Liberty remuneration policy[1]	82,19	12,54	5,27
9. Liberty Holdings group restricted share plan	80,63	14,32	5,05
Special resolution			
1. Issue of ordinary shares for share incentive schemes	94,04	5,95	0,01
2. Fees of non-executive directors	99,93 – 99,99	0,00 – 0,06	0,01
3. Financial assistance to related or inter-related company	97,59	2,40	0,01
4. General authority for an acquisition of shares issued by the company	93,56	6,38	0,06
5. Approval of the memorandum of incorporation	98,59	0,37	1,04

[1] *The majority of minority shareholders voted against the group's remuneration policy. Consequently the remuneration policy was reviewed in 2012 and various changes were made, as set out in the remuneration overview from the chairman of the Remuneration Committee . For all other resolutions, both Standard Bank and the minority shareholders voted in the majority in favour of the resolutions.*

Governance structures at Liberty

The diagram below depicts the group's governance structure and risk management model.



Governance structures and the management of risk

Introduction

The group's governance structures and processes are aligned with enterprise-wide value and risk management principles. In particular these structures and processes provide clarity of accountability for the management of risk.

Governance and the 'three lines of defence' model

The group has adopted the 'three lines of defence' model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues throughout the group. The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation. The implementation of this model ensures that risk management is embedded in the culture of the organisation and provides assurance to the board and senior management that risk management is effective.

Within this structure the group relies on the board, its standing committees and the group executive committee to provide oversight of the operation of the group's enterprise-wide value and risk management.

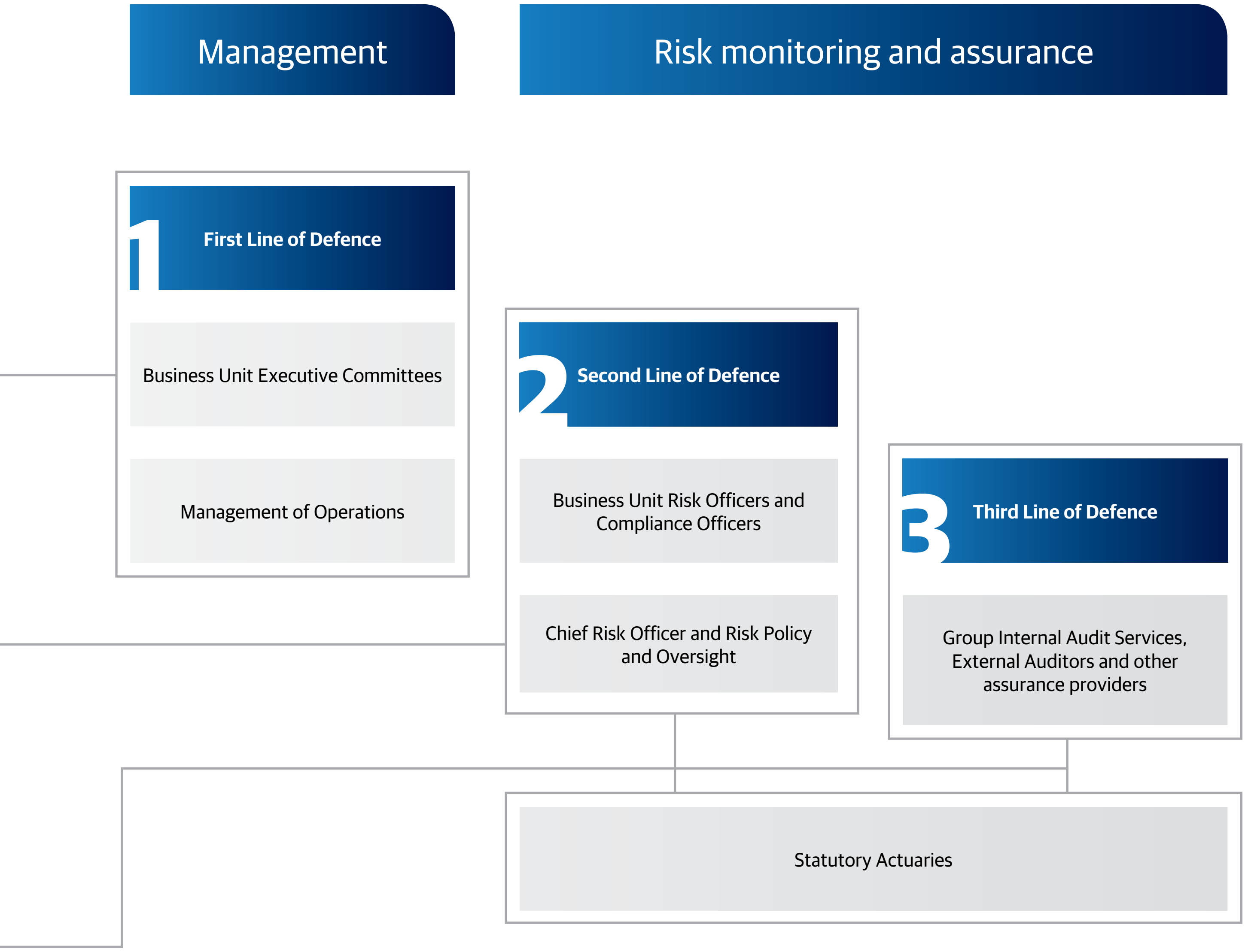
Roles and responsibilities within the governance model

The roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues have been defined as follows:

Oversight

Board of directors and standing committees

The board of directors and standing committees of the board provide an oversight function of the group's risk management activities. Their accountabilities, membership and related information are described in the following commentary.



Management committees

The chief executive utilises the group executive committee and key management committees to manage the components of risk. A description of each committees' responsibilities is contained on pages 160 and 162.

Risk mitigation monitoring and assurance

First line of defence – business unit management

- Managing day-to-day risk exposures by applying appropriate procedures, internal controls and group policies;
- The effectiveness of risk management and risk outcomes, and for allocating resources to execute risk management activities;
- Tracking risk events and losses, identifying issues and implementing remedial actions to address these issues; and
- Reporting and escalating material risks and issues to the relevant governance bodies as deemed appropriate.

Second line of defence – chief risk officer, statutory actuaries, group and business unit risk policy and oversight functions

The individuals responsible for these positions are primarily responsible for verification and identification of key risks and provide the day-to-day interface between the board's standing committees and management. Their objective is to assist in the effective management of the risks identified within the group. Various assurances are also provided by these functions and reported to the board, regulators and other authorised stakeholder representatives.

Third line of defence – assurance

This comprises the group's assurance functions that are intended to provide an independent and balanced view of all aspects of risk management (both first and second line of defence) across the group to the various governance bodies within the organisation.

Board of directors

Completed years service as a director of Liberty Group Limited or Liberty Holdings Limited

1. Saki Macozoma	9 years
2. Angus Band	9 years
3. Bruce Hemphill	6 years
4. Jacko Maree	15 years
5. Monhla Hlahla	–
6. Casper Troskie	2 years
7. Tim Ross	5 years
8. Peter Wharton-Hood	4 years
9. Jim Sutcliffe	3 years
10. Swazi Tshabalala	6 years
11. Tony Cunningham	3 years
12. Peter Moyo	3 years
13. Dr Sibusiso Sibisi	9 years

Board composition:

8 independent non-executives
3 non-executives
2 executives

1. Saki Macozoma

Non-executive chairman

(BA (Unisa) BA (Hons) (Boston))

Appointed to the board: December 2003

Aged 55, is the non-executive chairman of Liberty Holdings Limited and Liberty Group Limited. He is deputy chairman of Standard Bank Group Limited as well as non-executive director of The Standard Bank of South Africa Limited. He is currently the chairman of STANLIB Limited. He chairs the Social, Ethics and Transformation and Directors' Affairs Committees of Liberty Holdings Limited and is a member of the Remuneration Committee.

2. Angus Band

Lead independent director

(BA, BAcc (Wits), CA (SA))

Appointed to the board: November 2008

Aged 60, is the lead independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the Remuneration Committee and serves on the Audit and Actuarial Committee, Social, Ethics and Transformation Committee and Directors' Affairs Committee of Liberty Holdings Limited.

3. Bruce Hemphill

Chief executive

(BA (UCT), CPE, Solicitor)

Appointed to the board: November 2008

Aged 49, is the chief executive of Liberty Holdings Limited and Liberty Group Limited and serves on the Social, Ethics and Transformation Committee of Liberty Holdings Limited. He is also a director of STANLIB Limited.

4. Jacko Maree

Non-executive director

(BCom (Stellenbosch), MA (Oxford), PMD (Harvard))

Appointed to the board: March 1997

Aged 57, is a non-executive director of Liberty Holdings Limited and Liberty Group Limited. He serves on the Social, Ethics and Transformation and Directors' Affairs Committees of Liberty Holdings Limited. He is the chief executive of Standard Bank Group Limited and a director of various subsidiaries of the Standard Bank Group.

5. Monhla Hlahla

Independent director

(BA (Honours) Pomona College, MA in Urban Planning (UCLA School of Architecture and Planning))

Appointed to the board: August 2012

Aged 49, is an independent director of Liberty Holdings Limited and Liberty Group Limited.

6. Casper Troskie

Financial director

(BCom (Hons) (UCT), CA (SA))

Appointed to the board: October 2010

Aged 49, is the financial director of Liberty Holdings Limited and Liberty Group Limited. He is also on the board of various subsidiaries in the group.

7. Tim Ross

Independent director

(CTA (Natal), CA (SA))

Appointed to the board: November 2008

Aged 68, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the Audit and Actuarial Committee.

8. Peter Wharton-Hood

Non-executive director

(BCom (Hons) (Wits), CA (SA), AMP (Harvard))

Appointed to the board: November 2008

Aged 47, is a non-executive director of Liberty Holdings Limited and Liberty Group Limited. He is also a member of the Remuneration Committee of Liberty Holdings Limited. He is currently the group deputy chief executive of Standard Bank Group Limited and a director of various subsidiaries of the Standard Bank Group.

9. Jim Sutcliffe

Independent director

(BSc (UCT), FIA)

Appointed to the board: September 2009

Aged 56, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the Risk Committee and is a member of the Audit and Actuarial and Remuneration Committees of Liberty Holdings Limited. He is a Fellow of the Institute of Actuaries.

10. Swazi Tshabalala

Independent director

(BA (Econ) (Lawrence), MBA (Wake Forest))

Appointed to the board: November 2008

Aged 47, is an independent director of Liberty Holdings Limited and Liberty Group Limited. She serves on the Risk and Directors' Affairs Committees of Liberty Holdings Limited.

11. Tony Cunningham

Independent director

(MA (Cambridge), FIA)

Appointed to the board: February 2009

Aged 57, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the Risk and Audit and Actuarial Committees of Liberty Holdings Limited. He is a Fellow of the Institute of Actuaries.

12. Peter Moyo

Independent director

(BCompt (Hons) (Unisa), CA (SA), HDip Tax Law (Wits), AMP (Harvard))

Appointed to the board: February 2009

Aged 50, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the Risk, Audit and Actuarial and the Remuneration Committees of Liberty Holdings Limited.

13. Dr Sibusiso Sibisi

Independent director

(BSc (Imperial College, London), PhD (Cambridge))

Appointed to the board: November 2008

Aged 57, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the Risk Committee of Liberty Holdings Limited.

Directorships of board members on other listed entities

Angus Band	– Chairman of Aveng Limited[1]
Tim Ross	– Audit committee chairman and member of risk committee of Eqstra Holdings Limited[1] and Pretoria Portland Cement Company Limited[1] – Audit committee and risk committee chairman of Adcorp Holdings Limited[1]
Jim Sutcliffe	– Lonmin Plc[2] – Chairman of Sun Life Financial Inc and Sun Life Assurance Company of Canada[3]
Peter Moyo	– Chairman of Vodacom Group Limited[1] – Pinnacle Technology Holdings Limited[1]

[1] *Listed on the JSE*
[2] *Listed on the London Stock Exchange*
[3] *Listed on the Toronto Stock Exchange and New York Stock exchange*

Board of directors (continued)

Mandate

The board operates in terms of a mandate that includes the following key terms of reference:

- Responsibility for ensuring the sustainability of the group including the review of the material sustainability issues;
- Provide effective leadership based on an ethical foundation;
- Approve the group's objectives;
- Approve the strategies and plans for achieving those objectives;
- Periodically review the corporate governance process including IT governance and assess achievement against objectives;
- Ensure that an effective governance framework is adopted and implemented in the group and regularly monitor and evaluate the adequacy and effectiveness of the framework;
- Review board and board committee mandates and approve recommended changes;
- Delegate to the chief executive or any director holding any executive office or any senior executive any of the powers, authorities and discretions vested in the board, including the power of sub-delegation. Delegate similarly such powers, authorities and discretions to any committee and subsidiary company board as may be created from time to time;
- Approve major changes to the group's policies on key issues such as risk management and the governance thereof, sustainability, IT governance, ethics and transformation;
- Take responsibility for the group's remuneration policy;
- Evaluate and approve where appropriate the remuneration to be paid to non-executive directors for board and committee membership based on recommendations made by the group remuneration committee, for ultimate approval by shareholders at the annual general meeting;
- Ensure that the chairman, directors and members of committees have the adequate skills and knowledge to perform their functions and fulfil their responsibilities in terms of the fit and proper policy requirements;
- Approve company and group capital funding and the terms and conditions of rights or other issues and any prospectus in connection therewith;
- Ensure that an adequate budget and planning process exists, approve annual budgets for the group and ensure that performance is measured against approved budgets and plans and approve the delegation of authority for capital expenditure;
- Approve significant acquisitions, mergers, take-overs, divestments of operating companies, equity investments and new strategic alliances by the group;
- Consider and approve significant capital expenditure recommended by the group executive committee;
- Consider and approve any significant changes proposed in accounting policy or practice as recommended by the group audit and actuarial committee;
- Review and approve management's valuation of unlisted investments;
- Consider and approve the external audit fee and budgeted audit fee as per the recommendation of the group audit and actuarial committee;
- Consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders, and consider and agree the basis for considering the group to be a going concern as per the recommendation of the group audit and actuarial committee;
- Ensure the integrity of the integrated annual report and statutory reporting to the FSB;
- Have responsibility for systems of financial, operational and internal controls, the adequacy and review of which will be delegated to committees, with the board ensuring that reporting on these issues is adequate;
- Ensure that an effective risk management process exists and is maintained throughout the group;
- Have responsibility for regulatory compliance and ensure that reporting to the board is comprehensive;
- Ensure compliance with the Principles and Practices of Financial Management and review the annual report from the group audit and actuarial committee on the committee's work with regard to discretionary participation business;
- Take responsibility for Treating Customers Fairly;
- Approve the declaration of bonuses to the policyholders;
- Ensure balanced reporting to stakeholders on the group's position and that such reporting is done in a manner that can be understood by stakeholders;
- Review non-financial matters which have not been specifically delegated to a committee of the board;
- Ensure that the diverse dispute resolution mechanisms throughout Liberty address the needs of all stakeholders;
- Formulate the group's dividend policy; and
- Ensure that conflicts of interest with Standard Bank are appropriately recognised and managed.

Code of business ethics

The board subscribes to the highest levels of professionalism and integrity in conducting Liberty's business and in dealing with stakeholders. All Liberty employees and representatives are expected to act in a manner that inspires trust and confidence from the general public. The board has approved a formalised code of ethics, which prescribes the group's approach to business ethics and its obligations to customers, shareholders, employees, representatives, suppliers, the general public and the authorities. Management are required to ensure there is compliance with this code.

The code is available on the group's website: www.liberty.co.za

The chairman

The chairman, Mr SJ Macozoma, is not considered independent as he is a shareholder and director of Safika Holdings (Pty) Limited, the shareholder of Lexshell 620 (Pty) Limited, which is a 2,16% shareholder of Liberty. In addition, he is the deputy chairman of Standard Bank Group Limited, the majority shareholder.

Though the chairman cannot be classified as independent in terms of governance best practice criteria, the board is of the view that the chairman brings valuable expertise, experience and skill to the board and does exercise independent judgement in relation to board matters. Nevertheless, as recommended by King III, and in compliance with the JSE Listings Requirements Regulation 3.84(c), the board appointed a lead independent director in 2010 to provide leadership and advice to the board in the event that the chairman decides that he is conflicted in any matter or decision facing the board.

Lead independent director

Mr AWB Band is the lead independent director. The board recognises that the function of the lead independent director is to provide leadership and advice to the board when the chairman has a conflict of interest without detracting from or undermining the authority of the chairman.

Board of directors

The company has a unitary board structure consisting of thirteen directors. Their particulars are as set out on pages 140 and 141 of this report. The members of the board of directors are as follows:

SJ Macozoma	(Non-executive chairman)
JB Hemphill	(Chief executive)
CG Troskie	(Financial director)
AWB Band	(Lead independent)
AP Cunningham	(Independent)
MW Hlahla	(Independent)
JH Maree	(Non-executive)
MP Moyo	(Independent)
TDA Ross	(Independent)
SP Sibisi	(Independent)
JH Sutcliffe	(Independent)
BS Tshabalala	(Independent)
PG Wharton-Hood	(Non-executive)

Professor L Patel resigned at the board meeting on 17 May 2012 and Ms MW Hlahla was appointed at the board meeting on 1 August 2012.

The directors are drawn from diverse backgrounds and bring a wide range of experience, insight and professional skills to the board.

Liberty Group Limited

Liberty Group Limited is a wholly owned subsidiary of Liberty Holdings Limited and houses the group's main South African registered long-term insurance licences either directly or through various subsidiaries. From a materiality perspective the majority of the group's business and associated risks reside in these licenced entities. Consequently the boards and standing committees of Liberty Holdings Limited and Liberty Group Limited are constituted with the same directors and as far as possible function as an integrated unit. Both boards have the same non-executive chairman, chief executive and financial director. The board meetings of these companies are combined meetings, resulting in improved efficiency and flow of information.

Role and function

The board provides leadership to the group as well as an independent review on all issues of strategy, performance, resources and standards of conduct, either directly or through its committees.

The board acknowledges its responsibility for overall corporate governance and the ultimate control of the group's various businesses, as well as for ensuring that there is clear strategic direction and that appropriate management structures are in place.

Board of directors (continued)

Role and function (continued)

Key structures, which are described in this integrated annual report, are designed to provide an appropriate level of assurance as to the proper control and conduct of the group's affairs.

The Liberty board meets quarterly and additional meetings are arranged as and when necessary. Four board meetings were held during 2012 and a two-day strategy session was held in September 2012. In addition two directors' information sessions were held in 2012.

The chief executive oversees and manages the group's daily operations.

Separately from the formal board meeting schedule, the chairman holds meetings, collectively and one-on-one, with the other non-executive directors, without any executives being present, to encourage a free-flow of information and the sharing of any concerns.

Independence

The executive element of the board is balanced by a strong independent group of non-executive directors so that no individual or small group of individuals can dominate the board's decision-making. In addition, the board's independence from the daily executive management team is ensured by adhering to a number of key principles, including:

- The roles of non-executive chairman and chief executive are separate;
- Eleven of the thirteen directors are non-executive, with eight of the eleven non-executive directors being classified as independent in terms of the Companies Act and as defined by King III;
- The group audit and actuarial committee consists of five independent, non-executive directors;
- The group risk committee consists of six independent, non-executive directors;
- The group remuneration committee consists of three independent non-executive directors, one non-executive director and the non-executive chairman of the board;
- The group social, ethics and transformation committee consists of one independent non-executive director, one executive director and two non-executive directors, one of whom is the chairman of the board;
- The group directors' affairs committee consists of the non-executive chairman of the board and three non-executive directors, two of whom are independent;
- Non-executive directors do not hold service contracts with the group and, with the exception of share rights granted to black non-executive directors, their remuneration is not linked to the group's financial performance; and
- All directors have access to the advice and services of the company secretary and are entitled, in terms of an agreed policy and after consultation with the chairman, to seek independent, professional advice on the affairs of the group. The cost of this advice will be borne by Liberty. No director obtained independent professional advice on the affairs of Liberty during 2012 or 2011.

Board evaluation

The performance of the board and its standing committees is evaluated periodically against their respective mandates and the results are collated by independent assurance providers. Feedback is provided to the directors' affairs committee and thereafter to the board. This feedback is also taken into account by the chairman in his meetings with the other non-executive directors to ensure that any concerns regarding board processes or capabilities are addressed. During 2012, each board director evaluated the performance of the board and each committee member evaluated the performance of the committee of which he or she was a member. The results were collated by the company secretary and communicated to the chairman. No significant concerns were raised.

Every second year the profile of the board is evaluated by the directors' affairs committee to determine an overall view of the skills on the board, identify any possible gaps and make a recommendation to the board should this be necessary.

At the close of every board meeting, an evaluation form is completed by the directors recording the effectiveness of that particular meeting and the quality of any presentations and board papers. In addition, questions in respect of the efficacy of the board standing committees are included in the questionnaire. The feedback from the evaluation process is submitted to the company secretary, and comments and any required actions are taken prior to, or at the subsequent board meeting.

Appointment and re-election of directors

In accordance with the Memorandum of Incorporation of Liberty Holdings Limited, only the non-executive directors are subject to retirement by rotation and re-election by shareholders at least once every three years. In February 2013, the directors' affairs committee considered the candidates who are standing for election or re-election at this year's annual general meeting. Ms MW Hlahla has been appointed since the last annual general meeting and is therefore standing for election. The directors standing for re-election are: Messrs AP Cunningham, MP Moyo, TDA Ross and Dr SP Sibisi. The directors' affairs committee therefore recommends to shareholders the re-election of Messrs AP Cunningham, MP Moyo, TDA Ross and Dr SP Sibisi, and the election of Ms MW Hlahla, as detailed in the Notice of Annual General Meeting.

The appointment of executive directors is approved by the board on the recommendation of the directors' affairs committee. There are currently two executive directors. Members of the board have regular contact with the other senior executive management through their invited participation in board and board standing committee meetings, in addition to other requested or scheduled briefing sessions.

Induction of new directors and ongoing information updates

A comprehensive induction programme has been developed and is in place for new directors to ensure they are adequately briefed and have the requisite knowledge of the group's structure, operations, policies and industry-related issues, to enable them to fulfil their duties and responsibilities. The induction also includes an opportunity for the directors to meet with key executive management of the various business units. The company secretary is responsible for the administration of the induction programme.

In addition, one-on-one meetings are scheduled with management in key positions to provide briefings regarding complex industry-specific issues. Directors also participate in information sessions which are held periodically throughout the year to assist in keeping the directors abreast of economic, regulatory and industry trends.

New directors are provided with details of all applicable legislation, the company's Memorandum of Incorporation, board minutes, relevant mandates and documentation setting out their duties and responsibilities as directors.

Boards of directors of subsidiary companies

Apart from Liberty Group Limited, whose board of directors is the same as that of Liberty Holdings Limited, all other subsidiaries have their own boards of directors, which boards are noted by the group directors' affairs committee. The role of these boards involves participating in discussions on, and maintaining the progress of, strategic direction and policy, operational performance, approval of major capital expenditure, consideration of significant financial matters, risk management, compliance, succession planning and any other matters that do or may impact materially on the subsidiary companies' activities.

In recognition of the importance of STANLIB, the group's wholly-owned asset manager, to the group and to acknowledge the increasing visibility of governance over investors' funds managed and administered by the group, the board of STANLIB was strengthened by the appointment of three non-executive directors, being AP Cunningham, JH Sutcliffe and BS Tshabalala. These appointments were made on 16 January 2012.

Share dealing by directors and senior personnel

Liberty has implemented a code of conduct relating to share dealing by directors and other senior personnel who, by virtue of the key positions they hold, have comprehensive knowledge of the group's affairs. The code imposes closed periods to prohibit dealing in Liberty Holdings Limited securities before the announcement of mid-year and year-end financial results or during any other period considered price-sensitive. This is in compliance with the requirements of Chapter VIII, entitled Market Abuse, of the Securities Services Act of 2004, and the JSE Listings Requirements in respect of dealings by directors. The company secretary undertakes the administration required to ensure compliance with this code, under the direction of the chief executive. The code goes further by also restricting dealings by directors and other senior personnel in any company's securities that may be affected by a transaction or proposed transaction involving Liberty Holdings Limited, any group subsidiary or associated company.

Company secretarial function

The company secretary is required to provide the directors of the company, collectively and individually, with guidance on their duties, responsibilities and powers. She is also required to ensure that all directors are aware of legislation relevant to, or affecting, the company and to report at any meetings of the shareholders of the company or of the company's directors any failure to comply with such legislation, including the JSE Listings Requirements. In compliance with section 3.84(j) of the JSE Listings Requirements the board of directors has considered and has satisfied itself that the company secretary is competent, appropriately qualified and experienced to fulfill her role as company secretary of the company. Furthermore, the board is satisfied that the company secretary maintains an arm's length relationship with the board of directors. The company secretary is not a director of the company.

The company secretary is required to ensure that minutes of all shareholders' meetings, directors' meetings and the meetings of any committees of the board are properly recorded and that all required returns are lodged in accordance with the requirements of the Companies Act.

Board standing committees

Five standing committees of the board, to which certain of its functions have been delegated, were in place during 2012.

The standing committees were: audit and actuarial, risk, remuneration, social, ethics and transformation and directors' affairs which all operated in accordance with the written terms of reference stipulated by the board. The terms of reference were reviewed by the external auditors with no significant concerns raised.

Board of directors (continued)

Membership and attendance

The number of directors' meetings and number of meetings attended by each of the directors of Liberty Holdings Limited and Liberty Group Limited during 2012 are as set out below:

	Board meetings including strategy session		Group audit and actuarial committee[1]		Group risk committee		Group remune-ration committee		Group social, ethics and trans-formation committee		Group directors' affairs committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
SJ Macozoma	5	5					3	3	4	4	4	4
AWB Band	5	5	4	4			3	3	4	4	4	4
AP Cunningham	5	5	4	4	4	4						
JB Hemphill	5	5							4	4		
MW Hlahla (appointed 1 August 2012)	2	2										
JH Maree	5	5							4	4	4	4
MP Moyo	5	5	4	4	4	3	3	3				
L Patel (resigned 17 May 2012)	2	2							2	2		
TDA Ross	5	5	4	4	4	4						
SP Sibisi	5	4			4	4						
JH Sutcliffe	5	5	4	4	4	4	3	3				
CG Troskie	5	5										
BS Tshabalala	5	5			4	4					4	4
PG Wharton-Hood	5	4					3	3				

[1] *The group audit and actuarial committee meets on two other occasions to note the final assumptions used in the preparation of year end results and to review the draft integrated annual report. These meetings are run as working committee sessions and are not formally constituted meetings.*

The attendance of non-executive directors at the STANLIB board meetings during 2012 were:

	STANLIB board meetings	
Director	**A**	**B**
AP Cunningham	4	4
JH Sutcliffe	4	4
BS Tshabalala	4	4

Column A indicates the number of meetings held during the year while the director was a member of the board or committee.

Column B indicates the number of meetings attended by the director during the year while the director was a member of the board or committee.

Board committees

Group audit and actuarial committee

TDA Ross
(Chairman)

AWB Band

AP Cunningham

MP Moyo

JH Sutcliffe

There were no changes to the composition of this committee during 2012.

The audit and actuarial committee is also the audit and actuarial committee of Liberty Group Limited which has responsibility for Liberty Group Limited's wholly-owned life insurance subsidiaries, namely Frank Life Limited, Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited. Internal audit committees are established to fulfil the audit committee functions for these life insurance subsidiaries. These committees meet quarterly and report to the audit and actuarial committee of Liberty Group Limited. The group's wholly-owned asset management subsidiaries, STANLIB Limited (which includes three regulated entities, namely STANLIB Multi-Manager Limited, STANLIB Collective Investments Limited and STANLIB Asset Management Limited) and Liberty Properties (Proprietary) Limited, have their own internal audit committees as does Liberty Health Holdings (Proprietary) Limited and the other regulated companies in the Liberty Africa business unit. These internal audit committees meet quarterly and report to the group audit and actuarial committee of Liberty Holdings Limited. Reports by the chairmen of the internal audit committees and minutes of meetings are provided to all board members.

The chairman and members of the group audit and actuarial committee are elected by the board and are subject to shareholder approval to be obtained at the annual general meeting, which approval was obtained at the meeting in May 2012. All members of the group audit and actuarial committee are independent directors who are suitably qualified, having the necessary expertise required to discharge their responsibilities. No changes to the membership of the committee are proposed by the board and the current composition will be subject to shareholder approval at the annual general meeting in May 2013.

Responsibilities

Interaction with assurance providers

- Act as an effective communication channel between the board and the external auditors and the head of internal audit;
- Assist the board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner;
- Nominate the external auditors annually for appointment by the shareholders and determine fees and terms of engagement;
- Provide the board with an assessment of the effectiveness of the external auditors and the internal audit function;
- Adopt a combined assurance model and ensure it is consistently applied to provide a co-ordinated approach to all assurance activities;
- Monitor the relationship with the external assurance providers of the group; and
- Monitor the application of the policy governing the provision of non-audit services by Liberty's external auditors and review the extent and nature of non-audit services provided.

Governance and regulatory compliance

- Provide the board with an assessment of the effectiveness of the compliance function;
- Ensure that the combined assurance received is appropriate to address all the significant risks facing the group;
- Evaluate the adequacy and completeness of the statutory returns to the FSB in terms of the applicable laws and regulations;
- Consider the governance over information technology (IT);
- Oversee the management of IT risk in relation to business continuity in particular;
- Review and oversee tax governance and compliance; and
- Monitor all relationships and contracts with Standard Bank to ensure they are in the best interests of Liberty shareholders.

Oversee integrated annual reporting

- Assist the board and social, ethics and transformation committee in approving disclosure of sustainability issues in the integrated annual report by ensuring that the information is reliable and does not conflict with the financial results;
- Enhance the quality, effectiveness and relevance of the published financial statements and other public documentation of a financial nature issued by Liberty, with focus on the actuarial assumptions, parameters, valuations and reporting guidelines;
- Provide the board with an independent point of reference in seeking a resolution of interpretative and controversial issues that impact on the published financial statements and other public announcements issued by Liberty;
- Provide the board with assurance that the group remains a going concern; and
- Consider and recommend to the board any changes to accounting policies or practice used to prepare the group and company financial statements.

Board committees (continued)

Group audit and actuarial committee (continued)
Responsibilities (continued)
Consideration of actuarial matters

- Review and recommend to the board the management actions assumed in calculating the capital adequacy of the group;
- Review and recommend to the board the statutory actuary's recommended changes to the policyholder bonus philosophy and policyholder bonus rates;
- Review the assumptions and the results thereof used in calculating the policyholder liabilities and the embedded value calculations and recommend to the board for approval; and
- Take responsibility for the governance of the discretionary participation business and recommend to the board that the Principles and Practices of Financial Management be applied when managing discretionary participation products.

Report, through its chairman or one of its members, to the shareholders at the company's annual general meeting on the matters within its mandate.

Meetings and attendance
Four meetings were held during 2012.

Group audit and actuarial committee meetings are held concurrently with Liberty Group Limited audit and actuarial committee.

Meetings are attended by the external auditors, Liberty Group Limited statutory actuary; head of internal audit; chief executive; financial director; chief risk officer; chief financial officer and appropriate members of the senior executive management team.

Attendance of meetings by the members of the committee is summarised on page 146.

External and internal audit
PricewaterhouseCoopers Inc. (PwC) is Liberty's lead appointed firm of external auditors. However, certain of the group's subsidiaries are audited by SizweNtsaluba Gobodo.

Pursuant to sections 94(7)(d) and (e) of the Companies Act, the board has approved a policy governing the provision of non-audit services by the group's external auditors in order to maintain independence. The policy requires the group audit and actuarial committee's prior approval for any non-audit assignment with a fee in excess of R750 000 (2011: R500 000).

The committee also reviewed the budgeted audit fee for the 2012 financial year and the final fee for 2011, which were both considered appropriate.

On 26 February 2013, the group audit and actuarial committee resolved that, pursuant to sections 90(2)(c), 94(7)(a) and 94(8) of the Companies Act, it had no objection to the audit firm, PwC, and the audit partner, Mr V Muguto, being re-appointed as the group's auditor for the financial year ending 31 December 2013, and that it had satisfied itself that both the audit firm and audit partner were independent of the group. The re-appointment of PwC will be put to shareholders for approval at the annual general meeting in May 2013.

The members of the group audit and actuarial committee review the audit plans, budgets and scope of the external and internal audit functions. The external auditors, head of internal audit, statutory actuary, chief executive, head of group compliance and company secretary all have unrestricted access to the chairman of the group audit and actuarial committee.

Integrated annual report and financial statements
In fulfilling its oversight responsibilities, the committee has reviewed and discussed the audited financial statements and the related schedules as reported in the integrated annual report with the chairmen of the other board committees and management. The committee considers that the report complies with the Companies Act and International Financial Reporting Standards and has therefore recommended the annual financial statements for approval by the board. These statements will be open for discussion at the forthcoming annual general meeting.

As advocated by King III, the committee has overseen the preparation of the integrated annual report for 2012 and has recommended the approval of the integrated annual report by the board.

The board's approval for the 2012 integrated annual report, including the audited annual financial statements for the year ended 31 December 2012, was obtained and is included on page 8.

Information technology (IT)
The board has mandated the committee to provide oversight over IT strategy and execution. As such, the committee will oversee the implementation and review of all relevant IT governance mandates, policies, processes and control frameworks while ensuring compliance with all the standards adopted by the group. Furthermore, the committee will also provide assurance to the board on all IT matters, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Combined Assurance framework through which the relationships and interdependencies of IT and business are considered holistically.

In order to assist the committee in the discharge of its duties in respect of IT governance, the committee has also mandated the executive oversight of IT through the group executive committee (exco) to ensure that the IT strategy supports the business goals and objectives while providing the flexibility to exploit market opportunities and support the sustainability objectives of the group. The exco will also be responsible for the implementation of, and measurement against, the IT governance framework and related initiatives in conjunction with the other existing oversight bodies.

Liberty has adopted and implemented the IT governance principles advocated by King III.

Group risk committee

JH Sutcliffe *(Chairman)* | AP Cunningham | MP Moyo | TDA Ross | SP Sibisi | BS Tshabalala

There were no changes to the composition of this committee during 2012.

The group risk committee is also the risk committee of Liberty Group Limited and also has responsibility for Liberty Group Limited's life insurance subsidiaries, namely Frank Life Limited, Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited.

The various internal audit committees at subsidiary level, as referred to on page 147 are also responsible for the risk oversight function in relation to their scope of businesses. The various chairmen of these committees report any matters in relation to risk to the group risk committee on a quarterly basis.

These chairmen and the chief risk officer have unrestricted access to the chairman of the group risk committee.

Responsibilities

Understanding risk

- Understand and ensure that management understands the shape and texture of Liberty's risks;
- Review the economic and competitor environment;
- Review product designs where appropriate;
- Review the risk disclosures, including key sustainability risks, to shareholders to be included in the integrated annual report and advise the board on their appropriateness; and
- Provide the board on a quarterly basis with an assessment of the state of risk management within Liberty and recommendations to address serious risk issues.

Setting policy

- Review Liberty's risk philosophy, strategy, policies and processes recommended by executive management;
- Make recommendations to the board concerning the levels of risk tolerance and appetite and formally recommend the risk appetite statement for approval by the board;
- Approve policies and processes that are designed to keep the effect of risks to an acceptable level; and
- Recommendation to the board of group risk targets and appetite limits.

Scrutinising management actions

- Ensure that management implements specific limits or tolerance levels that are aligned with the overall risk appetite levels set by the board;
- Ensure that material corporate risks and transactions have been identified, assessed and have received appropriate attention;
- Review the group's capital position and adequacy thereof;
- Monitor the effectiveness of executive controls and investment processes in respect of the Shareholder Investment Portfolio and ensure that the risk profile of the Shareholder Investment Portfolio is within risk appetite;
- Ensure that rewards are commensurate with the risks undertaken and consider the need for disclosure of any undue, unexpected or unusual risks undertaken in the pursuit of reward; and
- Review the adequacy of short-term insurance coverage.

Compliance with policy

- Review and assess the integrity of the processes and procedures for identifying, assessing, recording and monitoring of risk;
- Ensure compliance with risk policies and with the overall risk profile of Liberty;
- Monitor compliance with the Treating Customers Fairly guidelines as set out by the FSB; and
- Monitor the roll-out of Solvency Assessment Management (SAM) throughout the group.

Report, through its chairman or one of its members, to the shareholders at the company's annual general meeting on the matters within its mandate.

Board committees (continued)

Meetings and attendance
Four meetings were held during 2012. The Liberty Holdings Limited group risk committee meetings are held concurrently with the Liberty Group Limited risk committee.

Meetings are attended by the financial director, chief risk officer, head of internal audit, Liberty Group Limited statutory actuary, Liberty's external auditors, chief executive and appropriate members of the senior executive management team.

Attendance of meetings by the members of the committee is summarised on page 146.

Group remuneration committee

AWB Band
(Chairman)

SJ Macozoma

MP Moyo

JH Sutcliffe

PG Wharton-Hood

There were no changes to the composition of this committee during 2012. All the members of this committee are non-executive directors.

Responsibilities
To formulate remuneration strategy and policies for approval by the board and to monitor the implementation of such policies and report thereon to the board, thereby enabling the board to discharge its responsibilities relating to the following:
- Determining the policy for total executive remuneration and approving the individual remuneration packages, including short- and long-term incentive schemes and share-based schemes, for each of the executive directors and other senior executives, including key persons in control functions, as appropriate;
- Ensuring that competitive reward strategies and programmes are in place and are market related to facilitate the recruitment, motivation and retention of high performance staff;
- Ensuring that reward structures do not drive excessive risk taking;
- Reviewing the design and management of salary structures and policies, incentive schemes and share schemes;
- Developing and implementing a remuneration philosophy to enable a reasonable assessment of reward practices and governance process to be made by stakeholders;
- Giving consideration as to whether directors' fees should comprise a base fee and thereafter recommending the level of non-executive directors' fees, including the chairman's fee, to the board after receiving inputs from executive directors, for ultimate approval by shareholders;
- Ensuring the adequacy of retirement funding and healthcare benefits;
- Ensuring compliance with applicable laws and codes; and
- Reporting through its chairman or one of its members to the shareholders at the company's annual general meeting on the matters within its mandate.

Remuneration philosophy
Further information on remuneration is provided in the section entitled Remuneration of Liberty's people on pages 117 to 129. This section contains the remuneration philosophy which will be put to shareholders for a non-binding vote at the annual general meeting scheduled for 17 May 2013.

Meetings and attendance
Three scheduled meetings were held during 2012 . Attendance of meetings by the members of the committee is summarised on page 146.

Group social, ethics and transformation committee

SJ Macozoma
(Chairman)

AWB Band

JB Hemphill

JH Maree

Professor Patel resigned from this committee on 17 May 2012.

The members of this committee comprise three non-executive directors (one of whom is independent) and the group chief executive.

Responsibilities

Transformation

- Develop and maintain appropriate policies and guide transformation initiatives within the group for approval by the board;
- Monitor the implementation of transformation policies, practices and procedures, to ensure compliance with current and evolving legislation and related regulations in South Africa with particular reference to the aligned Financial Sector Charter (the Charter) and the Broad-Based Black Economic Empowerment Act of 2003 (B-BBEE Act) and the Employment Equity Act, and to report thereon to the board;
- Ensure that the group meets the requirements of the Charter and B-BBEE Act and that any related issues, including adequate gender transformation and diversity, are addressed; and
- Monitor and review the extent of transformation, at board, executive and senior management levels.

Social and Economic Development

- Monitor the social and economic development of the company including the company's standing in terms of the goals and purposes of the ten principles set out in the United Nations Global Compact Principles and the OECD recommendations regarding corruption.

Ethical Conduct

- Review and approve on a periodic basis any policies and proposals for ethical codes and codes of conduct for the group and ensure that they are widely distributed throughout the group.

Good Corporate Citizenship

- Monitor the company's promotion of equality, prevention of unfair discrimination and reduction of corruption;
- Consider the company's contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
- Consider the company's sponsorship, donations and charitable giving.

Sustainability

- Consider the environment, health and public safety, including the impact of the company's activities and of its products and services;
- Recommend to the board whether or not to engage an external service provider on material sustainability issues;
- Ensure that sustainability reporting and disclosure are independently assured in consultation with the chairman of the group audit and actuarial committee;
- Consider the top sustainability issues of the company as determined by management and recommend the approval of same to the board;
- Consider the company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions;
- Monitor the company's employment relationships and its contribution towards the educational development of its employees; and
    - Review workplace health and safety issues in accordance with the Health and Safety Act 85 of 1993.

Stakeholder Management

- Monitor the activities regarding consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws;
- Consider stakeholder management in terms of chapter 8 of the King III report which addresses the concept of a "stakeholder-inclusive approach" to corporate governance and recognises effective stakeholder engagement as essential to good corporate governance; and
- Report, through its chairman or one of its members to the shareholders at the company's annual general meeting on the matters within its mandate.

Meetings and attendance

Four meetings were held during 2012.

Attendance of meetings by the members of the committee is summarised on page 146.

Board committees (continued)

Group directors' affairs committee

SJ Macozoma
(Chairman)

AWB Band

JH Maree

BS Tshabalala

There were no changes to the composition of the committee during 2012. Consideration is being given to appointing another independent director in line with the recommendations of King III that there should be a greater number of independent directors to non-independent directors on this committee.

Responsibilities

Composition of board and committees

- Assist the board in discharging its responsibility for ensuring that the composition and structure of the board and its committees enable the board to fulfil its obligations in terms of the board mandate;
- Identify, evaluate and recommend nominees to the board of directors, board committees, pension and provident funds of the group;
- Review and evaluate candidates for the chief executive, other executive director and executive management appointments and make recommendations to the board for approval;
- Review succession plans for the board and key executives;
- Consider and advise on any proposal to terminate the employment of an executive director or a member of executive management made by the chief executive; and
- Review and make recommendations on the re-election of directors retiring by rotation, and the continuation of service of a director who has reached retirement age. Where a director has served a nine-year period his or her re-election has to be reviewed based on his or her performance and whether his or her independence will be affected.

Review of board and committee effectiveness

- Evaluate the performance of the chairman, the board and each board member and report on the outcome of these evaluations to the board;
- Assist the board in determining whether the appointment of any director should be terminated. This will involve an evaluation of the performance of directors to determine whether directors have made the necessary contribution;
- Annually review the structure, size and composition of the board taking into account the requirements of board committees and ensuring that the members of board committees have the requisite skills to perform their duties, and make recommendations to the board regarding any changes required;
- Ensure that an appropriate induction course is in place for all new directors and ensure that there is ongoing development and exposure for directors to enable them to remain up-to-date on relevant business and statutory developments; and
- Assist the board in designing methodologies for the board to use in its assessment of the effectiveness of board, committees and individual director performance.

Review of govenance and ownership

- If required to do so by the board, provide a forum for non-executive directors and heads of control functions to meet without the presence of executives;
- Determine and evaluate the adequacy, efficiency and appropriateness of the group's corporate governance structure, practices and process in line with regulatory requirements;
- Approve a corporate governance framework for agreement and adoption by subsidiary boards which shall set out the basic and minimum governance standards to be adopted by the subsidiaries which align to group practice;
- Assess the extent of compliance with all relevant governance legislation and codes;
- Address any other corporate governance issues that are not dealt with by the board or board committees; and
- Consider any matters relating to the black ownership initiative.

Meetings and attendance

Four meetings were held during 2012.

Attendance of meetings by the members of the committee is summarised on page 146.

Remuneration of directors and prescribed officers

Introduction

The non-executive and executive directors have different responsibilities and remuneration policies are structured according to these roles. Non-executive directors' fees, including the chairman's fee, are proposed by the board and recommended to the shareholders for approval at the annual general meeting. Non-executive directors do not receive short-term incentives and, with the exception of the directors who qualified for the 2004 black ownership transaction, do not participate in any long-term incentive schemes. Proposed fees for the 2013 directorships of Liberty Holdings Limited and Liberty Group Limited, as set out in the notice to members, are based on a carefully considered assessment of the responsibility placed on non-executive directors arising from increased requirements for regulatory oversight. Fees are annually benchmarked to equivalent responsibilities in the financial services sector. The board has considered the King III proposal for non-executive directors' fees to comprise a base fee as well as an attendance fee per meeting. In light of the current non-executives' exemplary attendance record in recent years it has been decided not to change the current policy of a set annual fee. This policy will be reviewed annually with due consideration to attendance records.

The promulgation of the Companies Act No. 71 of 2008 and associated regulations in May 2011 introduced the concept of prescribed officers and related remuneration disclosure. The group's directors' affairs and remuneration committees considered the act and obtained legal opinion. The committees' view is to assess the prescribed officer definition from a specific company rather than group perspective. Accordingly Messrs JB Hemphill and CG Troskie meet the definition from a management perspective in respect of the Liberty Holdings Limited company. Their remuneration details along with those of other members of the board are detailed below.

The policy for executive directors' remuneration is determined by the group's remuneration committee. The guaranteed benefits and variable remuneration for executive directors are awarded on the same basis and using the same qualifying criteria as for other group executive members, as outlined within the Remuneration of Liberty's people section on pages 117 to 129.

Non-executive directors

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

Non-executive directors' remuneration

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

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

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

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

4 *MW Hlahla was appointed to the board on 1 August 2012.*

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

6 *L Patel resigned from the board on 17 May 2012.*

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

Remuneration of directors and prescribed officers (continued)

Non-executive directors' interests in shares held in the Black Managers' Trust

When the scheme was implemented in 2004, shareholders approved the participation of non-executive black directors in the black ownership initiative through the Black (Katleho) Managers' Trust. Details regarding their interests in shares is as follows:

Summary of non-executive directors' interests in shares held in the Black Managers' Trust

Option holder[2]	Date awarded	Rights to number of shares	Current effective strike price of rights	Vesting date	Implementation date[1]
Dr SP Sibisi	7 Dec 2004	100 000	R39,83	31 Dec 2010	31 Dec 2014
Ms BS Tshabalala	1 Nov 2006	100 000	R39,83	31 Dec 2010	31 Dec 2014

(1) *These shares were fully vested at 31 December 2010, however they have restrictive trading conditions until 31 December 2014.*

(2) *A part director, professor L Patel also has rights to 100 000 ordinary shares awarded on 6 December 2004 with an implementation date of 31 December 2014.*

With regard to the strike price, it should be noted that the shares to which the beneficiaries are entitled were acquired by the Black Managers' Trust in 2004 at R48,50 per share. Subsequent capital repayments funded by Liberty's capital and dividend distributions have reduced the effective strike price to R39,83. The acquisition was financed by the trust issuing redeemable preference shares to Liberty Group Limited, with the preference share obligation being serviced by shareholder distributions in respect of the shares held by the trust. On repayment of the preference share obligation in full by the trust, beneficiaries will receive their share entitlement in terms of the trust as fully paid at no cost to them. The benefits received by the beneficiaries are therefore determined by the number of rights they are awarded and not the "strike price" as the strike price is nil in the hands of the beneficiary. The benefit will be the full market price of the number of surplus shares (after settlement of any outstanding preference share obligation), on the date the shares are delivered to the beneficiary. Other than the participation of black non-executive directors in the black ownership initiative as described above, non-executive directors do not participate in any other share-based incentive scheme.

Interest of directors, including their families, in the share capital of Liberty

Direct interests	Number of shares 2012	Number of shares 2011
Beneficial		
MP Moyo	2 700	2 700
JH Sutcliffe	4 000	
PG Wharton-Hood	1 006	1 006
	7 706	3 706

Indirect interests

By virtue of either directorships in or material shareholdings held directly or indirectly by Standard Bank Group Limited 53,62% (2011: 53,62%) in the issued ordinary share capital of Liberty, Messrs SJ Macozoma and JH Maree, being directors of Liberty and Standard Bank Group Limited, had in aggregate an indirect beneficial and non-beneficial interest in 153 461 712 (2011: 153 461 712) ordinary shares in Liberty at 31 December 2012.

By virtue of Mr SJ Macozoma's directorship and 26,63% (2011: 26,63%) shareholding in Safika Holdings (Proprietary) Limited (Safika) and by virtue of Safika controlling 2,46% (2011: 2,46%) of Liberty, Mr SJ Macozoma had an additional indirect beneficial interest in 1 870 845 (2011: 1 870 845) ordinary shares in Liberty Holdings Limited at 31 December 2012.

By virtue of their participation in the Katleho Managers' Trust, Dr SP Sibisi and Ms BS Tshabalala each have an indirect beneficial interest in 100 000 ordinary shares in Liberty Holdings Limited.

There have been no changes to the interests of directors, including their families, in the share capital as disclosed above to the date of approval of the annual financial statements, namely 27 February 2013.

Executive directors

The executive board members at 31 December 2012 are the chief executive (CE) and the financial director (FD). The positions of chief executive and financial director qualify as board appointments in line with best practice and JSE requirements.

The remuneration committee has set their remuneration with due consideration to their performance, experience and responsibility after conducting extensive benchmarking of similar roles in companies comparable to Liberty's size, industry and risk profile. In prior years the remuneration committee included long-term share incentives in Standard Bank as well as in Liberty in the total remuneration package of the CE. However, in accordance with Mr Hemphill's employment contract, with effect from 1 January 2012, he is only be eligible for Liberty long-term share incentives.

In line with policy, share incentive awards in Standard Bank awarded prior to the appointment of Mr Hemphill and Mr Troskie as Liberty directors, remain unaffected. Liberty, with effect from their dates of appointment, has assumed the future cost in respect of these incentives.

During 2012 Mr Hemphill and Mr Troskie were eligible for both short- and long-term incentive awards in line with the remco approved remuneration philosophy and group executives' incentive schemes as described on pages 117 to 129.

Chief executive – Mr JB Hemphill

The CE was appointed by the board, which ensures that the role and function of the CE is formalised and his performance is evaluated against specified criteria, in line with King III recommended practice.

Mr Hemphill is a full-time employee of Liberty and is subject to a three-month notice period.

From a short-term incentive perspective in respect of 2012 Mr Hemphill had two components:

(1) A cash award of up to 20% of his guaranteed package based on his performance against remco pre-determined personal key performance indicators. For 2012 these included:
- Improve synergies and leverage opportunities between STANLIB and Retail SA;
- Define strategy for the ECM accelerated growth plan and obtain approval for the business case;
- Investigate opportunities in sub-Saharan African countries and obtain approval for the defined future expansion strategy and plans;
- Drive collaboration across the business and enhance the effectiveness of the operating model;
- Provide leadership to the management team and enhance and leverage team effectiveness;
- Increase the businesses focus on transformation and deliver an integrated transformation strategy that incorporates the group's transformation principles into the strategic objectives of the business; and
- Develop and implement a brand and culture programme that addresses the group's brand essence and includes the implementation of a leadership charter.

The Chairman of the board assessed Mr Hemphill's performance and he achieved 91% of his personal key performance criteria. This equates to an award of 18,25% of his guaranteed package at 1 February 2013 (R5 000 000) or R912 500.

(2) A scaled cash award with reference to the group's financial performance as measured by the group operating IFRS headline earnings, growth in group operating equity value (excluding investment variances) and performance of the shareholder investment portfolio against benchmark. The reference scale set by remco was based on the principle that full achievement of the pre-determined financial targets would equate to an award of 120% of his guaranteed package. Adjustments for out or under performance are calculated in terms of a pre-determined scale. The group financial performance measure against target generated an award of R10 837 500 (216,8% of his guaranteed package).

The combined total of Mr Hemphill's short-term incentive amounts to R11 750 000 (2011: R10 046 000) of which R3 850 000 has been deferred in terms of the deferral rules.

In terms of long-term remuneration incentives Mr Hemphill was granted an award of R7 000 000 with effect from 1 March 2013. Mr Hemphill may elect to take up to 50% of this award in share rights in the equity growth scheme with the balance being allocated to the restricted share plan (long-term plan).

Financial director – Mr CG Troskie

The performance, appropriateness and expertise of the FD that held office was confirmed suitable in terms of the JSE Listings Requirements.

Mr Troskie is subject to a three-month notice period.

As with the CE, Mr Troskie's 2012 short-term incentives had two components:

(1) A cash award of up to 20% of this guaranteed package based on his performance against CE pre-determined personal key performance indicators. For 2012 these included:
- Ensure that the group's risk profile remains within risk appetite by monitoring the group's risk profile on a regular basis against risk target and appetite and ensure appropriate managements actions are taken to remain within appetite;
- Ensure that the skills and talent pool is retained by maintaining a staff turnover for group finance of less than 11% with more than 90% of critical skills being retained;
- Focus on delivering solvency and assessment (SAM) requirements, in particular meeting requirements for group capital, finance and risk streams;
- Optimise overall capital structures to ensure that the streamlining and efficient deployment of capital across the group;
- Contribute to the effectiveness of the leadership team to ensure a high performing team;
- Provide leadership to the actuarial team in developing and implementing a risk improvement plan across the group; and
- Focus on achieving the groups EE targets in particular at Senior and professionally qualified levels.

The remco assessed Mr Troskie's performance and he achieved 88% of his personal key performance criteria. This equates to an award of 17,6% of his guaranteed package at 1 February 2013 (R3 122 000) or R549 550.

(2) A scaled cash award with reference to the group's financial performance as measured by the group operating IFRS headline earnings, growth in group operating equity value (excluding investment variances) and performance of the shareholder investment portfolio against benchmark. The reference scale set by the remco was based on the principle that full achievement of the pre-determined financial targets would equate to an award of 100% of his guaranteed package. Adjustments for out or under performance are calculated in terms of a pre-determined scale. The group financial performance measure against target generated an award of R5 639 450 (180,6% of his guaranteed package).

Remuneration of directors and prescribed officers (continued)

The combined total of Mr Troskie's short-term incentive amounts to R6 189 000 (2011: R5 212 000) of which R1 625 600 has been deferred in terms of the deferral rules.

In terms of long-term remuneration, incentives Mr Troskie was granted an award of R4 500 000 with effect from 1 March 2013. Mr Troskie may elect to take up to 50% of this reward in share rights in equity growth scheme with the balance being allocated to the restricted share plan (long-term plan).

Executive directors' remuneration

Remuneration, including incentives, is calculated pro rata to the period served as a director. The presentation of the remuneration components below appropriately 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 as well as being contingent to performance and service periods.

The remuneration received by executive directors is as follows:

Directors' remuneration

	Fixed				Variable(1)			Long-term			
	Cash portion of package R'000	Other benefits R'000	Retire-ment contri-butions R'000	Total fixed R'000	Cash bonus R'000	Deferred bonus R'000	Total variable R'000	Value of restricted shares/ rights granted(2) R'000	Value of share unit right plan(3) R'000	Total LTI R'000	Total compen-sation for the year R'000
2012											
Executive directors											
JB Hemphill	**4 424**	**387**	**132**	**4 943**	**7 900**	**3 850**	**11 750**	**7 000**		**7 000**	**23 693**
CG Troskie	**2 801**	**76**	**243**	**3 120**	**4 563**	**1 626**	**6 189**	**4 500**		**4 500**	**13 809**
Total	**7 225**	**463**	**375**	**8 063**	**12 463**	**5 476**	**17 939**	**11 500**		**11 500**	**37 502**
2011											
Executive directors											
JB Hemphill	4 208	110	394	4 712	7 332	2 714	10 046	6 000		6 000	20 758
CG Troskie	2 636	136	234	3 006	3 948	1 264	5 212	2 500	2 700	5 200	13 418
Total	6 844	246	628	7 718	11 280	3 978	15 258	8 500	2 700	11 200	34 176

(1) *In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.*

(2) *Awards granted are valued using option pricing methodology and subject to performance conditions and service duration. Rights granted refer to the awards approved by the remuneration committee in February 2013 and 2012 in order to align to the performance periods of 2012 and 2011, respectively.*

(3) *This is a cash-settled scheme, linked to Liberty's price and subject to service duration.*

Summary of executive directors' interests in share unit rights plan at 31 December 2012

(One unit is the equivalent in value to one Liberty ordinary share)

Name	Date granted	Date fully vested	Units allocated at beginning of year	Units granted during the year	Units allocated at end of year	Unit value at allocation date R'000	Current value at end of year R'000
JB Hemphill	23 Feb 2010	23 Feb 2013	50 725		50 725	3 500	5 639
CG Troskie	26 Oct 2011	26 Oct 2014	33 313		33 313	2 700	3 703

Summary of executive directors' interests in 2010 deferred bonus scheme at 31 December 2012

(One unit is the equivalent in value to one Liberty ordinary share)

Name	Date granted	Date fully vested	Units allocated at beginning of year	Units granted during the year	Units allocated at end of year	Unit value at allocation date R'000	Current value at end of year R'000
JB Hemphill	24 Feb 2011	24 Feb 2014	15 395		15 395	1 150	1 711

Summary of executive directors' interests in Liberty rights under option at 31 December 2012

Name	Date granted	Price payable per share	Date fully vested	Rights under option at beginning of year	Rights granted during year	Rights under option at end of year
JB Hemphill				720 000		720 000
	21 Apr 2005	R58,40	21 Apr 2010	40 000		40 000
	18 Apr 2006	R77,28	18 Apr 2011	60 000		60 000
	28 Feb 2007	R80,25	28 Feb 2012	120 000		120 000
	22 Feb 2008	R73,21	22 Feb 2013	80 000		80 000
	18 Feb 2009	R65,15	18 Feb 2014	100 000		100 000
	23 Feb 2010	R69,00	23 Feb 2015	240 000		240 000
	24 Feb 2011	R74,70	24 Feb 2016	80 000		80 000
CG Troskie				100 000	22 106	122 106
	24 Feb 2011	R74,70	24 Feb 2016	100 000		100 000
	1 Mar 2012	**R87,90**	**1 Mar 2017**		**22 106**	**22 106**

Summary of executive directors' interests in the restricted share plan (long-term plan) at 31 December 2012

Name	Date granted	Allotted price per unit	Date fully vested	Shares granted during the year	Shares at end of the year	Current value at end of year R'000
JB Hemphill	**1 Mar 2012**	**R87,90**	**1 Mar 2016**	**68 260**	**68 260**	**7 588**
CG Troskie	**1 Mar 2012**	**R87,90**	**1 Mar 2016**	**22 754**	**22 754**	**2 530**

Summary of executive directors' interests in restricted share plan (deferred plan) at 31 December 2012

Name	Date granted	Allotted price per unit	Date fully vested	Shares granted during the year	Shares at end of the year	Current value at end of year R'000
JB Hemphill	**1 Mar 2012**	**R87,90**	**1 Sept 2015**	**30 874**	**30 874**	**3 432**
CG Troskie	**1 Mar 2012**	**R87,90**	**1 Sept 2015**	**14 376**	**14 376**	**1 598**

Summary of executive directors' interests in the Standard Bank rights under option at 31 December 2012

Name	Date granted	Price payable per share	Date fully vested	Rights under option at beginning of year	Rights granted during year	Rights under option at end of year
JB Hemphill				250 000		250 000
	21 Apr 2005[(1)]	R60,35	21 Apr 2010	5 000		5 000
	21 Apr 2005[(1)]	R60,35	21 Apr 2012	20 000		20 000
	6 Mar 2009	R62,39	6 Mar 2014	25 000		25 000
	6 Mar 2009	R62,39	6 Mar 2016	25 000		25 000
	5 Mar 2010	R111,94	5 Mar 2015	75 000		75 000
	5 Mar 2010	R111,94	5 Mar 2017	75 000		75 000
	4 Mar 2011	R98,80	4 Mar 2016	12 500		12 500
	4 Mar 2011	R98,80	4 Mar 2018	12 500		12 500
CG Troskie				105 000		105 000
	2 Jan 2009[(1)]	R83,00	2 Jan 2014	37 500		37 500
	2 Jan 2009[(1)]	R83,00	2 Jan 2016	37 500		37 500
	5 Mar 2010[(1)]	R111,94	5 Mar 2015	15 000		15 000
	5 Mar 2010[(1)]	R111,94	5 Mar 2017	15 000		15 000

[(1)] *Awards prior to the respective appointments to the Liberty board.*

Group executive committee

Years service associated with the financial services industry

1.	Bruce Hemphill	20 years
2.	Seelan Gobalsamy	16 years
3.	Thabo Dloti	21 years
4.	Lindi Dlamini	16 years
5.	John Maxwell	23 years
6.	Steven Braudo	20 years
7.	Giles Heeger	16 years
8.	Mukesh Mittal	21 years
9.	Frik van der Merwe	36 years
10.	Ivan Mzimela	14 years
11.	Casper Troskie	24 years
12.	Samuel Ogbu	17 years
13.	Thiru Pillay	24 years

1. Bruce Hemphill

Age: 49
Title: Chief Executive – Liberty
Joined Standard Bank Group: 1993
Joined Liberty: 2006 as Chief Executive
Qualifications: BA (UCT), CPE, Solicitor

Experience: Prior to joining Liberty, Bruce was chief executive at STANLIB, and previously held senior management positions in merchant and investment banking at Standard Bank.

2. Seelan Gobalsamy

Age: 36
Title: Chief Executive – Liberty Corporate
Joined Liberty: 2010
Qualification: BCom (Rhodes), CA (SA)

Experience: Seelan spent 10 years at Old Mutual where he held a number of senior management and executive positions in the group. Most recently Seelan was the MD of Old Mutual Corporate.

3. Thabo Dloti

Age: 43
Title: Chief Executive – Institutional and asset management cluster
Joined Liberty: 2010
Qualifications: B Bus Sc (UCT), AMP (Harvard)

Experience: Prior to joining Liberty, Thabo was the chief executive officer of Old Mutual Investment Group SA and an executive committee member of Old Mutual South Africa.

4. Lindi Dlamini

Age: 40
Title: Group Executive – Emerging Markets for Retail SA
Joined Liberty: 1996
Qualifications: BA (Law) (Swaziland), LLB (Swaziland), LLM (Tax Law) (Wits), CFP

Experience: Lindi has served in various legal and governance roles. She has recently been responsible for customer service and back office operational divisions of the Retail business. She is responsible for all elements including implementation of growth strategies in Liberty's Emerging Markets business.

5. John Maxwell

Age: 51
Title: Group Executive – Retail SA
Joined Liberty: 2008
Qualifications: BCom (Natal), Dip Acc (Natal), CA (SA)

Experience: Extensive financial services experience including various executive, managing director and chief operating officer roles at NBS, BoE, Nedbank (Peoples Bank) and Virgin.

6. Steven Braudo

Age: 41
Title: Chief Executive – Retail SA
Joined Liberty: 2008
Qualifications: BEconSc. (Wits), BSc. (Hons) (Wits), FASSA, CFA, AMP (Harvard)

Experience: Life assurance, employee benefits and asset management. Prior to joining Liberty, Steven was the managing director of Investment Solutions with responsibilities spanning across South Africa and the UK.

7. Giles Heeger

Age: 40
Title: Chief Executive – Liberty Financial Solutions (LibFin)
Joined Standard Bank Group: 2000
Joined Liberty: 2008
Qualifications: B Bus Sc (Hons) (UCT), MSc (City, London), CA (SA)

Experience: Structured debt finance, market risk, derivatives and global markets. Giles joined Liberty from Standard Bank, where he was the director of Sales and Structuring in the Global Markets Division of the Corporate and Investment Banking unit.

8. Mukesh Mittal

Age: 42
Title: Chief Executive – Business Development Cluster and Group Strategy
Joined Liberty: 2011
Qualifications: BSc (Hons) (Imperial London), FIA

Experience: Mukesh has significant international insurance experience including being Group Chief Actuary of Old Mutual plc (London) and leading Old Mutual's strategy and business development for the Asia Pacific region, Deputy Group Chief Actuary of Allianz (SE) and a director of PricewaterhouseCoopers UK. Mukesh also served on the board for Actuarial Standards in the UK.

9. Frik van der Merwe

Age: 59
Title: Chief Information Officer
Joined Liberty: 2008
Qualifications: MDP/EDP (Wits), EDP (IMD)

Experience: Frik has a background of technology and general management in the financial services industry. He was group chief information officer at ABSA Group responsible for South Africa and Africa operations before joining Liberty. He served on various Global Barclays Technology boards.

10. Ivan Mzimela

Age: 51
Title: Group Executive – Group Strategic Services
Joined Liberty: 2011
Qualifications: BA (Social Science) (University of the North), BA (Hons) (University of the North), MA (Regina Canada), Certificate in Strategic Management (Ashridge London)

Experience: Ivan has significant industry experience in strategy and HR and has wide stakeholder relationships. He was the executive chairman of Hollard Risk Capital. Ivan was an integral part of the team that drafted the Financial Sector Charter and has also held senior and executive positions in Nedbank and Eskom.

11. Casper Troskie

Age: 49
Title: Group Financial Director
Joined Standard Bank Group: 2009
Joined Liberty: 2010
Qualifications: BCom (Hons) (UCT), CA (SA)

Experience: Casper was previously the chief financial officer of the Standard Bank group and before that a partner at Deloitte with responsibility for leading the national Deloitte Financial Services Team, including the insurance and actuarial practices.

12. Samuel Ogbu

Age: 50
Title: Chief Executive – Liberty Properties
Joined Liberty: 2007
Qualifications: BA (Hons) (Southbank London), ACA, MBA (Wits)

Experience: Samuel has a strong track record in general and commercial management in both South Africa and the United Kingdom, and previously held executive management positions with Old Mutual South Africa and Sage Life.

13. Thiru Pillay

Age: 42
Title: Chief Risk Officer
Joined Liberty: 2007
Qualifications: BCompt (Hons) (Unisa), CA (SA), CIA

Experience: Thiru was the senior executive partner responsible for risk management and internal audit services at Ernst & Young for their African practice (including South Africa). Thiru has also previously held executive positions in South African Airways and Transnet. He also chaired the audit committee and served as a non-executive director on the board of the Central Energy Fund (CEF).

Group executive committee (continued)

The model Liberty leader

- Trusts and empowers people to take ownership and accountability of significant tasks while providing support where needed;
- Has energy and a can do attitude, thereby inspiring belief in our purpose and vision;
- Is authentic, acts with honesty, integrity, courage and respect;
- Inspires passion in the workplace by creating a sense of belonging and value contribution through encouraging staff to make informed and courageous decisions;
- Is a champion and custodian of the customer. Puts the customer at the centre of their thinking and actively meet their needs. Acts with fairness, dignity, respect and honesty;
- Is open to new ideas and change. Challenges the status quo and is not afraid to innovate and do things differently;
- Builds trust by ensuring that Liberty keeps its promises to its stakeholders; and
- Makes sure that people are informed that Liberty is about community building through education as well as enabling our customers to achieve financial freedom.

Mandate

- Formulation of the group's overall strategy, targets (both financial and non-financial) that are to be approved by the board of directors;
- Delivery of the board approved group strategy;
- Consider significant corporate actions;
- Monitor the group's financial performance;
- Ensure adequate budget and planning processes;
- Monitor operational performance of the group and its subsidiaries and where appropriate significant business units;
- Consider any significant changes proposed to accounting policy or practice;
- Ensure the group has adequate systems of financial and operational internal control;
- Establish the group balance sheet management committee and delegate specific requirements in respect of the management of the balance sheet;
- Review relevant material submissions to the board and board committees and make recommendations to the board where appropriate;
- Determine the terms of reference of other key management committees;
- Establish the group risk oversight committee and delegate oversight of all risk issues within the group, including IT risk management but excluding IT governance, the responsibility for which remains with the group executive committee;
- Conduct regular talent reviews to ensure attention is given to succession planning, leadership development, pipeline management andperformance development;
- Approve transformation targets for the group, for review by the group social, ethics and transformation committee;
- Oversight of key management committees; and
- Consider and implement all actions necessary to manage the group and fulfil its responsibilities to the board.

Membership role and function

The chairman of the group executive committee is the chief executive and the committee is made up of the respective business unit chief executives and selected executives of the various business units and central service functions. The committee's role is strategic and advisory in nature, being the custodian of the group strategy as approved by the board.

The purpose of the committee is to assist the chief executive or any executive director for the time being of the company to manage, direct, control and co-ordinate the business activities and affairs of the company from time to time, subject to statutory limits and the board's limitations on delegation of authority to the chief executive, to achieve sustainable growth within the approved risk profile.

The committee assists the chief executive in guiding and controlling the overall governance and direction of the business of the group and acts as a medium of communication and co-ordination between business units and group companies, the board, shareholders, regulators and other key stakeholders. All appointments to the group executive committee are approved by the directors' affairs committee.

Meetings and attendance at executive committee meetings

The committee generally meets ten times during the year. Thirteen meetings were held during the year, of which four were *ad hoc* meetings convened to discuss specific items.

Executive	A	B
Steve Braudo	13	12
Lindi Dlamini	13	12
Thabo Dloti	13	10
Seelan Gobalsamy	13	12
Giles Heeger	13	12
Bruce Hemphill	13	13
Bernard Katompa (resigned 26 July 2012)	7	5
John Maxwell	13	12
Mukesh Mittal	13	13
Ivan Mzimela	13	12
Samuel Ogbu	13	9
Thiru Pillay	13	13
Casper Troskie	13	13
Frik van der Merwe	13	11

Column A indicates the number of meetings held during the year while the executive was a member of the committee.
Column B indicates the number of meetings attended by the executive while the executive was a member of the committee.

Management committees

Group balance sheet management committee (GBSMC)

The members of the GBSMC are specifically chosen by the chief executive for their financial, actuarial and risk qualifications and experience and the committee is chaired by the group financial director. The GBSMC assists exco in the management of the group's financial position. This includes managing the level and mix of capital as well as cash requirements and liquidity. The committee monitors the capital that is invested in the legal entities that have life licences in order to support the capital adequacy requirements prescribed by the Long-term Insurance Act or specific levels set by the High Court on prior sanctioned transfers of insurance business. Proposals are made to exco, which in turn motivates to the board the level of additional capital to be held in excess of the statutory minimum requirements. The GBSMC also manages the capital requirements of non-life subsidiaries and considers the requirements of investors. Decisions requiring the utilisation of capital are approved by the committee and additional future capital requirements to support proposed new products, group strategies and business acquisitions, are assessed.

The GBSMC is responsible for reviewing and recommending to exco, which in turn recommends to the board, the group's dividend policy as well as the allocation of risk appetite and related economic capital to BUs and new initiatives or ventures. Policyholder returns and related asset manager performance, as well as the performance of the Shareholder Investment Portfolio, are also monitored by the GBSMC.

Group investment committee (GIC)

Assisting the GBSMC is the GIC, which was created to form a group view on the markets and thus provide a base upon which the GBSMC can make decisions. This committee is chaired by the chief executive of LibFin who seeks the advice of various economists and market specialists from time to time. The tactical asset allocation decisions of STANLIB are also considered when forming the market view of the group. In considering the interests of policyholders, the fund control committee also factors in the group market view formed by the GIC. LibFin manages the Shareholder Investment Portfolio and the market view formed by the GIC supports LibFin in considering changes to the tactical asset allocation within the strategic asset allocation framework, as approved by the board.

Group credit committee (GCC)

The purpose of the GCC is to assist the GBSMC by managing and approving senior debt, subordinated debt, debt with equity like features, equity with debt like features or pure unlisted equity, within the designated delegation of authority, the in-house credit risk generated through the activities of the business units of Liberty and its subsidiaries, reviewing and approving the credit component of asset manager mandates which define the extent and characteristics of credit risk generated through the outsourced credit risk management of shareholder funds and reviewing the framework, policies, procedures and tools developed for the management of credit risk.

Property investment executive committee (PIE)

The PIE's mandate is to manage the group's property investment strategies in relation to the purchasing, developing and selling of property assets within a pre-approved limit framework. It reviews and reports on the performance of property portfolios to the GBSMC. The PIE conducts post-investment audits and is responsible for determining the appropriate mix of assets in relation to the agreed property portfolio mandates as put in place by the GBSMC and the board. The PIE is accountable to the Liberty Properties executive committee.

Management committees (continued)

Fund control committee (FCC)

The FCC has been established by the Liberty exco to assist the South African insurance operations in discharging its responsibilities relating to the overall management and monitoring of policyholder funds and portfolios and their related processes and, in conjunction with LibFin (whose chief executive chairs the committee), to assume greater ownership and accountability for the investment offering that is delivered through its broad range of products. Policyholder returns and related asset manager performance are monitored by the FCC and the committee approves the appointment of asset managers. The FCC manages the portfolio range from a strategic and tactical perspective. The FCC is accountable to both the Retail SA and Liberty Corporate executive committees.

People, social, ethics and transformation management committee (PSETMC)

The PSETMC was constituted late in 2011 to specifically focus on the people of Liberty and manage the risks in respect of transformation, retention, talent management, remuneration, ethics and culture. More specifically the mandate of the PSETMC is to develop the Liberty people management strategy and thereafter review progress against agreed strategic people initiatives, with priority being given to performance and productivity of staff, managing skills requirements, effective leadership and being an attractive employer.

Group finance round table forum (FinCom)

The FinCom assists exco in the management of the financial operations and activities of the group. Its mandate is to review and implement financial controls, processes and procedures for the group, including the planning and budgeting processes as well as reviewing and providing input to the group's delegation of authority framework. The members of this committee are the financial officers in each BU, chaired by the group financial director or his delegate. The head of tax attends the meeting as a portion of the meeting is devoted to tax matters. A sub-committee of this committee, namely the group finance and actuarial technical committee, assists the FinCom in the execution of its mandate. This committee is made up of technical specialists in each specific area and is chaired by the chief financial officer.

Internal audit committees

Internal audit committees are in place to assist the group audit and actuarial committee of Liberty Holdings Limited and the audit and actuarial committee of Liberty Group Limited in discharging their accountabilities for major subsidiary entities. These committees are sub-committees of the group audit and actuarial committee and function under the same charter. However, there is a reporting responsibility to both exco and the GROC.

The chairpersons of these committees attend the group audit and actuarial and group risk committee meetings of Liberty Holdings Limited which are held concurrently with the audit and actuarial committee meetings of Liberty Group Limited.

Group risk oversight committee (GROC)

The GROC supports exco in the execution of its operational risk management responsibilities. The committee is responsible for reviewing risk operating models and governance structures, the approval and implementation of risk and compliance strategies, governance standards and policies for the group.

The membership of GROC is drawn from exco, specifically including the group chief risk officer. GROC is chaired by the group financial director and meets four times a year for the purpose of reviewing significant risks facing the group for onward presentation to the group risk committee together with proposed management action to mitigate and manage these risks.

Group market and investment risk committee (GMIRC)

The GMIRC assists the GROC with managing market risk and is responsible for maintaining and reviewing the framework, policies, procedures and tools developed for the management of market and investment risk. The committee provides assurance that market and investment risk limits are in line with approved risk appetite. Any material impact on risk that is not manageable and negatively impacts the shareholder as a result of changes to asset manager mandates is escalated to the GROC.

Group insurance risk committee (GIRC)

During 2012 the GIRC was constituted to assist the GROC with managing insurance risk. Insurance risk is defined as the risk that future demographic and related expense experience will exceed the allowance for expected demographic experience and expenses, as determined through measuring policyholder liabilities and ultimately against the product pricing basis. Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, persistency or expense experience in the case of life products, and claims incidence, claim severity assumptions or expense experience in the case of short-term insurance products.

Group risk officers forum (GROF)

The GROF is responsible for assisting the GROC in discharging its responsibilities relating to the management of risk and compliance in the group. In particular, the GROF develops, recommends for approval and oversees implementation of risk management policies and standards as well as responsibility for combined assurance as envisaged in King III. Key members of GROF are the group statutory actuary, heads of risk policy and oversight in each BU and members of group risk policy and oversight functions. The GROF is chaired by the group chief risk officer. GROF provides a platform for BU heads of risk policy and oversight to interact with group-wide projects and initiatives such as the capital and risk analysis and transformation programme which is driving the group-wide implementation of the enterprise-wide value and risk management framework.

Risk management

for the year ended 31 December 2012

Risk overview from the chairman of the group risk committee

The group remains committed to the prudent management of risks inherent in its business to ensure sustainable profits and reliable products for customers. The group risk committee has met four times this year to focus on risk issues which could impact on delivery of the achievement of the group's strategy. We met a fifth time to learn more about the intricacies of the use of derivatives.

Overall, your company accepts various categories of risk, market risks (equity, interest rate, credit risk, etc), insurance risks (mortality, longevity, morbidity, etc) and operational risks (IT failures, people risks, errors in processes, etc). We undertake our business under the constraints of controls that are designed to avoid and mitigate these risks. We hold capital well in excess of that required by law and regulation to ensure that in a very wide range of circumstances, your company will be able to survive, and the customers will still get their promised benefits.

The group risk committee recommends a risk management framework to the board each year. This framework comprises the policy limits on the risks we should take on in pursuit of our goals and this was approved by the board in 2012. The group risk committee and the board have also established a risk target, which represents the shape and texture of risks that need to be taken on to optimise the business. Management are primarily responsible for managing risk within this framework, and the Risk Committee oversees management.

Risks accepted by the company are limited by appropriate product design and underwriting, appropriate investment policies, by careful planning processes and by the implementation of policies governing operational processes amongst other things. Once risks have been accepted, they are controlled through a range of monitoring and mitigating activities and policies implemented by management and overseen by this committee, including hedging, and reinsurance.

During the year, the committee considered economic volatility, its possible impact on the group and management's plans to mitigate the effects of volatility. The risks inherent in the insurance industry were also considered as applicable to the group's strategy. The committee kept abreast of legislative developments and their potential impact on the group's businesses, in particular SAM, Treating Customers Fairly, Protection of Personal Interest and intermediary services in the insurance sector.

The committee requested that scenarios specific to Liberty be identified and that stress and scenario tests be applied to demonstrate the impact on Liberty's capital position and its ability to maintain solvency targets. During the year, the results of tests were presented to the committee and the outcome was that Liberty was able to absorb the effect of the more severe scenarios without significant negative impact on overall solvency.

Liberty's position in respect of its board approved risk appetite was considered at each meeting and throughout the year Liberty remained within the agreed boundaries.

Management presented all new products and product enhancements to the committee and the associated risks and mitigating factors were debated. Notably, the strategies relating to the ECM products and the new Evolve product were considered in 2012. We considered the appropriate asset allocations for the Shareholder Investment Portfolio (the assets that represent the company's capital), and the returns achieved on that portfolio.

The top risks as identified by management were specifically presented to the committee together with the plans to mitigate these risks. The risk log was updated to more accurately reflect the residual risk without detracting from the inherent risks.

The chief risk officer, who is independent of the business units, reported back to each meeting of the committee on the status of any new, heightened or unusual risks that he had identified and the adequacy of management's monitoring and response in this regard. Significant risk issues raised were resolved in a timely manner to the satisfaction of the committee. The chief risk officer also confirmed that there were no material breaches of the agreed policies during the year.

We believe that Liberty has a risk framework suitable for its business, and that management has properly run the company within that framework. Risk management is however an evolving science, and there are continuously improvements that we can and must make. We remain alert to changes in the environment and internally that reveal new risks.

J Sutcliffe

27 February 2013

Risk management

for the year ended 31 December 2012

1. Enterprise-wide value and risk management (EVRM)

1.1 Risk management framework

The group's strategic plans are subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite and risk target statements approved by the board. The group is committed to holding sufficient capital to withstand a wide range of possible circumstances. The group remains committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of products and services and is mindful of achieving this objective in the interests of all of its stakeholders. As outlined in the governance section of this report, the group has adopted a 'three lines of defence' model for managing risk.

The FSB is in the process of developing a new risk-based solvency regime for South Africa, known as Solvency Assessment and Management (SAM), SAM is based on the principles of the International Association of Insurance Supervisors (IAIS) and European Solvency II developments, but adapted to South African specific circumstances where necessary. Risk management within Liberty is being aligned with the EVRM framework which is substantially based on the risk management principles underlying the Solvency II framework. The EVRM framework and associated risk governance systems are thus expected to be consistent with the eventual requirements of SAM.

The board approved EVRM framework recognises the important role that risk culture plays in the effective management of risk. Risk culture is the general awareness, attitude and behaviour of the group's employees towards risk, the management of risk and the extent to which this shapes business decisions. The group's strong risk culture emanates from the board and drives consistent risk behaviour across the group.

Ultimate responsibility for risk management resides with the board with the primary responsibility delegated to the CE. The group's chief risk officer (CRO) is responsible for developing and communicating the EVRM framework and for overseeing the development and implementation of risk management strategies and the implementation of the EVRM framework. The CRO is supported by risk type experts and business unit executives accountable for risk management within their businesses. The governance structures on page 138 illustrate these roles and responsibilities with specific emphasis on establishing independence and adequate segregation of duties.

1.2 Risk appetite and risk strategy

Risk appetite is defined as the maximum amount of risk that the group is prepared to accept in pursuit of its business objectives. As such, risk appetite defines the group's willingness and capacity to accept high or low levels of exposure to specific risks or groups of risks.

Liberty's risk management system also includes the setting of risk target, defined as the amount of risk the group aims to take in order to optimise returns.

Risk appetite is measured across the following four risk dimensions:

1. Comprehensive earnings at risk: This is a measure of the fall in IFRS comprehensive earnings over the next year (normalised for the BEE transaction) in a moderate stress event (e.g. '1 in 10' year event) relative to forecast IFRS comprehensive earnings over the next year.
2. Embedded value at risk: This is a measure of the fall in embedded value over the next year in a moderate stress event (e.g. '1 in 10' year event) relative to the embedded value at the financial position date. It only pertains to the long-term insurance entities within the group.
3. Regulatory capital requirement coverage: This is a measure of the amount of financial resources required by all regulated entities on the statutory basis required to meet a specified minimum multiple of the sum of regulatory capital requirements. This minimum multiple is determined using a risk-based stress approach and reviewed for its continued appropriateness annually.
4. Economic capital coverage: This is a measure of a specified multiple of the amount of financial resources required by all group entities on the economic basis needed to protect against economic insolvency over a one-year time horizon following an extreme stress event (e.g. '1 in 200' year event).

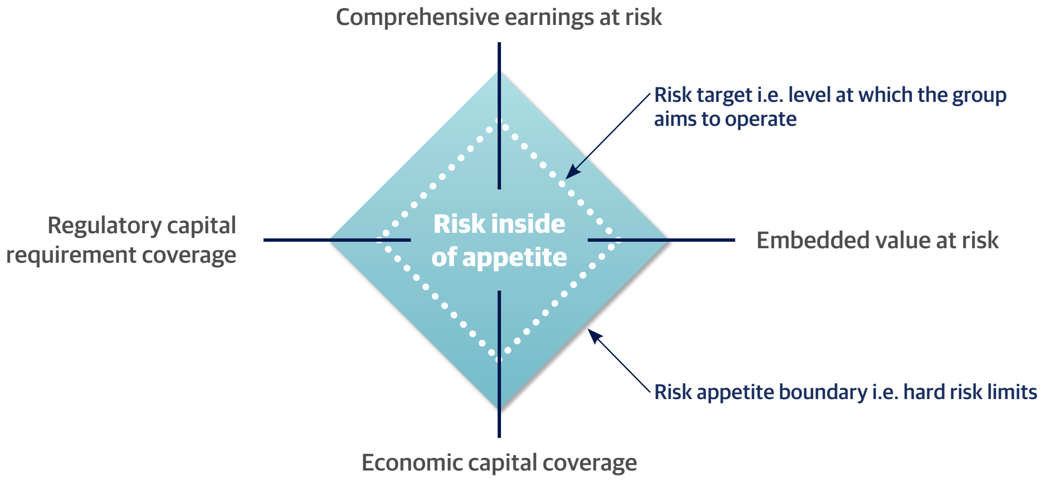
Risk management (continued)

for the year ended 31 December 2012

1. Enterprise-wide value and risk management (EVRM) (continued)

1.2 Risk appetite and risk strategy (continued)

The following is a graphical illustration of the risk appetite statement:



The setting of the level of risk appetite is fundamentally driven by the dual and at times conflicting objectives of creating shareholder value through risk taking, while providing financial security for customers through appropriate maintenance of the group's ongoing solvency. Consideration is also given to the strategic and working capital requirements of the group in the short, medium and long term.

The group's risk appetite statement will continue to be reviewed as and when considered necessary to ensure its continued appropriateness. Revisions of the risk appetite statement are approved by the board. Once approved, these revisions are immediately adopted for any future assessment of the group's risk appetite position.

1.3 Reputational risk

In addition to the four quantifiable axes of risk appetite, Liberty's risk management processes also consider risks to the group's reputation.

Events that decrease stakeholder confidence (damage reputation) in the group are likely to not only impair short-term financial results but may put at risk the group's ability to meet long-term sustainable value creation objectives. Consequently this reputational risk, whilst difficult to measure, is key to Liberty.

Reputational risk can also arise through the group's business practices being considered inappropriate, given changes in the social and economic environment. The group's risk identification processes include the early identification and appropriate management of environmental changes and their potential impacts.

The group has established a vision and values as described on page 10 that are expected to be upheld by all employees with the intention of guiding actions and behaviours throughout the organisation in order to continue to secure the support, trust and confidence of its stakeholders.

The group's leadership charter emphasises the importance of the customer, as well as fairness, sincerity and transparency in all its dealings. As such, a TCF approach is actively encouraged and the group embraces the principles of TCF. The group makes use of independent dispute resolution and established a customer relations department to ensure that customers who perceive that they are not being fairly dealt with are able to escalate their complaints or issues for resolution. The group monitors the complaints that are handled by these functions and ensures that management takes the necessary action to address problem areas in a prompt and efficient manner.

No explicit allowance is made for reputational damage in the OCAR or economic capital requirements. An implicit allowance is included in the run-on-the-bank type of scenario allowed for in TCAR and in the economic capital requirement's withdrawal catastrophe event, as these could occur as a result of reputational damage.

1. Enterprise-wide value and risk management (EVRM) (continued)

1.3 Reputational risk (continued)

Should a risk event occur, the group's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place at both executive and BU level to ensure the effective management of any such events. This includes ensuring that the group's perspective is fairly represented in the media.

Matters identified as a reputational risk to the group will be reported to the group CRO who, if required, will escalate these matters as appropriate.

1.4 Risk identification

In the context of the global and domestic economic, political and regulatory outlook, key risks facing the group are identified through the enterprise-wide risk management process. The enterprise-wide risk management process involves the group and business units employing a common approach to identifying both current and emerging risks threatening the achievement of the business strategy and objectives. Business unit management has front-line accountability for identifying the risks facing their business and is assisted in the process by business unit heads of risk.

Within Liberty, risk identification is a qualitative process used to discover the group's exposure to uncertainty. Risks are identified in a formal workshop which is facilitated, owned and attended by business unit executives. The formal workshop is conducted annually with subsequent quarterly follow up sessions.

Liberty has identified six major risk categories that are significant from a group perspective and reflect the diverse nature of its business activities. Risks are categorised as being business, insurance, market, liquidity, credit or operational risk. This is illustrated below.

The primary responsibility for managing risks lies with business unit management with the group risk management function managing and monitoring the aggregated group risk exposure by type.

These risk categories form the group's risk taxonomy and cover a range of risks that are managed by centres of excellence at a group level. These centres of excellence are managed by risk type heads who ensure that the group consistently classifies and manages its risks. The categorisation system includes definitions, assigns responsibility and assists with the aggregation of risks across the group. In aggregating risks the benefits of diversification are considered, with the net exposures being evaluated against the group risk appetite.

The possible risk to reputation is not distinguished as a unique risk type in the taxonomy. Risk to reputation is considered to be a consequence that could arise due to the occurrence of one or more of the other risk types.

In sections 3 to 9, each risk category included in the taxonomy is discussed in more detail.

It is important to recognise that risks often exhibit some correlation as they do not typically occur in isolation. These correlations are considered in the management of risk and are allowed for in capital calculations.

Risk management (continued)

for the year ended 31 December 2012

1. Enterprise-wide value and risk management (EVRM) (continued)

1.5 Risk assessment

Business units are supported by the group centres of excellence in the assessment of identified risks. These assessments are quantitative in order for the group and business unit risks to be rated and ranked for escalation and management attention. This guarantees appropriate focus on critical risks facing the business and ensures that they are managed within the board approved risk appetite. This also assists senior management in knowing where to focus their time and attention and to ensure that critical risks are managed rigorously.

Risks identified and assessed within the BUs are aggregated and ranked at group level to ensure that the group has sight of its portfolio of risks and understands where BUs are focusing their time and attention. The aggregated risk profile is reviewed by the Group Risk Oversight Committee (GROC) and revisions are made at a group level. Management presents their key risk assessments to the GRC and board at least annually. The CRO monitors the risk identification process and reports on risk status and management's response each quarter to the GRC.

1.6 Risk measurement

Risk measurement involves evaluating potential risk exposures at both an individual risk type and aggregated level. It encompasses a number of techniques including the identification and assessment of principal drivers that impact the overall risk profile as well as stress testing. The latter includes sensitivity tests and stress scenario analysis.

A detailed bottom-up calculation of the group's risk profile in relation to risk appetite is conducted semi-annually and an analysis of the principle risk drivers is performed. The group's risk exposure is calculated across the four risk dimensions described in the risk appetite and risk strategy section.

Separate but related models are run for each of the four dimensions and allows for business, insurance, market, liquidity, credit and operational measurement.

1.7 Stress testing

The group deploys a comprehensive approach to stress testing which includes sensitivity testing and stress scenario analysis.

Comprehensive stress scenario analysis is undertaken to identify severe but plausible scenarios to:

- Alert management to adverse unexpected outcomes related to a variety of risks;
- Assess the group's ability to maintain minimum specified levels of capital based on the board approved risk appetite;
- Assess the group's resilience to adverse events by identifying areas of potential vulnerability e.g. business continuity in the event of a severe pandemic;
- Increase understanding of the group's risk profile through a forward looking assessment of our risk exposure under stressed conditions;
- Validate assumptions in respect of the group's risk appetite; and
- Ensure adequate focus on the management actions that are appropriate to avoid undue risk, and to react to change in circumstances.

A range of scenarios, covering different levels of severity and plausibility, are considered as part of the stress testing system. Scenarios are forward-looking over the same period as the business planning horizon and focus on both macroeconomic and insurance-driven events.

1.8 Risk response, monitoring and reporting

Corrective action is taken if the group is outside of risk appetite. If risk exposure is within risk target, risk-taking opportunities that could enhance risk adjusted shareholder value can be identified and implemented. Risk response decisions are developed as part of the enterprise risk management process and formal accountability is assigned to create a greater level of assurance for the board, GRC and group audit and actuarial committee as well as inspire a greater level of confidence in the group's governance framework.

The monitoring of risk exposures and key controls are inherently part of this process, as well as the reporting of emerging and significant risks for each BU and the group as a whole. Where significant breaches are reported, progress made against action plans is monitored continuously.

Risk information is reported monthly to the GROC and on a quarterly basis to the GRC to ensure that decision making is based on an understanding of the potential impacts. The group's risk exposure relative to risk appetite and risk target on each risk measure is reported to the Group Balance Sheet Management Committee (GBSMC), GROC and GRC. GROC is chaired by the group financial director and reviews significant risks facing the group for onward presentation to the GRC, together with proposed management action to mitigate and manage these risks.

1. Enterprise-wide value and risk management (EVRM) (continued)

1.9 Risk management policies

In order to support the effective communication, implementation and governance of the EVRM framework, processes and operational requirements have been translated into a comprehensive series of risk management policies, procedures, standards and guidelines (PPSGs). These PPSGs promote the application of a consistent approach to managing risk exposures across the group.

The group acknowledges the importance, for all parties involved, to follow standard processes for managing risks as this ensures comparability when aggregating risks and ensures that risk tolerances are not exceeded. Risk PPSGs reflect the overall commitment to risk management by the group, stipulating the required direction and the parties responsible for implementation.

The Group Risk Officer's Forum (GROF) develop and recommend risk management policies and standards as well as oversee their implementation. GROC is responsible for the approval and implementation of risk and compliance standards and policies. These committees also receive an annual report summarising management's attestation of compliance to these policies.

In 2012 the group continued to embed tools, methodologies and improve processes and governance frameworks in order to enhance the management and monitoring of risk and to create value. Progress is continually driven by the group's vision to implement improved risk management practices and the appropriate behaviours to underpin them.

The board holds the CRO accountable for assurance of the group's compliance with risk policies and with the overall risk profile of Liberty. The CRO informs the board of any significant breaches that occur and provides progress updates on the effect of remedial actions taken.

Risk governance at Liberty

The group's governance structures are aligned with enterprise-wide value and risk management principles. Further details in respect of Liberty's governance structures is contained on pages 138 and 139.

Liberty's risk management framework relies on the "three lines of defence" model, which is summarised below.

1 First line of Defence

Business Unit Executive Committees
Management of Operations
(Report to Group Executive Committee)

2 Second line of Defence

Business Unit Risk Officers and Compliance Officers
Chief Risk Officer and Risk Policy Oversight
(Report to Group Risk Oversight Committee (GROC) and Group Risk Committee (GRC))

3 Third line of Defence

Group Internal Audit Services, External Auditors and other assurance providers
(Report directly to Group Audit and Actuarial Committee (GAAC))

Statutory Actuaries

The appointed statutory actuaries to each of group's life licence entities have full unrestricted access to GRC and GROC and perform both second and third line of defence responsibilities

Risk management (continued)

for the year ended 31 December 2012

2. Capital management

2.1 Bases of capital management

Due to varying stakeholder requirements, the group reports on and manages capital on three different bases. These are statutory, IFRS (published) and economic bases. The capital management process ensures that the group's available capital exceeds the capital required, that available capital is of suitable quality and that available capital is accessible when required.

Statutory basis

Available statutory capital is the amount by which the value of the assets exceeds the value of liabilities in registered long-term insurers and other financially regulated entities. In South Africa, the assets and liabilities for long-term insurers are measured on the statutory basis in accordance with the South African Long-term Insurance Act, associated regulations and any further guidance notes issued by the Actuarial Society of South Africa. Similar regulatory bases operate in other jurisdictions in Africa in which the group undertakes insurance operations. For other financially regulated entities, available statutory capital is usually equivalent to excess assets on an IFRS basis.

Statutory capital requirements are the amounts by which the regulators require the statutory basis assets to exceed the statutory basis liabilities for each individual regulated entity. Liberty Holdings Limited (LHL) currently has no statutory capital requirements of its own since it is not a regulated entity. This will change with the proposed SAM interim measures relating to group supervision. Liberty's initial assessment indicates that the group will be appropriately positioned from a capital perspective. The various regulated subsidiaries of the group all have statutory capital requirements.

The South African regulator, the FSB, requires long-term insurers to hold a Capital Adequacy Requirement (CAR) calculated in accordance with the Long-term Insurance Act of 1998 including Board Notice 72 of 2005 and SAP 104: Valuation of Long-term Insurers issued by the Actuarial Society of South Africa.

The CAR is calculated as the greatest of:

- Minimum Capital Adequacy Requirement (MCAR) – the minimum capital requirement for maintaining a South African long-term insurance licence.
  MCAR is consequently only relevant to smaller South African life licences. The MCAR per life licence is the greater of R10 million, a quarter of annual operating expenses or an amount equal to 0,3% of its gross contingent liabilities under unmatured policies.
- Termination Capital Adequacy Requirement (TCAR) – this requirement examines a highly selective scenario in which all policies with surrender values greater than the policy liability terminate immediately (essentially a highly selective run-on-a-bank scenario). The difference between the surrender value and policy liability for each policy constitutes the TCAR.
- Ordinary Capital Adequacy Requirement (OCAR) – a risk-based capital measure based on a number of market and insurance risk stress tests which, together with compulsory margins, are intended to provide approximately a 95% confidence level over the long term that the insurer will be able to meet its obligations to policyholders. In the calculation of OCAR, allowance may be made for management actions. Currently in the calculation of OCAR for LGL and Capital Alliance, it has been assumed that non-vested bonuses on with profit policies will be removed if stabilisation reserves fall below 7,5% of the basic guaranteed liability. These assumed management actions have been approved by the board. These management actions for 2012 had no impact on the amount of CAR.

Additional discretionary margins and additions to CAR may be held if the statutory actuary feels that the prescribed requirements are not appropriate for the risks undertaken.

For non-South African life insurance subsidiaries of LHL, the capital requirements are calculated per life licence as the greater of any capital requirements required by the applicable local regulations and the capital calculated as per the South African CAR calculation.

The group subsidiaries, STANLIB Collective Investments and STANLIB Asset Management, are required to hold a statutory minimum capital requirement calculated in accordance with the Collective Investment Schemes Control Act of 2002 equivalent to 13 weeks of operating costs.

LGL, in addition to its own licence requirement, is the holding company of all the other South African life licence entities in the group, with the exception of STANLIB Multi-Manager. For CAR assessment purposes within LGL, these life licence subsidiaries are held at their net asset value, less their statutory capital requirements.

A capital buffer over the CAR is held to reduce the risk of breaching the statutory requirement in order to meet the risk target.

During 2012 there have been no breaches of regulatory CAR requirements.

2. Capital management (continued)

2.1 Bases of capital management (continued)

Statutory basis (continued)

The group's dividend policy takes cognisance of capital adequacy when declarations are considered at Liberty Holdings Limited level. Similarly all dividends from group life licence entities are only approved if they do not compromise capital adequacy at each entity level. The statutory actuary of each licensed entity is additionally required to provide support for each dividend declaration.

The table below summarises the assets, liabilities and excess assets for the group's significant South African insurance companies on the statutory basis.

The group's non-South African insurance companies, being Liberty Life Namibia, Liberty Life Uganda, Liberty Life Swaziland, Liberty Life Botswana, CfC Life Assurance, The Heritage Insurance Company and the Heritage Insurance Company (Tanzania) were adequately capitalised in accordance with each applicable jurisdiction's regulations.

Rm	LGL	Liberty Active	Capital Alliance	Liberty Growth	STANLIB Multi-Manager[4]	Frank Life
2012						
Total assets	199 008	24 367	20 110	2 191	142	35
Less liabilities	191 450	22 688	17 958	1 884	38	19
Policyholder liabilities	179 655	20 880	17 240	1 848		3
Other liabilities	11 795	1 808	718	36	38	16
Excess of assets over liabilities	7 558	1 679	2 152	307	104	16
Statutory capital adequacy requirement (Rm)	2 791[1]	1 025[1]	749[1]	133[2]	63[3]	10[3]
Actual CAR coverage ratio (times)	2,7	1,6	2,9	2,3	1,6	1,6
Target CAR coverage ratio (times)[5]	1,7	1,5	1,5	1,5	1,5	1,5
2011						
Total assets	175 151	20 420	18 837	2 105	140	26
Less liabilities	167 951	19 235	17 331	1 797	33	11
Policyholder liabilities	159 708	17 762	16 382	1 759		2
Other liabilities	8 243	1 473	949	38	33	9
Excess of assets over liabilities	7 200	1 185	1 506	308	107	15
Statutory capital adequacy requirement (Rm)	2 495[2]	764[1]	729[1]	77[2]	49[3]	10[3]
Actual CAR coverage ratio (times)	2,9	1,6	2,1	4,0	2,2	1,5
Target CAR coverage ratio (times)[5]	1,7	1,5	1,5	1,5	1,5	1,5

(1) *Based on TCAR.*
(2) *Based on OCAR.*
(3) *Based on MCAR.*
(4) *STANLIB Multi-Manager is a life licence contained within a subsidiary of STANLIB Limited.*
(5) *Target CAR coverage will be reviewed once the operational use of the risk appetite statement has matured and there is greater clarity around the capital requirements under SAM.*

Risk management (continued)

for the year ended 31 December 2012

2. Capital management (continued)

2.1 Bases of capital management (continued)

IFRS (published) basis

Published capital is the amount by which the value of the assets exceeds the value of the liabilities where the assets and liabilities are measured in accordance with IFRS.

The table below summarises the assets, liabilities and excess assets of the group's significant insurance companies on the published basis.

Rm	LGL	Liberty Active	Capital Alliance	Liberty Growth	STANLIB Multi-Manager	Frank Life	Liberty Africa[1]
2012							
Total assets	225 142	32 593	20 804	2 203	21 259	113	3 349
Less liabilities	213 565	30 745	18 016	1 823	21 143	40	2 613
Long-term liabilities under insurance contracts	119 682	26 777	15 996	1 726		7	539
Long-term liabilities under investment contracts with DPF	2 808						1 046
Long-term liabilities under investment contracts	73 795	1 941	1 142	36	21 105		243
Other liabilities	17 280	2 027	878	61	38	33	785
Excess of assets over liabilities	11 577	1 848	2 788	380	116	73	736
2011							
Total assets	195 969	25 872	19 357	2 112	16 399	69	2 490
Less liabilities	185 613	24 659	17 129	1 729	16 289	23	1 870
Long-term liabilities under insurance contracts	107 041	21 451	15 097	1 626		3	372
Long-term liabilities under investment contracts with DPF	2 631						815
Long-term liabilities under investment contracts	62 972	1 633	1 172	36	16 256		175
Other liabilities	12 969	1 575	860	67	33	20	508
Excess of assets over liabilities	10 356	1 213	2 228	383	110	46	620

(1) *Liberty Africa comprises the group's non South African life licenced entities.*

2. Capital management (continued)

2.1 Bases of capital management (continued)

IFRS (published) basis (continued)

The table below provides a reconciliation of the excess assets between the published and statutory bases for the South African life licence entities.

Rm	LGL	Liberty Active	Capital Alliance	Liberty Growth	STANLIB Multi-Manager	Frank Life
2012						
Excess of assets over liabilities – statutory basis	7 558	1 679	2 152	307	104	16
Excess of assets over liabilities – published reporting basis	11 577	1 848	2 788	380	116	73
Difference	(4 019)	(169)	(636)	(73)	(12)	(57)
Items of difference						
CAR requirements of subsidiaries[(1)]	(1 929)		(133)			
Write-up of subsidiaries from cost to NAV[(1)]	744		50			
Debt instruments[(2)]	2 000					
Difference between statutory and published valuation methodologies[(3)]	(4 558)	(158)	(526)	(67)		(57)
Inadmissible assets[(4)]	(276)	(11)	(27)	(6)	(12)	
2011						
Excess of assets over liabilities – statutory basis	7 200	1 185	1 506	308	107	15
Excess of assets over liabilities – published reporting basis	10 356	1 213	2 228	383	110	46
Difference	(3 156)	(28)	(722)	(75)	(3)	(31)
Items of difference						
CAR requirements of subsidiaries[(1)]	(1 593)		(77)			
Write-up of subsidiaries from cost to NAV[(1)]	595		77			
Debt instruments[(2)]	2 000					
Difference between statutory and published valuation methodologies	(3 886)	3	(692)	(70)		(26)
Inadmissible assets[(3)]	(272)	(31)	(30)	(5)	(3)	(5)

[(1)] *For the purposes of the company IFRS accounts, long-term insurance subsidiaries are held at cost. For statutory purposes, long-term insurance subsidiaries and other regulated entities of a regulated long-term insurance holding company are held at net asset value reduced by the statutory capital requirements of the subsidiary.*

[(2)] *For the purposes of the published accounts, the subordinated debt of R2 billion raised by LGL is included in other liabilities. For statutory purposes, the subordinated debt is regarded as capital.*

[(3)] *These relate mainly to the elimination of negative rand reserves for pure risk long-term insurance business for the statutory valuation.*

[(4)] *The assets that are inadmissible for statutory purposes consist largely of intangible assets and the defined benefit pension fund employer surplus.*

Economic capital basis

The available financial resources on an economic capital basis is the amount by which the value of the assets exceeds the value of the liabilities where the assets are measured on a market consistent basis and the liabilities on a combination of best estimate and market consistent bases.

The economic capital requirement is the amount of financial resources required to protect against economic insolvency due to unexpected events. As such the economic capital requirement is a quantification of risk exposure.

The approaches taken by the group to calculate the available financial resources and economic capital requirements are broadly consistent with the approach currently proposed under SAM. The economic capital requirement is the amount of capital required to remain economically solvent in extreme events (e.g. SAM requires stresses at a 99,5% confidence level over a one-year time horizon). The primary risk events considered in the calculation of the economic capital requirements are covered in the respective risk categories in this report.

The group participated in the second South African quantitative impact study (SA QIS 2) as part of the SAM implementation process. This confirmed that work carried out on the economic capital models adequately positions the group, both in terms of preparedness and capitalisation levels.

Risk management (continued)

for the year ended 31 December 2012

2. Capital management (continued)

2.1 Bases of capital management (continued)

Economic capital basis (continued)

With the continuing development of the group's economic capital modelling capability, the economic capital requirement is increasingly being used in the group's risk and capital management processes.

2.2 Capital funding

LGL redeemed R2 billion of subordinated debt in 2012, which was issued in 2005 at a fixed rate of 8,93%, paid bi-annually. In addition, LGL issued two subordinated debt instruments in 2012 of R1 billion each, at a rate of 7,67% and 7,64% respectively to continue funding the working capital of the group and to lower its weighted average cost of capital (WACC).

On 28 June 2012, Fitch Ratings affirmed the rating for LGL's National Insurer Financial Strength rating at 'AA(zaf)' and LGL's National Long-term rating at 'AA-(zaf)' with a stable outlook. The affirmations reflect Liberty's well established business positions in South Africa, enhanced risk management, strong and diversified distribution network and good capital position. Fitch considers the strength and diversity of Liberty's distribution network and success in bancassurance with the Standard Bank group as key positive rating drivers. Offsetting these key rating drivers are certain earnings volatility stemming from the group's exposure to investment markets, which is in line with its peers, and the continued challenging South African environment.

Fitch has affirmed LGL's subordinated debt issue at 'A+(zaf)' in the full rating report of LGL issued on 18 September 2012.

The group's dividend policy takes into account the requirement to hold sufficient capital. The policy is to set the group's dividend with reference to underlying core operating earnings taking cognisance of the need to (i) balance capital and legislative requirements, (ii) retain earnings and cash flows to support future growth, and (iii) provide a sustainable dividend for shareholders. Subject to consideration of the above, the targeted dividend cover based on underlying core operating earnings is between 2,0 and 2,5 times. The interim dividend is targeted as 40% of the previous year's full dividend..

2.3 Capital management actions

No significant capital management actions were considered necessary during 2012.

3. Business risk

3.1 Definition

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue and cost volatility owing to factors such as macroeconomic conditions, inflexible cost structures, reputation or brand, uncompetitive products or pricing and structural inefficiencies.

3.2 Ownership and Accountability

The board is accountable for setting objectives and the strategies and plans to achieve those objectives. The board approves any subsequent material changes in strategic direction, as well as significant acquisitions, mergers, takeovers, disinvestment of operating companies, equity investments and new strategic alliances by the group or its subsidiaries.

The group and business unit senior executives are responsible for proposing the strategic plan within the group's risk appetite and aligning it to the group's risk target, as well as implementing the approved strategic plan at both a group and business unit level. In conjunction with the other risk types, as classified in the group risk taxonomy, the EVRM function provides monitoring and oversight of business risk within the group. The function's responsibilities include oversight of:

- Quarterly group-led reviews with each business unit ensuring regular dialogue and oversight of business performance in order to understand the key drivers of variances across the performance metrics.
- An examination of the impacts on earnings and capital by performing stress testing that include for example both increased and decreased new business volumes to understand the impact that this would have on the performance metrics.
- Detecting concentrations of risk that arise within the group due to lack of diversification across geographies and product lines.

The group Chief Risk Officer (CRO), who reports directly to the chairman of the Group Risk Committee (GRC) and has unrestricted access to the board, provides oversight of the risks associated with the group and business units' strategic plans, including those related to business risk.

3.3 Risk Management

The group's strategy is approved annually by the board through a formal strategic planning process. The group exco reviews and assesses the business unit objectives to ensure that they are aligned with the overall group strategy, which is subsequently presented to the board for approval. On a quarterly basis, the board reviews the group's performance relative to the approved strategy and ensures that management takes corrective action to address any risks that may impact on the achievement of the strategy. Business risks and other risks deemed to be outside of the group's risk appetite are escalated to the board.

The group mitigates business risk in a number of ways, including:

- A comprehensive business unit and group strategic and financial planning process.
- Extensive due diligence during the investment appraisal process.
- A new product process through which the risks and mitigating controls for new or amended products and services are tabled and discussed.
- Stakeholder management to ensure as far as possible, favourable outcomes from external factors beyond the group's control.
- Consistently monitoring the variances within the profitability of product lines and customer segments.
- Being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes.
- The group continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively reduce costs during economic downturn conditions.

Risk management (continued)

for the year ended 31 December 2012

3. Business risk (continued)

3.4 Current Business Risks

Formal processes have been established to understand current trends and business risks. In particular, the group investment committee forms a group view of the investment markets. These processes are supplemented with specific reviews and research related to key issues in the industry. This allows executive and business unit management to monitor appropriately the external business environment (industry trends, customer behaviour, competitors, etc.) and discuss risks and opportunities at a business unit and executive management level.

The current top business risks and drivers of business risk identified by executive management and the board are:

- Adapting to the large number of regulatory and environmental changes (social security and retirement reform in South Africa).
- Gaining market share in the core operations.
- Achievement of the growth initiatives business cases.
- Transformation, protection and enhancement of key people skills.
- Maintaining product innovation, development and delivery capability.
- Establishing adequate change management capability.
- Sub-optimal leveraging of opportunities due to an inappropriate enterprise business/IT architecture.
- Maintaining a sustainable cost base.
- Consistently achieving above average investment performance.
- Under investment and inefficient utilisation of the group's brands.

3.5 Regulatory and Legislative Developments

The past few years have seen significant regulatory reform internationally and within South Africa. The scope of regulatory reform has covered both prudential and business conduct changes. Liberty's overarching approach to dealing with regulatory change is, in addition to complying with the regulations, to consider the changes arising as a business improvement opportunity. In particular focus is to enhance its core business capabilities under the EVRM framework (for example, strategic planning and capital allocation, product development and pricing, performance management and incentivisation).

Set out below are certain of the more significant regulatory developments that may impact Liberty directly or indirectly. These tend to be focussed on South African developments as this is the jurisdiction in which the group materially operates. Regulatory developments in other jurisdictions in which group conduct business are monitored and assessed through various governance forums.

3.5.1 International Regulatory Developments

Common Framework for Internationally Active Insurance Groups (IAIGs)

A common framework is being developed by the International Association of Insurance Supervisors (IAIS) to address IAIG's with the objective of (1) consistent supervision of IAIG at the national level, (2) international co-operation between insurance supervisors, and (3) potential guidance on capital requirements and capital adequacy.

Foreign Account Tax Compliance Act (FATCA)

FATCA aims to recognise reporting of assets held by US persons in accounts outside of the US. There is an underlying belief that some of the accounts may be used for tax evasion. Foreign Financial Institutions (FFIs) will be required to enter into an agreement with the US Inland Revenue Services or suffer a 30% tax on US source income. FFIs are required to identify and report all US persons who are account holders or beneficial owners.

EU Gender Directive

The aim of this directive is to remove discrimination in relation to gender from the financial services industry.

Product Intervention

As a result of several high profile incidents of widespread mis-selling of financial products and a strategic approach to conduct risk, the UK's FSA is proposing a new regulatory and supervisory approach to enable conduct of business regulators to intervene early in the product development cycle.

3. Business risk (continued)

3.5 Regulatory and Legislative Developments (continued)

3.5.2 Regulatory Developments within South Africa

Solvency Assessment and Management

The FSB is in the process of developing a new risk-based regulatory requirement for South African insurance and reinsurance companies, known as Solvency Assessment and Management (SAM). This represents a fundamental change and will result in a more sophisticated economic risk-based capital approach. The objective is to better align the capital requirements of insurers and reinsurers to the true risks taken and to enable supervisors to better protect policyholder interests. SAM is based upon the Solvency II Directive that was agreed by the European Parliament in 2009 and is intended to meet the requirements of third country equivalence assessment under Solvency II. The final implementation date for Solvency II is uncertain as several delays to the final implementation measures being approved by the European Parliament have occurred. The FSB have currently set an implementation date of January 2015 with 2014 being a parallel run year. Liberty is progressing well with its SAM programme as the group foresees potential opportunities for capital, financial and operational benefits arising there from.

International Financial Reporting Standards (IFRS)

IFRS 4 Phase II

The current IFRS 4 is an interim standard that allows insurers to continue using various existing accounting practices that have been developed in a piecemeal fashion over many years. Phase II of IFRS 4 seeks to eliminate inconsistencies and weaknesses in existing practices and aims at providing a single source of principle-based guidance to account for all types of insurance contracts. This will increase transparency to provide information on how much risk and uncertainty there is, highlight information about what drives performance, explain what an insurer expects to pay to fulfill its insurance contract and expose the hidden value of embedded options and guarantees.

The earliest date for IFRS 4 Phase II to become effective is expected to be 1 January 2018.

Protection of Personal Information (PPI) Bill

The PPI Bill aims to regulate the processing and use of personal information, protecting persons both natural and juristic from the abuse of personal information and providing rights and remedies to victims of unlawful processing. It is expected to be enacted in 2013.

Pension Reform

Pension fund reform is a core issue among the proposed changes to insurance and retirement savings markets, underpinned by ambitious government aims to create more secure lives for South Africa.

Various papers were issued by Government in 2012 indicating their intention to address the reduction of retirement fund costs, reform of the post-retirement annuity market, improving the preservation of retirement funds while permitting ongoing portability, strengthening of fund governance, stimulating savings by individuals and investment in retirement funds and the introduction of a compulsory public fund for all employees.

National Social Security Fund (NSSF)

The introduction of a NSSF is a key policy change expected in the next decade. The NSSF seeks to provide a public vehicle for compulsory retirement savings and risk cover for the currently uncovered portion of the population.

Treating Customers Fairly (TCF)

The FSB is implementing a programme for regulating the market conduct of financial services firms entitled TCF that aims to use a combination of market conduct principles and explicit rules to drive delivery of clear and measurable fairness outcomes for consumers. Full implementation is planned for 2014 with the understanding that these timelines need to be aligned with the broader evolving regulatory reforms required for implementing the Twin Peaks model.

Retail Distribution Review (RDR)

The FSB has initiated a review of intermediary services and related remuneration which is likely to bring significant changes in the structure of the financial advice and intermediary industry. The RDR is based on international standard market conduct and is similar to the approach followed by the UK's FSA and covers remuneration of retail investment advice, the description and disclosure of advice services and the professionalism requirements of retail investment advisers.

Risk management (continued)

for the year ended 31 December 2012

3. Business risk (continued)

3.5 Regulatory and Legislative Developments (continued)

3.5.2 Regulatory Developments within South Africa (continued)

National Health Insurance (NHI)

The NHI is a key political objective and policy change is expected to address longstanding inequalities in the allocation of healthcare.

Financial Services Laws General Amendment Bill

This Bill seeks to amend a number of financial sector laws under the administration of the FSB and SARB.

This Bill introduces numerous changes to 10 statutes impacting on insurance and Financial Services. Many of the changes are to bring existing Acts into line with international best practice as well as extending the powers of the various regulatory authorities.

This Bill is set for promulgation in 2013.

Financial Markets Act

The Financial Markets Act will come into operation on a date to be proclaimed in the Government Gazette in 2013. The Act will replace the Securities Services Bill (No. 36 of 2004), to take into account developments in international regulation and to strengthen the regulatory approach to financial markets and its participants. In particular, it enables a regulatory framework for unlisted securities, enables central reporting for derivative transactions, and takes additional steps to combat market abuse, including insider trading.

Insurance Act Review

The Insurance Laws Amendment Bill (ILAB) will be tabled in Parliament in early 2013. National Treasury undertook public consultation on the Bill in 2012. The ILAB will address gaps in the insurance regulatory framework and enhance the powers of the Registrar, including providing for enhanced governance, risk management and internal control requirements for insurers, as well as introducing insurance group regulatory requirements.

A new Insurance Act is being developed concurrently with the SAM programme which will combine the current Short-term and Long-term Insurance Acts into one act. The FSB will undertake further public consultation in respect of the existing draft Bill in 2013 and will table this in Parliament in 2014.

Micro-insurance regulatory framework

Micro-insurance refers to insurance that is accessed by the low income population, provided by a variety of different providers. It includes low cost transactions, simple risk coverage, low income clients and community involvement and is viewed by the government as an emerging mass insurance market that requires effective regulation. National Treasury released the micro insurance policy document in July 2011. Following the release of the policy document, National Treasury, in conjunction with the FSB, has established a steering committee and various working groups to oversee the drafting of the micro insurance legislation, which is intended for tabling in Parliament in 2013.

4. Insurance risk

4.1 Definition

Insurance risk is the risk that future demographic and related expense experience will exceed the allowance for expected demographic experience and expenses, as determined through measuring policyholder liabilities and ultimately against the product pricing basis. Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity, policyholder behaviour or expense experience in the case of life products, and claims incidence, claim severity assumptions or expense experience in the case of short-term insurance products. These could have adverse impacts on the group's earnings and capital if different from that assumed in the measurement of policyholder liabilities and product pricing. From a risk management perspective, management groups these risks under insurance risk.

The insurance risks that the group is exposed to that have the greatest impact on the financial position and comprehensive income are covered in more detail in sections 4.6 to 4.11.

4.2 Ownership and accountability

The management and staff in all BUs taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

A group head of insurance risk was appointed in 2011 to provide group oversight of insurance risk.

The statutory actuaries, group insurance risk department and the heads of risk in the BUs provide independent oversight of compliance with the group's risk management policies and procedures and the effectiveness of the group's insurance risk management processes.

4.3 Risk identification assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal, claims incidence, claims severity and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

Experience investigations are conducted at least annually on all significant insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities.

Insurance risks are assessed and reviewed against the group's risk appetite and risk target. Mitigating actions are developed for any risks that fall outside of management's assessment of risk appetite in order to reduce the level of risk to within the approved tolerance limits.

IFRS sensitivities for the primary insurance risks are provided in section 10. Embedded value sensitivities for insurance risks are included in the South African covered business embedded value report in Appendix B. The statutory and economic capital requirements are discussed in section 2.

4.4 Risk management

Insurance risks are managed through processes applied prior to and on acceptance of risks and those applied once the risks are contracted.

Prior to acceptance of risks the product development process ensures that:

- Risks inherent in new products are identifies;
- These risks are quantified;
- Sensitivity tests are performed to ensure understanding of the risks and appropriateness of mitigating actions;
- Pricing is adequate for the risk undertaken; and
- Product design takes account of various factors including size and timing of fees and charges, appropriate levels of minimum premiums, commission structures and policy terms and conditions.

Where applicable underwriting is added to process a new individual risk at point of sale.

Post implementation reviews are performed to ensure that intended outcomes are realised and to determine if any further action is required.

The ongoing management of insurance risk once the risk has been contracted is effectively the management of deviations of actual experience from the assumed best estimate of future experience. The first line of defence processes and procedures that manage insurance risks differ considerably by risk type. These are described by each risk type in the sections which follow.

Risk management (continued)

for the year ended 31 December 2012

4. Insurance risk (continued)

4.4 Risk management (continued)

The statutory actuaries provide oversight of the insurance risks undertaken by the group in that they are required to:

- Report at least annually on the financial soundness of the life companies within the group;
- Approve the policy for setting assumptions used to provide best estimates plus compulsory and discretionary margins (as described in the accounting policies);
- Oversee the setting of these assumptions; and
- Report on the actuarial soundness of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

In addition, all new products and premium rates are approved through the product approval process after sign off by the relevant statutory actuary.

The Group Insurance Risk Committee (GIRC) was established early in 2012 and is chaired by the group head of insurance risk. The GIRC is a sub-committee of the GROC and is thus a second line of defence function. The following are the main duties and responsibilities of the GIRC:

- Recommend for approval insurance risk-related policies to GROC and ensure compliance therewith;
- Ensure that insurance risk is appropriately controlled by monitoring insurance risk triggers against agreed limits and/or procedures;
- Gain assurance that material insurance risks are being monitored and that the level of risk taken is satisfactorily in line with the risk appetite statement at all times;
- Consider any new insurance risks introduced through new product development or strategic development and how these risks should be managed;
- Monitor, ratify and/or escalate to GROC all material insurance risk-related breaches/excesses highlighting the corrective action undertaken to resolve the issue; and
- Monitor insurance risk regulatory requirements as they apply to the management of the group and its subsidiaries' balance sheets.

The group makes use of reinsurance to reduce its exposures to some insurance risks.

4.5 Reporting

Each relevant BU prepares monthly and quarterly reports that include information on insurance risk. The reports are presented to the relevant BU executive committees and the GIRC for review and discussion.

In respect of insurance risks, the reports contain the results of any experience investigations conducted (e.g. on mortality, morbidity, withdrawals including lapses, or expenses) along with other indicators of actual experiences. These reports also raise any issues identified and track the effectiveness of any mitigation plans put in place.

Monthly reports are submitted and presented by the BU head of risk to the GIRC. The GIRC in turn monitors BU's exposure to insurance risks.

The GIRC produces a product scorecard for each BU to monitor overall insurance risks which details the following:

- Key products;
- Movements in residual risks as a result of increase or decrease in policy count, sums assured, value of in-force (VIF) and value of new business (VoNB); and
- Status of insurance risks in relation to recent experience investigations.

The GIRC also provides assurance on a monthly basis to the LHL exco on the status of insurance risks across the group via the CRO report.

On a quarterly basis, the chief executives of the BUs assuming insurance risks report on the status of BU insurance risk management to the GROC. Major insurance risks are incorporated into a report of the CRO on the group's overall risk which is submitted to the GRC. Where it is deemed necessary, material insurance risk exposures are escalated to the board.

4.6 Policyholder behaviour risk

This is the risk of adverse financial impact caused by actual policyholders' behaviour deviating from expected policyholders' behaviour, mainly due to:

- Regulatory and law changes;
- Changes in economic conditions;
- Sales practices;
- Competitor behaviour;
- Policy conditions and practices; and
- Policyholders' perceptions.

4. **Insurance risk** (continued)

4.6 **Policyholder behaviour risk** (continued)

The primary policyholder behaviour risk is persistency risk. This arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total when this is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital. A deterioration in persistency generally gives rise to a loss as the loss of these future charges generally exceeds the charges that the group applies to the policyholder benefits in these events.

The business has continued to focus on a broad programme of initiatives, including:

a. Product flexibility and migration options

- In recognition of the reality of customers' changing financial circumstances, several options have been made available to customers to assist them through times of difficulty.

b. Protecting the in-force book of business

- Processes have been put in place to protect a policy under threat of withdrawal;
- Focus is placed on the satisfactory performance of the product owned by the customer;
- Continued emphasis on customer service level adherence and customer satisfaction levels; and
- Processes have been put in place to ensure ongoing intermediary support.

Customer retention initiatives have continued to bear fruit in 2012 and Liberty has continued to see a reduction in the withdrawal rates on certain major product lines. The improvement in withdrawal rates is broadly in line with targets.

Certain risk products contractually set premiums at a constant annual or monthly rand amount commonly known as 'level premium'. In the case of these products the risk of persistency reverses at a certain duration, whereby higher lapse rates will benefit Liberty. Consequently the reserving for level premium products is modelled separately.

Changes in regulations in recent years have impacted the group's exposure to policyholder behaviour risk:

- Since 2006, the deduction of certain charges from policy proceeds has been limited in terms of the Long-term Insurance Act, increasing the group's exposure to the risks associated with policyholder behaviour. The estimated effect of these regulations has been allowed for in the measurement of policyholder liabilities and in provisions in respect of terminated contracts; and
- Effective 1 January 2009, industry commission regulations were reformed such that the commission paid on many products with investment components is more closely aligned to premium collection and terms of the contract. This reduces the risk of non-recovery of commission on new policies subsequently cancelled or paid up, thereby reducing the group's exposure to the risks associated with policyholder behaviour.

In the measurement of policyholder liabilities, the liabilities are adjusted by a margin as described in the accounting policies depending on whether a surrender benefit is payable or not. In addition, an allowance is made for withdrawals in the TCAR and OCAR calculations.

In the calculation of economic capital requirements, allowance is made for the following risks in respect of policyholder behaviour:

- The risk that the actual level of withdrawals is different from expected; and
- The risk of a withdrawal catastrophe to capture a run-on-a-bank type of scenario that could for example occur due to loss of reputation or operational difficulties.

This economic capital requirement is significant. Although the withdrawal catastrophe event used in the calculation of the economic capital requirements is an extreme scenario, it is still more likely than the event being tested in the TCAR calculation.

4.7 **Mortality and morbidity risk**

Mortality risk is the risk of adverse financial impact due to actual mortality rates (i.e. policyholder death experience) being higher than anticipated.

Morbidity risk is the risk of adverse financial impact due to policyholder health related (disablement and dread disease) claims being higher than expected.

The group has the following processes and procedures in place to manage mortality and morbidity risk:

a. Pricing

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience. Prior to taking on individual risk policies, appropriate underwriting processes are conducted, such as blood tests, which influence pricing on the policy prior to acceptance.
- The actual claims experience is monitored on a monthly basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis.

Risk management (continued)

for the year ended 31 December 2012

4. Insurance risk (continued)

4.7 Mortality and morbidity risk (continued)

a. Pricing (continued)

- Allowance for AIDS is made in product pricing and special AIDS provisions are held within policyholder liabilities in accordance with South African actuarial guidance to provide for deterioration in experience as a result of assured lives becoming HIV infected after inception of the contract.

b. Terms and conditions

- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss (e.g. on life policies, a suicide exclusion applies to the sum assured for death within two years from the date of issue).
- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period:
  - For Retail SA risk business, most in-force risk premiums are reviewable (after 10 to 15 years on Lifestyle Protector business and annually on Credit Life and Emerging Customer Market business);
  - For corporate risk business, the risk premiums (charges) are reviewable annually;
  - For policies sold by Frank Life, terms are built into the policy contract permitting risk premiums to be reviewed on expiry of the guarantee period of five years; and
  - For non-South African businesses, similar terms allowing premium reviews exist.

Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases, may reduce their mitigating effects.

c. Underwriting

- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All retail business applications for risk cover are underwritten, except for some policies with smaller sums assured where specific allowance for no underwriting has been made in the product design. For other smaller sums assured, the underwriting process is largely automated. For retail and corporate business, larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For corporate risk business, these specified limits are scheme specific based on the size of the scheme and distribution of sums assured. Since applications on group business below the specified limits are not medically underwritten, very few lives are tested for HIV. However, the annually reviewable terms on corporate business enable premiums to keep pace with emerging claim experience.
- Specific testing for HIV is carried out in all cases where the applications for risk cover exceed set limits.
- Part of the underwriting process involves assessing the health condition and family medical history of applicants. Terms and conditions are varied accordingly.
- Non-standard risks, such as hazardous pursuits and medical conditions, are assessed at underwriting stage.
- The expertise of reinsurers is used in the rating of non-standard risks.
- Financial underwriting is used where necessary to determine insurable interest.

d. Claims management

- For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.

e. Reinsurance

- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

The group performs an annual review of the reinsurance cover in line with the stated risk appetite and reinsurance strategy. The 2013 treaties for South African retail new business are consistent with those adopted in 2012. In respect of mortality and accelerated lump sum disability benefits, LGL and its subsidiaries will retain 95% (2012: 95%) of the risk subject to a maximum retention of R9,0 million per life under a quota share arrangement with the benefits in excess of R9,5 million (2012: R9,5 million) being reinsured under a surplus reinsurance arrangement. Reinsurance for non-accelerated lump sum morbidity benefits will include an 80% quota share subject to benefit specific maximum retention limits. Benefits in excess of the retention limit will be reinsured under a surplus reinsurance arrangement. Special risks are partly reinsured by treaty and further reinsurance may be put in place on a case-by-case basis.

4. Insurance risk (continued)

4.7 Mortality and morbidity risk (continued)

e. Reinsurance (continued)

Business written in the past was reinsured at lower retention levels, which are fixed for the life of the contract. For LGL corporate business, lump-sum mortality and morbidity benefits in excess of R3,5 million (2012: R3,5 million) per main member are reinsured on an annually-renewable basis. The retention limits under surplus reinsurance arrangements are reviewed annually. Both corporate and retail income disability business is reinsured on a proportionate quota share and surplus basis. For Frank Life, the company retention is limited to 70% of the first R1,5 million for life policies and 70% of the first R15 000 per month in the case of income protection policies. For non-South African life insurance entities in the group, adequate reinsurance cover has been put in place in line with the group's risk appetite.

Exposures by size of sum assured (Retail and Corporate)

The tables below summarise the profiles of the sums assured at risk per life in terms of mortality benefits before and after reinsurance for retail and corporate risk business.

	Before reinsurance		After reinsurance	
Retail sums assured at risk (R)	**Rm**	**%**	**Rm**	**%**
2012				
0 – 1 499 999	**342 267**	**42**	**329 391**	**47**
1 500 000 – 2 999 999	**167 031**	**21**	**150 146**	**21**
3 000 000 – 7 499 999	**191 880**	**24**	**167 102**	**24**
7 500 000 and above	**106 111**	**13**	**51 785**	**8**
Total	**807 289**	**100**	**698 424**	**100**
2011				
0 – 1 499 999	331 669	44	317 507	49
1 500 000 – 2 999 999	153 452	21	138 097	21
3 000 000 – 7 499 999	170 978	23	152 099	23
7 500 000 and above	88 811	12	42 825	7
Total	744 910	100	650 528	100
Corporate sums assured at risk (R)				
2012				
0 – 1 499 999	**172 842**	**60**	**168 596**	**65**
1 500 000 – 2 999 999	**54 521**	**19**	**51 000**	**20**
3 000 000 – 7 499 999	**44 890**	**16**	**33 843**	**13**
7 500 000 and above	**14 066**	**5**	**4 531**	**2**
Total	**286 319**	**100**	**257 970**	**100**
2011				
0 – 1 499 999	168 899	64	165 967	68
1 500 000 – 2 999 999	46 511	18	45 189	19
3 000 000 – 7 499 999	37 277	14	29 156	12
7 500 000 and above	10 323	4	3 317	1
Total	263 010	100	243 629	100
Total group sums assured				
2012	**1 093 608**		**956 394**	
2011	1 007 920		894 157	
Percentage increase	8,5%		7,0%	

The tables above show that the sums assured are spread over many lives and that the exposure to individual lives has been reduced by means of surplus reinsurance arrangements. Given the large number of assured lives, the random fluctuation in mortality claims is expected to be small, as the larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome becomes.

Risk management (continued)

for the year ended 31 December 2012

4. Insurance risk (continued)

4.7 Mortality and morbidity risk (continued)

e. Reinsurance (continued)

Catastrophe reinsurance

Catastrophe reinsurance is consolidated across all life licences and is in place to reduce the risk of many claims arising from the same event. Liberty's consolidated catastrophe reinsurance cover is up to a limit of R650 million (2011: R600 million) for claims in excess of R50 million (2011: R50 million) for single event disasters and R1 300 million (2011: R1 200 million) in aggregate over the treaty year subject to the payment of a reinstatement premium. Furthermore, Liberty has additional reinsurance cover up to a limit of R47 million (2011: R47 million) for claims in excess of R3 million (2011: R3 million) for single event disasters arising from its subsidiary companies in Uganda, Botswana, Swaziland and Namibia. Various events are excluded from the catastrophe reinsurance (e.g. epidemics and radioactive contamination).

f. Exposure by industry

For corporate risk business, the exposure per industry class is monitored in order to maintain a diversified portfolio of risks and manage concentration exposure to a particular industry class. The following table splits the annual corporate risk business by industry class.

Industry class	2012 %	2011 %
Administrative/professional	34	31
Retail	23	23
Light manufacturing	28	31
Heavy manufacturing	13	13
Heavy industrial and other high risk	2	2
Total	100	100

Corporate risk contracts contain an exclusion for atomic, biological and chemical extreme events as well as active war and riot exclusion.

g. Allowance in statutory capital calculations

In the measurement of policyholder liabilities, margins as described in the accounting policies are added to the best estimate mortality and morbidity rates. In addition, an allowance is made for the mortality and morbidity fluctuation risk in the OCAR calculation. No additional allowance is made for mortality or morbidity catastrophes in the CAR calculation.

h. Allowance in economic capital calculations

In the calculation of economic capital requirements, allowance is made for the following risks in respect of mortality and morbidity:

- The risk that the actual level of mortality and morbidity experience is different from that expected; and
- The risk that mortality or morbidity catastrophe events (including epidemic type events) occur.

The risk of a loss arising from a random fluctuation in either mortality or morbidity rates is ignored in the economic capital requirement calculation. Given the large number of lives with mortality and morbidity cover, this risk has a far smaller impact than the specific risks allowed for.

The group views mortality and morbidity risks as risks that are core to the business. These risks will be retained if they cannot be mitigated or transferred on risk adjusted value enhancing terms. Mortality and morbidity risk gives rise to significant economic capital requirements in particular due to potential catastrophic events. Since it is difficult to obtain reinsurance for certain catastrophic events, such as epidemics (e.g. H1N1 flu) on reasonable terms, the mortality and morbidity economic capital requirements are likely to remain.

4.8 Longevity risk – long-term insurance business

Longevity risk is the risk of adverse financial impact due to actual annuitant mortality being lower than anticipated, i.e. annuitants living longer than expected.

For life annuities, the loss arises as a result of the group having undertaken to make regular payments to policyholders for their remaining lives, and possibly to the policyholders' spouses for their remaining lives. The most significant risks on these liabilities is continued medical advances and improvements in social conditions that lead to longevity improvements being better than expected.

The group manages the longevity risk by:

- Pricing which allows for mortality improvement;
- Annually monitoring the actual longevity experience and identifying trends over time; and
- Making allowance for future mortality improvements in the pricing of new business and the measurement of policyholder liabilities. This allowance will be based on the trends identified in experience investigations and external data.

4. Insurance risk (continued)

4.8 Longevity risk – long-term insurance business (continued)

The eligibility of annuitants payable in South Africa with valid South African identification numbers is established by a monthly check of existence with the Department of Home Affairs. The eligibility of other annuitants is established with the requirement of proof of existence certificate reports on an annual basis.

Claims on disability income business also give rise to annuity payments which are contingent on the claimant's longevity and continued disablement. The claims management of the disability income business is covered under morbidity risk.

Undue concentration of life annuities would leave the group heavily exposed to the longevity experience of a few lives. The profile of annuity amounts payable per life net of reinsurance in respect of life and disability income annuities is as follows:

Annuity amount per annum (R)	Number of life and disability annuities in payment 2012	Annual annuity amount exposure 2012 Rm	Number of life and disability annuities in payment 2011	Annual annuity amount exposure 2011 Rm
0 – 239 999	**89 260**	**1 768**	91 564	1 747
240 000 – 479 999	**651**	**204**	545	169
480 000 – 719 999	**93**	**54**	86	49
720 000 and above	**36**	**36**	31	31
Total	**90 040**	**2 062**	92 226	1 996

The table above shows that the concentration risk is likely to be small given the large number of lives and the annuity profile being heavily weighted to lower annuity amounts per annum.

In the measurement of annuitant liabilities, a margin as described in the accounting policies is subtracted from the best estimate mortality. The best estimate mortality includes an allowance for future mortality improvements. In addition, an allowance is made for the annuitant mortality fluctuation risk in the OCAR calculation. No additional allowance is made for fluctuations in the rate of annuitant longevity improvements.

In the calculation of economic capital requirements, allowance is made for the following risks in respect of longevity:

- The risk that the actual base level of longevity experience is different from that expected; and
- The risk that the rate of longevity improvement is different from that expected.

The group views longevity risk as a strategic risk that is core to its business. This risk will be retained if it cannot be mitigated or transferred on risk adjusted value enhancing terms. The economic capital requirement in respect of longevity risk is relatively small.

During 2012 a new product was launched which enables customers to protect themselves against longevity risk by sharing this risk with each other through a pooling arrangement. As this product grows in size it will provide an effective mechanism to meet the policyholder's need to reduce exposure to longevity risk without increasing Liberty's exposure to this risk. As Liberty is not exposed to longevity risk on this new product, the table above does not include these annuities.

4.9 Short-term insurance

4.9.1 Introduction

On 1 April 2011 Liberty acquired a 56,8% stake in the CfC group (now renamed Liberty Kenya Holdings Limited), which includes companies conducting short-term insurance business in the East Africa region.

On 1 January 2012 Liberty acquired a 51,2% controlling share in Total Health Trust Limited, which sells medical expense insurance business to both government employees and corporate customers. Medical expense cover is also provided by Liberty Health to corporate customers for their employees in 11 African countries. In addition, medical expense cover is provided within the CfC group.

Risk management (continued)

for the year ended 31 December 2012

4. Insurance risk (continued)

4.9 Short-term insurance (continued)

4.9.2 Classes of short-term insurance

The following classes of short-term insurance business are covered:

Class of business	Definition
Medical expense	Covers personal medical requirements.
Engineering	A contract which covers risk relating to: (a) the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business; (b) the erection of buildings or other structures or the undertaking of other works; or (c) the installation of machinery or equipment.
Fire	Contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.
Personal liability	Provide indemnity for actual or alleged breach of professional duty arising out of insured's activities, indemnify directors and officers of a company against court compensation and legal defence costs, provide indemnity for the insured against damages consequent to a personal injury or property damage.
Motor	Loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.
Personal accident	Risks of the persons insured sustaining injury or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.
Workmen's compensation	Loss arising from an employee injury or death whilst performing duties at the work place.
Other	Class of business not included under those listed above.

The following table summarises the premiums received and claims loss ratios incurred for the classes of short-term insurance business.

	Gross premiums written	Gross claims loss ratio	Gross premiums written	Gross claims loss ratio[1]
	2012		2011	
Class of insurance business	Rm	%	Rm	%
Medical expense	561	64	185	86
Engineering	26	35	7	36
Fire	148	43	81	27
Personal liability	44	26	16	15
Motor	123	46	82	57
Personal accident	35	27	80	71
Workmen's compensation	24	19	13	24
Other	39	28	21	27
Total	1 000	54	485	61

[1] *The acquisition of CfC Insurance Holdings Limited (CfC) was effective 1 April 2011. The claims loss ratios presented in the above table are for the full calendar claims year to 31 December 2011 and not the nine-month period in respect of CfC.*

4. Insurance risk (continued)

4.9 Short-term insurance (continued)

4.9.3 Underwriting risks associated with short-term insurance

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claim. For a pool of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risks are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserve set aside for policyholders' liabilities prove to be insufficient.

Pricing risk

Pricing risk is managed by carefully establishing criteria by which each potential customer is allocated to the appropriate risk category, applying the underwriting rules, and by establishing prices appropriate to each risk category. Underwriting performance is measured by monitoring the claims loss ratio which is the ratio of claims expenses to premiums.

Reserving risk

For claims that have been reported by the financial position date, expert assessors estimate the expected cost of final settlement. For expected claims that have not been reported by the financial position date an incurred but not reported (IBNR) provision is calculated using appropriate techniques such as run-off triangles. Consideration is also given to any stipulated minimum IBNR prescribed by regulations. These provisions for claims are not discounted for the time value of money due to the expected short duration of settlement.

Using the experience of a range of specialist claims assessors, provisions are reviewed regularly to ensure they are sufficient.

Catastrophic risk

Catastrophic risk has the potential to cause significant loss or impact on current year earnings or capital through a single event or a number of events within a concentration of risk classes.

Reinsurance and the diversification of types of short-term insurance offered is used to reduce risks from single catastrophic events or accumulation of risk. Various reinsurance arrangements are in place, with retention levels and catastrophe cover levels varying by line of business.

The aggregate risk exposure to medical expense is managed through claim limits by loss event within the terms of the policyholder contract.

4.10 Expense assumption risk

Expense assumption risk is the risk of adverse financial impact due to the timing, expenses incurred, or both differing from those expected in administering policies, e.g. the actual cost per policy differing from that assumed in the pricing or reserving basis.

Allowance is made for expected future maintenance expenses in the measurement of policyholder liabilities utilising a cost per policy methodology. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

The group manages the expense risk by:

- Regularly monitoring actual expenses against the budgeted expenses;
- Regularly monitoring new business;
- Regularly monitoring withdrawal rates including lapses; and
- Implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in in-force policies.

In the measurement of policyholder liabilities, a margin as described in the accounting policies is added to the best estimate expenses. In addition, an allowance for general administration expenses (excluding overhead acquisition costs incurred on new policies) incurred in the previous reporting period is made in the OCAR calculation.

Risk management (continued)

for the year ended 31 December 2012

4. Insurance risk (continued)

4.10 Expense assumption risk (continued)

In the calculation of economic capital requirements, allowance is made for the following risks in respect of expenses:

- The risk that the actual level of expenses is different from expected; and
- The risk that the rate at which the group's expenses increase is greater than assumed relative to the rate of inflation. (The risk that inflation is higher than expected is treated as a market risk.)

Even though expense risk does not give rise to large capital requirements, the management of expense risk is core to the business. The expenses that the group is expected to incur on policies are allowed for in product pricing. If the expenses expected to be incurred are considerably higher than those of insurers offering competing products, the ability of the group to sell business on a profitable basis will be impaired. This not only has capital implications, but can also affect the group's ability to function as a going concern in the long term.

4.11 Tax regulation risk

Tax regulation risk is the risk of loss arising due to the actual tax assessed being more than the tax expected. In addition, there is a risk that regulation change may be retrospective or interpretation may change through court decisions.

Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial position date. Adjustments may be made for known future changes in the tax regime.

No explicit allowance is made for tax risk in the OCAR and economic capital requirement calculation.

Tax compliance risk is mitigated through the employment of tax experts who identify and maintain tax risks. A prior independent review by the group tax department of all group annual income tax submissions to the relevant authorities is performed.

5. Market risk

5.1 Definition

Market risk is the risk of adverse financial impacts due to changes in fair values or future cash flows of financial instruments from fluctuations in equity prices, interest rates and foreign currency exchange rates (as well as their associated volatilities). In addition, in light of the group's significant investment in investment properties, there is risk exposure to fluctuation in property values.

The group's shareholders are exposed to market risk arising from the following main areas:

- The policyholder asset-liability mismatch risk. This occurs if the group's property and financial assets do not move in the same direction or by the same magnitude as the obligations arising under its insurance and investment contracts. This includes annuity mismatches, embedded derivative mismatches and the market risk arising from negative rand reserves (present value of recognised future charges less the present value of future expenses and risk claims);
- Financial assets and liabilities utilised to form the group's capital base (also referred to as shareholder funds);
- Exposure to 10% of the returns on a defined portion of the assets backing unit-linked liabilities. This arises from certain contracts which include terms that allocate 10% of the investment returns to Liberty shareholders. This market risk is referred to as the 90:10 fee exposure; and
- Exposure to management fee revenues not already recognised in the negative rand reserves.

The market risk associated with policyholder unit funds and with-profit funds pooling investment performance, excluding the risks materialising to the group's shareholders from the exposures described above, is ultimately borne by the policyholders. Poor performance on policyholder funds, however, can lead to reputational damage and subsequently to increased policyholder withdrawals and a reduction in new business volumes. This performance risk is managed by the fund control committee through the monitoring of asset managers and through the setting of appropriate policyholder fund mandates.

The key components of market risk are as follows:

- Equity risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of equity price and/or dividend changes;
- Interest rate risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of interest rate changes;
- Currency risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the group; and
- Property market risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

In line with the group's risk taxonomy, credit risk is dealt with separately from market risk in section 7.

5.2 Ownership and accountability

The group's market risk framework defines the governance framework and common principles of management for the assumption of market risk across the group. It supports the overarching EVRM framework with respect to market risks.

LibFin is responsible for managing the group's aggregate market risks including exposures arising out of shareholder funds and from South African life licence asset-liability mismatches in terms of its delegated authority and within the limits set by the GRC. Notwithstanding LibFin's broad mandate with respect to the management of the group's market risk, there remain pockets of market risk which have not yet been brought into the LibFin scope. These risks are still managed through traditional actuarial buffers until such time as a satisfactory alternative method for managing these risks is agreed upon. STANLIB, Liberty Properties and other external asset managers remain responsible for managing the investment risks within their investment mandates.

Group market risk provides an independent oversight of the effectiveness of market risk management processes and reports on the status of market risk management to GBSMC, GROC and GRC.

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.3 Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested.

In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together. The group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

The group assesses its asset-liability mismatch exposures with respect to the key components of market risk at a consolidated group level.

5.4 Alignment of market risk exposure to risk appetite statement

The maximum amount of market risk assumed within the group is defined by the group risk appetite. Group risk targets are set within risk appetite. These targets guide the setting of market risk limits for asset-liability matching and strategic asset allocation in the Shareholder Investment Portfolio.

At 31 December 2012 the group was within market risk limits.

With regard to the Shareholder Investment Portfolio the risk appetite is further used to determine tactical asset allocation ranges.

5.5 Risk management

For management purposes, the group's market risk remains split into two main categories:

- Market risks to which the group wishes to maintain exposure on a long-term strategic basis. This includes market risks arising from assets backing shareholder funds, as well as those arising from the 90:10 fee exposure. In aggregate this is referred to as the Shareholder Investment Portfolio and is managed by LibFin Investments; and
- Market risks to which the group does not wish to maintain exposure on a long-term strategic basis as they are not expected to provide an adequate return on economic capital over time. This includes the asset- liability mismatch risk arising from the group's interest rate exposure to annuity business, the mismatch risk arising from market-related guarantees and options embedded in policy terms (embedded derivatives), as well as the market risk arising from negative rand reserves. In aggregate this is referred to as the Asset-Liability Management Portfolio and is managed by LibFin Markets.

a) Shareholder Investment Portfolio

The group recognises the importance of investing its capital base, namely the shareholder funds, in a diversified portfolio of financial assets. The market risk arising from this shareholder fund exposure is modelled and managed together with the 90:10 fee exposure that exposes shareholders to 10% of the returns on a defined portion of assets backing unit-linked liabilities. This consolidated portfolio is referred to as the Shareholder Investment Portfolio.

LibFin Investments determines the long-term asset mix of this investment portfolio by applying a strategic asset allocation methodology with a long-term investment horizon. The typical asset classes included in this portfolio are equity, fixed income, property and cash, both in local and foreign currency (hence there is exposure to exchange rate movements as well as movements in the underlying asset class). During the course of 2012 small allocations have also been made to alternative asset classes. These provide a diversification benefit to the portfolio. STANLIB and other asset managers are mandated by LibFin Investments to manage the underlying assets in this portfolio.

Tactical asset allocation is performed by STANLIB within their mandate. This is similar to the way in which an asset manager would invest on behalf of a customer with a long-term investment horizon.

On a through-the-cycle basis, this conservative, diversified portfolio was constructed to protect capital while maximising after-tax returns for a level of risk consistent with the group's risk appetite statement. In the short term, market movements will contribute to some earnings volatility. The diversified nature of the portfolio should, however, shield against significant earnings volatility.

Market risk exposure from management fee revenues, other than exposure to the 90:10 fee exposure, is not managed as part of the Shareholder Investment Portfolio.

5. **Market risk** (continued)

5.5 **Risk management** (continued)

a) Shareholder Investment Portfolio (continued)

The Shareholder Investment Portfolio exposures at 31 December are summarised in the table below:

	2012				2011			
Exposure category	**Local Rm**	**Foreign Rm**	**Total Rm**	**%**	Local Rm	Foreign Rm	Total Rm	%
Equities	3 751	3 296	7 047	34	3 094	2 491	5 585	27
Bonds	4 422	1 629	6 051	29	4 343	714	5 057	25
Cash	2 445	488	2 933	14	5 472	418	5 890	29
Preference shares	1 343		1 343	7	1 471		1 471	7
Property	2 942		2 942	14	2 423		2 423	12
Other	201	253	454	2				
Total	15 104	5 666	20 770	100	16 803	3 623	20 426	100
Assets backing capital			9 424	45			9 226	45
Assets backing life funds			7 251	35			7 397	36
90:10 exposure			4 095	20			3 803	19

b) Asset-Liability Management Portfolio

The group has a number of market risk exposures arising from asset-liability mismatches to which it does not wish to be exposed on a long-term strategic basis. As a result, it has chosen to mitigate these risks through a dedicated ongoing hedging programme. The decision to hedge these risks is based on the fact that:

- Continuing to assume these market risks may result in the group operating outside of its risk appetite;
- These market risks are capital intensive and over time have the potential to reduce shareholders' returns on capital unless actively managed; and
- Some of the market risks (for instance those which arise from selling investment guarantees) are asymmetric in nature, and could compromise the group's solvency in severe market conditions. This is because current regulatory capital rules require available capital to be impaired for mark to market changes of such instruments.

The exposures which are included in this hedging programme include the following:

- Embedded derivatives provided in contracted policies (e.g. minimum investment return guarantees and guaranteed annuity options as described in 5.8);
- The interest rates exposure from writing guaranteed immediate annuities and guaranteed capital bonds (credit risk on the backing assets is, however, not hedged and serves as a diversified source of revenue for the group);
- Guaranteed Index Trackers; and
- Negative rand reserves.

The net market risk impact of these exposures is managed by LibFin Markets utilising hedge instruments available in the market. The nature of the existing business results in certain risks being difficult to hedge (e.g. long-dated volatility, long-dated interest rates and correlations). The hedging programme can as a result only remove those market risks from the group's financial position where appropriate matching assets exist. As the risk appetite limits cover four separate dimensions, hedging activity can in certain cases mitigate risk in one dimension, however cause increased risk in others. Therefore the impacts of all hedging decisions are assessed across all dimensions prior to transacting. Post-transacting, the effectiveness of the hedges implemented is monitored closely by group market risk.

The group continued to make progress in terms of the infrastructure required to manage this business. This has resulted in a further improvement in the quality, granularity and frequency of market risk analytics necessary to manage these exposures.

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.6 Risk reporting

Daily market risk reports are generated within LibFin on the Asset-Liability Management Portfolio, using the latest asset and liability information. These risk reports are used to manage the portfolio within the agreed market risk limits.

The Shareholder Investment Portfolio exposures to market risk are summarised twice a month in a market risk exposure report. This report includes the exposure split by each of the main sources of market risk (assets backing shareholder capital, 90:10 fee exposure and other market risk mismatches) and by the components of market risk (equity, interest rate, property and foreign exchange risk).

Market risk exposure across both the Shareholder Investment Portfolio and the Asset-Liability Management Portfolio is reviewed on a monthly basis by GBSMC and on a quarterly basis by GROC. GROC oversees LibFin's management of the market risk within the approved risk management and governance framework. In addition it monitors the group's current market risk exposures alongside the group's other risk exposures and overall risk appetite limits.

Furthermore, on a quarterly basis, the heads of market and credit risk report to GRC. Where it is deemed necessary, material market risk exposures are also reported to the board.

The group's allocation of assets between policyholders and shareholders is further summarised and reviewed in the group asset-liability matching report. Appropriate action is taken on a monthly basis to ensure that the assets backing unit-linked liabilities are the same assets underlying the unit promise and similarly, for liabilities with DPF, the assets backing the liability have a mix consistent with contractual mandates and policyholder reasonable expectations.

5.7 Summary of group assets subject to market risk (refer class table in section 11)

The table on page 193 summarises the group's exposure to financial property and insurance assets. This exposure has been split into the relevant market risk categories and then attributed to the effective "holders" of the risk defined as follows:

Policyholder market-related liabilities – Liabilities that are determined with reference to specific assets and where a significant portion of the market risk is borne by the respective policyholders. The group's shareholders are still exposed to the future management fee revenues and the 90:10 fee exposure as these are based on the value or performance of these specific assets. In addition, the group is exposed to any embedded derivatives (e.g. minimum investment return guarantees) provided on benefits linked to these assets. The embedded derivatives liabilities have been included in "Other policyholder liabilities".

Other policyholder liabilities – Liabilities where shareholders bear all the market risk.

Ordinary shareholder assets – Assets that are specifically held to support Liberty's capital base. The group's shareholders assume the entire market risk related to these assets.

Non-controlling interests – Non-controlling interests are the non-Liberty shareholder participants, mainly in unincorporated property partnership subsidiaries. Their risk exposure is mainly to property price risk in respect of the relevant properties contained in the partnerships.

Third party financial liabilities arising on consolidation of mutual funds – Certain mutual funds in which the group owns in excess of 50% of units are classified as subsidiaries and are consolidated into the group results. The market risks on the underlying assets that are assumed by the non-Liberty unit holders in these mutual funds are classified as "Third party financial liabilities".

5. **Market risk** (continued)

5.7 **Summary of group assets subject to market risk (refer class table in section 11)** (continued)

		Attributable to				
Risk category (Rm)	Total financial, property and insurance assets	Policyholder market-related liabilities	Other policyholder liabilities[2]	Ordinary shareholders	Non-controlling interests	Third party financial liabilities on mutual funds
2012						
Equity price	**111 242**	**107 035**	**(6 219)**	**1 316**		**9 110**
Interest rate	**101 990**	**41 726**	**28 838**	**28 685**	**149**	**2 592**
Property price	**30 878**	**25 798**	**(1 016)**	**1 198**	**2 952**	**1 946**
Mixed portfolios[1]	**44 415**	**42 176**	**(2 632)**	**4 054**		**817**
Reinsurance assets[3]	**1 170**		**978**	**192**		
Total	**289 695**	**216 735**	**19 949**	**35 445**	**3 101**	**14 465**
Percentage (%)		**74,8**	**6,9**	**12,2**	**1,1**	**5,0**
2011						
Equity price	96 635	94 691	(7 413)	1 968		7 389
Interest rate	87 243	34 038	29 484	22 172	84	1 465
Property price	28 003	25 311	(2 491)	581	2 988	1 614
Mixed portfolios[1]	37 077	36 102	(2 058)	2 337		696
Reinsurance assets[3]	1 104		901	203		
Total	250 062	190 142	18 423	27 261	3 072	11 164
Percentage (%)		76,0	7,4	10,9	1,2	4,5

(1) *Mixed portfolios are subject to a combination of equity price, interest rate and property price risks depending on each portfolio's construction. A substantial portion of the mixed portfolios will be subject to equity price and interest rate risk. The exact proportion is practically difficult to calculate accurately given the number of mutual funds and hedge funds contained in the group portfolios.*

(2) *Negative exposure to the various risk categories can occur in 'Other policyholder liabilities' since the present value of future charges can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholder market-related liabilities. The policyholder market risk exposure, however, remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholder market-related liabilities by the amount of these negative liabilities.*

(3) *Reinsurance assets are claims against reinsurers outstanding at the reporting date. They are not subject to market risk other than time value of money (interest rate) for the periods to settlement.*

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.8 Market risk by product type

The relevant market risks associated with the various policyholder products are discussed by product type below:

(a) Unit-linked products

A significant portion of the market risk (including equity, interest rate, currency and property risk) is borne by the group's policyholders through the linkage to the value of their policies. Unit-linked policyholders in particular have all the exposure to these risks.

For unit-linked contracts, the group holds the assets on which the unit prices are based. As a result, in respect of the unit-linked contracts, there is virtually no mismatch.

Certain market risk exposures do, however, arise in relation to these unit-linked products:

- In respect of IFRS defined insurance contracts with unit-linked components, the liability is reduced by the corresponding negative rand reserve. Some market risk is consequently retained on this business to the extent that the negative rand reserve does not move in line with the unit liabilities. This risk is managed as part of the Asset-Liability Management Portfolio;
- A significant portion of unit-linked business has embedded derivatives in the form of minimum investment return guarantees. This risk is managed as part of the Asset-Liability Management Portfolio;
- On a portion of business in this category, policyholders receive 90% of both the positive and negative returns achieved on the underlying assets. This leaves shareholders' earnings with exposure to the remaining 10%, thereby introducing earnings volatility due to the exposure to market risk (the 90:10 fee exposure). This risk is managed as part of the Shareholder Investment Portfolio;
- Management fees charged on this business are determined as a percentage of the fair value of the underlying assets held in the linked funds, which are subject to market risk. As a result the management fees are volatile, although always positive. This risk in respect of management fees not included in the negative rand reserves is not currently actively managed; and
- Timing delays often occur between the commencement date of the policy and the date that the funds are actually invested for the benefit of the unit-linked policy holder. This delay could result in either a profit or loss for the shareholder as the policyholder is guaranteed the implied performance of the units from the commencement date of the policy.

(b) Market-related guarantees and options

Significant exposure to market risk (equity, interest rate, property and currency risk) arises on market- related guarantees and options. These product features are embedded in various products, and IFRS and APNs and SAP issued by the Actuarial Society of South Africa require them to be separately identified and measured as embedded derivatives on a market consistent basis. The group monitors the exposure to embedded derivatives on a daily basis. LibFin Markets actively manages the group's exposure to these embedded derivatives within the Asset-Liability Management Portfolio as part of its dedicated hedging programme.

The policyholder liabilities in respect of minimum investment return guarantees and guaranteed annuity options amounted to R1 530 million (2011: R1 588 million) and R331 million (2011: R277 million) respectively. In addition the liability in respect of policyholder persistency bonuses, net a performance fees, of R1 379 million has been modelled as embedded derivatives for 2012. For 2011 this amount was valued as part of the unit reserve.

(i) Minimum investment return guarantees

Minimum investment return guarantees are provided on the death and/or maturity proceeds of policies invested in selected investment portfolios. The liabilities from these embedded derivatives are valued in accordance with valuation techniques that approximate market consistent option pricing techniques using stochastic Monte Carlo simulation. These techniques mirror a mid-market market consistent price to be paid to externally transfer the risk.

The interest rate, equity and other asset risks emanating from minimum investment return guarantee products are actively managed by LibFin. For certain risks, such as long dated volatility, appropriate instruments do not exist in the market to manage this risk and as such they remain unhedged. An assessment of the exposure to these residual risks can be found as part of the sensitivity analysis on pages 221 to 223.

5. Market risk (continued)

5.8 Market risk by product type (continued)

(b) Market-related guarantees and options (continued)

(ii) Guaranteed annuity options (GAOs)

GAOs give the policyholder the option to convert the maturity proceeds of a retirement annuity to an annuity product at a predefined rate. From 1997 onwards very few policies with GAOs were sold and from 2001 GAOs were no longer offered as the group believed that it could not adequately manage the associated risks at the time and anticipated a low interest rate environment going forward. As in the case of minimum investment return guarantees, liabilities from these embedded derivatives are valued in accordance with valuation techniques that approximate market consistent option pricing using stochastic Monte Carlo simulation techniques.

GAOs expose the group to interest rate risk. Interest rates impact not only the projected value of the proceeds of the policy but also the value of the annuity offered at the date of retirement.

The following table provides the typical guaranteed conversion terms sold with the GAOs, as well as the annuity payments per annum that are affordable using best estimate interest rate and annuitant longevity assumptions as at the financial position date, along with interest rate sensitivities:

Annuity payment per annum per R1 000 of annuity consideration

	Guaranteed conversion rate		Best estimate annuity rates (BE)		BE interest rate x 1,12		BE interest rate x 0,88	
Age	Male	Female	Male	Female	Male	Female	Male	Female
55	69,80	63,50	74,15	70,65	79,60	76,28	68,74*	65,06
60	78,00	70,20	77,39*	73,62	82,62	79,03	72,19*	68,24*
65	88,00	79,00	81,45*	77,54*	86,45*	82,72	76,47*	72,41*
70	97,50	88,00	86,45*	82,53*	91,22*	87,46*	81,72*	77,65*

Notes:

1. *The rates above are based on an annuity with a 10-year guarantee period.*
2. *The annuity rates per annum calculated have been based on an average annuity consideration of R200 000.*
3. *Annuity payment amounts where the GAO amount exceeds the affordable annuity amount have been marked with "*".*

The above table shows that at best estimate assumptions at the financial position date, the annuity payment per annum that is affordable per R1 000 of annuity consideration only exceeds the annuity payment per annum as per the guaranteed annuity rate (i.e. the options are out-the-money at the financial position date) for younger retirement ages. For older retirement ages, the options are in-the-money for males and females. The higher the retirement age, the further these options are in-the-money. The group is exposed to the risk of a fall in interest rates on GAOs, as the annuity payment per annum that is affordable per R1 000 of annuity consideration falls as interest rates fall, increasing the likelihood that guaranteed annuity options would be exercised by the policyholder.

The value of the annuity is also sensitive to the annuitant longevity assumption, which gives rise to the longevity risk described in the insurance risk section.

The GAO applies to the full proceeds of the underlying policy. Since retirement annuity policies typically have a large equity component, the GAO also gives rise to equity risk. Increasing equity prices generally increase the value of the GAO liabilities. Similarly other smaller components of the investment proceeds are exposed to interest rate, property and currency risk.

To some extent the upside equity risk exposure on GAOs can be offset against the downside equity risk exposure on guaranteed maturity values.

The bulk of GAO exposure relates to policies with terms to maturity up to 15 years. However, terms to maturity extend as far out as 30 years.

(iii) Guaranteed Index Trackers

Guaranteed Index Trackers are a set of unitised investment funds, offered to both retail and corporate customers, which guarantee to give the customer a zero tracking error against an observable market index at low cost. Investors can select between a local equity (TOP 40), local bond (ALBI) or cash total return (STEFI) index tracker.

Equity and interest rate risks stemming from the sale of Guaranteed Index Trackers are actively managed by LibFin in the Asset-Liability Management Portfolio. Furthermore, liquidity risk associated with this and other guarantee products is managed according to a liquidity risk process as part of LibFin's dedicated hedging programme.

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.8 Market risk by product type (continued)

(c) Non-participating annuities

Non-participating annuities (including disability income annuities in payment) provide benefit payments that are fixed and guaranteed (although a small proportion of the business provides inflation-related increases on annuities in payment). These liabilities are backed almost entirely by fixed income securities. The group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

LibFin Markets manages interest rate risk on this business in the Asset-Liability Management Portfolio as part of its dedicated hedging programme, by comparing the bucketed interest rate risk of the asset portfolio to the liabilities issued. The buckets are typically defined with respect to time, and by taking into account the common hedge instruments available in the market. The bucketed risk of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of future longevity, and bucketing risks of similar durations.

The bucketed risk is a linear measure of how the values of assets and liabilities change in response to interest rate changes. However, values do not change linearly as interest rates change. As a result, principal component analysis and defined stress tests are also monitored to capture this non-linear risk.

Seeking to hedge very long-dated annuity liabilities with available market instruments, typically of a much shorter tenor, results in convexity risk. Convexity risk is monitored closely by group market risk and Libfin Markets seek to hedge the risk as best possible given the available market instruments.

While LibFin Markets is responsible for the management of all of the annuity market risk, some of the annuity portfolios have been outsourced to traditional fixed income asset managers.

(d) Long-term insurance contracts with discretionary participating features

The group has a number of portfolios of long-term insurance contracts with DPFs, most of which have been acquired through acquisitions of other insurers. Each portfolio is backed by a distinct asset profile, often as a result of conditions included in the scheme of transfer in terms of which the business was acquired. The assets backing these liabilities are generally segregated from the group's other assets to ensure that the assets are used exclusively to provide benefits for the relevant policyholders.

Bonuses are declared on this business taking a number of factors into account, including the previous bonus rates declared, policyholder reasonable expectations, expenses, actual investment returns on the underlying assets, expectations of future investment returns and the extent to which the value of assets exceeds the value of benefits allowing for both the guaranteed benefits and projected future bonus at the most recently declared rates, among other factors. Once declared, a portion of the bonus, depending on the operation of the specific class of business in accordance with the terms and conditions of the contract, forms part of the guaranteed benefits. The bonuses declared are in accordance with the Principles and Practices of Financial Management (PPFM) document which is available on Liberty's website (www.liberty.co.za).

The group recognises the full value of the backing assets as a liability. The guaranteed portion of the liability is sensitive to interest rates. The group bears equity risk to the extent that equities are held to back the guaranteed portion of liabilities. The group bears interest rate risk to the extent that the assets backing the guaranteed portion of the liability are not a match for these fixed and guaranteed payments. However, the group's market risk can be passed on to the policyholder to the extent that the assets in the portfolio exceed the value of the guaranteed portion of liabilities. As a result, LibFin does not actively manage the risks in these portfolios as part of the dedicated hedging programme.

As at 31 December 2012, the assets exceeded the guaranteed portion of liabilities on all of these portfolios.

(e) Pure risk products

Pure risk products are predominantly recurring premium policies that provide benefits that are fixed and guaranteed at inception of the contract. Since future recurring premiums almost always exceed future benefits, the liabilities on these products are normally negative. These liabilities are sensitive to interest rates and their exposure is included as part of the Asset-Liability Management Portfolio.

5. Market risk (continued)

5.8 Market risk by product type (continued)

(f) Guaranteed capital endowments, guaranteed index trackers and structured products

Guaranteed capital endowments are single premium policies that have benefit payments that are fixed and guaranteed at inception of the contract. These liabilities are sensitive to interest rates and their exposure is included as part of the Asset-Liability Management Portfolio.

Guaranteed index trackers may be included within certain policies and guarantee the investment return of a particular market index. These liabilities are sensitive to the performance of the corresponding market index and their exposure is included as part of the Asset-Liability Management Portfolio.

Structured products are single premium policies that provide a guaranteed minimum maturity benefit together with predefined market-related upside. The group's philosophy dictates that these obligations are matched exactly. At inception of these contracts, assets which have proceeds that exactly match the payout under the policy are purchased.

These guarantees are modelled under a range of possible outcomes in order to determine an appropriate reserving that equates to a mark-to-market valuation. The group reduces this exposure through its hedging strategy where appropriate and within risk appetite.

5.9 Market risk by asset class for financial instruments

5.9.1 Interest rate risk

The tables below give additional detail on financial instrument assets and liabilities and their specific interest rate exposure. Due to practical considerations interest rate risk details contained in investments in non-subsidiary mutual funds are not provided. Derivative instrument exposure to interest rates is reflected in section 5.10.

Accounts receivable and accounts payable 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 significant given the short-term duration of these underlying cash flows.

Financial instrument asset category	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate[1] %
2012				
Held at fair value through profit or loss				
Government, municipal and utility stocks	29 300		29 300	6,9
Non-parastatal term deposits	33 048	16 428	16 620	6,4
Investment policies	214	214		4,5
Preference shares	2 785	2 663	122	6,5
Collateral deposits	784	749	35	5,2
Cash and cash equivalents	6 327	6 125	202	4,2
Loans and receivables				
Loans	1 056	184	872	8,7
Held-to-maturity				
Joint ventures loans and receivables	4		4	Nil
Total	73 518	26 363	47 155	
2011				
Held at fair value through profit or loss				
Government, municipal and utility stocks	27 572	11	27 561	7,8
Non-parastatal term deposits	29 588	12 179	17 409	6,2
Investment policies	103	103		6,3
Preference shares	3 011	2 292	719	6,4
Collateral deposits	691	595	96	5,1
Cash and cash equivalents	6 664	5 694	970	5,1
Loans and receivables				
Loans	1 007	184	823	8,0
Held-to-maturity				
Joint ventures loans and receivables	168	164	4	10,1
Total	68 804	21 222	47 582	

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

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.9 Market risk by asset class for financial instruments (continued)

5.9.1 Interest rate risk (continued)

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

Carrying amount by maturity date	2012 Rm	2011 Rm
Within 1 year	16 085	13 304
1 – 5 years	18 138	18 553
6 – 10 years	14 767	16 330
11 – 20 years	14 073	11 088
Over 20 years	5 033	3 656
Variable	5 422	5 873
Total	73 518	68 804

Financial instrument liability category	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate[1] %
2012				
Held for trading				
Collateral deposits	679	679		4,7
At amortised cost				
Callable capital bonds	2 037		2 037	7,4
Non-controlling interests loan	93	93		nil
Other loans denominated in foreign currency	47	47		18,0
Total	2 856	819	2 037	
2011				
Held for trading				
Collateral deposits	381	381		5,2
At amortised cost				
Callable capital bonds	2 054		2 054	8,6
Non-controlling interests loan	93	93		5,4
Other loans denominated in foreign currency	48	48		15,8
Total	2 576	522	2 054	

(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.*

The maturity profile of the financial instrument liabilities is included in section 6.4.1.

5. **Market risk** (continued)

5.9 **Market risk by asset class for financial instruments** (continued)

5.9.2 Currency risk

Offshore assets are held in policyholder portfolios to match the corresponding liabilities. The group is exposed to currency risk through minimum investment return guarantees issued on contracts invested in offshore portfolios and related mismatches, 90:10 fee exposure and management fees. In addition, some of the shareholder capital base is invested in offshore assets.

Investment guarantees, with effect from 2005, are no longer offered on new business invested in offshore portfolios. The rand denominated value of management fees derived from these contracts is also subject to currency risk. Strengthening of the rand against the offshore currencies reduces the rand value of management fees on offshore portfolios and increases the liability in respect of rand denominated minimum investment return guarantees on this business.

The gross exposure to foreign denominated financial instruments expressed in rand (converted at closing rates) at 31 December 2012 is R41 340 million (2011: R32 611 million). It is not practical to isolate accurately any detailed currency risk contained in investments in mutual funds and investment policies which are priced in rand and are not subsidiaries. The implied currency exposure to mutual funds and investment policies however is not material to the group. The table below segregates the currency exposure by major currency at 31 December:

Foreign currency assets held by South African group entities (excluding investments in foreign subsidiaries)

	British pound		US dollar		Euro		Japanese yen		Australian dollar		Other	
Rm	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Debt instruments	**380**	341	**4 483**	2 468	**1 223**	633	**326**	347	**258**	175	**996**	654
Equity instruments	**2 035**	1 547	**9 681**	9 532	**1 274**	1 172	**1 256**	1 304	**352**	303	**4 582**	3 288
Mutual funds	**249**	270	**11 048**	8 320	**407**	532	**68**	68				22
Prepayment, insurance and other receivables			**319**	193								42
Cash and cash equivalents	**35**	53	**1 195**	1 231	**61**	76	**18**	5	**7**	6	**142**	24
Derivatives (non foreign currency)	**2**		**10**		**2**		**2**					
Collateral deposits				1		1						
Investment policies			**926**									
Reinsurance assets			**3**	3								
Total	**2 701**	2 211	**27 665**	21 748	**2 967**	2 414	**1 670**	1 724	**617**	484	**5 720**	4 030
Gross foreign currency exposure	**197**	177	**3 263**	2 688	**265**	231	**16 975**	16 520	**70**	59		
Derivative protection[(1)]	**8**	5	**(121)**	(116)	**(7)**	(27)	**1 523**	1 705	**(24)**	(21)		
Net foreign currency exposure	**205**	182	**3 142**	2 572	**258**	204	**18 498**	18 225	**46**	38		
Closing rate at 31 December[(2)]	**13,71**	12,48	**8,48**	8,09	**11,18**	10,46	**0,10**	0,10	**8,79**	8,22		
Average rate during the year[(2)]	**13,01**	11,62	**8,21**	7,25	**10,55**	10,18	**0,10**	0,09	**9,03**	7,49		

(1) *Certain currency exposures are reduced by means of forward exchange and cross-currency swap contracts. The forward exchange contracts are summarised in Appendix H.*

(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.*

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.9 Market risk by asset class for financial instruments (continued)

5.9.2 Currency risk (continued)

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

Currency exposure to net investments in foreign subsidiaries

Foreign currency ('m)	Kenya shilling	Botsswana pula	Uganda shilling	British pound	Nigeria naira	US dollar
Equity exposure at 31 December 2012						
Liberty Kenya Holdings Limited and subsidiaries	4 331					
Stanbic Investment Management Services (EA) Limited	620					
Liberty Holdings Botswana (Pty) Limited and subsidiaries		59				
Liberty Life Uganda Assurance Limited			11 813			
Total Health Trust Limited					1 467	
Guardrisk Cell Captive (Mauritius)						1
Libgroup Jersey Holdings Limited				10		
Group gross foreign currency exposure	4 951	59	11 813	10	1 467	1
Non-controlling interest foreign currency exposure	(1 908)	(15)	(5 788)		(716)	
Net group foreign currency exposure	3 043	44	6 025	10	751	1
Rand equivalent (Rm)	300	48	19	136	41	4
Equity exposure at 31 December 2011						
CfC Insurance Holdings Limited and subsidiaries	3 615					
Stanbic Investment Management Services (EA) Limited	443					
Liberty Holdings Botswana (Pty) Limited and subsidiaries		38				
Liberty Life Uganda Assurance Limited			7 328			
Total Health Trust Limited					653	
Libgroup Jersey Holdings Limited				10		
Group gross foreign currency exposure	4 058	38	7 328	10	653	
Non-controlling interest foreign currency exposure	(1 587)	(10)	(3 591)			
Net group foreign currency exposure	2 471	28	3 737	10	653	
Rand equivalent (Rm)	236	30	12	127	30	

5.9.3 Property market risk

The group is exposed to tenant default and unlet space within its investment property portfolio affecting property values and rental income. This risk is mainly attributable to the matching policyholder liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multi-tenanted buildings significantly reduces the exposure to this risk. At 31 December 2012 the proportion of unlet space in the property portfolio was 7,1% (2011: 7,2%).

Property market risk also arises in respect of shareholder exposures to investment guarantees and negative rand reserves and this risk is managed as part of the dedicated hedging programme.

5. Market risk (continued)

5.9 Market risk by asset class for financial instruments (continued)

5.9.3 Property market risk (continued)

The group's exposure to property holdings at 31 December is as follows:

	2012 Rm	2011 Rm
Investment properties	**25 380**	24 462
Owner-occupied properties	**1 378**	1 598
Owner-occupied properties under development	**13**	
Mutual funds with >80% property exposure	**4 107**	1 943
	30 878	28 003
Attributable to non-controlling interests	**(2 952)**	(2 988)
Net exposure	**27 926**	25 015
Concentration use risk within properties is summarised below:		
Shopping malls	**20 750**	20 022
Office buildings	**2 696**	2 803
Hotels	**2 536**	2 536
South African listed property securities held via mutual fund investments	**4 107**	1 943
Convention centre and residential property	**789**	699
	30 878	28 003

5.10 Derivative instruments

Certain group entities are parties to contracts for derivative financial instruments, mainly entered into as part of the dedicated hedging strategy. These instruments are used to mitigate equity, interest rate and currency risk and include vanilla futures, options, swaps, swaptions and forward exchange contracts.

Derivative financial instruments are either traded on a regulated exchange, e.g. South African Futures Exchange (SAFEX), or negotiated over-the-counter (OTC) as a direct arrangement between two counterparties. Instruments traded on SAFEX are margined and SAFEX is the counterparty to each and every trade. OTC instruments are only entered into with appropriately approved counterparties and are entered into in terms of signed international swap and derivative (ISDA) and collateral support agreements with each counterparty.

The group applies cash flow hedge accounting on qualifying transactions. 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 fair value through profit or loss.

The fair value of derivative instruments held at 31 December is included in the cash flow hedge and held for trading categories of assets and liabilities in note 10 to the group's financial statements.

Fair value adjustments offsetting these derivative market values are reflected in the change in value of assets and liabilities shown elsewhere in the financial statements.

Total carrying amount of derivative financial instruments	2012 Rm	2011 Rm
Derivatives held for trading	**767**	375
Gross carrying amount of assets	**6 091**	3 086
Gross carrying amount of liabilities	**(5 324)**	(2 711)
Derivatives held for hedging	**(60)**	(8)
Gross carrying amount of assets	**35**	13
Gross carrying amount of liabilities	**(95)**	(21)
Net carrying value	**707**	367

Risk management (continued)

for the year ended 31 December 2012

5. Market risk (continued)

5.10 Derivative instruments (continued)

The table below summarises the open derivative portions at carrying amount by maturity date.

Rm	Maturity analysis of net fair value: Within 1 year	After 1 year but within 5 years	After 5 years	Net fair value	Fair value of assets[2]	Fair value of liabilities[2]	Underlying principal amount/ notional[1] amount
2012							
Derivatives held for trading	238	129	400	767	6 091	(5 324)	
Foreign exchange derivatives	(13)	(121)	32	(102)	2	(104)	
Forwards	(5)			(5)	5	(10)	1 008
Swaps	(8)	(121)	32	(97)	(3)	(94)	2 281
Interest rate derivatives	118	272	368	758	5 978	(5 220)	
Forwards	22			22	54	(32)	21 383
Futures							(6)
Swaps	96	272	259	627	5 815	(5 188)	134 562
Swaptions			109	109	109		166
Equity derivatives	133	(22)		111	111		
Futures	133			133	133		(1 699)
Options							48
Other		(22)		(22)	(22)		19
Derivatives held for hedging		(72)	12	(60)	35	(95)	
Foreign exchange derivatives							
Swaps		(72)	12	(60)	35	(95)	1 981
Total derivative assets/(liabilities)	238	57	412	707	6 126	(5 419)	
2011							
Derivatives held for trading	(95)	344	126	375	3 086	(2 711)	
Foreign exchange derivatives	(6)	(10)	(28)	(44)	10	(54)	
Forwards	(8)			(8)	8	(16)	846
Swaps		(10)	(28)	(38)		(38)	296
Options (dollar denominated)	2			2	2		10
Interest rate derivatives	(63)	372	154	463	2 992	(2 529)	
Forwards	(85)		(11)	(96)	211	(307)	26 185
Swaps	22	372	70	464	2 686	(2 222)	107 038
Swaptions			95	95	95		7 580
Equity derivatives	(26)	(18)		(44)	84	(128)	
Forwards	(22)			(22)	1	(23)	(22)
Futures	(8)	2		(6)	9	(15)	(3 242)
Options	4	(29)		(25)	65	(90)	23
Other		9		9	9		19
Derivatives held for hedging	(10)	(10)	12	(8)	13	(21)	
Foreign exchange derivatives							
Swaps	(10)	(10)	12	(8)	13	(21)	1 199
Total derivative assets/(liabilities)	(105)	334	138	367	3 099	(2 732)	

(1) *The notional or underlying principal amount reflects the volume of the group's exposure 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.*

(2) *Collateral and margin accounts deposited by Liberty or received from counterparties as security for traded derivatives are R784 million (2011: R691 million) assets in respect of liabilities, R679 million (2011: R381 million) liabilities in respect of assets.*

5. **Market risk** (continued)

5.10 **Derivative instruments** (continued)

Cross-currency swaps

From 2011, the group uses currency swaps to mitigate 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:

	Total reserve Rm	More than 3 months but less than 1 year Rm	More than than 1 year but less than 5 years Rm	More than 5 years Rm
2012				
Release timing	(11)		(12)	1
2011				
Release timing	10	1	5	4

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

There were no transactions for which cash flow hedge accounting had to be discontinued in 2012 as a result of highly probable cash flows no longer being expected to occur.

Forward exchange contracts

All forward exchange contracts are valued at fair value in the statement of financial position with the resultant gain or loss included in the statement of comprehensive income. A summary of the forward exchange contracts is included in Appendix H.

5.11 **Market risk capital requirements**

The statutory liability calculations allow for prudential margins on investment returns in their calculation. In addition, an allowance is made for equity, property, interest rate and currency risk in the OCAR calculation. Equity and interest rate risks are typically by far the biggest contributors to OCAR.

In the calculation of economic capital requirements, allowance is made for the market risk arising from the major asset classes, including equity, property, interest rate and currency risk. Both market risk and economic capital requirements are considered net of the effects of LibFin's hedging program when performing the calculation. The equity, property and currency risk allows for a fall in current prices. In allowing for interest rate risks, the extreme events consider the impact of parallel shifts as well as twists and inflections in the yield curve on both the assets and liabilities.

The equity, property, interest rate and currency risks give rise to economic capital requirements. The group's economic capital requirements allow for diversification benefits between market risk and other risks such as insurance risk. The diversification benefits enable the group to take on market risk on risk adjusted value enhancing terms. The market risks taken on by the group, however, are subject to the group's limits. If the group is not within appetite, the removal of market risk is generally considered prior to exploring the reduction of core strategic risks such as mortality risk.

Risk management (continued)

for the year ended 31 December 2012

6. Liquidity risk

6.1 Definition

Liquidity risk is the risk that the group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the group. This might arise in circumstances where the group's assets are not marketable or can only be realised at excessive cost.

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour.

The FSB's approval of the group's issuance of subordinated debt, namely the R2 billion callable capital bonds, includes a requirement to hold certain levels of qualifying liquid assets. This requirement has been consistently met since 31 December 2005 and attested to by the statutory actuary of LGL.

Refer to the directors' report for the company's borrowing powers.

6.2 Ownership and accountability

LibFin is responsible for managing liquidity risk arising in the South African insurance operations. The group treasurer is responsible for managing liquidity at a group level and has oversight over all other business units. The group treasurer is a member of the Group Balance Sheet Management Committee and works in conjunction with LibFin to ensure that the liquidity needs of the group can be met.

Liquidity requirements are reviewed on a monthly basis by LibFin and the GBSMC. These requirements are also monitored on an ongoing basis as part of the group's normal operating activities.

6.3 Liquidity profile of assets

The group's assets are liquid as the table below illustrates. However, given the quantum of investments held relative to the volumes of trading within the relevant exchanges and counterparty transactions, a substantial short-term liquidation may result in current values not being realised due to demand/supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Contractual maturity profiles of the group's financial instrument assets are contained in section 5.9.1. Given the volatility of equity markets and uncertain policyholder behaviour, no maturity profile can be reliably given for the group's investments in mutual funds, equities and non-term financial debt instruments.

	2012		2011	
Financial asset liquidity	%	Rm	%	Rm
Liquid[1]	**74**	**213 221**	72	180 917
Medium[2]	**17**	**48 529**	17	41 981
Illiquid[3]	**9**	**27 945**	11	27 164
	100	**289 695**	100	250 062

(1) *Liquid assets are those that are considered to be realisable within one month (e.g. cash, listed equities, term deposits, etc.).*

(2) *Medium assets are those that are considered to be realisable within six months (e.g. unlisted equities, certain unlisted term deposits, etc.).*

(3) *Illiquid assets are those that are considered to be realisable in excess of six months (e.g. investment properties).*

6. **Liquidity risk** (continued)

6.4 Maturity profile of liabilities

6.4.1 Maturity profiles of the group's financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of the group based on the remaining undiscounted contractual obligations. Policyholder liabilities under investment contracts, investment contracts with DPF and insurance contracts are shown in a separate table in 6.4.2, as these are managed according to expected and not contractual cash flows. Derivative financial instruments are shown in a separate table in section 5.10.

	Contractual cash flows (excluding policyholder liabilities)				
Rm	0 – 3 months[1]	4 – 12 months	1 – 5 years	Total	Total carrying value
2012					
Held for trading					
Collateral deposits	679			679	679
At amortised cost					
Callable capital bonds	77	76	2 613	2 766	2 037
Non-controlling interests loan			93	93	93
Third party financial liabilities arising on consolidation of mutual funds	14 465			14 465	14 465
Other loans		39	17	56	47
Insurance and other payables	8 089	75	36	8 200	8 200
Total	23 310	190	2 759	26 259	25 521
Percentage portion (%)	89	1	10	100	
2011					
Held for trading					
Collateral deposits	381			381	381
At amortised cost					
Callable capital bond	54	2 124		2 178	2 054
Non-controlling interests loan			103	103	93
Third party financial liabilities arising on consolidation of mutual funds	11 164			11 164	11 164
Other loans		59		59	48
Insurance and other payables	6 304			6 304	6 304
Total	17 903	2 183	103	20 189	20 044
Percentage portion (%)	89	11		100	

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

Risk management (continued)

for the year ended 31 December 2012

6. Liquidity risk (continued)

6.4 Maturity profile of liabilities (continued)

6.4.2 Liquidity risks arising out of obligations to long-term insurance policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised.

In the case of property-backed contracts, it is not normally possible to realise the assets as claim payments arise due to the relatively small number of high value properties and illiquidity of the assets. For this reason property exposures are afforded specific attention by the Property Investment Executive Committee (PIE) and orderly sales and purchases are managed within the mandate granted by GBSMC. The property liquidity risk is partly managed by holding a liquidity buffer within the property portfolio. This buffer consists of liquid property investments such as listed property shares, property unit trusts and liquid fixed interest assets. This buffer is reviewed regularly by PIE and is subject to the portfolio mandate limits.

Similarly the liquidity and asset-liability matching risk arising from a change in withdrawal experience on business with DPF is limited through policy terms and conditions that permit withdrawal benefits to be altered in the event of falling asset prices.

On non-participating annuities, GCBs and margin calls on derivative contracts, the liquidity risk is managed through a bi-weekly asset-liability matching exercise, comparing projected cash inflows to projected cash outflows, both under best estimate and stress scenarios.

No withdrawal benefits are provided on non-participating life annuities.

The tables below give an indication of liquidity needs in respect of cash flows required to meet obligations arising under insurance contracts, investment contracts with DPF and investment contracts. The amounts in the unit liabilities cash flow table represent the expected cash flows arising from the value of units, allowing for future premiums (excluding future non-contractual premium increases), growth, benefit payments and expected policyholder behaviour. The amounts in the non-unit liability cash flow table represent the expected cash flows from the non-unit liabilities. All the cash flows are shown gross of reinsurance. Undiscounted cash flows are shown and the effect of discounting is taken into account to reconcile to total policyholder liabilities under insurance contracts, investment contracts and investment contracts with DPF. For unit-linked contracts, the cash flows relating to the DPF portion are assumed to occur in proportion to the cash flows of the guaranteed units. The cash flows for the guaranteed element and the non-guaranteed element of insurance contracts with DPF have been combined and are included in the unit cash flow table. In respect of annually-renewable risk business (namely lumpsum group risk business, group disability income business and credit life business) no allowance has been made for the expected cash flows except in respect of incurred but not reported claims (IBNR) and disability income annuities in payment where applicable. The liabilities in respect of embedded derivatives are assumed to run off in the same proportion as the unit cash flows that give rise to them.

6. Liquidity risk (continued)

6.4 Maturity profile of liabilities (continued)

6.4.2 Liquidity risks arising out of obligations to long-term insurance policyholders (continued)

	Insurance contracts		Investment with DPF		Investment contracts	
Expected cash flows (Rm)	**2012**	2011	**2012**	2011	**2012**	2011
Unit liabilities						
Within 1 year	**14 013**	11 879	**218**	326	**6 463**	5 163
1 – 5 years	**42 983**	33 629	**220**	367	**9 087**	7 059
6 – 10 years	**12 178**	10 094	**537**	400	**8 372**	6 051
11 – 20 years	**32 149**	29 339	**1 332**	530	**14 783**	12 702
Over 20 years	**30 770**	32 130	**1 537**	1 817	**27 706**	26 924
Total unit liabilities	**132 093**	117 071	**3 844**	3 440	**66 411**	57 899
Non-unit liabilities						
Within 1 year	**3 820**	2 785	**12**		**570**	526
1 – 5 years	**12 888**	13 872	**(1)**	7	**1 261**	1 214
6 – 10 years	**8 030**	8 326	**(1)**	(1)	**236**	298
11 – 20 years	**17 118**	15 485	**(1)**	(1)	**16**	34
Over 20 years	**39 737**	34 359			**(6)**	1
Effect of discounting cash flows	**(49 020)**	(46 340)	**2**	2	**(325)**	(412)
Total non-unit liabilities	**32 573**	28 487	**11**	7	**1 752**	1 661
Total policyholder liabilities	**164 666**	145 558	**3 855**	3 447	**68 163**	59 560

The following table shows the cash surrender value for policyholder liabilities:

	Carrying value	**Surrender value**	Carrying value	Surrender value
Rm	**2012**		2011	
Insurance contracts	**164 666**	**137 739**	145 558	120 171
Investment contracts with DPF	**3 855**	**3 432**	3 447	3 238
Investment contracts	**68 163**	**67 552**	59 560	59 028
Total long-term insurance policyholder liabilities	**236 684**	**208 723**	208 565	182 437

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.

Risk management (continued)

for the year ended 31 December 2012

6. Liquidity risk (continued)

6.4 Maturity profile of liabilities (continued)

6.4.3 Maturity profile of short-term insurance liability

Given the nature of short-term insurance the settlement of claim liabilities is normally of short duration and within twelve months. The timing of claims submission, administration queries surrounding loss values and circumstances and in some cases litigation creates uncertainty around the settlement timing of the liabilities. On a best estimate basis, the following table depicts the anticipated settlement profile of the short-term insurance liability at 31 December 2012.

Rm	0 – 12 months	1 – 3 years	>3 years	Total
2012				
Short-term insurance liability	**399**	**99**	**27**	**525**
Percentage portion (%)	**76**	**19**	**5**	
2011				
Short-term insurance liability	397	26	43	466
Percentage portion (%)	85	6	9	

6.5 Capital requirements

The group's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. In the normal course of business Liberty maintains buffers of liquid assets to deal with spikes in liquidity needs. Furthermore in the event of exceptional liquidity requirements, Liberty has a number of other alternatives which it could fall back on. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they fall due. This position is reported to the GBSMC.

Lastly as Liberty is a subsidiary of the Standard Bank Group, Liberty is included in the group wide liquidity risk stress testing and planning undertaken by the Standard Bank Group.

As a result of the liquidity risk mitigation measures in place, the group's exposure to liquidity risk is expected to be small. Currently no allowance is made for liquidity risk in the CAR calculation or in the economic capital requirements.

7. Credit risk

7.1 Definition

Credit risk refers to the risk of loss or of adverse change in the financial position resulting, directly or indirectly, from fluctuations in the credit standing of counterparties and any debtors to which shareholders and policyholders are exposed. Credit risk is measured as a function of probability of default (PD), exposure at default (EAD) and the recovery rates (RR) post a default. Credit risk arises out of taking risk exposure to third parties (credit default risk), through settlement processes when trading with third parties (settlement risk) and when there is a migration in the quality of the credit risk of third parties to whom the group is exposed (credit spread risk).

- **Credit Default risk** is the risk of credit loss as a result of failure by a counterparty to meet its financial and/or contractual obligations. It has three components:
  - **Issuer risk:** Credit risk on the issuer arising from investing and holding credit paper issued by borrowers and generally in the form of a listed tradable instrument.
  - **Primary credit risk:** The credit risk on a borrower arising from lending activities. Primary credit risk generally refers to non-tradable, illiquid or held-to-maturity credit risk.
  - **Pre-settlement credit risk:** The credit risk on a trading counterparty arising as a result of unsettled transactions, where Liberty has contracted for an exchange of value, but the market has subsequently moved in Liberty's favour with the result that should the counterparty fail to honour the contract, Liberty would incur a loss in replacing the contract in the current market.
- **Settlement risk** is the risk of loss from a transaction settlement where value is to be exchanged and Liberty proceeds to deliver value to meet its contractual obligations, but the counterparty fails to deliver the counter value in whole or part.
- **Credit Spread risk** (also known as credit migration risk) is the result of changes in the riskiness of a credit asset over time as a result of changing circumstances (micro and macro) affecting the repayment ability of the counterparty. The changes in riskiness are expressed in the market in terms of credit spread. Increases in credit spread occur when the market determines that riskiness has increased. The risk for Liberty is that assets held in its credit book may become inadequately priced for the risks being taken in the event that credit spreads widen after Liberty has taken on the credit risk.

Liberty is exposed to credit risk in a number of areas of its business. Credit risk is monitored and managed within the group. The credit risk portfolio as at 31 December 2012 remains heavily weighted to South African counterparties including government, state-owned enterprises and top tier South African banks. The continued efforts of the LibFin credit origination business, together with the restructure of existing asset manager mandates in line with core competencies, has resulted in an improved level of diversification and improved returns for the credit risks being taken in the portfolio.

Key asset categories that result in the origination of credit risk are:

- Financial asset instruments including debt instruments (including bonds, loans and term deposits and investment policies);
- Reinsurance assets including amounts due from reinsurers in respect of claims already paid;
- Over-the-counter derivative trading activity;
- Certain debtor accounts within the financial position categories of prepayments, insurance and other receivables;
- Rental due where tenants have signed lease contracts for space within the group's investment properties; and
- The investment of surplus cash and cash equivalents.

Counterparties/borrowers to whose credit risk Liberty is exposed include sovereigns (governments), state-owned enterprises, financial institutions, special purpose companies (e.g. securitisation and structured credit) and corporate entities. In addition, the group is also exposed to the underlying credit risk through investment in mutual funds and investment policies.

Risk management (continued)

for the year ended 31 December 2012

7. Credit risk (continued)

7.2 Ownership and accountability

The board has delegated credit risk management to the group CE who in turn has delegated this responsibility to the GBSMC. GBSMC has responsibility for decisions affecting directly managed credit exposures and is currently supported by the group credit committee which considers and, where appropriate, approves all credit applications for new directly managed credit opportunities.

The group credit committee (GCC) has adopted and overseen the implementation of a Group Credit Risk Framework which is largely in line with the credit philosophy adopted by the greater Standard Bank Group. Furthermore the GCC is made up of members of the Liberty executive management team, credit professionals with experience from the banking sector as well as independent members in order to ensure a robust credit process and independent decision-making.

GBSMC is also responsible for defining the credit characteristics of asset manager mandates supported by LibFin Investments. While GBSMC is primarily responsible for decisions directly impacting shareholders, GBSMC does consider the impact of shareholder decisions given the possible impact that these will have on policyholders.

The group head of credit, market and liquidity risk has functional responsibility for shareholder and policyholder credit risk generated across the group and reports to the financial director. The purpose of the group credit risk management functions is to establish and define the overall framework for the consistent and unified governance, identification, measurement, monitoring, management and reporting of credit risk, including instances where third party asset managers are mandated to manage credit assets.

In terms of the group credit risk management framework, credit exposures are either managed in-house through LibFin and operational BUs or outsourced to asset managers. Outsourced credit risk portfolios are managed in line with investment guidelines communicated in mandates to asset managers, which define the asset characteristics for the particular credit portfolio. Responsibility for the credit assessment, decision-making process and ongoing management and reporting of the credit assets is delegated, in line with the agreed mandate, to the asset manager. The group credit risk function maintains responsibility for consolidating and reporting all shareholder and policyholder credit risk originated through the multiple origination channels.

Credit risk originated by BUs is in the first instance managed by a BU head of credit risk. This function has the responsibility for ensuring that the group credit risk management framework is adopted and that adequate systems, policies and procedures are put in place to identify effectively all credit risk originated within the BU; adopt credit risk measurement methodologies as prescribed by the group; monitor and manage the consolidated BU credit portfolio's profile and report on portfolio and counterparty risk reviews to the group head of credit risk.

Accountability for the governance framework, within which credit risk management operates, rests with the group head of credit, market and liquidity risk and is approved by the GROC.

7.3 Risk identification, measurement and monitoring

Significant shareholder and policyholder credit exposures are reported to GBSMC, GROC and GRC. Shareholder exposures are subject to individual counterparty limits set by the group. The Long-term Insurance Act of 1998 does limit admissable exposure to individual issuers and counterparties for regulatory purposes. This is taken into consideration when financial assets are procured to match insurance liabilities.

7.4 Rating methodology

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

Rating scale

The rating scale applied is based on internal definitions, influenced by published external rating agencies including Fitch, Moody's and S&P as described below and reflects long-term local currency ratings referencing international probabilities of default rating scales. This is a modification from the rating scale used in previous years where the local currency national rating scales of the rating agencies were used as a benchmark. The primary difference is that the national rating scales are only rank ordering scales and do not imply an actual probability of default. This change has been made to bring Liberty's credit rating scale into line with international best practice and the expected requirements of the SAM regime.

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

7. Credit risk (continued)

7.4 Rating methodology (continued)

Investment grade

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

Non-investment grade

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

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

Not rated

The group is not restricted to investing purely in rated instruments or where counterparties are rated and accordingly invests in assets that offer appropriate returns after an internal assessment of credit risk. For most material investments in unrated instruments/counterparties, internal ratings were undertaken. However at any one time there will always be unrated exposures generally entered into through asset managers where the internal ratings methodology has not been applied. This does not imply that the potential default risk is higher or lower than for rated assets. A detailed internal analysis of such investments is performed to assess the riskiness of the investment.

Pooled funds

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

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

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

7.5 Credit exposure

Various debt instruments are entered into by the group in order to match policyholder liabilities and invest surplus shareholder funds. The group is primarily exposed to the credit standing of the counterparties that issued these instruments in terms of both default and spread risk.

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

Risk management (continued)

for the year ended 31 December 2012

7. Credit risk (continued)

7.5 Credit exposure (continued)

Rm	A- and above	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2012										
Debt instruments	21 072	26 316	8 570	441	2 889	4 257	470	2 174	18 857	85 046
– Listed preference shares	16	851	366	64	628	120	7	63		2 115
– Unlisted preference shares			497			55		118		670
– Listed term deposits	20 162	15 943	3 700	282	1 438	2 381	443	545		44 894
Local	16 399	14 830	3 292	87	663	1 318	62	64		36 715
Foreign	3 763	1 113	408	195	775	1 063	381	481		8 179
Unlisted term deposits	894	9 522	4 007	95	823	1 701	20	392		17 454
Local	384	9 522	4 007	95	775	1 659	20	392		16 854
Foreign	510				48	42				600
Loans								1 056		1 056
Mutual funds – debt instruments									18 857	18 857
Local									13 671	13 671
Foreign									5 186	5 186
Investment policies									23 304	23 304
Prepayments, insurance and other receivables – Local	22	17	8	41	61			2 750		2 899
– Accrued income		17	8					63		88
– Reinsurance recoveries	22			41	61			76		200
– Other								2 611		2 611
Prepayments, insurance and other receivables – Foreign								590		590
Reinsurance assets	41			(2)	893		2	236		1 170
Derivatives and collateral deposits	1 906	4 344	375			147		138		6 910
Joint venture loans and receivables								4		4
Cash and cash equivalents	1 016	3 592	725			13		981		6 327
Local	6	3 456	725			13		119		4 319
Foreign	1 010	136						862		2 008
Total assets bearing credit risk	24 057	34 269	9 678	480	3 843	4 417	472	6 874	42 161	126 251

	Percentage %	Total exposure Rm
Credit exposure allocation estimated attributable to:	100	126 251
Policyholders	49	61 939
Shareholders	47	58 995
Non-controlling interests and third party liabilities on mutual funds	4	5 318

7. **Credit risk** (continued)

7.5 **Credit exposure** (continued)

Rm	A- and above	BBB+	BBB	BBB-	BB+	BB	BB- and below	Not rated	Pooled funds	Total carrying value
2011 (restated refer section 7.4)										
Debt instruments	20 692	22 406	10 625	1 043	2 199	2 392	49	1 771	12 827	74 004
– Listed preference shares		1 151	122	73	373	2	7			1 728
– Unlisted preference shares		590	453					240		1 283
– Listed term deposits	19 834	12 580	4 685	483	1 111	1 023	42	340		40 098
Local	17 448	11 871	4 202	315	610	179		42		34 667
Foreign	2 386	709	483	168	501	844	42	298		5 431
Unlisted term deposits	858	8 085	5 365	487	715	1 367		184		17 061
Local	841	8 085	5 337	487	715	1 290		184		16 939
Foreign	17		28			77				122
Loans								1 007		1 007
Mutual funds – debt instruments									12 827	12 827
Local									9 125	9 125
Foreign									3 702	3 702
Investment policies									17 183	17 183
Prepayments, insurance and other receivables – Local	44		18	55	90		23	1 987		2 217
– Accrued income			18					83		101
– Reinsurance recoveries	44			55	90		23	43		255
– Other								1 861		1 861
Prepayments, insurance and other receivables – Foreign			15					388		403
Reinsurance assets	56			(3)	828		2	221		1 104
Derivatives and collateral deposits	874	2 330	494	13		69		10		3 790
Joint venture loans and receivables								168		168
Cash and cash equivalents	972	3 406	1 979	25		114	55	114		6 665
Local	63	3 396	1 428	12		114		41		5 054
Foreign	909	10	551	13			55	73		1 611
Total assets bearing credit risk	22 638	28 142	13 131	1 133	3 117	2 575	129	4 659	30 010	105 534

	Percentage %	Total exposure Rm
Credit exposure allocation estimated attributable to:	100	105 534
Policyholders	49	51 314
Shareholders	49	52 216
Non-controlling interests and third party liabilities on mutual funds	2	2 004

Risk management (continued)

for the year ended 31 December 2012

7. Credit risk (continued)

7.6 Reinsurance assets

Reinsurance is used to manage insurance risk and consequently, in the liability valuation process, reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge the group's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised.

A detailed credit analysis is conducted prior to the appointment of reinsurers. Financial position strength, performance, track record, relative size and ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is done at least annually.

7.7 Derivatives

A detailed credit analysis of all LibFin over-the-counter derivative counterparties is performed and approved by the group credit committee prior to any trading taking place. In addition, trading is limited to:

1. Financial institution counterparties with a strong credit rating; and
2. Financial institutions where we have negotiated ISDA and Credit Support Annexures (CSAs) with a zero threshold.

Alternatively only exchange traded derivatives can be entered into by Liberty or by agents acting for Liberty where Liberty is protected through the exchanges' margining and settlement processes.

Derivative contracts are only entered into strictly in accordance with the Long-term Insurance Act, 52 of 1998.

7.8 Insurance and other receivables

The group has formalised procedures in place to collect or recover amounts receivable. In the event of default, these procedures include industry supported lists that help to prevent rogue agents, brokers and intermediaries from conducting further business with Liberty. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

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

7.9 Credit assessment changes recognised in profit or loss

Fair value instruments

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

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

For 2012, the change in the fair value movement recognised in profit or loss, with respect to unlisted debt instruments in a non-active market is positive R44 million (2011: negative R61 million).

7.10 Impairments

The table below indicates the impairments raised against financial assets.

Financial assets impaired – all rand denominated

Rm	2012	2011
Loans		
Gross carrying value	**1 098**	1 043
Less: Accumulated impairment	**(42)**	(36)
Net carrying value	**1 056**	1 007

7. Credit risk (continued)

7.10 Impairments (continued)

Loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's investment balance. The fair value of loans is R936 million (2011: R921 million). The loans are recoverable through offset against their respective liabilities (policy benefits) at policy maturity date.

The impairment loss is determined on an incurred loss approach as the difference between the instrument's carrying value and the present value of the asset's estimated future cash flows, including any recoverable collateral, discounted at the instrument's original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

7.11 Capital requirements

Credit risk is allowed for in the OCAR calculation by applying a price shock to the market value of assets backing non-unit linked products dependent on the asset's credit rating.

The economic capital requirements allow for credit risk by increasing the current risk spreads on the assets proportionally by a specified amount assumed to occur in a severe credit risk event.

7.12 Consideration of own credit risk for financial liabilities measured at fair value through profit or loss

Certain of Liberty's policyholder obligations are defined as investment contracts and are measured at fair value through profit or loss. The determination of fair value requires an assessment of Liberty's own credit risk.

Liberty considers own credit risk changes will only have a significant impact in extreme circumstances, when Liberty's ability to fulfil contract terms is considered to be under threat. Liberty remains well capitalised and accordingly no adjustment to the valuation for credit risk has been made for the year under review.

7.13 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 in respect of qualifying capital are governed by total exposure limits to any one institution, as set by the FSB.

The following table summarises the group's exposure to the Standard Bank:

	Overall group investment	Exposure to Standard Bank		Overall group investment	Exposure to Standard Bank	
	2012			2011		
	Rm	Rm	%	Rm	Rm	%
Equity instruments	**87 355**	**922**	**1,1**	79 958	1 201	1,5
Preference shares	**2 785**	**352**	**12,6**	3 011	284	9,4
Term deposits and loans	**63 404**	**8 621**	**13,6**	58 167	8 288	14,2
Cash and cash equivalents	**6 327**	**3 103**	**49,0**	6 664	2 312	34,7
Derivatives[(1)]	**6 126**	**619**	**10,1**	3 099	287	9,3
Derivative assets		**2 454**			1 235	
Derivative liabilities		**(1 835)**			(948)	
Derivative collateral deposits	**784**	**317**	**40,4**	691	394	57,0
Total exposure to Standard Bank	**166 781**	**13 934**	**8,4**	151 590	12 766	8,4

(1) *Due to netting agreements in place with Standard Bank, the group's exposure is limited to the net asset/liability value.*

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

In the ordinary course of business the group 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.

Risk management (continued)

for the year ended 31 December 2012

7. Credit risk (continued)

7.14 Collateral

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

Rm	Unsecured	Secured	Total exposure	Netting agreements	Exposure after netting	Collateral coverage relative to secured exposure Greater than 100%
2012						
Debt instruments	83 992	1 054	85 046		85 046	1 054
Listed preference shares on the JSE or foreign exchanges	2 115		2 115		2 115	
Unlisted preference shares	670		670		670	
Listed term deposits on BESA, JSE or foreign exchanges	44 894		44 894		44 894	
Loans	2	1 054	1 056		1 056	1 054
Unlisted term deposits	17 454		17 454		17 454	
Mutual funds – debt instruments	18 857		18 857		18 857	
Investment policies	23 304		23 304		23 304	
Derivatives	6 126		6 126	(5 635)	491	
Derivative collateral deposits	784		784	(463)	321	
Reinsurance assets	1 170		1 170		1 170	
Joint ventures loans and receivables	4		4		4	
Cash and cash equivalents	6 327		6 327		6 327	
Prepayments, insurance and other receivables	3 430	59	3 489		3 489	59
	125 137	1 113	126 250	(6 098)	120 152	1 113
2011						
Debt instruments	73 000	1 005	74 005		74 005	1 005
Listed preference shares on the JSE or foreign exchanges	1 728		1 728		1 728	
Unlisted preference shares	1 283		1 283		1 283	
Listed term deposits on BESA, JSE or foreign exchanges	40 099		40 099		40 099	
Loans	2	1 005	1 007		1 007	1 005
Unlisted term deposits	17 061		17 061		17 061	
Mutual funds – debt instruments	12 827		12 827		12 827	
Investment policies	17 183		17 183		17 183	
Derivatives	3 099		3 099	(2 834)	265	
Derivative collateral deposits	691		691	(279)	412	
Reinsurance assets	1 104		1 104		1 104	
Joint ventures loans and receivables	168		168		168	
Cash and cash equivalents	6 664		6 664		6 664	
Prepayments, insurance and other receivables	2 572	48	2 620		2 620	48
	104 481	1 053	105 534	(3 113)	102 421	1 053

8. Operational risk

8.1 Definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. Operational risk is therefore pervasive across all financial institutions and all other operational companies and is typically not taken in exchange for reward.

Operational risk is recognised as a distinct risk category which the group strives to manage within acceptable levels through sound operational risk management practices. The group's approach to managing operational risk is to adopt practices that are cost effective and fit for purpose to suit the organisational maturity and particular business environment.

8.2 Ownership and accountability

The tone of operational risk management is set at the top, starting from the board and filtered down to every staff member.

Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also management's responsibility to report any material operational risks, risk events and issues through certain pre-defined escalation procedures.

The group operational risk function as well as the risk and compliance functions in the BUs provide oversight of the effectiveness of the group's operational risk management processes and assist BU managers by providing training, advice and assistance with the on-going implementation of the board approved Operational Risk and Compliance Framework (ORCF). The GROF reports on the status of operational risk management to the GROC.

8.3 Risk management

The group's Operational Risk and Compliance Framework is embedded within the business, promoting sound risk management practices across the group.

GIAS is the group's third line of defence and performs an independent review of the operational risk management framework, policies and practices to ensure that operational risk practices are implemented consistently across the group as operational risk management matures.

Risk management activities in relation to operational risks include but are not limited to:

Information technology (IT) risk: The group is highly dependent on and constantly increasing its use of IT to ensure improved operations and customer service. A number of group strategies are dependent on IT development and successful implementation. As an example, the group's IT systems enable it to take its products to markets across the African continent and so carry out its expansion strategy.

The group is therefore exposed to various IT risks which include the disruption of services, information loss and/or unauthorised access to IT platforms. Risks are effectively managed through the three lines of defence approach.

Process risk: The group's approach to process improvement focuses on process efficiency and work quality mainly through embedding the operational risk and compliance framework. This includes a risk and compliance identification component which ensures that processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders like GIAS and group finance.

Regulatory risk: The regulatory environment is monitored closely to ensure that the group implements new or amended legislation requirements promptly to ensure compliance and avoid fines and penalties, sanctions or the revocation of any business licence.

Regulatory monitoring is done by group compliance and group legal services, through the monthly compliance management forum which maintains a regulatory dashboard. The dashboard details all new regulatory items that have a potential impact on the business as well as detail on the affected area and level of impact. Liberty seeks positive and constructive engagement with its regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for our industry and all its stakeholders. The business is also focused on optimising business opportunities, while achieving regulatory compliance benefits.

There are a number of changes that are anticipated in the regulatory landscape in the coming years. These changes are expected to have a significant impact on the group's solvency requirements, financial reporting and the way it conducts its business and may impact on the flow of funds into the industry.

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the group and the related compliance policies. The policies ensure that compliance requirements are identified and implemented through the development of appropriate procedures and that regular monitoring and reporting of any compliance exposures is carried out within the BUs with oversight from the group function to provide the board with assurance on the status of compliance within the organisation. A Compliance Management Forum continually identifies and interprets regulatory requirements and ensures the business units establish appropriate procedures to meet those objectives.

The group proactively monitors compliance and operational risks relating to potential mis-selling of products. This risk is mitigated through embedding relevant policies, processes and training that includes product development, marketing and distribution, sales fulfilment and customer management. In addition, Group Risk and GIAS apply independent oversight to ensure that customers are treated fairly and that the group operates under sound ethical principles.

Risk management (continued)

for the year ended 31 December 2012

8. Operational risk (continued)

8.3 Risk management (continued)

Taxation risk: Taxation risk is the risk of suffering a loss, financial or otherwise, as a result of an incorrect interpretation and application of tax legislation or the impact of new tax legislation on existing products. Taxation risk can also arise if the group's objectives in relation to its tax strategy are not met.

Corporate governance, increasingly complex tax legislation as well as targeted tax collection and enforcement by revenue authorities in South Africa as well as the foreign jurisdictions in which the group operates, are driving increased focus on taxation risk and the controls that mitigate taxation risk to an acceptable level.

In order to manage and mitigate taxation risk to acceptable levels, the group has developed a taxation risk framework, incorporating a clear tax strategic plan and risk management policies. The framework seeks to optimise shareholder value, while complying with legislation and aims to assist Liberty with the achievement of its overall objectives and strategy. It directs the behaviour of employees and helps to confirm to stakeholders that Liberty's tax affairs are well managed and controlled. The framework provides transparency and clarity on internal policies, control processes and procedures.

The risk framework is supported by the group's commitment to the management of tax affairs and related risks, as follows:
- Effective, well-documented and controlled processes ensure tax compliance and role accountability;
- Risks are assessed by the group's governance structures and reviewed by the GAAC;
- The risks of proposed transactions and business structures are fully considered before implementation;
- The group employs tax professionals and provides them with ongoing technical training;
- Appropriate tax advice is obtained from recognised professional tax advisers; and
- The group engages with revenue authorities in all jurisdictions in which the group operates in a transparent and constructive manner.

Investment mandate risk: The group's asset managers operate various investment vehicles, such as mutual funds, which are marketed to attract customer investments. Each investment vehicle has formulated mandates which provide the customers the objective and operating restrictions which the fund manager must comply with. The group therefore carries the risk of the fund manager not complying to the mandate. In addition, the practical operation of money market funds on a similar basis to demand deposits increases the risk exposure to the group around liquidity and credit loss events in respect of the assets held within these funds. These risks are mitigated by a mandate compliance monitoring process on both a pre- and post-trade basis. Money market funds are managed within certain prescribed asset and duration limits to ensure that the funds have the capacity to meet investor liquidation requirements. Certain daily stress tests are conducted to ensure that any credit and liquidity risks are identified to enable the manager to implement appropriate mitigating actions.

Human resources: The group remains concerned about the availability of specialist technical skills in South Africa to provide world class financial services. It focuses on recruitment, development and retention through a number of group-wide initiatives. Refer to the section entitled 'Liberty's people and their remuneration'.

Business Continuity Management (BCM): BCM, an integral component of the group risk management framework, was implemented to assist in the identification of potential threats to the business and thus build organisational resilience through effective responses. In the event of a crisis, the interests of key stakeholders, group reputation and brand are therefore safeguarded through this proactive risk management discipline.

The BUs are regularly exposed to the deployment of updated methodologies, testing and training to ensure increased business continuity capability. This is achieved through an active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation, desktop reviews and interrogation of identified threats to operational continuity of the group.

Response and recovery plans for core services, key systems and priority business activities have been developed and are revisited as part of existing maintenance processes to ensure that they are kept relevant. The related plan team structures are also subject to testing on a cyclical basis.

Customer complaints: The group's customer relations department is a central entry point to resolve high-level complaints from customers, external dispute resolution bodies i.e. Ombudsman for Long-term Insurance, FAIS Ombud and Pension Funds Adjudicator (PFA), media, consumer forums and complaints made directly to executives. The aim is to effectively resolve complaints and uphold Liberty's image and reputation. Complaints are handled with due care and diligence and are fully investigated to minimise any related reputation risks and to avoid adverse determinations and regulatory rulings. Any disputed complaints that cannot be resolved to our customer's satisfaction are referred (by our customers) to independent external dispute resolution bodies for resolution. The FSB's TCF discussion paper published in May 2010, which was followed up by its TCF Roadmap document in March 2011, includes a key outcome that customers shall not face unreasonable barriers to making a complaint. The group customer relations department ensures that all complaints are dealt with accordingly in meeting this TCF outcome. Customer complaints are viewed seriously and as a valuable source of customer service and experience information.

Central reporting takes place on all determinations and adverse rulings, as well as trends and focus areas for the business.

8. Operational risk (continued)

8.3 Risk management (continued)

Environmental risk: This risk falls within the group's sustainability management programme, which aims to create a consistent approach to environmental and social management within the group's operations. Environmental risk is governed by the social, ethics and transformation committee.

Raising awareness and training will be an ongoing element of managing environmental risk and identifying opportunities and business solutions to global environmental and social problems.

Internal and external fraud: The group adopts a 'zero-tolerance' approach to fraud. The group forensic services function supports management in meeting its objective of minimising fraud risk. In terms of the group's anti-fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

The group has a stated code of ethics and to assist in the maintenance of the code, an independent and externally managed fraud hotline (0800 20 45 57) and internal email facility (fraud@liberty.co.za) are in place. These provide the means to ensure that actual and/or suspected fraud or irregularities are confidentially and promptly reported, investigated and acted on. In addition, the group's whistle-blowing policy aims to protect whistle-blowers in the workplace against recrimination and victimisation and promotes staff participation in reporting fraud. All reported cases are strictly investigated in line with best practice methodologies. Fraud perpetrators are reported to the South African Police Service and criminal proceedings are instituted.

Internal controls: The internal controls implemented in respect of high-risk processes, e.g. the payment of death and disability claims, are reviewed regularly by management for effectiveness. GIAS provides additional assurance on the adequacy and effectiveness of internal controls by conducting independent risk-based reviews in line with the board approved annual risk based internal audit plan. Control weaknesses are reported to management and corrective action plans are implemented by management and independently reviewed by GIAS.

Monitoring of controls around business risk is performed by BU management, BU risk functions, GROF and GIAS. The approach to ensuring compliance is typically included in more detail in individual policies. The extent and frequency of monitoring and oversight is influenced by the level of risk of particular business activities.

Model risk: Model risk is defined as the risk of suffering a financial loss because a model fails to match reality sufficiently well or otherwise deliver the required results, or because a model is used incorrectly.

The group relies on models in a number of areas, such as actuarial calculations and forecasts, financial instrument valuation, risk measurement and controls and financial forecasting.

To mitigate this risk, the group has embedded a model risk policy to define the principles, governance and accountabilities for developing and using models.

8.4 Capital requirements

An allowance for operational risk is required to be made in the OCAR calculation. The method to calculate the operational risk capital requirement is not prescribed, as there is still considerable debate around best practice approaches to calculate these capital requirements. The methodology used for purposes of the OCAR calculation has been adopted from approaches used in the quantitative impact studies under Solvency II.

An allowance for operational risk is also made in the calculation of the economic capital requirements.

8.5 Reporting

The preparation of monthly and quarterly risk reports forms an integral part of monitoring the group's overall operational risk profile. These reports are prepared by each BU and presented to the relevant BU executive committees for review and discussion.

The reports include information relating to:

- Critical operational risks faced;
- The effectiveness of mitigation plans and progress made from one reporting cycle to another;
- Trends in relation to fraud and security incidents, litigation and customer complaints; and
- Actual losses and control failures experienced.

On a quarterly basis the group CRO compiles and submits a risk report on the group's overall risk profile to the GROC and GRC and, where necessary, material risk exposures are escalated to the board.

8.6 Assurance

GIAS and external audit provide independent and objective assurance on the adequacy and effectiveness of internal controls across all business processes to key stakeholders, including the board.

Risk management (continued)

for the year ended 31 December 2012

8. Operational risk (continued)

8.7 Short-term insurance

A comprehensive insurance programme which addresses the diversified requirements of the group is in place and is determined after extensive research, investigations and consulting with insurance risk and control experts. The group's financial cover for director's and officer's liability, and for commercial crime and professional indemnity, is underwritten by Novae which leads the programme, and is co-insured by a number of Lloyds syndicates and other insurance companies.

The group's insurance programme includes the following key categories of cover:

Director's and officer's liability insurance

This insurance cover of R1,5 billion plus £100 million was renewed on 31 December 2012 for the 2013 year and is designed to protect all directors and officers of the group and all its subsidiary companies by indemnifying them against losses resulting from a wrongful act, an error or omission allegedly committed in their capacity as directors or officers.

Commercial crime (CC) and professional indemnity (PI)

CC cover essentially provides indemnity against losses arising from crime or fraud perpetrated against the group by employees or third parties. This insurance also covers losses resulting directly from the fraudulent input of data on Liberty's systems, including fraud-related computer virus attacks and the modification and destruction of electronic data. PI cover indemnifies third parties against financial loss resulting from negligent acts, errors and omissions by the group. Combined CC and PI cover of R3 billion (for claims in excess of R5 million) was renewed on 31 December 2012 for the 2013 year.

In addition to the above financial covers, the group ensures that all property investments are adequately insured for material damage and business interruption. All insurance relating to assets covers the contents of buildings occupied by the group, including computers and office equipment. Political riot and public liability insurance are also purchased.

Management, together with the group's local and offshore brokers, reviews the adequacy and effectiveness of the group's insurance programme regularly to ensure that it contributes to the overall risk mitigation and risk management strategy of the group.

9. Concentration risk

9.1 Introduction

Concentration risk is the risk that the group is exposed to financial loss which, if incurred, would be significant due to the aggregate (concentration) exposure the group has to a particular asset, counterparty, customer or service provider.

In addition to concentration risks detailed in previous sections, the group has identified the following risks detailed below.

9.2 Asset manager allocation

The group engages the services of the following asset managers who manage assets on its behalf:

	2012		2011	
	%	Rm	%	Rm
Liberty Properties (subsidiary)	9	26 771	12	29 189
STANLIB (subsidiary)	59	170 000	58	145 228
Investec	6	17 767	8	20 058
Ermitage		824	1	2 105
Frank Russell		665		634
Investment Solutions	8	21 933	6	16 256
Other, including LibFin	18	51 735	15	36 592
	100	289 695	100	250 062

Risks associated with asset managers are:

- Poor fund performance resulting in the reduced ability of the group to retain and sell investment related products; and
- Adoption of poor credit policies exposing the group to undue credit risk.

Both aspects are closely monitored by the FCC and GBSMC.

9.3 South Africa

The group was founded in South Africa over 50 years ago and has, during this time, concentrated mainly on providing risk and investment products to South African customers. Consequently both the group's asset base and liabilities contain significant South African sovereign risk.

Section 5.9.2 and section 11.1 summarise the exposures to foreign currency and an indication of rand concentration risk.

10. Sensitivity analysis

The group'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 likely 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 for management's views from time to time. The sensitivity analysis does not cover extreme or irregular events that may occur, but extreme sensitivities are considered by the GRC and are used in the calculation of economic capital requirements.

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

Insurance risk variable	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
Expense per policy	A level percentage change in the expected maintenance expenses

Sensitivities on expected taxation have not been provided.

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

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

Market risk variable	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 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 prospective assumptions used in the measurement of policyholder liabilities. The interest rate yield curve and implied option volatility sensitivities are applied similarly but the assumptions used in the measurement of policyholder liabilities that are dependent on interest rate 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 group (and not just assets backing the policyholder liabilities).

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

Risk management (continued)

for the year ended 31 December 2012

10. Sensitivity analysis (continued)

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

Assumption description	Change in variable %	Impact on policyholder liabilities Rm	Impact on ordinary shareholder equity and attributable profit after taxation Rm
31 December 2012			
Insurance assumptions			
Mortality			
Assured lives	+2	320	(230)
	-2	(321)	231
Annuitant longevity	+4[(1)]	233	(162)
	-4[(2)]	(223)	154
Morbidity	+5	419	(294)
	-5	(419)	295
Withdrawals	+8[(3)]	229	(166)
	-8	(238)	172
Expense per policy	+5	273	(196)
	-5	(273)	196
Market assumptions			
Interest rate yield curve	+12	(2 892)	(194)
	-12	3 430	106
Option price volatilities	+20	241	(149)
	-20	(198)	119
Equity prices	+15	15 545	1 144
	-15	(15 451)	(1 170)
Rand exchange rates	+12[(4)]	(3 061)	(621)
	-12[(5)]	3 079	629

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

10. Sensitivity analysis (continued)

Assumption description	Change in variable %	Impact on policyholder liabilities Rm	Impact on ordinary shareholder equity and attributable profit after taxation Rm
31 December 2011			
Insurance assumptions			
Mortality			
Assured lives	+2	221	(159)
	-2	(220)	158
Annuitant longevity	+4[1]	216	(150)
	-4[2]	(206)	143
Morbidity	+5	324	(227)
	-5	(323)	226
Withdrawals	+8[3]	325	(235)
	-8	(358)	258
Expense per policy	+5	234	(167)
	-5	(233)	167
Market assumptions			
Interest rate yield curve	+12	(2 933)	(266)
	-12	3 518	160
Option price volatilities	+20	289	(177)
	-20	(259)	156
Equity prices	+15	13 814	927
	-15	(13 680)	(952)
Rand exchange rates	+12[4]	(2 581)	(502)
	-12[5]	2 605	505

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

Risk management (continued)

for the year ended 31 December 2012

11. Summary of the group's financial, property and insurance assets and liabilities per class

11.1 Assets

Financial, property and insurance asset class (Rm)	Rand denominated 2012	Rand denominated 2011	Foreign currency denominated 2012	Foreign currency denominated 2011	Total 2012	Total 2011
Equity instruments	68 074	62 539	19 281	17 419	87 355	79 958
Listed ordinary shares on the JSE	66 620	61 258			66 620	61 258
Listed ordinary shares on foreign exchanges			19 261	17 364	19 261	17 364
Unlisted	1 454	1 281	20	55	1 474	1 336
Debt instruments	57 197	55 449	8 992	5 729	66 189	61 178
Listed preference shares on the JSE or foreign exchanges	2 043	1 695	72	33	2 115	1 728
Unlisted preference shares	670	1 283			670	1 283
Listed term deposits[(1)] on BESA, JSE or foreign exchanges	36 715	34 667	8 179	5 432	44 894	40 099
Loans	915	865	141	142	1 056	1 007
Unlisted term deposits[(1)]	16 854	16 939	600	122	17 454	17 061
Mutual funds[(2)]	56 149	42 006	12 027	9 331	68 176	51 337
Active market	55 917	40 958	12 027	9 056	67 944	50 014
Property	4 017	1 858	90	85	4 107	1 943
Equity instruments	18 828	12 916	4 827	2 759	23 655	15 675
Interest-bearing instruments	13 671	8 995	5 186	3 427	18 857	12 422
Mixed	19 401	17 189	1 924	2 785	21 325	19 974
Non-active market	232	1 048		275	232	1 323
Equity instruments	232	918			232	918
Interest-bearing instrument		130		275		405
Investment policies	22 378	17 183	926		23 304	17 183
Interest linked	214	103			214	103
Mixed	22 164	17 080	926		23 090	17 080
Reinsurance assets	966	896	204	208	1 170	1 104
Derivatives	6 247	3 487	(121)	(388)	6 126	3 099
Derivative collateral deposits	784	689		2	784	691
Prepayments, insurance and other receivables	2 899	2 217	590	403	3 489	2 620
Current balance related to – long-term insurance contracts	625	692	231	143	856	835
– long-term investment contracts	210	116			210	116
Other prepayments, insurance and other receivables	2 064	1 409	359	260	2 423	1 669
Joint ventures loans and receivables	4	168			4	168
Cash and cash equivalents	4 319	5 054	2 008	1 610	6 327	6 664
Property	26 617	25 941	154	119	26 771	26 060
	245 634	215 629	44 061	34 433	289 695	250 062

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

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

11.2 Liabilities

Rm	Policyholder liability class: Insurance contracts	Investment contracts	Investment contracts with DPF	Total per statement of financial position
2012				
Long-term insurance policyholder liabilities				**236 684**
Unit-linked (excluding discretionary participation features (DPF))	**117 246**	**66 740**		**183 986**
Business with DPF	**19 295**		**3 855**	**23 150**
Non-participating annuities (including disability income in claim)	**19 728**	**1 413**		**21 141**
Guaranteed capital endowments	**10 156**			**10 156**
Retail pure risk (excluding disability income annuities in claim)	**(5 486)**			**(5 486)**
Corporate risk (excluding group disability income annuities in claim)	**497**			**497**
Embedded derivatives[1]	**3 230**	**10**		**3 240**
Short-term insurance liabilities				**525**
Third party financial liabilities arising on consolidation of mutual funds				**14 465**
Financial liabilities at amortised cost				**2 177**
Derivative liabilities[1]				**6 098**
Insurance and other payables				**8 200**
Current balance related to insurance contracts				**3 703**
Current balance related to investment contracts				**164**
Other				**4 333**
	164 666	**68 163**	**3 855**	**268 149**
2011				
Long-term insurance policyholder liabilities				208 565
Unit-linked (excluding discretionary participation features (DPF))	102 645	58 201		160 846
Business with DPF	18 274		3 447	21 721
Non-participating annuities (including disability income in claim)	18 053	1 331		19 384
Guaranteed capital endowments	8 959			8 959
Retail pure risk (excluding disability income annuities in claim)	(4 691)			(4 691)
Corporate risk (excluding group disability income annuities in claim)	481			481
Embedded derivatives	1 837	28		1 865
Short-term insurance liabilities				466
Third party financial liabilities arising on consolidation of mutual funds				11 164
Financial liabilities at amortised cost				2 195
Derivative liabilities				3 113
Insurance and other payables				6 304
Current balance related to insurance contracts				2 920
Current balance related to investment contracts				101
Other				3 283
	145 558	59 560	3 447	231 807

[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.*

Risk management (continued)

for the year ended 31 December 2012

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

11.3 Reconciliation of financial asset classes to financial position

Rm	Asset class						Total per statement of financial position
	Equity instru-ments	Debt instru-ments	Collateral deposits	Mutual funds	Investment policies	Derivatives	
2012							
Properties							26 771
Owner-occupied properties under development							13
Owner-occupied properties							1 378
Investment properties							24 133
Operating leases – accrued income							1 277
Operating leases – accrued expense							(30)
Loans and receivables with joint ventures							4
Reinsurance assets							1 170
Interest in associates – mutual funds				13 837			13 837
Financial investments	87 355	66 189		54 339	23 304		231 187
Derivative assets			784			6 126	6 910
Prepayments, insurance and other receivables							3 489
Cash and cash equivalents							6 327
Total financial, property and insurance assets	87 355	66 189	784	68 176	23 304	6 126	289 695
2011							
Properties							26 060
Owner-occupied properties							1 598
Investment properties							23 470
Operating leases – accrued income							1 085
Operating leases – accrued expense							(93)
Loans and receivables with joint ventures							168
Reinsurance assets							1 104
Interest in associates – mutual funds				11 697			11 697
Financial investments	79 958	61 178		39 640	17 183		197 959
Derivative assets			691			3 099	3 790
Prepayments, insurance and other receivables							2 620
Cash and cash equivalents							6 664
Total financial, property and insurance assets	79 958	61 178	691	51 337	17 183	3 099	250 062

12. Fair value hierarchy

12.1 Introduction

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 group adopted the amendments to IFRS 7 with effect from 1 January 2009. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- 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 financial position 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.

12.2 Liability hierarchy

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

Rm	Level 1	Level 2	Level 3	Measured at amortised cost	Total
2012					
Long-term investment contract liabilities		**68 153**	**10**		**68 163**
Policyholder		**68 153**			**68 153**
Embedded derivatives			**10**		**10**
Third party financial liabilities arising on consolidation of mutual funds		**14 465**			**14 465**
Derivatives		**5 419**			**5 419**
Liabilities subject to fair value hierarchy analysis		**88 037**	**10**		**88 047**
Liabilities not subject to fair value hierarchy analysis					
Long-term insurance policyholder liabilities under insurance contracts					**164 666**
Long-term investment contracts with DPF					**3 855**
Short-term insurance liabilities					**525**
Derivative collateral deposits					**679**
Financial liabilities at amortised cost				**2 177**	**2 177**
Insurance and other payables					**8 200**
		88 037	**10**	**2 177**	**268 149**
2011					
Long-term investment contract liabilities		59 532	28		59 560
Policyholder		59 532			59 532
Embedded derivatives			28		28
Third party financial liabilities arising on consolidation of mutual funds		11 164			11 164
Derivatives		2 732			2 732
Liabilities subject to fair value hierarchy analysis		73 428	28		73 456
Liabilities not subject to fair value hierarchy analysis					
Long-term insurance policyholder liabilities under insurance contracts					145 558
Long-term investment contracts with DPF					3 447
Short-term insurance liabilities					466
Derivative collateral deposits					381
Financial liabilities at amortised cost				2 195	2 195
Insurance and other payables					6 304
		73 428	28	2 195	231 807

Risk management (continued)

for the year ended 31 December 2012

12. Fair value hierarchy (continued)

12.3 Asset hierarchy

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

Rm	Level 1	Level 2	Level 3	Measured at amortised cost	Total
2012					
Equity instruments	85 881		1 474		87 355
Listed ordinary shares on the JSE	66 620				66 620
Foreign equities listed on an exchange other than the JSE	19 261				19 261
Unlisted equities			1 474		1 474
Debt instruments	47 009	17 185	939		65 133
Preference shares listed on the JSE or foreign exchanges	2 115				2 115
Unlisted preference shares		498	172		670
Listed term deposits[1] on BESA, JSE or foreign exchanges	44 894				44 894
Unlisted term deposits[1]		16 687	767		17 454
Mutual funds[2]	3 509	64 435	232		68 176
Active market	3 509	64 435			67 944
Property	398	3 709			4 107
Equity	2 921	20 734			23 655
Interest-bearing instruments	190	18 667			18 857
Mixed		21 325			21 325
Non-active market			232		232
Equity			232		232
Interest-bearing instruments					
Investment policies		23 304			23 304
Derivatives		6 126			6 126
Equity		111			111
Foreign exchange		37			37
Interest rate		5 978			5 978
Assets subject to fair value hierarchy analysis	136 399	111 050	2 645		250 094
Assets not subject to fair value hierarchy analysis					
Derivative collateral deposits					784
Loans				1 056	1 056
Reinsurance assets					1 170
Prepayments, insurance and other receivables					3 489
Loan and receivables with joint ventures				4	4
Cash and cash equivalents					6 327
Properties					26 771
	136 399	111 050	2 645	1 060	289 695

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

12. Fair value hierarchy (continued)

12.3 Asset hierarchy (continued)

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

Rm	Level 1	Level 2	Level 3	Measured at amortised cost	Total
2011					
Equity instruments	78 622		1 336		79 958
Listed ordinary shares on the JSE	61 258				61 258
Foreign equities listed on an exchange other than the JSE	17 364				17 364
Unlisted equities			1 336		1 336
Debt instruments	41 827	17 455	889		60 171
Preference shares listed on the JSE	1 728				1 728
Unlisted preference shares		1 135	148		1 283
Listed term deposits[(1)] on BESA, JSE or foreign exchanges	40 099				40 099
Unlisted term deposits[(1)]		16 320	741		17 061
Mutual funds[(2)]	3 392	46 622	1 323		51 337
Active market	3 392	46 622			50 014
Property	5	1 938			1 943
Equity	3 371	12 304			15 675
Interest-bearing instruments	16	12 406			12 422
Mixed		19 974			19 974
Non-active market			1 323		1 323
Equity			918		918
Interest-bearing instruments			405		405
Investment policies		17 183			17 183
Derivatives		3 099			3 099
Equity		84			84
Foreign exchange		23			23
Interest rate		2 992			2 992
Assets subject to fair value hierarchy analysis	123 841	84 359	3 548		211 748
Assets not subject to fair value hierarchy analysis					
Derivative collateral deposits					691
Loans				1 007	1 007
Reinsurance assets					1 104
Prepayments, insurance and other receivables					2 620
Loan and receivables with joint ventures				168	168
Cash and cash equivalents					6 664
Properties					26 060
	123 841	84 359	3 548	1 175	250 062

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

Risk management (continued)

for the year ended 31 December 2012

12. Fair value hierarchy (continued)

12.4 Reconciliation of level 3 financial assets

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

	2012 Rm	2011 Rm
Balance at the beginning of the year	3 548	3 547
Additions through business acquisition		6
Fair value adjustment recognised in profit or loss as part of investment gains	287	309
Additions	1 452	696
Disposals	(2 642)	(1 010)
Balance at the end of the year	2 645	3 548

R2 278 million (R3 136 million in 2011) of the financial instrument assets contained in level 3 are held to match obligations to policyholders and as such any change in measurement would result in a similar adjustment to either policyholder insurance contracts, policyholder investment contracts or policyholder investment contracts with DPF.

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

12.5 Reconciliation of level 3 financial liabilities

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

	2012 Rm	2011 Rm
Balance at the beginning of the year	28	35
Changes to non-economic assumptions	(1)	(4)
Variance due to experience	(16)	
Changes to economic assumptions	(1)	(3)
Balance at the end of the year	10	28

Financial reports

for the year ended 31 December 2012

Contents

Preparation of financial reports

The annual financial statements of the Liberty group and company for the year ended 31 December 2012 were:

Prepared by:	Mark Alexander BAcc CA (SA)
	Mike Norris BCom CA (SA)
	Melanie Sterrenberg CA (SA)
	Beverley Morris BCom CA (SA)
Supervised by:	Jeff Hubbard BCom CA (SA) – *Group chief financial officer*
	Casper Troskie BCom (Hons) CA (SA) – *Group financial director*

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

Guide to the group financial statements and notes

Independent auditor's report

for the year ended 31 December 2012

To the shareholders of Liberty Holdings Limited

We have audited the consolidated and separate annual financial statements of Liberty Holdings Limited set out on pages 239 to 354, which comprise the statements of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in shareholders' funds and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Liberty Holdings Limited as at 31 December 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Report of the Group Audit and Actuarial Committee and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate 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 and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: **V Muguto**
Registered auditor

Johannesburg
27 February 2013

Report of the group audit and actuarial committee

for the year ended 31 December 2012

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. Four scheduled meetings were held during 2012, as well as an additional working session to review the 2011 integrated annual report prior to recommending its approval to the board, during which the members fulfilled their functions as prescribed by the Companies Act No. 71 of 2008 and the Long-term Insurance Act 52 of 1998 and as recommended by King III.

The members of the GAAC were recommended by the board to shareholders and were formally appointed at the annual general meeting on 18 May 2012. The composition of the committee and details of their attendance at committee meetings is set out on page 146. The committee executed its duties and responsibilities, in accordance with the terms of reference of its mandate. Details of the activities of the GAAC are contained in the Corporate governance section on pages 147 and 148.

In order to execute his responsibilities, the chairman of the GAAC met separately during the course of the year with the head of group internal audit services, the statutory actuary, the group compliance officer, the chief risk officer, management and the external auditors. The chairman of the GAAC was also a member of the group risk committee during 2012 and attended all the meetings of the group risk committee held during the year under review.

Based on the information and explanations given by management and the internal auditors, the GAAC is 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 thereby are able to conduct their audit functions without any influence from the group. The GAAC has reviewed the performance, appropriateness and expertise of the financial director, Mr Casper Troskie, and confirms his suitability as financial director in terms of the JSE Listings Requirements. 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 2012 integrated annual report and recommended the report to the board for approval.

TDA Ross
Chairman
Group audit and actuarial committee

Johannesburg
27 February 2013

Combined assurance at Liberty

The Liberty combined assurance model reinforces the following principles:

- Driving value, accountability and responsibility within the group
- Managing risk exposures and exploiting opportunities collectively
- Eliminating assurance fatigue and duplicate reporting
- Optimising communication between decision making authorities within the group

Regular communication between internal audit and external audit as well as other assurance providers served to optimise the areas of reliance and enhanced value delivery to all parties. Combined assurance will continue to evolve and further enhance alignment between the key role-players from an Enterprise Value Risk Management Framework (EVRM) perspective, while relying on core skills to drive value within the organisation.

Directors' report

Main business activities

Liberty is the holding company of various operating subsidiaries engaged in the provision of financial services including long-term and short-term insurance, investment, asset management and health services. These financial services are primarily undertaken in South Africa, with increasing levels of services being provided in other countries on the African continent. Details are provided on pages 14 and 15.

Liberty is incorporated in the Republic of South Africa and is a public company listed on the JSE. One of the group's subsidiaries, namely Liberty Kenya Holdings Limited (formerly CfC Insurance Holdings Limited) in which the group owns 56,8%, is listed on the Nairobi Stock Exchange in Kenya.

Review of results

Ordinary shareholders' attributable earnings for the group were R3 779 million, compared to R2 673 million in 2011. Detailed commentary on the 2012 financial results is contained in the various reviews throughout this integrated annual report. The group's 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 2013.

Accounting policies

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

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

The adoption of shadow accounting results in a change in accounting policy with retrospective application. Refer note 45 to the group financial statements for further detail.

Amendments to IFRS were made by the International Accounting Standards Board which are effective for the period under review. These amendments have no impact on the 2012 or prior period results and are specifically detailed in the accounting policies on page 241.

Corporate governance

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

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

Compliance disclosures are included in the governance and risk management disclosures on pages 135 to 230.

Share capital

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

In addition, under the authority provided by shareholders, a group subsidiary of Liberty Holdings Limited purchased 4 682 051 (2011: 535 165) ordinary shares at an average purchase price of R88,90 per share (2011: R76,18), for a total consideration of R415 million (2011: R40 million). 956 372 of these ordinary shares have been subsequently sold for R26 million to meet company obligations in terms of various employee equity-settled remuneration schemes.

Further details of the company's share capital are contained in note 24 to the group's annual financial statements.

Directors' report (continued)

Shareholder distributions

Ordinary shareholders

2011 final

On 29 February 2012, the directors declared a part final ordinary dividend of 77 cents per ordinary share to shareholders recorded at the close of business on 15 March 2012, paid on 26 March 2012.

On 2 April 2012 the directors declared a final dividend of 221 cents per ordinary share to shareholders recorded at the close of business on 26 April 2012, paid on 30 April 2012.

2012 interim

On 1 August 2012 the directors declared an interim dividend of 192 cents per ordinary share to shareholders recorded at the close of business on 31 August 2012, paid on 3 September 2012.

2012 final and 2012 additional

On 28 February 2013 the directors declared a final dividend of 336 cents per ordinary share in terms of the company's dividend policy to shareholders recorded at the close of business on 28 March 2013, to be paid on 2 April 2013. Taking into consideration the good 2012 performance of the group, and the proceeds received from the sale of the Fountainhead joint venture, the directors declared an special dividend of 130 cents per ordinary share to shareholders recorded at the close of business on 28 March 2013, also to be paid on 2 April 2013.

Cumulative preference shareholders

2011 final

On 3 January 2012, a preference dividend of 5,5 cents per share was paid to preference shareholders registered on 30 December 2011.

2012 interim

On 2 July 2012, a preference dividend of 5,5 cents per share was paid to preference shareholders registered on 29 June 2012.

2012 final

On 31 December 2012, a preference dividend of 5,5 cents per share was paid to preference shareholders registered on 28 December 2012.

Directorate and secretary

Professor Leila Patel resigned as a director directly after the board meeting on 17 May 2012 and Ms Monhla Hlahla was appointed to the board at the board meeting on 1 August 2012. Particulars of the board of directors are contained on pages 140 and 141, with details of directors' remuneration being contained on pages 153 to 157.

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, 2011.

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

At the date of this report, the directors held interests, directly and indirectly, of 7 706 (2011: 3 706) ordinary shares in the company's issued share capital as detailed on page 154.

Information on options or rights to the company's ordinary shares granted to executive directors under the equity-settled remuneration schemes are contained on page 157.

There have been no changes to the interests of directors, including their families, in the share capital as disclosed above to the date of approval of the annual financial statements, namely 27 February 2013.

Ordinary shares/rights under option

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

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

An analysis of Liberty's obligations in respect of ordinary shares under options or rights at 31 December 2012 is included in Appendix D on page 364 and 365.

Contracts

Shareholders are referred to the Remuneration of directors and prescribed officers section on pages 153 to 157 and related party disclosure in note 40 to the group financial statements on pages 324 to 333 for disclosure pertaining to contracts relating to directors.

Property and equipment

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

Holding company

At 31 December 2012, the group's holding company, Standard Bank Group Limited, held 53,62% (2011: 53,62%) of Liberty's issued ordinary shares and no interests in the issued cumulative 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.

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Bancassurance agreement with Standard Bank

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

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

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

Acquisitions and disposals during the year

Acquisitions

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

Disposals

Effective 1 August 2012, Liberty Holdings Limited disposed of its 50% interest in the joint ventures Evening Star 768 (Proprietary) Limited and Fountainhead Property Trust Management Limited for an amount of R335 million. The net profit on sale of the joint ventures was R117 million.

Associates and joint ventures

The interests in joint ventures and associates, where considered significant in the light of the group's financial position and results, are set out in notes 8 and 9 to the group annual financial statements on pages 280 to 283.

Subsidiaries

Details of the significant interests in directly owned subsidiary companies are contained in note 2 to the company annual financial statements on pages 344 and 345 and details of other subsidiaries through these ownerships are contained in the related party note 40 to the group annual financial statements on pages 324 to 333.

Shareholders

At 31 December 2012 Liberty had 9 012 (2011: 8 451) ordinary shareholders, consisting of individuals, corporate investors and financial institutions.

Analyses of Liberty ordinary and preference shares at 31 December 2012 are included in the Shareholder information section on pages 130 to 132.

Special resolutions during the year 2012

At the annual general meeting held on 18 May 2012, Liberty Holdings Limited's shareholders passed the following special resolutions during the year for the purposes indicated:

- Special Resolution 1: To grant the directors of the company the authority to issue ordinary shares of the company to any employee, director, prescribed officer or any other person in accordance with any share incentive scheme of the company;
- Special Resolution 2: To approve, in terms of article 40.1 of the company's memorandum of incorporation, the fees payable to the non-executive directors for the 12-month period commencing with effect from 1 January 2012;
- Special resolution 3: To authorise the directors, in terms of and subject to the provisions of section 45 of the Companies Act, to cause the company to provide any financial assistance to any company or corporation which is related or inter- related to the company;
- Special resolution 4: To authorise general authority for an acquisition of ordinary shares issued by the company up to a maximum of 10% of the issued share capital as at 31 December 2012; and
- Special resolution 5: To approve the substitution of the company's existing memorandum and articles of association with the new memorandum of incorporation in terms of the Companies Act, No. 71 of 2008.

Directors' report (continued)

Management by third parties

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

Borrowing powers

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

Insurance

The 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.

16 South African life licence rationalisation

South African life licence rationalisation

As described above, during 2012 the board approved the rationalisation of the South African life licence companies in the group, which will combine the businesses of Liberty Group Limited, Liberty Active Limited, Capital Alliance Life Limited and Liberty Growth Limited. The target date for implementation is July 2013.

Events after reporting date

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

Accounting policies

Key accounting policies

The group's reported comprehensive income is predominantly influenced by the application of accounting policies on three financial position items described below. This is primarily due to the nature of the group's business being dominated by the provision of risk and investment products under long-term insurance licences.

The various elections described within the accounting policies have mainly been chosen to eliminate as much as possible accounting mismatches within comprehensive income and increase the relevancy of reported profit in line with how the business is managed.

Predominantly measured at fair value through profit or loss

- **Financial instruments,** refer accounting policies 8, 9, 10 and 16
  - Impacts R252 billion (86%) of reported assets at 31 December 2012
  - Impacts R97 billion (35%) of reported liabilities at 31 December 2012

Measured at fair value through profit or loss

- **Investment properties**, refer accounting policy 5
  - Impacts R24 billion (8%) of reported assets at 31 December 2012

Measured on a financial soundness valuation basis

- **Policyholder long-term insurance contracts, contracts with discretionary participation features,** refer accounting policy 16
  - Impacts R169 billion (61%) of reported liabilities at 31 December 2012

    Currently, IFRS refers the measurement of these liabilities to existing local practice, which in South Africa is the actuarial guidance issued by the Actuarial Society of South Africa

Future standards which potentially will materially change reported financial performance

- **IFRS 9** *Financial instruments* – classification and measurement, refer accounting policy 1.3
- **IFRS 4** Phase 2 *Insurance contracts* – classification and measurement, refer accounting policy 1.5

Key judgements on application of accounting policies, refer note 43

The significant items that involve judgements that materially influence reported financial performance are:

- Valuation assumptions used in internal models to determine financial instrument fair value where no acceptable market quoted bid price is available
- Policyholder behaviour assumptions in determining long-term policyholder liability valuations
- Economic assumptions including risk discount rates in determining policyholder liabilities

Accounting policies (continued)

Summary of significant accounting policies

1. Basis of preparation

The 2012 consolidated and company financial statements of Liberty Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and comply with the South African Companies Act No. 71 of 2008.

All amounts are shown in rand millions unless otherwise stated.

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

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or after 1 January 2012.

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

Carried at fair value:
- Derivative financial instruments;
- Cash-settled share-based payment arrangements;
- Financial instruments held for trading or designated at fair value through profit or loss;
- Investment properties and owner-occupied properties;
- Interests in mutual funds which are included in interests in associates;
- Policyholder investment contract liabilities; and
- Third party financial liabilities arising on the consolidation of mutual funds.

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

The preparation of financial statements that conform with IFRS requires the use of accounting estimates and assumptions in the measurement of certain assets and liabilities. These estimates and assumptions can require complex management judgement in the process of applying the group's accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 43 to the group financial statements.

1.1 New or changes to accounting policies

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

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

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

Refer to accounting policy 16 for further details.

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

1. Basis of preparation (continued)

1.1 New or changes to accounting policies (continued)

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

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

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

1.2 Accounting policy elections

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

- Interests in joint ventures are accounted for using equity accounting principles (accounting policy 2);
- Mutual fund investments, held by investment-linked insurance funds, in which the group holds between 20% – 50% economic interest, are designated on initial recognition as at fair value through profit or loss (accounting policy 2);
- Acquisitions of subsidiaries under common control where the acquirer incorporates assets and liabilities at their pre-combination carrying amounts (accounting policy 2);
- Equipment is stated at cost less accumulated depreciation (accounting policy 4);
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 5);
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 6);
- In general, financial assets are designated as at fair value through profit or loss (accounting policy 8);
- Application of cash flow hedge accounting for certain investments (accounting policy 10);
- Application of shadow accounting to changes in policyholder liabilities arising from fair value re-measurement of owner-occupied properties held to match obligations under insurance contracts (accounting policy 16); and
- Experience adjustments and the effect of changes in actuarial assumptions on accumulated past service are recognised as expenses or income in the current year. For active employees, amounts relating to future service are recognised as expenses or income systematically over the periods representing the expected remaining service period of employees (accounting policy 22).

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

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

Standard	Scope	Potential impact to the group
IFRS 10 *Consolidated Financial Statements* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 addresses the principal/agent relationship and what should be assessed when reviewing for control.	Control must be assessed by more than just reviewing actual or options on equity instruments held in the entity. An entity needs to look at potential voting rights and other contractual agreements. The application of the concept of an agent and a principal is likely to lead to more entities, particularly mutual fund investments and certain structured entities, being consolidated under IFRS 10 than under the current control standards. This is however unlikely to have a material impact to future group ordinary shareholder funds, comprehensive income or profit or loss.

Accounting policies (continued)

1. Basis of preparation (continued)

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

Standard	Scope	Potential impact to the group
IFRS 11 *Joint Arrangements* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	IFRS 11 establishes principles for the financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*. Joint arrangements are classified as either joint operations or joint ventures depending on the rights and obligations of the parties to the arrangements.	It is not expected that the application of IFRS 11 will result in any changes to the recognition and measurement of the group's current interests. The group's current accounting policy is to apply the equity method of accounting for joint ventures which complies with IFRS 11.
IFRS 12 *Disclosures of Interests in Other Entities* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	The objective of IFRS 12 is to enable users of financial statements to evaluate the nature of, and risks associated with its *Interests in Other Entities* and the effects of those interests on its financial position, financial performance and cash flows. Other entities includes subsidiaries, joint arrangements and associates, and structured entities that are not controlled by the entity (i.e. unconsolidated).	IFRS 12 introduces more comprehensive disclosure requirements regarding the nature of the relationship, risks and significant judgements an entity may make in determining the nature of its interest in another entity. The application of IFRS 12 is likely to result in additional disclosure in the financial statements.
IFRS 13 *Fair Value Measurement* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with prospective application. Early application permitted.	IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements (the actual requirement to measure at fair value arises in the other relevant IFRSs). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset of transfer the liability takes place either (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.	The significant majority of the group's assets are measured at fair value, as well as a large portion of the group's liabilities. The application of IFRS 13 may result in changes to the measurement of certain of the group's assets and liabilities. These changes are not yet fully assessed, however initial indications are that they will have limited overall impact to the group's net asset value or earnings. Enhanced disclosure requirements on fair value measurement will be required, as well as inclusion of non-financial assets and liabilities in the fair value hierarchy.
Amendments to IAS 19 *Employee Benefits* Effective date: Applicable for annual periods beginning on or after 1 January 2013, with retrospective application. Early application permitted.	The amendments to IAS 19 eliminate the corridor method under which the recognition of actuarial gains or losses was deferred. All actuarial gains and losses are now required to be recognised immediately in other comprehensive income. The group's current accounting policy election in this regard is to recognise these in profit or loss.	On the adoption of IFRS the group chose not to apply the corridor method and so this amendment has no specific impact. It is unlikely that the application of the amendments to IAS 19 will result in significant measurement changes to the group's employee benefit liabilities. However the removal of the election to carry actuarial gains or losses in profit or loss will result in less volatility of future reported profit or loss amounts. The IAS 19 amendments also require enhanced disclosures.

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

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

Standard	Scope	Potential impact to the group
IFRS 9 *Financial Instruments* Effective date: Applicable for annual periods beginning on or after 1 January 2015, with retrospective application. Early application permitted.	This standard introduces new requirements for the classification and measurement of financial assets and liabilities. All recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and those cash flows are solely payments of principal and interest, generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss. A fair value option (to eliminate an accounting mismatch) is still available as an alternative to amortised cost measurement. In terms of financial liabilities, entities that elect to measure a financial liability at fair value will now present the portion of the change in fair value due to the changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. It is noted that certain proposed limited amendments to the IFRS 9 classification and measurement model were issued as an exposure draft in November 2012. This exposure draft introduces a third classification category for debt instruments, namely fair value through other comprehensive income. The objectives of the proposed amendments are to address issues with IFRS 9 and the insurance project, and to reduce differences with the US's Financial Accounting Standards Board (FASB). IFRS 9 is partially complete with impairment measurement on amortised cost designated assets and hedging outstanding.	The implications to the group are at this stage difficult to assess and will be clearer when the limited amendments to classification and measurement, impairment and hedging portions are completed. It is highly likely that financial instrument classification will be influenced by the final IFRS 4 standard on insurance contract measurement currently under development. This is because the majority of the group's financial instruments are held to meet obligations of currently designated insurance contract liabilities. It will be important to minimise the accounting mismatches in the income statement that may occur on application of the two future standards (IFRS 9 and IFRS 4).

IFRS 10, 11 and 12 have resulted in subsequent consequential amendments to:

- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*

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

Accounting policies (continued)

1. Basis of preparation (continued)

1.4 The following narrow scope amendments have been issued by the IASB, which are not yet effective

These are not expected to significantly impact the group's financial results or disclosures.

Effective annual periods beginning on or after 1 July 2012

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

Effective annual periods beginning on or after 1 January 2013

- IFRS 1 *First-time Adoption of IFRSs* – Repeated application of IFRS 1
- IFRS 1 *First-time Adoption of IFRSs* – Borrowing costs
- IFRS 1 *First-time Adoption of IFRSs* – Government Loans
- *Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)
- Amendments to transitional guidance in IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*
- IAS 1 *Presentation of Financial Statements* – Clarification of the requirements for comparative information
- IAS 16 *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 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective annual periods beginning on or after 1 January 2014

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

Effective annual periods beginning on or after 1 January 2015

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

1.5 Accounting developments at the IASB that will potentially impact Liberty

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

- Insurance contracts.
- Revenue recognition on contracts with customers.
- Leases.

Given the significant comment received on prior exposure drafts and the wide implications to business, there have been significant re-deliberations on these projects by the IASB during the year. It is expected that both the insurance contracts and leases exposure drafts will be re-exposed in 2013. At this stage there is still insufficient clarity to be able to report on the implications of these proposed new standards.

2. Basis of consolidation

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

Interests in subsidiaries

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

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

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.

2. Basis of consolidation (continued)

Interests in subsidiaries (continued)

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

Business combinations

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

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

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

Unincorporated property partnerships

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

Interests in joint ventures

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

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

Interests in associates

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

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

Interests in associates – mutual funds

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

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

Acquisitions of subsidiaries under common control

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

Accounting policies (continued)

2. Basis of consolidation (continued)

Acquisitions of subsidiaries under common control (continued)

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

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

Special purpose entities

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

Distributions of ordinary shares held in subsidiaries

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

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

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

Transactions with non-controlling interests

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

3. Foreign currencies

Foreign currency translation

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

Transactions and balances

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

Group foreign operations

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

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

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

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

4. Equipment and owner-occupied properties under development

Equipment

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

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

Properties under development

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

Depreciation

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

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

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

5. Properties

Investment properties

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

Owner-occupied properties

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

Measurement

Investment properties are reflected at valuation based on open-market fair value at the statement of financial position date. Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses. If the open-market valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. If the fair value of investment property under construction or development cannot be measured reliably, it is measured at cost until such time as construction is complete or fair value can be reliably measured. The open-market fair value is determined annually by independent professional valuators. The fair value adjustments on investment properties are included in profit or loss as investment gains in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination. The fair value adjustments on owner-occupied properties are recognised in other comprehensive income and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss. On disposal or transfer (change in use) of owner-occupied properties to investment properties, the amounts included in the revaluation reserve are transferred directly to retained surplus. The deemed cost for any reclassification (between investment properties and owner-occupied properties) is at fair value, at the date of reclassification.

Accounting policies (continued)

5. Properties (continued)

Depreciation in respect of owner-occupied properties

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

6. Intangible assets

Goodwill

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

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

Computer software development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of materials and employee services used or consumed in generating the intangible asset. Capitalisation is further limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development.

Computer software development costs recognised as assets are amortised in profit or loss on a straight-line basis at rates appropriate to the expected useful life of the asset. Amortisation commences from the date the software is available and brought into use. As the software is proprietary and specific to the group operations, no residual value is estimated.

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

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

Customer relationships and contracts

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

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

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.

6. Intangible assets (continued)

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

7. Impairment

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

Financial assets carried at amortised cost

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

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

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.

Accounting policies (continued)

7. Impairment (continued)

Financial assets carried at amortised cost (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improved credit rating), the previously recognised impairment loss is reversed in profit or loss.

Goodwill

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

Impairment of other non-financial assets

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

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

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

8. Financial assets

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

In general, financial assets are designated as at fair value through profit or loss, as the group's strategy is to manage financial investments acquired to match its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. Financial assets comprise financial instruments, pledged assets and interests in associates to which the scope exemption in IAS 28 *Investments in Associates* applies.

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.

8. **Financial assets** (continued)

Initial measurement (continued)

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

Subsequent measurement

Financial assets classified as fair value through profit or loss

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise. The fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined by reference to regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the statement of financial position date. If quoted market prices are not available, reference is also made to readily and regularly available broker or dealer price quotations. For units in mutual funds and shares in open ended investment companies, fair value is determined by reference to published repurchase prices.

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

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

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.

Accounting policies (continued)

8. Financial assets (continued)

Subsequent measurement (continued)

Over-the-counter options (OTC)

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

Pledged assets

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

Financial assets classified as held-to-maturity

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

Loans and receivables

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

9. Financial liabilities

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

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

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

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

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

The measurement of policyholder liabilities under investment contracts is described in accounting policy 16.

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

10. Derivative financial instruments

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

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

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

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.

10. Derivative financial instruments (continued)

Hedge accounting

Derivatives that qualify for cash flow hedge accounting

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

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

Cash flow hedges

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

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

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

Derivatives that do not qualify for hedge accounting

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

11. Derecognition of financial instruments

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

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

12. Cash and cash equivalents

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

13. Share capital

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

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.

14. Black economic empowerment (BEE) transaction

Investments in BEE entities via equity instruments, the proceeds of which were used by the BEE entities to finance share purchases from shareholders to facilitate Liberty's 2004 BEE transaction, do not meet the IAS 39 definition of a financial asset and are considered to be a reduction of equity. Cash flows arising from Liberty Holdings Limited's dividends are used by the BEE entities to redeem these equity instruments and fulfil dividend obligations and are recognised directly in equity. The number of shares in the earnings per share calculation is reduced for the respective weighted average Liberty Holdings Limited shares held by the BEE entities.

Accounting policies (continued)

15. Dividend distribution

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

16. Policyholder insurance and investment contracts

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

Insurance and investment contract classification

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

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables.

Discretionary participation features (DPF)

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

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

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

(iii) that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract; and/or
- realised and/or unrealised investment returns on a specified pool of assets held by the group.

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

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

Short-term insurance

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

Gross written premiums

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

Provision for unearned premiums

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

Liability adequacy

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

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

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

16. Policyholder insurance and investment contracts (continued)

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

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

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

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

Deferred revenue liability in respect of short-term contracts

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

Receivables and payables related to insurance contracts

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

Professional Guidance issued by the Actuarial Society of South Africa

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4. The group had, prior to the adoption of IFRS 4, adopted the Professional Guidance Notes (PGNs) issued by the Actuarial Society of South Africa to determine the liability in respect of insurance contracts issued in South Africa. The group has continued to value long-term insurance liabilities in accordance with these. In 2012 the naming convention was changed and the term 'Professional Guidance Note' (PGN) was replaced with either 'Advisory Practice Note' (APN) or 'Standard of Actuarial Practice' (SAP) depending on whether the former PGN was 'best practice' or 'mandatory' respectively. These are available on the Actuarial Society of South Africa website (www.actuarialsociety.org.za). Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the annual financial statements.

Long-term insurance contracts and investment contracts with DPF measurement

These contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as described in SAP 104, using a discounted cash flow methodology. The liability is reflected as policyholder liabilities under insurance contracts and investment contracts with DPF. The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return and tax and any expected losses in respect of options.

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins. Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The liabilities in respect of the investment guarantees underlying maturity and death benefits and guaranteed annuity options are measured in accordance with APN 110 on a market-consistent basis. Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity.

These profits emerge over the lifetime of the contract in line with the risks borne by the group. These discretionary margins include an allowance for the shareholders' participation in the reversionary and terminal bonuses expected to be declared each year in respect of with-profit business, as well as an allowance for both the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market-related business. In addition discretionary margins are held where required for prudent reserving. Liabilities for individual market-related policies where benefits are in part dependent on the performance of underlying investment portfolios (including business with stabilised bonuses) are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element). Reversionary bonus classes of policies and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest, reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate. The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

Accounting policies (continued)

16. Policyholder insurance and investment contracts (continued)

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

In respect of corporate life and lump sum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses. Within the group all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared. In accordance with SAP 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years. All bonus stabilisation provisions are held as part of the liabilities under these contracts. The liability estimates are reviewed bi-annually. Any changes in estimates of the liability are reflected in profit or loss as they occur.

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

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

Incurred but not reported claims

Provision is made in the long-term policyholder liabilities under insurance contracts for the estimated cost at the end of the year of claims incurred but not reported (IBNR) at that date. IBNR provisions for the main categories of business are calculated using run-off triangle techniques. These liabilities are not discounted due to the short-term nature of IBNR claims. Outstanding claims and benefit payments are stated gross of reinsurance.

Liability adequacy test

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

Premium income

Premiums and annuity considerations on long-term insurance contracts are recognised when due in terms of the contract, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract) and recurring premium pure risk policies (collectively the Lifestyle series) and corporate schemes. Premiums receivable in respect of corporate schemes are recognised when there is reasonable assurance of collection in terms of the policy contract. Premiums in respect of universally costed and recurring premium risk policies are recognised as premiums when received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission. Premium income received in advance is included in insurance and other payables.

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

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.

16. Policyholder insurance and investment contracts (continued)

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.

Amortisation periods are as follows:

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

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

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

Investment contracts with a DPF switching option

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

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables and payables related to insurance contracts are subsequently measured in terms of IFRS 4, whilst those related to investment contracts are fair valued through profit or loss in terms of accounting policy 8.

Accounting policies (continued)

17. Reinsurance contracts held

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

18. Offsetting

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

19. Investment income and finance costs

Investment income for the group comprises rental income from properties, interest and dividends. Dividends are recognised when the right to receive payment is established. Rental income is accounted for on a straight-line basis. Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Rental income in respect of group owner-occupied properties is eliminated on consolidation. Accrued investment income on instruments held at amortised cost is assessed for impairment in line with accounting policy 7. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

20. Hotel operations sales

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

21. Fee revenue

Fee revenue includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements. Administration fees received for the administration of medical schemes are recognised when the services are rendered.

22. Employee benefits

Leave pay provision

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

Incentive scheme

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

Pension obligations

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

22. Employee benefits (continued)

Pension obligations (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the 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 to the defined benefit funds are recognised as expenses in the current year.

Experience adjustments and the effect of changes in actuarial assumptions on accumulated past service are recognised as expenses or income in the current year. For active employees, amounts relating to future service are recognised as expenses or income systematically over the periods representing the expected remaining service period of employees.

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

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

Other post-employment obligations

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

23. Taxation

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

Current taxation

Current taxation is the expected taxation payable, using taxation rates enacted at the statement of financial position date, including any prior year under or over provisions.

Deferred taxation

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

24. Provisions

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

Accounting policies (continued)

25. Operating leases

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

The group as lessor

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

The group as lessee

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

26. Share-based payment transactions

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

Equity compensation plans

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

Equity growth scheme

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

Restricted share plan

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

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

Cash-settled share-based payments

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

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

27. Segment information

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

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

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

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

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

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

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

Statement of financial position

as at 31 December 2012

	Notes	2012 Rm	2011 Rm
Assets			
Equipment and owner-occupied properties under development	3	952	897
Owner-occupied properties	4	1 378	1 598
Investment properties	5	24 133	23 470
Intangible assets	6	759	933
Defined benefit pension fund employer surplus	18	186	199
Deferred acquisition costs	7	449	403
Interests in joint ventures	8	378	626
Reinsurance assets		1 170	1 104
– long-term insurance	13	978	902
– short-term insurance	15	192	202
Operating leases – accrued income	5	1 277	1 085
Derivative assets	10	6 910	3 790
Interests in associates – companies	9.1	72	
Interests in associates – mutual funds	9.2	13 837	11 697
Financial investments	10	231 187	197 959
Deferred taxation	20	253	183
Prepayments, insurance and other receivables	11	3 489	2 620
Cash and cash equivalents	12	6 327	6 664
Total assets		292 757	253 228
Liabilities			
Long-term policyholder liabilities		236 684	208 565
Insurance contracts	13	164 666	145 558
Investment contracts with discretionary participation features	13	3 855	3 447
Financial liabilities under investment contracts	14	68 163	59 560
Short-term insurance liabilities	15	525	466
Financial liabilities at amortised cost	16	2 177	2 195
Third party financial liabilities arising on consolidation of mutual funds	17	14 465	11 164
Employee benefits	18	1 198	1 082
Deferred revenue	19	174	159
Deferred taxation	20	2 715	2 819
Deemed disposal taxation liability	21	918	
Provisions	22	338	371
Operating leases – accrued expense	5	30	93
Derivative liabilities	10	6 098	3 113
Insurance and other payables	23	8 200	6 304
Current taxation		724	614
Total liabilities		274 246	236 945
Equity			
Ordinary shareholders' interests		15 410	13 211
Share capital	24	26	26
Share premium	24	6 078	6 133
Retained surplus		10 332	7 683
Other reserves		(1 026)	(631)
Non-controlling interests		3 101	3 072
Total equity		18 511	16 283
Total equity and liabilities		292 757	253 228

Statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 Rm	Restated 2011 Rm
Revenue			
Insurance premiums	25	30 720	27 302
Reinsurance premiums	25	(1 089)	(909)
Net insurance premiums		29 631	26 393
Service fee income from investment contracts	26	881	863
Investment income	27	12 688	11 079
Hotel operations sales		720	679
Investment gains	28	30 209	8 148
Fee revenue and reinsurance commission	29	1 877	1 560
Adjustment to defined benefit pension fund employer surplus	18.6	(45)	(4)
Total revenue		75 961	48 718
Claims and policyholder benefits under insurance contracts	30	(25 004)	(22 897)
Insurance claims recovered from reinsurers	30	672	627
Change in long-term policyholder liabilities		(19 532)	(6 136)
Insurance contracts		(19 228)	(6 262)
Investment contracts with discretionary participation features		(380)	73
Applicable to reinsurers		76	53
Fair value adjustment to policyholder liabilities under investment contracts	14	(10 035)	(4 089)
Fair value adjustment on third party mutual fund interests	17	(2 979)	(1 230)
Acquisition costs	31	(3 818)	(3 268)
General marketing and administration expenses	32	(7 445)	(6 498)
Finance costs	34	(243)	(271)
Profit share allocations under bancassurance and other agreements		(800)	(628)
Profit on sale of joint venture	35.3	135	
Equity accounted earnings from joint ventures	8.2	3	9
Profit before taxation		6 915	4 337
Taxation	36	(2 717)	(1 383)
Total earnings		4 198	2 954
Other comprehensive income		10	84
Owner-occupied properties – fair value adjustment	4	(192)	115
Income and capital gains tax relating to owner-occupied properties fair value adjustment		66	(41)
Change in long-term policyholder insurance liabilities (application of shadow accounting)		131	(74)
Net change in fair value on cash flow hedges	10.5	(29)	14
Income and capital gains tax relating to net change in fair value on cash flow hedges	10.5	8	(4)
Foreign currency translation		26	74
Total comprehensive income		4 208	3 038
Total earnings attributable to:			
Liberty shareholders' interests		3 779	2 673
Non-controlling interests		419	281
		4 198	2 954
Total comprehensive income attributable to:			
Liberty shareholders' interests		3 780	2 736
Non-controlling interests		428	302
		4 208	3 038
		Cents	Cents
Basic earnings per share	1	1 464,6	1 026,1
Fully diluted basic earnings per share	1	1 370,8	981,6

Statement of changes in shareholders' funds

for the year ended 31 December 2012

Rm	Capital, treasury reserve and CRRF	FCTR[1]	Cash flow hedging reserve	Owner-occupied properties	Empowerment reserve	Share-based payment reserve	Retained surplus	Non-controlling interests	Total
Balance at 31 December 2010	6 683	(53)		255	(1 119)	108	5 842	2 663	14 379
Capital reduction (182 cents per share)	(521)								(521)
Ordinary dividend (291 cents per share)							(832)		(832)
Total comprehensive income		53	10	74			2 599	302	3 038
Acquisition of additional interests in subsidiaries							(3)	(24)	(27)
Profit on partial disposal of a subsidiary							8	10	18
Preference dividends							(2)		(2)
Unincorporated property partnerships								4	4
Capital contribution								162	162
Distribution								(158)	(158)
Non-controlling interests' share of subsidiary dividend								(13)	(13)
Share buy-back	(40)								(40)
Acquisition of CfC Insurance Holdings Limited							(37)	130	93
Subscription for shares	21								21
Black economic empowerment transaction					44		68		112
Share-based payments						55			55
Transfer of vested equity options reserve						(40)	40		
Payment on settlement of share options							(2)		(2)
Transfer of owner-occupied properties				(2)			2		
Balance at 31 December 2011	6 143	–	10	327	(1 075)	123	7 683	3 072	16 283
Disposal of Alberton City consortium								(234)	(234)
Acquisition of Total Health Trust								33	33
Ordinary dividends (total 490 cents per share)						(2)	(1 394)		(1 396)
Total comprehensive income		19	(21)	(128)			3 910	428	4 208
Recycling of FCTR		2							2
Preference dividends							(2)		(2)
Unincorporated property partnerships								(182)	(182)
Capital contribution								2	2
Distribution								(184)	(184)
Non-controlling interests' share of subsidiary dividend								(16)	(16)
Share buy-back	(415)								(415)
Subscription for shares	26								26
Black economic empowerment transaction					63		63		126
Share-based payments						78			78
Transfer of vested equity options reserve						(49)	49		
Transfer of owner-occupied properties				(23)			23		
Balance at 31 December 2012	5 754	21	(11)	176	(1 012)	150	10 332	3 101	18 511

Ordinary share capital and premium	6 104
Treasury share reserve	(353)
Capital Redemption Reserve Fund (CRRF)	3

[1] *FCTR: Foreign Currency Translation Reserve.*

Statement of cash flows

for the year ended 31 December 2012

	Notes	2012 Rm	2011 Rm
Cash flows from operating activities		6 218	5 469
Cash generated/(utilised) by operations	37	72	(297)
Cash receipts from policyholders		42 444	36 963
Cash paid to policyholders, intermediaries, suppliers and employees		(42 372)	(37 260)
Interest received		6 795	6 386
Interest paid		(243)	(271)
Dividends received		3 445	2 691
Distributions in lieu of dividends/dividends paid	38	(1 872)	(1 609)
Distribution to non-controlling interests in unincorporated property partnerships		(184)	(158)
Taxation paid	39	(1 795)	(1 273)
Cash flows from investing activities		(6 187)	(5 008)
Net sales/(purchases) of properties under development, investment and owner-occupied properties		335	(904)
Purchase of equipment		(309)	(144)
Proceeds on sale of equipment		15	24
Acquisition of intangibles		(54)	(16)
Net purchase of financial instruments[1]		(6 435)	(3 742)
Net movements in loans with joint venture companies		3	(12)
Acquisition of CfC Insurance Holdings Limited	35.1.2		(199)
Disposal of interest in joint ventures	35.3	335	
Acquisition of interest in joint venture		(1)	(6)
Acquisition of additional shares in subsidiaries	35.2		(27)
Acquisition of associates	9.1	(72)	
Acquisition of Total Health Trust Limited	35.1.1	(4)	
Partial disposal of shares in subsidiaries	35.2		18
Cash flows from financing activities		(407)	148
Repayment of financial liabilities at amortised cost		(2 008)	
Advance of financial liabilities at amortised cost		1 988	5
Non-controlling interests' capital movements in unincorporated property partnerships		2	162
Subscription for shares		26	21
Share buy-back		(415)	(40)
Net (decrease)/increase in cash and cash equivalents		(376)	609
Cash and cash equivalents at the beginning of the year		6 664	5 858
Foreign currency translation		10	29
Cash and cash equivalents acquired through business acquisition		29	168
Cash and cash equivalents at the end of the year	12	6 327	6 664

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

Notes to the group financial statements

for the year ended 31 December 2012

	2012 Rm	Restated 2011 Rm
1. Headline earnings and earnings per share		
Reconciliation of total earnings to headline earnings attributable to equity holders		
Total earnings attributable to equity holders	3 779	2 673
Adjustments		
Preference share dividend	(2)	(2)
Basic earnings attributable to ordinary shareholders	3 777	2 671
Profit on sale of joint venture	(117)	
Derecognition and impairment of intangible asset	44	
FCTR recycled through profit or loss	2	
Headline earnings attributable to ordinary shareholders	3 706	2 671
Net income earned on BEE preference shares	62	66
BEE normalised headline earnings attributable to ordinary shareholders	3 768	2 737
	Cents	Cents
Earnings per share		
Total earnings attributable to ordinary shareholders		
Basic	1 464,6	1 026,1
Headline	1 437,1	1 026,1
BEE normalised headline	1 328,3	956,7
Fully diluted earnings attributable to ordinary shareholders		
Basic	1 370,8	981,6
Headline	1 345,0	981,6

Definitions:

Basic earnings per share is total earnings divided by the weighted average number of ordinary shares in issue during the year.

Headline earnings per share is a disclosure requirement in terms of Johannesburg Stock Exchange's (JSE) Listings Requirements for companies listed on the JSE. Circular 3/2012, issued by The South African Institute of Chartered Accountants at the request of the JSE, stipulates the requirements for the calculation of headline earnings.

Liberty applies the long-term insurance industry exemption contained in Circular 3/2012 which allows for no headline earnings adjustment in respect of realised or unrealised remeasurements of investment properties. Disclosure of headline earnings is not a requirement of International Financial Reporting Standards.

Headline earnings per share is calculated by dividing the headline earnings by the weighted average number of shares in issue during the year.

The application of IFRS to the BEE transaction specifies that the full number of applicable ordinary shares will continue as a deduction in deriving the weighted average number of shares in issue for earnings per share calculations. These shares will be considered in issue only to the extent that the preference shares are held by external parties at risk or if redeemed in full. This treatment distorts the economic reality and a BEE normalised headline earnings per share is provided which better reflects shareholder economic earnings.

BEE normalised headline earnings is headline earnings adjusted for accrued dividends on BEE preference shares (not recognised as a financial asset) divided by the weighted average of ordinary shares assuming the BEE allocated shares are in issue.

1. Headline earnings and earnings per share (continued)

Definitions (continued):

Fully diluted basic and headline earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Both the BEE transaction and share options could potentially cause dilution. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options adjusted for any share-based payment expense recognised. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2012 000's	2011 000's
Weighted average number of shares in issue	**257 885**	260 306
Weighted average shares before BEE transaction	283 681	286 102
Effect of BEE transaction	(25 796)	(25 796)
Fully diluted weighted average number of shares in issue	275 534	272 113
Weighted average number of shares in issue	257 885	260 306
Adjustments for:		
Implementation of shares under option and rights below fair value	2 464	528
Effect of restricted share plans	480	
Effect of BEE transaction	14 705	11 279

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 five revenue generating service areas, namely retail long-term insurance, corporate long-term insurance, Short-term insurance. asset management and health services. Additional information on product classifications within the long-term insurance segment and geographical analysis is provided.

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. Total earnings are reconciled to BEE normalised headline earnings, which is one of the key performance measures reported to the group's chief operating decision makers. The group's revenue generating business units are structured into three business unit clusters, each headed up by a chief executive, who reports directly to the group's chief executive. These executives, along with the group's financial director, head of LibFin, and the group's executive-strategic services, are considered to be the chief operating decision makers within the group. The group utilises additional measures to assess the performance of each of the segments, which can be found in the chief executive's report, financial review and business unit reviews and include measures such as indexed new business, new business margin, net cash flows, assets under management and embedded value.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

2. Segment information (continued)

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.

Asset management

The provision of focused investment solutions for the customer base of the long-term insurance businesses as well as direct institutional business and individual customers. Management and development of the group's property portfolios is also included in this segment.

Health services

Healthcare administration, supply and development of related information technology systems, employee wellness programmes and medical risk management.

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 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.

2. Segment information (continued)

Segment earnings for the year ended 31 December 2012

Rm	Long-term insurance Retail	Long-term insurance Corporate	Short-term insurance	Asset management	Health services	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	31 435	9 164	756				41 355	(11 724)	29 631
Service fee income from policyholder investment contracts								881	881
Investment returns	30 661	7 231	93	90	2	1 499	39 576	4 041	43 617
Fee revenue			55	2 329	287	165	2 836	(959)	1 877
Other						(45)	(45)		(45)
Total revenue	62 096	16 395	904	2 419	289	1 619	83 722	(7 761)	75 961
Net claims and policyholder benefits	(25 149)	(11 017)	(427)				(36 593)	12 261	(24 332)
Change in policyholder liabilities	(23 961)	(4 057)					(28 018)	8 486	(19 532)
Fair value adjustment to policyholder liabilities under investment contracts								(10 035)	(10 035)
Fair value adjustment on third party mutual fund interests								(2 979)	(2 979)
Acquisition costs	(3 156)	(241)	(90)	(307)		(24)	(3 818)		(3 818)
Marketing and administration expenses	(4 291)	(952)	(254)	(1 299)	(431)	(692)	(7 919)	474	(7 445)
Finance costs	(80)			(30)		(133)	(243)		(243)
Profit share allocations	(792)	(2)	(5)	(1)	10	(10)	(800)		(800)
Profit on sale of subsidiary						135	135		135
Equity accounted earnings from joint ventures				3			3		3
Profit/(loss) before taxation	4 667	126	128	785	(132)	895	6 469	446	6 915
Taxation	(2 424)	(24)	(15)	(216)	38	(10)	(2 651)	(66)	(2 717)
Total earnings/(loss)	2 243	102	113	569	(94)	885	3 818	380	4 198
Other comprehensive (loss)/income									
Owner-occupied properties – fair value adjustment	(175)	(17)					(192)		(192)
Net change in fair value on cash flow hedges	(29)						(29)		(29)
Foreign currency translation	6		7	2		11	26		26
Change in long-term policyholder insurance liabilities (application of shadow accounting)	119	12					131		131
Income and capital gains tax relating to:									
– owner-occupied properties	60	6					66		66
– net change in fair value on cash flow hedges	8						8		8
Total comprehensive income/(loss)	2 232	103	120	571	(94)	896	3 828	380	4 208
Attributable to:									
Non-controlling interests	(22)	1	(59)	(7)	23	16	(48)	(380)	(428)
Equity holders	2 210	104	61	564	(71)	912	3 780		3 780
Reconciliation of total earnings/(loss) to headline earnings/(loss) attributable to equity holders									
Total earnings/(loss)	2 243	102	113	569	(94)	885	3 818	380	4 198
Attributable to non-controlling interests	(17)	1	(55)	(7)	23	16	(39)	(380)	(419)
Preference share dividend						(2)	(2)		(2)
Goodwill and intangible assets impairments	44						44		44
Profit on sale of joint venture						(117)	(117)		(117)
FCTR recycled through profit and loss					2		2		2
Headline earnings/(loss)	2 270	103	58	562	(69)	782	3 706	–	3 706
Net income earned on BEE preference shares						62	62		62
BEE normalised headline earnings/(loss)	2 270	103	58	562	(69)	844	3 768	–	3 768

[1] *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, the application of shadow accounting for the change in long-term policyholder insurance liabilities and the elimination of intergroup transactions.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

2. Segment information (continued)

Segment earnings for the year ended 31 December 2011

Restated Rm	Long-term insurance Retail	Long-term insurance Corporate	Short-term insurance	Asset management	Health services	Other	Total	Reporting adjustments[1]	IFRS reported
Policyholder premiums	28 046	7 665	343				36 054	(9 661)	26 393
Service fee income from policyholder investment contracts								863	863
Investment returns	13 708	3 181	(51)	111	1	1 049	17 999	1 907	19 906
Fee revenue			27	1 953	278	129	2 387	(827)	1 560
Other						(4)	(4)		(4)
Total revenue	41 754	10 846	319	2 064	279	1 174	56 436	(7 718)	48 718
Net claims and policyholder benefits	(23 235)	(8 486)	(235)				(31 956)	9 686	(22 270)
Change in policyholder liabilities	(8 188)	(1 223)					(9 411)	3 275	(6 136)
Fair value adjustment to policyholder liabilities under investment contracts								(4 089)	(4 089)
Fair value adjustment on third party mutual fund interests								(1 230)	(1 230)
Acquisition costs	(2 663)	(227)	(42)	(309)		(27)	(3 268)		(3 268)
Marketing and administration expenses	(3 855)	(822)	(130)	(953)	(386)	(665)	(6 811)	313	(6 498)
Finance costs	(43)	(2)		(48)	(12)	(186)	(291)	20	(271)
Profit share allocations	(621)			(3)		(4)	(628)		(628)
Equity accounted earnings from joint ventures	6	1			2		9		9
Profit/(loss) before taxation	3 155	87	(88)	751	(117)	292	4 080	257	4 337
Taxation	(1 306)	15	(7)	(209)	7	76	(1 424)	41	(1 383)
Total earnings/(loss)	1 849	102	(95)	542	(110)	368	2 656	298	2 954
Other comprehensive (loss)/income									
Owner-occupied properties – fair value adjustment	105	10					115		115
Net change in fair value on cash flow hedges	14						14		14
Foreign currency translation	28		15	8	1	22	74		74
Change in long-term policyholder insurance liabilities (application of shadow accounting)	(68)	(6)					(74)		(74)
Income and capital gains tax relating to:									
– owner-occupied properties	(37)	(4)					(41)		(41)
– net change in fair value on cash flow hedges	(4)						(4)		(4)
Total comprehensive income/(loss)	1 887	102	(80)	550	(109)	390	2 740	298	3 038
Attributable to:									
Non-controlling interests	(31)	(19)	26	(16)	36		(4)	(298)	(302)
Equity holders	1 856	83	(54)	534	(73)	390	2 736	–	2 736
Reconciliation of total earnings/(loss) to headline earnings/(loss) attributable to equity holders									
Total earnings/(loss)	1 849	102	(95)	542	(110)	368	2 656	298	2 954
Attributable to non-controlling interests	(23)	(14)	33	(15)	36		17	(298)	(281)
Preference share dividend						(2)	(2)		(2)
Headline earnings/(loss)	1 826	88	(62)	527	(74)	366	2 671	–	2 671
Net income earned on BEE preference shares						66	66		66
BEE normalised headline earnings/(loss)	1 826	88	(62)	527	(74)	432	2 737	–	2 737

[1] *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, 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.*

2. Segment information (continued)

Analysis of long-term insurance earnings by product classification

Rm	Retail Pure risk	Retail Investment and risk	Corporate Risk	Corporate Investment	Total
For year ended 31 December 2012					
Policyholder premiums	6 845	24 590	1 869	7 295	40 599
Investment returns	(845)	31 506	287	6 944	37 892
Total revenue	6 000	56 096	2 156	14 239	78 491
Net claims and policyholder benefits	(2 116)	(23 033)	(1 481)	(9 536)	(36 166)
Change in policyholder liabilities	689	(24 650)	(230)	(3 827)	(28 018)
Acquisition costs	(1 876)	(1 280)	(48)	(193)	(3 397)
Marketing and administration expenses	(1 231)	(3 060)	(225)	(727)	(5 243)
Finance costs		(80)			(80)
Profit share allocations	(729)	(63)	(2)		(794)
Equity accounted earnings from joint ventures					
Profit before taxation	737	3 930	170	(44)	4 793
Total per operating segment		4 667		126	4 793
Restated					
For year ended 31 December 2011					
Policyholder premiums	5 935	22 111	1 878	5 787	35 711
Investment returns	(506)	14 109	242	2 929	16 774
Total revenue	5 429	36 220	2 120	8 716	52 485
Net claims and policyholder benefits	(2 014)	(21 221)	(1 525)	(6 961)	(31 721)
Change in policyholder liabilities	974	(9 057)	(177)	(1 036)	(9 337)
Acquisition costs	(1 552)	(1 111)	(34)	(193)	(2 890)
Marketing and administration expenses	(979)	(2 876)	(212)	(610)	(4 677)
Finance costs	(3)	(40)	(1)	(1)	(45)
Profit share allocations	(532)	(89)			(621)
Equity accounted earnings from joint ventures		6		1	7
Profit before taxation	1 323	1 832	171	(84)	3 201
Total per operating segment		3 155		87	3 201

Notes to the group financial statements (continued)

for the year ended 31 December 2012

2. Segment information (continued)

Other financial detail by operating segment

Rm	Long-term insurance Retail	Corporate	Short-term insurance	Asset management	Health services	Other	Total	Reporting adjustments[1]	IFRS reported
2012									
Total assets	190 124	46 561	525	21 321	598	15 611	274 740	18 017	292 757
Additions to non-current assets	75	7	69	141	6	265	563	13	576
Interest in joint ventures	340	34			1	3	378		378
Interests in associates				72			72		72
Interest income	5 097	1 202	15	73	2	249	6 638	157	6 795
Depreciation				(24)	(15)	(208)	(247)	(3)	(250)
Amortisation of PVIF	(125)	(25)	(3)				(153)		(153)
Amortisation of distribution force	(3)	(2)	(2)				(7)		(7)
Amortisation of computer software internally generated	(12)			(2)	(34)		(48)		(48)
Amortisation of customer relationships and contracts			(8)		(12)		(20)		(20)
Impairment and derecognition of intangible assets	(44)						(44)		(44)
Amortisation of trade names	(1)						(1)		(1)
Amortisation of deferred acquisition costs	(31)	(168)	(14)				(213)		(213)
Release of deferred revenue	18		9				27		27
2011									
Total assets	166 478	42 087	466	17 195	518	12 150	238 894	14 334	253 228
Additions to non-current assets	671	68		38	28	98	903	167	1 070
Interest in joint ventures	353	36		204	30	3	626		626
Interest income	4 560	1 051		119	8	352	6 090	296	6 386
Depreciation				(26)	(19)	(189)	(234)	(9)	(243)
Amortisation of PVIF	(123)	(53)	(3)				(179)		(179)
Amortisation of distribution force	(2)	(1)	(1)				(4)		(4)
Amortisation of computer software internally generated					(18)	(4)	(22)		(22)
Amortisation of customer relationships and contracts					(13)		(13)		(13)
Amortisation of deferred acquisition costs	(33)	(161)	(25)				(219)		(219)
Release of deferred revenue	15		15				30		30

(1) *Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, 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.*

2. Segment information (continued)

Segment information from geographical areas

	South Africa		Other Africa[1]		Total	
	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
Revenue from external customers	74 383	48 000	1 578	718	75 961	48 718
Total earnings attributable to Liberty shareholders (2011 Restated)	3 661	2 607	118	66	3 779	2 673
Non-current assets	29 561	29 144	429	400	29 990	29 544
Total assets	288 997	250 424	3 760	2 804	292 757	253 228
Total liabilities	271 251	234 755	2 995	2 190	274 246	236 945

[1] *Other Africa includes Nigeria, Namibia, Swaziland, Botswana, Kenya, Uganda, Lesotho and Tanzania.*

Revenue is allocated based on the country in which the insurance or investment contract is issued or service fee income and investment returns are earned.

Non-current assets are allocated based on where the matching insurance or investment contract is issued or, if not matched, where the business owning the asset is situated.

	2012 Rm	2011 Rm
3. Equipment and owner-occupied properties under development		
Cost at the beginning of the year	2 590	2 412
Additions	309	144
Additions through business acquisition	7	116
Disposals	(86)	(102)
Foreign currency translation	15	20
Cost at the end of the year	2 835	2 590
Accumulated depreciation and impairment at the beginning of the year	(1 693)	(1 455)
Additions through business acquisition		(61)
Depreciation	(250)	(243)
Disposals	71	78
Foreign currency translation	(11)	(12)
Accumulated depreciation and impairment at the end of the year	(1 883)	(1 693)
Net carrying value at the end of the year	952	897
Summary of net carrying value		
Owner-occupied properties under development[1]	13	
Computer equipment	236	205
Purchased computer software	50	72
Fixtures, furniture and fittings	546	519
Office equipment	67	70
Motor vehicles	40	31

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

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	Balance at the beginning of the year Rm	Additions through business acquisition Rm	Additions Rm	Disposals Rm	Foreign currency translation Rm	Depre-ciation Rm	Balance at the end of the year Rm
3. Equipment and owner-occupied properties under development (continued)							
2012							
Cost – movement							
Owner-occupied properties under development[1]			13				13
Computer equipment	1 045	2	123	(42)	2		1 130
Purchased computer software	231		19	(8)	1		243
Fixtures, furniture and fittings	1 063	1	123	(11)	3		1 179
Office equipment	173	1	10	(6)	2		180
Motor vehicles	78	3	21	(19)	7		90
	2 590	7	309	(86)	15		2 835
Accumulated depreciation and impairments – movement							
Computer equipment	(840)			40	(1)	(93)	(894)
Purchased computer software	(159)			1	(1)	(34)	(193)
Fixtures, furniture and fittings	(544)			6	(2)	(93)	(633)
Office equipment	(103)			6	(1)	(15)	(113)
Motor vehicles	(47)			18	(6)	(15)	(50)
	(1 693)			71	(11)	(250)	(1 883)
2011							
Cost – movement							
Computer equipment	999	19	76	(52)	3		1 045
Purchased computer software	178	29	21	(3)	6		231
Fixtures, furniture and fittings	992	59	26	(24)	10		1 063
Office equipment	173		8	(8)			173
Motor vehicles	70	9	13	(15)	1		78
	2 412	116	144	(102)	20		2 590
Accumulated depreciation and impairments – movement							
Computer equipment	(773)	(13)		45	(3)	(96)	(840)
Purchased computer software	(109)	(15)			(3)	(32)	(159)
Fixtures, furniture and fittings	(440)	(27)		16	(5)	(88)	(544)
Office equipment	(93)			4		(14)	(103)
Motor vehicles	(40)	(6)		13	(1)	(13)	(47)
	(1 455)	(61)		78	(12)	(243)	(1 693)

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

	2012 Rm	2011 Rm
4. Owner-occupied properties		
Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.		
Fair value at the beginning of the year	1 598	1 513
Additions	4	4
Additions through business acquisition		51
Fair value adjustment	(192)	115
Foreign currency translation	5	8
Reclassifications to investment properties	(37)	(93)
Fair value at the end of the year	1 378	1 598
Located in:		
South Africa	1 307	1 539
Kenya	71	59

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

	2012 Rm	2011 Rm
Cost at the beginning of the year	780	787
Additions	4	4
Additions through business acquisition		51
Foreign currency translation	2	8
Reclassifications to investment properties	(14)	(70)
Cost at the end of the year	772	780
Accumulated depreciation at the beginning and the end of the year[(1)]	(57)	(57)
Cost less accumulated depreciation	715	723

[(1)] *No depreciation was provided in 2012 or 2011 as the residual value of the buildings is equal to or greater than the cost less accumulated depreciation.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

4. Owner-occupied properties (continued)

The valuation of owner-occupied properties and investment properties located in South Africa has been carried out by Ian Mitchell Investment Property Consultants CC (Chartered Valuation Surveyor – Professional Valuer) and Asset Valuation Services CC (Professional Associate Valuer) as at 31 December 2012. The Kenyan located properties were independently valued as at 31 December 2012 by various registered professional valuers in Kenya.

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

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

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

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used and summed together with the capitalised and discounted value of the projected income to give present value as at 31 December 2012. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2012. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

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, with regard to the current South African 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 used to value the South African properties range from 7,0% to 12,0% (2011: 7,25% to 11,75%) on a property by property basis. Exit capitalisation rates generally range from 7,0% to 12,0% (2011: 7,25% to 11,75%).

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

	2012 Rm	2011 Rm
5. Investment properties		
Details of property investments are recorded in registers, which may be inspected by members or their duly authorised agents, at the company's registered office.		
Fair value at the beginning of the year	23 470	21 521
Revaluations net of lease straight-lining	1 188	904
Revaluations	1 443	933
Net movement on straight-lining operating leases	(255)	(29)
Additions through business acquisition	11	43
Additions – property acquired	32	
Additions – capitalised subsequent expenditure	46	900
Disposals	(651)	
Reclassifications from owner-occupied properties	37	93
Foreign currency translation		9
Fair value at the end of the year	24 133	23 470
At the end of the year investment properties comprised the following property types:		
Shopping malls	20 750	20 022
Hotels	2 536	2 536
Office buildings	1 305	1 205
Other	789	699
Total investment properties	25 380	24 462
Located in:	25 380	24 462
South Africa	25 298	24 402
Kenya	70	60
Nigeria	12	
Disclosed in statement of financial position as:	25 380	24 462
Investment properties at fair value	24 133	23 470
Operating leases – accrued income	1 277	1 085
Operating leases – accrued expense	(30)	(93)

The South African located investment properties were independently valued as at 31 December 2012 by registered professional valuers with the South African Council for the Property Valuers Profession as well as members of the Institute of Valuers of South Africa. The method of valuation is more fully described in note 4, owner-occupied properties.

The Kenyan and Nigerian located properties were independently valued as at 31 December 2012 by various registered professional valuers in each territory.

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

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R2 290 million (2011: R1 902 million), including straight-lining operating leases or R1 987 million (2011: R1 823 million) excluding straight-lining operating leases. Direct operating expenses arising on the investment property amounted to R558 million (2011: R516 million).

Critical accounting estimates and judgements

A key input to the models that derive the fair value of properties is the capitalisation rate. The combined fair value (including operating leases accrued income and expenses) at 31 December 2012 of owner-occupied properties (R1 378 million) and investment properties (R25 380 million) is R26 758 million (2011: R26 060 million). A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R3,7 billion (2011: R3,6 billion) if the assumption decreased, and decrease the total fair value by R2,8 billion (2011: R2,7 billion) if the assumption increased.

Refer to accounting policy 5 for details of the measurement of investment properties

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
6. Intangible assets		
Cost at the beginning of the year	3 033	2 889
Additions through business acquisition	40	109
Additions	54	16
Foreign currency translation	7	19
Cost at the end of the year	3 134	3 033
Accumulated amortisation and impairment at the beginning of the year	(2 100)	(1 843)
Additions through business acquisition		(32)
Amortisation	(229)	(218)
Derecognition and impairment	(44)	
Foreign currency translation	(2)	(7)
Accumulated amortisation and impairment at the end of the year	(2 375)	(2 100)
Net carrying amount at the end of the year	759	933
Summary of net carrying value		
Goodwill[1]	32	31
Distribution forces	12	19
Tradenames	1	2
Computer software – internally generated	262	300
Customer relationships and contracts	109	86
Present value of in-force policyholder insurance contracts[2]	343	495

	Balance at the beginning of the year Rm	Additions through business acquisition Rm	Additions Rm	Impairment and derecognition Rm	Amortisation Rm	Foreign currency translation Rm	Balance at the end of the year Rm	Amortisation period
2012								
Cost – movement								
Goodwill	542					1	543	
Distribution forces	42					1	43	
Tradenames	4						4	
Computer software – internally generated	537		54				591	
Customer relationships and contracts	186	40				3	229	
Present value of in-force policyholder contracts	1 722					2	1 724	
	3 033	40	54			7	3 134	
Accumulated amortisation and impairment – movement								
Goodwill	(511)						(511)	No amortisation
Distribution force	(23)				(7)	(1)	(31)	Up to 10 years
Tradenames	(2)				(1)		(3)	Up to 10 years
Computer software – internally generated	(237)			(44)	(48)		(329)	Up to 7 years
Customer relationships and contracts	(100)				(20)		(120)	Up to 7 years
Present value of in-force policyholder contracts	(1 227)				(153)	(1)	(1 381)	Up to 15 years
	(2 100)			(44)	(229)	(2)	(2 375)	

6. **Intangible assets** (continued)

	Balance at the beginning of the year Rm	Additions through business acquisition Rm	Additions Rm	Amortisation Rm	Foreign currency translation Rm	Balance at the end of the year Rm	Amortisation period
2011							
Cost – movement							
Goodwill	511	26			5	542	
Distribution forces		36			6	42	
Tradenames		3			1	4	
Computer software – internally generated	520	1	16			537	
Customer relationships and contracts	186					186	
Present value of in-force policyholder contracts	1 672	43			7	1 722	
	2 889	109	16		19	3 033	
Accumulated amortisation and impairment – movement							
Goodwill	(511)					(511)	No amortisation
Distribution force		(16)		(4)	(3)	(23)	Up to 10 years
Tradenames		(1)			(1)	(2)	Up to 10 years
Computer software – internally generated	(215)			(22)		(237)	Up to 7 years
Customer relationships and contracts	(87)			(13)		(100)	Up to 7 years
Present value of in-force policyholder contracts	(1 030)	(15)		(179)	(3)	(1 227)	Up to 12 years
	(1 843)	(32)		(218)	(7)	(2 100)	

[1]Goodwill in 2012 comprises	*Cost Rm*	*Accumulated impairment Rm*	*Net carrying amount Rm*
Capital Alliance Holdings Limited	*397*	*(397)*	*–*
Liberty Health Holdings (Proprietary) Limited	*114*	*(114)*	*–*
Liberty Kenya Holdings Limited	*32*		*32*
	543	*(511)*	*32*

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

Goodwill impairment testing

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

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

The CfC group is defined as a single CGU for impairment testing. This was the required designation at date of acquisition from the Standard Bank group in terms of common control transactions. The goodwill impairment test has utilised embedded value calculations as a proxy for fair value. These calculations are in terms of APN 107 of the Actuarial Society of South Africa. The risk discount rate applied in these calculations was 15,00% (2011: 16,25%). No impairment was necessary.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	Short-term insurance business 2012 Rm	Long-term investment contracts 2012 Rm	Total 2012 Rm	Short-term insurance business 2011 Rm	Long-term investment contracts 2011 Rm	Total 2011 Rm
7. Deferred acquisition costs						
Balance at the beginning of the year	14	389	403		364	364
Additions through business acquisition				13		13
Cost of new business acquired	10	249	259	25	219	244
Amortisation realised through profit or loss	(14)	(199)	(213)	(25)	(194)	(219)
Foreign currency translation				1		1
Balance at the end of the year	10	439	449	14	389	403
Current	10	132	142	14	122	136
Non-current		307	307		267	267

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

	2012 Rm	2011 Rm
8. Interests in joint ventures		
8.1 Summary		
Equity loans and ordinary shares at cost	65	153
Loans and receivables	4	168
Share of post-acquisition reserves	309	319
– recognised in profit or loss	309	321
– foreign currency translation		(2)
Impairment provision		(14)
Total interests in joint ventures	378	626
Non-current	378	626
8.2 Movement analysis		
Equity loans and ordinary shares at cost		
Balance at the beginning of the year	153	147
Acquisition of Total Health Trust Limited ordinary shares[2]	4	6
Derecognition of Total Health Trust Limited[2]	(46)	
Acquisition of Vinnovations (Proprietary) Limited	1	
Disposal of Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited	(47)	
Balance at the end of the year	65	153
Loans and receivables[1]		
Balance at the beginning of the year	168	156
Advances	9	12
Repayments	(12)	
Disposal of Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited	(161)	
Balance at the end of the year	4	168

	2012 Rm	2011 Rm
8. Interests in joint ventures (continued)		
8.2 Movement analysis (continued)		
Share of post-acquisition reserves		
Balance at the beginning of the year	**319**	316
Earnings recognised in profit or loss	**3**	9
Ordinary dividends received	**(19)**	(7)
Foreign currency translation reserve movement recognised in other comprehensive income		1
Disposal of Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited	**8**	
Derecognition of Total Health Trust Limited[(2)]	**(2)**	
Balance at the end of the year	**309**	319
Impairment provision		
Balance at the beginning of the year	**(14)**	(14)
Derecognistion of Total Health Trust Limited[(2)]	**14**	
Balance at the end of the year	**–**	(14)

[(1)] *Loans and receivables comprise:*
R4 million (2011: R4 million) on demand interest free loan receivable extended to The Financial Services Exchange (Proprietary) Limited.
The fair value of the loan receivable is less than R1 million (2011: less than R1 million) and is long-term in nature.
The 2011 comparative includes a loan advance of R164 million to Evening Star 768 (Proprietary) Limited which has subsequently been disposed of.

[(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 is now accounted for as a subsidiary.*

8.3 Interests in joint ventures comprise:

	Percentage ownership	Equity loans and shares held at cost		Loans and receivables[(1)]		Share of post-acquisition reserves		Impairment		Total interest		Equity accounted earnings	
	%	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Principal joint ventures – unlisted													
Fountainhead Property Trust Management Limited *(property trust management)*			47				3				50	**2**	2
Evening Star 768 (Proprietary) Limited *(property trust management)*					164		(10)				154	**1**	(3)
The Financial Services Exchange (Proprietary) Limited *(financial verification and technology service provider)*	**33,3**			**4**	4	**(1)**	(1)			**3**	3		1
The Cullinan Hotel (Proprietary Limited)[(3)] *(hotel developer and manager)*	**50,0**	**64**	64			**310**	325			**374**	389		7
Total Health Trust Limited[(2)] (health risk services)			42				2		(14)		30		2
Vinnovations (Proprietary) Limited (health risk services)	**50,0**	**1**								**1**			
Total		**65**	153	**4**	168	**309**	319		(14)	**378**	626	**3**	9

[(3)] *This entity has a 31 March year end and therefore management accounts as at 31 December are used to equity account earnings.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
8. Interests in joint ventures (continued)		
8.4 Aggregate amounts related to interests in joint ventures		
Statement of financial position extracts(4)		
Non-current assets	**358**	516
Current assets	**52**	90
Long-term liabilities – interest bearing		(164)
Current liabilities	**(34)**	(46)
Statement of comprehensive income extracts(4)		
Income	**103**	151
Expenses	**(100)**	(142)
Commitments(4)		
Capital commitments – authorised by directors but not contracted	**4**	12
Investment properties	**2**	5
Equipment	**2**	7

(4) *Represents the group's proportionate share in the joint ventures.*

	2012 Rm	2011 Rm
9. Interest in associates		
9.1 Companies		
Ordinary shares at cost	**72**	
Summarised financial information of associates:		
Total assets	**34**	
Total liabilities	**(14)**	
Total revenue	**112**	
Net profit for the year	**10**	
Movement analysis		
Ordinary shares at cost		
Acquisitions during the year	**72**	
Balance at the end of the year	**72**	

Details of interests

Name	Percentage ownership 2012 %	Cost 2012 Rm
Noble Private Portfolio Holdings (Proprietary) Limited	**26**	**18**
Hein Kruger Internationale Fondsbestuur (Proprietary) Limited	**26**	**15**
Brenthurst Wealth Management (Proprietary) Limited	**26**	**13**
Hereford Financial Services (Proprietary) Limited	**26**	**9**
Finmap Financial Services (Proprietary) Limited	**26**	**6**
Eq-Fin Proprietary Limited	**26**	**5**
Bay Wealth Management (Proprietary) Limited	**26**	**3**
Zackly Investments One (Proprietary) Limited	**26**	**3**
Total		**72**

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

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

(1) *Total revenue is defined as interest, dividend and sundry income.*

(2) *Units or shares held in mutual funds are by their nature demand deposits and are held at fair value. The net income or loss is capitalised to unit values within each fund and consequently there is no net profit or loss.*

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

	Percentage of participation rights in total issued units		Fair value	
Name	**2012 %**	2011 %	**2012 Rm**	2011 Rm
Standard Bank Institutional Money Market Fund	**35**	30	**5 950**	5 604
STANLIB Institutional Property Fund[(1)]	**50**	39	**1 867**	808
STANLIB Balanced Fund	**26**	26	**777**	560
STANLIB Value Fund	**48**	48	**738**	686
Investec Gilt Fund	**26**		**671**	
STANLIB Balanced Cautious Fund	**26**	22	**549**	283
STANLIB Multi Manager Equity Fund	**38**	40	**469**	634
Synergy Income Fund Limited	**38**	47	**387**	247
STANLIB Global Equity Feeder Fund	**37**	34	**323**	284
STANLIB Moderately Conservative Fund of Funds	**30**	37	**322**	253
STANLIB Multi Manager Real Return Feeder Fund	**22**	22	**285**	267
STANLIB Multi Manager Low Equity Fund of Funds	**26**	27	**255**	275
STANLIB Multi Manager Medium Equity Fund of Funds	**27**	28	**192**	190
STANLIB Moderate Fund of Funds	**28**	28	**185**	146
STANLIB Managed Flexible Fund	**27**	27	**158**	172
Kruger STANLIB Balanced Fund	**23**		**119**	
Kruger STANLIB Prudential Fund	**39**		**106**	
STANLIB Resources Fund	**23**	23	**139**	153
STANLIB Quants Fund[(1)]	**50**	50	**84**	77
STANLIB Multi Manager National Fund	**27**	31	**75**	64
STANLIB Multi Manager All Stars Equity Fund of Funds	**23**	21	**74**	58
STANLIB Small Cap Fund	**36**	33	**59**	58
STANLIB Nationbuilder Fund	**27**	24	**53**	52
STANLIB Aggressive Income Fund[(2)]		28		373
Ermitage Money Market Funds[(2)]		24		263
STANLIB Global Property Feeder Fund[(2)]		37		100
Oasis Balanced Fund[(2)]		26		90
Total			**13 837**	11 697

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

(2) *This interest is no longer disclosed as an associate as the percentage ownership during the year was less than 20%.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
10. Financial investments and derivative assets and liabilities		
10.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market		
Listed	133 300	121 265
Equities	85 881	78 622
Preference shares	2 115	1 728
Commercial term deposits	15 637	12 558
Mutual funds	410	816
Government, municipal and utility stocks	29 257	27 541
Unlisted	71 383	55 885
Commercial term deposits	17 411	17 030
Mutual funds	53 929	38 824
Government, municipal and utility stocks	43	31
Unquoted and unlisted	25 448	19 802
Equities	1 474	1 336
Preference shares	670	1 283
Investment policies	23 304	17 183
Loans and receivables measured at amortised cost		
Loans(1)	1 056	1 007
Total financial investments	231 187	197 959
10.2 Derivative assets and liabilities		
Assets:		
Held for trading	6 875	3 777
Derivative assets	6 091	3 086
Collateral deposits	784	691
Held for hedging		
Cash flow hedge assets	35	13
Total derivative assets	6 910	3 790
Liabilities:		
Held for trading	6 003	3 092
Derivative liabilities	5 324	2 711
Collateral deposits	679	381
Held for hedging		
Cash flow hedge liabilities	95	21
Total derivative liabilities	6 098	3 113

(1) *The fair value of loans is R936 million (2011: R921 million).*

Refer to accounting policies 8, 9 and 10 for further details on recognition and measurement of financial assets and liabilities

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
10. Financial investments and derivative assets and liabilities (continued)					
10.3 Movement analysis of financial investments including held for hedging, held for trading and mutual funds classified as associates:					
2012					
Balance at the beginning of the year	(8)	685	208 649	1 007	210 333
Financial investments			196 952	1 007	197 959
Held for trading assets		3 777			3 777
Held for trading liabilities		(3 092)			(3 092)
Held for hedging assets	13				13
Held for hedging liabilities	(21)				(21)
Interest in associates – mutual funds			11 697		11 697
Redesignated to cash flow hedges	4	(4)			
Additions (purchases and issuings)		9 430	179 650	129	189 209
Disposals (sales and redemptions)		(8 567)	(174 973)		(183 540)
Accrued interest				77	77
Repayments				(150)	(150)
Fair value adjustments – income statement	(27)	(804)	29 866		29 035
Derivative assets	30	5 615			
Derivative liabilities	(57)	(6 419)			
Fair value adjustments – other comprehensive income	(29)				(29)
Derivative assets	6				6
Derivative liabilities	(35)				(35)
Impairment				(13)	(13)
Movement on third party share of financial instruments in mutual funds		132	773		905
Foreign currency translation			3	6	9
Balance at the end of the year	(60)	872	243 968	1 056	245 836
Financial investments			230 131	1 056	231 187
Held for trading assets		6 875			6 875
Held for trading liabilities		(6 003)			(6 003)
Held for hedging assets	35				35
Held for hedging liabilities	(95)				(95)
Interest in associates – mutual funds			13 837		13 837
2011					
Balance at the beginning of the year		750	197 318	813	198 881
Financial investments			191 504	813	192 317
Held for trading assets		2 659			2 659
Held for trading liabilities		(1 909)			(1 909)
Interest in associates – mutual funds			5 814		5 814
Additions through business acquisitions			1 230	110	1 340
Redesignated to cash flow hedges	113	(113)			
Additions (purchases and issuings)	18	19 323	167 348	229	186 918
Disposals (sales and redemptions)	(26)	(18 895)	(163 530)		(182 451)
Accrued interest				74	74
Repayments				(244)	(244)
Fair value adjustments – income statement	(127)	(375)	7 719		7 217
Derivative assets	(52)	2 843			
Derivative liabilities	(75)	(3 218)			
Fair value adjustments – other comprehensive income	14				14
Derivative assets	10				10
Derivative liabilities	4				4
Impairment reversal				5	5
Movement on third party share of financial instruments in mutual funds		(5)	(1 623)		(1 628)
Foreign currency translation			187	20	207
Balance at the end of the year	(8)	685	208 649	1 007	210 333
Financial investments			196 952	1 007	197 959
Held for trading assets		3 777			3 777
Held for trading liabilities		(3 092)			(3 092)
Held for hedging assets	13				13
Held for hedging liabilities	(21)				(21)
Interest in associates – mutual funds			11 697		11 697

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
10. Financial investments and derivative assets and liabilities (continued)		
10.4 Maturity profile of commercial term deposits, government, municipal and utility stocks and loans:		
Less than 1 year	**10 991**	8 291
1 – 5 years	**17 598**	17 824
5 – 10 years	**14 913**	16 334
10 – 20 years	**13 908**	11 088
Over 20 years	**5 081**	3 768
Variable[(1)]	**913**	862
Total	**63 404**	58 167

[(1)] *Variable represent certain 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.*

There is no maturity profile for listed and unlisted equities, mutual funds, non-redeemable preference shares 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.

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

	2012 Rm	2011 Rm
11. Prepayments, insurance and other receivables		
Current balances related to insurance contracts	856	835
Outstanding premium receivables	619	527
Reinsurance recoveries	237	308
Current balances related to investment contracts		
Outstanding premium receivables	210	116
Current balances related to insurance and investment contracts	1 066	951
Accrued income	124	103
Investment debtors	712	307
Consolidated mutual funds' receivables	492	198
Property consortiums' receivables	40	49
Agents, brokers and intermediaries	120	93
Outstanding amounts on sale of subsidiary shares to non-controlling interests	10	10
Other debtors	925	909
Total prepayments, insurance and other receivables(1)	3 489	2 620

(1) *All inflows of economic benefits are expected to occur within one year.*

	2012 Rm	2011 Rm
12. Cash and cash equivalents		
Cash at bank and on hand	1 424	739
Short-term cash deposits	4 903	5 925
Total cash and cash equivalents	6 327	6 664

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	Insurance contracts	Investment contracts with DPF[(1)]	Long-term reinsurance assets	Restated insurance contracts	Investment contracts with DPF[(1)]	Long-term reinsurance assets
	2012			2011		
	Rm	Rm	Rm	Rm	Rm	Rm
13. Long-term policyholder liabilities and reinsurance assets						
Balance at the beginning of the year	145 558	3 447	(902)	138 873	2 634	(847)
Additions through business acquisition				301	769	(2)
Inflows	55 993	1 194	(919)	38 793	494	(837)
Insurance premiums	29 061	659	(845)	26 362	455	(767)
Investment returns	26 932	535	(74)	12 424	39	(70)
Unwinding of discount rate	1 144	1	(73)	1 017		(70)
Investments	25 788	534	(1)	11 407	39	
Equity accounted earnings from joint ventures				7		
Outflows	(34 391)	(857)	679	(30 463)	(521)	617
Claims and policyholder benefits	(23 680)	(824)	599	(22 106)	(472)	543
Claims and policyholder benefits under insurance contracts	(23 680)	(529)	599	(22 106)	(234)	543
Switches between investment with DPF to investment without DPF		(295)			(238)	
Acquisition costs associated with insurance contracts	(3 173)	(6)	1	(2 685)	(11)	3
General marketing and administration expenses	(4 173)	(47)	5	(3 694)	(31)	2
Profit share allocations	(794)			(621)		
Finance costs	(46)			(32)		
Taxation	(2 525)	20	74	(1 325)	(7)	69
Net income from insurance operations	(2 505)	43	164	(1 994)	(46)	167
Changes in assumptions	(501)		(28)	(498)		(4)
Discretionary and compulsory margins and other variances	(3 711)	51	260	(2 627)	(51)	238
New business	275		2	144		
Shareholder taxation on transfer of net income	1 432	(8)	(70)	987	5	(67)
Foreign currency translation	11	28		48	117	
Balance at the end of the year	164 666	3 855	(978)	145 558	3 447	(902)
Current	17 833	230	(163)	14 664	326	(168)
Non-current	146 833	3 625	(815)	130 894	3 121	(734)

(1) *The group 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 group.*

Refer to accounting policy 16 for details on the recognition and measurement of long-term policyholder liabilities

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

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

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business. Company specific tables, based on graduated industry standard tables modified to reflect the company specific experience, are used for larger classes. Investigations into mortality experience are performed every half year for the large classes of business and annually for all other classes of business. The period of investigation extends over at least the latest three full years. The results of the investigation are used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

In setting the assumptions, provision is made for the expected increase in AIDS-related claims. Allowance for AIDS-related deaths is made in the base mortality rates at rates consistent with the requirements of APN 105 issued by the Actuarial Society of South Africa (ASSA). The rates are defined using the appropriate ASSA models calibrated to reflect Liberty's assurance lives. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

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

Withdrawal

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

Investment return

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

- Gilt rate – Effective 10-year yield curve rate at the balance sheet date 6,89% (2011: 8,15%).
- Equity rate – Gilt rate plus 3,5 percentage points as an adjustment for risk 10,39% (2011: 11,65%).
- Property rate – Gilt rate plus 1 percentage point as an adjustment for risk 7,89% (2011: 9,15%).
- Cash – Gilt rate less 1,5 percentage points 5,39% (2011: 6,65%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. The rate averaged across the blocks of business (excluding annuity and guaranteed capital bond business) is 9,2% per annum in 2012 (2011: 10,4% per annum). Where appropriate the investment return assumption will be adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins in accordance with SAP 104 issued by the Actuarial Society of South Africa.

For life annuity and guaranteed endowments, discount rates are set at risk free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

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

Expense inflation

The inflation rate is set at 60% of the risk free rate (gilt rate) when the risk free rate is below 6,5%. The inflation rate is set at the risk free rate less 3% when the risk free rate is above 8,5%. At risk free rates between 6,5% and 8,5% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 4,15% at 31 December 2012 (2011 assumption: 5,15%). The expense inflation assumption is set taking into consideration the expected future development of the number of in force policies, as well as the expected future profile of maintenance expenses.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

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

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

Taxation

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

Correlations

No correlations between assumptions are allowed for.

Contribution increases

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

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives in respect of policyholder contracts are set in accordance with APN 110. Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. The 30 year annualised implied-at-the-money volatility assumption, estimated using the economic scenario generator output for the FTSE/JSE Top 40 index, is 30,22% (2011: 28,11%). Correlations between asset classes are set based on historical data. Twenty thousand simulations are performed in calculating the liability.

Using the simulated investment returns, but based on 2000 simulations, the prices and implied volatilities of the following instruments are:

	Price	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	9,41%	27,08%
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	2,23%	26,65%
A 1-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	10,47%	27,10%
A 5-year at-the-money (spot) put on the FTSE/JSE TOP 40 index	12,25%	24,68%
A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to $1{,}04^{5}$ of spot	21,99%	25,19%
A 5-year at-the-money (forward) put on the FTSE/JSE TOP 40 index	19,10%	25,03%
A 5-year put with a strike 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

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

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

For 2011 using the simulated investment returns, the prices and implied volatilities of the following instruments are:

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

The TOP 40 index above is a capital index whereas the ALBI is a total return index. "Spot" refers to the value of the index at market close at the relevant date. "At-the-money (spot)" means that the strike price of the option is equal to the current market value of the underlying. "At-the-money (forward)" means that the strike price of the option is equal to the market's expectation of the capital index at the maturity date of the option.

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

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

Refer to accounting policy 9 and 16 for details on the recognition and measurement of long-term policyholder liabilities under investment contract

Notes to the group financial statements (continued)

for the year ended 31 December 2012

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

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

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

Long-term policyholder liabilities held within non-South African life companies total R1 828 million or 0,8% of total group long-term policyholder liabilities (R1 365 million or 0,7% for 2011). Given the relatively low proportion, as well as low risk insurance exposures for the group, detailed descriptions of the various bases used are not considered necessary.

13.3 Changes in assumptions

Modelling and other assumption changes were made to realign valuation assumptions with expected future experience. These changes resulted in a net decrease in long-term policyholder liabilities of R529 million in 2012 compared to a decrease of R502 million in 2011.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in an increase in the liability of R183 million (2011: decrease of R624 million).
- A change in future mortality and morbidity assumptions to reflect expected future experience, amounting to a decrease in the liability of R223 million (2011: increase of R104 million).
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R330 million (2011: decrease of R32 million).
- Weakening of the annuitant longevity assumptions resulted in a decrease in the liability of R90 million (2011: increase of R435 million).
- A change in the expense valuation assumptions resulted in a decrease in the liability of R5 million. (2011: increase of R154 million).
- A change in the tax relief on expenses assumptions resulted in a decrease in the liability of R156 million.
- A change in the modelling resulted in an increase in liabilities of R164 million.
- The balance of other changes resulted in a decrease in liabilities of R72 million (2011: decrease of R241 million).
- In 2011 there was a change in the modelling for policies being made paid-up resulting in a decrease in the liabilities of R108 million. No further changes were required for 2012.
- In 2011 there was a change in the life annuities and guaranteed endowments illiquidity premium methodology resulting in a decrease in the liability of R190 million. No further changes were required for 2012.

	2012 Rm	2011 Rm
14. Long-term policyholder liabilities under investment contracts		
Balance at the beginning of the year	**59 560**	56 371
Fund inflows from investment contracts (excluding switches)	**11 724**	9 661
Net fair value adjustment	**10 035**	4 089
Fund outflows from investment contracts (excluding switches)	**(12 556)**	(9 924)
Switches between investment with DPF to investment without DPF	**295**	238
Service fee income	**(895)**	(875)
Balance at the end of the year	**68 163**	59 560
Current	**7 033**	5 689
Non-current	**61 130**	53 871
Net income from investment contracts[1]	**11**	65
Service fee income	**895**	875
Expenses		
Property expenses applied to investment returns	**464**	407
Shareholder taxation on transfer of net income	**(17)**	(28)
Acquisition costs	**(269)**	(222)
General marketing and administration expenses	**(1 028)**	(954)
Finance costs	**(34)**	(13)

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

	2012 Liability Rm	2012 Re-insurance assets Rm	2012 Net liability Rm	2011 Liability Rm	2011 Re-insurance assets Rm	2011 Net liability Rm
15. Short-term insurance liabilities						
15.1. Short-term insurance liabilities comprise:						
Outstanding reported claims	188	(52)	136	195	(84)	111
Claims incurred but not reported	56	(14)	42	49	(14)	35
Unearned premiums	281	(126)	155	222	(104)	118
Total short-term insurance liabilities	525	(192)	333	466	(202)	264
Current	399	(146)		397	(172)	
Non-current	126	(46)		69	(30)	
15.2. Movement analysis						
Outstanding reported claims and claims incurred but not reported						
Balance at the beginning of the year	244	(98)	146			
Additions through business acquisition	1		1	140	(30)	110
Cash-settled claims	(509)	107	(402)	(249)	29	(220)
New claims provided for	500	(73)	427	319	(84)	235
Variations and repudiations	18	(3)	15			
Foreign currency translation	(10)	1	(9)	34	(13)	21
Balance at the end of the year	244	(66)	178	244	(98)	146
Unearned premiums						
Balance at the beginning of the year	222	(104)	118			
Additions through business acquisition	15		15	199	(79)	120
Gross premiums received/(accrued)	1 033	(261)	772	473	(148)	325
Recognised to revenue	(1 000)	244	(756)	(485)	142	(343)
Foreign currency translation	11	(5)	6	35	(19)	16
Balance at the end of the year	281	(126)	155	222	(104)	118

Notes to the group financial statements (continued)

for the year ended 31 December 2012

15. Short-term insurance liabilities (continued)

15.3 Claims development

The claims development tables below are based on the actual date of the event that caused the claim (incident year basis).

		Incident year					
Short-term insurance liabilities – gross claims paid in respect of reporting year	**Total Rm**	**2012 Rm**	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 and prior Rm
2012	509	387	108	3	5	3	3
2011	378		234	43	54	15	32
2010	331			143	126	21	41
2009	194				123	30	41
2008	95					37	58
2007	57						57
Cumulative payments to date	1 564	387	342	189	308	106	232

		Incident year					
Short-term insurance liabilities – net claims paid in respect of reporting year	**Total Rm**	**2012 Rm**	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 and prior Rm
2012	402	318	71	1	5	3	4
2011	322		193	37	51	13	28
2010	307			129	123	19	36
2009	183				120	27	36
2008	88					35	53
2007	53						53
Cumulative payments to date	1 355	318	264	167	299	97	210

	2012 Rm	2011 Rm
16. Financial liabilities at amortised cost		
Callable capital bonds[5]	**2 037**	2 054
– 2005 issue[1]		2 054
– 2012 August issue[2]	**1 024**	
– 2012 October issue[2]	**1 013**	
Non-controlling interests loan [3] [5]	**93**	93
Other loans[4] [5]	**47**	48
Total financial liabilities at amortised cost	**2 177**	2 195
Current	**43**	2 102
Non-current	**2 134**	93
Movement analysis		
Balance at the beginning of the year	**2 195**	2 143
Arising through business acquisition		41
Interest accrued	**182**	188
Bond issues	**2 000**	
Capitalisation of bond issue expenses	**(12)**	
Repayments	**(2 190)**	(183)
Foreign currency translation	**2**	6
Balance at the end of the year	**2 177**	2 195

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

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

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

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

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

[3] *Unsecured non-controlling interests loan to the group subsidiary Liberty Health Holdings (Proprietary) Limited repayable on exercise of reciprocal put and call options any time after 19 November 2013, or as and when Liberty Health Holdings (Proprietary) Limited has surplus cash resources. Interest previously accrued monthly at the 90 day call rate offered by Standard Bank of South Africa Limited, 2011: 5,5%. In terms of a shareholder agreement concluded the loan was with effect from 1 January 2012 interest free.*

[4] *Other loans comprise a NIC Bank loan to the group subsidiary Liberty Kenya Holdings Limited. The loan is repayable at intervals of 6 months with the total loan repayable within 48 months from inception. Liberty Kenya Holdings Limited intend to settle the loan in 2013. Interest is payable monthly at NIC's base lending rate less 1,5%, currently amounting to 18%.*

[5] *The fair value of the callable capital bond which matures on 13 August 2017 is R1 108 million and for the bond which matures on 3 April 2018 R1 098 million (2011: R2 098 million), the non-controlling interests loan R89 million (2011: R90 million) and the other loans R47 million (2011: R48 million).*

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

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

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

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	Note	2012 Rm	2011 Rm
18. Employee benefits			
18.1 Summary			
Asset:			
Defined benefit pension fund employer surplus	18.6	**186**	199
Liabilities:			
Short-term employee benefits	18.2	**685**	561
Long-term employee benefits (cash-settled)	18.3	**142**	62
Post-retirement medical aid benefit	18.5(b)	**371**	459
Total liability		**1 198**	1 082

	Leave pay		Short-term incentive schemes		Total	
	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
18.2 Short-term employee benefits						
Balance at the beginning of the year	**82**	84	**479**	327	**561**	411
Additions through business acquisitions				1		1
Additional provision raised	**110**	98	**551**	445	**661**	543
Utilised during the year	**(104)**	(100)	**(432)**	(296)	**(536)**	(396)
No longer required			**(1)**		**(1)**	
Foreign currency translation				2		2
Balance at the end of the year	**88**	82	**597**	479	**685**	561

All outflows in economic benefits in respect of the 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)

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

Accruals for the short-term cash incentive schemes as at 31 December 2012 comprise R331 million (2011: R281 million) senior management group incentive scheme, R150 million (2011: R104 million) general staff incentive schemes and R116 million (2011: R94 million) STANLIB management and investment professional schemes.

18. Employee benefits (continued)

18.3 Long-term employee benefits (cash-settled)

	Share unit rights plan		2010 Deferred bonus scheme		STANLIB deferred bonus scheme		Total	
	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
Balance at the beginning of the year	30	8	4		28	11	62	19
Accrual for past service	23	20	5	4	34	27	62	51
Adjustments for referenced unit price movements	21	2	1		7	1	29	3
Provision no longer required	(3)				(2)		(5)	
Cash settlements	(6)					(11)	(6)	(11)
Balance at the end of the year	65	30	10	4	67	28	142	62
Total service cost	41	22	6	4	39	28	86	54
Recovered from the Standard Bank group[1]	2	1					2	1
Expensed through profit or loss	39	21	6	4	39	28	84	53

[1] *In line with Liberty's remuneration policy, employees who are transferred within the wider Standard Bank group are allowed a continuation of certain Liberty benefits. From date of transfer these costs are, however, recovered from the relevant employer entity within the Standard Bank group.*

Share unit rights plan (SUR)

In 2010, Liberty introduced a SUR plan where units are allocated to qualifying executives and senior management, the value of which is linked directly to Liberty Holdings Limited share price (LHP). Given the continued employment of the participant, the unit values are settled in cash up to three years after the grant date, with no consideration payable by the participant on vesting. The cash distribution will be calculated with reference to the closing share price on the date of vesting. The SUR qualifies as a cash-settled share-based payment transaction and a liability is recognised as employees render their service to the group.

	Units
Balance invested at 31 December 2011	992 398
Granted during year	19 291
Vested during year	(70 722)
Cancelled during year	(62 933)
Balance invested at 31 December 2012	878 034
Average LHP reference price per unit	R77,41

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is 12 months (2011: 22 months).

2010 Deferred bonus scheme

The 2010 deferred bonus scheme related to certain short-term management incentives that were deferred from awards granted for the 2010 financial year. The scheme was applicable to senior management incentive scheme participants where percentages ranging from 20% in relation to the award amounts in excess of R1 million to 30% in excess of R6 million were deferred. Deferred amounts were converted into units, the value of which is linked to the Liberty Holdings Limited share price (LHP). The vesting date is three years from award date and the amount payable will be the equivalent of the unit value at that date plus a payment of 5% on the original deferred value. Participants have the right to extend their net vesting values for a further year, which will then qualify them for an additional payment of 25% of the original value.

	Units
Balance invested at 31 December 2011	149 648
Cancelled during year	(12 086)
Balance invested at 31 December 2012	137 562
Average LHP reference price per unit	R74,70

STANLIB deferred bonus scheme

A deferred scheme was introduced in 2010 for investment professionals and key management in the STANLIB asset management business. Awards granted are deferred up to a three year vesting period. The amounts deferred are compulsorily invested into applicable STANLIB unit trusts to allow for alignment of the investment professionals to the funds under their management. Amounts payable are based on the value of the unit trusts on date of vesting.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

18. Employee benefits (continued)

18.4 Details of funds

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

Liberty Group Defined Benefit Pension Fund

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

ACA Defined Benefit Fund

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

Rentmeester Defined Benefit Fund

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

Liberty Defined Contribution Pension Fund(1)

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

Liberty Provident Fund(1)

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

Liberty Agency Fund(1)

The Liberty Agency Fund offers a benefit to the group'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 Active Provident Fund(1)

The fund offers a benefit to Liberty Active employees, based on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

Liberty Franchise Umbrella Fund(1)

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

Rentmeester Defined Contribution Pension Fund(1)

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

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

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

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

Post-retirement medical benefit

The group operates an unfunded post-retirement medical aid benefit for permanent employees who joined the group prior to 1 February 1999 and agency staff who joined the group 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 group. 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.

All retirement schemes are governed by the Pension Fund Act, 1956 as amended.

	Liberty Group Defined Benefit Pension Fund					ACA Defined Benefit Fund(1)		Rent-meester Defined Benefit Fund(1)	
	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
18. Employee benefits (continued)									
18.5 Retirement benefit obligation									
(a) Change in defined benefit funded obligation									
In the opinion of the pension fund valuator, after the most recent statutory actuarial valuation as at 1 January 2012, the Liberty Group Defined Benefit Plan Fund was financially sound.									
Present value of funded obligation at the beginning of the year	**1 258**	1 234	1 188	1 111	1 369	**6**	5	**2**	2
Valuation adjustment(2)				(13)					
Service cost benefits earned during the year	**13**	13	13	12	14				
Interest cost on projected benefit obligation	**62**	67	66	52	59				
Actuarial loss	**198**	46	59	94	19		1		
Benefits paid	**(93)**	(102)	(92)	(68)	(350)				
Present value of funded obligation at the end of the year	**1 438**	1 258	1 234	1 188	1 111	**6**	6	**2**	2
Change in plan assets									
Fair value of plan assets at the beginning of the year	**1 367**	1 342	1 280	1 197	1 821	**8**	7	**3**	3
Valuation adjustment(2)				(13)					
Expected return on plan assets	**117**	118	117	88	164	**1**	1		
Actuarial gain/(loss)	**150**	9	37	76	(438)				
Employer contribution(3)	**15**	14	9	8	8				
Reduction in employer surplus account(3)	**(15)**	(14)	(9)	(8)	(8)				
Benefits paid	**(93)**	(102)	(92)	(68)	(350)				
Fair value of plan assets at the end of the year(4)	**1 541**	1 367	1 342	1 280	1 197	**9**	8	**3**	3
Excess not recognised	**103**	109	108	92	86	**3**	2	**1**	1
Analysis of the defined benefit pension fund obligation movement									
Current service cost	**13**	13	13	12	14				
Interest cost	**62**	67	66	52	59		1		
Expected return on plan assets	**(117)**	(118)	(117)	(88)	(164)	**(1)**	(1)		
Net actuarial loss recognised in the year	**48**	37	22	18	458				
Total	**6**	(1)	(16)	(6)	367	**(1)**	–		

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

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

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

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

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
18. Employee benefits (continued)					
18.5 Retirement benefit obligation (continued)					
(b) Change in post-retirement medical aid benefit obligation					
Present value of unfunded obligation at the beginning of the year	**459**	400	354	344	293
Service cost benefits earned during the year	**9**	8	6	6	6
Interest cost on projected benefit obligation	**40**	34	34	29	26
Benefits paid	**(10)**	(9)	(8)	(7)	(6)
Actuarial (gain)/loss	**(127)**	26	14	(18)	25
Present value of unfunded obligation at the end of the year	**371**	459	400	354	344
Net liability recognised in financial position	**371**	459	400	354	344
Current	**10**	9	8	7	92
Non-current	**361**	450	392	347	252

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

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

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

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

18. Employee benefits (continued)

18.7 Assumptions used in the valuation of obligations[1]

		Liberty Group Defined Benefit Pension Fund		Post-Retirement Medical Aid Benefit	
		2012	2011	**2012**	2011
The valuation was based on the following principal actuarial assumptions:					
Anticipated after taxation returns on investments		**7,99%**	8,76%	**n/a**	n/a
Discount rate		**7,99%**	8,76%	**8,40%**	8,78%
Future salary increases (excluding increases on promotion)		**6,36%**	6,11%		
Medical cost trend rate				**7,06%**	7,38%
Mortality assumption	– pre-retirement	(2)	(2)	(3)	(3)
	– post-retirement	(4)	(5)	(5)	(5)
Retirement age	– executives	**63**	63	**63**	63
	– others	**60 or 65**	60 or 65	**60 or 65**	60 or 65

n/a *The Post-Retirement Medical Aid Benefit fund is an unfunded liability and therefore there is no asset-backing portfolio.*

(1) *The Rentmeester Defined Benefit Fund is a paid up fund and therefore assumptions are not applicable. For the ACA Defined Benefit Fund, future pension increases were assumed to be 5,36% (2011: 5,12%) and a valuation rate assumption of 7,99% (2011: 8,76%) was applied. Post- and pre-retirement mortality assumptions were the same as those described for the Liberty Group Defined Benefit Pension Fund.*

(2) *No pre-retirement mortality has been allowed for.*

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

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

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

18.8 Sensitivity analysis – Post-Retirement Medical Aid Benefit

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

Variable	**Decrease/ (increase) in liability 2012 Rm**	Decrease/ (increase) in liability 2011 Rm
1% decrease in medical inflation rate		
– active members	**33**	51
– pensioners	**13**	13
1% increase in medical inflation rate		
– active members	**(42)**	(64)
– pensioners	**(15)**	(15)

18.9 Transactions between group companies and the funds

18.9.1 The contributions which the group companies have made on behalf of the employees during the year are as follows:

	2012 Rm	2011 Rm
Retirement		
Defined benefit funds[1]	**15**	14
Defined contribution funds	**243**	225
Medical		
Post-retirement medical benefit paid – pensioners	**10**	9

(1) *Funded from employer surplus account.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

18. Employee benefits (continued)

18.9 Transactions between group companies and the funds (continued)

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

	Balance deposited		Interest received	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Balance at the beginning of the year	**76**	74		
Balance at the end of the year	**71**	76	**17**	22

18.9.3 The Liberty Group Defined Benefit Pension Fund has outsourced its management to Liberty Group Limited. The summary of fees paid is as follows:

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

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

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

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

	Fund value	
	2012 Rm	2011 Rm
Liberty Defined Contribution Pension Fund		
Balance at the beginning of the year	**292**	271
Premiums	**46**	30
Fair value adjustments	**65**	22
Withdrawals	**(36)**	(31)
Balance at the end of the year	**367**	292
Liberty Provident Fund		
Balance at the beginning of the year	**1 829**	1 705
Premiums	**202**	175
Fair value adjustments	**400**	143
Withdrawals	**(170)**	(194)
Balance at the end of the year	**2 261**	1 829
Liberty Agency Fund		
Balance at the beginning of the year	**935**	917
Premiums	**56**	48
Fair value adjustments	**154**	62
Withdrawals	**(121)**	(92)
Balance at the end of the year	**1 024**	935

18. Employee benefits (continued)

18.9 Transactions between group companies and the funds (continued)

18.9.5 The following retirement benefit funds have insurance policies with Liberty Group Limited and its subsidiaries held as investment policies in the funds. A summary of the transactions for each policy within each fund follows (continued):

	Fund value 2012 Rm	Fund value 2011 Rm
Liberty Active Provident Fund		
Balance at the beginning and end of the year	1	1
Liberty Franchise Umbrella Fund		
Balance at the beginning of the year	37	31
Premiums	9	7
Fair value adjustments	3	3
Withdrawals	(3)	(4)
Balance at the end of the year	46	37
Capital Alliance Holdings Defined Contribution Pension Fund		
Balance at the beginning of the year	174	165
Fair value adjustments	23	25
Withdrawals	(12)	(16)
Balance at the end of the year	185	174
Rentmeester Defined Contribution Pension Fund		
Balance at the beginning of the year	5	4
Fair value adjustments		1
Withdrawals	(4)	
Balance at the end of the year	1	5

18.9.6 The various funds detailed in note 18.9.5 have contracted Liberty to manage the funds. The total of fees paid is as follows:

	2012 Rm	2011 Rm
Administration and consulting fees	10	10

19. Deferred revenue

	Short-term insurance business Rm	Long-term investment contracts Rm	2012 Total Rm	Short-term insurance business Rm	Long-term investment contracts Rm	2011 Total Rm
Balance at the beginning of the year	8	151	159		139	139
Addition through business acquisition				7		7
Released to profit or loss	(9)	(18)	(27)	(15)	(15)	(30)
Deferred income relating to new business	8	32	40	15	27	42
Foreign currency translation	2		2	1		1
Balance at the end of the year	9	165	174	8	151	159
Current	9	19	28	8	17	25
Non-current		146	146		134	134

Deferred revenue is upfront fees received on short-term insurance business and long-term investment contracts as a prepayment for asset management and other services. These amounts are non-refundable and released to income as the services are rendered.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

20. Deferred taxation

	Asset/ (liability) at the beginning of the year Rm	Additions through business acquisition Rm	Foreign currency translation Rm	(Provision)/ release for the year Rm	CGT inclusion rate change Rm	Asset/ (liability) at the end of the year Rm
Normal taxation	(1 384)	(1)	(1)	(245)		(1 631)
Policyholder liabilities difference between statutory and accounting basis	(1 555)		(1)	(200)		(1 756)
Utilisation of tax losses and special transfers	373			(62)		311
Intangible assets	(157)			31		(126)
Deferred acquisition costs	(113)			(10)		(123)
Deferred revenue liability	46			1		47
Provisions	22	(1)		(5)		16
Capital gains taxation	(1 252)			446	(25)	(831)
Total	(2 636)	(1)	(1)	201	(25)	(2 462)
Disclosed as:						
Deferred taxation asset	183					253
– recognised in profit or loss	183					253
Deferred taxation liability	(2 819)					(2 715)
– recognised in profit or loss	(2 674)					(2 786)
– recognised in other comprehensive income	(145)					71
	(2 636)					(2 462)

	2012 Rm	2011 Rm
Movement analysis		
Balance at the beginning of the year	(2 636)	(2 290)
Additions through business acquisition	(1)	(54)
Foreign currency translation	(1)	(8)
(Provided)/released through the statement of comprehensive income	176	(284)
Profit or loss	(40)	(239)
Other comprehensive income	216	(45)
Balance at the end of the year	(2 462)	(2 636)
Deferred tax assets		
Non-current	253	183
Deferred tax liabilities		
Non-current	(2 715)	(2 819)

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

21. Deemed disposal taxation liability

In accordance with the Taxation Laws Amendment Act, No 22 promulgated 1 February 2013 various investments held to back policyholder liabilities were, from a capital gains taxation perspective, deemed to be simultaneously disposed of and reacquired at market value on 29 February 2012.

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

The consequential taxation payable for the 2012 tax year of R306 million has been included in current taxation and the expected future tax obligation for the 2013 – 2015 tax years of R918 million has been accounted for and described as a deemed disposal taxation liability. The expected liability does not attract interest and has not been discounted to current values.

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

22. Provisions

	Re-structuring	Retirement fund administration		Possible claims		Total	
	2012 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Balance at the beginning of the year		**165**	109	**206**	63	**371**	172
Provision raised	**19**		93	**34**	184	**53**	277
Provision no longer required				**(35)**	(1)	**(35)**	(1)
Unwinding of discount rate		**7**	8			**7**	8
Utilised during the year		**(45)**	(45)	**(13)**	(40)	**(58)**	(85)
Balance at the end of the year	**19**	**127**	165	**192**	206	**338**	371

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

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 standalone funds to umbrella structures. Consequently additional amounts were raised to cover the net expected costs of these conversions. The provision reflects the best estimate of the current value of future costs less fund recoveries. It is likely this project will take a further two years to complete.

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

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
23. Insurance and other payables		
Current balances related to long-term insurance contracts	3 703	2 920
Outstanding claims and surrenders	3 370	2 580
Commission creditors	333	340
Current balances related to long-term investment contracts	164	101
Outstanding claims and surrenders	157	93
Other	7	8
Total current balances related to long-term insurance and investment contracts	3 867	3 021
Total other payables	4 333	3 283
Sundry payables	2 228	1 808
Consolidated mutual funds payables	571	140
Property consortiums payables	52	68
Preference share dividends	769	591
Investment creditors	713	676
Total insurance and other payables	8 200	6 304
Current	8 164	6 273
Non-current	36	31

	2012 Rm	2011 Rm
24. Share capital and share premium		
Authorised share capital		
15 000 000 cumulative preference shares of 10 cents each	2	2
30 000 000 redeemable cumulative preference shares of 10 cents each	3	3
6 000 000 convertible redeemable cumulative preference shares of 25 cents each	1	1
400 000 000 ordinary shares of 8,33 recurring cents each	33	33
	39	39
Unissued shares[(1)]		
30 000 000 redeemable cumulative preference shares of 10 cents each	3	3
6 000 000 convertible redeemable cumulative preference shares of 25 cents each	1	1
113 797 627 (2011: 113 797 627) ordinary shares of 8,33 recurring cents each	9	9
	13	13
Company		
Issued share capital		
286 202 373 (2011: 286 202 373) ordinary shares of 8,33 recurring cents each	24	24
15 000 000 cumulative preference shares of 10 cents each	2	2
Total issued share capital	26	26
Share premium	6 162	6 162
Total issued share capital and share premium	6 188	6 188
Group		
Total issued share capital	26	26
Share premium	6 078	6 133
Company share premium	6 162	6 162
Cumulative fulfilment of employee share options/rights[(2)]	(84)	(29)
Total issued share capital and share premium	6 104	6 159

(1) *Unissued shares reserved.*
For the purposes of the assigned Liberty Group Limited Share Option Schemes, 345 750 (2011: 818 075) ordinary shares of 8,33 recurring cents each.
For the purpose of the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme, 27 245 244 (2011: 29 000 000) ordinary shares of 8,33 recurring cents each.

(2) *Reflects the effects of the purchase at market value and sale at the option/right price of the company shares by a subsidiary to meet the obligations of the employee equity-settled schemes.*

Refer to stakeholder engagement section for shareholder analysis and spread
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Notes to the group financial statements (continued)

for the year ended 31 December 2012

24. Share capital and share premium (continued)

24.1 Share movement analysis

Share movement analysis:	Number of shares	Share capital Rm	Share premium Rm	Total Rm
Company				
Ordinary shares				
Issued shares at 1 January 2011 of 8,33 recurring cents each	286 022 373	24	6 662	6 686
Shares issued and allotted for the share scheme:				
31 March 2011 at 4 150 cents per share	30 000	–	1	1
4 April 2011 at 4 150 cents per share	70 000	–	3	3
4 April 2011 at 4 490 cents per share	30 000	–	2	2
11 April 2011 at 4 150 cents per share	50 000	–	2	2
Capital reduction No. 85 (182 cents) paid 5 September 2011			(521)	(521)
Issued shares at 31 December 2012 and 2011 of 8,33 recurring cents each	**286 202 373**	**24**	**6 149**	**6 173**
Preference shares				
Issued shares at 31 December 2012 and 2011 of 10 cents each	**15 000 000**	**2**	**13**	**15**
Total issued share capital and share premium at 31 December 2012		**26**	**6 162**	**6 188**

	Number of shares 2012	Number of shares 2011
Group		
Ordinary shares		
Issued shares at 31 December	286 202 373	286 202 373
Held as treasury shares in subsidiaries	(3 966 568)	(240 889)
Opening balance	(240 889)	
Purchases during period	(4 682 051)	(535 165)
Sales during period	956 372	294 276
Group effective number of shares issued at 31 December	282 235 805	285 961 484

The 15 000 000 cumulative preference shares are not redeemable and carry dividends at the rate of 11 cents per share per annum.

The preference shares confer the right, on a winding up of the company, to receive a return of R1 per share together with any arrears in preference dividends in priority to any payment in respect of any other class of share in the capital of the company then issued.

The following unissued shares are all under the general authority and control of the directors, which expires at the annual general meeting to be held on 17 May 2013: 86 206 633 (2011: 83 979 552) ordinary shares of 8,33 recurring cents each; 30 000 000 (2011: 30 000 000) redeemable cumulative preference shares of 10 cents each and 6 000 000 (2011: 6 000 000) non-redeemable cumulative preference shares of 25 cents each.

The closing price for a Liberty Holdings Limited ordinary share on 31 December 2012: R111,17 (31 December 2011: R79,48).

	2012 Rm	2011 Rm
25. Premiums		
Insurance premiums	30 720	27 302
Long-term	29 720	26 817
Short-term	1 000	485
Reinsurance premiums	(1 089)	(909)
Long-term	(845)	(767)
Short-term	(244)	(142)
Net insurance premiums	29 631	26 393
Fund inflows from long-term investment contracts	11 724	9 661
Net premium income from insurance contracts and inflows from investment contracts[1]	41 355	36 054
Long-term insurance	40 599	35 711
Retail	26 017	23 378
Corporate	9 164	7 665
Immediate annuities	5 418	4 668
Short-term insurance	756	343
Medical risk	500	164
Motor, property and other	256	179
Comprising:		
Recurring premium income and inflows from investment contracts	24 383	21 196
Retail	16 498	14 817
Corporate	7 129	6 036
Medical risk	500	179
Motor, property and other	256	164
Single premium income and inflows from investment contracts	16 972	14 858
Retail	9 519	8 561
Corporate	2 035	1 629
Immediate annuities	5 418	4 668
Net premium income and inflows from investment contracts	41 355	36 054

[1] *Premium income is stated net of inter-company transactions between group companies.*

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
26. Service fee income from long-term policyholder investment contracts		
Service fee income from investment contracts	895	875
Deferred revenue released to profit or loss	18	15
Deferred income relating to new business	(32)	(27)
Total service fee income from long-term policyholder investment contracts	881	863
27. Investment income		
Financial assets designated at fair value through profit or loss		
Interest income	6 710	6 296
Dividends received	3 445	2 691
Listed shares	2 841	2 164
Unlisted instruments	604	527
Proceeds on sale of dividends		58
Investment properties		
Rental income from investment properties	2 290	1 902
Loans and receivables measured at amortised cost		
Interest income	85	90
Sundry income	111	27
Investment return on defined benefit pension fund surplus	47	15
Total investment income	12 688	11 079
28. Investment gains		
Investment properties	1 188	904
Financial instruments designated at fair value through profit or loss	29 866	7 719
Quoted instruments	26 974	6 586
Unquoted instruments	511	218
Consolidated mutual funds	2 381	915
Financial instruments held for trading through profit or loss	(831)	(502)
Cash and cash equivalents		32
Foreign exchange differences on subsidiary monetary items	(13)	(9)
FCTR recycled through profit or loss on derecognition of a joint venture	(2)	
Adjustment to joint venture purchase price	1	4
Total investment gains	30 209	8 148

	2012 Rm	2011 Rm
29. Fee revenue and reinsurance commission		
Management fees on assets under management	1 513	1 251
Health administration fees	158	212
Reinsurance commission earned on short-term insurance business	137	28
Other fee revenue	69	69
Total fee revenue and reinsurance commision	1 877	1 560
30. Claims and policyholder benefits[1]		
Insurance claims and policyholder benefits	25 004	22 897
Long-term	24 504	22 578
Short-term	500	319
Payments under long-term investment contracts	12 261	9 686
	37 265	32 583
Insurance claims recovered from reinsurers	(672)	(627)
Long-term	(599)	(543)
Short-term	(73)	(84)
Net claims and policyholder benefits	36 593	31 956
Comprising:		
Long-term insurance – Retail	25 149	23 086
Death and disability claims	4 557	4 199
Policy maturity claims[2]	3 932	4 717
Policy surrender claims[2]	12 851	10 754
Annuity payments	3 809	3 416
Long-term insurance – Corporate	11 017	8 486
Death and disability claims	1 714	1 745
Scheme terminations and member withdrawals	9 021	6 440
Annuity payments	282	301
Short-term insurance	427	235
Medical risk	320	150
Motor, property and other	107	85
Customer claims provision		149
Total claims and policyholder benefits	36 593	31 956

[1] Claims and policyholder benefits are stated net of inter-company transactions between group companies.
[2] Due to a change in definition, with effect from 1 January 2012, an additional R1 024 million has been recorded as policy surrender claims in 2012 which under the previous definition would have been recorded as policy maturity claims. Comparatives have not been restated, however the equivalent amount in 2011 is R988 million.

	2012 Rm	2011 Rm
31. Acquisition costs		
Long-term insurance[1]	3 397	2 890
Insurance contracts	3 178	2 693
Investment contracts	219	197
Short-term insurance	90	42
Asset management and other	331	336
Total acquisition costs	3 818	3 268
Incurred during the year	3 864	3 293
Deferred acquisition costs	(259)	(244)
Amortisation of deferred acquisition costs	213	219

[1] Included in the long-term insurance acquisition costs are sales management incentive costs of R25 million for 2012 (R21 million for 2011).

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
32. General marketing and administration expenses		
Comprising		
Employee costs	3 032	2 595
Office costs	2 168	1 811
Training and development costs	401	412
Other	1 844	1 680
Total general marketing and administration expenses	7 445	6 498
General marketing and administration expenses include the following:		
Amortisation of intangible assets	229	218
Derecognition and impairment of intangible assets	44	
Auditors' remuneration	45	41
Audit fees – current year	41	38
Other services	4	3
Consulting fees and outsource arrangements	418	284
Cost of sales – software development	43	51
Depreciation	250	243
Computer equipment	93	96
Purchased computer software	34	32
Fixtures, furniture and fittings	93	88
Office equipment	15	14
Motor vehicles	15	13
Direct operating expenses – on investment properties	558	516
– on owner-occupied properties	34	31
– on hotel operations	540	501
Asset management fees	152	103
Operating lease charges – equipment	7	10
– property	160	137
Other related South African taxes	354	299
Financial services levy	27	24
Non-recoverable value added taxation	327	275
Provision for restructuring	19	
Provision for retirement fund administration		93
Provision for possible claims	(1)	183
Employee costs[1]	3 032	2 595
Salaries and wages	2 004	1 662
Defined benefit pension fund contributions	15	31
Medical aid contributions	121	145
Staff and management incentive schemes	564	473
Share-based payment expenses – equity-settled schemes	76	52
– cash-settled schemes	51	29
Other post-retirement benefits	128	99
Other	73	104

Full details of the directors' emoluments are contained in the Remuneration of directors and prescribed officers section.

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[1] *The number of permanent salaried staff and commission-remunerated agents at 31 December 2012 was 9 449 (2011: 8 523). The growth in employee numbers is mainly as a result of the inclusion of Total Health Trust Limited for the first time in 2012 and investments in the emerging consumer market division, tied distribution and direct financial services.*

	2012 Rm	2011 Rm
33. Share-based payments		
Reconciliation of reserve		
Equity growth schemes (rights)		
Liberty Group Limited or Liberty Holdings Limited ordinary shares	113	123
Restricted share plans		
Liberty Holdings Limited ordinary shares	35	
Standard Bank Group schemes		
Standard Bank Group Limited ordinary shares	3	3
Gross reserve	151	126
Previous non-controlling interests' share of reserve	(1)	(3)
Total share-based payments reserve	150	123
Movement for the year	27	15
Per profit or loss – equity-settled schemes	76	52
Recovered from the Standard Bank group	2	3
Transfer of vested rights to retained surplus	(49)	(40)
Payment of Liberty Holdings Limited dividend to restricted share plans participants	(2)	
Share-based payments – equity-settled schemes		
Expense recognised in profit or loss	76	52
Share rights	39	52
Restricted share plans	37	

Equity-settled remuneration schemes

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

- Rights awarded under equity growth schemes
- Restricted shares awarded under deferred and long-term schemes
- Expenses relating to Liberty employees with awards under Standard Bank Group Schemes

Effect of Liberty Group Limited Scheme of Arrangement on share 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, the obligations of Liberty Group Limited's share rights schemes.

Liberty Holdings Limited

Liberty has a number of share incentive schemes, which entitles key management personnel and senior employees to purchase Liberty Holdings Limited (Liberty) shares. These share incentive schemes are 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 on employees to acquire Liberty ordinary shares equivalent to the value of the right at date of exercise which are effectively settled by the issue of shares equivalent to the value of rights. The group is required to ensure that employee's tax arising from benefits due at date of vesting in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have not exercised at vesting date and elect 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.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

33. Share-based payments (continued)

Staff options and rights *(continued)*

Liberty Holdings Limited (continued)

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 deferral. This is achieved by investing the deferred portions of the short-term incentive awards into Liberty Holdings Limited shares, which are held in a trust, subject to vesting conditions.

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

All of the above mentioned schemes are classified as equity-settled plans in accordance with the requirements of IFRS 2.

The Liberty Equity Growth Scheme and the Restricted Share Plans are the only schemes currently utilised for granting of new awards..

Standard Bank Group Limited

Certain employees have previously been included in the Standard Bank Group Share Option Scheme and the Standard Bank Group Share Equity Growth Scheme. The Standard Bank Group Share Option Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank group share at the date the option is granted. The Standard Bank Group Share Equity Growth Scheme allocates employees appreciation rights. The eventual appreciation amount is settled by the issue of shares equivalent to the appreciation amount.

Summary of movements under equity-settled remuneration schemes

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

Movement summary	Price range 2012	Number 2012
Granted	R87,90 – R93,51	952 597
Cancellations	R87,90	(1 154)
Shares outstanding at the end of the year		951 443

Awards vest 33,3% at the end of year 2, 3 and 4 respectively.

The share-based payment expense recognised during 2012 relating to the Liberty restricted share plan (long-term plan) was R22 million.

Liberty Holdings group restricted share plan (deferred plan)

Movement summary	Price range 2012	Number 2012
Granted	R87,90	455 249
Cancellations	R87,90	(8 037)
Shares outstanding at the end of the year		447 212

Awards vest 33,3% at the end of 18 months, 30 months and 42 months respectively.

The share-based payment expense recognised during 2012 relating to the Liberty restricted share plan (deferred plan) was R15 million.

33. Share-based payments (continued)

Summary of movements under equity settled remuneration scheme *(continued)*

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

Movement summary	Price range 2012	Number 2012	Price range 2011	Number 2011
Options/rights outstanding at the beginning of the year		13 920 850		12 759 550
Granted	R79,48 – R89,40	119 052	R68,00 – R83,00	3 060 050
Exercised	R46,15 – R89,75	(1 890 950)	R46,15 – R81,61	(354 100)
Lapsed/cancelled	R58,83 – R89,71	(742 550)	R46,15 – R92,95	(1 544 650)
Options/rights outstanding at the end of the year		11 406 402		13 920 850

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. A binomial tree model and a modified binomial tree model were used in order to value the share options and share rights, respectively. The weighted average fair value per share right granted in 2012 is R24,59 (2011: R21,17) using the following assumptions:

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

The share-based payment expense recognised during 2012 relating to the Liberty share rights was R39 million (2011: R52 million).

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

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

Standard Bank Share Incentive Schemes

The following is a summary of the movements of the applicable Standard Bank Group Limited share options and rights granted:

Standard Bank Group Share Option Scheme – equity-settled

Movement summary	Price range 2012	Number 2011	Price range 2012	Number 2011
Options outstanding at the beginning of the year		67 500		79 000
Standard Bank employees transferred to Liberty		86 900		
Exercised	R27,80 – R40,65	(46 500)	R27,81 – R39,90	(11 500)
Lapsed/cancelled			R27,81 – R39,90	
Options outstanding at the end of the year		107 900		67 500

Share options were exercised regularly throughout the period. The weighted average share price for the year was R110,03 (2011: R98,66). All the options fully vested during 2010 and therefore there has been no further expense.

A Black-Scholes option pricing model was used in order to value the share options.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

33. Share-based payments (continued)

Standard Bank Share Incentive Schemes *(continued)*

Standard Bank Group Equity Growth Scheme – cash-settled

Movement summary	Price range 2012	Number 2011	Price range 2011	Number 2011
Rights outstanding at the beginning of the year		764 163		282 938
Standard Bank employees transferred to Liberty				528 838
Issued to Liberty chief executive			R98,80	25 000
Exercised	R60,35 –R98,00	(120 996)	R102,85 – R117,00	(72 613)
Rights outstanding at the end of the year		643 167		764 163

The share-based payment expense recognised during 2012 relating to the Standard Bank Group Equity Growth Scheme is R2 million (2011: R3 million). These rights have been classified as a cash-settled scheme and the costs are incurred by the respective employer group entity either through a direct charge from Standard Bank or by raising a liability in insurance and other payables.

A Black-Scholes option pricing model was used in order to value the share rights.

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 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 Liberty will compensate the employee in cash for the difference between the 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. The expense recognised during 2012 was R4 million (2011: R1 million) .

Movement of participation rights under phantom share scheme	2012 Number	2011 Number
Participation rights outstanding at the beginning of the year	150 445	210 569
Exercised	(30 358)	(52 532)
Lapsed or cancelled		(7 592)
Participation rights outstanding at the end of the year	120 087	150 445

34. Finance costs

		Rm
Interest expense:		
– interest paid on policyholder claims and supplier balances	61	83
– interest on financial liabilities at amortised cost	182	188
Total finance costs	243	271

35. Business acquisitions and disposals

35.1 Acquisition of subsidiaries

35.1.1 Acquisition of Total Health Trust Limited (THT)

To continue the execution of the group's strategy to extend its market share of the wealth management business in African countries outside of South Africa, Liberty 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 group 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.*

Since acquisition date, THT has contributed R14 million to the group's total revenue and R6 million to the group's total earnings for the year ended 31 December 2012 of which R3 million is attributable to non-controlling interests.

35.1.2 Acquisition of CfC Insurance Holdings Limited (the CfC group)

In 2011, Liberty extended its market share of the wealth management business in African countries outside of South Africa, by acquiring a 56,8% controlling stake in CfC. The effective date of the transaction was 1 April 2011.

CfC is a leading Kenyan life, health and general insurance group consisting of CfC Life Assurance and The Heritage Insurance Company in Kenya and Tanzania. CfC Insurance Holdings Limited changed its name to Liberty Kenya Holdings Limited during 2012.

CfC previously was a directly owned subsidiary of the Standard Bank Group and the transaction was therefore defined as a common control transaction. In terms of the group's accounting policies Liberty accounted for the respective assets and liabilities acquired at the Standard Bank Group Limited carrying values at the date of the transaction. The excess paid over the net carrying value was accounted for directly in equity.

The purchase price was R199 million consisting of R84 million of new equity capital, a R108 million payment to Standard Bank and an expected additional amount of US$1 million at date of purchase relating to an earn out based on an asset base improvement impact on net value. The maximum possible amount of the earn out is US$4 million and the latest possible settlement date for the earn out is 31 March 2013. At 31 December 2012 the best estimate for the earn out remains US$1 million.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

35. Business acquisitions and disposals (continued)

35.1 Acquisition of subsidiaries (continued)

35.1.2 Acquisition of CfC Insurance Holdings Limited (the CfC group) (continued)

The asset and liabilities arising from the acquisition were as follows:

	2011 Rm
Equipment and owner-occupied properties under development	55
Owner-occupied properties	51
Investment properties	43
Goodwill	26
Intangible assets	51
Deferred acquisition costs	13
Deferred taxation asset	5
Reinsurance assets	111
Financial investments	1 340
Prepayments, insurance and other receivables	109
Long-term policyholder liabilities	(1 070)
Short-term insurance liabilities	(339)
Financial liabilities at amortised cost	(41)
Employee benefits	(1)
Deferred revenue	(7)
Deferred taxation liability	(59)
Insurance and other payables	(160)
Current taxation	(3)
Net assets and liabilities assumed	124
Cash acquired	168
Non-controlling interests[1]	(130)
Net asset value attributable to ordinary shareholders	162
Acquisition price	199
Capital contribution	84
Cash paid to Standard Bank	108
Contingent consideration	7
Excess purchase price accounted for directly in equity	(37)

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

35. Business acquisitions and disposals (continued)

35.2 Changes in ownership percentages in group subsidiaries

In accordance with the group's stated intent to increase its footprint in Africa and to align to localisation objectives in respective jurisdictions the following transactions were concluded during 2011:

	2011 Rm
Acquired from the Standard Bank group	
Effective 1 November 2011, Liberty acquired an additional 50% of Stanlib Lesotho (Proprietary) Limited	4
Effective 1 December 2011, Liberty acquired an additional 50% of Stanbic Investment Management Services (EA) Limited	23
Total consideration paid in cash	27
These acquisitions were accounted for as common control transactions.	
Disposals	
Effective 1 July 2011, Liberty disposed of 26% of the group's interest in Liberty Holdings Botswana (Proprietary) Limited	12
Effective 1 November 2011, Liberty disposed of 25,1% of the group's interest in Stanlib Lesotho (Proprietary) Limited	6
Total consideration received and accrued	18
Cash received	8
Amounts receivable included in prepayments, insurance and other receivables	10
These disposals have been accounted for as transactions between owners.	

35.3 Disposal of interest in joint ventures

Effective 1 August 2012, Liberty disposed of its 50% interest in Evening Star 768 (Proprietary) Limited and Fountainhead Property Trust Management Limited which were previously accounted for as Joint Ventures.

	2012 Rm
Carrying value at date of disposal:	47
Share of post-acquisition reserves	(8)
Loan to joint venture	161
Carrying value	200
Consideration received	335
Profit on sale of joint venture	135
Less capital gains tax	(18)
Net profit on sale of joint ventures	117

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
36. Taxation		
36.1 Sources of taxation		
South African normal taxation	1 620	1 143
Current year taxation	1 444	1 088
Over provision prior year current taxation	(101)	(149)
Current deferred taxation	280	191
(Over)/under provision prior year deferred taxation	(3)	13
Foreign normal taxation	27	30
Current year taxation	59	37
Current deferred taxation	(32)	(7)
South African capital gains taxation	924	198
Current year taxation	427	111
Deemed disposal taxation liability	918	
Over provision prior year deferred taxation		(43)
Deferred taxation	(446)	130
Attributable to taxation rate change – deferred	25	
Dividend withholding taxation associated with policyholder investments[1]	72	
Secondary tax on companies[1]		57
Total taxation	2 643	1 428
Profit or loss	2 717	1 383
Other comprehensive income	(74)	45

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

36. Taxation (continued)

36.2 Taxation rate reconciliation

2012	CIT[(1)] Rm	CGT[(2)(5)] Rm	Total Rm
Taxation per profit or loss	1 778	939	2 717
Taxation on other comprehensive income	(59)	(15)	(74)
Total taxation	1 719	924	2 643
Taxation attributable to capital gains tax rate change		(25)	(25)
Taxation specific to policyholder tax funds[(3)]	(264)	(796)	(1 060)
Shareholder taxation	1 455	103	1 558
Profit before taxation per statement of comprehensive income	6 426	489	6 915
Taxable profit directly allocated to reserves	(95)		(95)
Adjustment for the revenue offset to policyholder taxation	(1 060)		
Total	5 271	489	
	%	%	
Effective rate of shareholder taxation[(4)]	27,6	21,1	
Adjustments due to:			
Income exempt from normal taxation	3,7		
Non-tax deductible expenses	(4,2)		
Over provision of taxes in respect of prior years	0,3		
Utilised tax losses and special allowances/transfers	0,5		
Base cost difference to historic cost		(3,3)	
Amounts excluded from capital gains tax		(3,8)	
Foreign tax adjustment	0,1		
Standard rate of South African taxation	28,0	14,0	

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

(1) *CIT represents corporate income taxation.*

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

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

(4) *The effective rate of taxation takes the effect of the preference dividends paid into account, which is disclosed as an interest expense in the statement of comprehensive income but is defined as dividends for taxation purposes. The effect of this disclosure has been taken into account as part of non-deductible expenditure.*

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

Notes to the group financial statements (continued)

for the year ended 31 December 2012

36. Taxation (continued)

36.2 Taxation rate reconciliation (continued)

2011	CIT[1] Rm	STC[2] Rm	CGT[3][5] Rm	Total Rm
Taxation per profit or loss	1 140	57	186	1 383
Taxation on other comprehensive income	33		12	45
Total taxation	1 173	57	198	1 428
Taxation specific to policyholder tax funds[4]	(150)		(249)	(399)
Shareholder taxation	1 023	57	(51)	1 029
Profit before taxation per statement of comprehensive income	4 169		94	4 263
Taxable profit directly allocated to reserves	129			129
Dividends paid		1 419		1 419
Ordinary		832		832
Preference		587		587
Adjustment for the revenue offset to policyholder taxation	(399)			
Total	3 899	1 419	94	
	%	%	%	
Effective rate of shareholder taxation	26,2	4,0	(54,3)	
Adjustments due to:				
Income exempt from normal taxation	4,4			
Equity accounted earnings	0,1			
Non-tax deductible expenses	(5,4)			
Over provision of taxes in respect of prior years	2,9		45,7	
Utilised tax losses and special allowances/transfers	(0,2)			
Base cost difference to historic cost			12,0	
Amounts excluded from capital gains tax			10,6	
STC relief obtained from secondary taxation credits		6,0		
Standard rate of South African taxation	28,0	10,0	14,0	

(1) *CIT represents corporate income taxation.*

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

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

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

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

	2012 Rm	Restated 2011 Rm
37. Reconciliation of total earnings to cash utilised by operations		
Total earnings	4 198	2 954
Adjustments for:		
Interest received	(6 795)	(6 386)
Interest paid	243	271
Dividends received	(3 445)	(2 691)
Taxation	2 717	1 383
Settlement of share-based payments		(2)
Net fund outflows after service fees on policyholder investment contracts	(1 432)	(900)
Service fee income deferred on new business	40	42
Deferred acquisition costs on new business	(259)	(244)
	(4 733)	(5 573)
Adjustments for non-cash items:		
Policyholder liability transfers	29 567	10 225
Net movement on short-term insurance liabilities net of reinsurance	56	(3)
Amortisation of deferred acquisition costs	213	219
Amortisation of deferred revenue liability	(27)	(30)
Retained income of joint ventures	16	(2)
Amortisation of intangible assets	229	218
Derecognition and impairment of intangible asset	44	
Depreciation of equipment	250	243
Movement on defined benefit pension fund surplus	13	3
Profit on disposal of joint venture	(135)	
Share-based payment expenses	78	55
Investment gains	(30 209)	(8 148)
Investment gains attributable to third party mutual fund financial liabilities	2 979	1 230
Income attributable to non-controlling preference shareholders in subsidiaries	762	594
Movement on provisions	(33)	199
	(930)	(770)
Working capital changes:	1 002	473
Prepayments, insurance and other receivables	(816)	391
Insurance and other payables	1 818	82
Cash generated/(utilised) by operations	72	(297)

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
38. Distributions in lieu of dividends/dividends paid		
Capital reductions/ordinary and preference share dividends as per statement of changes in shareholders' funds	(1 398)	(1 355)
Dividends and redemptions received on preference shares held in relation to BEE transaction	126	112
Distributions paid to non-controlling interests in subsidiaries	(600)	(366)
Total distributions paid	(1 872)	(1 609)
39. Taxation paid		
Taxation payable at the beginning of the year	(614)	(740)
Acquired through business acquisition	(4)	(3)
Taxation attributable	(2 819)	(1 144)
Taxation payable at the end of the year	1 642	614
Total taxation paid	(1 795)	(1 273)

40. Related party disclosures

List of related parties as defined:

Parent

Direct holding company: Standard Bank Group Limited controls 53,62% (2011: 53,62%) of the issued ordinary shares. Standard Bank Group Limited and any subsidiary (excluding Liberty) is referred to as Standard Bank in the context of this note.

Fellow subsidiaries

All subsidiaries of Standard Bank are fellow subsidiaries of Liberty Holdings Limited – a full list can be obtained from the company secretary and details are contained in the published annual report of Standard Bank Group Limited.

Subsidiaries

Directly wholly owned

Capital Alliance Holdings Limited, Lexshell 615 Investments (Proprietary) Limited, Liberty Group Limited, Liberty Group Properties (Proprietary) Limited, Liberty Group Shelf Company No 1 (Proprietary) Limited, Liberty Holdco Nigeria Limited, Liberty Holdings Swaziland (Proprietary) Limited, Liberty Holdings Zambia (Proprietary) Limited, Liberty Nominees (Proprietary) Limited, Libgroup Jersey Holdings Limited, Stanbic Investment Management Services (EA) Limited, STANLIB Limited, Stonehouse Capital (Proprietary) Limited.

Partially owned

These entities are subsidiaries due to effective control as Liberty Holdings Limited already has majority control or the option to acquire further shares to effect control and/or the right to manage the operations.

Liberty Kenya Holdings Limited (56,8%), Liberty Holdings Botswana (Proprietary) Limited (74%), Liberty Holdings Namibia (Proprietary) Limited (75%), Liberty Health Holdings (Proprietary) Limited (74,9%), Stanlib Lesotho (Proprietary) Limited (74,9%).

Indirectly owned

Wholly owned through directly owned subsidiaries:

Capital Alliance Australia Holdings (Proprietary) Limited, Capital Alliance Executive Share Trust, Capital Alliance Holdings Share Scheme, Capital Alliance Investment Holdings (Proprietary) Limited, Capital Alliance Life Limited, Credit Partners GP (Proprietary) Limited, Credit Partners (B) GP (Proprietary) Limited, Electric Liberty (Proprietary) Limited, Frank Life Limited, Frank Financial Services (Proprietary) Limited, Friedshelf 940 (Proprietary) Limited, General Staff Scheme Share Trust, Killyman Estates (Proprietary) Limited, Liberty Active Limited, Liberty Group Property Development (Proprietary) Limited, Liberty Group Property Management (Proprietary) Limited, Liberty Growth Limited, Liberty Life Association of Africa Limited Share Trust, Liberty Life Swaziland Limited, Liberty Private Fund Administrators Limited, Liberty Properties (Swaziland) (Proprietary) Limited, Liberty Properties (Zambia) Limited, Lodestone Holdings (Proprietary) Limited, LPH Properties Limited, Mezzanine Partners GP (Proprietary) Limited, Mezzanine Partners (B) GP (Proprietary) Limited, Mooi and Anderson Street Properties (Proprietary) Limited, North City Brokers Limited, Sandton Hotels (Proprietary) Limited, Sillena Ontwikkelingsmaatskappy (Proprietary) Limited, Standard Insurance Limited (Swaziland), STANLIB Asset Management Limited, STANLIB Collective Investments Limited, STANLIB Credit Partners (Proprietary) Limited, STANLIB Fund Managers Jersey Limited, STANLIB Multi-Manager Limited, STANLIB (Swaziland) Unit Trust Management Company Limited, STANLIB Wealth Management Limited, STANLIB Wealth Management Nominees (Proprietary) Limited, The Big Rock (Proprietary) Limited, The Liberty Life Educational Foundation, The Liberty Life Foundation, Wedelin Investments 1 (Proprietary) Limited.

40. Related party disclosures (continued)

Partially owned through directly owned subsidiaries (percentage effective ownership indicated):

Azali Limited (56,8%), Main Street 645 (Proprietary) Limited (38,2%), CAL AIL Investments Limited (75%), CfC Investments Limited (56,8%), CfC Life Assurance Limited (56,8%), Guardrisk Cell Captive (Mauritius) (74,9%), Liberty Life Namibia Limited (75%), IPI Holdings (Proprietary) Limited (36,7%), Liberty Life Botswana (Proprietary) Limited (74%), Liberty Life Uganda Assurance Limited (51%), Neil Harvey & Associates (Proprietary) Limited (74,9%), Stanbic Investment Management Services (Proprietary) Limited (Botswana) (74%), Stanlib Namibia (Proprietary) Limited (75%), Stanlib Namibia Unit Trust Management Company Limited (75%), The Heritage Insurance Company (K) Limited (56,8%), The Heritage Insurance Company (T) Limited (34,1%), Total Health Trust (51,2%), Unique Payment Services (Proprietary) Limited (74,9%), United Funeral Insurance Limited (75%), VMed Administrators (Proprietary) Limited (74,9%), VMedical Solutions (Proprietary) Limited (74,9%).

Structured entity

LTI Notes Series 1 Limited

Controlled mutual funds

Various mutual funds that the group invests specifically for the purpose of backing policyholder liability obligations are defined as subsidiaries as the economic ownership is greater than 50%. Refer to Appendix E of this report for details of these mutual funds.

Joint ventures

Details of joint ventures of the group are contained in note 8.

Associates

Details of associates of the group are contained in note 9.

Key management personnel

Key management personnel have been defined as follows:

Standard Bank Group Limited directors and executive committee members;

Liberty Holdings Limited directors and executive committee members.

Refer to the published annual financial statements of Standard Bank Group Limited for details pertaining to its key management members.

Details of the current directors of Liberty Holdings Limited are on pages 140 and 141.

Liberty Holdings Limited executive committee members as at 31 December 2012:

Steven Braudo
Lindiwe Dlamini
Thabo Dloti
Seelan Gobalsamy
Giles Heeger
Bruce Hemphill (chairman)
John Maxwell
Mukesh Mittal
Ivan Mzimela
Samuel Ogbu
Thiru Pillay
Casper Troskie
Frik van der Merwe

Liberty Holdings Limited executive committee members resignations during 2012:

Bernard Katompa	Resigned 31 July 2012

Notes to the group financial statements (continued)

for the year ended 31 December 2012

40. Related party disclosures (continued)

Key management personnel (continued)

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant full details of all relationships and terms of the transaction are provided.

Post-employment benefit plans

Refer to note 18.

A. Holding company – Standard Bank

A.1 Financial instrument investments

Liberty and its subsidiaries invest from time to time in securities issued by its holding company, Standard Bank for the benefit of policyholders:

	Nominal holding		Fair value	
Standard Bank group ordinary shares Summary of ordinary share holdings and movements	**2012 '000**	2011 '000	**2012 Rm**	2011 Rm
Holdings at the beginning of the year	**12 156**	17 364	**1 201**	1 868
Liberty Group Limited	**9 127**	14 858	**902**	1 598
Capital Alliance Life Limited	**880**	1 179	**87**	127
Liberty Growth Limited	**59**	65	**5**	7
Liberty Active Limited	**723**	1 241	**72**	134
Mutual funds	**1 367**	21	**135**	2
Purchases	**7 151**	2 500	**799**	252
Liberty Group Limited	**4 553**	763	**515**	75
Capital Alliance Life Limited	**1 215**	159	**132**	15
Liberty Active Limited	**293**	56	**32**	5
Mutual funds	**1 090**	1 522	**120**	157
Sales	**(11 558)**	(7 708)	**(1 245)**	(768)
Liberty Group Limited	**(8 129)**	(6 494)	**(878)**	(656)
Capital Alliance Life Limited	**(2 096)**	(458)	**(221)**	(36)
Liberty Growth Limited	**(59)**	(6)	**(5)**	(1)
Liberty Active Limited	**(685)**	(574)	**(73)**	(58)
Mutual funds	**(589)**	(176)	**(68)**	(17)
Fair value adjustments			**167**	(151)
Liberty Group Limited			**121**	(115)
Capital Alliance Life Limited			**2**	(19)
Liberty Growth Limited				(1)
Liberty Active Limited			**9**	(9)
Mutual funds			**35**	(7)
Holdings at the end of the year	**7 749**	12 156	**922**	1 201
Liberty Group Limited	**5 551**	9 127	**660**	902
Capital Alliance Life Limited		880		87
Liberty Growth Limited		59		5
Liberty Active Limited	**331**	723	**40**	72
Mutual funds	**1 867**	1 367	**222**	135
Percentage of total issued ordinary shares	**0,49%**	0,77%		

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.1 Financial instrument investments (continued)

	Nominal holding		Fair value	
Standard Bank preference shares				
Summary of preference share holdings and movements	**2012 '000**	2011 '000	**2012 Rm**	2011 Rm
Holdings at the beginning of the year	**2 799**	2 814	**283**	281
Liberty Group Limited	**1 601**	1 616	**163**	162
Capital Alliance Life Limited	**1 054**	1 054	**106**	105
Liberty Active Limited	**45**	45	**4**	4
Liberty Growth Limited	**99**	99	**10**	10
Purchases	**1 752**	45	**176**	4
Liberty Group Limited	**1 227**		**124**	
Liberty Active Limited	**525**	45	**52**	4
Sales	**(1 036)**	(60)	**(101)**	(5)
Liberty Group Limited	**(1 036)**	(15)	**(101)**	(1)
Liberty Active Limited		(45)		(4)
Fair value adjustments			**(6)**	3
Liberty Group Limited			**(5)**	2
Capital Alliance Life Limited			**(1)**	1
Holdings at the end of the year	**3 515**	2 799	**352**	283
Liberty Group Limited	**1 792**	1 601	**181**	163
Capital Alliance Life Limited	**1 054**	1 054	**105**	106
Liberty Active Limited	**570**	45	**56**	4
Liberty Growth Limited	**99**	99	**10**	10

Notes to the group financial statements (continued)

for the year ended 31 December 2012

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.1 Financial instrument investments (continued)

Standard Bank term deposits Summary of term deposits holdings and movements:	Fair value 2012 Rm	 2011 Rm
Holdings at the beginning of the year	**8 288**	6 142
Liberty Group Limited	**6 123**	4 428
Capital Alliance Life Limited	**441**	554
Liberty Growth Limited	**250**	329
Liberty Active Limited	**1 410**	777
Mutual funds	**59**	50
Other	**5**	4
Additions through new subsidiaries	**1 320**	
Mutual funds	**1 320**	
Purchases	**4 722**	5 054
Liberty Group Limited	**3 272**	3 727
Capital Alliance Life Limited	**137**	178
Liberty Growth Limited		24
Liberty Active Limited	**1 313**	1 097
Mutual Funds		27
Other		1
Sales	**(6 055)**	(3 253)
Liberty Group Limited	**(4 010)**	(2 298)
Capital Alliance Life Limited	**(470)**	(294)
Liberty Growth Limited	**(13)**	(124)
Liberty Active Limited	**(1 546)**	(520)
Mutual funds	**(15)**	(16)
Other	**(1)**	(1)
Fair value adjustments	**346**	345
Liberty Group Limited	**249**	264
Capital Alliance Life Limited	**14**	3
Liberty Growth Limited	**5**	20
Liberty Active Limited	**(4)**	58
Mutual funds	**82**	(1)
Other		1
Holdings at the end of the year[1]	**8 621**	8 288
Liberty Group Limited	**5 634**	6 123
Capital Alliance Life Limited	**122**	441
Liberty Growth Limited	**242**	250
Liberty Active Limited	**1 173**	1 410
Mutual funds	**1 446**	59
Other	**4**	5
[1] *Analysis of term deposits:*		
Listed:		
Fixed rate notes	***2 560***	*1 957*
Fixed rate credit-linked notes	***1 014***	*1 354*
Inflation-linked notes	***131***	*112*
Unlisted:		
Fixed rate notes	***261***	*40*
Fixed rate zero-coupon bonds	***1 290***	*1 245*
Fixed rate credit-linked notes	***1 605***	*906*
Floating rate notes	***352***	*270*
Inflation-linked notes	***446***	*755*
Negotiable certificates of deposit	***962***	*1 649*
	8 621	*8 288*

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.1 Financial instrument investments (continued)

Standard Bank credit enhanced structured entities Summary of holdings and movements:	Fair value 2012 Rm	 2011 Rm
Holdings at the beginning of the year	**1 502**	2 618
Liberty Group Limited	**955**	1 464
Capital Alliance Life Limited	**24**	83
Liberty Active Limited	**517**	1 063
Liberty Growth Limited	**6**	8
Purchases	**607**	1 157
Liberty Group Limited	**160**	575
Capital Alliance Life Limited	**200**	73
Liberty Active Limited	**247**	500
Liberty Growth Limited		9
Sales	**(445)**	(2 401)
Liberty Group Limited	**(193)**	(1 147)
Capital Alliance Life Limited	**(25)**	(132)
Liberty Active Limited	**(221)**	(1 111)
Liberty Growth Limited	**(6)**	(11)
Fair value adjustments	**76**	128
Liberty Group Limited	**62**	64
Capital Alliance Life Limited	**11**	1
Liberty Active Limited	**3**	63
Holdings at the end of the year	**1 740**	1 502
Liberty Group Limited	**984**	955
Capital Alliance Life Limited	**210**	24
Liberty Active Limited	**546**	517
Liberty Growth Limited		6

A.2 Information technology outsourcing arrangement

Liberty partially outsources its information technology services to Standard Bank in terms of various agreements until 30 April 2021. Fees charged for 2012 amounted to R19 million (2011: R28 million).

A.3 Software development

Standard Bank has contracted Liberty to develop a commission and specific customer information system. Fees associated with this development have been charged over five years with the completion date in 2011. An annual renewable contract is now in place for an annual maintenance fee of R2,5 million, which is included in the fees received. 2012 fees received are R6,4 million (2011: R4,8 million).

A.4 Banking arrangements

Liberty and its subsidiaries make use of banking facilities provided by Standard Bank.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.4 Banking arrangements (continued)

Summary of cash balances, interest earned and fees charged:

	Cash balances		Interest earned		Fees charged	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Holdings at the beginning of the year	**2 312**	1 255				
Liberty	**18**	68				
Liberty subsidiaries	**2 294**	1 187				
Net movements during the year	**791**	1 057				
Liberty	**19**	(50)				
Liberty subsidiaries	**772**	1 107				
Holdings at the end of the year	**3 103**	2 312				
Liberty	**37**	18	**37**	10		
Liberty subsidiaries	**3 066**	2 294	**48**	42	**37**	33
Total			**85**	52	**37**	33

A.5 Operating lease

Lease expense

Liberty leases a Pretoria property from Standard Bank in terms of a lease entered on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease payments for 2012: R112 million (2011: R100 million).

Lease income

Standard Bank leases several properties from Liberty, including 50% of its head office at 5 Simmonds Street, Johannesburg, and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease receipts for 2012: R74 million (2011: R68 million).

A.6 Bancassurance

Liberty has entered into 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. New business insurance premium income in respect of this business in 2012 amounted to R5 984 million (2011: R5 404 million). 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. The total combined net profit share amounts calculated as payable to the Standard Bank group for 2012 is R775 million (2011: R608 million).

During 2010 Liberty and Standard Bank conducted a detailed review of the existing bancassurance agreement and agreed with effect from 1 January 2011 to expand the scope thereof to include asset management, investment and health products in addition to the insurance products. The agreements are evergreen agreements with a 24-month notice period for termination, but neither party may give notice of termination until February 2014.

Refer to page 38 for more details.

A.7 Insurance

Certain insured risks for Liberty are included in the Standard Bank insurance programme. These include cover for crime, fraud and professional indemnity, directors' and officers' and asset all risks insurance. The proportionate share of premiums charged to Liberty by Standard Bank for 2012 is R14,3 million (2011: R15,5 million).

A.8 Asset management fees – The Standard Bank Group Retirement Fund

Asset management fees of R11 million (2011: R11 million) were paid to STANLIB Asset Management Limited by The Standard Bank Group Retirement Fund.

A.9 Dividend purchase agreement

In May 2007, Liberty entered into a dividend purchase agreement with Standard Bank.

In terms of this agreement, the rights to dividend income from certain share investments was sold to Standard Bank. Proceeds on the sale of rights to dividends was Rnil million (2011: R58 million).

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.10 Derivatives

Certain derivative transactions were entered into between Liberty Group Limited and the Corporate & Investment Banking Division of Standard Bank.

All transactions were entered into in order to hedge the market risk inherent in the group's assets and liabilities.

The transactions were entered into on an arm's length basis and only after obtaining competitive pricing quotations from other financial institutions who conduct business in these markets.

Transaction summary:

	Underlying principal/notional amount traded		Fair value at 31 December		Amounts included in profit or loss		Underlying principal/notional position		Open maturity dates
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm	
Interest rate									
Swaps	**5 430**	9 033	**537**	251	**468**	151	**38 095**	35 191	<1 – 30 years
Swaptions			**65**	59	**7**	(9)	**4 580**	4 580	6 – 16 years
Forwards	**131 688**	59 055	**17**	(27)	**(35)**	(141)	**13 769**	9 785	<1 year
Equity options	**1 930**	2 307		4	**5**	(33)		315	n/a
			619	287	**445**	(32)			

There are collateral deposits of R483 million with Standard Bank supporting derivative liabilities to the bank (2011: R240 million). In addition, collateral deposits of R317 million as at 31 December 2012 (2011: R394 million) are deposited in Standard Bank bank accounts as collateral supporting South African Futures Exchange traded derivatives.

A.11 Health risk product

During 2009 Liberty developed a health risk product aimed at individuals employed in Africa, excluding South Africa. Various Standard Bank subsidiaries contracted to use this product as a benefit for their employees. 2012 premium income was R110 million (2011: R80 million).

A.12 Stanbic Investment Management Services (EA) Limited

With effect from 1 December 2011, Liberty purchased from Standard Bank the remaining 50% shareholding that it did not already own for an amount of R23 million.

A.13 Stanlib Lesotho (Proprietary) Limited

With effect from 1 November 2011, Liberty purchased from Standard Bank the remaining 50% shareholding that it did not already own for an amount of R4 million.

A.14 Acquisition of CfC Insurance Holdings Limited, now called Liberty Kenya Holdings Limited (the CfC group)

Full details of acquisition of the CfC group from Standard Bank are contained in note 35.1.2. The effective date of the CfC transaction was 1 April 2011. Liberty acquired a 56,8% controlling shareholding in CfC prior to the commencement of trading of CfC on the Nairobi Stock Exchange, which took place on 21 April 2011. CfC Insurance Holdings Limited changed its name to Liberty Kenya Holdings Limited during 2012.

A.15 Utilisation of the Standard Bank Group Leadership Centre

Liberty utilises for certain employees the various leadership courses offered by the Standard Bank Group Leadership Centre. Fees paid amounted to Rnil million (2011: R17 million).

A.16 Commission paid to Standard Bank

Liberty pays commission to Standard Bank for policies sold through the bank's various distribution channels. The commission paid for the year to 31 December 2012 is R802 million (December 2011: R696 million).

Notes to the group financial statements (continued)

for the year ended 31 December 2012

40. Related party disclosures (continued)

A. Holding company – Standard Bank (continued)

A.17 Liberty Kenya Holdings Limited (CfC)

CfC has various related party transactions with CfC Stanbic Holdings Limited (CfCSH) group, a subsidiary of Standard Bank. These are summarised as follows:

A.17.1 Short-term insurance

CfC insures various risks of CfCSH, premium received and claims paid are R16 million (9 months to 31 December 2011: R15 million) and R8 million (9 months to 31 December 2011: R7 million) respectively, for the nine months to 31 December 2011. Commission of R2 million was paid to CfCSH in 2011.

A.17.2 Interest in CfCSH ordinary shares

CfC invest in ordinary shares of CfCSH. As at 31 December 2011 CfC held 135 thousand (2011: 268 thousand) shares at a fair value of R1 million (2011: R1 million).

A.18 Advisory fees in respect of bond issue

During 2012, Liberty issued two R1 billion bonds (refer note 16). R10 million was paid to Standard Bank as advisory fees in respect of the bond issue.

B. Transactions with directors and related entities

Refer to note 42 for related party relationships in respect of the 2004 BEE transaction.

B.1 Transactions with Shanduka Group (Proprietary) Limited (Shanduka)

Shanduka is a related entity of Cyril Ramaphosa, a current director of Standard Bank.

Cyril Ramaphosa, who is defined as part of key management, effectively controls 29,63% (2011: 29,63%) of Shanduka. Standard Bank has a 13% (2011: 13%) interest in Shanduka.

B.1 (a) Preference shares – Shanduka

In June 2010 Liberty Group Limited purchased R47 million of cumulative redeemable preference shares in Shanduka. In April 2011 Liberty Group Limited purchased a further R28 million cumulative redeemable preference shares in Shanduka. The preference shares are redeemable on 28 June 2015 or earlier at the option of Shanduka. These shares were redeemed partly in August 2011 for R16 million and the remainder in September 2011 for R59 million.

B.1 (b) Preference shares – Shanduka Newsprint (Proprietary) Limited (Shanduka Newsprint)

Shanduka Newsprint is a subsidiary of Shanduka. In December 2006 Liberty Group Limited purchased R46 million variable rate cumulative redeemable preference shares in Shanduka Newsprint. In June 2010 a further R28 million preference shares were purchased. The preference shares are redeemable on 1 June 2016, or earlier at the option of Shanduka Newsprint. In April 2011 R28 million of these shares were redeemed. Up to 31 December 2012, no dividend has been received and the fair value of these preference shares is R55 million (2011: R55 million).

B.2 Transaction with Safika Holdings (Proprietary) Limited (Safika)

Safika is a related entity of Saki Macozoma, the current chairman of the board and a director of Liberty and Standard Bank.

Saki Macozoma, who is defined as part of key management, effectively controls 26,63% (2011: 26,63%) of Safika. Liberty has an effective interest of 5,75% (2011: 5,75%) and Standard Bank has a 17,25% (2011: 17,25%) interest in Safika. The fair value of Liberty's interest is R103 million (2011: R89 million). No dividends have been received during the year (2011: Rnil). Safika controls 7 026 647 (2011: 7 026 647) ordinary shares in Liberty which is effectively 2,5% (2011: 2,5%) of the total invested ordinary share capital.

40. Related party disclosures (continued)

B. Transactions with directors and related entities (continued)

B.3 Construction contracts

Certain of the group's investment properties, namely the Liberty Promenade, Sandton City and Eastgate complexes, are undergoing refurbishments and extensions. Grinaker-LTA Limited, a subsidiary of Aveng Limited, were awarded construction contracts in 2008 to the value of R1 357 million which increased to R1 800 million in 2011 of which R1 766 million (2011: R1 523 million) has been spent up to 31 December 2012. Angus Band who, through his directorship of Liberty, is defined as a key manager, is currently the chairman of Aveng Limited.

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

(i) Liberty Holdings Limited directors', Liberty Group Limited directors' and group executive committee members' aggregate compensation paid by the group or on behalf of the group for services rendered to Liberty Holdings Limited and Liberty Group Limited:

	2012 R'000	Restated[4] 2011 R'000
Fixed	**40 581**	36 240
Cash portion of package	**36 424**	32 336
Other benefits	**1 306**	1 215
Retirement contributions	**2 851**	2 689
Variable[1]	**85 405**	70 720
Cash bonus	**60 394**	52 178
Deferred bonus	**25 011**	18 542
Retention	**34 500**	44 790
Value of restricted shares/rights granted[2]	**34 500**	35 530
Value of share unit right plan[3]		9 260
Non-executive directors' fees	**7 316**	6 616
Total	**167 802**	158 366

[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] *The award value of restricted shares is the number of restricted shares granted times by the share price at award date. Rights granted are valued using option pricing methodology. Both are subject to performance conditions and service duration. The value granted refers to the awards approved by the Remuneration Committee in February 2013 and 2012 in order to align to the performance periods of 2012 and 2011, respectively.*

[3] *This is a cash-settled scheme, linked to Liberty's price and subject to service duration.*

[4] *Comparative figures have been restated in order to align key management disclosure to executive directors and prescribed officers' remuneration disclosure. Incentives are now presented at the determined value at the date of the award and disclosed as remuneration for the year for which the award pertains to.*

(ii) Aggregate details of insurance, annuity and investment transactions between Liberty Holdings Limited, any subsidiary, associate or joint venture of Liberty Holdings Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

	Aggregate insured cover		Premiums received		Surrender value	
Insurance products	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Life	**42 645**	40 497	**493**	529	**1 744**	1 439
Morbidity	**37 407**	34 739	(included in life premiums)			

	Fund value	
Investment products	**2012 R'000**	2011 R'000
Balance at the beginning of the year	**36 507**	19 818
Appointments and resignations	**(1 444)**	7 445
Premiums received	**2 641**	8 176
Investment return credited net of charges	**4 423**	611
Commission and other transaction fees	**(53)**	(162)
Reclassification of policies		660
Claims and withdrawals		(41)
Balance at the end of the year	**42 074**	36 507

Notes to the group financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
41. Commitments		
41.1 Operating lease commitments		
Equipment	55	112
Within 1 year	25	59
1 to 5 years	30	53
Properties	340	419
Within 1 year	123	169
1 to 5 years	217	250
41.2 Capital commitments		
Business acquisitions		57
Under agreement with material conditions outstanding		15
Authorised by the directors but not contracted		42
Equipment, fixtures, furniture and motor vehicles	551	300
Under contracts	66	17
Authorised by the directors but not contracted	485	283
Investment properties	1 920	1 451
Under contracts	770	627
Authorised by the directors but not contracted	1 150	824
Owner-occupied properties	17	35
Under contracts	2	2
Authorised by the directors but not contracted	15	33
Total commitments	2 883	2 374

The group's share of commitments of joint ventures amounting to R4 million (2011: R12 million) to be financed by the existing facilities in the joint venture operations, is disclosed in note 8. The above 2012 capital commitments will be financed by available bank facilities, existing cash resources, internally generated funds and R198 million (2011: R122 million) from non-controlling interests in unincorporated property partnerships.

42. Black Economic Empowerment (BEE) transaction

Liberty's 100% held subsidiary, Liberty Group Limited entered into a series of transactions during 2004 whereby an investment in aggregate of R1 251 million was made in cumulative redeemable preference shares. The proceeds of this were used by the BEE entities to purchase Liberty Group Limited shares. On 12 June 2006 Liberty Group Limited paid a capital reduction of R3,60 per ordinary share. The total amount of R92 million received by the respective BEE entities was utilised at the request of the various directors and trustees to redeem a portion of the cumulative preference shares. On 1 December 2008, in terms of a section 311 transaction to remove Liberty Holdings' control structure, each BEE entity accepted an exchange of Liberty Holdings Limited ordinary shares for Liberty Group Limited shares on a one for one basis. Subsequently, at the request of the various directors and trustees, a total of R147 million has been allowed as a redemption of a further portion of the cumulative preference shares.

Position at 31 December 2012: BEE entity	Beneficiary	Original amount invested (2004) Rm	Redemption (2006) Rm	Subsequent redemptions Rm	Remaining amounts invested Rm	Number of Liberty Holdings Limited shares[3]
Lexshell 620 (Proprietary) Limited	Safika Holdings (Proprietary) Limited	300	(22)	(33)	245	6 191 075
Lexshell 621 (Proprietary) Limited	Shanduka Group (Proprietary) Limited	200	(15)	(24)	161	4 127 383
Lexshell 622 (Proprietary) Limited	The Black Managers' Trust[1]	501	(37)	(60)	404	10 318 458
Lexshell 623 (Proprietary) Limited	The Community Trust[2]	250	(18)	(30)	202	5 159 229
		1 251	(92)	(147)	1 012	25 796 145

(1) *Registered as the Katleho Managers' Trust.*
(2) *Registered as the Katleho Community Trust.*
(3) *Trading restricted until full redemption of the cumulative preference shares.*

The cumulative redeemable preference shares attract dividends at 67% (with effect from 1 March 2008) of Standard Bank's prime lending rate. The preference dividends are payable on each date the company (which has issued the preference shares) receives an ordinary dividend from Liberty Holdings Limited.

The preference shares do not meet the definition of a financial asset in terms of International Financial Reporting Standards and therefore the investment value of the preference shares has reduced group equity and is stated in the analysis of group equity as a negative empowerment reserve. Receipt of preference share redemptions and dividends will be credited directly to reserves.

For the purposes of earnings per share calculations, the weighted average number of ordinary shares in issue is reduced by the number of Liberty shares held by the empowerment subsidiaries directly funded by the proceeds received from the preference shares. In accordance with interpretations of International Financial Reporting Standards, the reduction of the weighted average number of shares will remain at the initial amount until all the preference shares are redeemed or to the extent any preference shares are sold to an external party without recourse.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

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

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

Equipment

Depreciation charges: The useful lives and residual values per class of equipment are estimated and annually reviewed to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the group and the calculated depreciation charge to be applied in each reporting period. The range of useful lives and the amortisation methodology are contained in section 4 of the accounting policies and details of depreciation charged in note 3 to the financial statements.

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

Determination of fair value: Investment and owner-occupied properties are measured at fair value using various inputs relating to existing tenant terms, location and vacancy levels. Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer 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.

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 19 for details of amounts recognised in profit or loss.

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

Fair value measurement: The 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 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. Full disclosure of unquoted financial instruments, valuation hierarchy and sensitivities are contained in the risk management section of this report.

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.

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

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.

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 management section of this report, in section 16 and 17 of the accounting policies and in note 13 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 2012 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.

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 18 on the group financial statements.

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

Expense and liability determination: In calculating the amount to be expensed representing the value of share-based payments granted to employees and the movement in the liability of long-term cash incentive schemes, various assumptions relating to expected take up of rights and incentives, equity share price, dividend yields and related volatility are applied. Details of these are contained in notes 18 and 32 to the 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 21 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.

44. Risk management disclosures

Risk management disclosures, as required by IFRS, have been included in the Risk management section in this report on pages 163 to 230.

Notes to the group financial statements (continued)

for the year ended 31 December 2012

45. Change in accounting policy

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

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

The financial statement impact of this change is:

	31 December 2012			31 December 2011		
Financial statement line item	**Prior to adoption of shadow accounting Rm**	**Impact of change in accounting policy Rm**	**Including the adoption of shadow accounting Rm**	As previously reported Rm	Impact of change in accounting policy Rm	Restated Rm
Change in long-term policyholder liabilities - insurance contracts	(19 088)	(131)	(19 219)	(6 336)	74	(6 262)
Profit before taxation	7 046	(131)	6 915	4 263	74	4 337
Total earnings	4 329	(131)	4 198	2 880	74	2 954
Other comprehensive income	(121)	131	10	158	(74)	84
Other comprehensive income items	(121)		(121)	158		158
Change in long-term policyholder insurance liabilities (application of shadow accounting)		131	131		(74)	(74)
Total comprehensive income	4 208		4 208	3 038		3 038
	Cents	**Cents**	**Cents**	Cents	Cents	Cents
Earnings per share attributable to ordinary shareholders						
Basic	1 515,4	(50,8)	1 464,6	997,6	28,5	1 026,1
Headline	1 487,9	(50,8)	1 437,1	997,6	28,5	1 026,1
BEE normalised headline	1 374,5	(46,2)	1 328,3	930,8	25,9	956,7
Fully diluted earnings per share attributable to ordinary shareholders						
Basic	1 418,4	(47,6)	1 370,8	954,3	27,3	981,6
Headline	1 392,6	(47,6)	1 345,0	954,3	27,3	981,6

There is no impact to the financial position or shareholders' funds of the group.
In addition to the statement of comprehensive income, the following notes have been restated in compliance with IAS 1 *Presentation of Financial Statements.*

- Note 2 to the group financial statements: Segment information for the year ended 31 December 2011, Analysis of long-term insurance earnings per product classification and Segment information from geographical areas (Total earnings attributable to Liberty shareholders.).
- Note 13 to the group financial statements: Long-term policyholder liabilities and reinsurance assets-movement analysis only.
- Note 37 to the group financial statements: Reconciliation of total earnings to cash utilised by operations.
- Appendix F: Long-term policyholder liabilities and short-term insurance liabilities reconciliation.

Liberty Holdings Limited Company financial statements

for the year ended 31 December 2012

Contents

Company statement of financial position

as at 31 December 2012

	Notes	2012 Rm	2011 Rm
Assets			
Equipment	1	4	1
Interests in subsidiaries	2	10 647	9 874
Interests in joint ventures	3		211
Financial investments	4	976	586
Prepayments, insurance and other receivables	5	71	35
Cash and cash equivalents	6	37	18
Total assets		11 735	10 725
Liabilities			
Employee benefits	7	122	78
Deferred taxation	8	7	10
Insurance and other payables	9	79	104
Current taxation		39	24
Total liabilities		247	216
Equity			
Ordinary shareholders' interests			
Share capital[(1)]		26	26
Share premium[(1)]		6 162	6 162
Retained surplus		5 155	4 205
Share-based payment reserve	15	145	116
Total equity		11 488	10 509
Total equity and liabilities		11 735	10 725

(1) *For notes on share capital and share premium refer to group financial statements note 24.*

Company statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 Rm	2011 Rm
Revenue			
Investment income	10	**2 868**	1 948
Investment losses	11	**(514)**	(9)
Fee revenue	12	**137**	123
Profit on disposal of subsidiaries	13		17
Profit on disposal of joint ventures	14	**127**	
Total revenue		**2 618**	2 079
General marketing and administration expenses	16	**(273)**	(214)
Profit before taxation		**2 345**	1 865
Taxation	17	**(18)**	9
Total earnings and comprehensive income		**2 327**	1 874

Statement of changes in company shareholders' funds

for the year ended 31 December 2012

	Share capital and share premium[1] Rm	Share-based payment reserve Rm	Retained surplus Rm	Total Rm
Shareholders' funds at 1 January 2011	6 701	95	3 131	9 927
Total comprehensive income			1 874	1 874
Issue of shares	8			8
2010 final dividend (291 cents per share)			(832)	(832)
Capital reduction (182 cents per share)	(521)			(521)
Preference dividend			(2)	(2)
Share-based payments		55		55
Transfer of vested equity options reserve		(34)	34	
Shareholders' funds at 31 December 2011	6 188	116	4 205	10 509
Total comprehensive income			2 327	2 327
Ordinary dividends (total 490 cents per share)		(2)	(1 401)	(1 403)
Preference dividend			(2)	(2)
Funding of restricted share plan			(21)	(21)
Share-based payments		78		78
Transfer of vested equity options reserve		(47)	47	
Shareholders' funds at 31 December 2012	6 188	145	5 155	11 488

(1) *Refer note 24 in the consolidated group financial statements.*

Company statement of cash flows

for the year ended 31 December 2012

	Notes	2012 Rm	2011 Rm
Cash flows from operating activities		**1 384**	769
Cash (utilised for)/generated from operations	18	**(73)**	176
Interest received		**46**	44
Dividends received		**2 822**	1 904
Distributions in lieu of dividends/dividends paid	19	**(1 405)**	(1 355)
Taxation paid	20	**(6)**	
Cash flows from investing activities		**(1 344)**	(827)
Purchase of financial investments	4.2	**(2 540)**	(2 257)
Disposal of financial investments	4.2	**2 159**	1 774
Purchase of equipment	1	**(3)**	(1)
Acquisition of subsidiaries			(240)
Disposal of subsidiaries	2.2		42
Net capital injection in subsidiaries		**(474)**	
Net movement in loans with joint venture companies		**3**	(164)
Proceeds on disposal of joint ventures		**335**	
Net movement on subsidiary loan	2.2	**(824)**	19
Cash flows from financing activities		**(21)**	8
Proceeds from issue of share capital			8
Funding of restricted share plan		**(21)**	
Net decrease in cash and cash equivalents		**19**	(50)
Cash and cash equivalents at the beginning of the year		**18**	68
Cash and cash equivalents at the end of the year	6	**37**	18

Notes to the company financial statements

for the year ended 31 December 2012

Risk management disclosures

Refer to the group's risk management section on pages 163 to 230.

	2012 Rm	2011 Rm
1. Equipment		
Cost at the beginning of the year	1	
Additions	3	1
Cost at the end of the year	4	1
Net carrying value at the end of the year	4	1

	Balance at the beginning of the year	Additions Rm	Balance at the end of the year Rm
2012			
Cost – movement			
Fixtures, furniture and fittings	1	3	4
2011			
Cost – movement			
Fixtures, furniture and fittings		1	1

	2012 Rm	2011 Rm
2. Interests in subsidiaries		
2.1 Summary		
Shares held at cost	10 887	10 413
Intergroup balances	276	(510)
Impairment provision	(516)	(29)
Total interests in subsidiaries	10 647	9 874
2.2 Movement analysis		
Shares at cost		
Shares at cost at the beginning of the year	10 413	10 198
Acquisitions during the year		240
Disposals during the year		(25)
Net capital injections	474	
Shares at cost at the end of the year	10 887	10 413
Intergroup balances		
Intergroup balances at the beginning of the year	(510)	(491)
Advances	1 618	731
Receipts	(794)	(750)
Loan waiver	(38)	
Intergroup balances at the end of the year	276	(510)
Impairment provision		
Impairment provision at the beginning of the year	(29)	(21)
Impairment charge through profit or loss	(487)	(8)
Impairment provision at the end of the year	(516)	(29)

2. Interests in subsidiaries (continued)

	Amount of issued share capital	Percentage of issued share capital units held 2012 %	2011 %	Shares at cost 2012 Rm	2011 Rm	Intergroup balances 2012 Rm	2011 Rm	Impairment provision 2012 Rm	2011 Rm
2.3 Subsidiaries unlisted – directly owned				10 887	10 413	276	(510)	(516)	(29)
Insurance									
Liberty Group Limited	R28 895 619	100	100	8 407	8 407	(156)	(554)		
Asset management									
STANLIB Limited	R423 110 000	100	100	1 308	1 308	(15)	20		
Stanlib Lesotho (Proprietary) Limited	M1 950 000	74,9	74,9	6	6	1			
Stanbic Investment Management Services (EA) Limited	Shs61 440 000	100	100	28	28	3			
Liberty Holdings Swaziland (Proprietary) Limited	E100	100	100	3	3				
Investment holding									
Capital Alliance Holdings Limited	R31 395	100	100	17	48		(103)		
Lexshell 615 (Proprietary) Limited	R100	100	100			303	39		(18)
Libgroup Jersey Holdings Limited (Incorporated in Jersey)	£2	100	100	37	37	(2)			
Stonehouse Capital (Proprietary) Limited	R100	100	100			56	51		
Liberty Holdings Namibia (Proprietary) Limited	N$159 101 100	75	75	119	119	41	41		
Liberty Holdings Kenya Limited	Shs2 216 508 877	56,8	56,8	199	199	3			
Liberty Holdings Botswana (Proprietary) Limited	P12 612 527	74	74	10	10				
Health services									
Liberty Health Holdings (Proprietary) Limited	R605 070 410	74,9	74,9	516	11	37	(9)	(516)	(11)
Other									
Liberty Group Properties (Proprietary) Limited *(Property Asset Management)*	R100	100	100	236	236	5	5		
Liberty Properties (Zambia) Limited *(Property Asset Management)*	US$1 030	100	100						
Liberty Properties (Swaziland) (Proprietary) Limited *(Property Asset Management)*	E1 000	100	100						
Liberty Nominees (Proprietary) Limited *(Shareholder transactions)*	R1	100	100						
Dormant									
Liberty Holdco Nigeria Limited	N10 000 000	100	100	1	1				
Liberty Group Shelf Company No. 1 (Proprietary) Limited	R100	100	100						

Liberty Holdings Limited, indirectly through Liberty Group Limited, has interests in a number of other subsidiaries. Further details can be obtained from the group financial statements in note 40. A register containing full information on all the group subsidiaries is available for inspection at the registered office of the company.

The interest of the company for the year in the taxed profits of its subsidiaries was R3 781 million (2011: R2 676 million) and the losses were R74 million (2011: R37 million).

Notes to the company financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
3. Interests in joint ventures		
3.1 Summary		
50% of Fountainhead and Evening Star ordinary shares[1]		47
Held-to-maturity financial instrument[2]		164
Total interests in joint ventures		211
3.2 Movement analysis		
Ordinary shares at cost		
Balance at the beginning of the year	47	47
Disposal of Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited[1]	(47)	
Balance at the end of the year	–	47
Loans and receivables[2]		
Balance at the beginning of the year	164	
Acquisition of loan from Liberty Group Limited		156
Interest received	9	8
Repayments	(12)	
Disposal of Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited[1]	(161)	
Balance at the end of the year	–	164
Statement of financial position extracts[3]		
Non-current assets		141
Current assets		20
Long-term liabilities – interest bearing		(164)
Current liabilities		(3)
Statement of comprehensive income extracts[3]		
Income	16	21
Expenses	(13)	(22)

(1) *With effect from 1 August 2012, the company disposed of its 50% interest in Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited for R335 million.*

(2) *With effect from 1 July 2011 loans of R156 million extended to Evening Star 768 (Proprietary) Limited were acquired from Liberty Group Limited. These loans were disposed of effective 1 August 2012.*

(3) *Represents the company's proportionate share in the joint venture.*

	2012 Rm	2011 Rm
4. Financial investments		
4.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market – unlisted		
Mutual funds – money market	756	386
Unquoted and unlisted		
Equities	165	145
Preference shares	55	55
Total financial investments	976	586
4.2 Movement analysis		
Balance at the beginning of the year	586	103
Additions	2 540	2 257
Disposals	(2 159)	(1 774)
Fair value adjustments – through profit or loss	9	
Balance at the end of the year	976	586

		2012 Rm	2011 Rm
5. Prepayments, insurance and other receivables			
Outstanding amount on sale of subsidiary shares to non-controlling interest[1]		10	10
Sundry receivables		61	25
Total prepayments, insurance and other receivables (all current)		71	35

[1] *Refer to note 35.2 of the group financial statements.*

		2012 Rm	2011 Rm
6. Cash and cash equivalents			
Cash at bank and on hand		36	17
Short-term cash deposits		1	1
Total cash and cash equivalents		37	18
7. Employee benefits			
Short-term employee benefits	7.1	47	44
Long-term employee benefits	7.2	75	34
Total employee benefits		122	78

7.1 Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
Balance at the beginning of the year	2		42		44	
Additional provision raised	4	4	39	42	43	46
Provision no longer required			(1)		(1)	
Utilised during the year	(4)	(2)	(35)		(39)	(2)
Balance at the end of the year	2	2	45	42	47	44

All outflows in economic benefits in respect of the 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)

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

Accruals for the short-term cash incentive schemes as at 31 December 2012 comprise R43 million (2011: R40 million) senior management group incentive scheme and R2 million (2011: R2 million) general staff incentive schemes.

7.2 Long-term employee benefits (cash-settled)

	Share unit rights plan		2010 Deferred bonus scheme		Total	
	2012 Rm	2011 Rm	2012 Rm	2011 Rm	2012 Rm	2011 Rm
Balance at the beginning of the year	30	8	4		34	8
Accrual for past service	24	20	5	4	29	24
Adjustments for referenced unit price movements	20	2	1		21	2
Provisions no longer required	(3)				(3)	
Cash settlements	(6)				(6)	
Balance at the end of the year	65	30	10	4	75	34
Total service cost	41	22	6	4	47	26
Recovered from the Standard Bank group[1]	2	1	1		3	1
Charged to subsidiary companies	33	19	5	3	38	22
Expensed through profit or loss	6	2		1	6	3

[1] *In line with Liberty's remuneration policy, employees who are transferred within the wider Standard Bank group are allowed a continuation of certain Liberty benefits. From date of transfer these costs are however recovered from the relevant employer entity within the Standard Bank group.*

Notes to the company financial statements (continued)

for the year ended 31 December 2012

7 Employee benefits (continued)

7.2 Long-term employee benefits (cash-settled) (continued)

Share unit rights plan (SUR)

In 2010, Liberty introduced a SUR plan where units are allocated to qualifying executives and senior management, the value of which is linked directly to Liberty Holdings Limited share price (LHP). Given the continued employment of the participant, the unit values are settled in cash up to three years after the grant date, with no consideration payable by the participant on vesting. The cash distribution will be calculated with reference to the closing share price on the date of vesting. The SUR qualifies as a cash-settled share-based payment transaction and a liability is recognised as employees render their service to the group.

	Units
Balance invested at 31 December 2011	992 398
Granted during the year	19 291
Vested during the year	(70 722)
Cancelled during the year	(62 933)
Balance invested at 31 December 2012	878 034
Average LHP reference price per unit	R77,41

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is 12 months (2011: 22 months).

2010 Deferred bonus scheme

The 2010 deferred bonus scheme related to certain short-term management incentives that were deferred from awards granted for the 2010 financial year. The scheme was applicable to senior management incentive scheme participants where percentages ranging from 20% in relation to the award amounts in excess of R1 million to 30% in excess of R6 million were deferred. Deferred amounts were converted into units, the value of which is linked to the Liberty Holdings Limited share price (LHP). The vesting date is three years from award date and the amount payable will be the equivalent of the unit value at that date plus a payment of 5% on the original deferred value. Participants have the right to extend their net vesting values for a further year, which will then qualify them for an additional payment of 25% of the original value.

	Units
Balance invested at 31 December 2011	149 648
Cancelled during the year	(12 086)
Balance invested at 31 December 2012	137 562
Average LHP reference price per unit	R74,70

7.3 Transactions between the company and group retirement funds

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

	2012 R'000	2011 R'000
Retirement		
Defined benefit funds[1]	600	547
Defined contribution funds	5 488	4 787

[1] *Funded from employer surplus account.*

	2012 Rm	2011 Rm
8. Deferred taxation		
Capital gains taxation		
Balance at the beginning of the year	10	43
(Release)/provided through profit or loss	(3)	10
Release of prior year over provision[1]		(43)
Balance at the end of the year (all non-current)	7	10

[1] *Capital distributions received prior to 1 October 2007 in respect of assets not disposed of are no longer regarded as a deemed disposal for capital gains tax purposes. As a result of this change in legislation, the previously held provision was released in 2011.*

	2012 Rm	2011 Rm
9. Insurance and other payables		
Sundry payables	79	104
Total insurance and other payables (all current)	79	104

	2012 Rm	2011 Rm
10. Investment income		
Financial assets designated at fair value through profit or loss		
Interest income	37	36
Subsidiaries and joint ventures		
Dividends[1]	2 822	1 904
Interest – Evening Star 768 (Proprietary) Limited	9	8
Total investment income	2 868	1 948
[1] Dividends received from subsidiaries:		
Liberty Group Limited	2 055	1 282
STANLIB Limited	448	474
Liberty Group Properties (Proprietary) Limited	54	95
Stanlib Lesotho (Proprietary) Limited	3	6
Capital Alliance Holdings Limited	207	27
Lexshell 615 Investments (Proprietary) Limited	20	
Stanbic Investment Management Services (EA) Limited		7
Liberty Holdings Namibia (Proprietary) Limited	31	11
Dividends received from joint ventures:		
Fountainhead Property Trust Management Limited	4	2
Total	2 822	1 904
11. Investment losses		
Subsidiary impairment charge	(487)	(8)
Loan waiver – Lexshell 615 (Proprietary) Limited	(38)	
Foreign exchange differences on subsidiary loan settlement	2	(1)
Financial instruments designated at fair value through profit and loss:		
Unquoted instruments	9	
Total investment losses	(514)	(9)
12. Fee revenue		
Administration fees for services to group companies	137	123
13. Profit on disposal of subsidiaries		
Stanbic Investment Management Services (Proprietary) Limited[1]		6
Liberty Holdings Botswana (Proprietary) Limited[2]		7
Stanlib Lesotho (Proprietary) Limited[3]		4
Total profit on disposal of subsidiaries		17

[1] *Disposal of 100% of Stanbic Investment Management Services (Proprietary) Limited to Liberty Holdings Botswana (Proprietary) Limited.*
[2] *Disposal of 26% Liberty Holdings Botswana (Proprietary) Limited (refer to note 35.2 in the group financial statements).*
[3] *Disposal of 25,1% of Stanlib Lesotho (Proprietary) Limited (refer to note 35.2 in the group financial statements).*

	2012 Rm	2011 Rm
14. Profit on disposal of joint ventures		
Evening Star 768 (Proprietary) Limited and Fountainhead Property Trust Management Limited[1]		
Proceeds	335	
Book value	(208)	
Total profit on disposal of joint ventures	127	

[1] *Refer to note 35.3 to the group financial statements for details. In the company accounts the investment book value is carried at cost, resulting in a different profit being recognised compared to the group profit, where the interest in joint venture includes the group's share of post-acquisition reserves.*

Notes to the company financial statements (continued)

for the year ended 31 December 2012

	2012 Rm	2011 Rm
15. Share-based payments – equity-settled		
Reconciliation of reserve		
Equity growth scheme (rights)		
Liberty Holdings Limited ordinary shares	110	116
Restricted scheme plans		
Liberty Holdings Limited ordinary shares	35	
Total share-based payments reserve	145	116
Movement for the year	29	21
Per profit or loss – equity-settled schemes	44	10
Allocated costs to subsidiaries	32	42
Transfer of vested rights to retained surplus	(47)	(34)
Dividend payments to participants	(2)	
Recovered from the Standard Bank group	2	3

Details of these schemes and the relevant IFRS 2 valuation assumptions are contained in note 33 to the group financial statements.

	2012 Rm	2011 Rm
16. General marketing and administration expenses		
Comprising:		
Employee costs	156	124
Office and sundry costs	117	90
Total general marketing and administration expenses	273	214
General marketing and administration expenses include the following:		
Audit fees – current year	4	5
Consulting fees	13	18
Non-recoverable value added tax	3	4
Staff costs	156	124
Salaries and wages	52	49
Staff and management retention and incentive schemes	38	44
Share-based payment expenses – equity-settled	44	10
– cash-settled	6	3
Other	16	18

17. Taxation

17.1 Sources of taxation

	2012 Rm	2011 Rm
South African normal taxation	(10)	23
Current year taxation		23
Current deferred taxation	(10)	
South African capital gains taxation	25	(33)
Current year taxation	18	10
Current year deferred taxation	4	
Attributable to tax rate change – deferred	3	
Release of prior year deferred taxation overprovision		(43)
Dividend withholding taxation	3	1
Total taxation	18	(9)

17.2 Taxation rate reconciliation

2012	CIT(1) Rm	CGT(2) Rm	Total Rm
Taxation per profit or loss	(7)	25	18
Profit before taxation per statement of comprehensive income	2 695	(350)	2 345
	%	%	
Effective rate of taxation	(0,3)	(7,1)	
Income exempt from normal taxation:			
Dividends received	29,3		
Non-tax deductible expenses	(1,0)		
Amounts excluded from CGT		20,4	
Base cost difference to historical cost		0,7	
Standard rate of South African taxation	28,0	14,0	

(1) *CIT represents corporate income taxation.*

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

Notes to the company financial statements (continued)

for the year ended 31 December 2012

17. Taxation (continued)

17.2 Taxation rate reconciliation (continued)

2011	CIT[1] Rm	STC[2] Rm	CGT[3] Rm	Total Rm
Taxation per profit or loss	24		(33)	(9)
Taxation due to legislation applications:				
Reversal of CGT on capital distribution[4]			43	43
CGT roll-over due to intergroup transactions[5]			(10)	(10)
Total taxation	24		–	24
Profit before taxation per statement of comprehensive income	1 858		7	1 865
Dividends paid		834		
Ordinary		832		
Preference		2		
Total	1 858	834	7	1 865
	%	%	%	
Effective rate of taxation	1,3	0,0	0,5	
Income exempt from normal taxation:				
Dividends received	28,8			
Exempt capital receipt			30,7	
Non-tax deductible expenses	(2,1)			
Amount excluded from CGT			(17,2)	
Relief obtained from secondary taxation		10,0		
Standard rate of South African taxation	28,0	10,0	14,0	

(1) CIT represents corporate income taxation.
(2) STC represents secondary tax on companies which is a South Africa tax on defined dividend distributions to shareholders.
(3) CGT represents capital gains taxation which is an effective tax on defined capital gains in South Africa.
(4) Capital distributions received prior to 1 October 2007 in respect of assets not disposed of are no longer regarded as a deemed disposal for CGT purposes.
(5) CGT adjustment as a result of an intra-group transaction entered into in terms of section 45 of the Income Tax Act.

18. Reconciliation of total earnings to cash generated from operations

	2012 Rm	2011 Rm
Total earnings	**2 327**	1 874
Adjustments for:		
Interest received	**(46)**	(44)
Dividends received	**(2 822)**	(1 904)
Taxation	**18**	(9)
Increase in impairment of subsidiaries	**487**	8
Profit on disposal of subsidiaries		(17)
Profit on disposal of joint ventures	**(127)**	
Investment gains	**(9)**	
Loan waiver	**38**	
Share-based payment expenses including allocated cost to subsidiaries	**78**	55
	(56)	(37)
Working capital changes:	**(17)**	213
(Increase)/decrease in prepayments, insurance and other receivables	**(36)**	57
Increase in employee benefits	**44**	70
(Decrease)/increase in insurance and other payables	**(25)**	86
Cash (utilised for)/generated from operations	**(73)**	176

	2012 Rm	2011 Rm
19. Distributions in lieu of dividends/dividends paid		
Dividends as per statement of changes in shareholders' funds	(1 405)	(834)
Capital reduction		(521)
Total distributions paid	(1 405)	(1 355)
20. Taxation paid		
Taxation payable at the beginning of the year	(24)	
Taxation attributable	(21)	(24)
Taxation payable at the end of the year	39	24
Total taxation paid	(6)	

21. Remuneration of directors

Refer pages 153 to 157 for details of directors' remuneration.

22. Related party disclosure

A list of related parties, as defined, is contained in the related party disclosures note 40 to the group financial statements. Related party transactions with the direct holding company and ultimate holding company, directors and related entities, and joint ventures are also disclosed therein.

The disclosures below are additional to the group note:

Loans, dividends and administration fees

Long-term and working capital loans are provided to various subsidiaries by Liberty Holdings Limited, details of outstanding amounts and relevant terms are provided in note 2 to the company financial statements.

Details of dividends received from subsidiaries are provided in note 10 to the company financial statements.

Fees earned for management and administration services:

	2012 Rm	2011 Rm
Liberty Group Limited	96	92
Liberty Group Properties (Proprietary) Limited	4	3
STANLIB Limited	14	14
Various foreign registered subsidiaries	21	14
Liberty Health Holdings (Proprietary) Limited	2	
Total	137	123

Financial investments

With effect from 1 July 2011 the company acquired a number of financial investments from Liberty Group Limited totalling R200 million.

Acquisition and disposal of subsidiaries to group companies

Effective 1 January 2011 Liberty Holdings Limited disposed of 50% interest in Stanbic Investment Management Services (Proprietary) Limited to Liberty Holdings Botswana (Proprietary) Limited. In addition, refer to note 35 to the group financial statements, for details of the acquisitions of subsidiaries from the Standard Bank group.

Joint ventures

Details of the joint venture loan acquired from Liberty Group Limited in 2011 is provided in note 3 to the company financial statements.

Notes to the company financial statements (continued)

for the year ended 31 December 2012

22. Related party disclosure (continued)

Share-based payments and share unit rights transactions

The value of certain Liberty Holdings Limited restricted share plan awards, share options/rights 2010 deferred bonus scheme and share unit rights granted to employees of the group's subsidiaries are charged to the applicable subsidiary. In the case of employees who have transferred to the Standard Bank group subsequent to the initial grant dates and who retained their awards, the charges are recovered from the Standard Bank group.

Summary of share option charges:

	2012 Rm	2011 Rm
Standard Bank group	5	3
Liberty Group Limited	59	52
Liberty Group Properties (Proprietary) Limited	3	4
STANLIB Limited	8	10
Total	75	69

Certain Liberty employees who have transferred to Liberty from the Standard Bank group have previously been granted awards in terms of the Standard Bank share schemes. During 2012, the Standard Bank group charged Liberty R2 million as a recovery of these share-based payment costs (2011: R3 million).

	2012 Rm	2011 Rm
23. Commitments		
Business acquisitions		53
Under agreement with material conditions outstanding		10
Authorised by the directors but not contracted		43
Equipment	4	3
Under contracts	2	
Authorised by directors but not contracted	2	3
Total commitments	4	56

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

24. Additional notes

Please refer to the following notes on the group financial statements:

Note 42 – Black Economic Empowerment (BEE) transaction.

Note 43 – Key judgements in applying assumptions on application of accounting policies.

Appendices

for the year ended 31 December 2012

Contents

Appendix A – Application of the King III code – overview

for the year ended 31 December 2012

Ethical leadership and corporate citizenship

✓ Effective leadership based on an ethical foundation
✓ Responsible corporate citizen
✓ Effective management of ethics

Boards and directors

✓ The board is the focal point for and custodian of corporate governance
✓ Strategy, risk, performance and sustainability are inseparable
✓ Directors act in the best interests of the company
✓ The Chairman of the board is an independent non-executive director or a lead independent director is appointed
✓ The board appoints the chief executive and has established a framework for the delegation of authority
✓ The board comprises a balance of power, with a majority of non-executive directors who are independent
✓ Directors are appointed through a formal process
✓ Formal induction and ongoing training of directors is conducted
✓ The board is assisted by a competent, suitably qualified and experienced company secretary
✓ Regular performance evaluations of the board, its committees and the individual directors are conducted
¾✓ The board delegates certain functions to well-structured committees without abdicating its own responsibilities (Refer note 1 on page 136)
¾✓ An agreed governance framework between the group and its subsidiary boards is in place (Refer note 2 on page 136)
¾✓ Directors and executives are fairly and responsibly remunerated (Refer note 3 on page 136)
✓ Remuneration of directors and prescribed officers is disclosed
✓ The company's remuneration policy is approved by its shareholders through a non-binding advisory vote

Audit committee

✓ Effective and independent
✓ Comprises suitably skilled and experienced independent non-executive directors
✓ Chaired by an independent non-executive director
✓ Oversees integrated reporting
✓ A combined assurance model is applied to provide a coordinated approach to assurance activities
✓ Satisfies itself of the expertise, resources and experience of the company's finance function
✓ Oversees internal audit
✓ Integral component of the risk management process
✓ Recommends the appointment of the external auditors and oversees the external audit process
✓ Reports to the board and shareholders on how it has discharged its duties

The governance of risk

✓ The board is responsible for the governance of risk and determining levels of risk tolerance
✓ The risk committee assists the board in carrying out its risk responsibilities
✓ The board delegates the risk management plan to management
✓ Continual risk assessments are performed
✓ Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks

The governance of risk (continued)

✓ Management implements appropriate risk responses and ensures continued risk monitoring
✓ The board receives assurance on the effectiveness of the risk management process
✓ Satisfactory risk disclosure to stakeholders

The governance of information technology

✓ The board is responsible for information technology (IT) governance
✓ IT is aligned with the performance and sustainability objectives of the company
✓ Management is responsible for the implementation of an IT governance framework
✓ The board monitors and evaluates significant IT investments and expenditure
✓ IT is an integral part of the company's risk management
✓ IT assets are managed effectively
✓ The risk committee and audit committee assist the board in carrying out its IT responsibilities

Compliance with laws, codes, rules and standards

✓ The board ensures that the company complies with relevant laws
✓ The board and directors have a working understanding of the relevance and implications of non-compliance
✓ Compliance risk forms an integral part of the company's risk management process
✓ The board has delegated to management the implementation of an effective compliance framework and processes

Internal audit

✓ Effective risk-based internal audit
✓ Internal audits follow a risk-based plan
✓ Provides written assessment of the effectiveness of the company's system of internal controls and risk management
✓ Internal audit is strategically positioned to achieve its objectives

Governing stakeholder relationships

✓ Board appreciation that stakeholders' perceptions affect a company's reputation and delegates responsibility to management to proactively deal with stakeholder relationships
✓ There is an appropriate balance between various stakeholder groupings
✓ Equitable treatment of shareholders
✓ Transparent and effective communication to stakeholders
¾✓ Disputes are resolved effectively, efficiently and expeditiously (Refer note 4 on page 136)

Integrated reporting and disclosure

✓ Board ensures integrity of the company's integrated report
✓ Sustainability reporting and disclosure is integrated with the company's financial reporting and is independently assured

Key:
✓ Principle applied
¾✓ Principle substantially applied – refer to applicable note on page 136.

Appendix B – South African covered business embedded value

for the year ended 31 December 2012

1. Description of embedded value of South African covered business

The current version of Actuarial Practice Note (APN) 107 came into force for all financial years ending on or after 31 December 2008. APN 107 governs the way in which embedded values of life assurance companies are reported.

The embedded value consists of:

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

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

The value of in-force covered business is the discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities, which differs from the release of profits on the published accounting basis. This value is reduced by the present value of after tax future shareholder recurring and non-recurring expenses. Covered business is defined as business regulated by the FSB as long-term insurance business written in Liberty Group Limited or its subsidiary life companies.

For reversionary and smoothed bonus business, the value of in-force covered business has been calculated assuming that bonuses are changed over time so that the full amount of the bonus stabilisation reserves is distributed to policyholders over the lifetime of the in-force policies.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory CAR calculated in accordance with Standard Actuarial Practice (SAP) 104 plus any additional capital considered appropriate by the Board given the risks in the business. For Liberty Group Limited, required capital has been calculated at 1,7 x CAR. For subsidiary life companies a multiple of 1,5 x CAR has been used. The cost of required capital is the present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.

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

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

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

Appendix B – South African covered business embedded value

for the year ended 31 December 2012 (continued)

2. BEE normalised embedded value

Audited	31 Dec 2012 Rm	31 Dec 2011 Rm
Risk discount rate[(a)]	9,69%	10,95%
Net worth	8 535	8 182
Ordinary shareholders' funds on published basis	14 282	12 849
Adjustment of ordinary shareholders' funds from published basis[(b)]	(5 107)	(4 162)
Adjustment for carrying value of in-force business acquired[(c)]	(230)	(325)
Allowance for fair value of share options	(305)	(180)
Liberty Health loan impairment	(100)	
Impact of discounting on deferred tax asset	(5)	
Net value of life business in-force	17 039	15 003
Value of life business in-force	18 516	16 170
Cost of required capital	(1 477)	(1 167)
BEE normalised embedded value	25 574	23 185

3. BEE normalised embedded value earnings

Embedded value at the end of the period	25 574	23 185
Adjustments arising from the group restructure		15
Funding of restricted share plan	87	
Intergroup dividends	1 701	1 283
Less embedded value at the beginning of the period	(23 185)	(21 504)
Embedded value earnings	4 177	2 979
Return on embedded value	18,0%	13,9%

4. Sensitivity to risk discount rate and other assumptions

In order to indicate sensitivity to varying assumptions, the value of the in-force life business less cost of required capital and the value of the new business written for Liberty Group Limited are shown below for various changes in assumptions. Each value is shown with only the indicated parameter being changed.

Audited	Value of in-force life business less cost of required capital at 31 December 2012 Rm	Value of new business written in 2012 Rm	Value of in-force life business less cost of required capital at 31 December 2011 Rm	Value of new business written in 2011 Rm
Base value	17 039	660	15 003	389
Value of in-force/new business	18 516	748	16 170	449
Cost of required capital	(1 477)	(88)	(1 167)	(60)
100 basis point increase in risk discount rate	15 523	538	13 698	298
Value of in-force/new business	17 439	655	15 256	376
Cost of required capital	(1 916)	(117)	(1 558)	(78)
100 basis point decrease in interest rate environment	17 298	736	14 988	450
Value of in-force/new business	18 758	825	16 262	512
Cost of required capital	(1 460)	(89)	(1 274)	(62)
10% fall in equity and property market values	16 568		14 555	13 105
Value of in-force	18 045		15 722	14 538
Cost of required capital	(1 477)		(1 167)	(1 433)
100 basis point increase in equity and property returns	18 113	692	15 971	400
Value of in-force/new business	19 299	762	17 012	457
Cost of required capital	(1 186)	(70)	(1 041)	(57)
10% decrease in maintenance expenses	17 818	706	15 662	433
Value of in-force/new business	19 295	794	16 829	493
Cost of required capital	(1 477)	(88)	(1 167)	(60)
10% decrease in new business acquisition expenses (other than commissions)		730	459	309
Value of new business		819	519	342
Cost of required capital		(89)	(60)	(33)
10% decrease in withdrawal rates	18 414	804	16 048	510
Value of in-force/new business	19 891	893	17 215	570
Cost of required capital	(1 477)	(89)	(1 167)	(60)
5% improvement in mortality and morbidity for assurances	18 213	783	15 843	499
Value of in-force/new business	19 690	871	17 010	559
Cost of required capital	(1 477)	(88)	(1 167)	(60)
5% improvement in mortality for annuities	16 876	657	14 865	386
Value of in-force/new business	18 353	745	16 032	446
Cost of required capital	(1 477)	(88)	(1 167)	(60)

Appendix B – South African covered business embedded value

for the year ended 31 December 2012 (continued)

5. Analysis of BEE normalised embedded value earnings

	Net worth	Value of in-force covered business	Cost of required capital	Embedded value	Net worth	Value of in-force covered business	Cost of required capital	Embedded value
	31 December 2012				31 December 2011			
Audited	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Embedded value at the end of the period	8 535	18 516	(1 477)	25 574	8 182	16 170	(1 167)	23 185
Plus dividends paid	1 701			1 701	1 283			1 283
Plus funding of restricted share plan	87			87				
Adjustments arising from group restructure					8	7		15
Embedded value at the beginning of the period	(8 182)	(16 170)	1 167	(23 185)	(7 955)	(14 982)	1 433	(21 504)
Embedded value earnings	2 141	2 346	(310)	4 177	1 518	1 195	266	2 979
Components of embedded value earnings								
Value of new business written in the period	(1 144)	1 892	(88)	660	(894)	1 343	(60)	389
Expected return on value of life business[d]		1 732	31	1 763		1 623	17	1 640
Expected net of tax profit transfer to net worth	2 569	(2 569)			2 324	(2 324)		
Operating experience variances[g]	132	231	(51)	312	99	252	73	424
Development expenses	(78)			(78)	(61)			(61)
Incentive outperformance	(181)			(181)	(138)			(138)
Operating assumption changes[h]	(62)	274	60	272	(275)	548		273
Embedded value earnings from operations	1 236	1 560	(48)	2 748	1 055	1 442	30	2 527
Investment return on net worth	713			713	350			350
Investment variances	288	412		700	(96)	(183)		(279)
Changes in economic assumptions[i]	109	420	(22)	507	14	(5)	(21)	(12)
Changes in modelling methodology[j]	(80)	(46)	(240)	(366)	192	(59)	257	390
Change in allowance for fair value of share options/rights[k]	(125)			(125)	3			3
BEE normalised embedded value earnings	2 141	2 346	(310)	4 177	1 518	1 195	266	2 979

6. Notes to embedded value

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

	Investment return p.a.	
	31 Dec 2012 %	31 Dec 2011 %
Government stock	**6,89**	8,15
Equities	**10,39**	11,65
Property	**7,89**	9,15
Cash	**5,39**	6,65
The risk discount rate has been set equal to the risk free rate plus 80% of the equity risk premium	**9,69**	10,95
Maintenance expense inflation rate	**4,15**	5,15

b) ***Adjustment of ordinary shareholders' funds from the published basis***

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

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

The carrying value of business acquired by Liberty has been deducted from shareholders' funds in order to avoid double counting. For embedded value purposes, the value in respect of this acquired business is included in the value of life business in-force.

	31 Dec 2012 Rm	31 Dec 2011 Rm
Investec Employee Benefits	**(3)**	(14)
Capital Alliance Holdings Limited (CAHL)	**(216)**	(294)
Business previously acquired by CAHL	**(11)**	(17)
	(230)	(325)

d) The expected return on the value of life business is obtained by applying the previous year's risk discount rate to the value of life business in force at the beginning of the period and the current year's risk discount rate for quarter of a year to the value of new business.

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

f) ***Other bases, bonus rates and assumptions***

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

Appendix B – South African covered business embedded value

for the year ended 31 December 2012 (continued)

6. Notes to embedded value (continued)

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

The net 31 December 2012 operating experience variance of R312 million comprised:

Operating experience variances	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
Expenses	(212)			(212)
Mortality and morbidity – Retail SA	152	68		220
Mortality and morbidity – Corporate	104			104
Persistency – Retail SA	49	152		201
Persistency – Corporate		31		31
Tax variance	40			40
Other	(1)	(20)	(51)	(72)
Total	132	231	(51)	312

h) The amount of R272 million operating assumption changes comprises:

Operating assumption changes	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
Expenses	49	(277)		(228)
Retail SA	43	(41)		2
Corporate	6	(149)		(143)
Shareholder		(87)		(87)
Mortality and morbidity	52	252		304
Persistency	(233)	384		151
Taxation	76	(126)	60	10
Other	(6)	41		35
Total	(62)	274	60	272

The taxation assumption changes include the impact of the increases to the capital gains tax inclusion rate and therefore effective capital gains tax rates for taxpayers, effective 1 March 2012 and the impact of the introduction of withholding tax.

No account has been taken of the tax proposals announced by the Minister of Finance in his budget on 27 February 2013.

i) The amount of R507 million (2011: negative R12 million) relates to changes in economic assumptions as described in note a.

j) The amount of negative R240 million represents the impact of a review of the methodology used to calculate the cost of required capital across the group.

k) The amount of negative R125 million (2011: R3 million) in respect of the change in the fair value of share options/rights arises from the change in the number of shares under option/share rights for staff employed by Liberty Group Limited and the increase in the market value of Liberty Holdings Limited share price over the reporting period.

l) The assets backing the required capital are consistent with the long-term strategic mix of shareholder funds approved by the Liberty Holdings Board in November 2012.

Appendix C – Analysis of ordinary shareholders' funds invested
for the year ended 31 December 2012

	Group funds invested		Contribution to earnings	
	2012 Rm	2011 Rm	2012 Rm	Restated 2011 Rm
South African insurance operations	**13 114**	11 546	**3 490**	2 548
Insurance operating surplus			**2 555**	1 981
Secondary tax on companies – bancassurance dividends				(57)
Present value of in-force business	**230**	325	**(95)**	(115)
Investment portfolios	**9 424**	9 227	**822**	615
LibFin allocated expenses			**(46)**	(32)
Fixed assets and working capital[1]	**5 460**	3 994	**427**	335
Capital bonds	**(2 000)**	(2 000)	**(173)**	(179)
Asset management operations	**307**	504	**537**	510
STANLIB	**262**	234	**489**	435
Liberty Properties	**45**	66	**39**	64
Fountainhead		204	**9**	11
Business development cluster	**775**	679	**(11)**	(91)
Liberty Africa	**473**	385	**69**	19
Total Health Trust	**41**	30	**3**	2
Liberty Health	**186**	148	**(45)**	(65)
Direct Financial Services	**75**	116	**(38)**	(47)
Shareholder expenses and sundry income			**(308)**	(294)
Liberty Holdings Limited	**1 214**	482		
Preference share dividend			**(2)**	(2)
Headline earnings			**3 706**	2 671
Preference share dividend			**2**	2
Intangible assets derecognition and impairment			**(44)**	
Profit on sale of joint venture			**117**	
FCTR recycled through profit or loss			**(2)**	
Liberty Holdings shareholders' funds/total earnings	**15 410**	13 211	**3 779**	2 673
BEE normalised:				
Liberty Holdings shareholders' funds/headline earnings	**15 410**	13 211	**3 706**	2 671
BEE preference shares	**1 012**	1 075	**62**	66
BEE normalised shareholders' funds/headline earnings	**16 422**	14 286	**3 768**	2 737

[1] *With effect from 1 July 2005 Liberty Group Limited established a working capital funding loan between insurance operations and shareholder assets, subsequently supported by the callable capital bonds issue. Inter-divisional interest is charged at 8,77% nacm.*

Appendix D – Liberty Holdings Limited and Liberty Group Limited shares under option and subject to rights at 31 December 2012

Date granted	Price payable per share	Final vesting date	Shares/ rights under option at the beginning of the year	Option/ rights granted during the year	Option/ rights implemented during the year	Option/ rights cancelled/ (reinstated) during the year	Shares/ rights under option at the end of the year
Share option schemes							
16 Apr 02	54,60	16 Apr 07	197 200		197 200		
14 Mar 03	46,15	14 Mar 08	262 075		79 825	(1 100)	183 350
12 Sep 03	46,40	12 Sep 08	10 000		10 000		
24 Nov 03	46,25	24 Nov 08	8 100				8 100
15 Mar 04	50,65	15 Mar 09	165 700		36 400	(5 000)	134 300
15 Nov 04	59,95	15 Nov 09	55 000		55 000		
02 Dec 04	60,39	02 Dec 09	100 000		100 000		
03 Jan 05	63,00	03 Jan 10	20 000				20 000
Share rights schemes							
21 Apr 05	58,40	21 Apr 10	235 600		66 450	(4 300)	173 450
06 Oct 05	59,40	06 Oct 10	50 000				50 000
03 Mar 06	81,61	03 Mar 11	656 700		141 100	(3 300)	518 900
18 Apr 06	77,28	18 Apr 11	60 000				60 000
02 May 06	79,38	02 May 11	20 000				20 000
01 Jun 06	73,40	01 Jun 11	30 000				30 000
03 Jul 06	72,00	03 Jul 11	20 000		20 000		
10 Aug 06	72,00	10 Aug 11	50 000		50 000		
23 Oct 06	74,00	23 Oct 11	20 000		5 000		15 000
28 Feb 07	80,25	28 Feb 12	995 300		315 200	7 500	672 600
11 Apr 07	83,24	11 Apr 12	10 000		10 000		
02 May 07	92,25	02 May 12	50 000				50 000
22 May 07	93,30	22 May 12	97 500				97 500
01 Jun 07	92,00	01 Jun 12	50 000				50 000
03 Sep 07	89,71	03 Sep 12	175 000			150 000	25 000
14 Sep 07	88,88	14 Sep 12	20 000		20 000		
12 Oct 07	95,50	12 Oct 12	20 000				20 000
02 Nov 07	92,95	02 Nov 12	50 000				50 000
04 Dec 07	89,50	04 Dec 12	50 000				50 000
12 Dec 07	92,90	12 Dec 12	50 000				50 000
02 Jan 08	89,75	02 Jan 13	150 925		7 500		143 425
22 Feb 08	73,21	22 Feb 13	1140 000		284 675	42 450	812 875
03 Mar 08	76,00	03 Mar 13	20 000		15 000	5 000	
10 Apr 08	77,80	10 Apr 13	15 000			15 000	
18 Apr 08	77,62	18 Apr 13	10 000		7 500		2 500
05 May 08	71,55	05 May 13	25 000		15 000		10 000
15 May 08	70,22	15 May 13	5 000				5 000
12 Jun 08	72,70	12 Jun 13	170 000				170 000
02 Jul 08	61,50	02 Jul 13	315 000		111 250	3 750	200 000
07 Jul 08	58,88	07 Jul 13	3 000				3 000
11 Jul 08	57,95	11 Jul 13	7 500		3 750		3 750
01 Aug 08	63,90	01 Aug 13	18 300		9 200		9 100
21 Aug 08	71,00	21 Aug 13	10 000		3 750	1 250	5 000
15 Sep 08	73,00	15 Sep 13	10 000				10 000
23 Sep 08	75,00	23 Sep 13	11 450		8 600		2 850
15 Oct 08	72,50	15 Oct 13	20 000				20 000
24 Oct 08	57,00	24 Oct 13	81 450		50 700		30 750
17 Nov 08	61,00	17 Nov 13	14 000		3 000	5 000	6 000
12 Jan 09	61,00	12 Jan 14	55 000		7 500		47 500
21 Jan 09	58,83	21 Jan 14	15 000		7 500	7 500	
18 Feb 09	65,15	18 Feb 14	1863 000		346 550	95 500	1420 950
13 Mar 09	62,50	13 Mar 14	15 000		7 500		7 500
Balance carried forward			7 502 800		1 995 150	319 250	5 188 400

Date granted	Price payable per share	Final vesting date	Shares/ rights under option at the beginning of the year	Option/ rights granted during the year	Option/ rights implemented during the year	Option/ rights cancelled/ (reinstated) during the year	Shares/ rights under option at the end of the year
Balance brought forward			7 502 800		1 995 150	319 250	5 188 400
06 May 09	64,00	06 May 14	60 000		30 000	15 000	15 000
20 May 09	62,08	20 May 14	30 000		15 000		15 000
01 Jun 09	60,00	01 Jun 14	40 000		20 000		20 000
22 Jul 09	65,69	22 Jul 14	20 000				20 000
03 Aug 09	60,38	03 Aug 14	7 000			7 000	
16 Sep 09	63,50	16 Sep 14	10 000				10 000
21 Sep 09	66,00	21 Sep 14	9 000		4 500		4 500
26 Oct 09	67,00	26 Oct 14	45 000		20 000		25 000
02 Nov 09	67,56	02 Nov 14	70 000				70 000
01 Dec 09	66,80	01 Dec 14	10 000				10 000
25 Nov 09	70,15	25 Nov 14	50 000				50 000
01 Dec 09	66,00	01 Dec 14	315 500			40 000	275 500
01 Dec 09	66,00	01 Dec 14	7 000			7 000	
05 Jan 10	68,12	05 Jan 15	525 000				525 000
01 Feb 10	67,00	01 Feb 15	65 000				65 000
01 Feb 10	67,00	01 Feb 15	35 000				35 000
01 Mar 10	70,26	01 Mar 15	160 000				160 000
23 Feb 10	69,00	23 Feb 15	1924 000		3 500	197 000	1723 500
09 Mar 10	73,75	09 Mar 15	5 000				5 000
24 Mar 10	72,51	24 Mar 15	74 000			3 500	70 500
23 Jul 10	76,80	23 Jul 15	11 500			10 000	1 500
10 Aug 10	76,56	10 Aug 15	25 000				25 000
09 Sep 10	71,25	09 Sep 15	41 000				41 000
01 Oct 10	70,85	01 Oct 15	35 000				35 000
14 Oct 10	71,84	14 Oct 15	10 000				10 000
18 Oct 10	71,43	18 Oct 15	20 000				20 000
01 Nov 10	75,01	01 Nov 15	50 000				50 000
01 Dec 10	70,00	01 Dec 15	101 200				101 200
01 Feb 11	72,12	01 Feb 16	140 000				140 000
24 Feb 11	74,70	24 Feb 16	2051 650			130 800	1920 850
24 Feb 11	74,70	24 Feb 16	100 000				100 000
28 Mar 11	68,00	28 Mar 16	68 500				68 500
03 May 11	71,90	03 May 16	10 000				10 000
31 May 11	72,16	31 May 16	41 400				41 400
01 Jun 11	73,00	01 Jun 16	2 500				2 500
15 Jul 11	75,01	15 Jul 16	150 000				150 000
22 Jul 11	75,56	22 Jul 16	15 000				15 000
01 Sep 11	76,65	01 Sep 16	5 000				5 000
29 Sep 11	81,10	29 Sep 16	11 000				11 000
03 Oct 11	80,00	03 Oct 16	10 000				10 000
03 Nov 11	80,30	03 Nov 16	197 000			13 000	184 000
17 Oct 11	83,00	17 Oct 16	5 000				5 000
26 Oct 11	80,49	26 Oct 16	50 000				50 000
01 Nov 11	81,58	01 Nov 16	3 000				3 000
03 Jan 12	79,48	03 Jan 17		30 000			30 000
01 Mar 12	89,40	01 Mar 17		10 000			10 000
02 May 12	88,19	02 May 17		32 500			32 500
02 May 12	88,19	02 May 17		10 000			10 000
01 Mar 12	87,90	01 Mar 17		22 106			22 106
13 Jun 12	85,97	13 Jun 17		14 446			14 446
			14 118 050	**119 052**	**2 088 150**	**742 550**	**11 406 402**
Market value of shares/rights under option (Rm)			**1 122,1**				**1 060,4**

Appendix E – Consolidated mutual funds

1. Introduction

The group invests in various registered mutual funds for the purposes of providing for obligations within policyholder contracts.

Several of the investments in mutual funds exceed 50% of the total value of the underlying net assets of that fund. These funds are consequently defined as subsidiaries in terms of the group's accounting policies, and are consolidated into the group results.

Each fund has its own legal constitution and operates within a distinct mandate that is delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures.

Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

Described below is each mutual fund subsidiary and their respective mandate and objectives.

2. Funds managed by STANLIB

STANLIB in South Africa employs a franchise multi-style and multi-manager investment approach that is designed to produce above average returns with below average risk. This is achieved by:

- a thorough and ongoing quantitative and qualitative research process of all managers in the domestic universe;
- selecting the most talented specialist managers, taking their investment style and specific areas of expertise into consideration;
- determining the optimal blend of selected managers within the portfolio through a portfolio construction and testing process;
- writing segregated investment mandates with selected managers to control portfolio risk tightly;
- continuous monitoring of the portfolio risk and return characteristics of each selected manager as well as the overall portfolio; and
- making manager changes where STANLIB Multi-Manager feels this is in the best interest of investors.

The Collective Investment Scheme Control Act of 2002 also imposes specific restrictions which the underlying managers have to comply with and also restricts the interest rate and credit risk, where applicable, that they are able to take.

2.1 STANLIB Africa Property Fund

Objective – To generate a growing yield and to compliment this with capital growth over the long-term by providing investors exposure to listed property securities in Africa.

Mandate restrictions – The fund must invest in shares or securities listed on African exchanges or companies with operations predominantly in Africa.

Typical investments – Property shares and property related securities such as property loan stock and debentures.

Risk exposure – Aggressive fund exposed to equity price, interest rate, credit and currency risk.

2.2 STANLIB Dynamic Return Fund

Objective – To be a specialist portfolio and to achieve capital growth, as well as some level of capital protection over the long-term. In the short-term the portfolio shall aim to profit from a rising equity market and protect investors against capital losses in a weak equity market.

Mandate restrictions – Investments in equity and non-equity securities must comply with prudential investment guidelines for retirement portfolios. The manager will use a quantitative risk management model when selecting the securities that will be included in the portfolio.

Typical investments- Equity and/or non-equity securities, participatory interests in portfolios of collective investment schemes which are consistent with the portfolio's investment policy. The model shall incrementally switch exposure from equities to non-equity instruments if the portfolio value drops towards a predetermined "protective floor".

Risk exposure - Moderate fund exposed to equity price, interest rate and credit risk.

2. Funds managed by STANLIB (continued)

2.3 STANLIB International Aggressive Fund of Funds

Objective – Long-term growth of capital and income.

Mandate restrictions – Investments to be included will, apart from assets in liquid form, consist solely of participatory interests of other collective schemes.

Typical investments – Assets in liquid form and participatory interests in other collective schemes. These include a selection of international based equity-orientated collective investment schemes.

Risk exposure – Aggressive fund exposed to equity price, interest rate, credit and currency risk.

2.4 STANLIB International Balanced Fund of Funds

Objective – Long-term growth of capital and income.

Mandate restrictions – Investments to be included will, apart from assets in liquid form, consist solely of participatory interest of collective investment schemes.

Typical investments – Assets in liquid form and participatory interests of international based equity and bond collective investment schemes.

Risk exposure – Aggressive fund exposed to equity price, interest rate and credit risk.

2.5 STANLIB Multi-Manager Flexible Property Fund

Objective – To generate a reasonably high level of current income as well as the potential for moderate capital growth with a bias towards property securities.

Mandate restrictions – Exposure to property shares and property related securities of at least 40% with a maximum exposure of 85%. The portfolio's exposure to non-equity securities shall be between 15% and 60% of the portfolio. This portfolio may not have any foreign exposure.

Typical investments – Financially sound listed property securities as well as other high yielding income producing assets like short and long dated bonds, money market instruments and preference shares.

Risk exposure – Moderate fund exposed to property price, interest rate and credit risk.

2.6 STANLIB Multi-Manager Global Equity Feeder Fund

Objective – To achieve an investment medium for investors that shall have as its primary objective capital growth, with income generation as a secondary objective.

Mandate restrictions – The portfolio must contain a minimum foreign exposure of 85%.

Typical investments – Apart from liquid assets, the portfolio consists solely of participatory interests of collective investment schemes, which have as their investment objective the investment in securities listed on foreign exchanges.

Risk exposure – Aggressive fund exposed to equity price and currency risk.

2.7 STANLIB Multi-Manager Property Fund

Objective – To achieve an investment medium for investors which shall have as its primary objective growth of capital and income, with the focus on income yield relative to income growth.

Mandate restrictions – Liquidity may not exceed 50%. This portfolio may not have any foreign exposure.

Typical investments – Listed property shares and property-related securities including property loan stock, debentures, debenture stock and debenture bonds, unsecured notes and collective investment schemes in property.

Risk exposure – Aggressive fund exposed to property price, interest rate and credit risk.

Appendix E – Consolidated mutual funds (continued)

2. Funds managed by STANLIB (continued)

2.8 STANLIB Prudential Bond Fund

Objective – To provide an efficient investment medium whereby investors can participate in a portfolio that will seek to achieve maximum overall return, in the form of both interest income and capital growth.

Mandate restrictions – The fund may invest in any securities which are consistent with the portfolio's investment policy. The portfolio will be permitted to invest its assets in foreign investment markets.

Typical investments - The fund will invest in a spread of predominantly non-equity securities issued by listed corporate institutions, preference shares and property related securities.

Risk exposure – Conservative fund exposed to interest rate, credit and currency risk.

2.9 STANLIB Shariah Equity Fund

Objective – To primarily generate capital growth over the medium to long term, whilst conforming to the religious beliefs of Muslim investors. The generation of income is a secondary objective.

Mandate restrictions – Investments must be done in accordance with the manner, limits and conditions as determined by the Registrar as well as the Shariah standards of the Accounting and Auditing Organisation for Islamic Financial Institutions.

Typical investments – The portfolio will invest in a mix of predominantly South African equity securities, as well as foreign equity securities, and when appropriate other non-equity securities.

Risk exposure – Aggressive fund exposed to equity price, interest rate, credit and currency risk.

2.10 STANLIB SWIX 40 Exchange Traded Fund

Objective – To provide returns linked to the performance of the FTSE/JSE SWIX Top 40 Index in terms of both price performance as well as income from the component securities of the index.

Mandate restrictions – The fund only considers the free-float market capitalisation of the company that is held on the JSE register. Dual listed shares are down-weighted relative to the Top 40 and is thus considered to be more representative of share available to South African investors.

Typical investments – The portfolio consists of the shares that constitute the FTSE/JSE Top 40 index of the JSE.

Risk exposure – Aggressive fund exposed to equity price, interest rate and credit risk.

2.11 STANLIB Top 40 Exchange Traded Fund

Objective – To provide the capital and income performance linked to the FTSE/JSE Top 40 index.

Mandate restrictions – The entire portfolio should be invested in the constituents of the FTSE/JSE Top 40 index. The portfolios exposure to cash shall not exceed 5%.

Typical investments – The portfolio consists of the shares that constitute the FTSE/JSE Top 40 index of the JSE.

Risk exposure – Aggressive fund exposed to equity price, interest rate, and credit risk.

2.12 STANLIB Funds Limited

STANLIB Asset Management Limited is the investment manager in respect of the class funds, while BNY Mellon Fund Services (Ireland) Limited is the administrator of the class funds. This fund consists of the following class funds (class fund specific objectives are stated under each class fund):

STANLIB Multi-Manager Global Bond Fund

Objective – To provide attractive investment returns from investments in major international bond markets. The investment objective is to outperform the Barclays Global Aggregate Bond Index.

2. Funds managed by STANLIB (continued)

2.12 STANLIB Funds Limited (continued)

STANLIB Multi-Manager Global Equity Fund

Objective – To maximise long-term total returns by investing in global equities. The fund's benchmark is the Morgan Stanley Capital International (MSCI) All Country World Index.

High Alpha Global Equity Fund

Objective – To maximise long-term total returns by investing in global equities. The class fund's benchmark is the Morgan Stanley Capital International (MSCI) World Index. Tracking error of the fund to the benchmark is expected to be in the region of 6% to 10%.

STANLIB Global Bond Fund

Objective – To provide attractive investment returns from investments in major international bond markets. The criteria for investment are the preservation of capital and appropriate weighted average credit rating. The investment objective is to outperform the Barclays Global Aggregate Bond Index.

Global Property Fund

Objective – To maximise long-term total return, by investing in global property company shares and real estate investment trusts. The class fund's benchmark is the UBS Global Real Estate Investors Index.

STANLIB Global Emerging Markets Fund

Objective – The primary objective of this single manager fund is to maximise long term total return by investing in emerging market equities.

Mandate restrictions for all funds in section 2.12 – No investment may exceed 10% of the net asset value of the class fund or a 10% holding of the total nominal amount of the investment. However, the aggregate of amounts held on call or deposit accounts with an approved bank (a banking institution with shareholder funds greater than US$500 million) may represent up to 20% of the net asset value of the fund. A class fund shall not be exposed to the creditworthiness and solvency of any one counterparty by more than 20% of net asset value of the fund. The fund shall not acquire any real property, gold or silver bullion, platinum or other precious metals or coins. A class fund may not engage in scrip borrowing or invest in a fund of funds or a feeder fund. An investment in hybrid funds may not exceed 20% in aggregate of the class fund's net asset value. A class fund shall not invest in any security in which a director owns more than 0,5% of the total nominal amount of all the listed securities of that class, or collectively the directors own more than 5% of those securities.

Risk exposure – Dependent on the particular class fund mix. However, the fund is exposed to equity price, property price, interest rate, credit and currency risk.

2.13 Standard Global Emerging Markets Property Fund

STANLIB Asset Management Limited is the investment manager in respect of the funds, while Brown Brothers Harriman Ireland is the administrator of the fund.

Objective – to generate a reasonable level of income as well as potential capital growth from participation in a portfolio of listed property securities.

Mandate restrictions – The fund must maintain an overall exposure to Global Emerging Markets property assets of greater than 75%. The fund may not invest more than 10% of its Net Asset Value in other collective investment schemes.

Typical investments – The fund will invest primarily, on a geographically diversified basis, in the equity securities of real estate companies that are either listed or traded on Regulated Markets in Global Emerging Markets.

Risk exposure – Moderate fund exposed to property price, interest rate, credit and currency risk.

Appendix E – Consolidated mutual funds (continued)

3. Funds managed by Ermitage

Ermitage Funds Limited is the investment manager of the funds below while LaCrosse Global Fund Services (Ireland) Limited is the administrator of these funds.

3.1 Ermitage Distressed and Event Fund

Objective – To achieve consistent absolute, risk adjusted returns over the medium term, principally through investments in a combination of event-driven and risk arbitrage strategies. The fund will seek to achieve lower risk and volatility than global equity markets as a whole.

Mandate restrictions – The fund will not lend to or invest in a single entity such that more than 20% of its gross assets are lent to or invested in that entity. No more than 20% of its gross assets may be exposed to the creditworthiness or solvency of any one counterparty. The fund may not invest in real property or physical commodities.

Typical investments – The underlying funds will invest in equity securities of entities engaged in corporate mergers and acquisitions and loan stock or debt of companies with proven products and business track records which are involved in the restructuring/rescheduling of their debt programme or other structural realignment. Bank debt and securities of corporations in distressed circumstances may present compelling opportunities for which the fund can seek to exploit opportunities.

Risk exposure – The fund is exposed to equity price, interest rate, credit and currency risk.

3.2 Ermitage Asset Selection Fund

Objective – To seek consistent annual returns over a period of three years or more representing a meaningful premium over the risk free rate accompanied by low levels of volatility, through investments in funds investing primarily in relative value and arbitrage strategies.

Mandate restrictions – The fund may not hold more than 20% of the net asset value of the fund in any single investment fund. No more than 20% of the gross assets of the fund may be lent to or invested in the securities of any one issuer or may be exposed to the creditworthiness or solvency of any one counterparty. Borrowings and leverage will only be temporary and in any event will not exceed 100% of the net asset value of the fund. Borrowings will be used for short-term liquidity purposes and will not be used for gearing. Option premiums and futures margins cannot in aggregate exceed 10% of the net asset value of the fund.

Typical investments – Investment funds or managed accounts with investment managers whose methodology aims to provide absolute rather than relative returns.

Risk exposure – The fund is exposed to equity price, interest rate, credit and currency risk.

3.3 Ermitage Global Wealth Management Strategies Fund

This fund consists of the following class funds(class fund specific objectives are stated under each class fund)

The Conservative Fund

Objective-To generate returns over a three to five year period superior to cash, accompanied by very low levels of volatility.

The Balanced Fund

Objective – To generate superior risk-adjusted returns compared to fixed interest and equity markets over a three to five year period, accompanied by modest levels of volatility.

The Growth Fund

Objective – To generate superior risk adjusted returns.

Mandate restrictions – The fund may not invest more than 40% of the net asset value of any class fund in a single fund except for investments in the cash funds managed by Ermitage. The fund may not invest more than 60% of its net asset value in the securities of any one umbrella or multi-class fund, Borrowings will only be temporary, and in any event will not exceed 15% of the net asset value of the fund.

Typical investments – Dependent on the particular class fund.

Risk exposure – Dependent on the particular class fund mix. However the fund is exposed to equity price, interest rate, credit and currency risk.

4. Funds managed by Investec

4.1 Investec Active Quants Fund

Objective – To provide investors with capital growth over the long term by achieving returns well in excess of the benchmark.

Mandate restrictions – A quantitative stock selection model is used to identify stocks to be invested in. Risk management also forms an integral part of the investment process.

Typical investments – South African equities from the resource, industrial and financial sector.

Risk exposure- A moderate to high fund exposed to equity risk.

5. Funds managed by Rand Merchant Bank

5.1 RMB Liberty Progressive Bonus Absolute Return Portfolio

Objective – The portfolio aims to achieve an equity-linked return with capital protection.

Mandate restrictions – The underlying pool of equity exposure is restricted to investments in long positions.

Typical investments – Investments in equity collective schemes, equity linked contracts, options and futures.

Risk exposure – Conservative fund exposed to equity, credit and interest rate risk.

6. Funds managed by Life Settlements Funds Limited

6.1 Global Insurance Settlements Funds PLC

Objective – To generate attractive risk adjusted returns over time, by actively managing a large and diversified portfolio of life insurance policies.

Mandate restrictions – Policies must be issued by life insurance companies rated "secure" or better and must be beyond their contestability period. The fund will not directly acquire policies with life expectations shorter than 24 months.

Typical investments – The fund will invest principally in a portfolio of life policies.

Risk exposure – A moderate to high fund is exposed to credit, interest rate, mortality and morbidity risks.

Appendix F – Long-term policyholder liabilities and short-term insurance liabilities reconciliation for the year ended 31 December 2012

2012 Group	Long-term insurance: Insurance contracts Rm	Investment contracts with DPF Rm	Reinsurance assets – long-term Rm	Investment contracts Rm	Deferred acquisition costs Rm	Deferred revenue liability Rm	Total Rm	Reclassification Rm	Total Rm	Long-term insurance segment Rm
Balance at beginning of year	145 558	3 447	(902)	59 560	(389)	151	207 425		207 425	
Additions through business acquisition										
Profit on sale of joint ventures										
Defined benefit pension fund employer surplus										
Inflows	55 993	1 194	(919)	22 223					40 599	
Insurance premiums	29 061	659	(845)				28 875		28 875	28 875
Fund inflows				11 724			11 724		11 724	
Investment returns	26 932	535	(74)	10 499						
Unwinding of discount rate	1 144	1	(73)				1 072	(1 072)		
Fair value adjustment				10 035			10 035	(10 035)		(10 035)
Policyholder tax										
Property expenses				464			464	(464)		
Investment returns	25 788	534	(1)				26 321	11 768	38 089	38 089
Equity accounted earnings from joint ventures										
Management fees on assets under management										
Outflows	(34 391)	(857)	679	(13 609)						
Claims and policyholders benefits	(23 680)	(824)	599	(12 261)					(36 166)	
Insurance claims	(23 680)	(529)	599				(23 610)	(295)	(23 905)	(23 905)
Fund outflows				(12 556)			(12 556)		(12 556)	
Switches		(295)		295				295	295	
Acquisition costs	(3 173)	(6)	1	(269)			(3 447)	50	(3 397)	(3 397)
Net movement in acquisition costs								(50)	(50)	
General marketing and administration expenses	(4 173)	(47)	5	(1 028)			(5 243)		(5 243)	(5 243)
Finance costs	(46)			(34)			(80)		(80)	(80)
Profit share allocations	(794)						(794)		(794)	(794)
Taxation	(2 525)	20	74	(17)			(2 448)	(66)	(2 514)	(2 514)
Fair value on third party mutual fund interests										
Net income from insurance operations	(2 505)	43	164	(11)	(50)	14	(2 345)		(2 345)	
Changes in estimates	(501)		(28)				(529)			
Service fee income				(895)		14	(881)			881
Expenses				867	(50)		817			
Planned margins and other variances	(3 711)	51	260				(3 400)			
New business	275		2				277			
Shareholder taxation on transfer of net income	1 432	(8)	(70)	17			1 371			
Change in policyholder liabilities										(19 532)
Change in policyholder liabilities – application of shadow accounting								(131)	(131)	
Foreign currency translation	11	28					39		39	
Balance at end of year	164 666	3 855	(978)	68 163	(439)	165	235 432	–	235 432	2 345

2012 Group	Short-term insurance Out-standing claims and IBNR Rm	Un-earned premiums Rm	Reinsu-rance assets – short-term Rm	Deferred acqui-sition costs Rm	Deferred revenue liability Rm	Short-term compre-hensive income items Rm	Total Rm	Short-term in-surance segment Rm	Long-term in-surance segment Rm	Total in-surance segment Rm	Other segments Rm	Per state-ment of compre-hensive income Rm
Balance at beginning of year	244	222	(202)	(14)	8		258					
Additions through business acquisition	1	15					16					
Profit on sale of joint venture											135	135
Defined benefit pension fund employer surplus											(45)	(45)
Inflows		33	(17)			888						
Insurance premiums		33	(17)			740	756	756	28 875	29 631		29 631
Fund inflows												
Investment returns						93						
Unwinding of discount rate												
Fair value adjustment									(10 035)	(10 035)		(10 035)
Policyholder tax												
Property expenses												
Investment returns						93	93	93	38 089	38 182	5 435	43 617
Equity accounted earnings from joint ventures											3	3
Management fees on assets under management						55	55	55		55	1 822	1 877
Outflows	9		31			(831)						
Claims and policyholders benefits	9		31			(467)						
Insurance claims	9		31			(467)	(427)	(427)	(23 905)	(24 332)		(24 332)
Fund outflows												
Switches												
Acquisition costs						(90)	(90)	(90)	(3 397)	(3 487)	(331)	(3 818)
Net movement in acquisition costs												
General marketing and administration expenses						(254)	(254)	(254)	(5 243)	(5 497)	(1 948)	(7 445)
Finance costs									(80)	(80)	(163)	(243)
Profit share allocations						(5)	(5)	(5)	(794)	(799)	(1)	(800)
Taxation						(15)	(15)	(15)	(2 514)	(2 529)	(188)	(2 717)
Fair value on third party mutual fund interests											(2 979)	(2 979)
Net income from insurance operations				4	(1)	(116)	(113)					
Changes in estimates												
Service fee income					(1)				881	881		881
Expenses				4								
Planned margins and other variances						(116)						
New business												
Shareholder taxation on transfer of net income												
Change in policyholder liabilities									(19 532)	(19 532)		(19 532)
Change in policyholder liabilities – application of shadow accounting												
Foreign currency translation	(10)	11	(4)		2	59	58					
Balance at end of year	244	281	(192)	(10)	9	–	332	113	2 345	2 458	1 740	4 198

Appendix F – Long-term policyholder liabilities and short-term insurance liabilities reconciliation (continued) for the year ended 31 December 2012

2011 Group	Long-term insurance									
	Insurance contracts Rm	Investment contracts with DPF Rm	Reinsurance assets – long-term Rm	Investment contracts Rm	Deferred acquisition costs Rm	Deferred revenue liability Rm	Total Rm	Reclassification Rm	Total Rm	Long-term insurance segment Rm
Balance at beginning of year	138 873	2 634	(847)	56 371	(364)	139	196 806		196 806	
Additions through business acquisition	301	769	(2)				1 068		1 068	
Defined benefit pension fund employer surplus										
Inflows	38 793	494	(837)	14 157					35 711	
Insurance premiums	26 362	455	(767)				26 050		26 050	26 050
Fund inflows				9 661			9 661		9 661	
Investment returns	12 424	39	(70)	4 496						
Unwinding of discount rate	1 017		(70)				947	(947)		
Fair value adjustment				4 089			4 089	(4 089)		(4 089)
Policyholder tax										
Property expenses				407			407	(407)		
Investment returns	11 407	39					11 446	5 328	16 774	16 774
Equity accounted earnings from joint ventures	7						7		7	7
Management fees on assets under management										
Outflows	(30 463)	(521)	617	(10 903)						
Claims and policyholders benefits	(22 106)	(472)	543	(9 686)					(31 721)	
Insurance claims	(22 106)	(234)	543				(21 797)	(238)	(22 035)	(22 035)
Fund outflows				(9 924)			(9 924)		(9 924)	
Switches		(238)		238				238	238	
Acquisition costs	(2 685)	(11)	3	(222)			(2 915)	25	(2 890)	(2 890)
Net movement in acquisition costs								(25)	(25)	
General marketing and administration expenses	(3 694)	(31)	2	(954)			(4 677)		(4 677)	(4 677)
Finance costs	(32)			(13)			(45)		(45)	(45)
Profit share allocations	(621)						(621)		(621)	(621)
Taxation	(1 325)	(7)	69	(28)			(1 291)	41	(1 250)	(1 250)
Fair value on third party mutual fund interests										
Net income from insurance operations	(1 994)	(46)	167	(65)	(25)	12	(1 951)		(1 951)	
Changes in estimates	(498)		(4)				(502)			
Service fee income				(875)		12	(863)			863
Expenses				782	(25)		757			
Planned margins and other variances	(2 598)	(51)	238				(2 411)			
New business	144						144			
Shareholder taxation on transfer of net income	958	5	(67)	28			924			
Change in policyholder liabilities										(6 136)
Change in policyholder liabilities – application of shadow accounting								74	74	
Foreign currency translation	48	117					165		165	
Balance at end of year	145 558	3 447	(902)	59 560	(389)	151	207 425	–	207 425	1 951

2011 Group	Short-term insurance Out-standing claims and IBNR Rm	Un-earned premiums Rm	Reinsu-rance assets – short-term Rm	Deferred acqui-sition costs Rm	Deferred revenue liability Rm	Short-term compre-hensive income items Rm	Total Rm	Short-term in-surance segment Rm	Long-term in-surance segment Rm	Total in-surance segment Rm	Other segments Rm	Per state-ment of compre-hensive income Rm
Balance at beginning of year												
Additions through business acquisition	140	199	(109)	(13)	7		224					
Defined benefit pension fund employer surplus											(4)	(4)
Inflows		(12)	(6)			337						
Insurance premiums		(12)	(6)			361	343	343	26 050	26 393		26 393
Fund inflows												
Investment returns						(51)						
Unwinding of discount rate												
Fair value adjustment									(4 089)	(4 089)		(4 089)
Policyholder tax												
Property expenses												
Investment returns						(51)	(51)	(51)	16 774	16 723	3 183	19 906
Equity accounted earnings from joint ventures									7	7	2	9
Management fees on assets under management						27	27	27		27	1 533	1 560
Outflows	70		(55)			(429)						
Claims and policyholders benefits	70		(55)			(250)						
Insurance claims	70		(55)			(250)	(235)	(235)	(22 035)	(22 270)		(22 270)
Fund outflows												
Switches												
Acquisition costs						(42)	(42)	(42)	(2 890)	(2 932)	(336)	(3 268)
Net movement in acquisition costs												
General marketing and administration expenses						(130)	(130)	(130)	(4 677)	(4 807)	(1 691)	(6 498)
Finance costs									(45)	(45)	(226)	(271)
Profit share allocations									(621)	(621)	(7)	(628)
Taxation						(7)	(7)	(7)	(1 250)	(1 257)	(126)	(1 383)
Fair value on third party mutual fund interests											(1 230)	(1 230)
Net income from insurance operations						95						
Changes in estimates												
Service fee income									863	863		863
Expenses												
Planned margins and other variances						95	95					
New business												
Shareholder taxation on transfer of net income												
Change in policyholder liabilities									(6 136)	(6 136)		(6 136)
Change in policyholder liabilities – application of shadow accounting												
Foreign currency translation	34	35	(32)	(1)	1	(3)	34					
Balance at end of year	244	222	(202)	(14)	8	–	258	(95)	1 951	1 856	1 098	2 954

Appendix G – Summary of the group's assets and liabilities by measurement basis for the year ended 31 December 2012

Financial position measurement basis	Fair value Rm	Financial soundness[(1)] Rm	Cost less amortisation[(2)] Rm	Amortised cost[(2)] Rm	Amortised fair value[(2)] Rm	Past service Rm	Equity accounted[(2)] Rm	Calculated amount Rm	Other Rm
Note	1	2	3	4	5	6	7	8	9
2012									
Assets									
Equipment and owner-occupied properties under development			952						
Owner-occupied properties	1 378								
Investment properties	24 133								
Intangible assets			262		465				32
Defined benefit pension fund employer surplus						186			
Deferred acquisition costs			449						
Interests in joint ventures				4			374		
Reinsurance assets									
– long-term insurance		978							
– short-term insurance									192
Operating leases – accrued income	1 277								
Interests in associates							72		
Interests in associates – mutual funds	13 837								
Financial investments	230 131			1 056					
Derivative assets	6 910								
Deferred taxation								253	
Prepayments, insurance and other receivables	3 489								
Cash and cash equivalents	6 327			1 060					
Total assets	287 482	978	1 663	1 660	465	186	446	253	224
Percentage (%)	98,1	0,3	0,6	0,3	0,2	0,1	0,2	0,1	0,1
Liabilities									
Long-term policyholder liabilities	71 393	165 291							
Insurance contracts	3 230	161 436							
Investment contracts with DPF		3 855							
Financial liabilities under investment contracts	68 163								
Short-term insurance liabilities									525
Financial liabilities at amortised cost				2 177					
Third party financial liabilities arising on consolidation of mutual funds	14 465								
Employee benefits	827					371			
Deferred revenue			174						
Deemed disposal taxation liability								918	
Deferred taxation								2 715	
Provisions									338
Operating leases – accrued expense	30								
Derivative liabilities	6 098								
Insurance and other payables	8 200								
Current taxation								724	
Total liabilities	101 013	165 291	174	2 177		371		4 357	863
Percentage (%)	36,8	60,3	0,1	0,8		0,1		1,6	0,3

(1) *Subject to liability adequacy test.*
(2) *Subject to annual impairment tests.*

Notes:

1. Amounts equal or materially approximate fair value.
2. Financial Soundness valuation methodology defined within South African actuarial guidance notes.
3. Original cost less straight-line amortisation over defined periods, limited to residual value.
4. Amortised cost utilising the effective interest rate method.
5. Fair value at acquisition less straight-line amortisation over defined periods, limited to residual value.
6. Past services obligation determined using the projected benefit method.
7. Cost of investment plus equity accounted post acquisition earnings.
8. Gross calculated amounts utilising appropriate tax rates not present valued over expected settlement periods.
9. Other comprises provisions at best estimate liability, goodwill calculated as the excess purchase price over net identifiable assets in a business acquisition (which is subject to annual impairment testing), short-term insurance liabilities and reinsurance assets valued using local actuarial guidance.

Financial position measurement basis	Fair value Rm	Financial soundness[(1)] Rm	Cost less amortisation[(2)] Rm	Amortised cost[(2)] Rm	Amortised fair value[(2)] Rm	Past service Rm	Equity accounted[(2)] Rm	Calculated amount Rm	Other Rm
Note	1	2	3	4	5	6	7	8	9
2011									
Assets									
Equipment and owner-occupied properties under development			897						
Owner-occupied properties	1 598								
Investment properties	23 470								
Intangible assets			300		602				31
Defined benefit pension fund employer surplus						199			
Deferred acquisition costs			403						
Interests in joint ventures				168			458		
Reinsurance assets		1 104							202
Operating leases - accrued income	1 085								
Interests in associates - mutual funds	11 697								
Financial investments	196 952			1 007					
Derivative assets	3 790								
Deferred taxation								183	
Prepayments, insurance and other receivables	2 620								
Cash and cash equivalents	6 664								
Total assets	247 876	1 104	1 600	1 175	602	199	458	183	233
Percentage (%)	97,9	0,4	0,6	0,4	0,2	0,1	0,2	0,1	0,1
Liabilities									
Long-term insurance policyholder liabilities	61 397	147 168							
Insurance contracts	1 837	143 721							
Investment contracts with DPF		3 447							
Financial liabilities under investment contracts	59 560								
Short-term insurance liabilities									466
Financial liabilities at amortised cost				2 195					
Third party financial liabilities arising on consolidation of mutual funds	11 164								
Employee benefits	623						459		
Deferred revenue			159						
Deferred taxation								2 819	
Provisions									371
Operating leases - accrued expense	93								
Derivative liabilities	3 113								
Insurance and other payables	6 304								
Current taxation								614	
Total liabilities	82 694	147 168	159	2 195			459	3 433	837
Percentage (%)	34,9	62,1	0,1	0,9			0,2	1,4	0,4

(1) *Subject to liability adequacy test.*
(2) *Subject to annual impairment tests.*

Notes:

1. Amounts equal or materially approximate fair value.
2. Financial Soundness Valuation Methodology defined within South African actuarial guidance.
3. Original cost less straight-line amortisation over defined periods, limited to residual value.
4. Amortised cost utilising the effective interest rate method.
5. Fair value at acquisition less straight-line amortisation over defined periods, limited to residual value.
6. Past services obligation determined using the projected benefit method.
7. Cost of investment plus equity accounted post acquisition earnings.
8. Gross calculated amounts utilising appropriate tax rates not present valued over expected settlement periods.
9. Other comprises provisions at best estimate liability, goodwill calculated as the excess purchase price over net identifiable assets in a business acquisition, which is subject to annual impairment testing, and short-term insurance liabilities and reinsurance assets using local actuarial guidance.

Appendix H – Forward exchange contracts

for the year ended 31 December 2012

All forward exchange contracts are valued at fair value in the statement of financial position with the resultant gain or loss included in the statement of comprehensive income.

Foreign currency	Foreign currency amount 'm	Settlement currency	Settlement value 'm	Average rate	Rand carrying value Rm	Maturity dates
2012						
Sell						
Australian dollars	24,4	US dollars	24,8	0,98	(4)	
Canadian dollars	3,1	US dollars	3,2	0,97		
Euros	1,0	Japanese yen	107,4	0,01		
Euros	2,9	US dollars	3,8	0,76		
Korean won	1 893,0	US dollars	1,7	1 113,58		
Polish zloty	3,4	US dollars	1,1	3,09		
Pound sterling	0,8	US dollars	1,3	0,62		
Singapore dollar	9,6	US dollars	8,0	1,20	1	Varies between 2 January 2013 and 3 November 2013
South African rand	299,7	US dollars	34,2	8,76		
US dollars	7,5	Chilean peso	3 661,8	0,002		
US dollars	18,2	Euros	13,9	1,31	1	
US dollars	2,2	Indian rupees	125,3	0,02		
US dollars	16,9	Japanese yen	1 415,3	0,01	(4)	
US dollars	1,3	Korean won	1 470,0	0,001		
US dollars	1,6	Mexican peso	20,1	0,08		
US dollars	14,0	Pound sterling	8,7	1,61	1	
US dollars	4,4	Turkish lira	8,0	0,55		
Total					(5)	
2011						
Sell						
Australian dollars	13,0	Japanese yen	966,6	0,01	(5)	
Australian dollars	8,9	US dollars	8,4	1,06	(5)	
Brazilian real	7,9	US dollars	4,4	1,78	2	
Euros	10,6	US dollars	14,3	0,74	3	
Japanese yen	28,9	US dollars	0,4	77,79		
Korean won	668,9	US dollars	0,6	1 159,78		Varies between 5 January 2012 to 9 March 2012
Malaysian ringgit	1,5	US dollars	0,5	3,05		
Mexican peso	15,2	US dollars	1,1	13,74		
New Zealand dollars	6,5	US dollars	5,0	1,29		
Norwegian krone	38,4	China renminbi	40,9	0,94		
Norwegian krone	11,4	US dollars	2,0	5,80	1	
Polish zloty	1,3	US dollars	0,4	3,49		
Pound sterling	3,3	US dollars	5,1	0,64		
Swedish krona	10,9	US dollars	1,6	6,95		
US dollars	5,1	Canadian dollars	5,2	0,98		
US dollars	4,7	Chilean peso	2 378,0	0,002	(1)	
US dollars	1,6	Euros	1,2	1,33		
US dollars	0,4	Indian rupees	20,9	0,02		
US dollars	9,9	Japanese yen	767,2	0,01		
US dollars	2,3	Korean won	2 947,9	0,001		
US dollars	0,4	Mexican peso	5,5	0,07		
US dollars	0,7	Polish zloty	2,4	0,30		
US dollars	13,1	Pound sterling	8,4	1,55		
US dollars	5,3	Singapore dollar	6,8	0,77		
US dollars	0,3	South African rand	2,3	0,12		
US dollars	0,7	Swedish krona	4,5	0,15		
US dollars	4,1	Turkish lira	7,4	0,55	(3)	
Total					(8)	

Appendix I – Abbreviations and definitions

Abbreviations

ALBI	All Bond Index
ALM	Asset-liability matching
APN	Actuarial Practice Note
ASISA	Association for Savings and Investment SA
BEE	Black Economic Empowerment
BESA	Bond Exchange of South Africa
BU	Business unit
CAR	Capital adequacy requirement
CE	Chief executive
CfC	Liberty Kenya Holdings Limited (previously CfC Insurance Holdings Limited) and its subsidiaries
CFO	Chief financial officer
CGT	Capital Gains Taxation
CPA	Consumer Protection Act
CRO	Chief risk officer
DAC	Deferred acquisition costs
DPF	Discretionary participation features
DRL	Deferred revenue liability
dti	Department of Trade and Industry
ECM	Emerging consumer market
EVRM	Enterprise-wide value and risk management
FAIS	Financial Advisory and Intermediary Services
FCC	Fund control committee
FCTR	Foreign Currency Translation Reserve
FSB	Financial Services Board
FSV	Financial soundness valuation
GAAC	Group audit and actuarial committee
GAO	Guaranteed annuity options
GBSMC	Group balance sheet management committee
GIAS	Group internal audit services
GRC	Group risk committee
GROC	Group risk oversight committee
GROF	Group risk officers forum
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFA	Independent financial adviser
IFRS	International Financial Reporting Standards
ISDA	International swap and derivative agreement
JSE	Johannesburg Stock Exchange
LGL	Liberty Group Limited
LHL	Liberty Holdings Limited
MCAR	Minimum capital adequacy requirement
NACC	Nominal annual compounded continuously
NACM	Nominal annual compounded monthly
NAV	Net asset value
NHI	National Health Insurance
OCAR	Ordinary capital adequacy requirement
OTC	Over-the-counter
PPI	Protection of Personal Information
PVIF	Present value of acquired in-force
RPO	Risk policy and oversight
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
SARS	South African Revenue Services
STC	Secondary Tax on Companies
TCAR	Termination capital adequacy requirement
TCF	Treating Customers Fairly

Appendix I – Abbreviations and definitions (continued)

Definitions:

Annuity	A financial contract between an insurer and a customer under which the insurer promises to make a series of periodic benefit payments to an agreed beneficiary in exchange for the payment of a premium or series of premiums to the insurer.
Asset-liability matching	The process whereby an insurer invests in assets expected to generate inward cash-flows of the same amounts and at the same times as the outward cash-flows that are expected in order to meet benefit payments.
Association for Savings and Investment SA (ASISA)	An organisation created to help facilitate an environment that provides a culture of savings and investments in South Africa by unifying some of the key industries active in this space. ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies.
Bancassurance	An arrangement whereby banks sell life, pension and investment products to their customers on behalf of a registered insurer.
BEE normalised: headline earnings per share, return on equity, group equity value per share and return on embedded value	These measures reflect the economic reality of the group's Black Economic Empowerment (BEE) transaction as opposed to the required technical accounting treatment that reflects the BEE transaction as a share buy back. Dividends received on the group's BEE preference shares (which are recognised as an asset for this purpose) are included in income. Shares in issue relating to the transaction are reinstated.
Board	Liberty Holdings Limited board of directors.
Bonus stabilisation reserve	The portion of the liability in respect of discretionary participation features (DPF) policies, which represents surplus earned but not yet distributed to policyholders.
Capital adequacy cover	The amount of capital, calculated on a basis prescribed by the Financial Services Board, the insurer has as a multiple of the capital adequacy requirement (CAR).
Capital adequacy requirement (CAR)	The capital adequacy requirement is the minimum amount by which the Financial Services Board (FSB) requires an insurer's assets to exceed its liabilities. The assets, liabilities and capital adequacy requirement must all be calculated using a method which meets the Financial Services Board's requirements. This amount is required to be held to protect the ongoing solvency of the insurer against experience worse than that assumed. Capital adequacy cover refers tot he amount of capital the insurer has as a multiple of the minimum requirement.
Claims loss ratio	This is a measure of underwriting risk for short-term insurance and is measured as a ratio of claims incurred divided by the net premiums earned.
Cost of required capital	Measures the opportunity cost incurred by a company for holding the level of required capital.
Covered business	Business regulated by the FSB as long-term insurance business.
Deferred acquisition costs (DAC)	The direct and indirect costs incurred during the financial period arising from the writing or renewing of investment contracts without DPF and short-term insurance contracts. These costs are deferred to the extent that they are recoverable out of future charges.
Deferred revenue liability (DRL)	Initial and other up-front fees received for the rendering of future investment management services on investment contracts without DPF, which are deferred and recognised as revenue when the related services are rendered. In respect of short-term insurance business, income receivable on the placement of reinsurance for risks arising from short-term business is deferred and recognised over the period of the respective reinsurance contracts.

Development costs	Represents project costs incurred on developing or enhancing future revenue opportunities.
Discretionary participation features	A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits: • that are likely to be a significant portion of the total contractual benefits, • whose amount or timing is contractually at the discretion of the issuer, and • that are contractually based on the: – performance of a specified pool of contracts or a specified type of contract, – realised and or unrealised investment returns on a specified pool of assets held by the issuer, or – profit or loss of the company, fund or other entity that issues the contract.
Embedded value	The net worth of an insurer plus the value of in-force covered business less the cost of required capital.
Exco	Group executive committee.
Financial Services Board	The FSB is an independent government endorsed institution which oversees the South African non-banking financial services industry in the public interest.
Financial soundness valuation	The valuation methodology used to value insurance contracts and investment contracts with DPF as described in SAP 104 issued by the Actuarial Society of South Africa.
Group equity value	Reflects the combined value of the various components of Liberty's businesses. It is calculated as the sum of the embedded value of South African covered business, and the valuation of other businesses in the group using a combination of recognised valuation techniques.
Guaranteed annuity options	An option provided to the holder of a contract to convert the maturity proceeds into an annuity at a predefined minimum rate.
Guaranteed element	The portion of the policyholder's benefit on a DPF policy that is guaranteed and cannot be removed at the discretion of the insurer.
Health lives	This reflects the number of natural persons covered for medical risk insurance (either through medical aids or directly) for which Liberty Health provides administration services and/or IT system support.
Health risk net claims loss ratio	Net claims incurred divided by net premiums earned (adjusted by direct expenses).
Incurred but not reported	Claims expected to be made by policyholders in respect of events that have already occurred at the insurer's reporting date but which at that date have not yet been reported to the insurer.
Indexed new business	This is a measure of insurance new business which is calculated as the sum of twelve months' premiums on new recurring premium policies and one tenth of new single premium sales.
In-force	An insurance policy is "in-force" from its start date until the date it is derecognised. In-force business refers to policies which are active, i.e. where the benefits are still payable or potentially payable to the policyholder at some future date.
Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Investment contract	A contract, which contains significant financial risk and may also contain insignificant insurance risk, but does not meet the definition of an insurance contract.
Investment guarantee	An undertaking to give a minimum investment return for a period up to an agreed future date or dates provided within a contract of insurance or investment.
Liberty	Liberty Holdings Limited and its subsidiaries.
Life licence	Licence to write business regulated in terms of the Long-term Insurance Act (1998).
Negative rand reserves	A portion of expected future management and administration fees are present valued at and recognised at point of sale. Prospective measurement takes place at each valuation date until received.

Appendix I – Abbreviations and definitions (continued)

New business margin	The value of new business expressed as a percentage of the present value of future modelled premiums at the point of sale.
Nominal annual compounded continuously (NACC)	The rate at which interest accrues on the initial principal and the accumulated interest on the principal if compounded on a continuous basis.
Nominal annual compounded monthly (NACM)	The rate at which interest accrues on the initial principal and the accumulated interest on the principal if compounded on a monthly basis.
Outstanding claims	Valid claims from policyholders which have been reported to the insurance company but have not yet been paid.
Persistency	Persistency measures the proportion of policies that are not surrendered, transferred or lapsed. It is an important measure of a insurer's retention of its business.
Policyholder liabilities	Measured liabilities on contracts that are in-force.
Professional guidance notes (PGN)	These are standards for the conduct of South African actuaries and the valuation of insurance assets and liabilities. The PGNs are available on www.actuarialsociety.org.za.
Reinsurance	Insurance or investment risk that is ceded to another insurer in return for premiums. The obligation to the policyholder remains with the entity which issued the original insurance contract.
Required capital	The level of capital that is restricted from distribution to shareholders. This comprises the statutory CAR calculated in accordance with PGN 104 plus any additional capital considered appropriate by the board given the risks in the business.
Return on embedded/group	This is the ratio of embedded value/group equity value profits to the embedded
equity value	value/group equity value at the beginning of the year.
Reversionary bonus policy	A policy with DPF where the benefit at a point in time is defined as the sum assured plus past bonus additions, to which variable annual bonuses are added. A final terminal bonus may also be added.
Statutory actuary	An actuary appointed by the insurer and approved by the Financial Services Board. This actuary is responsible for monitoring the financial soundness of the insurer to ensure that it is able to meet its policyholders' reasonable benefit expectations.
Surrender value	The surrender value of a policy is the cash value, if any, which is payable in respect of that policy upon cancellation before the end of the policy's term.
Unit-linked policy	A policy where benefits are dependent on the investment return on a portfolio of assets.
Value of in-force covered business	The present value of the projected stream of after tax profits for all business in-force at the reporting date. The present value is calculated using a risk adjusted discount rate.
Value of new business	The present value, at point of sale, of the projected stream of after tax profits for new business issued, net of the cost of required capital. The present value is calculated using a risk adjusted discount rate.

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From left to right: Paul Lancaster, Jill Parratt, Casper Troskie, Sharon Steyn, Jeff Hubbard