Liberty Holdings Limited

Annual financial statements and supporting information

2014

For the year ended 31 December

Preparation of **financial reports**

The annual financial statements of the Liberty group and company for the year ended 31 December 2014 were:

Prepared by: Mark Alexander BAcc CA (SA)
Mike Norris BCom CA (SA)
Melanie Natsas CA (SA)
Beverley Morris BCom CA (SA)

Supervised by: Jeff Hubbard BCom CA (SA) – *Group chief financial officer*
Casper Troskie BCom (Hons) CA (SA) – *Executive director – finance and risk*

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

Contents

Directors' responsibility for financial reporting

In accordance with Companies Act requirements, the annual financial statements, which conform with International Financial Reporting Standards (IFRS), fairly present the state of affairs of the group and the company as at the end of the financial year, and the net income and cash flows for the year. It is the responsibility of the independent auditors to report on the fair presentation of the annual financial statements. Their report is contained on page 3.

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 integrated 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 group and the company 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 annual financial statements of the group and company for the year ended 31 December 2014, were approved by the board of directors on 25 February 2015 and signed on its behalf by:

Jacko Maree Thabo Dloti

JH Maree
Chairman

T Dloti
Chief executive

Johannesburg
25 February 2015

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 2014 and that all such returns are true, correct and up-to-date.

J Parratt

JM Parratt
Company secretary

Johannesburg
25 February 2015

Independent **auditor's report**

for the year ended 31 December 2014

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 9 to 202, which comprise the statements of financial position as at 31 December 2014, 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 about 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 2014, 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 2014, we have read the Directors' responsibility for financial reporting, the Directors' report and the Company secretary compliance statement 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: **J Goncalves**
Registered auditor

Johannesburg
25 February 2015

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.

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 in which the group owns 57,7%, is listed on the Nairobi Stock Exchange in Kenya.

Review of results

Ordinary shareholders' attributable earnings for the group were R3 917 million, compared to R3 908 million in 2013. Detailed commentary on the 2014 financial results is contained in the various reviews throughout the integrated report as well as business unit reviews available on the corporate website. 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 2015.

The board is satisfied that Liberty Holdings and all its subsidiaries do not require business rescue proceedings as envisaged by the South African Companies Act No. 71 of 2008.

Accounting policies

The 2014 annual financial statements of Liberty Holdings Limited have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and comply with the South African Companies Act No. 71 of 2008.

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or after 1 January 2014. The accounting policies are consistent with those adopted in the previous year. All significant accounting policies applied in the preparation of the group's 2014 annual financial results are contained in this report on pages 184 to 202 and Appendix A.

Corporate governance

Liberty continues to report against the King III principles.

Compliance disclosures are included in the Governance at Liberty section in the integrated report.

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 2 928 768 (2013: 441 667) ordinary shares at an average purchase price of R126,48 per share (2013: R115,47), for a total consideration of R357 million (2013: R51 million). 2 074 115 (2013: 1 802 752) of these ordinary shares have been subsequently utilised including the share rights and restricted share schemes, whereby shares are transferred to participants at nil value 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 25 to the group's annual financial statements.

Shareholder distributions

Ordinary shareholders

2013 final

On 27 February 2014, the directors declared a final ordinary dividend of 369 cents per ordinary share to shareholders recorded at the close of business on 28 March 2014, paid on 31 March 2014.

2014 interim

On 7 August 2014 the directors declared an interim dividend of 232 cents per ordinary share to shareholders recorded at the close of business on 30 August 2014, paid on 8 September 2014.

2014 final

On 26 February 2015 the directors declared a final dividend of 402 cents per ordinary share in terms of the company's dividend policy to shareholders recorded at the close of business on 27 March 2015, to be paid on 30 March 2015.

Cumulative preference shareholders

2014 interim

On 30 June 2014, a preference dividend of 5,5 cents per share was paid to preference shareholders registered on 27 June 2014.

2014 final

On 5 January 2015, a preference dividend of 5,5 cents per share was paid to preference shareholders registered on 2 January 2015.

Director appointments and resignations during 2014

Mr MG Ilsley was appointed to the board of Liberty Holdings Limited and Liberty Group Limited on 1 November 2014 and to the Liberty Holdings Limited Group Audit and Actuarial Committee and Liberty Group Limited Audit and Actuarial Committee on 14 November 2014.

Mr SJ Macozoma resigned as director and chairman from the boards of Liberty Holdings Limited and Liberty Group Limited on 31 December 2014. He also resigned as chairman and member of the Directors' Affairs Committee and Social, Ethics and Transformation Committee and member of the Remuneration Committee on 31 December 2014.

Following the resignation of Mr SJ Macozoma the board appointed Mr AWB Band, the lead independent director, as acting chairman until the appointment of the new chairman.

On 19 January 2015 Mr JH Maree was appointed as chairman of the board. On the same date he was appointed as the chairman and member of the Social, Ethics and Transformation Committee and as a member of the Remuneration Committee. He was appointed as the chairman and a member of the Significant Transactions Committee effective 25 February 2015, and as a member of the Directors' Affairs Committee effective 1 March 2015.

Particulars of the board of directors with details of directors' remuneration are included in the Governance at Liberty section contained in the integrated report.

Company secretary

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

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

At 31 December 2014, the directors held interests, directly and indirectly, of 942 033 (2013: 519 277) ordinary shares in the company's issued share capital.

Information on options or rights to the company's ordinary shares granted to executive directors under the equity-settled remuneration schemes are contained in the Remuneration of directors and prescribed officers in the Governance at Liberty section contained in the integrated report.

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 25 February 2015.

Ordinary share rights and restricted shares

Liberty operates the following share incentive schemes, being the Liberty Holdings Group Restricted Share Plan (deferred and long-term), the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme.

An analysis of Liberty's obligations in respect of ordinary shares awarded under equity-settled schemes at 31 December 2014 is included in Appendix E on pages 218 to 221 of this report.

Contracts

Shareholders are referred to Remuneration of directors and prescribed officers in the Governance at Liberty section in the integrated report and key management aggregate compensation related party disclosure in note 41C to the group financial statements on pages 85 to 86 for disclosure pertaining to contracts relating to directors.

Property and equipment

There was no significant 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 2014, the group's holding company, Standard Bank Group Limited, held 53,62% (2013: 53,62%) of Liberty's issued ordinary shares and no interests in the issued cumulative preference shares.

Bancassurance

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

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

The payment of the profit share to Standard Bank in South Africa was paid by way of a preference dividend from Liberty Group Limited.

The bancassurance agreements are evergreen agreements with a 24-month notice period for termination. As at the date of the approval of this report, neither party had given notice. As the bancassurance relationship provides commercial benefits to both Liberty and Standard Bank, a governance framework is in place to protect the interests of non-controlling shareholders.

Refer to related party disclosure in note 41 to the group annual financial statements for further details.

Directors' report

(continued)

Acquisitions and disposals during the year

There have been no significant business acquisitions or disposals during the reporting period.

Associates

The interests in associates, where considered significant in the light of the group's financial position and results, are set out in note 9 to the group annual financial statements on pages 32 to 34.

Subsidiaries

Details of the significant interests in directly owned subsidiary companies are contained in note 3 to the company annual financial statements on pages 171 to 172 and details of other subsidiaries through these ownerships are contained in the related party disclosure in note 41 to the group annual financial statements on pages 76 to 86.

Shareholders

At 31 December 2014 Liberty had 9 602 (2013: 9 493) ordinary shareholders, consisting of individuals, corporate investors and financial institutions.

Analyses of Liberty ordinary and preference shares at 31 December 2014 are available online.

Special resolutions during the year 2014

At the annual general meeting held on 23 May 2014, 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 2014;
- 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; and
- 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 2014.

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.

The group's subsidiary, Liberty Group Limited issued R500 million of subordinated notes on 12 December 2014, bringing the total cumulative notes in issue to R3,5 billion.

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 as well as an additional £100 million is also in place.

Events after reporting date

There are no significant events after the reporting date, being 31 December 2014, to the date of approval of the audited annual financial statements, namely 25 February 2015.

Report of the **group audit and actuarial committee**

for the year ended 31 December 2014

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. Six scheduled meetings were held during 2014, four of which were the quarterly meetings in line with the scheduled board meetings. The other two meetings were held prior to the six-monthly results determination in order to review assumptions used in the actuarial valuation of policyholder liabilities and embedded value, and then recommend the assumption set, including any changes, to the board for approval. The group actuarial committee (GAC) was established in 2014 as a sub-committee of the GAAC to assist the GAAC in fulfilling its responsibilities relating to capital adequacy, the review of compliance with actuarial guidance, the discharge of actuarially related obligations and the review of material statutory reporting to the Financial Services Board. The first meeting of the GAC was held in November 2014.

These meetings enabled the members to fulfil their functions as prescribed by the Companies Act No. 71 of 2008 and the Long-term Insurance Act No 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 23 May 2014. The composition of the committee and details of their attendance at committee meetings is set out in the Governance at Liberty section on page 19 of the 2014 integrated report. The committee executed its duties and responsibilities, in accordance with the terms of reference of its mandate. Details of the activities of the GAAC are contained in the Governance at Liberty section›

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 2014 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 effective 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 executive director – finance and risk, 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 2014 annual financial statements and recommended this to the board for approval.

TDA Ross
Chairman
Group audit and actuarial committee

Johannesburg
25 February 2015

Guide to the group annual financial statements and notes

Basis of preparation

The 2014 group and company financial statements of Liberty Holdings Limited have been prepared in accordance with and containing information required by the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these annual financial statements are in terms of IFRS and are consistent with those applied in the previous group annual financial statements, except for the mandatory adoption of minor amendments to IFRS, which are effective for years commencing 1 January 2014. These changes have not resulted in any material impacts to the 2014 group's reported results, comparative periods or disclosures.

Accounting policy elections

Full accounting policies Appendix A

The nature of Liberty's business is to hold significant financial assets to meet policyholder contractual obligations. Therefore, the group's accounting policy elections are predominantly to eliminate, as much as possible, accountancy mismatches within profit or loss.

AT **FAIR VALUE** THROUGH PROFIT OR LOSS:

Financial instruments:
- Impacts **R340 billion** of reported assets (**91%**)
- Impacts **R137 billion** of reported liabilities (**39%**)

In general, financial assets are designated as at fair value through profit or loss

Interests in associates and mutual fund associate investments which are held indirectly or directly by investment-linked insurance funds, in which the group has significant influence, are designated on initial recognition as at fair value through profit or loss

Cash flow hedge accounting is applied for certain derivatives that protect the future margin releases on financial assets

Investment and owner-occupied properties:
- Impacts **R30 billion** (**8%**) of reported assets

Accounted for at fair value – shadow accounting applied for owner-occupied property as applicable

FINANCIAL SOUNDNESS VALUATION BASIS

Policyholder insurance and investment with discretionary participation features:
- Impacts **R206 billion** (**58%**) of reported liabilities

Although the application of the financial soundness valuation basis is not an accounting policy election as such, currently IFRS refers the measurement of these liabilities to existing local practice until the finalisation of IFRS 4 Phase 2. In South Africa, the valuation basis is prescribed by actuarial guidance issued by the Actuarial Society of South Africa

OTHER SIGNIFICANT ACCOUNTING POLICY ELECTIONS WHERE **IFRS ALLOWS AN OPTION**

After initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment

Equipment is stated at cost less accumulated deprecation

Assets and liabilities acquired under common control transactions are incorporated by the acquirer at their pre-combination carrying amounts

For detail regarding the summary of the group's assets and liabilities by measurement basis, refer Appendix H on page 232.

Appendix H

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 5 of the accounting policies and details of depreciation charged in note 3 to the group financial statements.

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

Determination of fair value: Investment and owner-occupied properties are measured at fair value taking into account characteristics of the properties that market participants would take into account when pricing the property at measurement date. These include various inputs relating to existing tenant terms, location, vacancy levels and restrictions, if any, on the sale or use of the asset. The group makes judgement regarding the unit of account, i.e. whether it should be valued as a standalone property or as a group of properties. Determination of fair value for a non-financial asset also considers the current use of the property in terms of its highest and best use, taking into account the use of the asset that is physically possible, legally permissible and financially feasible. Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer note 4 and 5 on the group financial statements for specific details, including a sensitivity analysis on the fair value of these properties to a change in the capitalisation rate assumption. Given the number of management judgements applied in the valuation, these assets are considered to be level three in the fair value hierarchy.

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

Fair value measurement: The group holds a number of financial assets and liabilities that are designated at fair value through profit or loss or that are classified as held for hedging. These are valued at quoted liquid market prices as far as possible. However, if such prices are unavailable, fair value is based on either internal valuations or management's best estimates of realisable amounts. The group's valuation methodologies have been set out in sections 9, 10, 11, 12 and 17 of the accounting policies. Analysis of assets and liability for the fair value hierarchy is contained in note 49. The value of the instruments can fluctuate on a daily basis and consequently the actual amounts realised subsequently may differ materially from their value at the reporting date. Financial instruments that are measured using the most advantageous active market quoted prices are measured on the market's reported closing price at 31 December. The closing price is often the particular markets defined "ruling price" commonly accepted by market participants as a practical expediency to reflect exit price. Full disclosure of unquoted financial instruments, valuation hierarchy and sensitivities are contained in the risk management section of this report. Given the number of management judgements applied in the valuation of unquoted equity instruments most are considered to be level three in the fair value hierarchy.

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

Interests in subsidiaries

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

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

Unconsolidated structured entities – mutual funds

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

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

Intangible assets

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

Subsequent measurement: The group does not revalue intangible assets and, where there is a finite life to the asset, amortises the initial recognition amounts over estimated useful lives, taking into account any expected residual values relating to each class of intangible asset. The amortisation method used best reflects the pattern in which the asset's future economic benefits are consumed by the group. Details of the amortisation methodology, amortisation charge and useful lives are contained in section 7 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 group financial statements.

Deferred acquisition costs and deferred revenue

Revenue recognition: Deferred acquisition costs in respect of investment management contracts are amortised on a straight-line basis over the expected life of the contract. Deferred revenue is released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Refer to notes 7 and 20 for details of amounts recognised in profit or loss.

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 17 and 18 of the accounting policies and in note 14 to the group financial statements.

Policyholder liabilities – investment contracts with discretionary participation features

Liability determination: The full liability represents the total fair value of the matching asset portfolio. Judgement is applied in determining annual bonus rates which in turn determine the split of the liability between the current value of policyholder obligations and the bonus stabilisation reserve.

Policyholder liabilities under short-term insurance contracts and related reinsurance assets

Liability and asset determination: 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 2014 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.

Key judgements in applying assumptions on application of accounting policies

(continued)

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

Liability and asset determination: In deriving probable post-retirement employee benefit liabilities and recognised surpluses, various assumptions, for example mortality, medical cost trend rate and future salary increases, are required. Further details are contained in note 19 on the group financial statements.

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

The allocation of surpluses are however conditional on a three yearly regulatory valuation approved by the Financial Services Board. Consequently management judge the net surplus in between the three-yearly regulatory valuations as conditional and the asset ceiling is referenced to the most recent FSB approved valuation. Refer to note 19.5 in the group financial statements for more detail.

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

Expense and liability determination: In calculating the amount to be expensed representing the value of share-based payments granted to employees and the movement in the liability of long-term cash incentive schemes, various assumptions relating to expected take up of rights and incentives, equity share price, dividend yields and related volatility are applied. Details of these are contained in notes 19 and 34 to the group financial statements.

Provisions

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

Consolidated statement of **financial position**

as at 31 December 2014

Policy[(1)]		Notes	2014 Rm	2013 Rm
	Assets			
5, 6	Equipment and owner-occupied properties under development	3	**975**	1 114
6	Owner-occupied properties	4	**1 464**	1 410
6	Investment properties	5	**27 022**	27 299
7	Intangible assets	6	**368**	475
21	Defined benefit pension fund employer surplus	19	**277**	210
17	Deferred acquisition costs	7	**590**	527
2	Interests in joint ventures	8		404
18	Reinsurance assets		**1 558**	1 609
	Long-term insurance	14	**1 302**	1 161
	Short-term insurance	16	**256**	448
6	Operating leases – accrued income	5	**1 261**	1 315
9	Pledged assets measured at fair value through profit or loss	10	**6 991**	1 348
9, 11	Assets held for trading and for hedging	11	**7 777**	6 387
2, 9	Interests in associates – measured at fair value through profit or loss	9	**16 497**	15 361
9	Financial investments	11	**292 844**	279 043
22	Deferred taxation	21	**455**	354
9, 17	Prepayments, insurance and other receivables	12	**3 668**	3 913
13	Cash and cash equivalents	13	**13 985**	9 870
	Total assets		**375 732**	350 639
	Liabilities			
	Long-term policyholder liabilities		**287 516**	263 944
17	Insurance contracts	14	**195 356**	180 742
17	Investment contracts with discretionary participation features	14	**10 177**	9 056
10, 17	Financial liabilities under investment contracts	15	**81 983**	74 146
17	Short-term insurance liabilities	16	**683**	846
10	Financial liabilities at amortised cost	17	**3 575**	3 167
10	Third-party financial liabilities arising on consolidation of mutual funds	18	**34 501**	39 983
21	Employee benefits	19	**1 371**	1 344
17	Deferred revenue	20	**216**	194
22	Deferred taxation	21	**4 131**	3 586
22	Deemed disposal taxation liability	22	**268**	544
23	Provisions	23	**173**	195
10, 11	Derivative liabilities	11	**5 148**	4 860
10, 17	Insurance and other payables	24	**14 251**	9 716
22	Current taxation		**265**	904
	Total liabilities		**352 098**	329 283
	Equity			
	Ordinary shareholders' interests		**19 487**	17 654
14	Share capital	25	**26**	26
	Share premium	25	**5 755**	5 985
	Retained surplus		**14 599**	12 454
	Other reserves		**(893)**	(811)
2	Non-controlling interests	44	**4 147**	3 702
	Total equity		**23 634**	21 356
	Total equity and liabilities		**375 732**	350 639

(1) *Accounting policy reference in Appendix A.*

Consolidated statement of **comprehensive income**

for the year ended 31 December 2014

Policy[1]		Notes	2014 Rm	2013 Rm
	Revenue			
17	Insurance premiums	26	**42 139**	35 782
17	Reinsurance premiums	26	**(1 415)**	(1 316)
	Net insurance premiums		**40 724**	34 466
17	Service fee income from investment contracts	27	**916**	900
20	Investment income	28	**15 796**	13 220
20	Hotel operations sales		**673**	809
9	Investment gains	29	**19 274**	33 554
20	Fee revenue and reinsurance commission	30	**2 322**	2 324
	Total revenue		**79 705**	85 273
17	Claims and policyholder benefits under insurance contracts	31	**(32 629)**	(25 904)
17	Insurance claims recovered from reinsurers	31	**898**	1 357
17	Change in long-term policyholder liabilities		**(15 469)**	(20 698)
	Insurance contracts		**(14 559)**	(15 937)
	Investment contracts with discretionary participation features		**(1 050)**	(4 941)
	Applicable to reinsurers		**140**	180
17	Fair value adjustment to policyholder liabilities under investment contracts	15	**(7 473)**	(10 135)
10	Fair value adjustment on third-party mutual fund interests	18	**(3 585)**	(7 832)
17	Acquisition costs	32	**(4 579)**	(4 233)
	General marketing and administration expenses	33	**(9 376)**	(9 079)
20	Finance costs	35	**(407)**	(327)
	Profit share allocations under bancassurance and other agreements		**(876)**	(984)
	Profit before taxation		**6 209**	7 438
22	Taxation	37.1	**(1 926)**	(2 968)
	Total earnings		**4 283**	4 470
	Other comprehensive income		**(47)**	88
	Items that may be reclassified subsequently to profit or loss		**(52)**	56
11	Net change in fair value on cash flow hedges	11.6	**(129)**	(183)
22	Income and capital gains tax relating to net change in fair value on cash flow hedges	11.6	**36**	53
3	Foreign currency translation		**41**	186
	Items that may not be reclassified subsequently to profit or loss		**5**	32
6	Owner-occupied properties – fair value adjustment	4	**22**	28
22	Income and capital gains tax relating to owner-occupied properties fair value adjustment		**(25)**	(10)
17	Change in long-term policyholder insurance liabilities (application of shadow accounting)		**(12)**	(22)
21	Actuarial (losses)/gains on post-retirement medical aid liability	19.7	**(16)**	24
22	Income tax relating to post-retirement medical aid liability		**4**	(7)
21	Net adjustments to defined benefit pension fund[2]	19.5	**62**	26
22	Income tax relating to defined benefit pension fund		**(30)**	(7)
	Total comprehensive income		**4 236**	4 558
	Total earnings attributable to:			
	Ordinary shareholders' interests		**3 917**	3 908
2	Non-controlling interests		**366**	562
			4 283	4 470
	Total comprehensive income attributable to:			
	Ordinary shareholders' interests		**3 864**	3 936
2	Non-controlling interests		**372**	622
			4 236	4 558
	Basic and fully diluted earnings per share		Cents	Cents
	Basic earnings per share	1	**1 523,5**	1 517,9
	Fully diluted basic earnings per share	1	**1 392,4**	1 393,4

[1] Accounting policy reference in Appendix A.

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

Statement of **changes in shareholders' funds**

for the year ended 31 December 2014

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 1 January 2013	5 754	21	(11)	176	(1 012)	150	10 332	3 101	18 511
Ordinary dividends (total 548 cents per share)						(14)	(1 552)		(1 566)
Special ordinary dividend (130 cents per share)						(3)	(368)		(371)
Total comprehensive income		124	(130)	20			3 922	622	4 558
Recycling of FCTR		(18)						2	(16)
Preference dividends							(2)		(2)
Unincorporated property partnerships								(6)	(6)
Capital contribution								184	184
Distribution								(190)	(190)
Non-controlling interests' share of subsidiary dividend								(17)	(17)
Share buy-back	(51)								(51)
Subscription for shares	36								36
Black economic empowerment transaction					107		64		171
Share-based payments						109			109
Transfer of vested share-based payments						(61)	61		
Transfer of owner-occupied properties				3			(3)		
Balance at 31 December 2013	**5 739**	**127**	**(141)**	**199**	**(905)**	**181**	**12 454**	**3 702**	**21 356**
Transaction between owners:									
Acquisition of Liberty Health Holdings							**(244)**	**204**	**(40)**
Change in ownership in Liberty Life Uganda		**3**					**15**	**(18)**	
Change in ownership in Liberty Kenya Holdings							**(4)**	**4**	
Common control transaction:									
Acquisition of SIMS Ghana							**(11)**		**(11)**
Ordinary dividends (total 601 cents per share)						**(23)**	**(1 696)**		**(1 719)**
Total comprehensive income		**29**	**(93)**	**3**			**3 925**	**372**	**4 236**
Preference dividends							**(2)**		**(2)**
Unincorporated property partnerships								**(79)**	**(79)**
Capital contribution								**126**	**126**
Distribution								**(205)**	**(205)**
Non-controlling interests' share of subsidiary dividend								**(38)**	**(38)**
Share buy-back	**(357)**								**(357)**
Subscription for shares	**2**								**2**
Black economic empowerment transaction					**98**		**55**		**153**
Share-based payments						**133**			**133**
Transfer of vested share-based payments						**(111)**	**111**		
Transfer of owner-occupied properties				**4**			**(4)**		
Balance at 31 December 2014	**5 384**	**159**	**(234)**	**206**	**(807)**	**180**	**14 599**	**4 147**	**23 634**

Ordinary share capital	**26**
Ordinary share premium	**5 755**
Treasury share reserve	**(400)**
Capital Redemption Reserve Fund (CRRF)	**3**

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

Statement of **cash flows**

for the year ended 31 December 2014

	Notes	2014 Rm	2013 Rm
Cash flows from operating activities		**5 832**	8 196
Cash (utilised)/generated by operations	38	**(2 283)**	2 768
Cash receipts from policyholders		**56 868**	49 161
Cash paid to policyholders, intermediaries, suppliers and employees		**(59 151)**	(46 393)
Interest received		**10 302**	7 644
Interest paid		**(407)**	(327)
Dividends received		**3 316**	3 262
Distributions in lieu of dividends/dividends paid	39	**(2 477)**	(2 577)
Distribution to non-controlling interests in unincorporated property partnerships		**(205)**	(190)
Taxation paid	40	**(2 414)**	(2 384)
Cash flows from investing activities		**(1 928)**	(10 014)
Net sales/(purchases) of properties under development, investment and owner-occupied properties		**1 435**	(561)
Purchase of equipment		**(247)**	(466)
Proceeds on sale of equipment		**136**	7
Acquisition of intangible assets		**(62)**	(51)
Net purchase of financial instruments[1]		**(3 139)**	(8 943)
Net movements in loans with joint venture companies		**4**	
Acquisition of non-controlling interests in Liberty Health Holdings (Pty) Limited	36.2	**(40)**	
Acquisition of Stanbic Investment Management Services Limited (Ghana)	36.1	**(15)**	
Cash flows from financing activities		**179**	1 157
Repayment of financial liabilities at amortised cost		**(88)**	(11)
Advance of financial liabilities at amortised cost		**496**	999
Non-controlling interests' capital movements in unincorporated property partnerships		**126**	184
Subscription for shares		**2**	36
Share buy-back		**(357)**	(51)
Net increase/(decrease) in cash and cash equivalents		**4 083**	(661)
Cash and cash equivalents at the beginning of the year		**9 870**	10 418
Foreign currency translation		**27**	113
Cash and cash equivalents acquired through business acquisition	36.1	**5**	
Cash and cash equivalents at the end of the year	13	**13 985**	9 870

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

Notes to the **group annual financial statements**

for the year ended 31 December 2014

	2014 Rm	2013 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	**3 917**	3 908
Preference share dividend	**(2)**	(2)
Basic earnings attributable to ordinary shareholders	**3 915**	3 906
Derecognition and impairment of intangible assets		126
FCTR recycled through profit or loss		(18)
Headline earnings attributable to ordinary shareholders	**3 915**	4 014
Net income earned on BEE preference shares	**53**	62
BEE normalised headline earnings attributable to ordinary shareholders	**3 968**	4 076
	Cents	Cents
Earnings per share		
Total earnings attributable to ordinary shareholders		
Basic	**1 523,5**	1 517,9
Headline	**1 523,5**	1 559,8
BEE normalised headline	**1 403,3**	1 439,6
Fully diluted earnings attributable to ordinary shareholders		
Basic	**1 392,4**	1 393,4
Headline	**1 392,4**	1 431,9

Definitions:

Basic earnings per share is basic earnings attributable to ordinary shareholders 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 2/2013, 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 2/2013 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.

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/restricted share plans 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/restricted shares, 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/restricted shares.

1 Headline earnings and earnings per share (continued)

	2014 000's	2013 000's
Weighted average number of shares in issue	**256 975**	257 334
Weighted average shares before BEE transaction	**282 771**	283 130
Effect of BEE transaction	**(25 796)**	(25 796)
Fully diluted weighted average number of shares in issue	**281 165**	280 329
Weighted average number of shares in issue	**256 975**	257 334
Adjustments for:		
Implementation of shares under option and rights below fair value	**2 958**	3 626
Effect of restricted share plans	**2 142**	1 297
Effect of BEE transaction	**19 090**	18 072

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 transactions 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 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 integrated report and business unit reviews. These measures include indexed new business, new business margin, net cash flows, assets under management and embedded value.

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) Bundled investment and risk (including annuities)	Contracts that offer a combination of savings and risk benefits. These include products that offer a defined 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) Pure risk	Insurable risk benefits such as life and disability.
(b) Annuities and investment	Facilitation of employee savings for retirement and payment of post retirement benefits.

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.
Administration and shareholder services	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

	Long-term insurance		Short-term insurance	Asset management	Health services	Other	Total	Reporting adjustments[1]	IFRS reported
	Retail Rm	Corporate Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2014									
Policyholder premiums	**39 432**	**14 984**	**1 037**				**55 453**	**(14 729)**	**40 724**
Service fee income from policyholder investment contracts								**916**	**916**
Investment returns	**23 475**	**5 423**	**81**	**116**	**5**	**1 737**	**30 837**	**4 906**	**35 743**
Fee revenue	**7**		**75**	**2 951**	**312**	**220**	**3 565**	**(1 243)**	**2 322**
Total revenue	**62 914**	**20 407**	**1 193**	**3 067**	**317**	**1 957**	**89 855**	**(10 150)**	**79 705**
Net claims and policyholder benefits	**(33 209)**	**(11 337)**	**(612)**				**(45 158)**	**13 427**	**(31 731)**
Change in policyholder liabilities	**(15 952)**	**(7 354)**					**(23 306)**	**7 837**	**(15 469)**
Fair value adjustment to policyholder liabilities under investment contracts								**(7 473)**	**(7 473)**
Fair value adjustment on third-party mutual fund interests								**(3 585)**	**(3 585)**
Acquisition costs	**(3 842)**	**(267)**	**(84)**	**(335)**		**(51)**	**(4 579)**		**(4 579)**
Marketing and administration expenses	**(4 751)**	**(1 042)**	**(390)**	**(1 721)**	**(390)**	**(1 310)**	**(9 604)**	**228**	**(9 376)**
Finance costs	**(351)**			**(67)**			**(418)**	**11**	**(407)**
Profit share allocations	**(865)**	**(2)**				**(9)**	**(876)**		**(876)**
Profit/(loss) before taxation	**3 944**	**405**	**107**	**944**	**(73)**	**587**	**5 914**	**295**	**6 209**
Taxation	**(1 713)**	**(102)**	**(28)**	**(230)**	**22**	**125**	**(1 926)**		**(1 926)**
Total earnings/(loss)	**2 231**	**303**	**79**	**714**	**(51)**	**712**	**3 988**	**295**	**4 283**
Other comprehensive (loss)/income									
Owner-occupied properties – fair value adjustment	**20**	**2**					**22**		**22**
Net change in fair value on cash flow hedges	**(129)**						**(129)**		**(129)**
Post-retirement obligations	**(13)**	**(2)**		**(1)**		**62**	**46**		**46**
Foreign currency translation	**21**		**9**	**11**			**41**		**41**
Change in long-term policyholder insurance liabilities (application of shadow accounting)	**(11)**	**(1)**					**(12)**		**(12)**
Income and capital gains tax relating to:									
– owner-occupied properties	**(23)**	**(2)**					**(25)**		**(25)**
– net change in fair value on cash flow hedges	**36**						**36**		**36**
– post-retirement obligations	**4**					**(30)**	**(26)**		**(26)**
Total comprehensive income/(loss)	**2 136**	**300**	**88**	**724**	**(51)**	**744**	**3 941**	**295**	**4 236**
Attributable to:									
Non-controlling interests	**(39)**	**(23)**	**(39)**	**(8)**	**14**	**18**	**(77)**	**(295)**	**(372)**
Equity holders	**2 097**	**277**	**49**	**716**	**(37)**	**762**	**3 864**		**3 864**
Reconciliation of total earnings/(loss) to headline earnings/(loss) attributable to equity holders									
Total earnings/(loss)	**2 231**	**303**	**79**	**714**	**(51)**	**712**	**3 988**	**295**	**4 283**
Attributable to non-controlling interests	**(37)**	**(23)**	**(35)**	**(8)**	**14**	**18**	**(71)**	**(295)**	**(366)**
Preference share dividend						**(2)**	**(2)**		**(2)**
Headline earnings/(loss)	**2 194**	**280**	**44**	**706**	**(37)**	**728**	**3 915**		**3 915**
Net income earned on BEE preference shares						**53**	**53**		**53**
BEE normalised headline earnings/(loss)	**2 194**	**280**	**44**	**706**	**(37)**	**781**	**3 968**		**3 968**

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

2 Segment information (continued)

Segment earnings

	Long-term insurance		Short-term insurance	Asset management	Health services	Other	Total	Reporting adjustments[(1)]	IFRS reported
	Retail Rm	Corporate Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2013									
Policyholder premiums	35 725	11 190	930				47 845	(13 379)	34 466
Service fee income from policyholder investment contracts								900	900
Investment returns	30 399	6 129	64	109	9	1 608	38 318	9 265	47 583
Fee revenue			82	2 955	279	209	3 525	(1 201)	2 324
Total revenue	66 124	17 319	1 076	3 064	288	1 817	89 688	(4 415)	85 273
Net claims and policyholder benefits	(29 378)	(11 221)	(559)				(41 158)	16 611	(24 547)
Change in policyholder liabilities	(22 312)	(4 370)					(26 682)	5 984	(20 698)
Fair value adjustment to policyholder liabilities under investment contracts								(10 135)	(10 135)
Fair value adjustment on third-party mutual fund interests								(7 832)	(7 832)
Acquisition costs	(3 480)	(274)	(74)	(371)		(34)	(4 233)		(4 233)
Marketing and administration expenses	(4 547)	(1 154)	(327)	(1 723)	(541)	(1 111)	(9 403)	324	(9 079)
Finance costs	(277)			(42)	(21)	(8)	(348)	21	(327)
Profit share allocations	(969)	(2)		(2)		(11)	(984)		(984)
Profit/(loss) before taxation	5 161	298	116	926	(274)	653	6 880	558	7 438
Taxation	(2 585)	(78)	(51)	(258)	46	(42)	(2 968)		(2 968)
Total earnings/(loss)	2 576	220	65	668	(228)	611	3 912	558	4 470
Other comprehensive (loss)/income									
Owner-occupied properties – fair value adjustment	25	3					28		28
Net change in fair value on cash flow hedges	(183)						(183)		(183)
Post-retirement obligations	21	3				26	50		50
Foreign currency translation	75		57	28		26	186		186
Change in long-term policyholder insurance liabilities (application of shadow accounting)	(20)	(2)					(22)		(22)
Income and capital gains tax relating to:									
– owner-occupied properties	(9)	(1)					(10)		(10)
– net change in fair value on cash flow hedges	53						53		53
– post-retirement obligations	(6)	(1)				(7)	(14)		(14)
Total comprehensive income/(loss)	2 532	222	122	696	(228)	656	4 000	558	4 558
Attributable to:									
Non-controlling interests	(46)	(17)	(52)	(9)	57	3	(64)	(558)	(622)
Equity holders	2 486	205	70	687	(171)	659	3 936		3 936
Reconciliation of total earnings/(loss) to headline earnings/(loss) attributable to equity holders									
Total earnings/(loss)	2 576	220	65	668	(228)	611	3 912	558	4 470
Attributable to non-controlling interests	(14)	(17)	(25)	(8)	57	3	(4)	(558)	(562)
Preference share dividend						(2)	(2)		(2)
Intangible assets impairments	27				99		126		126
FCTR recycled through profit or loss					6	(24)	(18)		(18)
Headline earnings/(loss)	2 589	203	40	660	(66)	588	4 014		4 014
Net income earned on BEE preference shares						62	62		62
BEE normalised headline earnings/(loss)	2 589	203	40	660	(66)	650	4 076		4 076

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

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

2 Segment information (continued)

Analysis of long-term insurance earnings by product classification

	Retail		Corporate		
	Pure risk Rm	Bundled investment and risk (including annuities) Rm	Pure risk Rm	Annuities and investment Rm	Total Rm
2014					
Policyholder premiums	**8 324**	**31 108**	**2 126**	**12 858**	**54 416**
Investment returns	**(291)**	**23 766**	**275**	**5 148**	**28 898**
Fee revenue		**7**			**7**
Total revenue	**8 033**	**54 881**	**2 401**	**18 006**	**83 321**
Net claims and policyholder benefits	**(2 762)**	**(30 447)**	**(1 556)**	**(9 781)**	**(44 546)**
Change in policyholder liabilities	**851**	**(16 803)**	**(178)**	**(7 176)**	**(23 306)**
Acquisition costs	**(2 249)**	**(1 593)**	**(44)**	**(223)**	**(4 109)**
Marketing and administration expenses	**(1 493)**	**(3 258)**	**(250)**	**(792)**	**(5 793)**
Finance costs		**(351)**			**(351)**
Profit share allocations	**(746)**	**(119)**	**(2)**		**(867)**
Profit before taxation	**1 634**	**2 310**	**371**	**34**	**4 349**
Total per operating segment		**3 944**		**405**	**4 349**
2013					
Policyholder premiums	7 712	28 013	2 026	9 164	46 915
Investment returns	161	30 238	16	6 113	36 528
Total revenue	7 873	58 251	2 042	15 277	83 443
Net claims and policyholder benefits	(2 499)	(26 879)	(1 472)	(9 749)	(40 599)
Change in policyholder liabilities	481	(22 793)	9	(4 379)	(26 682)
Acquisition costs	(2 112)	(1 368)	(50)	(224)	(3 754)
Marketing and administration expenses	(1 319)	(3 228)	(279)	(875)	(5 701)
Finance costs		(277)			(277)
Profit share allocations	(878)	(91)	(2)		(971)
Profit before taxation	1 546	3 615	248	50	5 459
Total per operating segment		5 161		298	5 459

2 Segment information (continued)

Other financial detail by operating segment

	Long-term insurance Retail Rm	Corporate Rm	Short-term insurance Rm	Asset management Rm	Health services Rm	Other Rm	Total Rm	Reporting adjustments[1] Rm	IFRS reported Rm
2014									
Total assets	**225 615**	**61 901**	**683**	**5 532**	**380**	**42 762**	**336 873**	**38 859**	**375 732**
Additions to non-current assets	**822**	**81**	**8**	**48**	**13**	**236**	**1 208**	**4**	**1 212**
Interest income	**6 218**	**1 436**	**21**	**100**	**549**	**460**	**8 785**	**1 516**	**10 302**
Depreciation				**(25)**	**(7)**	**(198)**	**(230)**	**(23)**	**(253)**
Amortisation of PVIF	**(107)**	**(1)**					**(108)**		**(108)**
Amortisation of distribution force			**(2)**				**(2)**		**(2)**
Amortisation of computer software internally generated	**(18)**			**(6)**	**(17)**		**(41)**		**(41)**
Amortisation of customer relationships and contracts			**(10)**		**(11)**		**(21)**		**(21)**
Amortisation of deferred acquisition costs	**(54)**	**(181)**	**(11)**				**(246)**		**(246)**
Release of deferred revenue	**22**		**9**				**31**		**31**
2013									
Total assets	200 138	63 806	846	24 766	451	16 645	306 652	43 987	350 639
Additions to non-current assets	581	53	10	138	15	304	1 101	12	1 113
Interest in joint ventures	364	36			1	3	404		404
Interest income	4 914	991	10	82	1	260	6 258	1 386	7 644
Depreciation				(23)	(11)	(209)	(243)	(19)	(262)
Amortisation of PVIF	(70)	(44)	(1)				(115)		(115)
Amortisation of distribution force	(1)	(1)	(2)				(4)		(4)
Amortisation of computer software internally generated	(8)			(7)	(27)		(42)		(42)
Amortisation of customer relationships and contracts	(5)		(10)		(11)		(26)		(26)
Impairment and derecognition of intangible assets	(36)				(133)		(169)		(169)
Amortisation of deferred acquisition costs	(45)	(174)	(9)					(228)	(228)
Release of deferred revenue	21		9					30	30

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

2 Segment information (continued)

Segment information from geographical areas

	South Africa		Other Africa[1]		Total	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Revenue from external customers	**77 367**	83 335	**2 338**	1 938	**79 705**	85 273
Total earnings attributable to Liberty shareholders	**3 800**	3 780	**117**	128	**3 917**	3 908
Non-current assets	**32 416**	33 040	**546**	498	**32 962**	33 538
Total assets	**370 534**	345 705	**5 198**	4 934	**375 732**	350 639
Total liabilities	**348 106**	325 504	**3 992**	3 779	**352 098**	329 283

[1] *Other Africa includes Nigeria, Namibia, Swaziland, Botswana, Zambia, Kenya, Uganda, Lesotho, Tanzania and Ghana.*

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.

	2014 Rm	2013 Rm
3 Equipment and owner-occupied properties under development		
Cost at the beginning of the year	**3 086**	2 835
Additions	**247**	466
Disposals	**(572)**	(206)
Transfers		(47)
Foreign currency translation	**9**	38
Cost at the end of the year	**2 770**	3 086
Accumulated depreciation and impairment at the beginning of the year	**(1 972)**	(1 883)
Depreciation	**(253)**	(262)
Disposals	**436**	199
Foreign currency translation	**(6)**	(26)
Accumulated depreciation and impairment at the end of the year	**(1 795)**	(1 972)
Net carrying value at the end of the year	**975**	1 114
Summary of net carrying value		
Computer equipment	**317**	317
Purchased computer software	**71**	67
Fixtures, furniture and fittings	**454**	596
Office equipment	**89**	95
Motor vehicles	**44**	39

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

	Balance at the beginning of the year Rm	Additions Rm	Disposals Rm	Foreign currency translation Rm	Transfers Rm	Depre-ciation Rm	Balance at the end of the year Rm
2014							
Cost – movement							
Computer equipment	**1 271**	**113**	**(224)**	**2**			**1 162**
Purchased computer software	**264**	**38**	**(9)**	**2**			**295**
Fixtures, furniture and fittings	**1 248**	**49**	**(305)**	**4**			**996**
Office equipment	**219**	**24**	**(19)**	**1**			**225**
Motor vehicles	**84**	**23**	**(15)**				**92**
	3 086	**247**	**(572)**	**9**			**2 770**
Accumulated depreciation and impairments – movement							
Computer equipment	**(954)**		**221**	**(1)**		**(111)**	**(845)**
Purchased computer software	**(197)**		**9**	**(3)**		**(33)**	**(224)**
Fixtures, furniture and fittings	**(652)**		**191**			**(81)**	**(542)**
Office equipment	**(124)**		**2**	**(2)**		**(12)**	**(136)**
Motor vehicles	**(45)**		**13**			**(16)**	**(48)**
	(1 972)		**436**	**(6)**		**(253)**	**(1 795)**
2013							
Cost – movement							
Owner-occupied properties under development[(1)]	13	34			(47)		
Computer equipment	1 130	186	(52)	7			1 271
Purchased computer software	243	39	(29)	11			264
Fixtures, furniture and fittings	1 179	158	(90)	1			1 248
Office equipment	180	31	(7)	15			219
Motor vehicles	90	18	(28)	4			84
	2 835	466	(206)	38	(47)		3 086
Accumulated depreciation and impairments – movement							
Computer equipment	(894)		51	(5)		(106)	(954)
Purchased computer software	(193)		29	(8)		(25)	(197)
Fixtures, furniture and fittings	(633)		89	(7)		(101)	(652)
Office equipment	(113)		7	(3)		(15)	(124)
Motor vehicles	(50)		23	(3)		(15)	(45)
	(1 883)		199	(26)		(262)	(1 972)

[(1)] No depreciation is provided for on owner-occupied properties under development.

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

	2014 Rm	2013 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	**1 410**	1 378
Additions	**13**	8
Fair value adjustment	**22**	28
Reclassifications from/(to) investment properties	**14**	(69)
Reclassifications from properties under development		47
Foreign currency translation	**5**	18
Fair value at the end of the year	**1 464**	1 410
Located in:		
South Africa	**1 364**	1 356
Kenya	**100**	54
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.		
Cost at the beginning of the year	**784**	772
Additions	**13**	8
Reclassifications from/(to) investment properties	**32**	(58)
Reclassifications from properties under development		47
Foreign currency translation	**2**	15
Cost at the end of the year	**831**	784
Accumulated depreciation at the beginning and the end of the year[1]	**(57)**	(57)
Cost less accumulated depreciation	**774**	727

[1] *No depreciation was provided in 2014 or 2013 as the residual value of the buildings is equal to or greater than the cost less accumulated depreciation.*

4 Owner-occupied properties (continued)

The South African located investment properties were independently valued as at 31 December 2014 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 Kenyan located properties were independently valued as at 31 December 2014 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 'fair value' which is defined as an opinion of the best price (adopting the highest and best use principle) 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 2014. 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 2014. 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 6,75% to 10,5% (2013: 7% to 11%) on a property by property basis. Exit capitalisation rates generally range from 6,75% to 10,5% (2013: 7% to 11%).

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.

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

	2014 Rm	2013 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	**27 299**	24 133
Revaluations net of lease straight-lining	**1 178**	2 530
Revaluations	**1 124**	2 598
Net movement on straight-lining operating leases	**54**	(68)
Additions – property acquired	**163**	42
Additions – capitalised subsequent expenditure	**735**	546
Disposals	**(2 346)**	(35)
Reclassifications (to)/from owner-occupied properties	**(14)**	69
Foreign currency translation	**7**	14
Investment properties at fair value	**27 022**	27 299
Operating leases – accrued income	**1 261**	1 315
Total interest in investment properties	**28 283**	28 614
Property types:		
Shopping malls	**24 485**	23 772
Hotels	**1 219**	2 455
Office buildings	**1 404**	1 416
Other	**1 175**	971
Located in:		
South Africa	**28 145**	28 452
Kenya	**119**	142
Nigeria	**19**	20

The South African located investment properties were independently valued as at 31 December 2014 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 2014 by various registered professional valuers in each territory.

At 31 December 2014 unlet space amounted to 9,7% (2013: 6,0%) of available lease area in the investment properties held by the group. The average net rental growth is 0,6% (2013: 2,3%).

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R2 095 million (2013: R2 210 million), including straight-lining operating leases or R2 149 million (2013: R2 110 million) excluding straight-lining operating leases. Direct operating expenses arising on investment properties amounted to R638 million (2013: R633 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 2014 of owner-occupied properties (R1 464 million) and investment properties (R28 283 million) is R29 747 million (2013: R30 024 million). A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R4,14 billion (2013: R4,11 billion) if the assumption decreased, and decrease the total fair value by R3,15 billion (2013: R3,15 billion) if the assumption increased.

	2014 Rm	2013 Rm
6 Intangible assets		
Cost at the beginning of the year	**3 135**	3 134
Additions	**62**	51
Impairment and derecognition		(88)
Foreign currency translation	**6**	38
Cost at the end of the year	**3 203**	3 135
Accumulated amortisation and impairment at the beginning of the year	**(2 660)**	(2 375)
Amortisation	**(172)**	(187)
Impairment and derecognition		(81)
Foreign currency translation	**(3)**	(17)
Accumulated amortisation and impairment at the end of the year	**(2 835)**	(2 660)
Net carrying amount at the end of the year	**368**	475
Summary of net carrying value		
Goodwill[1]	**41**	39
Distribution forces	**10**	11
Tradenames	**1**	1
Computer software – internally generated	**160**	139
Customer relationships and contracts	**30**	52
Present value of in-force policyholder insurance contracts[2]	**126**	233

[1] ***Goodwill in 2014 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	*41*		*41*
	552	*(511)*	*41*

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).

Liberty Kenya Holdings Limited 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% (2013: 15%). No impairment was necessary.

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

6 Intangible assets (continued)

	Balance at the beginning of the year Rm	Additions Rm	Impairment and derecognition Rm	Amortisation Rm	Foreign currency translation Rm	Balance at the end of the year Rm	Amortisation period
2014							
Cost – movement							
Goodwill	**550**				**2**	**552**	
Distribution forces	**53**				**3**	**56**	
Tradenames	**4**					**4**	
Computer software – internally generated	**642**	**62**				**704**	
Customer relationships and contracts	**198**				**(2)**	**196**	
Present value of in-force policyholder contracts	**1 688**				**3**	**1 691**	
	3 135	**62**			**6**	**3 203**	
Accumulated amortisation and impairment – movement							
Goodwill	**(511)**					**(511)**	**No amortisation**
Distribution force	**(42)**			**(2)**	**(2)**	**(46)**	**Up to 10 years**
Tradenames	**(3)**					**(3)**	**Up to 10 years**
Computer software – internally generated	**(503)**			**(41)**		**(544)**	**Up to 7 years**
Customer relationships and contracts	**(146)**			**(21)**	**1**	**(166)**	**Up to 7 years**
Present value of in-force policyholder contracts	**(1 455)**			**(108)**	**(2)**	**(1 565)**	**Up to 15 years**
	(2 660)			**(172)**	**(3)**	**(2 835)**	
2013							
Cost – movement							
Goodwill	543				7	550	
Distribution forces	43				10	53	
Tradenames	4					4	
Computer software – internally generated	591	51				642	
Customer relationships and contracts	229		(40)		9	198	
Present value of in-force policyholder contracts	1 724		(48)		12	1 688	
	3 134	51	(88)		38	3 135	
Accumulated amortisation and impairment – movement							
Goodwill	(511)					(511)	No amortisation
Distribution force	(31)			(4)	(7)	(42)	Up to 10 years
Tradenames	(3)					(3)	Up to 10 years
Computer software – internally generated	(329)		(132)	(42)		(503)	Up to 7 years
Customer relationships and contracts	(120)		3	(26)	(3)	(146)	Up to 7 years
Present value of in-force policyholder contracts	(1 381)		48	(115)	(7)	(1 455)	Up to 15 years
	(2 375)		(81)	(187)	(17)	(2 660)	

	Short-term insurance business	Long-term investment contracts	Total	Short-term insurance business	Long-term investment contracts	Total
	2014 Rm	2014 Rm	2014 Rm	2013 Rm	2013 Rm	2013 Rm
7 Deferred acquisition costs						
Balance at the beginning of the year	**14**	**513**	**527**	10	439	449
Cost of new business acquired	**14**	**295**	**309**	11	293	304
Amortisation realised through profit or loss	**(11)**	**(235)**	**(246)**	(9)	(219)	(228)
Foreign currency translation				2		2
Balance at the end of the year	**17**	**573**	**590**	14	513	527
Current	**17**	**155**	**172**	14	151	165
Non-current		**418**	**418**		362	362

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.

	2013 Rm
8 Interests in joint ventures	
Interests in joint venture – equity accounted[1]	4
Interests in The Cullinan Hotel (Pty) Ltd – measured at fair value[2]	400
	404

[1] *Interest in joint venture – equity accounted (The Financial Services Exchange (Pty) Ltd) has been impaired to nil.*

[2] *Liberty entered into a transaction with Southern Sun Hotel Interests (Pty) Ltd where the two entities restructured their respective shareholdings in the jointly held asset, The Cullinan Hotel (Pty) Ltd (Cullinan). Liberty Group Limited's shareholding in Cullinan diluted to 40% from 50% effective 30 April 2014. It also sold a portion of its hotel portfolio to Cullinan. As a result of this transaction Liberty has significant influence over Cullinan and the investment is now accounted for as an associate held at fair value. Refer to note 9. The impact to the group's profit or loss of the redesignation (from a joint venture to an associate) is neutral as Liberty applies the IAS 28 measurement exemption to both joint ventures and associates that back investment linked insurance obligations. Therefore, the investment has been measured consistently at fair value throughout the period.*

	Notes	2014 Rm	2013 Rm
9 Interests in associates – measured at fair value through profit or loss			
Interests in The Cullinan Hotel (Pty) Ltd	9.1	**950**	
Interests in mutual funds	9.2	**15 547**	15 361
		16 497	15 361

As a result of a series of transactions that involved selling a portion (R1,1 billion) of the group's hotel portfolio to The Cullinan Hotel (Pty) Ltd (Cullinan), the group's interest in Cullinan reduced from 50% to 40% with effect from 30 April 2014. Cullinan was a 50% held joint venture (measured at fair value) between the group's wholly owned subsidiary, Liberty Group Limited, and Southern Sun Hotel Interests (Pty) Ltd (SSHI), a subsidiary of Tsogo Sun Limited. As a result of this transaction Liberty has significant influence over Cullinan and the investment is accounted for as an associate held at fair value. The impact to the group's profit or loss of the redesignation (from a joint venture to an associate) is neutral as Liberty applies the IAS 28 measurement exemption to both joint ventures and associates that back investment linked insurance obligations. Therefore, the investment has been measured consistently at fair value throughout the period.

	2014 Rm
9.1 Interests in The Cullinan Hotel (Pty) Ltd	
Ordinary shares – ownership 40%	**406**
Loan	**544**
	950
Summarised financial information of The Cullinan Hotel (Pty) Ltd	
Investment properties	**2 120**
Other non-current assets	**234**
Current assets	**67**
Shareholder loans	**(1 360)**
Current liabilities	**(32)**
Total revenue[1]	**450**
Total comprehensive income	**62**

[1] *Total revenue is defined as hotel revenue, interest, dividend and sundry income.*

The loan which is measured at fair value, bears interest at a rate equal to JIBAR plus and an agreed margin of 4,43%. Interest is paid annually on 31 March. The loan is repayable in full on 1 May 2024. There is a reciprocal put and call agreement between the shareholders, being Liberty Group Limited and SSHI. If exercised by either party, Liberty's interests will be sold to SSHI at fair value. This agreement stipulates that the earliest date of exercising is 1 May 2016. No notice has been received or given at the date of this report. The option derivative fair value is nil at 31 December 2014, as Liberty's interests are already measured at fair value.

9 Interest in associates – measured at fair value through profit or loss (continued)

9.2 Interest in mutual funds

As at 31 December, the group's interests in mutual fund associates measured at fair value and final percentages held were as follows:

Name	Percentage of participation rights in total issued units 2014 %	2013 %	Fair value 2014 Rm	2013 Rm
STANLIB Income Fund	**16**	14	**3 276**	3 532
STANLIB Corporate Money Market	**12**	2	**2 973**	569
South Africa Infrastructure Fund Trust	**31**	31	**2 026**	1 869
STANLIB Balanced Fund	**25**	26	**1 532**	1 169
STANLIB Balanced Cautious Fund	**15**	16	**1 043**	888
STANLIB Property Income Fund	**12**	12	**793**	762
STANLIB Aggressive Income Fund	**21**	19	**495**	636
Africa Infrastructure Fund	**20**	20	**394**	307
STANLIB Money Market Fund	**2**	6	**389**	1 894
STANLIB Moderately Consolidated Fund of Funds	**25**	25	**357**	382
STANLIB Multi-Manager Low Equity Fund of Funds	**15**	21	**269**	251
STANLIB Industrial Fund	**18**	15	**237**	173
STANLIB Multi-Manager Medium Equity Fund of Funds	**19**	22	**231**	203
STANLIB Equity Fund (previously STANLIB Wealthbuilder Fund)	**6**	6	**228**	213
STANLIB Moderate Fund of Funds	**23**	25	**205**	214
Kruger STANLIB Balanced Fund	**25**	26	**196**	158
STANLIB ALSI 40 Fund	**12**	14	**196**	181
STANLIB Prosperity Fund	**7**	7	**188**	187
STANLIB Income ABIL Retention Fund	**14**		**152**	
STANLIB Resources Fund	**21**	23	**141**	135
STANLIB Multi-Manager All Stars Equity Fund of Funds	**23**	23	**94**	91
STANLIB Africa Property Fund(1)	**22**		**71**	
STANLIB Global Cautionary Fund Total	**22**	27	**61**	55
STANLIB Extra Income Fund(2)		12		662
STANLIB Multi-Manager Real Return Fund(3)		31		287
STANLIB International Property Fund(2)		18		182
STANLIB Conservative Fund of Funds(2)		12		166
STANLIB Inflation Plus 5% Fund(3)		21		146
STANLIB Nationbuilder Fund(2)		29		49
Total			**15 547**	15 361

(1) *Disclosed as a subsidiary during the prior year.*

(2) *These interests are no longer disclosed as associates due to derecognition or the group's exposure to economic interest in these funds is below what is considered to be significant influence.*

(3) *Disclosed as a subsidiary in the current year.*

9 Interest in associates – measured at fair value through profit or loss (continued)

9.2 Interest in mutual funds (continued)

Summarised information of significant mutual fund associates (>R500 million) measured at fair value

	STANLIB Income Rm	STANLIB Corporate Money Market Rm	South Africa Infra-structure[5] Rm	STANLIB Balanced Rm	STANLIB Balanced Cautious Rm	STANLIB Property Income Rm
2014						
Liberty's interest in associates measured at fair value through profit or loss	**3 276**	**2 973**	**2 026**	**1 532**	**1 043**	**793**
Distributions received[1]	**238**	**95**	**105**	**31**	**37**	**39**
Summarised financial information of associates						
Current assets	**562**	**6 614**	**31**	**182**	**220**	**85**
Non-current assets	**20 557**	**19 057**	**4 471**	**5 936**	**6 792**	**6 509**
Current liabilities	**(328)**	**(5)**	**(2)**	**(107)**	**(119)**	**(8)**
Total revenue[2][3]	**1 893**	**2 102**	**377**	**193**	**321**	**396**
Total comprehensive income[4]	**1 691**	**2 038**	**355**	**129**	**234**	**309**

	STANLIB Income Rm	South Africa Infra-structure Rm	STANLIB Money Market Rm	STANLIB Balanced Rm	STANLIB Balanced Cautious Rm	STANLIB Property Income Rm	STANLIB Extra Income Rm	STANLIB Aggressive Income Rm	STANLIB Corporate Money Market Rm
2013									
Liberty's interest in associates measured at fair value through profit or loss	3 532	1 869	1 894	1 169	888	762	662	636	569
Distributions received[1]	231	10	139	20	25	45	58	38	87
Summarised financial information of associates									
Current assets	352	339	3 641	68	126	65	142	33	2 712
Non-current assets	25 504	8 150	28 595	4 533	5 339	6 356	5 503	3 376	28 064
Current liabilities	(12)	(2)	(16)	(5)	(7)	(8)	(2)	(3)	(6)
Total revenue[2][3]	1 662	312	1 914	745	207	444	288	246	2 036
Total comprehensive income[4]	1 752	270	1 724	695	492	467	291	120	1 966

(1) Distributions received comprise dividends and interest.

(2) Total revenue is defined as interest, dividend and sundry income.

(3) Units or shares held in mutual funds are by their nature demand deposits and are measured at fair value. The net income or loss is capitalised to unit values within each fund and consequently there is no net profit or loss. Increase in net assets as a result of operations represents total income less expenses before any distributions or capitalisation.

(4) Total comprehensive income is net income before distributions.

(5) Based on provisional results at 31 December 2014.

	2014 Rm	2013 Rm
10 Pledged assets measured at fair value through profit or loss		
Repurchase agreements		
Government, municipal and utility bonds	**2 516**	1 126
Scrip lending		
Listed equities on the JSE	**4 265**	
Collateral		
Government, municipal and utility bonds	**210**	222
	6 991	1 348
Maturity analysis		
The maturities represent periods to contractual redemption of the pledged assets recorded		
Maturity between 0 – 12 months	**6 201**	1 126
Maturity between 2 – 3 years	**580**	
Undated	**210**	222
	6 991	1 348

	2014 Rm	2013 Rm
11 Financial investments, assets held for trading and for hedging and derivative liabilities		
11.1 Financial investments comprise:		
Financial assets designated at fair value through profit or loss		
Quoted in an active market		
Listed	**197 275**	190 351
Equities	**123 308**	111 639
Preference shares	**1 252**	1 928
Commercial term deposits	**30 103**	32 747
Mutual funds	**11 078**	11 703
Government, municipal and utility stocks	**31 534**	32 334
Unlisted	**85 013**	59 538
Commercial term deposits	**31 622**	17 306
Mutual funds	**53 323**	42 162
Government, municipal and utility stocks	**68**	70
Unquoted and unlisted	**9 229**	27 940
Equities	**895**	334
Preference shares	**691**	1 250
Investment policies	**7 643**	26 356
Loans and receivables measured at amortised cost		
Loans[1]	**1 327**	1 214
Total financial investments	**292 844**	279 043
11.2 Assets held for trading and for hedging		
Derivative assets held for trading	**4 972**	4 956
Cash flow hedge assets	**6**	
Collateral deposits	**2 799**	1 431
Total assets held for trading and for hedging	**7 777**	6 387
11.3 Derivative liabilities		
Derivative liabilities held for trading	**3 662**	4 023
Cash flow hedge liabilities	**1 486**	837
Total derivative liabilities	**5 148**	4 860

[1] *The fair value of loans is modelled to be R1 194 million (2013: R1 091 million).*

11 Financial investments, assets held for trading and for hedging and derivative liabilities (continued)

	Notes	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
11.4 Movement analysis of financial investments including held for hedging, held for trading, pledged assets and mutual funds classified as associates:						
2014						
Balance at the beginning of the year		(837)	2 364	294 538	1 214	297 279
Financial investments				277 829	1 214	279 043
Pledged assets	10			1 348		1 348
Held for trading assets			6 387			6 387
Held for trading liabilities			(4 023)			(4 023)
Held for hedging liabilities		(837)				(837)
Interest in associates – measured at fair value	9			15 361		15 361
Redesignated to cash flow hedges		(44)	44			
Additions through business acquisition				3		3
Additions (purchases and issuings)			2 740	267 624	250	270 614
Disposals (sales and redemptions)		27	(453)	(255 806)		(256 232)
Accrued interest					92	92
Repayments					(246)	(246)
Fair value adjustments – income statement		(497)	(582)	19 166		18 087
Fair value adjustments – other comprehensive income		(129)				(129)
Net impairment reversed					5	5
Movement on third-party share of financial instruments in mutual funds			(4)	(10 627)		(10 631)
Foreign currency translation				107	12	119
Balance at the end of the year		(1 480)	4 109	315 005	1 327	318 961
Financial investments				291 517	1 327	292 844
Pledged assets	10			6 991		6 991
Held for trading assets			7 771			7 771
Held for trading liabilities			(3 662)			(3 662)
Held for hedging assets		6				6
Held for hedging liabilities		(1 486)				(1 486)
Interests in associates – measured at fair value	9			16 497		16 497

11 Financial investments, assets held for trading and for hedging and derivative liabilities (continued)

11.4 Movement analysis of financial investments including held for hedging, held for trading, pledged assets and mutual funds classified as associates: (continued)

	Derivatives held for hedging Rm	Derivatives held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
2013					
Balance at the beginning of the year	(60)	872	255 318	1 056	257 186
Financial investments			240 959	1 056	242 015
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)
Interests in associates – measured at fair value			14 359		14 359
Redesignated to cash flow hedges	(23)	23			
Additions (purchases and issuings)		6 513	173 543	246	180 302
Disposals (sales and redemptions)		(2 958)	(173 605)		(176 563)
Accrued interest				88	88
Repayments				(209)	(209)
Fair value adjustments – income statement	(571)	(2 010)	33 560		30 979
Fair value adjustments – other comprehensive income	(183)				(183)
Impairment				(3)	(3)
Movement on third-party share of financial instruments in mutual funds		(76)	5 355		5 279
Foreign currency translation			367	36	403
Balance at the end of the year	(837)	2 364	294 538	1 214	297 279
Financial investments			277 829	1 214	279 043
Pledged assets			1 348		1 348
Held for trading assets		6 387			6 387
Held for trading liabilities		(4 023)			(4 023)
Held for hedging liabilities	(837)				(837)
Interests in associates – measured at fair value			15 361		15 361

11 Financial investments, assets held for trading and for hedging and derivative liabilities (continued)

	2014 Rm	2013 Rm
11.5 Maturity profile of commercial term deposits, redeemable preference shares, government, municipal and utility stocks and loans:		
Less than 1 year	**25 151**	27 658
1 – 5 years	**23 180**	20 363
5 – 10 years	**17 067**	18 275
10 – 20 years	**19 858**	11 900
Over 20 years	**8 903**	5 698
Variable[1]	**1 044**	977
Total	**95 203**	84 871

[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.

	Gross value Rm	Income taxation Rm	Net value Rm
11.6 Cash flow hedging reserve			
2014			
Balance at the beginning of the year	**(198)**	**57**	**(141)**
Net change in fair value on cash flow hedges	**(129)**	**36**	**(93)**
Balance at the end of the year	**(327)**	**93**	**(234)**
2013			
Balance at the beginning of the year	(15)	4	(11)
Net change in fair value on cash flow hedges	(183)	53	(130)
Balance at the end of the year	(198)	57	(141)

	2014 Rm	2013 Rm
12 Prepayments, insurance and other receivables		
Current balances related to insurance contracts	**1 208**	961
Outstanding premium receivables	**491**	563
Reinsurance recoveries and deposits	**717**	398
Current balances related to investment contracts		
Outstanding premium receivables	**193**	76
Current balances related to insurance and investment contracts	**1 401**	1 037
Accrued income	**134**	227
Investment debtors	**131**	516
Consolidated mutual funds' receivables	**811**	724
Property consortiums' receivables	**45**	48
Agents, brokers and intermediaries	**244**	268
Other debtors	**902**	1 093
Total prepayments, insurance and other receivables[1]	**3 668**	3 913

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

	2014 Rm	2013 Rm
13 Cash and cash equivalents		
Cash at bank and on hand	**3 563**	3 073
Short-term cash deposits	**10 422**	6 797
Total cash and cash equivalents	**13 985**	9 870

	2014			2013		
	Insurance contracts Rm	Investment contracts with DPF[(1)] Rm	Long-term reinsurance assets Rm	Insurance contracts Rm	Investment contracts with DPF[(1)] Rm	Long-term reinsurance assets Rm
14 Long-term policyholder liabilities and reinsurance assets						
Balance at the beginning of the year	**180 742**	**9 056**	**(1 161)**	164 666	3 855	(978)
Inflows	**59 339**	**2 614**	**(1 138)**	57 926	2 716	(1 031)
Insurance premiums	**38 882**	**1 820**	**(1 015)**	32 756	1 745	(965)
Investment returns	**20 450**	**794**	**(123)**	25 170	971	(66)
Unwinding of discount rate	**753**	**2**	**(128)**	947	1	(67)
Investments	**19 697**	**792**	**5**	24 223	970	1
Fee revenue	**7**					
Outflows	**(42 324)**	**(743)**	**970**	(39 158)	(974)	801
Claims and policyholder benefits under insurance contracts	**(30 677)**	**(581)**	**925**	(27 223)	(741)	763
Acquisition costs associated with insurance contracts	**(3 804)**	**(70)**	**7**	(3 473)	(122)	6
General marketing and administration expenses	**(4 887)**	**(87)**	**18**	(4 581)	(104)	10
Profit share allocations	**(867)**			(971)		
Finance costs	**(266)**			(209)		
Taxation	**(1 823)**	**(5)**	**20**	(2 701)	(7)	22
Switches between investment with DPF and investment without DPF		**(786)**			3 213	
Net income from insurance operations	**(2 444)**	**(35)**	**28**	(2 809)	(14)	50
Changes in assumptions	**(103)**	**(6)**	**(1)**	218		(2)
Discretionary and compulsory margins and other variances	**(3 952)**	**(42)**	**43**	(4 667)	(21)	69
New business	**190**		**1**	59		
Shareholder taxation on transfer of net income	**1 421**	**13**	**(15)**	1 581	7	(17)
Foreign currency translation	**43**	**71**	**(1)**	117	260	(3)
Balance at the end of the year	**195 356**	**10 177**	**(1 302)**	180 742	9 056	(1 161)
Current	**15 880**	**382**	**(261)**	15 289	386	(215)
Non-current	**179 476**	**9 795**	**(1 041)**	165 453	8 670	(946)

[(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.*

Given the discretionary nature of these investments returns and the absence of an exchange market in these contracts, there is no generally recognised methodology available to determine fair value. These instruments are issued by the group and the intention is to hold the instruments to full contract term.

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

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 expected 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. The rates are defined using the appropriate Actuarial Society of South Africa models calibrated to reflect Liberty's assurance lives. For contracts insuring survivorship, an allowance is made for future mortality improvements based on expected future trends.

Morbidity

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

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal investigations are performed every half year for the large lines of business and annually for the smaller classes and incorporate two years' experience. The withdrawal rates are analysed by product type and policy duration. 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:

- Gilts – Effective 10-year yield curve rate at the balance sheet date 8,04% (2013: 8,14%).
- Equities – Gilt rate plus 3,5 percentage points as an adjustment for risk 11,54% (2013: 11,64%).
- Property – Gilt rate plus 1 percentage point as an adjustment for risk 9,04% (2013: 9,14%).
- Cash – Gilt rate less 1,5 percentage points 6,54% (2013: 6,64%).

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 endowment business) is 10,0% per annum in 2014 (2013: 10,5% per annum). Where appropriate the investment return assumption is adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins in accordance with SAP 104 issued by the Actuarial Society of South Africa.

For life annuity, disability in payment and guaranteed endowments business, discount rates are set at risk free rates consistent with the duration and type of the liabilities allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

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

Expense inflation

The inflation rate is set at 60% of the risk free rate (gilt rate) when the risk free rate is below 6,5%. The inflation rate is set at the risk free rate less 3% when the risk free rate is above 8,5%. At risk free rates between 6,5% and 8,5% the inflation rate is interpolated to ensure a smooth transition between the two methodologies. This results in a best estimate inflation assumption of 5,06% at 31 December 2014 (2013: 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.

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

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

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A, read with the eighth schedule, of the Income Tax Act at the balance sheet date for South African companies. 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 within product groups portfolios are not allowed for. However, compulsory increases and increases that give rise to expected losses within product group portfolios 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 39,44% (2013: 35,85%). Correlations between asset classes are set based on historical data. Over sixteen thousand simulations are performed in calculating the liability.

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

2014	Price %	Volatility %
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**5,75**	**19,35**
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	**1,31**	**23,24**
A 1-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**7,25**	**18,71**
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**8,53**	**23,28**
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^5$ of spot	**15,32**	**22,28**
A 5-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**17,04**	**22,09**
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	**7,00**	**N/A**
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	**3,58**	**29,45**
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{20}$ of spot	**15,61**	**31,02**
A 20-year at-the-money (forward) put on the FTSE/JSE Top 40 index	**30,63**	**32,05**
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	**0,53**	**N/A**

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

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

Using the simulated investment returns, but based on two thousand simulations, the prices and implied volatilities of the following instruments are:

2013	Price %	Volatility %
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	6,01	18,91
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	1,49	23,57
A 1-year at-the-money (forward) put on the FTSE/JSE Top 40 index	7,10	18,34
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	8,76	23,64
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{5}$ of spot	15,40	22,36
A 5-year at-the-money (forward) put on the FTSE/JSE Top 40 index	17,02	22,14
A 5-year put with a strike equal to $1{,}04^{5}$ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	6,66	N/A
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	2,67	28,60
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{20}$ of spot	12,26	29,61
A 20-year at-the-money (forward) put on the FTSE/JSE Top 40 index	29,37	30,51
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years' time) is lower than the strike	0,41	N/A

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 (%)	**2014**	2013
1 year	**6,41**	5,51
2 years	**6,77**	6,12
3 years	**7,02**	6,64
4 years	**7,21**	7,06
5 years	**7,37**	7,41
10 years	**8,05**	8,45
15 years	**8,64**	9,21
20 years	**8,74**	9,28
25 years	**8,46**	9,17
30 years	**8,22**	8,97
35 years	**8,26**	9,00
40 years	**8,29**	9,02
45 years	**8,21**	8,94
50 years	**8,12**	8,86

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

Process used to decide on assumptions and changes in assumptions for life companies outside South Africa

Assumptions used in the valuation of policyholder liabilities are set by references to local guidance, taxation legislation 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.

Changes in assumptions – All life companies

Modelling and other changes were made to realign valuation assumptions with future experience. These changes resulted in a net decrease in policyholders liabilities of R110 million in 2014 compared to an increase of R216 million in 2013.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in a decrease in the liability of R121 million (2013: increase of R98 million).
- A change in future mortality and morbidity assumptions to reflect expected future experience, amounting to a decrease in the liability of R72 million (2013: decrease of R6 million).
- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R15 million (2013: increase of R286 million).
- A change in the tax assumptions resulted in a decrease in the liability of R4 million (2013: decrease of R16 million).
- The balance of modelling and other changes resulted in an increase in liabilities of R102 million (2013: decrease of R146 million).

	2014 Rm	2013 Rm
15 Long-term policyholder liabilities under investment contracts		
Balance at the beginning of the year	**74 146**	68 163
Fund inflows from investment contracts (excluding switches)	**14 729**	13 379
Net fair value adjustment	**7 473**	10 135
Fund outflows from investment contracts (excluding switches)	**(14 213)**	(13 398)
Switches between investment with DPF and investment without DPF	**786**	(3 213)
Service fee income	**(938)**	(920)
Balance at the end of the year	**81 983**	74 146
Current	**5 201**	4 843
Non-current	**76 782**	69 303
Net income from investment contracts[(1)]	**45**	(31)
Service fee income	**938**	920
Expenses		
Property expenses applied to investment returns	**348**	369
Shareholder taxation on transfer of net income	**(17)**	13
Acquisition costs	**(302)**	(239)
General marketing and administration expenses	**(837)**	(1 026)
Finance costs	**(85)**	(68)

[(1)] *Prior to deferred acquisition cost and deferred revenue liability adjustments.*

	2014			2013		
	Gross of reinsurance Rm	Reinsurance Rm	Net of reinsurance Rm	Gross of reinsurance Rm	Reinsurance Rm	Net of reinsurance Rm
16 Short-term insurance liabilities						
16.1 Short-term insurance liabilities comprise:						
Outstanding reported claims	**232**	**(74)**	**158**	379	(227)	152
Claims incurred but not reported	**84**	**(12)**	**72**	110	(45)	65
Unearned premiums	**367**	**(170)**	**197**	357	(176)	181
Total short-term insurance liabilities	**683**	**(256)**	**427**	846	(448)	398
Current	**578**	**(211)**	**367**	772	(409)	363
Non-current	**105**	**(45)**	**60**	74	(39)	35
16.2 Movement analysis						
Outstanding reported claims and claims incurred but not reported						
Balance at the beginning of the year	**489**	**(272)**	**217**	244	(66)	178
Cash-settled claims	**(780)**	**164**	**(616)**	(980)	418	(562)
Claims provided for[1]	**585**	**27**	**612**	1 153	(594)	559
Foreign currency translation	**22**	**(5)**	**17**	72	(30)	42
Balance at the end of the year	**316**	**(86)**	**230**	489	(272)	217
Unearned premiums						
Balance at the beginning of the year	**357**	**(176)**	**181**	281	(126)	155
Premiums received/(accrued)	**1 438**	**(390)**	**1 048**	1 296	(369)	927
Recognised to revenue	**(1 437)**	**400**	**(1 037)**	(1 281)	351	(930)
Foreign currency translation	**9**	**(4)**	**5**	61	(32)	29
Balance at the end of the year	**367**	**(170)**	**197**	357	(176)	181

[1] *The 2013 claims provided for amount included 3 large fire claims totalling over R400 million. The bulk of these claims was reinsured. During 2014 the amount provided for in respect of these claims was substantially reduced following further assessment and as a consequence, in 2014, large reversals were processed in respect of the amounts provided at the 2013 year end.*

16 Short-term insurance liabilities (continued)

16.3 Claims development

The claims development tables below are based on the actual date of the event that caused the claim (incident year basis).

Short-term insurance liabilities – gross claims paid in respect of reporting year[1]	Total Rm	Incident year 2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 and prior Rm
2014	**780**	**597**	**158**	**12**	**3**	**3**	**7**
2013	980		845	101	15	6	13
2012	509			387	108	3	11
2011	378				234	43	101
2010	331					143	188
2009	194						194
Cumulative payments to date	3 172	597	1 003	500	360	198	514

[1] *Claims paid in respect of each reporting year are converted at the exchange rate applicable for that year.*

Short-term insurance liabilities – net claims paid in respect of reporting year[2]	Total Rm	Incident year 2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 and prior Rm
2014	**616**	**490**	**98**	**14**	**4**	**3**	**7**
2013	562		424	108	12	6	12
2012	402			318	71	1	12
2011	322				193	37	92
2010	307					129	178
2009	183						183
Cumulative payments to date	2 392	490	522	440	280	176	484

[1] *The 2013 claims provided for amount included 3 large fire claims totalling over R400 million. The bulk of these claims was reinsured. During 2014 the amount provided for in respect of these claims was substantially reduced following further assessment and as a consequence, in 2014, large reversals were processed in respect of the amounts provided at the 2013 year end.*

[2] *Claims paid in respect of each reporting year are converted at the exchange rate applicable for that year.*

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

	2014 Rm	2013 Rm
17 Financial liabilities at amortised cost		
Subordinated notes[7]	**3 570**	3 069
– 2012 August issue[1]	**1 026**	1 025
– 2012 October issue[2]	**1 015**	1 014
– 2013 August issue[3]	**1 030**	1 030
– 2014 December issue[4]	**499**	
Redeemable preference shares[5][8]	**5**	5
Non-controlling interests loan[6]		93
Total financial liabilities at amortised cost	**3 575**	3 167
Current	**85**	177
Non-current	**3 490**	2 990
Movement analysis		
Balance at the beginning of the year	**3 167**	2 177
Interest accrued	**250**	195
Note issues	**500**	1 000
Preference shares issue		5
Capitalisation of note issue expenses	**(4)**	(6)
Repayments	**(338)**	(206)
Foreign currency translation		2
Balance at the end of the year	**3 575**	3 167

[1] On 13 August 2012, Liberty Group Limited issued a R1 billion subordinated note maturing on 13 August 2017. The note was issued at a fixed coupon of 7,67% payable semi-annually on 13 August and 13 February each year until 13 August 2017.

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

[3] On 14 August 2013, Liberty Group Limited issued a R1 billion subordinated note maturing on 14 August 2020. The note was issued at a fixed coupon of 9,165% payable semi-annually on 14 August and 14 February each year until August 2020.

[4] On 12 December 2014, Liberty Group Limited issued a R500 million subordinated note maturing on 12 December 2021. The note was issued at a floating coupon of 2,50% above 3-month JIBAR payable quarterly on 12 December, 12 March, 12 June and 12 September each year until December 2021.

[5] 5 000 cumulative, participating non-convertible redeemable preference shares valued at R1 000 each were issued by the wholly owned subsidiary Liberty Group Limited during 2013. These preference shares are executionary in nature facilitating the payment of profit share amounts that accrue in terms of the bancassurance agreement with Standard Bank (refer note 41 A.6). The preference shares are redeemable as and when the bancassurance agreement is terminated.

[6] Unsecured non-controlling interests loan to the group subsidiary Liberty Health Holdings Proprietary Limited repaid during 2014.

[7] The subordinated notes are callable by Liberty prior to maturity date if certain regulatory or taxation events occur.

The Financial Services Board approval of the above group issuances included a requirement to hold liquid assets in Liberty Group Limited so that sufficient liquidity is available to meet the note redemption and interest amounts when they are due. In addition, Liberty Group Limited must maintain a capital adequacy cover of at least 1,75 times. This requirement has been complied with during 2014. Redemptions on maturity date are subject to the approval of the Financial Services Board.

The fair value of the subordinated note which matures on 13 August 2017 is R999 million (2013: R1 004 million), the note which matures on 3 April 2018 is R980 million (2013: R979 million), the note which matures on 14 August 2020 is R1 020 million (2013: R 1 030 million) and for the note which matures on 12 December 2021 is R502 million.

[8] The fair value of the redeemable preference share is R5 million (2013: R5 million).

	2014 Rm	2013 Rm
18 Third-party financial liabilities arising on consolidation of mutual funds		
Balance at the beginning of the year	**39 983**	30 015
Additional mutual funds classified as subsidiaries	**2 152**	1 054
Net (repayment)/capital contribution or change in effective ownership	**(9 887)**	3 354
Mutual funds no longer classified as subsidiaries	**(115)**	(847)
Distributions	**(1 217)**	(1 425)
Fair value adjustment	**3 585**	7 832
Balance at the end of the year	**34 501**	39 983

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.

	Note	2014 Rm	2013 Rm
19 Employee benefits			
19.1 Summary			
Asset			
Defined benefit pension fund employer surplus	19.6	**277**	210
Liabilities			
Short-term employee benefits	19.2	**816**	818
Long-term employee benefits (cash-settled)	19.3	**132**	151
Post-retirement medical aid benefit	19.7	**423**	375
Total liability		**1 371**	1 344

19.2 Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Balance at the beginning of the year	**107**	88	**711**	597	**818**	685
Additional provision raised	**144**	159	**642**	685	**786**	844
Utilised during the year	**(152)**	(141)	**(637)**	(575)	**(789)**	(716)
Foreign currency translation		1	**1**	4	**1**	5
Balance at the end of the year	**99**	107	**717**	711	**816**	818

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. Only discretionary leave can 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 2014 comprise R367 million (2013: R335 million) senior management and specialist group incentive schemes, R189 million (2013: R210 million) general staff incentive schemes and R160 million (2013: R166 million) sales management, STANLIB management and investment professional schemes.

19 Employee benefits (continued)

19.3 Long-term employee benefits (cash-settled)

	Share unit rights plan		2010 Deferred bonus scheme		STANLIB deferred bonus scheme		Total	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Balance at the beginning of the year	**31**	65	**15**	10	**105**	67	**151**	142
Net accrual for past service	**8**	16		3	**76**	91	**84**	110
Adjustments for referenced unit price movements	**4**	12	**3**	3	**11**	11	**18**	26
Provision no longer required					**(25)**		**(25)**	
Cash settlements	**(40)**	(62)	**(8)**	(1)	**(48)**	(64)	**(96)**	(127)
Balance at the end of the year	**3**	31	**10**	15	**119**	105	**132**	151
Total service cost	**12**	28	**3**	6	**62**	102	**77**	136
Recovered from the Standard Bank group[1]				1				1
Expensed through profit or loss	**12**	28	**3**	5	**62**	102	**77**	135

[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. No grants were awarded under the SUR plan in 2014 or 2013 due to the current preference of the remuneration committee to utilise the restricted share plans.

Units	2014	2013
At the beginning of the year	**351 162**	878 034
Vested during year	**(324 853)**	(526 872)
At the end of the year	**26 309**	351 162
Average LHP reference price per unit	**R82,33**	R80,16

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is 5 months (2013: 11 months).

19 Employee benefits (continued)

19.3 Long-term employee benefits (cash-settled) (continued)

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 was 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	2014	2013
At the beginning of the year	**130 869**	137 562
Exercised	**(26 572)**	(4 685)
Cancelled	**(4 084)**	(2 008)
At the end of the year	**100 213**	130 869
Average LHP reference price per unit	**R74,70**	R74,70

The scheme will be fully settled during March 2015.

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.

19.4 Details of funds

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

Defined benefit scheme:

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.

Defined contribution schemes:

Liberty Defined Contribution Pension Fund

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

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

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 Franchise Umbrella Fund

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.

19 Employee benefits (continued)

19.4 Details of funds (continued)

Defined contribution schemes: (continued)

Capital Alliance Holdings (CAH) Defined Contribution Pension Fund

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.

There are a number of small employee retirement funds in the process of being liquidated. These are fully funded with total liabilities of less than R10 million.

All retirement schemes are governed by the Pension Fund Act, 1956 as amended.

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.

19.5 Retirement benefit obligation

	Liberty Group Defined Benefit Pension Fund				
	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Change in defined benefit funded obligation					
Present value of funded obligation at the beginning of the year	**1 265**	1 252	1 059	1 032	1 018
Service cost benefits earned during the year	**14**	16	15	13	13
Interest cost on projected benefit obligation	**120**	96	60	67	66
Actuarial loss/(gain)	**106**	(18)	211	49	27
Benefits paid	**(105)**	(81)	(93)	(102)	(92)
Present value of funded obligation at the end of the year	**1 400**	1 265	1 252	1 059	1 032
Change in plan assets					
Fair value of plan assets at the beginning of the year	**1 719**	1 541	1 367	1 342	1 280
Expected return on plan assets	**164**	120	117	118	117
Actuarial (loss)/gain from return on plan assets	**(27)**	139	150	9	37
Employer contribution(1)	**14**	14	15	14	9
Reduction in employer surplus account(1)	**(14)**	(14)	(15)	(14)	(9)
Benefits paid	**(105)**	(81)	(93)	(102)	(92)
Fair value of plan assets at the end of the year(2)	**1 751**	1 719	1 541	1 367	1 342
Surplus	**351**	454	289	308	310
Effect of limiting net defined benefit asset to the asset ceiling	**74**	244	103	109	108
Net defined benefit asset	**277**	210	186	199	202

In the opinion of the pension fund valuator, after the most recent statutory actuarial valuation as at 1 January 2015, the Liberty Group Defined Benefit Pension Fund was financially sound.

(1) The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2015 is nil as it is anticipated the contributions will be funded from the employer portion of the surplus account. The Pensions Fund Act (Act) requires a statutory valuation every three years.

(2) The fair value of the plan assets for 2014 constitutes: 18% cash, 62% debt notes, 12% equities and 8% international funds (2013: 37% cash, 8% debt notes, 35% equities and 20% international funds).

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

19 Employee benefits (continued)

19.5 Retirement benefit obligation (continued)

Change in defined benefit funded obligation (continued)

	Liberty Group Defined Benefit Pension Fund				
	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Components of profit or loss	**5**	(2)	2	4	2
Net interest on the net defined benefit asset	**19**	14	17	17	15
Current service cost	**(14)**	(16)	(15)	(13)	(13)
Components of other comprehensive income	**62**	26	(15)	(7)	30
Actuarial (losses)/gains	**(106)**	18	(211)	(49)	(27)
Demographic assumptions	**2**	(18)	(53)	(17)	(16)
Financial assumptions	**(39)**	36	(158)	(32)	(11)
Apportionment of surplus to member surplus account[1]	**(69)**				
Return on plan assets excluding interest cost and expected income on employer surplus	**(2)**	149	190	43	73
Change in the effect of the asset ceiling	**170**	(141)	6	(1)	(16)
19.6 Defined benefit pension fund employer surplus					
Balance at the beginning of the year	**210**	186	199	202	170
Investment gains	**19**	38	47	15	30
Expected return	**19**	14	17	17	15
Variance to expected		24	30	(2)	15
Agreed contribution to member benefit enhancements	**(14)**	(14)	(15)	(31)	(9)
Expected contributions	**(14)**	(16)	(15)	(13)	(13)
Variance to expected		2		(18)	4
Apportionment of surplus/(deficit) in terms of section 15C of Pension Funds Act	**62**		(45)	13	11
Other actuarial (losses)/gains	**(108)**	141	(51)	14	27
Change in the effect of the asset ceiling	**170**	(141)	6	(1)	(16)
Balance at the end of the year	**277**	210	186	199	202
Current	**14**	14	15	14	9
Non-current	**263**	196	171	185	193

[1] *The latest actuarial valuation at 1 January 2015, indicated an apportionment of R69 million (as agreed with the trustees) to the member surplus account in accordance with Section 15C of the Act.*

19 Employee benefits (continued)

19.7 Post-retirement benefit medical aid obligation

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Change in post-retirement medical aid benefit obligation					
Present value of unfunded obligation at the beginning of the year	**375**	371	459	400	354
Service cost benefits earned during the year	**8**	8	9	8	6
Interest cost on projected benefit obligation	**35**	30	40	34	34
Benefits paid	**(11)**	(10)	(10)	(9)	(8)
Actuarial loss/(gain) included in other comprehensive income	**16**	(24)	(127)	26	14
Present value of unfunded obligation at the end of the year	**423**	375	371	459	400
Current	**8**	8	10	9	8
Non-current	**415**	367	361	450	392

The liability obligation has been updated after the most recent actuarial valuation as at 1 January 2015.

19.8 Assumptions used in the valuation of obligations

		Liberty Group Defined Benefit Pension Fund		Post-retirement medical aid benefit	
The valuation was based on the following principal actuarial assumptions:		**2014**	2013	**2014**	2013
Anticipated after taxation returns on investments		**8,84%**	9,84%	Unfunded liability and therefore there is no asset-backing portfolio	
Discount rate		Nominal government bond curve		Nominal government bond curve	
Future salary increases (excluding increases on promotion)		Future salary increases based on inflation curve plus 1% p.a. to each point on the curve		Not applicable	
Medical cost trend rate (applicable to members who retired before 1 January 2013)		Not applicable		Inflation curve adjusted upwards by 1% p.a.	
Medical cost trend rate (applicable to members who retired after 1 January 2013)		Not applicable		Curve implied by the difference between a nominal government bond curve and an index linked gilt	
Mortality assumption	– pre-retirement	No pre-retirement mortality has been allowed for		Based on the PA(90) Tables for Pensioners (Ultimate Rates)	
	– post-retirement	Based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years		Based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years	
Retirement age	– executives	**63**	63	**63**	63
	– others	**60 or 65**	60 or 65	**60 or 65**	60 or 65

19 Employee benefits (continued)

19.9 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	
	2014 Rm	2013 Rm
1% decrease in medical inflation rate		
– active members	**35**	30
– pensioners	**16**	13
1% increase in medical inflation rate		
– active members	**(43)**	(37)
– pensioners	**(18)**	(15)

19.10 Transactions between group companies and the funds

19.10.1 The contributions which the group companies have made on behalf of the employees during the year are as follows:

	2014 Rm	2013 Rm
Retirement		
Defined benefit funds[1]	**14**	14
Defined contribution funds	**309**	283
Medical		
Post-retirement medical benefit paid – pensioners	**11**	10

[1] *Funded from employer surplus account.*

19.10.2 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	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	**55**	71		
Balance at the end of the year	**12**	55	**32**	14

19.10.3 The Liberty Group Defined Benefit Pension Fund has outsourced its management to Liberty Group Limited.

The summary of fees paid is as follows:

	2014 R'000	2013 R'000
Liberty Group Defined Benefit Pension Fund	**466**	436

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

	2014 Rm	2013 Rm
STANLIB Funds Limited	**107**	347
STANLIB Prudential Bond fund		129
STANLIB Institutional Money Market fund	**8**	32
Standard Bank bonds, deposits and money market investments	**4**	1

19 Employee benefits (continued)

19.10 Transactions between group companies and the funds (continued)

19.10.5 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	
	2014 Rm	2013 Rm
Liberty Defined Contribution Pension Fund		
Balance at the beginning of the year	**550**	367
Premiums	**55**	48
Transfers in from Capital Alliance Holdings Defined Contribution Pension Fund		103
Fair value adjustments	**60**	72
Withdrawals	**(66)**	(40)
Balance at the end of the year	**599**	550
Liberty Provident Fund		
Balance at the beginning of the year	**2 648**	2 261
Premiums	**275**	268
Fair value adjustments	**284**	380
Withdrawals	**(327)**	(261)
Balance at the end of the year	**2 880**	2 648
Liberty Agency Fund		
Balance at the beginning of the year	**1 156**	1 024
Premiums	**73**	61
Fair value adjustments	**119**	162
Withdrawals	**(75)**	(91)
Balance at the end of the year	**1 273**	1 156
Liberty Franchise Umbrella Fund		
Balance at the beginning of the year	**61**	46
Premiums	**10**	10
Fair value adjustments	**10**	7
Withdrawals	**(2)**	(2)
Balance at the end of the year	**79**	61
Capital Alliance Holdings Defined Contribution Pension Fund		
Balance at the beginning of the year	**94**	185
Fair value adjustments	**3**	15
Transfers out to Liberty Defined Contribution Pension Fund		(103)
Pension Funds Act section 14(1) transfer	**(79)**	
Withdrawals	**(1)**	(3)
Balance at the end of the year	**17**	94
19.10.6 The various funds detailed above have contracted Liberty to manage the funds. The total of fees paid is as follows:		
Administration and consulting fees	**15**	14

	Short-term insurance business Rm	Long-term investment contracts Rm	2014 Total Rm	Short-term insurance business Rm	Long-term investment contracts Rm	2013 Total Rm
20 Deferred revenue						
Balance at the beginning of the year	**9**	**185**	**194**	9	165	174
Released to profit or loss	**(9)**	**(22)**	**(31)**	(9)	(21)	(30)
Deferred income relating to new business	**9**	**44**	**53**	7	41	48
Foreign currency translation				2		2
Balance at the end of the year	**9**	**207**	**216**	9	185	194
Current	**9**	**24**	**33**	9	22	31
Non-current		**183**	**183**		163	163

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.

	Asset/(liability) at the beginning of the year Rm	Foreign currency translation Rm	(Provision)/ release for the year Rm	Asset/ (liability) at the end of the year Rm
21 Deferred taxation				
Normal taxation	(1 767)	**(2)**	**(190)**	**(1 959)**
Policyholder liabilities difference between statutory and accounting basis	(1 997)	**(1)**	**(241)**	**(2 239)**
Utilisation of tax losses and special transfers	379		**63**	**442**
Intangible assets	(93)		**28**	**(65)**
Deferred acquisition costs	(144)		**(17)**	**(161)**
Deferred revenue liability	53		**6**	**59**
Prepayments and provisions	35	**(1)**	**(29)**	**5**
Capital gains taxation	(1 465)		**(252)**	**(1 717)**
Total	(3 232)	**(2)**	**(442)**	**(3 676)**
Disclosed as:				
Deferred taxation asset	354			**455**
– recognised in profit or loss	354			**455**
Deferred taxation liability	(3 586)			**(4 131)**
– recognised in profit or loss	(3 579)			**(4 109)**
– recognised in other comprehensive income	(7)			**(22)**
	(3 232)			**(3 676)**

	2014 Rm	2013 Rm
Movement analysis		
Balance at the beginning of the year	**(3 232)**	(2 462)
Foreign currency translation	**(2)**	(21)
(Provided)/released through the statement of comprehensive income	**(442)**	(749)
Profit or loss	**(427)**	(742)
Other comprehensive income	**(15)**	(7)
Balance at the end of the year	**(3 676)**	(3 232)
Deferred tax assets[1]		
Non-current	**455**	354
Deferred tax liabilities		
Non-current	**(4 131)**	(3 586)

[1] *The deferred taxation amounts have consequently arisen from group entities incurring operational taxation losses. These assets are anticipated to be recovered as financial projections indicate these entities are likely to produce sufficient taxable income in the near future.*

	2014 Rm	2013 Rm
22 Deemed disposal taxation liability		
Balance at beginning of year	**544**	918
Overprovision released to profit or loss	**(17)**	(90)
Current balance reflected in current taxation liability	**(259)**	(284)
Balance at the end of the year	**268**	544

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 crystallisation 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 2014 tax year of R259 million has been included in current taxation and the expected future tax obligation for the 2015 tax year of R268 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.

	Possible claims		Retirement fund administration		Restructuring	Total	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm	2013 Rm	2014 Rm	2013 Rm
23 Provisions							
Balance at the beginning of the year	**134**	192	**61**	127	19	**195**	338
Provision raised	**60**					**60**	
Provision no longer required	**(34)**	(55)			(2)	**(34)**	(57)
Unwinding of discount rate			**2**	5		**2**	5
Utilised during the year	**(16)**	(3)	**(34)**	(71)	(17)	**(50)**	(91)
Balance at the end of the year	**144**	134	**29**	61		**173**	195

Possible claims

In the conduct of its ordinary business, the group is exposed to various actual and potential claims and other proceedings relating to administration delays, alleged errors and omissions. 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.

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. The provision reflects the best estimate of the current value of future costs less fund recoveries. It is likely this project will be completed within two years.

Restructuring

In the second half of 2012 the board approved a project to rationalise the group's registered South African life licences. The rationalisation project was completed in 2013.

	2014 Rm	2013 Rm
24 Insurance and other payables		
Current balances related to long-term insurance contracts	**5 287**	5 029
Outstanding claims and surrenders	**4 544**	4 268
Commission creditors	**356**	371
Premiums received in advance	**387**	390
Current balances related to long-term investment contracts	**93**	92
Total current balances related to long-term insurance and investment contracts	**5 380**	5 121
Total other payables	**8 871**	4 595
Sundry payables	**1 760**	1 870
Consolidated mutual funds' payables	**559**	468
Property consortium's payables	**53**	58
Preference share dividends	**839**	827
Investment creditors including collateral deposits received	**5 660**	1 372
Total insurance and other payables	**14 251**	9 716
Current	**13 642**	9 611
Non-current	**609**	105

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

	2014 Rm	2013 Rm
25 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 ordinary shares of 8,33 recurring cents each	**9**	9
	13	13
Company		
Issued share capital		
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	**5 755**	5 985
Company share premium	**6 162**	6 162
Cumulative fulfilment of employee share options/rights[2]	**(407)**	(177)
Total issued share capital and share premium	**5 781**	6 011

[1] *Unissued shares reserved:*

For the purposes of the assigned Liberty Group Limited Share Option Schemes, nil (2013: 39 800) ordinary shares of 8,33 recurring cents each.

For the purpose of the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme, 12 380 022 (2013: 13 639 846) 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 various employee equity-settled schemes.*

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 22 May 2015: 101 417 605 (2013: 100 117 981) ordinary shares of 8,33 recurring cents each; 30 000 000 (2013: 30 000 000) redeemable cumulative preference shares of 10 cents each and 6 000 000 (2013: 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 2014: R122,69 (2013: R121,60).

25 Share capital and share premium (continued)

	Number of shares	
	2014	2013
Group		
Ordinary shares		
Issued shares at 31 December	**286 202 373**	286 202 373
Held as treasury shares in subsidiaries	**(3 460 136)**	(2 605 483)
Opening balance	**(2 605 483)**	(3 966 568)
Purchases during the year	**(2 928 768)**	(441 667)
Sold or distributed[1] during the year	**2 074 115**	1 802 752
Group effective number of shares issued at 31 December	**282 742 237**	283 596 890

[1] *Certain ordinary shares are held by The Liberty Holdings Group Restricted Share Trust in terms of the employee restricted share schemes. On vesting the trustees distribute the relevant ordinary shares to the beneficiaries.*

	2014 Rm	2013 Rm
26 Premiums		
Insurance premiums	**42 139**	35 782
Long-term	**40 702**	34 501
Short-term	**1 437**	1 281
Reinsurance premiums	**(1 415)**	(1 316)
Long-term	**(1 015)**	(965)
Short-term	**(400)**	(351)
Net insurance premiums	**40 724**	34 466
Fund inflows from long-term investment contracts	**14 729**	13 379
Net premium income from insurance contracts and inflows from investment contracts[1]	**55 453**	47 845
Long-term insurance	**54 416**	46 915
Retail	**31 805**	29 007
Corporate	**14 984**	11 190
Immediate annuities	**7 627**	6 718
Short-term insurance	**1 037**	930
Medical risk	**731**	646
Motor, property and other	**306**	284
Comprising:		
Recurring premium income and inflows from investment contracts	**27 647**	25 866
Retail	**18 921**	17 544
Corporate	**7 689**	7 392
Medical risk	**731**	646
Motor, property and other	**306**	284
Single premium income and inflows from investment contracts	**27 806**	21 979
Retail	**12 884**	11 463
Corporate	**7 295**	3 798
Immediate annuities	**7 627**	6 718
Net premium income and inflows from investment contracts	**55 453**	47 845

[1] *Premium income is stated net of inter-company transactions between group companies.*

	2014 Rm	2013 Rm
27 Service fee income from long-term policyholder investment contracts		
Service fee income from investment contracts	**938**	920
Deferred revenue released to profit or loss	**22**	21
Deferred income relating to new business	**(44)**	(41)
Total service fee income from long-term policyholder investment contracts	**916**	900
28 Investment income		
Financial assets designated at fair value through profit or loss		
Interest income	**10 210**	7 556
Dividends received	**3 316**	3 262
Listed shares	**2 343**	2 790
Unlisted instruments	**822**	472
Manufactured dividends on scrip lending	**151**	
Scrip lending fees	**9**	
Investment properties		
Rental income from investment properties	**2 095**	2 210
Loans and receivables measured at amortised cost		
Interest income	**92**	88
Sundry income	**55**	90
Investment return on defined benefit pension fund surplus	**19**	14
Total investment income	**15 796**	13 220
29 Investment gains		
Investment properties	**1 178**	2 530
Financial assets designated at fair value through profit or loss	**19 166**	33 560
Quoted instruments	**16 868**	26 962
Unquoted instruments	**417**	311
Consolidated mutual funds	**1 881**	6 287
Financial instruments held for trading through profit or loss	**(1 079)**	(2 581)
Foreign exchange differences on subsidiary monetary items	**6**	1
FCTR recycled through profit or loss		18
Joint ventures – measured at fair value	**3**	26
Total investment gains	**19 274**	33 554
30 Fee revenue and reinsurance commission		
Management fees on assets under management	**1 853**	1 934
Health administration fees	**312**	220
Reinsurance commission earned on short-term insurance business	**75**	64
Other fee revenue	**82**	106
Total fee revenue and reinsurance commission	**2 322**	2 324

	2014 Rm	2013 Rm
31 Claims and policyholder benefits[1]		
Insurance claims and policyholder benefits	**32 629**	25 904
Long-term	**32 044**	24 751
Short-term	**585**	1 153
Payments under long-term investment contracts	**13 427**	16 611
	46 056	42 515
Insurance claims recovered from reinsurers	**(898)**	(1 357)
Long-term	**(925)**	(763)
Short-term	**27**	(594)
Net claims and policyholder benefits	**45 158**	41 158
Comprising:		
Long-term insurance – retail	**33 209**	29 378
Death and disability claims	**5 613**	4 879
Policy maturity claims	**4 440**	4 866
Policy surrender claims	**18 538**	15 508
Annuity payments	**4 618**	4 125
Long-term insurance – corporate	**11 337**	11 221
Death and disability claims	**1 966**	1 859
Scheme terminations and member withdrawals	**8 971**	9 007
Annuity payments	**400**	355
Short-term insurance	**612**	559
Medical risk	**499**	442
Motor, property and other	**113**	117
Total claims and policyholder benefits	**45 158**	41 158

[1] *Claims and policyholder benefits are stated net of inter-company eliminations between group companies.*

	2014 Rm	2013 Rm
32 Acquisition costs		
Long-term insurance[1]	**4 109**	3 754
Insurance contracts	**3 867**	3 589
Investment contracts	**242**	165
Short-term insurance	**84**	74
Asset management and other	**386**	405
Total acquisition costs	**4 579**	4 233
Incurred during the year	**4 642**	4 309
Deferred acquisition costs	**(309)**	(304)
Amortisation of deferred acquisition costs	**246**	228

[1] *Included in the long-term insurance acquisition costs are sales management incentive costs of R64 million for 2014 (2013: R51 million).*

	2014 Rm	2013 Rm
33 General marketing and administration expenses		
Employee costs	**3 828**	3 675
Office costs	**2 992**	2 931
Training and development costs	**647**	542
Other	**1 909**	1 931
Total general marketing and administration expenses	**9 376**	9 079
General marketing and administration expenses include the following:		
Amortisation of intangible assets	**172**	187
Derecognition and impairment of intangible assets		169
Auditors' remuneration	**49**	50
Audit fees – current year	**42**	47
Other services	**7**	3
Consulting fees and outsource arrangements	**444**	524
Depreciation	**253**	262
Computer equipment	**111**	106
Purchased computer software	**33**	25
Fixtures, furniture and fittings	**81**	101
Office equipment	**12**	15
Motor vehicles	**16**	15
Direct operating expenses – on investment properties	**638**	633
– on owner-occupied properties	**56**	49
– on hotel operations	**494**	566
Asset management fees	**195**	165
Operating lease charges – property	**124**	142
Other related South African taxes	**431**	397
Financial services levy	**33**	32
Non-recoverable value added taxation	**398**	365
Provision for restructuring		(2)
Provision for possible claims	**26**	(55)
Employee costs[1]	**3 828**	3 675
Salaries and wages	**2 508**	2 255
Defined benefit pension fund contributions	**14**	14
Medical aid contributions	**153**	153
Staff and management incentive schemes	**640**	736
Share-based payment expenses – equity-settled schemes	**126**	108
– cash-settled schemes	**15**	34
Other post-retirement benefits	**158**	148
Other	**214**	227

Full details of the directors' emoluments are contained in the Remuneration of directors and prescribed officers section in the integrated report.

[1] *The number of permanent salaried staff and commission-remunerated agents (tied distribution) at 31 December 2014 was 10 563 (2013: 10 098). The growth in employee numbers is mainly as a result of growth in the tied distribution force.*

	2014 Rm	2013 Rm
34 Share-based payments		
Reconciliation of reserve		
Equity growth schemes (rights)		
Liberty Group Limited or Liberty Holdings Limited ordinary shares	**45**	89
Restricted share plans		
Liberty Holdings Limited ordinary shares	**135**	89
Standard Bank Group schemes		
Standard Bank Group Limited ordinary shares		3
Total share-based payments reserve	**180**	181
Movement for the year	**(1)**	31
Per profit or loss – equity-settled schemes	**126**	108
Recovered from the Standard Bank group	**7**	1
Transfer of vested rights to retained surplus	**(111)**	(61)
Payment of Liberty Holdings Limited dividend to restricted share plans participants	**(23)**	(17)
Share-based payments – equity-settled schemes		
Expense recognised in profit or loss	**126**	108
Share rights	**13**	25
Restricted share plans	**113**	83

34.1 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 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.

34 Share-based payments (continued)

34.1 Equity-settled remuneration schemes (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 2014	Number 2014	Price range 2013	Number 2013
Shares outstanding at the beginning of the year		**1 682 721**		951 443
Granted	**R119,18 – R131,24**	**1 166 108**	R115,00 – R126,01	816 447
Exercised	**R87,90 – R99,10**	**(303 519)**		
Cancellations	**R87,90 – R123,39**	**(66 821)**	R87,90 – R121,02	(85 169)
Shares outstanding at the end of the year		**2 478 489**		1 682 721

Awards granted prior to 28 February 2013 vest 33⅓% at the end of year 2, 3 and 4 respectively while awards granted subsequently vest 33⅓% at the end of year 3, 4 and 5 respectively.

The share-based payment expense recognised during 2014 relating to the Liberty restricted share plan (long-term plan) was R65 million (2013: R46 million).

Liberty Holdings group restricted share plan (deferred plan)

Movement summary	Price range 2014	Number 2014	Price range 2013	Number 2013
Shares outstanding at the beginning of the year		**777 487**		447 212
Granted	**R123,39**	**531 979**	R121,02	525 953
Exercised	**R87,90 – R121,02**	**(300 290)**	R87,90	(140 329)
Cancellations	**R87,90 – R123,39**	**(28 510)**	R87,90 – R121,02	(55 349)
Shares outstanding at the end of the year		**980 666**		777 487

Awards vest 33⅓% at the end of 18 months, 30 months and 42 months respectively. The share-based payment expense recognised during 2014 relating to the Liberty restricted share plan (deferred plan) was R48 million (2013: R37 million).

34 Share-based payments (continued)

34.1 Equity-settled remuneration schemes (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 2014	Number 2014	Price range 2013	Number 2013
Options/rights outstanding at the beginning of the year		**8 463 847**		11 406 402
Granted	**R123,39**	**29 738**		
Exercised	**R50,65 – R95,50**	**(2 946 954)**	R46,15 – R95,50	(2 600 161)
Cancellations and lapses	**R62,08 – R85,97**	**(372 670)**	R60,00 – R80,25	(342 394)
Rights outstanding at the end of the year[1]		**5 173 961**		8 463 847

[1] *As at 31 December 2014, there are no remaining unexercised options under the Liberty Group Share Incentive Scheme*

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 modified binomial tree model were used in order to value the share rights. The weighted average fair value per share right granted in 2014 was R38,61 using the following assumptions:

	2014
Exercise price	**R123,39**
Expected volatility[2] (%)	**27,91**
Option life	**5 years**
Dividend yield (%)	**4,71**

The share-based payment expense recognised during 2014 relating to the Liberty share rights was R13 million (2013: R25 million).

[2] *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 R125,61 (2013: R119,39).

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 2014	Number 2014	Price range 2013	Number 2013
Options outstanding at the beginning of the year		**39 300**		107 900
Exercised	**R39,90 – R98,00**	**(23 675)**	R27,81 – R98,00	(68 600)
Options outstanding at the end of the year		**15 625**		39 300

Share options were exercised regularly throughout the period. The weighted average share price for the year was R134,87 (2013: R115,39). All the options fully vested during 2010 and therefore there has been no further expense.

34 Share-based payments (continued)

34.1 Equity-settled remuneration schemes (continued)

Summary of movements under equity settled remuneration scheme (continued)

Standard Bank Group Equity Growth Scheme – cash-settled

Movement summary	Price range 2014	Number 2014	Price range 2013	Number 2013
Rights outstanding at the beginning of the year		**505 853**		643 167
Group transfers	**R62,39 – R102,10**	**(69 950)**		
Exercised	**R62,39 – R111,94**	**(129 831)**	R60,35 – R111,94	(124 814)
Cancellations and lapses	**R60,35 – R98,00**	**(35 401)**	R62,39	(12 500)
Rights outstanding at the end of the year		**270 671**		505 853

The share-based payment expense recognised during 2014 relating to the Standard Bank Group Equity Growth Scheme is nil (2013: R1 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.

34.2 Cash-settled remuneration schemes

Summary of cash-settled share base payment expenses	Notes	2014 Rm	2013 Rm
Phantom share scheme	see below		1
Agents share unit rights scheme	see below	**1**	
Share unit rights scheme	19.3	**12**	28
2010 Deferred bonus scheme	19.3	**3**	5
Expense recognised in profit or loss		**16**	34

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 2014 was nil (2013: R1 million).

Movement of participation rights under phantom share scheme (number)	2014	2013
Participation rights outstanding at the beginning of the year	**51 045**	120 087
Exercised	**(20 998)**	(69 042)
Participation rights outstanding at the end of the year	**30 047**	51 045

Agents Share Units Rights scheme

The Agents Share Units Rights scheme was introduced in 2014 where rights are allocated to qualifying agents who achieve a predetermined production status, the value of which is linked directly to Liberty Holdings Limited share price. Given the continued service of the agents, the unit values are settled in cash 33 1/3% after years 2,3 and 4 respectively. The cash distribution will be calculated with reference to the closing share price at the date of vesting. Participants receive a cash dividend as and when a Liberty Holdings Limited dividend is declared. The Agents Share Units Rights scheme qualifies as a cash-settled share based payments scheme and a liability is recognised as the agents render their service to the group. .

The first allocation for this scheme was made on 31 March 2014 to a total of 147 participants, with a total of 48 536 awards at a unit price of R124.35.

There were no changes to the total number of outstanding awards as at 31 December 2014.

R1 million was expensed in 2014, with an equivalent liability value being included in trade and other payables.

	2014 Rm	2013 Rm
35 Finance costs		
Interest expense:		
– interest paid on policyholder claims and supplier balances	**94**	80
– interest on financial liabilities at amortised cost	**250**	195
– interest paid on bond repurchase agreements	**63**	52
Total finance costs	**407**	327

36 Business acquisitions and disposals

36.1 Acquisition of subsidiary

Acquisition of Stanbic Investment Management Services Limited (SIMS Ghana)

To continue the group's strategy to extend its market share of the asset management business in Africa, Liberty effective 1 August 2014, purchased a 100% interest in SIMS Ghana from the Standard Bank group. The transaction has been accounted for as a common control transaction and the excess purchase price has been adjusted to group equity. The purchase price includes a possible adjustment based on the assets under management, on 30 April 2016.

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

	2014 Rm
Financial investments	**3**
Prepayments, insurance and other receivables	**2**
Insurance and other payables	**(6)**
Net assets and liabilities assumed	**(1)**
Cash acquired	**5**
Net asset value attributable to ordinary shareholders	**4**
Acquisition cost	**15**
Cash paid	**10**
Contingent consideration estimate	**5**
Excess purchase price	**(11)**

36.2 Acquisition of additional interest in subsidiary

Change in ownership of Liberty Health Holdings Proprietary Limited (Liberty Health)

Effective 1 August 2014 Liberty acquired the remaining non-controlling interest of 25% in Liberty Health. A cash consideration of R40 million was paid and Liberty Holdings Limited assumed the negative share of the net asset value of R204 million. This acquisition has been accounted for as a transaction between owners.

	2014 Rm	2013 Rm
37 Taxation		
37.1 Sources of taxation		
South African normal taxation	**1 087**	1 863
Current year taxation	**1 269**	1 725
(Over)/underprovision prior year current taxation	**(378)**	12
Current deferred taxation	**184**	126
Underprovision prior year deferred taxation	**12**	
Foreign normal taxation	**82**	74
Current year taxation	**88**	85
Current deferred taxation	**(6)**	(11)
South African capital gains taxation	**611**	878
Current year taxation	**376**	350
Deemed disposal taxation liability	**(17)**	(90)
Overprovision prior year		(16)
Deferred taxation	**252**	634
Dividend withholding taxation associated with policyholder investments	**161**	124
Total taxation	**1 941**	2 939
Profit or loss	**1 926**	2 968
Other comprehensive income	**15**	(29)

37 Taxation (continued)

37.2 Taxation rate reconciliation

	CIT[1] Rm	CGT[2][4] Rm	Total Rm
2014			
Taxation per profit or loss	**1 336**	**590**	**1 926**
Taxation specific to policyholder tax funds[3]	**90**	**(463)**	**(373)**
Shareholder taxation	**1 426**	**127**	**1 553**
Profit before taxation per statement of comprehensive income	**5 565**	**644**	**6 209**
Preference dividends[5]	**863**		**863**
Adjustment for the revenue offset to policyholder taxation	**(373)**		**(373)**
Total	**6 055**	**644**	**6 699**
	%	**%**	
Effective rate of shareholder taxation	**23,6**	**19,7**	
Adjustments due to:			
Income exempt from normal taxation	**2,8**		
Non-tax deductible expenses	**(0,9)**		
Overprovision of taxes in respect of prior years	**2,6**	**0,3**	
Special allowances and inclusions	**(0,1)**		
Amounts disregarded from capital gains tax		**(1,3)**	
Standard rate of South African taxation	**28,0**	**18,7**	

[1] *CIT represents corporate income taxation.*

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

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

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

[5] *Preference dividends relating to the bancassurance profit share, are not deductible for taxation purposes.*

All significant transactions that are accounted for in other comprehensive income (OCI) for both 2014 and 2013 attracted tax at the standard tax rates with the exception of the foreign currency translation reserve which does not attract taxation as it emerges on consolidation of foreign subsidiaries.

	CIT[1] Rm	CGT[2][4] Rm	Total Rm
2013			
Taxation per profit or loss	2 092	876	2 968
Taxation specific to policyholder tax funds[3]	(354)	(758)	(1 112)
Shareholder taxation	1 738	118	1 856
Profit before taxation per statement of comprehensive income	6 413	1 025	7 438
Preference dividends[5]	840		840
Adjustment for the revenue offset to policyholder taxation	(1 112)		(1 112)
Total	6 141	1 025	7 166
	%	%	
Effective rate of shareholder taxation	28,3	11,5	
Adjustments due to:			
Income exempt from normal taxation	1,6		
Non-tax deductible expenses	(1,7)		
Overprovision of taxes in respect of prior years	(0,1)	5,6	
Special allowances and inclusions	(0,1)		
Base cost difference to historic cost		(5,6)	
Amounts disregarded from capital gains tax		7,2	
Standard rate of South African taxation	28,0	18,7	

	2014 Rm	2013 Rm
38 Reconciliation of total earnings to cash (utilised)/generated by operations		
Total earnings	**4 283**	4 470
Adjustments for:		
Interest received	**(10 302)**	(7 644)
Interest paid	**407**	327
Dividends received	**(3 316)**	(3 262)
Taxation	**1 926**	2 968
Net fund inflows/(outflows) after service fees on policyholder investment contracts	**364**	(4 152)
Net (outflows)/inflows from third-party financial liabilities arising on consolidation of mutual funds	**(7 850)**	3 561
Distributions to third-party financial liabilities arising on consolidation of mutual finds	**(1 217)**	(1 425)
Service fee income deferred on new business	**53**	48
Deferred acquisition costs on new business	**(309)**	(304)
	(15 961)	(5 413)
Adjustments for non-cash items:		
Policyholder liability transfers	**22 942**	30 833
Net movement on short-term insurance liabilities net of reinsurance	**7**	(6)
Amortisation of deferred acquisition costs	**246**	228
Amortisation of deferred revenue liability	**(31)**	(30)
Amortisation of intangible assets	**172**	187
Derecognition and impairment of intangible assets		169
Depreciation of equipment	**253**	262
Movement on defined benefit pension fund surplus in total earnings	**(5)**	2
Share-based payment expenses	**133**	109
Investment gains	**(19 274)**	(33 554)
Investment gains attributable to third-party mutual fund financial liabilities	**3 585**	7 832
Income attributable to non-controlling preference shareholders in subsidiaries	**883**	850
Movement on provisions	**(22)**	(143)
	(7 072)	1 326
Working capital changes:	**4 789**	1 442
Prepayments, insurance and other receivables	**247**	(213)
Insurance and other payables	**4 542**	1 655
Cash (utilised)/generated by operations	**(2 283)**	2 768

	2014 Rm	2013 Rm
39 Distributions in lieu of dividends/dividends paid		
Ordinary and preference share dividends as per statement of changes in shareholders' funds	**(1 721)**	(1 939)
Dividends and redemptions received on preference shares held in relation to BEE transaction	**153**	171
Distributions paid to non-controlling interests in subsidiaries[1]	**(909)**	(809)
Total distributions paid	**(2 477)**	(2 577)

[1] *Including preference share dividends in relation to Standard Bank bancassurance agreement.*

	2014 Rm	2013 Rm
40 Taxation paid		
Taxation payable at the beginning of the year	**(1 448)**	(1 642)
Taxation attributable	**(1 499)**	(2 190)
Taxation payable at the end of the year	**533**	1 448
Total taxation paid	**(2 414)**	(2 384)

41 Related party disclosures

List of related parties as defined:

Parent

Direct holding company: Standard Bank Group Limited controls 53,62% (2013: 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 Life Swaziland Limited, Liberty Nominees Proprietary Limited, Libgroup Jersey Holdings Limited, Standard Insurance Limited (Swaziland), STANLIB Kenya Limited, STANLIB Limited, Stonehouse Capital Proprietary Limited, STANLIB Uganda Limited, Stanbic Investment Management Services Limited (Ghana), Liberty Health Holdings Proprietary Limited, Own Your Life Rewards 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 (57,7%), Liberty Holdings Botswana Proprietary Limited (74%), Liberty Holdings Namibia Proprietary Limited (75%), Liberty Life Uganda Assurance Limited (51%), STANLIB Lesotho Proprietary Limited (74,9%).

Indirectly owned

Wholly owned through directly owned subsidiaries:
Capital Alliance Investment Holdings Proprietary Limited, Capital Alliance Life Limited, Credit Partners GP Proprietary Limited, Credit Partners (B) GP 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 Linked Investment Platform Proprietary Limited, Liberty Linked Investment Platform Nominee (RF) Proprietary 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, STANLIB Asset Management Limited, STANLIB Collective Investments Limited, STANLIB Credit Partners Proprietary Limited, STANLIB Fund Managers Jersey Limited, STANLIB Infrastructure GP 1 Proprietary Limited, STANLIB Multi-Manager Limited, STANLIB (Swaziland) Proprietary Limited, STANLIB Wealth Management Limited, STANLIB Wealth Management Nominees Proprietary Limited, The Big Rock Proprietary Limited, The Liberty Life Educational Foundation, Lifeway Insurance Zambia Limited, Neil Harvey & Associates Proprietary Limited, Unique Payment Services Proprietary Limited, VMed Administrators Proprietary Limited, VMedical Solutions Proprietary Limited.

41 Related party disclosures (continued)

Subsidiaries (continued)

Partially owned through directly owned subsidiaries (percentage effective ownership indicated):

Azali Limited (57,7%), Main Street 645 Proprietary Limited (51%), CfC Investments Limited (57,7%), CfC Life Assurance Limited (57,7%), Liberty Blue Consultancy LDA (Mozambique) (75%), Liberty Life Namibia Limited (75%), Liberty Life Botswana Proprietary Limited (74%), 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 (Kenya) Limited (57,7%), The Heritage Insurance Company (Tanzania) Limited (34,6%), Total Health Trust (51,2%), United Funeral Insurance Limited (75%).

Structured entity

LTI Notes Series 1 Limited, Passives Funding Proprietary Limited, The Liberty Holdings Group Restricted Share Trust.

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 included in the integrated report on pages 16 and 17.

Liberty Holdings Limited executive committee members as at 31 December 2014:

Steven Braudo	
Leon Deist	
Thabo Dloti (chairman)	Appointed as chairman 1 March 2014
Seelan Gobalsamy	
Giles Heeger	
John Maxwell	
Mukesh Mittal	
Ivan Mzimela	
Samuel Ogbu	
Thiru Pillay	
Casper Troskie	

Liberty Holdings Limited executive committee members resignations during 2014:

Bruce Hemphill (chairman)	Resigned 28 February 2014

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 19.

Where relevant, amounts are excluding value added taxation.

41 Related party disclosures (continued)

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	**2014**	2013	**2014**	2013
Summary of ordinary share holdings and movements	**'000**	'000	**Rm**	Rm
Holdings at the beginning of the year	**7 062**	7 749	**914**	922
Liberty Group Limited	**5 352**	5 551	**693**	660
Liberty Active Limited		331		40
Mutual funds	**1 710**	1 867	**221**	222
Purchases	**8 765**	3 202	**1 158**	380
Liberty Group Limited	**3 461**	2 602	**478**	307
Liberty Active Limited		86		11
Mutual funds	**5 304**	514	**680**	62
Sales	**(3 583)**	(3 889)	**(498)**	(460)
Liberty Group Limited	**(1 692)**	(3 104)	**(228)**	(361)
Liberty Active Limited		(114)		(14)
Mutual funds	**(1 891)**	(671)	**(270)**	(85)
Transfer of insurance business arising from life licence rationalisation				
Liberty Group Limited		303		39
Liberty Active Limited		(303)		(39)
Fair value adjustments			**183**	72
Liberty Group Limited			**79**	48
Liberty Active Limited				2
Mutual funds			**104**	22
Holdings at the end of the year	**12 244**	7 062	**1 757**	914
Liberty Group Limited	**7 121**	5 352	**1 022**	693
Mutual funds	**5 123**	1 710	**735**	221
Percentage of total issued ordinary shares (%)	**0,77**	0,44		

Liberty has entered into a scrip lending agreement with Rand Merchant Bank. Included in the scrip lent to 31 December 2014 is 2 841 062 ordinary shares in Standard Bank valued at R408 million.

41 Related party disclosures (continued)

A Holding company – Standard Bank (continued)

A.1 Financial instrument investments (continued)

Standard Bank group preference shares Summary of preference share holdings and movements	Nominal holding 2014 '000	 2013 '000	Fair value 2014 Rm	 2013 Rm
Holdings at the beginning of the year	**2 096**	3 665	**203**	367
Liberty Group Limited	**1 946**	1 792	**188**	181
Capital Alliance Life Limited		1 054		105
Liberty Active Limited		570		56
Liberty Growth Limited		99		10
Mutual funds	**150**	150	**15**	15
Purchases		260		24
Liberty Group Limited		260		24
Sales	**(98)**	(1 829)	**(8)**	(178)
Liberty Group Limited		(777)		(74)
Capital Alliance Life Limited		(482)		(48)
Liberty Active Limited		(570)		(56)
Mutual funds	**(98)**		**(8)**	
Transfer of insurance business arising from life licence rationalisation				
Liberty Group Limited		671		62
Capital Alliance Life Limited		(572)		(53)
Liberty Growth Limited		(99)		(9)
Fair value adjustments			**(26)**	(10)
Liberty Group Limited			**(24)**	(5)
Capital Alliance Life Limited				(4)
Liberty Growth Limited				(1)
Mutual funds			**(2)**	
Holdings at the end of the year	**1 998**	2 096	**169**	203
Liberty Group Limited	**1 946**	1 946	**164**	188
Mutual funds	**52**	150	**5**	15

41 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 2014 Rm	 2013 Rm
Holdings at the beginning of the year	**9 990**	11 127
Liberty Group Limited	**6 169**	5 634
Capital Alliance Life Limited		122
Liberty Growth Limited		242
Liberty Active Limited		1 173
Mutual funds	**3 780**	3 952
Other	**41**	4
Additions through new subsidiaries	**777**	
Mutual funds	**777**	
Purchases	**8 044**	7 015
Liberty Group Limited	**5 929**	3 703
Liberty Active Limited		805
Mutual funds	**2 115**	2 462
Other		45
Sales	**(7 416)**	(8 043)
Liberty Group Limited	**(4 785)**	(4 722)
Capital Alliance Life Limited		(48)
Liberty Active Limited		(691)
Mutual funds	**(2 631)**	(2 570)
Other		(12)
Transfer of insurance business arising from life licence rationalisation		
Liberty Group Limited		1 617
Capital Alliance Life Limited		(72)
Liberty Growth Limited		(249)
Liberty Active Limited		(1 296)
Fair value adjustments	**218**	(109)
Liberty Group Limited	**80**	(63)
Capital Alliance Life Limited		(2)
Liberty Growth Limited		7
Liberty Active Limited		9
Mutual funds	**136**	(64)
Other	**2**	4
Holdings at the end of the year[1]	**11 613**	9 990
Liberty Group Limited	**7 393**	6 169
Mutual funds	**4 177**	3 780
Other	**43**	41
[1] Analysis of term deposits:		
Listed:		
Fixed rate notes	**3 480**	*2 560*
Fixed rate credit-linked notes	**981**	*1 118*
Inflation-linked notes	**525**	*140*
Unlisted:		
Fixed rate notes		*152*
Fixed rate zero-coupon bonds	**393**	*642*
Fixed rate credit-linked notes	**1 984**	*1 663*
Floating rate notes	**1 892**	*1 179*
Inflation-linked notes	**622**	*410*
Negotiable certificates of deposit	**1 736**	*2 126*
	11 613	*9 990*

41 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 2014 Rm	 2013 Rm
Holdings at the beginning of the year	**1 321**	1 740
Liberty Group Limited	**1 224**	984
Capital Alliance Life Limited		210
Liberty Active Limited		546
Mutual funds	**97**	
Additions	**8**	
Mutual funds	**8**	
Purchases	**389**	488
Liberty Group Limited		390
Mutual funds	**389**	98
Sales	**(360)**	(774)
Liberty Group Limited	**(263)**	(735)
Liberty Active Limited		(39)
Mutual funds	**(97)**	
Transfer of insurance business arising from life licence rationalisation		
Liberty Group Limited		701
Capital Alliance Life Limited		(193)
Liberty Active Limited		(508)
Fair value adjustments	**11**	(133)
Liberty Group Limited	**9**	(116)
Capital Alliance Life Limited		(17)
Liberty Active Limited		1
Mutual funds	**2**	(1)
Holdings at the end of the year	**1 369**	1 321
Liberty Group Limited	**970**	1 224
Mutual funds	**399**	97

Amounts above include interests in unconsolidated structured entities that are subsidiaries of Standard Bank. Refer note 45.

41 Related party disclosures (continued)

A Holding company – Standard Bank (continued)

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 2014 amounted to R24 million (2013: R22 million).

A.3 Software development

Liberty developed a number of distribution systems on behalf of Standard Bank in prior years. 2014 annual maintenance fee received R7,3 million (2013: R8,1 million).

A.4 Banking arrangements

Liberty and its subsidiaries make use of banking facilities provided by Standard Bank.

Summary of cash balances, interest earned and fees charged:

	Cash balances		Interest earned		Fees charged	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Holdings at the beginning of the year	**3 389**	3 103				
Liberty	**7**	37				
Liberty subsidiaries	**3 382**	3 066				
Net movements during the year	**2 542**	286				
Liberty	**8**	(30)				
Liberty subsidiaries	**2 534**	316				
Holdings at the end of the year	**5 931**	3 389				
Liberty	**15**	7	**30**	44		
Liberty subsidiaries	**5 916**	3 382	**78**	71	**45**	41
Total			**108**	115	**45**	41

A.5 Operating lease

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 2014: R71 million (2013: R80 million).

41 Related party disclosures (continued)

A Holding company – Standard Bank (continued)

A.6 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. New business premium income in respect of this business in 2014 amounted to R7 984 million (2013: R7 624 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 accrued as payable to the Standard Bank group for the year to 31 December 2014 is R866 million (2013: R868 million).

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 these financial statements, neither party had given notice.

A binder agreement was entered into with Standard Bank effective from 31 December 2012. The binder agreement is associated with the administration of policies sold under the bancassurance agreement, and shall remain in force for an indefinite period with a 90-day notice period for termination. Fees accrued for the year to 31 December 2014 is R100 million (2013: R94 million).

In December 2013 Liberty Group Limited, a 100% held subsidiary of Liberty, issued 5000 cumulative, participating, non-controlling redeemable preference shares for a total value of R5 million to The Standard Bank of South Africa Limited in order to facilitate the payment of profit shares under the bancassurance agreement. This followed the discontinuance of business in Liberty Active Limited, which previously was contracted to make payment.

A.7 Insurance

Certain of Liberty's insured risks 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 2014 is R13,8 million (2013: R14,4 million).

A.8 Asset management fees – The Standard Bank Group Retirement Fund (fund)

Asset management fees of R10 million (2013: R11 million) were paid to STANLIB Asset Management Limited by the fund. An amount of R4 million was paid to the fund by STANLIB Asset Management Limited during 2014 as a mandate adjustment.

A.9 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 that conduct business in these markets.

Transaction summary:

	Underlying principal/ notional amount traded				Underlying principal/ notional position				Open maturity dates
	Buy 2014 Rm	Buy 2013 Rm	**Sell 2014 Rm**	Sell 2013 Rm	**Buy 2014 Rm**	Buy 2013 Rm	**Sell 2014 Rm**	Sell 2013 Rm	
Interest rate									
Swaps	**918**	4 967	**(918)**	(4 967)	**39 161**	38 578	**(39 161)**	(38 578)	<1 – 28 years
Swaption					**4 580**	4 580			4 – 14 years
Forwards	**16 860**	65 513	**(18 111)**	(34 977)	**3 488**	3 139	**(1 678)**	(1 508)	<1 year
Equity options	**26**		**(42)**						n/a

41 Related party disclosures (continued)

A Holding company – Standard Bank (continued)

A.9 Derivatives (continued)

	Fair value at 31 December		Amounts included in profit or loss	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Interest rate				
Swaps	**(347)**	(434)	**313**	(1 038)
Swaptions	**45**	23	**22**	(43)
Forwards	**29**	8	**(90)**	(128)
Equity options			**2**	
	(273)	(403)	**247**	(1 209)

Collateral deposits of R1 582 million as at 31 December 2014 (2013: R826 million) are deposited in Standard Bank bank accounts as collateral supporting South African Futures Exchange and over-the-counter traded derivatives.

A.10 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. 2014 premium income was R121 million (2013: R148 million).

A.11 Commission paid to Standard Bank

Liberty pays commission to Standard Bank for insurance policies sold through the bank's various distribution channels. The commission paid for the year to 31 December 2014 is R902 million (2013: R880 million). STANLIB also paid commission of R57 million (2013: R44 million) to Standard Bank for the year to 31 December 2014 in relation to asset management business.

A.12 Liberty Kenya Holdings Limited (CfC) – short-term insurance

CfC insures various risks of CfCSH, premium received and claims paid are R35 million (2013: R25 million) and R15 million (2013: R11 million) respectively, for the twelve months to 31 December 2014.

A.13 Advisory fees in respect of note issue

During December 2014, Liberty issued a R500 million subordinated note. An advisory fee of R2,9 million was paid to Standard Bank in respect of the note issue.

A.14 Sale and repurchase agreements

As described in accounting polices section of this integrated report, the group has entered into certain agreements of sale and repurchase of financial instruments as part of the group's asset/liability matching process.

As at 31 December 2014 a total of R24 billion in assets (2013: R7,5 billion) have been traded with Standard Bank under a repurchase agreement with various repurchase dates to 22 January 2015. Open contracts totalled R26 million as at 31 December 2014 (2013: R1,1 billion). Finance costs recognised in respect of these agreements as at 31 December 2014 was R174 million (2013: R52 million).

A.15 Acquisition of Stanbic Investment Management Services

Refer note 36.1

A.16 STANLIB Infrastructure Private Equity Fund 1 Partnership

A group mutual fund subsidiary acquired on 30 June 2014, purchased various interests in infrastructure assets from Standard Bank totalling R257 million.

A.17 South Africa Infrastructure Fund

In August 2013, Liberty purchased Standard Bank's entire interest in the South Africa Infrastructure Fund (SAIF). Liberty purchased Standard Bank's holding of 31,01% in the SAIF main fund and the 38,49% holding in the SAIF sub fund 3 for R680 million and R50 million respectively.

41 Related party disclosures (continued)

A Holding company – Standard Bank (continued)

A.18 African Infrastructure Investment Fund

In August 2013 Liberty purchased Standard Bank's entire interest of 18,97% in the African Infrastructure Investment Fund for a consideration of R145 million.

A.19 Melville Douglas Investment Management Proprietary Limited

Certain of the group's assets totalling R263 million (2013: R238 million) are managed by Melville Douglas Investment Management Proprietary Limited, a subsidiary of Standard Bank. Fees charged are R3 million (2013: R2 million) for the year.

B Transactions with directors and related entities

Refer to note 43 for related party relationships in respect of the 2004 BEE transaction.

B.1 Transaction with Safika Holdings Proprietary Limited (Safika)

Safika is a related entity of Saki Macozoma, the past chairman of the board of Liberty. Saki Macozoma, who was defined as part of key management for 2014, effectively controls 28,40% (2013: 28,40%) of Safika. Liberty has an effective interest of 6,67% (2013: 6,67%) and Standard Bank has a 20% (2013: 20,0%) interest in Safika. The fair value of Liberty's interest is R135 million (2013: R138 million). Rnil million dividends have been received during the year (2013: R11 million). Safika controls 6 814 898 (2013: 6 814 898) ordinary shares in Liberty which is effectively 2,4% (2013: 2,4%) of the total invested ordinary share capital.

B.2 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, has been awarded various construction contracts to the value of R2 176 million to date, of which R2 142 million (2013: R2 022 million) has been spent up to 31 December 2014. 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 its subsidiaries:

	2014 R'000	2013 R'000
Fixed	**41 588**	36 512
Cash portion of package	**37 425**	32 773
Other benefits	**967**	960
Retirement contributions	**3 196**	2 779
Variable[(1)]	**66 352**	74 021
Cash bonus	**47 119**	51 936
Deferred bonus	**19 233**	22 085
Retention	**52 000**	71 733
Value of restricted shares/rights granted[(2)]	**52 000**	71 733
Non-executive directors' fees	**11 794**	10 336
Total	**171 734**	192 602

(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 2015 and 2014 in order to align to the performance periods of 2014 and 2013, respectively.*

Details of directors' remuneration are continued in Liberty Holdings Integrated Report on pages 25 to 31.

41 Related party disclosures (continued)

(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:

Insurance products	Aggregate insured cover 2014 R'000	Aggregate insured cover 2013 R'000	Premiums received 2014 R'000	Premiums received 2013 R'000	Surrender value 2014 R'000	Surrender value 2013 R'000
Life	**47 235**	34 225	**585**	527	**2 036**	1 812
Morbidity	**47 636**	35 545	(included in life premiums)			

Investment products	Fund value 2014 R'000	Fund value 2013 R'000
Balance at the beginning of the year	**39 044**	42 074
Appointments and resignations	**3 939**	(7 834)
Premiums received	**3 329**	2 388
Investment return credited net of charges	**4 080**	4 202
Commission and other transaction fees	**(66)**	(42)
Claims and withdrawals	**(3 057)**	(1 744)
Balance at the end of the year	**47 269**	39 044

(iii) Aggregate details of key management personnel, their families (as defined under IAS 24) and entities significantly influenced or controlled by key management, investments in STANLIB mutual funds that are either classified as subsidiaries or associate entities of Liberty Holdings Limited.

STANLIB Mutual Funds	
Total value of investments at the beginning of the year	**22 657**
New investments	**3 084**
Redemptions	**(14 180)**
Fair value adjustments	**421**
Total value of investments at the end of the year	**11 982**

42 Commitments

	Rm	Rm
42.1 Operating lease commitments		
Properties	**285**	337
Within 1 year	**89**	88
1 to 5 years	**196**	249
42.2 Capital commitments		
Equipment, fixtures, furniture and motor vehicles	**379**	563
Under contracts	**45**	15
Authorised by the directors but not contracted	**334**	548
Investment properties	**4 402**	3 542
Under contracts[(1)]	**2 934**	418
Authorised by the directors but not contracted	**1 468**	3 124
Owner-occupied properties	**25**	2
Under contracts	**25**	2
Total commitments	**5 091**	4 444

[(1)] *Included in contracted investment property commitments:*

- *Liberty Group Limited has entered into a partnership agreement to acquire a 25% undivided share in the developed properties and associated rental operations of the Melrose Arch precinct in Johannesburg for R1,7 billion. The transaction is subject to various conditions which are outstanding at the date of this report.*
- *Various other developments underway to existing investment properties.*

The above 2014 capital commitments will be financed by available bank facilities, existing cash resources, internally generated funds and R160 million (2013: R218 million) from non-controlling interests in unincorporated property partnerships in respect of investment properties. In the ordinary course of business and in accordance with various investment mandates, commitments have been made to invest in certain unconsolidated structured entities as detailed in note 45.

Throughout the group there are various short-term leases (less than a year) for office and computer equipment. The obligations outstanding at 31 December are not material.

43 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 R352 million has been allowed as a redemption of a further portion of the cumulative preference shares.

Position at 31 December 2014: BEE entity	Beneficiary	Original amount invested (2004) Rm	Redemption (2006) Rm	Subsequent redemptions Rm	Remaining amounts invested Rm	Number of Liberty Holdings Limited shares
Lexshell 620 Investments Proprietary Limited	Safika Holdings Proprietary Limited	**300**	**(22)**	**(87)**	**191**	**6 191 075**
Lexshell 621 Investments Proprietary Limited	Shanduka Group Proprietary Limited	**200**	**(15)**	**(58)**	**127**	**4 127 383**
Lexshell 622 Investments Proprietary Limited	The Black Managers' Trust(1)	**501**	**(37)**	**(140)**	**324**	**5 720 062**
Lexshell 623 Investments Proprietary Limited	The Liberty Community Trust(2)	**250**	**(18)**	**(67)**	**165**	**5 159 229**
		1 251	**(92)**	**(352)**	**807**	**21 197 749**
Position at 31 December 2013:						
BEE entity	**Beneficiary**					
Lexshell 620 Investments Proprietary Limited	Safika Holdings Proprietary Limited	300	(22)	(63)	215	6 191 075
Lexshell 621 Investments Proprietary Limited	Shanduka Group Proprietary Limited	200	(15)	(41)	144	4 127 383
Lexshell 622 Investments Proprietary Limited	The Black Managers' Trust(1)	501	(37)	(99)	365	10 318 458
Lexshell 623 Investments Proprietary Limited	The Community Trust(2)	250	(18)	(51)	181	5 159 229
		1 251	(92)	(254)	905	25 796 145

(1) *Registered as the Katleho Managers' Trust.*

(2) *Registered as the Katleho Community Trust, with a subsequent name change in 2014 to The Liberty Community Trust.*

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.

With effect from 1 January 2015 the trading restrictions on the underlying Liberty Holdings Shares securing the cumulative redeemable preference shares have been lifted. If however, part or all these shares are traded, any related outstanding preference share liability would need to be settled from the proceeds.

In anticipation of the lifting of trading restrictions the participants of The Black Managers' Trust, not conflicted in terms of price sensitive knowledge, were allowed to trade shares during December 2014 in order to settle taxation liabilities that arose on 1 January 2015. The proportional amounts of R144 million relating to the outstanding preference shares liabilities were received subsequent to 31 December 2014.

44 Details of non-wholly owned subsidiaries that have significant non-controlling interests

44.1 Summary

	Notes	Accumulated non-controlling interests 2014 Rm	Accumulated non-controlling interests 2013 Rm
Subsidiaries	44.2	**427**	199
Unincorporated property partnerships	44.3	**3 720**	3 503
Total non-controlling interests		**4 147**	3 702

44.2 Non-controlling interests in subsidiaries

		Percentage of ownership interest held by non-controlling interest		Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
Name of subsidiary	**Principal place of business**	**2014 %**	2013 %	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Liberty Health Holdings (Pty) Limited	South Africa		25,1	**(14)**	(54)		(190)
Liberty Holdings Namibia (Pty) Limited	Namibia	**25,0**	25,0	**8**	(1)	**25**	19
Liberty Kenya Holdings Limited	Kenya	**42,3**	43,2	**59**	44	**307**	264
Aggregate insignificant subsidiaries				**18**	15	**95**	106
Total				**71**	4	**427**	199

All the above entities have a 31 December year end.

44.3 Unincorporated property partnerships

		Percentage of ownership interest held by non-controlling interest		Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
Name of property partnership	**Location**	**2014 %**	2013 %	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Sandton City consortium	South Africa	**25,0**	25,0	**253**	491	**3 333**	3 131
Sandton Convention Center	South Africa	**40,0**	40,0	**43**	69	**304**	288
Liberty Hotels (Pty) Ltd	South Africa	**25,0**	25,0	**(1)**	(2)	**83**	84
Total				**295**	558	**3 720**	3 503

44 Details of non-wholly owned subsidiaries that have significant non-controlling interests (continued)

44.4 Summarised financial information – non-controlling interests' share

44.4.1 Subsidiaries	Liberty Holdings Namibia (Pty) Limited		Liberty Kenya Holdings Limited	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
Statement of financial position				
Non-current assets	**114**	108	**1 349**	1 313
Current assets	**26**	33	**408**	315
Non-current liabilities	**(89)**	(74)	**(1 361)**	(1 272)
Current liabilities	**(26)**	(48)	**(89)**	(92)
Comprehensive income				
Total revenue	**50**	53	**574**	473
Total comprehensive (loss)/income	**8**	(1)	**66**	88

44.4.2 Unincorporated property partnerships

	Sandton City consortium		Sandton Convention Center		Liberty Hotels (Pty) Ltd	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Statement of financial position						
Non-current assets	**3 333**	3 135	**304**	288	**72**	76
Current assets	**5**	10			**25**	27
Non-current liability		(3)				(17)
Current liabilities	**(39)**	(46)	**(1)**		**(14)**	(2)
Loans to group entities	**34**	35	**1**			
Comprehensive income						
Gross revenue	**336**	572	**48**	74	**122**	118
Total comprehensive income/(loss)	**253**	491	**43**	69	**(1)**	(2)

44.5 Significant restrictions

44.5.1 Liberty Holdings Namibia (Pty) Limited and Liberty Kenya Holdings Limited

Both Liberty Holdings Namibia (Pty) Limited and Liberty Kenya Holdings Limited own licenced asset management and insurance entities that are regulated and therefore subject to statutory capital requirements set by each jurisdiction's regulators. These require that the entities hold a prescribed minimum capital and dividend distributions from these entities are only available from excess net assets over the required minimum capital.

45 Interests in unconsolidated structured entities

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

Name of unconsolidated structured entity	Asset type	Nature and purpose of business	Activities
Blue Diamond Investments No 3 (RF) Limited	Listed notes in a vehicle that houses South African listed debt instruments		Blue Diamond is a repack vehicle (SPV) that houses South African debt into a single instrument which investors can purchase
Blue Granite Investments No 2 (RF) Limited *	Residential mortgage backed securitisation	Standard Bank securitisation vehicle	Raising funding in the securitisation market
Blue Granite Investments No 4 (RF) Limited *	Residential mortgage backed securitisation	Standard Bank securitisation vehicle	Raising funding in the securitisation market
Calibre Mortgage Fund (Pty) Limited *	Senior, secured loan	Special purpose vehicle (SPV) set up by South African Home Loans (Pty) Limited (SAHL) into which it originates home loans. The SPV is funded by debt provided by Liberty and equity provided by SAHL.	SPV set up by SAHL as a funding vehicle into which Liberty can lend on a secured basis.
Nitro Securitisation 4 Issuer Trust	Vehicle loan backed assets	RMB securitisation vehicle	Raising funding in the securitisation market
Opiconsivia Investments 266 (Pty) Limited	Senior, secured loan	SPV originally set up by Standard Bank and Liberty to fund secured property exposures to Growthpoint, Resilient and Redefine.	Raising and housing secured funding from Liberty
SA Taxi Finance Solutions (Pty) Limited	Senior, unrated debentures secured by underlying assets	SPV set up by SA Taxi to raise debt funding which it in turn uses to originate taxi loans	SPV set up by SA Taxi to raise funding in the securitisation market which in turn uses the funding to originate taxi loans
SA Taxi Securitisation (Pty) Limited	Senior ranking, listed, rated debt notes secured by underlying assets	Securitisation SPV set up by SA Taxi to raise debt funding which it in turn uses to originate taxi loans	SPV set up by SA Taxi to raise funding in the securitisation market which in turn uses the funding to originate taxi loans
Siyakha Fund (RF) Limited	Residential mortgage backed securitisation	Standard Bank securitisation vehicle	Raising funding in the securitisation market
The Thekwini Fund series	Residential mortgage backed securitisations	SAHL securitisation vehicles	SPV is set up by SAHL to raise funding in the securitisation market which it in turn uses to originate home loans.
The Thekwini Fund 8 (RF) Limited			
The Thekwini Fund 9 (RF) Limited			
The Thekwini Fund 10 (RF) Limited			
The Thekwini Fund 11 (RF) Limited			
The Thekwini Fund 12 (RF) Limited			
SA Securitisation Programme (RF) Limited	Listed, rated, asset-backed note	SASFIN securitisation vehicle	Raising funding in the securitisation market
Torque Securitisation (RF) Limited	Listed, rated, vehicle loan backed note	Vehicle loan securitisation vehicle	Raising funding in the securitisation market

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

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

***Related party entities**

Blue Granite Investments No 2 (RF) Limited, Blue Granite Investments No 4 (RF) Limited and Siyakha Fund (RF) Limited are subsidiaries of Standard Bank.

South African Home Loans (Pty) Limited is a joint venture of Standard Bank.

How is the structured entity financed?	Ongoing capital commitment	Carrying value(1) 2014 Rm	Carrying value(1) 2013 Rm	Income received(2) 2014 Rm	Income received(2) 2013 Rm
Credit linked notes issued to third-party investors	None	**199**	402	**21**	15
Debt funders in the securitisation market	None	**258**	257	**19**	17
Debt funders in the securitisation market	None	**243**	252	**18**	20
Liberty as debt provider	Undrawn commitment of R352 million. Drawing is subject to covenant checks by Liberty. Full commitment to be drawn down by end February 2015	**2 596**	1 148	**119**	33
Debt funders in the securitisation market	None	**76**	160	**9**	13
Debt provided by Liberty	None	**395**	235	**19**	1
Debt funders in the securitisation market	Undrawn commitment of R130 million. Last draw down scheduled for November 2015	**360**	27	**30**	3
Debt funders in the securitisation market	None	**4**	297	**1**	24
Debt funders in the securitisation market	None	**269**	313	**18**	10
Debt funders in the securitisation market	None				
		53	11	**2**	1
		97	155	**8**	10
		95	171	**1**	20
		14	14	**1**	1
		142		**3**	
Debt funders in the securitisation market	None	**154**		**1**	
Debt funders in the securitisation market	None	**247**		**10**	

46 Risk management disclosures

Risk management disclosures, as required by IFRS, have been included in the Risk management section in this report on pages 106 to 164.

47 Group restrictions on assets and liabilities

The group is restricted on its ability to access or use its assets and settle its liabilities only to the extent by which amounts have been posted as collateral (refer notes 10 and 11) or assets have been pledged under certain scrip lending or repurchase agreements (refer note 10).

In addition, the group is largely constituted of various insurance entities (both long and short term) and asset managers. These entities require licences to operate in each jurisdiction and are bound by various supervisory regulatory frameworks including requirements to hold minimum capital as stipulated. The wholly owned subsidiary, Liberty Group Limited, has issued various subordinated notes that have prescribed liquidity requirements. Liberty Group Limited, is a South African licenced long-term insurer and by size is the most significant entity within the group, effectively holding 89% of the total group assets and liabilities.

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

48 Summary of the group's financial, property and insurance assets and long-term liabilities per class

48.1 Assets

Financial, property and insurance asset class	Rand denominated 2014 Rm	Rand denominated 2013 Rm	Foreign currency denominated 2014 Rm	Foreign currency denominated 2013 Rm	Total 2014 Rm	Total 2013 Rm
Equity instruments	**92 963**	79 004	**35 911**	32 969	**128 874**	111 973
Listed ordinary shares on the JSE	**91 668**	78 698	**44**	4	**91 712**	78 702
Listed ordinary shares on foreign exchanges			**35 861**	32 937	**35 861**	32 937
Unlisted	**889**	306	**6**	28	**895**	334
Interest in associate – fair value unlisted equity	**406**				**406**	
Debt instruments	**86 217**	75 821	**13 650**	12 376	**99 867**	88 197
Listed preference shares on the JSE or foreign exchanges	**992**	1 609	**260**	319	**1 252**	1 928
Unlisted preference shares	**691**	1 250			**691**	1 250
Listed term deposits[1] on BESA, JSE or foreign exchanges	**51 526**	54 977	**12 837**	11 452	**64 363**	66 429
Loans	**1 044**	976	**283**	238	**1 327**	1 214
Loan in associate - fair value	**544**				**544**	
Unlisted term deposits[1]	**31 420**	17 009	**270**	367	**31 690**	17 376
Mutual funds[2]	**68 126**	58 143	**11 822**	11 083	**79 948**	69 226
Active market	**65 200**	55 721	**11 822**	11 083	**77 022**	66 804
Property	**1 927**	1 704	**160**	43	**2 087**	1 747
Equity instruments	**17 033**	14 599	**3 081**	5 907	**20 114**	20 506
Interest-bearing instruments	**13 602**	13 011	**4 682**	1 540	**18 284**	14 551
Mixed	**32 638**	26 407	**3 899**	3 593	**36 537**	30 000
Non-active market	**2 926**	2 422			**2 926**	2 422
Equity instruments	**2 468**	2 266			**2 468**	2 266
Mixed	**27**	156			**27**	156
Interest-bearing instruments	**431**				**431**	
Investment policies	**6 535**	25 288	**1 108**	1 068	**7 643**	26 356
Interest linked	**93**				**93**	
Mixed	**6 442**	25 288	**1 108**	1 068	**7 550**	26 356
Reinsurance assets	**1 273**	1 135	**285**	474	**1 558**	1 609
Derivatives	**5 042**	5 030	**(64)**	(74)	**4 978**	4 956
Derivative collateral deposits	**2 799**	1 431			**2 799**	1 431
Prepayments, insurance and other receivables	**2 918**	3 299	**750**	614	**3 668**	3 913
Current balance related to – long-term insurance contracts	**819**	790	**389**	171	**1 208**	961
– long-term investment contracts	**193**	76			**193**	76
Other prepayments, insurance and other receivables	**1 906**	2 433	**361**	443	**2 267**	2 876
Joint ventures loans and receivables		4				4
Cash and cash equivalents	**10 861**	7 494	**3 124**	2 376	**13 985**	9 870
Property	**29 508**	29 808	**239**	216	**29 747**	30 024
	306 242	286 457	**66 825**	61 102	**373 067**	347 559

[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.*

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

48.2 Liabilities

	Long-term insurance policyholder liabilities by product class			
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	Total per statement of financial position Rm
2014				
Unit-linked (excluding discretionary participation features (DPF))	**145 905**	**79 618**		**225 523**
Business with DPF	**20 950**		**10 177**	**31 127**
Non-participating annuities (including disability income in claim)	**23 904**	**1 637**		**25 541**
Guaranteed capital endowments	**8 700**	**766**		**9 466**
Retail pure risk (excluding disability income annuities in claim)	**(6 264)**			**(6 264)**
Corporate risk (excluding group disability income annuities in claim)	**470**			**470**
Embedded derivatives	**1 691**	**(38)**		**1 653**
Total long-term insurance policyholder liabilities	**195 356**	**81 983**	**10 177**	**287 516**
2013				
Unit-linked (excluding discretionary participation features (DPF))	135 340	72 779		208 119
Business with DPF	21 323		9 056	30 379
Non-participating annuities (including disability income in claim)	18 594	1 399		19 993
Guaranteed capital endowments	8 856			8 856
Retail pure risk (excluding disability income annuities in claim)	(5 865)			(5 865)
Corporate risk (excluding group disability income annuities in claim)	472			472
Embedded derivatives	2 022	(32)		1 990
Total long-term insurance policyholder liabilities	180 742	74 146	9 056	263 944

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

48.3 Reconciliation of financial asset classes to financial position

	Asset class						
	Equity instruments Rm	Debt instruments Rm	Collateral deposits Rm	Mutual funds Rm	Investment policies Rm	Derivatives Rm	Total per statement of financial position Rm
2014							
Properties							**29 747**
Owner-occupied properties							**1 464**
Investment properties							**27 022**
Operating leases – accrued income							**1 261**
Reinsurance assets							**1 558**
	128 874	**99 867**[(1)]	**2 799**	**79 948**	**7 643**	**4 978**	**324 109**
Interest in associates – held at fair value	**406**	**544**		**15 547**			**16 497**
Financial investments	**124 203**	**96 597**		**64 401**	**7 643**		**292 844**
Assets held for trading and for hedging			**2 799**			**4 978**	**7 777**
Pledged assets	**4 265**	**2 726**					**6 991**
Prepayments, insurance and other receivables							**3 668**
Cash and cash equivalents							**13 985**
Total financial, property and insurance assets							**373 067**
Other assets not included in the financial asset class table							
Equipment and owner-occupied properties under development							**975**
Intangible assets							**368**
Deferred taxation							**455**
Defined benefit pension fund employer surplus							**277**
Deferred acquisition costs							**590**
Total on statement of financial position							**375 732**

[(1)] *Includes debt instruments measured at fair value of R98 540 million (2013: R86 983 million) and measured at amortised cost of R1 327 million (2013: R1 214 million).*

Notes to the **group annual financial statements**

for the year ended 31 December 2014 (continued)

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

48.3 Reconciliation of financial asset classes to financial position (continued)

	Asset class						
	Equity instruments Rm	Debt instruments Rm	Collateral deposits Rm	Mutual funds Rm	Investment policies Rm	Derivatives Rm	Total per statement of financial position Rm
2013							
Properties							30 024
Owner-occupied properties							1 410
Investment properties							27 299
Operating leases – accrued income							1 315
Reinsurance assets							1 609
Interest in joint venture – loans		4					4
	111 973	88 197	1 431	69 226	26 356	4 956	302 139
Interest in associates – held at fair value				15 361			15 361
Financial investments	111 973	86 849		53 865	26 356		279 043
Assets held for trading			1 431			4 956	6 387
Pledged assets		1 348					1 348
Prepayments, insurance and other receivables							3 913
Cash and cash equivalents							9 870
Total financial, property and insurance assets							347 559
Other assets not included in the financial asset class table							
Equipment and owner-occupied properties under development							1114
Intangible assets							475
Interest in joint venture – equity							400
Deferred taxation							354
Defined benefit pension fund employer surplus							210
Deferred acquisition costs							527
Total on statement of financial position							350 639

49 Fair value hierarchy

49.1 Introduction

Fair value is 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. The group adopted the amendments to IFRS 7 with effect from 1 January 2009 and IFRS 13 *Fair Value Measurement* with effect from 1 January 2013. This requires disclosure of fair value measurements by level 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.

The fair value of prepayments, insurance and other receivables, cash and cash equivalents and insurance and other payables approximate their carrying value and are not included in the hierarchy table as their settlement terms are short-term and therefore from a materiality perspective fair values are not required to be modelled.

49.2 Liability hierarchy

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2014				
Policyholder long-term investment contract liabilities		**81 983**		**81 983**
Third-party financial liabilities arising on consolidation of mutual funds		**34 501**		**34 501**
Derivatives		**5 148**		**5 148**
Liabilities subject to fair value hierarchy analysis		**121 632**		**121 632**
2013				
Policyholder long-term investment contract liabilities		74 146		74 146
Third-party financial liabilities arising on consolidation of mutual funds		39 983		39 983
Derivatives		4 860		4 860
Liabilities subject to fair value hierarchy analysis		118 989		118 989

49 Fair value hierarchy (continued)

49.3 Asset hierarchy

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2014				
Equity instruments	127 573		1 301	128 874
Listed ordinary shares on the JSE	91 712			91 712
Foreign equities listed on an exchange other than the JSE	35 861			35 861
Unlisted equities			895	895
Interest in associates – measured at fair value			406	406
Debt instruments	52 084	45 236	1 220	98 540
Preference shares listed on the JSE or foreign exchanges	1 252			1 252
Unlisted preference shares		480	211	691
Listed term deposits[1] on BESA, JSE or foreign exchanges	50 832	13 392	139	64 363
Unlisted term deposits[1]		31 364	326	31 690
Interest in associates – measured at fair value			544	544
Mutual funds[2]	3 503	76 184	261	79 948
Active market	3 503	73 519		77 022
Property	55	2 032		2 087
Equity	416	19 698		20 114
Interest-bearing instruments	124	18 160		18 284
Mixed	2 908	33 629		36 537
Non-active market		2 665	261	2 926
Equity		2 421	47	2 468
Interest-bearing instruments		244	187	431
Mixed			27	27
Investment policies		7 643		7 643
Derivatives		4 978		4 978
Equity		1 304		1 304
Foreign exchange		34		34
Interest rate		3 640		3 640
Properties (investment and owner-occupied)			29 747	29 747
Assets subject to fair value hierarchy analysis	**183 160**	**134 041**	**32 529**	**349 730**

49 Fair value hierarchy (continued)

49.3 Asset hierarchy (continued)

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2013				
Equity instruments	111 639	6	728	112 373
Listed ordinary shares on the JSE	78 702			78 702
Foreign equities listed on an exchange other than the JSE	32 937			32 937
Unlisted equities		6	328	334
Interest in joint ventures – measured at fair value			400	400
Debt instruments	65 527	21 218	238	86 983
Preference shares listed on the JSE or foreign exchanges	1 928			1 928
Unlisted preference shares		1 012	238	1 250
Listed term deposits[1] on BESA, JSE or foreign exchanges	63 599	2 830		66 429
Unlisted term deposits[1]		17 376		17 376
Mutual funds[2]	249	68 731	246	69 226
Active market	249	66 555		66 804
Property		1 747		1 747
Equity	249	20 257		20 506
Interest-bearing instruments		14 551		14 551
Mixed		30 000		30 000
Non-active market		2 176	246	2 422
Equity		2 176	90	2 266
Mixed			156	156
Investment policies		26 356		26 356
Derivatives		4 956		4 956
Equity		1 227		1 227
Foreign exchange		17		17
Interest rate		3 712		3 712
Properties (investment and owner-occupied)			30 024	30 024
Assets subject to fair value hierarchy analysis	177 415	121 267	31 236	329 918

[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.*

49 Fair value hierarchy (continued)

49.4 Fair value disclosure of financial assets and financial liabilities that are measured at amortised cost

Fair value disclosure of financial assets and financial liabilities that are measured at amortised cost

	2014		2013	
	Amortised cost Rm	Fair value Rm	Amortised cost Rm	Fair value Rm
Financial assets measured at amortised cost				
Loans and receivables	**1 327**	**1 194**	1 214	1 091
Loans to joint ventures			4	
Financial liabilities measured at amortised cost				
Subordinated notes	**3 570**	**3 501**	3 069	3 013
Non-controlling interests loan			93	92
Redeemable preference shares	**5**	**5**	5	5

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2014				
Financial assets measured at amortised cost				
Loans and receivables			**1 194**	**1 194**
Financial liabilities measured at amortised cost				
Subordinated bonds		**3 501**		**3 501**
Redeemable preference shares			**5**	**5**
2013				
Financial assets measured at amortised cost				
Loans and receivables			1 091	1 091
Financial liabilities measured at amortised cost				
Subordinated bonds		3 013		3 013
Non-controlling interests loan			92	92
Redeemable preference shares			5	5

49 Fair value hierarchy (continued)

49.5 Reconciliation of level 3 assets

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

	2014 Rm	2013 Rm
Balance at the beginning of the year	**31 236**	29 791
Reclassification from level 1[2]	**56**	
Reclassification from level 2[2]	**249**	
Fair value adjustment recognised in profit or loss as part of investment gains[1]	**1 086**	2 518
Fair value adjustment recognised in other comprehensive income[1]	**22**	28
Foreign currency translation	**13**	37
Additions	**2 680**	1 752
Disposals	**(3 268)**	(2 890)
Movements on third-party share of financial instruments in mutual funds	**455**	
Balance at the end of the year	**32 529**	31 236
Investment and owner-occupied properties	**29 747**	30 024
Financial instruments – equity and mutual funds	**1 562**	974
– debt	**1 220**	238

[1] *Included in the fair value adjustments is a R1 061 million unrealised gain (2013: R2 409 million unrealised gain).*

[2] *African Bank Investments Limited (listed on the JSE) and its various subsidiaries was placed under curatorship on 10 August 2014. The various debt and equity instruments immediately became illiquid and were therefore transferred from levels 1 and 2 to level 3 at this date. The various curator announcements have led to the expectation that the equity, subordinated debt and preference share instruments have a nil value. The senior debt instruments are likely to have value and have been modelled accordingly.*

Investment and owner-occupied property

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

The capitalisation rates applied at 31 December 2014 range between 6,8% to 10,5% (2013: between 7,0% to 11,0%). This compares to the ten year government yield of 8,04%. The non-observable adjustments included in the valuation can therefore be referenced to the variance to the ten year government rate.

The table below indicates the sensitivity of the aggregate market values for a 0,5% change in the capitalisation rate. Both the investment and the owner-occupied properties are linked to policyholder benefits and consortium non-controlling interests which limits the impact to group ordinary shareholder comprehensive income or equity for any changes in the fair value measurement to an insignificant amount.

49 Fair value hierarchy (continued)

49.5 Reconciliation of level 3 assets (continued)

		Change in capitalisation rate	
	Rm	0,5% increase	0,5% decrease
2014			
Properties between 6,8% – 8,5% capitalisation rate	**24 921**	**23 284**	**26 806**
Properties between 8,6% – 10,5% capitalisation rate	**4 826**	**4 611**	**5 064**
Total	**29 747**	**27 895**	**31 870**
2013			
Properties between 7,0% – 9,0% capitalisation rate	22 550	21 083	24 237
Properties between 9,1% – 11,0% capitalisation rate	7 474	7 072	7 919
Total	30 024	28 155	32 156

Financial instrument assets

Equities R1 375 million (2013: R974 million) – discount rates applied between 10% and 19% (2013: between 10% and 14%).

Debt instruments R1 407 million (2013: R238 million) – discount rates applied between 9% and 12% (2013: between 7% and 11%).

Of the equities and debt instruments, approximately 61% (2013: 57%) of these assets by value are allocated to policyholder and third-party mutual fund liabilities, unit linked portfolios and therefore changes in estimates would be offset by equal changes in liability values.

The net shareholder exposure is approximately R1 076 million (2013: R519 million). Changes to discount rates applied of 50bps would result in between positive R32 million (2013: R22 million) to negative R29 million (2013: R20 million) after taxation net impact to profit or loss and shareholder funds.

49 Fair value hierarchy (continued)

49.6 Group's valuation process

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

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

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

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

49 Fair value hierarchy (continued)

49.8 Valuation techniques used in determining the fair value of assets and liabilities classified within level 3

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

Risk management

for the year ended 31 December 2014

Contents	Page

Enterprise-wide value and risk management (EVRM) at a glance

The board is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of the group's products and services and is mindful of achieving this objective in the interests of all stakeholders

Risk categories

- Strategic section 2
- Insurance section 3
- Market section 4
- Liquidity section 5
- Credit section 6
- Operational section 7
- Concentration section 8

Risk governance

Three Lines of Defence

First
business unit management

Second
chief risk officer, statutory actuaries, group risk policy and oversight functions

Third
independent assurance providers – internal and external audit

The EVRM framework

Liberty's EVRM framework is substantially based on the enterprise risk management principles embodied in the Solvency Assessment and Management (SAM) framework. The group is continuously enhancing its risk management capabilities, particularly in line with SAM developments in anticipation of its pending implementation in 2016. Our frameworks, policies and supporting processes are regularly updated to reflect these enhancements.

A 'three lines of defence' model for managing risk has been adopted. 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.

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.

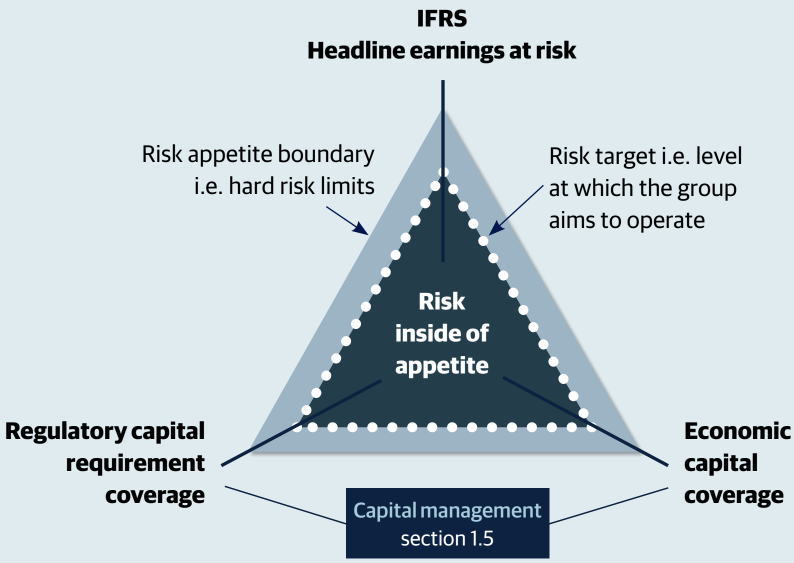
Risk appetite

section 1.3

- *Focus on day-to-day risk origination and management*
- *Track risk events and losses and implement remedial actions*
- *Report and escalate material risks and issues to governance bodies*

- *Provide oversight and challenge of the first line*
- *Verification and identification of key risks*
- *Assist in management of risks and interface between board committees and management*
- *Assurances to board and regulators*

- *Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the EVRM*



1 Enterprise-wide value and risk management (EVRM)

1.1 Introduction

Liberty has adopted an enterprise-wide approach to risk management which is referred to as enterprise-wide value and risk management (EVRM). Liberty's EVRM framework is substantially based on the enterprise risk management principles embodied in the Financial Services Board (FSB) Solvency Assessment and Management (SAM) framework. The group is continuously enhancing its risk management capabilities, particularly in line with SAM developments to prepare for its 1 January 2016 implementation.

Ultimate responsibility for risk management resides with the board with the primary responsibility delegated to the chief executive (CE), who has appointed a chief risk officer (CRO), who is responsible for developing, implementing and communicating the EVRM framework and for overseeing the development and implementation of risk management strategies. During 2014 the responsibility of the risk function was delegated by the CE to the executive director – finance and risk. The board holds the CRO accountable for assurance on 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.

Business unit executives are accountable for risk management within their businesses and are supported by risk professionals. The governance structures described in the integrated report illustrate these roles and responsibilities indicating the level of independence and segregation of duties.

The board has appointed a separate committee, the group risk committee (GRC), to assist it with fulfilling its risk management related responsibilities. The GRC's mandate divides its work into the following areas:

- Understanding the risks the group faces and is taking on, and ensuring management understands those risks;
- Setting policies that provide both outer limits and targets for the quantum of risks taken on;
- Scrutinising management actions, and understanding whether these actions are effectively producing satisfactory risk adjusted returns; and
- Overseeing compliance with the policies.

Certain members of the GRC are also members of the group remuneration committee, which ensures that relevant finance and risk matters are considered in the determination of remuneration and that incentives for excessively risky behaviour are removed.

Liberty has identified the following major risk categories that are significant from a group perspective. These are strategic, insurance, market, liquidity, credit, operational and concentration risk.

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. Systems to quantify insurance, market, liquidity and credit risk are in place. Operational and concentration risk are more complex to measure quantitatively, but the measurements are supplemented with detailed review of mitigating controls and analysis of control breakdowns. Concentration risk is included and addressed in the other risk categories. Risks are grouped into these main categories for ultimate reporting to the GRC. Information in respect of the management of each of these risk categories follows in sections 2 to 8.

To support the effective application of the EVRM framework, processes and operational requirements have been translated into a comprehensive series of risk management policies, procedures, standards and guidelines, which reflect the overall commitment to risk management by the group, stipulating the required direction and the parties responsible for implementation.

Liberty's risk management policy framework is based on the 'three lines of defence' model. This requires operating management (first line) to operate with risk in mind, has risk professionals overseeing all risk types and providing input from the corporate centre (second line) and has internal and external audit as the third line checking effectiveness. The group statutory actuary plays a significant role in the second line oversight. This model is illustrated in the diagram on the preceding pages 106 and 107. It essentially gives three independent views of risk and its implementation ensures that risk management is embedded in the culture of Liberty and provides assurance to the board and senior management that risk management is effective.

The group's primary policy framework, referred to as its risk appetite, lays out maximum and target effects that might result under predefined negative circumstances to the group's earnings, statutory capital (CAR) coverage and economic capital coverage, which is an internal measure used to provide insight into Liberty's risks. The GRC recommends risk limits and targets to the board annually. The group operated within the 2014 board-approved limits set throughout the year.

Section 9 provides information on the sensitivity of IFRS earnings to selected risk events, while section 1.5 (Capital Management) indicates the group's current ability to cover its regulatory capital requirements. At this stage economic capital coverage measurements are being refined in preparation for the 1 January 2016 implementation of SAM. These measurements are not mature enough to disclose. However, from our analysis, Liberty's capital requirements, as measured under this framework, are well covered.

1 Enterprise-wide value and risk management (EVRM) (continued)

1.1 Introduction (continued)

Other risk policies cover product design principles, reassurance limits, Shareholder Investment Portfolio allocation rules, amongst others and are supplemented by an array of operational guidelines which are implemented by management. The group risk officers develop and recommend risk management policies and standards as well as oversee their implementation. The group control and risk oversight committee (GCROC) is responsible for recommending the approval of policies to the GRC and implementation of risk and compliance standards and policies.

During 2014, the group continued to embed tools and methodologies as well as improve processes and governance frameworks to enhance the management and monitoring of risk and to create value. The board and management are cognisant that in an ever changing environment, continuous improvement is vital. Progress is continually driven by the group's vision to implement improved risk management practices and the appropriate behaviours to underpin them.

1.2 Understanding our risks

Risk identification

In the context of the global and domestic economic, political and regulatory outlook, key risks facing the group are identified. Using a common approach the group's exposure to uncertainty is determined through qualitative techniques.

Risks are identified annually in formal workshops which are facilitated, owned and attended by business unit executives. Subsequent quarterly follow up sessions amend these risks as required. The group risk management function monitors the aggregated group risk exposure by type, identifies risk losses and assesses completeness of risk identification.

Risk centres of excellence are managed by risk specialists who ensure that the group consistently classifies and understands inherent risks. The categorisation system includes definition, assigning responsibility and assisting 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 risk to reputation is not distinguished as a unique risk type in the taxonomy as it is considered to be a consequence of one or more of the other risk types.

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 required capital calculations.

Risk assessment and measurement

Risks identified and assessed within the business units are aggregated and ranked at group level to ensure that the group has sight of its portfolio of risks and understands where business units are focusing their time and attention. The CRO monitors the risk identification and assessment process and reports on risk status and management's response each quarter to the GRC.

A detailed business unit upwards measurement of the group's risk profile in relation to risk appetite is conducted quarterly and an analysis of the principal risk drivers is performed. The group's risk exposure is calculated across the three risk dimensions described further in section 1.3. Separate but related models are run for each of the dimensions that allow for insurance, market, liquidity, credit and operational risk exposure measurement. The aggregated risk profile is managed by group balance sheet management committee (GBSMC) and reviewed by the GCROC and GRC.

Stress testing

Comprehensive scenario analysis is undertaken to identify severe but plausible scenarios. Stress testing then assesses the group's sensitivity to these scenarios which:

- Alerts management of potential adverse unexpected outcomes related to a variety of risks;
- Assesses the group's ability to maintain minimum specified levels of capital based on the board approved risk appetite;
- Assesses the group's resilience to adverse events by identifying areas of potential vulnerability e.g. business continuity in the event of a severe pandemic;
- Increases understanding of the group's risk profile through a forward looking assessment of the group's risk exposure under stressed conditions;
- Validates assumptions in respect of the group's risk appetite; and
- Ensures adequate focus on the management actions that are appropriate to avoid undue risk, and to enable faster reaction to a 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.

Risk management

for the year ended 31 December 2014 (continued)

1 Enterprise-wide value and risk management (EVRM) (continued)

1.3 Risk appetite

Definition

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 within which to optimise returns. Risk target is set at a level within group risk appetite that allows for the achievement of long-term target returns and target enterprise value while keeping the possibility of risk appetite breaches at an acceptable level.

Determining and managing risk appetite

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 and regulatory capital requirements.

Management is tasked with conducting Liberty's business at the targeted risk levels to ensure that the planned optimisation of returns is achieved. Insufficient risk taken is considered to be as undesirable as breaches of risk limits where value enhancing opportunities exist.

Risk dimensions and measurement

The group's risk appetite statement is continually reviewed to ensure its appropriateness to our business objectives. As part of the 2014 review, it was approved by the board that the embedded value at risk dimension be removed from the risk appetite statement effective 1 December 2014. Whilst embedded value is still considered to be a very important value metric for Liberty, the volatility risk is considered to be adequately captured by the other dimensions.

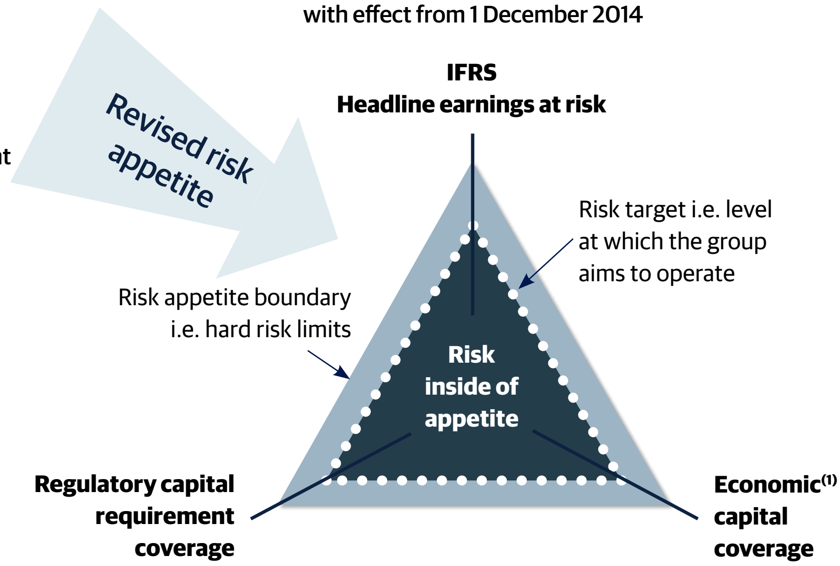
In addition, it was decided to measure IFRS headline earnings at risk rather than IFRS comprehensive earnings at risk as the former measure is considered to be a better measure of earnings performance and volatility.

Risk appetite is now measured across the following three risk dimensions:

1. IFRS headline earnings at risk: This is a measure of the fall in IFRS headline 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 headline earnings over the next year.
2. Regulatory capital requirement coverage: This is a measure of the amount of financial resources required by all regulated entities on the statutory basis 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.
3. 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 to protect against economic insolvency over a one-year time horizon following an extreme stress event (e.g. '1 in 200' year event).

Risk appetite statement up to 30 November 2014

Risk appetite statement with effect from 1 December 2014



(1) *On the economic basis assets and liabilities are measured as the amounts for which they can be exchanged, transferred or settled between knowledgeable willing parties in an arm's length transaction. Economic insolvency therefore refers to the situation where the value of liabilities exceeds the market value of assets.*

1 Enterprise-wide value and risk management (EVRM) (continued)

1.4 Risk response, monitoring and reporting

Immediate corrective action is taken if the group is outside of risk appetite. Risk response decisions are developed as part of the EVRM process and formal accountability is assigned to provide a greater level of assurance to the board. The GRC and group audit and actuarial committee assist the board in the development and monitoring of the framework.

The monitoring of risk exposures and key controls is inherently part of this process, as is the reporting of emerging and significant risks for each business unit and the group as a whole. Where significant breaches are reported, progress made against action plans is monitored continuously.

Risk information is reported quarterly to the GCROC and 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), GCROC and GRC. GCROC is chaired by the executive director – finance and risk and reviews significant risks facing the group for onward presentation to the GRC, together with proposed management action to mitigate and manage these risks.

1.5 Capital management

1.5.1 Capital management strategy

The capital management strategy ensures that for each legal entity, available capital exceeds the statutory capital requirement with appropriate buffers and that the group remains within its risk appetite.

Available capital is the amount by which the value of the assets exceeds the value of liabilities, with both measured on a statutory basis. This is determined at a legal entity and at a group level. The group ensures that available capital is of suitable quality and is accessible when required.

The **statutory capital requirement** is the amount by which the regulators require the assets to exceed the liabilities , with both measured on a statutory basis. This is currently determined at a legal entity level.

The **capital buffer** is the amount by which available capital exceeds the statutory capital requirement for the group.

The capital buffer is managed to support management risk target levels (set within board risk appetite), strategic initiative requirements and the dividend policy of the group. The group's dividend policy takes cognisance of capital requirements when declarations are considered at group level. Similarly all dividends from life licence entities and other regulated entities are only approved if they do not compromise capital adequacy at each legal entity level. The statutory actuary of each life licence entity is required to approve every dividend declaration by that entity.

1.5.2 Available capital

The group is largely funded through ordinary share equity which is the highest quality of capital available to protect policyholders.

In addition, the group has four subordinated debt instruments issued by Liberty Group Limited (LGL) to increase its available capital, fund its working capital and to lower the weighted average cost of capital for the group. The details of the instruments are provided in the table below followed by the credit ratings as determined by Fitch:

LGL subordinated debt issues

	Amount issued	Coupon rate	Tenor	Date issued	Coupon type
LGL02	R1 000 000 000	7,670%	5 years	2012/08/13	Fixed
LGL03	R1 000 000 000	7,640%	5 years, 6 months	2012/10/03	Fixed
LGL04	R1 000 000 000	9,165%	7 years	2013/08/14	Fixed
LGL05	R500 000 000	3 month JIBAR + 250 basis points	7 years	2014/12/12	Floating

The Financial Services Board approval of the above group issuances included a requirement to hold liquid assets in Liberty Group Limited so that sufficient liquidity is available to meet the note redemption and interest amounts when they are due. In addition, Liberty Group Limited must maintain a capital adequacy cover of at least 1,75 times. This requirement has been complied with during 2014. Redemptions on maturity date are subject to the approval of the Financial Services Board.

1 Enterprise-wide value and risk management (EVRM) (continued)

1.5 Capital management (continued)

1.5.2 Available capital (continued)

On 12 August 2014, Fitch Ratings affirmed LGL's National Insurer Financial Strength rating at 'AA (zaf)' and LGL's National Long-term rating at 'AA-(zaf)', both with stable outlooks. The ratings reflect Liberty's well established domestic franchise, sound capital position and its strong operating performance in 2013 and the first half of 2014. Fitch considers the strength and diversity of Liberty's distribution network, particularly its bancassurance joint venture with Standard Bank Group Limited as key positive rating drivers. Offsetting these key rating strengths is the group's earnings exposure to equity markets, and the expectation that recurring premium growth rates will come under pressure because of the continued challenging South African economic environment. Fitch simultaneously affirmed LGL's subordinated debt at 'A+(zaf).

1.5.3 Statutory capital requirements

The group manages capital on two different bases viz. the current statutory basis and a future SAM statutory basis, which will prescribe the solvency capital requirements for life insurers and insurance groups with effect from 2016.

a. Current statutory basis

During 2014 there have been no breaches of the statutory capital requirements.

South African (SA) life insurers

The South African insurance regulator, the Financial Services Board (FSB), requires long-term insurers to assess their assets and liabilities and capital adequacy requirement (CAR) in accordance with the South African Long-Term Insurance Act of 1998 (including Board Notice 14 of 2010) and Standard of Actuarial Practice 104 entitled Calculation of the Value of the Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers.

The CAR is calculated as the highest of:

- Minimum capital adequacy requirement (MCAR) – the minimum capital requirement for maintaining a South African long-term insurance licence. MCAR is consequently usually only relevant to smaller South African life entities. The MCAR per life licence entity is the highest of R10 million, a quarter of annual operating expenses and 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 which incorporates a number of market, credit, insurance and operational risk stress tests which 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 board approved management actions.

Additional discretionary margins and additions to CAR may be held if the statutory actuary considers that the prescribed requirements are insufficient for the risks undertaken.

Non-South African insurers

For the non-South African insurance subsidiaries of LHL, the capital requirements are calculated for each company as the greater of any capital required by the applicable local regulations and the capital adequacy requirement calculated as per the South African CAR calculation (ignoring any MCAR requirement).

Other regulated entities

For other financially regulated entities, available statutory capital is usually equivalent to excess assets on an IFRS basis.

Two of the group subsidiaries, STANLIB Collective Investments and STANLIB Asset Management, are each 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.

Group supervision

LHL currently has no statutory capital requirements since it is not a regulated entity. This is proposed to change with SAM measures relating to group supervision.

b. Future Solvency Assessment and Management (SAM) statutory basis

The FSB plans to implement the new SAM regulatory regime on 1 January 2016. All SA life insurers will have to comply with the SAM regulations. The SAM regime will also introduce group supervision for insurance groups. 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 primary purpose of SAM is the protection of policyholders and beneficiaries with the additional objectives of:

- Better alignment of the capital requirements of insurers to their risks;
- Developing a proportionate, risk-based approach to supervision;
- Providing insurers with incentives to adopt more sophisticated risk management processes; and
- Maintaining financial stability.

1 Enterprise-wide value and risk management (EVRM) (continued)

1.5 Capital management (continued)

1.5.3 Statutory capital requirements (continued)

SAM is a principles-based regulation, based on an economic balance sheet and a three pillar structure.

Three pillars of SAM

Pillar 1 Capital adequacy

This pillar focuses on identifying and calculating the impact of risks that are being taken by the organisation. It stipulates that at least five core risks must be assessed, being market, credit, liquidity, operational and insurance risk. Insurers must demonstrate that they have adequate available capital to protect against these risks.

Pillar 2 Systems of governance and risk management

This pillar focuses on a stronger approach to governance and enterprise risk management.

Pillar 3 Reporting and disclosure requirements

This pillar focuses on a reporting approach to increase market transparency and consistency for all insurance companies and insurance groups. This also requires disclosure of additional information that supervisors feel they need in order to perform their regulatory functions.

Group supervision under SAM

The regulatory capital requirements at group level have been calculated based on the draft group supervision rules specified by the SAM regime. These are:

- For SA life insurance entities, the assessment of capital will be on a SAM supervisory basis as prescribed by the FSB. This will apply to Liberty Group Limited and STANLIB Multi-Manager. The regulatory capital will be the amount of available capital required to protect against insolvency under extreme events.
- For other SA regulated entities, the regulatory capital requirements will continue to follow rules defined by their appropriate regulator.
- For non-SA insurance entities, the entities need to be assessed on a SAM supervisory basis or via equivalent risk based regimes in order to be included in the group. If these calculations are not available, non-SA insurance entities can be excluded from group solvency calculations if they meet their local regulatory requirements.

Liberty response

For approximately nine years, a project has been underway developing and improving our capability of accurately modelling economic value generation. These models are already providing information considered in key decisions around capital deployment.

It is anticipated that within the next few years, the group's capital and performance management process will be transitioned to an economic value framework. The essence of this framework, supported by our sophisticated developed models, is to improve decision-making using a more accurate risk adjusted assessment of return on capital. Consideration is taken of the benefits of diversification and offsetting risk positions and risk arbitrage.

The development of these models has assisted greatly in preparing Liberty for the SAM regime. We are currently producing SAM assessments in parallel to those required by the existing regulations and are confident of seamlessly transitioning on 1 January 2016 switch-over date.

The current assessments indicate that the group minimum capital requirements are well covered under both the existing and SAM regulations.

As part of the SAM readiness project governance, risk management and actuarial capabilities have been steadily improved and are in line with SAM recommendations.

Change management is essential and the group established a central change management capability and process that continues to ensure all stakeholders are adequately trained and informed of the requirements and impact of the change. This includes providing board members with adequate knowledge, information and support to perform their duties under SAM.

Liberty continually keeps abreast of new governance and risk management requirements as legislation evolves. During December 2014 the FSB issued Board Notice 158 entitled "Governance and Risk Management Framework for Insurers". Liberty has already assessed its ability to comply with the requirements of this board notice and is satisfied that apart from a few minor gaps, Liberty's risk management processes already meet the requirements of this board notice. Liberty has project plans in place, which are being closely monitored, to ensure that the remaining gaps are addressed prior to 1 April 2015.

Risk management

for the year ended 31 December 2014 (continued)

1 Enterprise-wide value and risk management (EVRM) (continued)

1.5 Capital management (continued)

1.5.4 Capital management disclosures

a. Available capital and statutory capital requirements of the group

The following table summarises the assets, liabilities and statutory capital requirements for the group's significant insurance subsidiaries on a statutory basis.

Statutory basis	LGL Rm	STANLIB Multi-Manager[3] Rm	Liberty Life Kenya[4] Rm	Liberty Life Namibia[4] Rm
2014				
Total assets	**319 834**	**209**	**2 910**	**487**
Less liabilities	**305 915**	**28**	**2 658**	**397**
Policyholder liabilities	**286 352**		**2 478**	**342**
Other liabilities	**19 563**	**28**	**180**	**55**
Excess of assets over liabilities	**13 919**	**181**	**252**	**90**
Statutory capital adequacy requirement (Rm)	**4 534**[2]	**45**[2]	**133**	**13**
Actual CAR coverage ratio (times)	**3.1**	**4.0**	**1.9**	**6.9**
Target CAR coverage ratio (times)	**1.5**	**1.5**	**2.0**	**2.0**
2013				
Total assets	270 892	190	2 450	394
Less liabilities	259 197	42	2 266	320
Policyholder liabilities	243 861		2 054	295
Other liabilities	15 336	42	212	25
Excess of assets over liabilities	11 695	148	184	74
Statutory capital adequacy requirement (Rm)	4 564[2]	70[1]	113	9
Actual CAR coverage ratio (times)	2,6	2,1	1,6	8,2
Target CAR coverage ratio (times)	1,5	1,5	2,0	2,0

[1] *Based on MCAR.*
[2] *Based on OCAR.*
[3] *STANLIB Multi-Manager is a life licence entity contained within a subsidiary of STANLIB Limited.*
[4] *Figures are shown for the two most significant subsidiaries outside South Africa.*

1 Enterprise-wide value and risk management (EVRM) (continued)

1.5 Capital management (continued)

1.5.4 Capital management disclosures (continued)

b. Published basis disclosure

The published basis reflects assets and liabilities 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.

Published basis	LGL Rm	STANLIB Multi-Manager Rm	Liberty Life Kenya Rm	Liberty Life Namibia Rm
2014				
Total assets	**328 302**	**4 253**	**2 890**	**500**
Less liabilities	**311 192**	**4 069**	**2 634**	**410**
Long-term liabilities under insurance contracts	**194 377**		**931**	**62**
Long-term liabilities under investment contracts with DPF	**8 632**		**1 521**	
Long-term liabilities under investment contracts	**80 833**	**4 041**		**293**
Other liabilities	**27 350**	**28**	**182**	**55**
Excess of assets over liabilities	**17 110**	**184**	**256**	**90**
2013				
Total assets	298 485	23 472	2 418	398
Less liabilities	283 142	23 320	2 207	324
Long-term liabilities under insurance contracts	179 955		747	38
Long-term liabilities under investment contracts with DPF	7 730		1 307	
Long-term liabilities under investment contracts	73 174	23 277		261
Other liabilities	22 283	43	153	25
Excess of assets over liabilities	15 343	152	211	74

Risk management

for the year ended 31 December 2014 (continued)

1 Enterprise-wide value and risk management (EVRM) (continued)

1.5 Capital management (continued)

1.5.4 Capital management disclosures (continued)

c. Reconciliation of excess of assets over liabilities: statutory to published basis

The table below provides a reconciliation of the excess assets between the published and statutory bases for the main life licence entities.

	LGL Rm	STANLIB Multi-Manager Rm	Liberty Life Kenya Rm	Liberty Life Namibia Rm
2014				
Excess of assets over liabilities – statutory basis	**13 919**	**181**	**252**	**90**
Excess of assets over liabilities – published reporting basis	**17 110**	**184**	**256**	**90**
Difference	**(3 191)**	**(3)**	**(4)**	
Items of difference				
CAR requirements of subsidiaries(1)	**(10)**			
Adjustment of subsidiaries from cost to NAV(1)	**(175)**			
Debt instruments(2)	**3 575**			
Difference between statutory and published valuation methodologies(3)	**(6 101)**		**(4)**	
Inadmissible assets(4)	**(480)**	**(3)**		
2013				
Excess of assets over liabilities – statutory basis	11 695	148	184	74
Excess of assets over liabilities – published reporting basis	15 343	152	211	74
Difference	(3 648)	(4)	(27)	
Items of difference				
CAR requirements of subsidiaries(1)	(10)			
Adjustment of subsidiaries from cost to NAV(1)	(460)			
Debt instruments(2)	3 074			
Difference between statutory and published valuation methodologies(3)	(5 604)			
Inadmissible assets(4)	(648)	(4)	(27)	

(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 R3,5 billion (2013: R3 billion) raised by LGL is included in other liabilities. For statutory purposes, the subordinated debt is regarded as capital.

(4) The assets that are inadmissible for statutory purposes consist largely of intangible assets and prepaid expenses.

2 Strategic risk[1]

2.1 Strategic risk and related risk management requirements

Strategic risk is the possibility of adverse outcomes resulting from a weak strategy and competitive position or from excessive exposure to volatility of revenue and cost due to factors such as changes in macroeconomic conditions, inflexible cost structures, damaged reputation or brand, uncompetitive products or pricing and structural inefficiencies.

Liberty's success is dependent on the ability to maintain and improve confidence in the group's ability to meet customer promises and sustainably add value to all stakeholders. An important element of establishing this confidence is the board's commitment to act fairly and with appropriate transparency in all business activities.

2.2 Group strategy and risk mitigation

The group's strategy is approved annually by the board through a formal strategic planning process. The group Exco reviews and assesses the business units 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 objectives and ensures that management takes corrective action to address any risks that may impact on the achievement of the strategy. Strategic risks and other risks deemed to be outside of the group's risk appetite are escalated to the board.

Formal processes have been established to understand current trends and strategic risks. These processes are supplemented with specific reviews and research related to key issues in the industry. This allows executive and business unit management to appropriately monitor the external business environment.

The group mitigates strategic risk in a number of ways, including:

- Adoption of appropriate risk management policies;
- Obtaining reliable and frequent information of aggregate risk exposures;
- 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 related risks and obligations are assessed to ensure the adequacy of proposed pricing;
- Stakeholder management to ensure as far as possible, favourable outcomes from external factors beyond the group's control;
- Independent dispute resolution processes to enable stakeholders to escalate their complaints or issues;
- Consistently monitoring the variances within the profitability of product lines and customer segments and using that information to, where appropriate, adjust capital levels of the group and future new product design and pricing; and
- Being alert and responsive to changes in market forces, exploiting opportunities and managing the downside risk due to unfavourable events.

2.3 Principle strategic risks

The group manages its actual risk profile against its tolerance for risk. To achieve this, a risk register is maintained that includes identification and prioritisation of risks, the risk controls for each risk and the mitigating actions deployed in managing the risks. A wide range of mitigating actions and strategies are deployed.

At the date of approval of this report, the GRC in consultation with management and the oversight functions have identified the following top strategic risks:

Risk event
Optimal leveraging of the businesses due to inefficient business processes and inappropriate IT architecture
Ability to sustain innovative and cost effective product development and distribution capabilities
Ability to attract and retain staff in critical leadership and technical positions
Meeting of investment return objectives by the asset managers, particularly STANLIB
Appropriately responding to regulatory and environmental changes
Ability to adopt innovative techniques and to pursue new ideas
Realisation of growth initiatives and supporting business plans, particularly with reference to the rest of Africa
South African transformation and overall talent management initiatives

The board and group risk committee have ensured that these risks are being addressed or mitigated through the group's strategy and appropriate strengthening of risk management practices.

[1] *Strategic risk was referred to as business risk in the 2013 annual financial statement.*

3 Insurance risk[1]

3.1 Definition

Insurance risk is the risk that actual future demographic and related expense experience will differ from that expected and hence that used in measuring policyholder liabilities and in pricing products. 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[2] or expense experience in the case of life products, and claims incidence, claim severity 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 those assumed.

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 3.5 to 3.7.

3.2 Ownership and accountability

The management and staff in all business units accepting insurance risk are responsible for the day-to-day identification, monitoring and treatment 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 business risk provides group oversight of insurance risk.

The statutory actuaries, group business risk department and the heads of risk in the business units 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.

3.3 Risk identification, assessment, measurement and management

Risk management takes place prior to the acceptance of risks through the product development and pricing processes and at the point of sale. Risks continue to be managed through the measurement, monitoring and treatment of risks once the risks are contracted.

3.3.1 Risk management through product development, pricing and at the point of sale

The product development and pricing process defines the terms and conditions on which the group is willing to accept risks. Once a policy has been sold, the group is placed on risk for the duration of the contract and the group cannot unilaterally change the terms and conditions of the policy except where the policy allows for rate reviews. It is for these reasons that risks need to be carefully assessed and treated before a product is launched and before new policies are accepted onto the group's balance sheet. In order to manage these risks, new products need to comply with the group-wide Product Development Risk Policy. The product development process ensures that:

- Risks inherent in new products are identified and quantified;
- Sensitivity tests are performed to enhance understanding of the risks and appropriateness of mitigating actions;
- Pricing is adequate for the risk undertaken;
- 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;
- The group makes use of reinsurance to reduce its exposures to some insurance risks;
- Treating customers fairly requirements are considered; and
- Post implementation reviews are performed to ensure that intended outcomes are realised and to determine if any further action is required.

Where applicable, underwriting is conducted to assess a new individual's risk at the point of sale.

3.3.2 Risk management post-implementation of products and of in-force policies

The ongoing management of insurance risk, once the risk has been contracted, is effectively the measurement and monitoring of deviations of actual experience from the assumed best estimate of future experience. These are described by each risk type in the sections which follow (in sections 3.5 to 3.7).

Experience investigations are conducted at least annually on all significant insurance risks to ascertain the extent of 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 for the subsequent measurement of policyholder liabilities. Furthermore, any deviations that are likely to persist are also used to inform the product development and pricing of new and existing products.

[1] Insurance risk is referred to within Liberty as business risk.

[2] Within Liberty, customer behaviour and expense experience on asset management business is also considered.

3 Insurance risk (continued)

3.3 Risk identification, assessment, measurement and management (continued)

3.3.2 Risk management post-implementation of products and of in-force policies (continued)

The statutory actuaries provide oversight of the long-term insurance risks undertaken by the group in that they are required to:

- Report at least annually on the financial soundness of the life licence entities within the group;
- Oversee the setting of assumptions used to provide best estimate liabilities plus compulsory and discretionary margins (as described in the accounting policies) in accordance with the assumption setting policy; and
- Report on the actuarial soundness of premium rates in use for new business, and on the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

The group business risk committee (GBRC), chaired by the group head of business risk, is a sub-committee of the GCROC and is thus a second line of defence function. The main risk assessed by the GBRC is insurance risk. The following are the main duties and responsibilities of the GBRC:

- Recommend insurance risk related policies to GCROC for approval 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 GCROC 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.

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 9. Embedded value sensitivities for insurance risks are included in the South African covered business embedded value report in Appendix C.

3.4 Reporting

Each relevant business unit prepares monthly and quarterly reports that include information on insurance risk. The reports are presented to the relevant business unit executive committees and the GBRC for review and discussion. 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.

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 experience. These reports also raise any issues identified and track the effectiveness of any mitigation plans put in place.

The GBRC produces a product scorecard for each business unit 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) business and value of new business; and
- Status of insurance risks in relation to recent experience investigations.

The GBRC also provides assurance on a monthly basis to Exco on the status of insurance risks across the group via the CRO report.

3.5 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 (including taxation);
- Changes in economic conditions;
- Sales practices;
- Competitor behaviour;
- Policy conditions and practices; and
- Policyholders' perceptions.

The primary policyholder behaviour risk is persistency risk. This generally arises when policyholders discontinue or reduce contributions, or receive benefit payments at a rate that 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 decrease 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. However with certain products the general principle does not always apply. For example, level premium risk products at certain durations will produce a strain to earnings if actual persistency is higher than assumed.

3 Insurance risk (continued)

3.5 Policyholder behaviour risk (continued)

The business has continued to focus on a broad programme of initiatives to manage persistency risk and withdrawal rates on major product lines are broadly in line with expectation.

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.

3.6 Underwriting risks

The primary purpose of underwriting is to ensure that an appropriate premium is charged for each risk and that cover is not offered to uninsurable risks. Underwriting risks are the risks that future demographic or claims incidence experience will exceed the allowance for expected demographic or claims incidence experience, as determined through provisions, pricing, risk measures and value measures. Underwriting risks include, amongst others, mortality and morbidity risks, longevity risks and non-life (short-term insurance) risks.

3.6.1 Mortality and morbidity risk

Mortality risk is the risk of adverse financial impact due to actual mortality (death) claims 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 are 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 for key products.
- 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 Consumer Market business);
  - For corporate risk business, the risk premiums are reviewable annually; and
  - For non-South African businesses, similar terms allowing for premium reviews exist.

Delays in implementing premium increases 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.

3 Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.1 Mortality and morbidity risk (continued)

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 has a centralised reinsurance function which is responsible for the optimisation and monitoring of reinsurance across the group. The group performs an annual review of the reinsurance cover in line with the stated risk appetite and reinsurance strategy. The treaties for new business in Retail SA are consistent with those adopted in the previous year with benefits in excess of the retention limit being reinsured via various surplus and quota share reinsurance arrangements. Special risks are partly reinsured by treaty and further reinsurance may be put in place on a case-by-case basis. Business written in the past was reinsured at lower retention levels, which are fixed for the life of the policy.

For LGL corporate business, lump-sum mortality and morbidity benefits are reinsured on an annually renewable basis. The reinsurance arrangements are reviewed annually.

Both corporate and retail income disability business is reinsured on a combination of quota share and surplus bases.

For Frank Life, and 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.

Catastrophe reinsurance is consolidated across all life licences entities and business units and is in place to reduce the risk of many claims arising from the same event. Various events are excluded from the catastrophe reinsurance (e.g. epidemics and radioactive contamination).

Exposures by size of sum assured (Retail and Corporate)

The tables below summarise the profiles of the sums assured at risk per life for mortality benefits before and after reinsurance for retail and corporate risk business.

	Before reinsurance		After reinsurance	
Retail sums assured at risk (R)	**Rm**	**%**	**Rm**	**%**
2014				
0 – 1 499 999	**377 464**	**39**	**354 743**	**43**
1 500 000 – 2 999 999	**199 974**	**21**	**178 979**	**22**
3 000 000 – 7 499 999	**238 049**	**25**	**208 522**	**25**
7 500 000 and above	**146 216**	**15**	**82 288**	**10**
Total	**961 703**	**100**	**824 532**	**100**
2013				
0 – 1 499 999	365 744	41	353 517	46
1 500 000 – 2 999 999	183 752	21	165 941	22
3 000 000 – 7 499 999	215 884	24	187 077	24
7 500 000 and above	125 608	14	61 955	8
Total	890 988	100	768 490	100

3 Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.1 Mortality and morbidity risk (continued)

e. Reinsurance (continued)

	Before reinsurance		After reinsurance	
Corporate sums assured at risk (R)	**Rm**	**%**	**Rm**	**%**
2014				
0 – 1 499 999	**205 318**	**59**	**201 004**	**64**
1 500 000 – 2 999 999	**65 982**	**19**	**60 984**	**20**
3 000 000 – 7 499 999	**58 230**	**17**	**44 123**	**14**
7 500 000 and above	**19 002**	**5**	**6 391**	**2**
Total	**348 532**	**100**	**312 502**	**100**
2013				
0 – 1 499 999	186 946	61	182 144	66
1 500 000 – 2 999 999	55 019	18	52 077	19
3 000 000 – 7 499 999	47 681	16	36 020	13
7 500 000 and above	15 674	5	5 032	2
Total	305 320	100	275 273	100
Total group sums assured				
2014	**1 310 235**		**1 137 034**	
2013	1 196 308		1 043 763	
Percentage increase (%)	9,5		8,9	

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 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.

f. Exposure by industry for corporate business

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	**2014** %	2013 %
Administrative/professional	**34**	34
Retail	**23**	21
Light manufacturing	**25**	27
Heavy manufacturing	**15**	15
Heavy industrial and other high risk	**3**	3
Total	**100**	100

Corporate risk contracts contain exclusions for atomic, biological and chemical extreme events as well as for active participation in war or riot.

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 OCAR calculation.

3 Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.1 Mortality and morbidity risk (continued)

h. Allowance in economic capital requirement 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 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. Ebola) on reasonable terms, the mortality and morbidity economic capital requirements are likely to remain significant.

3.6.2 Longevity risks

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 are continued medical advances and improvements in social conditions that lead to longevity improvements being better than expected.

The group manages the longevity risk by:

- Annually monitoring the actual longevity experience and identifying trends over time; and
- Making allowance for future mortality rates falling 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.

The eligibility of annuitants paid in South Africa who have 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 a "proof of existence" certificate on an annual basis.

Claims on disability income business also give rise to annuity payments which are contingent on the claimants being alive and their 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:

	Number of life and disability annuities in payment	Annual annuity amount exposure	Number of life and disability annuities in payment	Annual annuity amount exposure
	2014		2013	
Annuity amount per annum (R)		**Rm**		Rm
0 – 239 999	**90 105**	**2 040**	87 046	1 798
240 000 – 479 999	**968**	**306**	740	231
480 000 – 719 999	**133**	**77**	101	59
720 000 and above	**55**	**55**	41	41
Total	**91 261**	**2 478**	87 928	2 129

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.

3 Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.2 Longevity risks (continued)

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.

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 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.

3.6.3 Non-life (short-term) insurance

a. Introduction

Liberty holds a 56,8% controlling share in Liberty Kenya, which includes companies conducting short-term insurance business in the East Africa region, including medical expense cover.

Liberty holds a 51,2% controlling share in Total Health Trust Limited, which sells medical expense insurance business to both government employees and corporate customers in Nigeria.

Medical expense cover is also provided by Liberty Health to corporate customers for their employees in 11 African countries. On 1 August 2014 Liberty's share of Liberty Health increased from 74,9% to 100%.

b. 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.
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 amongst the risks insured against in the fire insurance business.
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 liability	Provides indemnity for actual or alleged breaches of professional duty arising out of the insured's activities, indemnifies directors and officers of a company against court compensation and legal defence costs, provides indemnity for the insured against damages consequent to a personal injury or property damage.
Personal accident	Risks of the insured person sustaining bodily injury, solely and directly caused by accidental, violent, visible and external means, and which shall within 12 calendar months result in death, disablement or the incurring of medical expenses.
Other	Classes of business not included under those listed above. These include engineering, workmen's compensation, marine and aviation, theft, agriculture, bonds, goods in transit and glass.

3 Insurance risk (continued)

3.6 Underwriting risks (continued)

3.6.3 Non-life (short-term) insurance (continued)

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
	2014		2013	
Class of insurance business	**Rm**	**%**	Rm	%
Medical expense	**725**	**66**	774	67
Fire	**193**	**(65)(1)**	170	311(1)
Motor	**163**	**44**	132	49
Personal liability and personal accident	**110**	**33**	103	20
Other	**246**	**49**	102	16
Total	**1 437**	**41**	1 281	90

(1) The high fire gross claims loss ratio for 2013 can be attributed to 3 large claims which in total were accrued at over R400 million. During 2014 the estimated costs for these claims were substantially reduced. This explains the overall negative gross claim loss ratio for fire insurance in 2014.

c. 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, 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 proves 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 and 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 are used to reduce risks from single catastrophic events or accumulations 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 expenses is managed through claim limits by loss event within the terms of each policy.

3.7 Expense expectation, tax expectation and new business risks

Expense expectation risk is the risk of adverse financial impact due to the timing or amount of administration expenses incurred, or both, differing from those expected, e.g. the actual cost per policy differs from that assumed in the pricing or reserving basis.

Tax expectation risk is the risk of losses arising due to the actual tax assessed being more than the tax expected.

New business risk is the risk of adverse financial impact due to the actual volume, mix and/or quality of new business deviating from that expected in calculating expected financial outcomes. New business strain is included in this risk type.

Allowance is made for expected future maintenance expenses in the measurement of long-term contract policyholder liabilities using 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 from the number of in-force and/or new business policies being less than expected.

3 Insurance risk (continued)

3.7 Expense expectation, tax expectation and new business risks (continued)

The group manages the expense and new business risk by:

- Regularly monitoring actual expenses against the budgeted expenses;
- Regularly monitoring new business volumes and mix;
- Regularly monitoring withdrawal rates including lapses; and
- Implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in the number of 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) is made in the OCAR calculation.

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 (as 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 expects to incur on policies are allowed for in product pricing. If the expenses expected to be incurred are considerably higher than those of other 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.

Tax expectation risk is mitigated through the implementation of Liberty's tax risk framework as well as the employment of tax experts to identify and manage tax risks.

4 Market risk

4.1 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 fluctuations in property values.

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 risk can be in the form of a mismatch between currencies of assets and liabilities, on assets supporting capital, or due to the functional currency of the local entity being different to the reporting currency of the group;
- Credit spread risk: is the risk arising from changes in the credit spread on listed traded liquid debt instruments as a result of shifts in markets and/or deterioration in credit quality of the issuers. 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;
- 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; and
- Volatility risk: is the risk of adverse financial impact arising from fluctuations in the implied volatility of equity, currency, property and interest rates.

In line with the group's risk taxonomy, credit default risk and credit migration risk in respect of illiquid assets are dealt with separately from market risk in section 6.

4.2 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 entity asset/liability mismatches. 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, 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, GCROC and GRC.

4.3 Risk identification, assessment and measurement

The first step in risk identification involves the assessment and evaluation of each product's design. This pertains to existing in-force products as well as new product proposals. Group risk is actively involved in reviewing the product design to ensure a thorough understanding of the market risk implications of the product, the extent to which the market risks can be mitigated (either through improved product design or through open market activity) and the extent to which the risks are intended to be held on a long term strategic basis versus being actively managed by LibFin Markets.

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. Furthermore, to the extent that Liberty's revenue is dependent on the investment performance of client money invested with Liberty group companies, Liberty is exposed to market risk.

The group assesses its asset/liability mismatch exposures with respect to the key components of market risk at a consolidated group level.

4.4 Risk management

For management purposes, the group's market risk remains split into three 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, planned asset/liability mismatch, as well as those arising from the 90:10 fee exposure. (The 90:10 fee exposure is the exposure on certain contracts which include terms that allocate 10% of the investment returns to Liberty shareholders). In aggregate these are referred to as the Shareholder Investment Portfolio which is managed by LibFin Investments;

4 Market risk (continued)

4.4 Risk management (continued)

- 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; and
- Market risks to which the group does not wish to maintain exposure but cannot avoid as it is unable to adequately and/or economically mitigate these risks through hedging. In certain instances, these market risks are second order risks arising as a result of, for example, liquidity risks or reputational risks. Whilst these risks cannot necessarily be hedged, they are identified and measured as far as possible and, where applicable, are taken into account for the purposes of assessing risk appetite and overall sensitivity to changes in the market. Capital is held to cover these risks.

The group's shareholders are exposed to the three categories of market risk noted above arising from the following main areas:

- The 90:10 fee exposure;
- 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 despite the controls and hedging strategies employed;
- Exposure to management fee revenues not already recognised in the negative rand reserves and currency risks on capital invested outside South Africa; and
- Financial assets and liabilities utilised to form the group's capital base (also referred to as shareholder funds).

The market risk associated with policyholder investment funds and with-profit funds pooling investment performance, is ultimately borne by the policyholders. Poor performance on policyholder funds 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 client fund control committee through the monitoring of asset managers and through the setting of appropriate policyholder fund mandates.

4.4.1 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.

The board approves the long-term asset mix of this investment portfolio by considering the strategic asset allocation methodology with a long-term investment horizon. LibFin Investments has the responsibility to implement the investment strategy and monitor its performance with oversight from group risk functions and ultimately the board.

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 currency movements as well as local market movements in the underlying asset classes. During the course of 2014, LibFin Investments continued to make small allocations to alternative asset classes in search of yield and diversification benefits. 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 a mandate approved by the board. 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 is constructed to protect capital while maximising after-tax returns for a level of risk consistent with the group's risk appetite statement and taking into account the risk capacity already utilised by Liberty's core business activities. 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.

4 Market risk (continued)

4.4 Risk management (continued)

4.4.1 Shareholder Investment Portfolio (continued)

The Shareholder Investment Portfolio exposures at 31 December are summarised in the table below:

	2014				2013			
Exposure category	**Local Rm**	**Foreign Rm**	**Total Rm**	**%**	Local Rm	Foreign Rm	Total Rm	%
Equities	**3 823**	**4 034**	**7 857**	**31**	3 216	4 424	7 640	33
Bonds	**5 630**	**157**	**5 787**	**23**	4 957	118	5 075	22
Cash	**5 483**	**949**	**6 432**	**25**	5 149	420	5 569	24
Preference shares	**662**		**662**	**3**	620		620	3
Property	**3 427**		**3 427**	**13**	3 126		3 126	14
Other	**998**	**396**	**1 394**	**5**	677	230	907	4
Total	**20 023**	**5 536**	**25 559**	**100**	17 745	5 192	22 937	100
Assets backing capital			**10 958**	**43**			10 775	47
Assets backing life funds			**9 844**	**38**			7 491	33
90:10 exposure			**4 757**	**19**			4 671	20

4.4.2 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;
- There is a liquid tradable market in which to hedge these market risks;
- 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 section 4.8.2 b);
- The interest rate exposure from writing guaranteed immediate annuities and guaranteed capital endowments. 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 using 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). It is not possible to entirely hedge these risks and hence some residual unhedged risks and associated volatility remain. The hedging programme can only remove those market risks from the group's financial position where appropriate matching assets exist. As the risk appetite limits cover different 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.

4 Market risk (continued)

4.5 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, taking into account unmanaged market risks and the needs of the core business. The strategic asset allocation in the Shareholder Investment Portfolio aims to optimise the utilisation of the residual risk appetite while retaining conservative investment mandate and return objectives.

At 31 December 2014, 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.

4.6 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 GCROC. The GCROC 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 head of market risk reports 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.

4.7 Summary of group assets subject to market risk

The following table 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 invests are classified as subsidiaries where the group has assessed it has control of these funds in terms of IFRS. These mutual funds 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".

4 Market risk (continued)

4.7 Summary of group assets subject to market risk (continued)

Risk category	Total financial, property and insurance assets Rm	Attributable to: Policyholder long-term market-related liabilities Rm	Other long-term policyholder liabilities[2] Rm	Ordinary shareholders assets Rm	Non-controlling interests Rm	Third-party financial liabilities arising on consolidation of mutual funds Rm
2014						
Equity price	**149 318**	**136 057**	**(5 676)**	**3 555**		**15 382**
Interest rate	**141 603**	**67 693**	**29 484**	**33 630**	**427**	**10 369**
Property price	**36 474**	**27 918**	**(891)**	**2 842**	**3 720**	**2 885**
Mixed portfolios[1]	**44 114**	**34 583**	**(2 954)**	**6 620**		**5 865**
Reinsurance assets[3]	**1 558**		**1 302**	**256**		
Total	**373 067**	**266 251**	**21 265**	**46 903**	**4 147**	**34 501**
Percentage (%)		**71,4**	**5,7**	**12,6**	**1,1**	**9,2**
2013 – Adjusted (refer note below)						
Equity price	131 810	116 239	(6 126)	3 602		18 095
Interest rate	121 608	60 535	24 112	30 678	199	6 084
Property price	36 420	29 028	(1 100)	1 982	3 503	3 007
Mixed portfolios[1]	56 512	42 827	(2 732)	3 620		12 797
Reinsurance assets[3]	1 609		1 161	448		
Total	347 959	248 629	15 315	40 330	3 702	39 983
Percentage (%)		71,5	4,4	11,6	1,0	11,5

(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 inflows 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.

Change in definition

The risk category exposures have been refined to recategorise equity price and interest rate risk to property price risk where the invested entity only has exposure to investment properties. The 2013 comparatives have been adjusted on the same basis.

4.8 Market risk by product type

The relevant market risks associated with the various policyholder products are discussed by product type below:

4.8.1 Investment-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.

For IFRS defined investment contracts, the group holds the assets on which the unit prices are based. As a result, in respect of these contracts, there is virtually no mismatch.

4 Market risk (continued)

4.8 Market risk by product type (continued)

4.8.1 Investment-linked products (continued)

Liberty, via its asset manager, STANLIB, invests in various instruments for the benefit of policyholders as well as other third-parties. In doing so, the market risk associated with such investments is for the risk of those investors. During the course of 2014 certain of these investment portfolios did experience market disruption caused by the curatorship of African Bank Investments Limited (ABIL). The resultant market risk impact (devaluation of the assets) has been attributed to these portfolios and communicated to policyholders. The impact on portfolio performance was however muted due to prescribed limits to concentration risk within mandates.

Certain market risk exposures do arise in relation to investment-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 investment-linked business has embedded derivatives in the form of minimum investment return guarantees or guaranteed minimum death benefits. 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 market risk in respect of management fees not included in the negative rand reserves is currently not actively managed; and
- Timing delays can occur between the receipt of premiums from policyholders and the date that the funds are actually invested for the benefit of the policyholder. This delay could result in either a profit or loss for the shareholder as the policyholder is guaranteed the implied performance of the referenced investments from the date of premium payment.

4.8.2 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 as well as Advisory Practice Notes and Standards of Actuarial Practice 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 including the policyholder registering bonuses and guaranteed annuity options amounted to R1 350 million (2013: R1 834 million) and R303 million (2013: R156 million) respectively.

a. 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 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 162 to 164.

b. 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 low 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:

4 Market risk (continued)

4.8 Market risk by product type (continued)

4.8.2 Market-related guarantees and options (continued)

b. Guaranteed annuity options (GAOs) (continued)

Annuity payment per annum per R1 000 of annuity consideration

	Guaranteed conversion rate		Best estimate annuity rates (BE)		BE interest rate × 1,12		BE interest rate × 0,88	
Age	Male	Female	Male	Female	Male	Female	Male	Female
55	**69,80**	**63,50**	**84,57**	**81,63**	**91,54**	**88,78**	**77,63**	**74,50**
60	**78,00**	**70,20**	**87,49**	**84,33**	**94,22**	**91,24**	**80,80**	**77,46**
65	**88,00**	**79,00**	**91,21**	**87,99**	**97,68**	**94,62**	**84,80***	**81,40**
70	**97,50**	**88,00**	**95,88***	**92,71**	**102,07**	**99,06**	**89,75***	**86,42***

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 as per the guaranteed annuity rate only exceeds the annuity payment per annum that is affordable per R1 000 of annuity consideration (i.e. the options are in-the-money at the financial position date) for older retirement ages for males. 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 12 years. However, terms to maturity extend as far out as 25 years.

c. Guaranteed Index Trackers

Guaranteed Index Trackers are a set of unitised investment funds, offered to both retail and corporate customers, which guarantee 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 the LGL liquidity risk process.

4.8.3 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.

4 Market risk (continued)

4.8 Market risk by product type (continued)

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 whereby, for larger changes in interest rates, the annuity liability value tends to change by more than the value of the available market instruments. Convexity risk is monitored closely by group market risk and LibFin Markets seeks to hedge the risk as best possible given the available market instruments.

4.8.4 Long-term insurance contracts with discretionary participating features (DPFs)

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 bonuses 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.libertyholdings.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 2014 and 2013, the assets exceeded the guaranteed portion of liabilities on all of these portfolios.

4.8.5 Pure risk products

Pure risk products are predominantly recurring premium policies that provide benefits that are fixed and guaranteed at inception of the contract. 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.

4.8.6 Guaranteed capital endowments 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 capital endowments are modelled under a range of possible outcomes in order to determine an appropriate reserve that equates to a mark-to-market valuation. The group reduces this exposure through its hedging strategy where appropriate to maintain exposure within risk appetite.

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.

4.9 Market risk by asset class for financial instruments

4.9.1 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 and investment policies are not provided. Derivative instrument exposure to interest rates is reflected in section 4.10.

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.

4 Market risk (continued)

4.9 Market risk by asset class for financial instruments (continued)

4.9.1 Interest rate risk (continued)

Financial instrument asset category	Carrying value Rm	Exposed to cash flow interest rate risk[1] Rm	Exposed to fair value interest rate risk[2] Rm
2014			
Held at fair value through profit or loss			
Government, municipal and utility stocks	**34 328**	**1 646**	**32 682**
Non-parastatal term deposits	**61 725**	**42 167**	**19 558**
Preference shares	**1 943**	**1 753**	**190**
Collateral deposits	**2 799**	**2 799**	
Cash and cash equivalents	**13 985**	**12 546**	**1 439**
Loans and receivables			
Loans	**1 327**	**1 044**	**283**
Interest in associate loan	**544**	**544**	
Total	**116 651**	**62 499**	**54 152**
2013			
Held at fair value through profit or loss			
Government, municipal and utility stocks	33 752	871	32 881
Non-parastatal term deposits	50 053	33 618	16 435
Preference shares	3 178	2 998	180
Collateral deposits	1 431	1 339	92
Cash and cash equivalents	9 870	8 540	1 330
Loans and receivables			
Loans	1 214	190	1 024
Held-to-maturity			
Joint ventures loans and receivables	4		4
Total	99 502	47 556	51 946

[1] *i.e. assets yield a variable rate of interest.*

[2] *i.e. assets yield a fixed rate of interest.*

With the exception of loans, all the above financial instruments are measured at fair value. The values of those exposed to fair value interest rate risk are correlated to the applicable interest yield curves. The group's net exposure to interest rate yield curve risk is provided in the sensitivities analysis on page 163.

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

Carrying amount by maturity date	2014 Rm	2013 Rm
Within 1 year	**33 219**	30 753
1 – 5 years	**23 539**	21 277
6 – 10 years	**17 339**	18 829
11 – 20 years	**19 860**	11 900
Over 20 years	**11 176**	6 291
Variable	**11 518**	10 452
Total	**116 651**	99 502

4 Market risk (continued)

4.9 Market risk by asset class for financial instruments (continued)

4.9.1 Interest rate risk (continued)

Financial instrument liability category	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm
2014			
At amortised cost			
Subordinated notes	**3 570**	**499**	**3 071**
Total	**3 570**	**499**	**3 071**
2013			
At amortised cost			
Subordinated notes	3 069		3 069
Non-controlling interests notes	93	93	
Total	3 162	93	3 069

The maturity profile of the financial instrument liabilities is included in section 5.4.1.

4.9.2 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, have not been offered on new business invested in offshore portfolios since 2005. The rand denominated value of management fees derived from these contracts is 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 2014 is R62 247 million (2013: R57 166 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 which follows segregates the currency exposure by major currency at 31 December:

4 Market risk (continued)

4.9 Market risk by asset class for financial instruments (continued)

4.9.2 Currency risk (continued)

Foreign currency assets held by South African group entities (excluding investments in foreign subsidiaries)

	British pound		US dollar		Euro		Japanese yen		Swiss Franc		Other	
Rm (unless otherwise indicated)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Debt instruments	**566**	582	**8 500**	7 073	**1 128**	1 250	**160**	247	**10**	12	**1 204**	1 328
Equity instruments	**3 055**	3 459	**19 376**	16 846	**3 093**	2 674	**3 123**	3 050	**1 640**	1 578	**5 020**	5 060
Mutual funds	**212**	333	**10 731**	9 691	**678**	766	**88**	90				
Prepayment, insurance and other receivables			**235**	262							**116**	16
Cash and cash equivalents	**66**	9	**1 939**	1 456	**89**	173	**50**	30			**60**	113
Derivatives (non foreign currency)												
Collateral deposits												
Investment policies			**1 108**	1 068								
Reinsurance assets												
Total	**3 899**	4 383	**41 889**	36 396	**4 988**	4 863	**3 421**	3 417	**1 650**	1 590	**6 400**	6 517
Gross exposure in foreign currency ('m)	**216**	253	**3 621**	3 469	**356**	337	**35 357**	34 196	**142**	135		
Derivative protection[(1)] in foreign currency ('m)	**(7)**	(16)	**(449)**	(807)	**(11)**	(34)	**1 854**	1 059				
Net exposure in foreign currency ('m)	**209**	237	**3 172**	2 662	**345**	303	**37 211**	35 255	**142**	135		
Closing rate at 31 December[(2)]	**18,02**	17,36	**11,57**	10,49	**14,01**	14,44	**0,10**	0,10	**11,66**	11,78		
Average rate during the year[(2)]	**17,85**	15,09	**10,84**	9,64	**14,39**	12,81	**0,10**	0,10	**11,83**	10,55		

(1) *Certain currency exposures are reduced by means of forward exchange and cross-currency swap contracts. The forward exchange contracts are summarised in Appendix I.*

(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.*

Approximately R5,5 billion (refer table 4.4.1) of the total currency exposure of R62,2 billion is effectively shareholders. The remainder is predominantly policyholder exposure through unit linked investment returns.

4 Market risk (continued)

4.9 Market risk by asset class for financial instruments (continued)

4.9.2 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	Botswana pula	Uganda shilling	Nigeria naira	US dollar	Zambian kwacha	Ghanaian cedi
2014							
Liberty Kenya Holdings Limited and subsidiaries	**4 966**				**6**		
Stanbic Investment Management Services (EA) Limited	**931**						
Liberty Holdings Botswana (Pty) Limited and subsidiaries		**72**					
Liberty Life Uganda Assurance Limited			**14 373**				
Total Health Trust Limited				**1 588**			
Lifeway Insurance Zambia Ltd						**1**	
STANLIB Uganda Ltd			**712**				
Stanbic Investment Management Services Ltd (Ghana)							**1**
Group gross foreign currency exposure	**5 897**	**72**	**15 085**	**1 588**	**6**	**1**	**1**
Non-controlling interest foreign currency exposure	**(2 172)**	**(19)**	**(4 335)**	**(775)**	**(2)**		
Net group foreign currency exposure	**3 725**	**53**	**10 750**	**813**	**4**	**1**	**1**
Rand equivalent (Rm)	**474**	**64**	**45**	**52**	**41**	**1**	**5**
2013							
Liberty Kenya Holdings Limited and subsidiaries	4 900						
Stanbic Investment Management Services (EA) Limited	870						
Liberty Holdings Botswana (Pty) Limited and subsidiaries		81					
Liberty Life Uganda Assurance Limited			15 750				
Total Health Trust Limited				1 411			
Lifeway Insurance Zambia Ltd							
STANLIB Uganda Ltd							
Stanbic Investment Management Services Ltd (Ghana)							
Group gross foreign currency exposure	5 770	81	15 750	1 411			
Non-controlling interest foreign currency exposure	(2 173)	(21)	(7 718)	(688)			
Net group foreign currency exposure	3 597	60	8 032	723			
Rand equivalent (Rm)	437	72	33	47			

4 Market risk (continued)

4.9 Market risk by asset class for financial instruments (continued)

4.9.3 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 2014 the proportion of unlet space in the property portfolio was 10% (2013: 6%).

Property market risk also arises in respect of shareholder exposures to investment guarantees and negative rand reserves.

The group's exposure to property holdings at 31 December is as follows:

	2014 Rm	Additional disclosure *(refer note below)* 2013 Rm
Investment properties including operating leases accrued income	**28 283**	28 614
Owner-occupied properties	**1 464**	1 410
Mutual funds with >80% property exposure	**2 087**	1 747
Gross direct exposure	**31 834**	31 771
Indirect exposure through debt and equity shareholdings	**4 640**	4 649
	36 474	36 420
Attributable to non-controlling interests	**(3 720)**	(3 503)
Net exposure	**32 754**	32 917
Concentration use risk within directly held properties is summarised below:		
Shopping malls	**24 485**	23 767
Office buildings	**2 868**	2 826
Hotels	**1 219**	2 455
South African listed property securities held via mutual fund investments	**2 087**	1 747
Convention centre and residential property	**1 175**	976
Gross direct exposure	**31 834**	31 771

Additional disclosure

The property market risk disclosures have been enhanced to include indirect exposures in addition to direct exposures.

4.10 Derivative instruments

Certain group entities are parties to contracts for derivative financial instruments, mainly entered into as part of the dedicated hedging strategy. In addition derivatives are used for efficient portfolio management. 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 do inevitably give rise to credit default and operational risk which are managed appropriately and discussed in sections 6 and 7 of this report.

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 agreement (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 11 to the group's financial statements.

4 Market risk (continued)

4.10 Derivative instruments (continued)

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	**2014 Rm**	2013 Rm
Derivatives held for trading	**1 310**	933
Gross carrying amount of assets	**4 972**	4 956
Gross carrying amount of liabilities	**(3 662)**	(4 023)
Derivatives held for trading which qualify for hedge accounting	**(1 480)**	(837)
Gross carrying amount of assets	**6**	
Gross carrying amount of liabilities	**(1 486)**	(837)
Net carrying value	**(170)**	96

The table below summarises the open derivative positions at carrying amount by maturity date.

	Maturity analysis of net fair value							
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets[(2)] Rm	Fair value of liabilities[(2)] Rm	Underlying principal amount/ notional[(1)] amount – Buy Rm	Underlying principal amount/ notional[(1)] amount – Sell Rm
2014								
Derivatives held for trading	**36**	**1 293**	**(19)**	**1 310**	**4 972**	**(3 662)**		
Foreign exchange derivatives	**(9)**		**(65)**	**(74)**	**28**	**(102)**		
Forwards	**(9)**			**(9)**	**28**	**(37)**	**2 686**	**(2 686)**
Swaps			**(65)**	**(65)**		**(65)**	**80**	**(80)**
Futures and options							**23**	**(874)**
Interest rate derivatives	**(1)**	**60**	**46**	**105**	**3 640**	**(3 535)**		
Forwards	**33**	**8**		**41**	**77**	**(36)**	**19 238**	**(18 365)**
Swaps	**(35)**	**(2)**	**(183)**	**(220)**	**3 279**	**(3 499)**	**182 919**	**(182 919)**
Swaptions		**54**	**229**	**283**	**283**		**11 020**	
Futures	**1**			**1**	**1**		**1 909**	**(537)**
Equity derivatives	**46**	**1 233**		**1 279**	**1 304**	**(25)**		
Options	**71**			**71**	**71**		**10 186**	**(13 283)**
Other	**(25)**	**1 233**		**1 208**	**1 233**	**(25)**	**1 188**	
Derivatives held for hedging	**6**	**(681)**	**(805)**	**(1 480)**	**6**	**(1 486)**		
Foreign exchange derivatives								
Swaps	**6**	**(681)**	**(805)**	**(1 480)**	**6**	**(1 486)**	**4 537**	**(4 537)**
Total derivative assets/(liabilities)	**42**	**612**	**(824)**	**(170)**	**4 978**	**(5 148)**		

(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 R2 799 million assets in respect of liabilities, Rnil million liabilities in respect of assets.*

4 Market risk (continued)

4.10 Derivative instruments (continued)

	Maturity analysis of net fair value							
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets[2] Rm	Fair value of liabilities[2] Rm	Underlying principal amount/ notional[1] amount – Buy Rm	Underlying principal amount/ notional[1] amount – Sell Rm
2013								
Derivatives held for trading	30	1 280	(377)	933	4 956	(4 023)		
Foreign exchange derivatives	1	(2)	(13)	(14)	17	(31)		
Forwards	2			2	17	(15)	1 404	(1 404)
Swaps	(1)	(2)	(13)	(16)		(16)	146	(146)
Futures and options							314	(25)
Interest rate derivatives	(61)	177	(364)	(248)	3 712	(3 960)		
Forwards	18	(16)		2	84	(82)	29 513	(11 721)
Swaps	(79)	139	(401)	(341)	3 537	(3 878)	144 091	(144 091)
Swaptions		54	37	91	91		8 280	
Equity derivatives	90	1 105		1 195	1 227	(32)		
Futures	18			18	26	(8)	8 139	(5 539)
Options	27			27	27		736	(826)
Other	45	1 105		1 150	1 174	(24)	1 077	
Derivatives held for hedging	(41)	(391)	(405)	(837)		(837)		
Foreign exchange derivatives								
Swaps	(41)	(391)	(405)	(837)		(837)	3 762	(3 762)
Total derivative assets/(liabilities)	(11)	889	(782)	96	4 956	(4 860)		

(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 R1 431 million assets in respect of liabilities, Rnil million liabilities in respect of assets.*

Cross-currency swaps

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 than 1 year but less than 5 years Rm	More than 5 years Rm
2014			
Release timing	**(234)**	**(58)**	**(176)**
2013			
Release timing	(141)	(38)	(103)

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 2014 as a result of highly probable cash flows no longer being expected to occur.

4 Market risk (continued)

4.10 Derivative instruments (continued)

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 I.

4.11 Diversification benefits

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.

4.12 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 programme 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.

5 Liquidity risk

5.1 Definition

Liquidity risk is the risk that the group, although solvent, is not able to meet its payment obligations as they fall due (funding liquidity risk), or is only able to do so at materially disadvantageous terms (market liquidity risk).

Liquidity risk is most likely to arise as a result of the group's exposure to heightened benefit withdrawals and risk claims where the backing assets cannot be readily monetised, as well as through liquidity calls related to derivative transactions used to hedge asset/liability matching risks. The likelihood and severity of outflows associated with these exposures are assessed individually and in combination and are managed by maintaining a suitable liquidity buffer in the form of high-quality liquid assets. Eligible asset types which form part of the liquidity buffer have been chosen based on their proven ability to generate liquidity under both normal and significantly stressed conditions.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. Where the group originates term assets with predictable cash flow profiles which give rise to structural liquidity mismatches between the projected cash inflows and outflows, the liquidity position is actively managed to prevent any undue future liquidity strains.

5.2 Ownership and accountability

The liquidity risk framework approved by GCROC establishes a unified governance structure for liquidity risk across the group. It also defines the principles and methodologies for identifying, measuring, monitoring, reporting and managing liquidity risk. The asset and liability committee (ALCO), which is a sub-committee of the GBSMC, is charged with ensuring that liquidity risk remains within approved tolerance levels. The day-to-day liquidity risk management of the South African insurance operations is delegated to LibFin, whilst the group treasurer is responsible for managing liquidity at a group level and has oversight over all other business units. The liquidity risk framework, including requirements in respect of risk metrics and contingency planning, has been implemented under the stewardship of the group liquidity risk function. The functions as described have been aligned with international best practice standards and add considerably to the group's ability to observe and respond to any undesirable changes in its liquidity position.

Notwithstanding Liberty's strong liquidity position, within portfolios managed for policyholders and third-party investors, it is possible from time to time to experience liquidity pressure as the result of liquidity mismatches between the assets in which the fund is invested and significant withdrawal requests from investors, which may require large scale disinvestment of assets. STANLIB normally manages this through a combination of legal rights to adjust market values (where market prices are no longer available or valid), postpone payments (legal and or negotiated rights) and in extreme cases temporarily suspending a portfolio. During 2014, portfolios such as the STANLIB Institutional Money Market Fund experienced liquidity pressure as a result of the ABIL curatorship. It was necessary to take the extraordinary step of creating ABIL Retention Funds ("side-pockets"), in effect, ring-fencing the ABIL assets from the balance of this money market fund. The FSB approved the side-pockets mechanism as a way to ensure equitable treatment for all investors in affected portfolios.

While the overall profile of policyholder liquidity decreased as a consequence, the total quantum is small relative to the total policyholder portfolio and no serious impact on liquidity is anticipated.

5.3 Liquidity profile of assets

Given the quantum of investments held and managed by Liberty 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. Furthermore, Liberty has consciously invested in certain illiquid asset classes, such as direct property and unlisted credit, in order to better duration match the long-term liabilities on its books, as well as for diversification and return enhancement purposes. It has also made these asset classes available for investment by policyholders. To the extent that Liberty's liabilities profile changes or policyholders chose to disinvest in these asset classes, Liberty uses its own balance sheet, through the Shareholder Investment Portfolio, to avoid the need to sell these illiquid assets under pressure. Accordingly group risk ensures that Liberty retains a conservative liquid asset coverage ratio backed by investment in high quality liquid assets. As demonstrated in the table below, the group's assets are predominantly liquid.

5 Liquidity risk (continued)

5.3 Liquidity profile of assets (continued)

Financial, property and insurance asset liquidity	2014 %	2014 Rm	2013 %	2013 Rm
Liquid(1)	**78**	**289 173**	75	261 626
Medium(2)	**14**	**52 589**	16	54 296
Illiquid(3)	**8**	**31 305**	9	31 637
	100	**373 067**	100	347 559

(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).*

5.4 Maturity profile of liabilities

5.4.1 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 5.4.2, as these are managed according to expected and not contractual cash flows. Derivative financial instruments are shown in a separate table in section 4.10.

	Contractual cash flows (excluding policyholder liabilities)						
	0 – 3 months(1) Rm	4 – 12 months Rm	1 – 5 years Rm	6 – 10 years Rm	Variable Rm	Total Rm	Total carrying value Rm
2014							
Subordinated notes(2)	**95**	**154**	**2 884**	**1 678**		**4 811**	**3 570**
Redeemable preference shares(2)(3)					**5**	**5**	**5**
Third-party financial liabilities arising on consolidation of mutual funds	**34 501**					**34 501**	**34 501**
Insurance and other payables	**13 103**	**539**	**609**			**14 251**	**14 251**
Total	**47 699**	**693**	**3 493**	**1 678**	**5**	**53 568**	**52 327**
Percentage portion (%)	**89**	**1**	**7**	**3**		**100**	
2013							
Subordinated notes(2)	85	160	2 865	1 183		4 293	3 069
Redeemable preference shares (2)(3)					5	5	5
Non-controlling interests loan(2)	93					93	93
Third-party financial liabilities arising on consolidation of mutual funds	39 983					39 983	39 983
Insurance and other payables	9 261	350	69	36		9 716	9 716
Total	49 422	510	2 934	1 219	5	54 090	52 866
Percentage portion (%)	91	1	6	2		100	

(1) *0 – 3 months are either due within the time frame or are payable on demand.*
(2) *Contractual cash flows are at amortised cost.*
(3) *No fixed maturity date, however, redeemable with a two year notice period at the instance of the company or the holder.*

5 Liquidity risk (continued)

5.4 Maturity profile of liabilities (continued)

5.4.2 Liquidity risks arising out of obligations to long-term insurance policyholders

On investment-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 the illiquidity of these property 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.

No withdrawal benefits are provided on non-participating life annuities.

Liquidity risk arising from risk-related claims is partially mitigated through reinsurance arrangements whilst the exposure to medical expenses is managed through claim limits per member by loss event within the terms of policyholder contracts.

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 investment-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 lump sum 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.

	Insurance contracts		Investment with DPF		Investment contracts	
Expected cash flows	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Unit liabilities						
Within 1 year	**15 598**	13 383	**382**	386	**4 621**	4 287
1 – 5 years	**58 371**	51 170	**330**	357	**10 537**	10 018
6 – 10 years	**13 111**	10 005	**1 262**	1 132	**10 072**	9 124
11 – 20 years	**37 854**	36 495	**2 928**	2 452	**18 926**	17 085
Over 20 years	**35 839**	39 917	**5 275**	4 729	**35 361**	31 925
Total unit liabilities	**160 773**	150 970	**10 177**	9 056	**79 517**	72 439
Non-unit liabilities						
Within 1 year	**282**	1 906			**580**	556
1 – 5 years	**14 409**	13 165			**1 253**	1 301
6 – 10 years	**9 150**	7 498			**137**	190
11 – 20 years	**25 743**	18 640			**2 023**	27
Over 20 years	**62 376**	47 259			**17**	13
Effect of discounting cash flows	**(77 377)**	(58 696)			**(1 544)**	(380)
Total non-unit liabilities	**34 583**	29 772			**2 466**	1 707
Total long-term insurance policyholder liabilities	**195 356**	180 742	**10 177**	9 056	**81 983**	74 146

5 Liquidity risk (continued)

5.4 Maturity profile of liabilities (continued)

5.4.2 Liquidity risks arising out of obligations to long-term insurance policyholders (continued)

The following table shows the cash surrender value for policyholder liabilities:

Rm	Carrying value 2014	Surrender value 2014	Carrying value 2013	Surrender value 2013
Insurance contracts	**195 356**	**164 767**	180 742	154 148
Investment contracts with DPF	**10 177**	**9 621**	9 056	8 316
Investment contracts	**81 983**	**81 155**	74 146	73 295
Total long-term insurance policyholder liabilities	**287 516**	**255 543**	263 944	235 759

The rand amount payable on surrender, on contracts which provide a surrender value, is closely related to the carrying value. For the majority of unit-linked contracts the surrender value adjusts to the respective realisation values as surrender instructions are executed. Therefore the impact of market risk adjustments on surrender lies largely with the policyholder.

5.4.3 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 or circumstances of claims 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 2014 and 2013.

	0 – 12 months Rm	1 – 3 years Rm	>3 years Rm	Total Rm
2014				
Short-term insurance liability	**578**	**66**	**39**	**683**
Percentage portion (%)	**84**	**10**	**6**	**100**
2013				
Short-term insurance liability	772	56	18	846
Percentage portion (%)	91	7	2	100

5.5 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.

Refer to the directors' report for the company's borrowing powers.

As Liberty is a subsidiary of Standard Bank Group Limited, Liberty is included in the group wide liquidity risk stress testing and planning undertaken by Standard Bank.

6 Credit risk

6.1 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 and 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 considered in section 4.1.

6.2 Ownership and accountability

The board has delegated credit risk management to the group CE who, in turn, has delegated this responsibility to the GBSMC. The GBSMC has adopted and overseen the implementation of a group credit standard which is largely in line with the credit philosophy adopted by Standard Bank. In terms of the group credit standard, credit exposures are either managed in-house through LibFin and operational business units or outsourced to asset managers.

The GBSMC has responsibility for decisions affecting in-house managed credit exposures and is currently supported by the LibFin credit committee (LCC) which considers and, where appropriate, approves all credit applications for directly managed credit opportunities. The LCC is made up of Liberty executive management, 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.

Outsourced credit risk portfolios are managed in line with investment guidelines communicated in mandates to asset managers, primarily STANLIB, which define the asset characteristics for the particular credit portfolio. Within the confines of the mandates, 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.

As an asset manager acting for Liberty but also third-party investors, STANLIB applies its own credit process and has its own credit committee whose main purpose is to oversee the credit process within STANLIB and to set and review credit limits for issuers and instruments/issuances to which STANLIB may expose its clients (including Liberty). STANLIB's credit committee comprises of experienced professionals from its credit team, fixed interest investment unit, other investment units and risk management functions. STANLIB's independent compliance function monitors compliance by STANLIB's portfolio managers with credit limits set by its credit committee and investment restrictions specified either in client mandates or in applicable legislation, with appropriate escalation and reporting if required.

The GBSMC and client fund control committee are responsible for defining the credit characteristics of asset manager mandates supported by LibFin Investments. While the GBSMC is primarily responsible for decisions directly impacting shareholders, it does consider the possible impact shareholder decisions may have on policyholders. The client fund control committee, together with representatives from the Retail SA and Corporate business units, is primarily responsible for defining the credit characteristics of asset manager mandates on behalf of policyholders.

The group credit risk function maintains responsibility for consolidating and reporting all shareholder and policyholder credit risk originated through the multiple origination channels. 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. The group head of credit risk has functional responsibility for shareholder and policyholder credit risk generated across the group and reports to the executive director – finance and risk.

Credit risk originated by business units is, in the first instance, managed by a business unit head of credit risk. This function has the responsibility for ensuring that the group credit standard is adopted and that adequate systems, policies and procedures are put in place to effectively identify all credit risk originated within the business unit; adopt appropriate credit risk measurement methodologies; monitor and manage the consolidated business unit credit portfolio's profile and report on portfolio and counterparty risk reviews to the group head of credit risk.

6 Credit risk (continued)

6.3 Risk identification, assessment, measurement and management

Accountability for the governance standard, within which credit risk management operates, rests with the group head of credit and is approved by the GCROC.

Liberty is exposed to credit risk in a number of areas of its business. Through the investment activities of mandated asset managers, Liberty has largely been exposed to listed and more liquid credit instruments. Through the LibFin credit origination business, however, Liberty has consciously moved into illiquid credit assets benefiting from higher returns and diversification. This is in line with the board approved credit strategy and risk appetite for the business.

Overall, the credit risk portfolio as at 31 December 2014 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 a further level of diversification and improved returns for the credit risks being taken in the portfolio. While group risk remains satisfied that the credit portfolio is sound, well positioned and acceptable within risk appetite levels, it is recognised that loss events do occur from time to time in a credit portfolio of this nature.

Following the curatorship of ABIL and consequential devaluation of their various issued financial instruments, losses have been incurred. These have mostly been borne by policyholders in terms of investment mandates with losses on shareholder exposures amounting to R20 million.

Most of the credit risk carried on the Liberty balance sheet is in the following forms:

- 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 out or in payment by Liberty as well as potential future claims on reinsurers;
- 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
- 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.

Significant shareholder and policyholder credit exposures are reported to GBSMC, GCROC and GRC. Shareholder exposures are subject to individual counterparty limits set by the group. The Long-Term Insurance Act of 1998 does limit admissible exposure to individual issuers and counterparties for regulatory purposes. This is taken into consideration when financial assets are procured.

6.4 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.

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 some unrated exposures, generally entered into through asset managers, where the internal ratings methodology has not been applied. This does not imply that the potential default risk is higher or lower than for rated assets.

6 Credit risk (continued)

6.4 Rating methodology (continued)

Due to the extent of work required to obtain or prepare a credit classification, certain smaller asset holdings may be classified as "not rated" for practical reasons.

The loans reflected as "not rated" relate to loans granted by Liberty to policyholders, which are secured by their policies.

Pooled funds

The group invests in mutual funds through which it is also exposed to credit risk of the underlying assets in which the mutual funds are invested. The group'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 reinsurance policies as well as the underlying debt instruments supporting the valuation of the policy.

6.5 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.

6 Credit risk (continued)

6.5 Credit exposure (continued)

	A- and above Rm	BBB+ Rm	BBB Rm	BBB- Rm	BB+ Rm	BB Rm	BB- and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
2014										
Debt instruments	**5 184**	**38 213**	**28 750**	**13 390**	**1 660**	**5 503**	**3 928**	**3 239**	**18 715**	**118 582**
– Listed preference shares	**144**	**167**	**472**	**223**	**105**	**5**	**19**	**117**		**1 252**
– Unlisted preference shares				**396**		**84**		**211**		**691**
– Listed term deposits	**4 722**	**31 120**	**11 946**	**7 136**	**502**	**4 763**	**3 083**	**1 091**		**64 363**
Local	**331**	**27 848**	**10 438**	**5 842**	**482**	**4 726**	**1 085**	**774**		**51 526**
Foreign	**4 391**	**3 272**	**1 508**	**1 294**	**20**	**37**	**1 998**	**317**		**12 837**
Unlisted term deposits	**318**	**6 926**	**16 332**	**5 635**	**998**	**651**	**826**	**4**		**31 690**
Local	**198**	**6 926**	**16 332**	**5 635**	**910**	**651**	**768**			**31 420**
Foreign	**120**				**88**		**58**	**4**		**270**
Loans					**55**			**1 272**		**1 327**
Loan in associate – fair value								**544**		**544**
Mutual funds – debt instruments									**18 715**	**18 715**
Local									**14 033**	**14 033**
Foreign									**4 682**	**4 682**
Investment policies				**6 515**				**1 128**		**7 643**
Prepayments, insurance and other receivables – Local	**52**	**9**	**12**	**3**	**87**	**69**	**82**	**2 604**		**2 918**
– Accrued income		**9**	**8**	**3**				**79**		**99**
– Reinsurance recoveries	**52**				**87**	**69**	**82**	**150**		**440**
– Other			**4**					**2 375**		**2 379**
Prepayments, insurance and other receivables – Foreign				**8**				**742**		**750**
Reinsurance assets	**61**				**998**	**142**	**138**	**219**		**1 558**
Derivatives and collateral deposits	**1 259**	**1 644**	**4 717**	**102**				**55**		**7 777**
Cash and cash equivalents	**3 255**	**1 446**	**6 589**	**1 305**			**196**	**1 194**		**13 985**
Local	**1 375**	**1 446**	**6 458**	**1 305**			**11**	**266**		**10 861**
Foreign	**1 880**		**131**				**185**	**928**		**3 124**
Total assets bearing credit risk	**9 811**	**41 312**	**40 068**	**21 323**	**2 745**	**5 714**	**4 344**	**9 181**	**18 715**	**153 213**

	Percentage %	Total exposure Rm
Credit exposure allocation estimated attributable to:	**100**	**153 213**
Policyholders	**37**	**56 340**
Shareholders	**50**	**76 294**
Non-controlling interests and third-party liabilities on mutual funds	**13**	**20 579**

6 Credit risk (continued)

6.5 Credit exposure (continued)

	A- and above Rm	BBB+ Rm	BBB Rm	BBB- Rm	BB+ Rm	BB Rm	BB- and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
2013										
Debt instruments	4 767	49 164	10 431	15 153	2 160	3 529	637	2 356	14 551	102 748
– Listed preference shares	82	535	252	308	55	607	7	82		1 928
– Unlisted preference shares		532		403		77		238		1 250
– Listed term deposits	4 352	40 750	7 134	11 107	598	1 418	248	822		66 429
Local	270	38 489	6 029	7 817	534	1 395	210	233		54 977
Foreign	4 082	2 261	1 105	3 290	64	23	38	589		11 452
Unlisted term deposits	333	7 347	3 045	3 335	1 507	1 427	382			17 376
Local	333	7 347	3 045	3 021	1 507	1 374	382			17 009
Foreign				314		53				367
Loans								1 214		1 214
Mutual funds – debt instruments									14 551	14 551
Local									13 011	13 011
Foreign									1 540	1 540
Investment policies			25 271					1 085		26 356
Prepayments, insurance and other receivables – Local		11	24	130		51	8	3 075		3 299
– Accrued income		11	5					112		128
– Reinsurance recoveries			19	130		51	8	96		304
– Other								2 867		2 867
Prepayments, insurance and other receivables – Foreign								614		614
Reinsurance assets			35	1 026		3	29	516		1 609
Derivatives and collateral deposits	1 004	3 756	1 450	128				49		6 387
Joint venture loans and receivables								4		4
Cash and cash equivalents	1 224	4 262	1 958	105		1 383	90	848		9 870
Local	1 071	4 089	1 948	105		57		224		7 494
Foreign	153	173	10			1 326	90	624		2 376
Total assets bearing credit risk	6 995	57 193	39 169	16 542	2 160	4 966	764	8 547	14 551	150 887

	Percentage %	Total exposure Rm
Credit exposure allocation estimated attributable to:	100	150 887
Policyholders	44	66 310
Shareholders	42	63 290
Non-controlling interests and third-party liabilities on mutual funds	14	21 287

6 Credit risk (continued)

6.6 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. Cognisance is also taken of the potential future claims on reinsurers in the assessment process. 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. In addition efforts are made to appropriately diversify exposure by using several reinsurers. A review of these reinsurers is done at least annually.

6.7 Derivatives

A detailed credit analysis of all LibFin over-the-counter derivative counterparties is performed and approved by the LibFin credit committee prior to any trading taking place. In addition, in principle, trading is limited to:

1. Financial institution counterparties with a strong credit rating; and
2. Financial institutions where we have negotiated international swap and derivative agreements (ISDAs) and Credit Support Annexures (CSAs) with a zero threshold.

Wherever possible only exchange traded derivatives are entered into by Liberty or by agents acting for Liberty as these offer Liberty protection 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.

6.8 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.

6.9 Credit assessment changes recognised in profit or loss

Fair value instruments

The group invests in both listed and unlisted debt instruments. 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 requirements of IFRS for fair value purposes.

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

For 2014, the change in the fair value movement recognised in profit or loss, with respect to change in credit risk for illiquid listed and unlisted debt instruments in a non-active market is R298 million negative (2013: R30 million negative).

6.10 Impairments

The table below indicates the impairments raised against financial assets.

Financial assets impaired – all rand denominated

	2014 Rm	2013 Rm
Loans		
Gross carrying value	**1 360**	1 253
Less: Accumulated impairment	**(33)**	(39)
Net carrying value	**1 327**	1 214

Loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's investment balance. The fair value of loans is R1 194 million (2013: R1 091 million). The loans are recoverable through offset against policyholders' investment balances at policy maturity dates.

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.

6 Credit risk (continued)

6.11 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.

6.12 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.

6.13 Standard Bank credit risk concentration

Standard Bank Group Limited is Liberty Holdings Limited's holding company. Normal credit processes are followed before any asset exposure is entered into with Standard Bank. In respect of assets within the life licence entities, Standard Bank exposure is subject to total exposure limits in order to ensure that it falls within the asset-spreading limits set by the FSB.

The following table summarises the group's exposure to Standard Bank:

	Overall group investment	**Exposure to Standard Bank**		Overall group investment	Exposure to Standard Bank	
		2014			2013	
	Rm	**Rm**	**%**	Rm	Rm	%
Equity instruments	**128 874**	**1 757**	**1,4**	111 973	914	0,8
Preference shares	**1 943**	**169**	**8,7**	3 178	203	6,4
Term deposits and loans	**97 924**	**11 613**	**11,9**	85 019	9 990	11,8
Cash and cash equivalents	**13 985**	**5 931**	**42,4**	9 870	3 389	34,3
Derivative assets [(1)]	**4 978**	**785**	**15,8**	4 956	868	17,5
Derivative collateral deposits	**2 799**	**1 582**	**56,5**	1 431	826	57,7
Total asset exposure	**250 503**	**21 837**	**8,7**	216 427	16 190	7,5
Derivative liabilities [(1)]	**(5 148)**	**(1 058)**	**20,6**	(4 860)	(1 271)	26,2
Total exposure	**245 355**	**20 779**	**8,5**	211 567	14 919	7,1

(1) *Due to netting agreements in place with Standard Bank Group Limited, 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 Group Limited. The total value of these investments is R1 369 million (2013: R1 321 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.

6 Credit risk (continued)

6.14 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.

	Unsecured Rm	Secured Rm	Total exposure Rm	Netting agreements Rm	Exposure after netting Rm	Collateral coverage Greater than 100% Rm
2014						
Debt instruments	**117 255**	**1 327**	**118 582**		**118 582**	**1 327**
Listed preference shares on the JSE or foreign exchanges	**1 252**		**1 252**		**1 252**	
Unlisted preference shares	**691**		**691**		**691**	
Listed term deposits on BESA, JSE or foreign exchanges	**64 363**		**64 363**		**64 363**	
Loans		**1 327**	**1 327**		**1 327**	**1 327**
Loan in associate - fair value	**544**		**544**		**544**	
Unlisted term deposits	**31 690**		**31 690**		**31 690**	
Mutual funds – debt instruments	**18 715**		**18 715**		**18 715**	
Investment policies	**7 643**		**7 643**		**7 643**	
Derivatives	**4 978**		**4 978**	**(4 978)**		
Derivative collateral deposits	**2 799**		**2 799**		**2 799**	
Reinsurance assets	**1 558**		**1 558**		**1 558**	
Cash and cash equivalents	**13 985**		**13 985**		**13 985**	
Prepayments, insurance and other receivables	**3 580**	**88**	**3 668**		**3 668**	**88**
Total	**151 798**	**1 415**	**153 213**	**(4 978)**	**148 235**	**1 415**
2013						
Debt instruments	101 534	1 214	102 748		102 748	1 214
Listed preference shares on the JSE or foreign exchanges	1 928		1 928		1 928	
Unlisted preference shares	1 250		1 250		1 250	
Listed term deposits on BESA, JSE or foreign exchanges	66 429		66 429		66 429	
Loans		1 214	1 214		1 214	1 214
Unlisted term deposits	17 376		17 376		17 376	
Mutual funds – debt instruments	14 551		14 551		14 551	
Investment policies	26 356		26 356		26 356	
Derivatives	4 956		4 956	(4 671)	285	
Derivative collateral deposits	1 431		1 431		1 431	
Reinsurance assets	1 609		1 609		1 609	
Joint ventures loans and receivables	4		4		4	
Cash and cash equivalents	9 870		9 870		9 870	
Prepayments, insurance and other receivables	3 854	59	3 913		3 913	59
Total	149 614	1 273	150 887	(4 671)	146 216	1 273

The group has lent equity scrip of R4 265 million for which cash collateral of R2 674 million has been received. In addition, equity scrip of R1 978 million has been pledged to Liberty in the event of default.

6 Credit risk (continued)

6.15 Offsetting

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

However, of the total assets held for trading and hedging recognised of R7 777 million (2013: R6 387 million) and total derivative liabilities of R5 148 million (2013: R4 860 million), assets held for trading and hedging of R7 552 million (2013: R6 265 million) and derivative liabilities of R5 106 million (2013: R4 671 million) are subject to master netting arrangements, with a net asset exposure of R2 446 million (2013: R1 594 million).

7 Operational risk

7.1 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 the business.

Operational risk is recognised as a distinct risk category which the group strives to manage within acceptable levels through sound risk management practices that are cost effective and fit for purpose to suit the organisational maturity and particular business environment.

In calculating the capital required to support certain specific risks, in particular market and insurance risks, the assumption is made that controls and management processes are effective. Within operational risk it is recognised that these controls and processes may fail in order that appropriate risk reducing actions can be taken.

7.2 Ownership and accountability

The tone of operational risk management is set by 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 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 business units provide oversight of the effectiveness of the group's operational risk management processes and assist business unit managers by providing training, advice and assistance with the on-going implementation of the board approved operational risk and compliance frameworks. The group operational risk and internal control committee reports on the status of operational risk management to the GCROC.

7.3 Risk identification, assessment, measurement and management

The group's Operational Risk Framework is embedded within the business to promote sound risk management practices across the group.

Group Internal Audit Services (GIAS) is the group's third line of defence and performs an independent review of the operational risk management practices to ensure that they are implemented consistently across the group.

Risk management activities in relation to certain sources of risk 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. Furthermore, 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.

Increasing legal and regulatory compliance requirements, and the importance of IT in enabling such compliance, heightens the importance of managing IT operations within an acceptable risk profile.

The IT risks that the group is exposed to include, amongst others, the disruption of services, information loss and unauthorised access to IT platforms. IT risks are effectively managed through the three lines of defence approach, with a specific IT risk function in place to ensure adequate focus on this key risk. The IT risk function has developed a consolidated group-wide view of IT risks.

The group has adopted COBIT 5 as a suitable IT governance framework given its robustness and its ability to be tailored to meet the needs of the group. The implementation of COBIT 5 and ancillary frameworks is greatly enhancing the quality of our implemented controls to mitigate against identified IT risks. The implementation approach is prioritising significant IT risk items at business unit level, whilst taking into consideration the consolidated group-wide view of IT risks which are being managed to levels consistent with the group's risk appetite.

A sub-committee of the group executive committee has oversight responsibility in respect of the group-wide IT risk mitigation activities.

Process risk: The group's approach to process improvement focuses on process efficiency and work quality. This includes a risk and control identification and assessment which ensures that processes undergoing improvement incorporate input from risk specialists, as well as other process stakeholders. Besides identification and assessment of risks and controls for new processes, business units also perform risk and control identification and assessment on existing key processes as relevant.

Regulatory risk: The journey of strengthening the regulatory framework arising from the international assessment of causes of the global credit crisis is continuing. A number of significant regulatory reforms have and are being enacted or are proposed. The scope of regulatory reform covers both prudential and market conduct changes.

7 Operational risk (continued)

7.3 Risk identification, assessment, measurement and management (continued)

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).

The more significant developments, including the FSB's Retail Distribution Review, that have or may impact Liberty directly or indirectly are summarised under the regulatory environment section in the group's integrated report. The regulatory environment is actively monitored through a stakeholder engagement programme with the various regulators.

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 the industry and all its stakeholders. Specific awareness and technical training is provided to business unit management by the various group centres of excellence thereby equipping the first line to manage the consequences of regulatory changes efficiently.

Regulatory and legislative compliance requirements are identified and implemented through the development of appropriate policies and procedures that are regularly monitored and reported on. Compliance exposure assessments are carried out within the business units with oversight from the group compliance function to provide the board with assurance on the status of compliance within the organisation. Internal compliance management forums continually identify and interpret regulatory requirements and ensure that the business units establish appropriate policies and procedures to meet these requirements. The group proactively monitors 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 control and group internal audit services apply independent oversight to ensure that customers are treated fairly and that the group operates in terms of sound ethical principles.

Legal risk: This risk is defined as a combination of litigation related risk and risks related to contracts. Litigation risk is the risk of ineffective and incorrect practices in the management of current and potential lawsuits. By understanding the business well, Group Legal explores any potential areas of financial or reputational liability across the business and provides management with concise evaluation of the risk and potential litigation options. This is then followed through by ensuring effective management of the litigation processes from start to end. Risks related to contracts arise from potential disputes in conditions related to contracts. Liberty ensures that it identifies and manages these risks in a way that all parties involved are satisfied with the contractual agreement outcomes. This is done through a sound contract management process, including the use of experienced legal personnel in drafting, reviewing and managing contracts.

Taxation risk: This 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 together with 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 to mitigate taxation risk to an acceptable level. Whilst it is an undesirable practice, there is additional taxation regulation risk where the authorities enact changes that are retrospective. In order to reduce the possible impact of retrospective change, the group avoids exploiting tax reduction opportunities which may be perceived to be against the spirit of tax revenue collection.

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 assists in assuring 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 tax 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.

7 Operational risk (continued)

7.3 Risk identification, assessment, measurement and management (continued)

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 a mandate which provides the customers with the objectives and operating restrictions which the fund manager must comply with. The group therefore carries the risk of the fund manager not complying with 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.

African Bank Limited and African Bank Investments Limited were placed under curatorship and their listed securities were suspended on the exchange operated by JSE Limited on the 10 August 2014. This led to extensive press coverage and general concerns as to potential loss by investors and systemic problems in the retail credit lending environment in South Africa.

Liberty through its normal asset management and insurance operations has for some years invested in the various classes of ABIL securities. These investments are both directly held on Liberty's balance sheet, mainly for policyholder benefit, and in collective investment schemes (including money market funds) managed by the group's asset manager STANLIB for the benefit of scheme participants.

Liberty, based on the information provided by the curators as well as authorised agencies, has had to adjust asset values accordingly. Unfortunately these adjustments have resulted in significant unrealised loss to the respective beneficiaries – refer to the market and credit risk sections for further detail.

The initial retail investor reaction (less so with institutional investors) highlighted a general misunderstanding as to how collective investment schemes operate. In particular, on money market funds a number of investors had the perception that these funds operate similar to a bank deposit and therefore incorrectly thought that the initial capital investment was guaranteed. This created a reputational concern for asset managers generally. STANLIB from the date of curatorship immediately embarked upon an extensive communication strategy to inform investors of the situation and applicable consequences. We are working with industry forums and the regulators to consider whether changes are required to enhance public understanding of risks associated with these types of investment vehicles.

The group's risk committee, following the ABIL event, has undertaken a thorough review of STANLIB's investment process, risk monitoring (both at STANLIB and in the insurance operations) and customer mandate promises. The committee concluded that investment risks are inherent in the business model and while the losses are regrettable the various approved investment and risk processes were followed.

Due to the relatively quick intervention by the South African government and the South African Reserve Bank, the contagion risk was considerably reduced and the banking, including retail credit lending, markets appear to have remained relatively stable.

People risk: The group continues to place significant focus on people. The risks related to people are managed across the group. Controls are in place within the group to ensure that suitable people are sourced for the many roles within the group and that there is sufficient support for people to grow in their roles. Availability of specialist technical skills in Africa to enable the provision of world class financial services remains a challenge for the group, resulting in competition for talent in the industry. Liberty focuses on recruitment, development and retention through a number of group-wide initiatives.

Business continuity management risk: This is an integral component of the group risk management framework, which was implemented to assist in the identification of potential threats to the business and 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 business units 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 plans are also subject to testing on a cyclical basis.

7 Operational risk (continued)

7.3 Risk identification, assessment, measurement and management (continued)

Customer complaint risk: 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), 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 customers' satisfaction are referred (by our customers) to independent external dispute resolution bodies for resolution. In addition, towards the end of 2014, Liberty established a customer fairness committee.

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 risk: 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 the business processes are adequate for the prevention and detection of fraud. Prevention and detection measures including training and awareness campaigns are periodically rolled out by forensic services to support management.

The group has a stated code of ethics, financial crime policy and whistleblowing policy that are aimed at establishing the principles and accountabilities for preventing, monitoring, and reporting of fraud, corruption, ethical breaches and any other related irregularity across the group. Liberty has implemented external and internal reporting mechanisms to facilitate the reporting of all incidents for investigation. KPMG is contracted to provide an independent and externally managed fraud hotline (0800 20 45 57) whilst an internal email facility (fraud@liberty.co.za) is also 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 whistleblowing policy aims to protect whistleblowers in the workplace against recrimination and victimisation and promotes the reporting of fraud which staff may notice. All reported cases are strictly investigated in line with best practice methodologies. Fraud perpetrators are reported to the South African Police Services and criminal proceedings are instituted.

Model risk: This 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 developed or 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.

Internal control risk: 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 is performed by business unit management, business unit risk functions 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.

7.4 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.

7.5 Reporting

The preparation of risk reports forms an integral part of monitoring the group's overall operational risk profile. These reports are prepared by each business unit and presented to the relevant business unit executive committees for review and discussion. These reports are also tabled at the group operational risk and internal control committee on a quarterly basis for review and discussion and escalation where relevant.

7 Operational risk (continued)

7.5 Reporting (continued)

The reports include information relating to:

- Key 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 GCROC and GRC and, where necessary, material risk exposures are escalated to the board.

7.6 Assurance

Group internal audit services and the external auditors provide independent and objective assurance on the adequacy and effectiveness of internal controls across all business processes to key stakeholders, including the board.

7.7 Group's short-term insurance programme contracted to mitigate possible loss events

In addition to contracted reinsurance to limit certain exposures to policyholder contracts a comprehensive short-term insurance programme, which addresses the diverse requirements of the group, is in place. Management, together with the group's local and offshore brokers, review 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.

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.

The group's insurance programme includes the following key categories of cover:

Directors' and officers' liability insurance

This insurance cover of R1,5 billion plus £100 million was renewed on 31 December 2014 for the 2015 year and is designed to protect all directors and officers of Liberty Holdings Limited and all its subsidiary companies by indemnifying them against losses resulting from a wrongful act, an error or an omission allegedly committed in their capacity as directors or officers. The annual renewal process ensures that this cover is spread across several insurers. Cognisance is taken of the credit ratings of insurers to ensure the insurance is placed with insurers of an acceptable credit rating.

Commercial crime and professional indemnity

Commercial crime 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. Professional indemnity cover indemnifies third-parties against financial loss resulting from negligent acts, errors and omissions by the group. Combined commercial crime and professional indemnity cover of R3 billion (for claims in excess of R5 million) was renewed on 31 December 2014 for the 2015 year. The annual renewal process ensures that this cover is spread across several insurers. Cognisance is taken of the credit ratings of insurers to ensure the insurance is placed with insurers of an acceptable credit rating.

Property Cover

In addition to the above financial covers, the group ensures that all property investments are adequately insured for material damage and business interruption. 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.

8 Concentration risk

8.1 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 in the sections below.

8.2 Asset manager allocation

The group engages the services of the following asset managers who manage assets on its behalf:

	2014		2013	
	%	Rm	%	Rm
STANLIB (subsidiary)(1)	**73**	**273 528**	72	248 860
Self managed including LibFin business unit	**19**	**69 247**	15	51 384
Investec	**6**	**20 119**	5	18 673
Investment Solutions	**2**	**6 515**	7	25 271
Prescient		**1 539**	1	1 405
Frank Russell		**905**		896
Other asset managers		**1 214**		1 070
	100	**373 067**	100	347 559

(1) *This includes assets managed by other asset managers utilising STANLIB Linked Investment Services Provider platform.*

Risks associated with asset managers are:

- Poor fund performance resulting in the reduced ability of the group to retain and sell investment related products.
- Adoption of poor credit policies exposing the group to undue credit risk.
- Inadequate ability to manage the relationship between the return on risk capital for the risk being taken at a granular level.
- Illiquidity of instruments invested in which could result in value destruction should these investments need to be realised in the short term.

These aspects are considered and monitored by the client fund control committee and the GBSMC.

8.3 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 4.9.2 and note 48 to the annual financial statements summarise the exposures to foreign currency and indicate the rand concentration risk.

9 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 presented are calculated at a point in time and applied consistently across the financial position of the group. It should however be noted that in many cases changes to certain economic or policyholder behaviour assumptions do not result in linear impacts to policyholder liabilities and are not always consistent in the direction of net impact to net asset value. For example, increases to withdrawal rates may be negative to net asset value for policyholder investment products, yet positive to net asset value for certain sub sets of policyholder risk products. Caution is therefore advised in interpreting these sensitivity disclosures in earnings or capital resilience analysis.

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.

9 Sensitivity analysis (continued)

The table below summarises the impact of the change in the above risk variables on policyholder liabilities and on ordinary shareholders' equity and attributable profit after taxation. The market risk sensitivities are net of risk mitigation activities 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.

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.

Assumption description	Change in variable %	Impact on policyholder liabilities Rm	Impact on ordinary shareholder equity and attributable profit after taxation Rm
2014			
Insurance assumptions			
Mortality			
Assured lives	+2	263	(189)
	-2	(264)	190
Annuitant longevity[1]	+4[2]	349	(251)
	-4[3]	(334)	241
Morbidity	+5	426	(306)
	-5	(425)	306
Withdrawals	+8	506	(364)
	-8	(562)	405
Expense per policy	+5	271	(195)
	-5	(271)	195
Market assumptions			
Interest rate yield curve	+12	(3 638)	(285)
	-12	4 288	224
Option price volatilities[6]	+20	34	(22)
	-20	(2)	(2)
Equity prices	+15	18 909	1 284
	-15	(19 077)	(1 260)
Rand exchange rates	+12[4]	(4 373)	(655)
	-12[5]	4 462	652

(1) The significant increase in the sensitivity impact is as a consequence of large annuity new business written during 2014.

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

(3) Annuitant life expectancy reduces i.e. annuitant mortality increases.

(4) Strengthening of the rand.

(5) Weakening of the rand.

(6) Currently option price volatilities are not hedged and consequently the analysis is performed on market data at 31 December 2014. The sensitivities are non-linear and will be significantly impacted by the mix of future new business.

9 Sensitivity analysis (continued)

Assumption description	Change in variable %	Impact on policyholder liabilities Rm	Impact on ordinary shareholder equity and attributable profit after taxation Rm
2013			
Insurance assumptions			
Mortality			
Assured lives	+2	227	(164)
	-2	(228)	164
Annuitant longevity	+4(1)	226	(162)
	-4(2)	(217)	156
Morbidity	+5	361	(260)
	-5	(360)	259
Withdrawals(4)	+8	471	(339)
	-8	(533)	384
Expense per policy	+5	260	(187)
	-5	(260)	187
Market assumptions			
Interest rate yield curve	+12	(3 022)	(213)
	-12	3 558	135
Option price volatilities	+20	106	(55)
	-20	(74)	33
Equity prices	+15	18 470	1 258
	-15	(18 460)	(1 256)
Rand exchange rates	+12(3)	(3 862)	(627)
	-12(4)	3 873	624

(1) *Annuitant life expectancy increases i.e. annuitant mortality reduces.*
(2) *Annuitant life expectancy reduces i.e. annuitant mortality increases.*
(3) *Strengthening of the rand.*
(4) *Weakening of the rand.*

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Company statement **of financial position**

as at 31 December 2014

	Notes	2014 Rm	2013 Rm
Assets			
Equipment	1	**5**	4
Intangible asset	2	**7**	5
Interests in subsidiaries	3	**11 024**	11 384
Financial investments	4	**236**	699
Deferred taxation	8	**145**	
Prepayments and other receivables	5	**34**	26
Cash and cash equivalents	6	**15**	7
Total assets		**11 466**	12 125
Liabilities			
Employee benefits	7	**57**	110
Deferred taxation	8		12
Other payables	9	**173**	197
Current taxation		**15**	40
Total liabilities		**245**	359
Equity			
Ordinary shareholders' interests			
Share capital[1]		**26**	26
Share premium[1]		**6 162**	6 162
Retained surplus		**4 849**	5 404
Share-based payment reserve	13	**184**	174
Total equity		**11 221**	11 766
Total equity and liabilities		**11 466**	12 125

[1] *For notes on share capital and share premium refer to group financial statements note 25.*

Company statement **of comprehensive income**

for the year ended 31 December 2014

	Notes	2014 Rm	2013 Rm
Revenue			
Investment income	10	**1 888**	2 365
Investment (losses)/gains	11	**(694)**	59
Fee revenue	12	**145**	170
Total revenue		**1 339**	2 594
General marketing and administration expenses	14	**(341)**	(416)
Profit before taxation		**998**	2 178
Taxation	15	**120**	(22)
Total earnings and comprehensive income		**1 118**	2 156

Statement of changes in **company shareholders' funds**

for the year ended 31 December 2014

	Share capital and share premium[1] Rm	Share-based payment reserve Rm	Retained surplus Rm	Total Rm
Shareholders' funds at 1 January 2013	6 188	145	5 155	11 488
Total comprehensive income			2 156	2 156
Ordinary dividends (total 548 cents per share)		(14)	(1 552)	(1 566)
Special ordinary dividend (130 cents per share)		(3)	(368)	(371)
Preference dividend			(2)	(2)
Funding of restricted share plan			(47)	(47)
Share-based payments		108		108
Transfer of vested equity options reserve		(62)	62	
Shareholders' funds at 31 December 2013	**6 188**	**174**	**5 404**	**11 766**
Total comprehensive income			**1 118**	**1 118**
Ordinary dividends (total 601 cents per share)		**(23)**	**(1 697)**	**(1 720)**
Preference dividend			**(2)**	**(2)**
Funding of restricted share plan			**(78)**	**(78)**
Share-based payments		**137**		**137**
Transfer of vested equity options reserve		**(104)**	**104**	
Shareholders' funds at 31 December 2014	**6 188**	**184**	**4 849**	**11 221**

[1] *Refer note 25 in the group annual financial statements.*

Company statement of **cash flows**

for the year ended 31 December 2014

	Notes	2014 Rm	2013 Rm
Cash flows from operating activities		**(8)**	423
Cash (utilised)/generated by operations	16	**(137)**	24
Interest received		**30**	44
Dividends received		**1 857**	2 310
Dividends paid	17	**(1 722)**	(1 939)
Taxation paid	18	**(36)**	(16)
Cash flows from investing activities		**94**	(406)
Purchase of financial investments	4.2	**(3)**	(2 536)
Disposal of financial investments	4.2	**484**	2 873
Purchase of equipment	1	**(2)**	(1)
Acquisition of intangible assets	2	**(2)**	(5)
Acquisition of subsidiaries	3.2	**(50)**	(15)
Net capital injection in subsidiaries	3.2	**(134)**	(168)
Net movement on subsidiary loan	3.3	**(199)**	(554)
Cash flows from financing activities			
Funding of restricted share plan		**(78)**	(47)
Net increase/(decrease) in cash and cash equivalents		**8**	(30)
Cash and cash equivalents at the beginning of the year		**7**	37
Cash and cash equivalents at the end of the year	6	**15**	7

Notes to the **company annual financial statements**

for the year ended 31 December 2014

	2014 Rm	2013 Rm
1 Equipment		
Cost at the beginning of the year	**5**	4
Additions	**2**	1
Cost at the end of the year	**7**	5
Accumulated depreciation at the beginning of the year	**(1)**	
Depreciation	**(1)**	(1)
Accumulated depreciation at the end of the year	**(2)**	(1)
Net carrying value at the end of the year	**5**	4

	Balance at the beginning of the year Rm	Additions Rm	Depreciation Rm	Balance at the end of the year Rm
2014				
Cost – movement				
Equipment, fixtures, furniture and fittings	**5**	**2**		**7**
2014				
Accumulated depreciation – movement				
Equipment, fixtures, furniture and fittings	**(1)**	**(1)**		**(2)**
2013				
Cost – movement				
Equipment, fixtures, furniture and fittings	4	1		5
2013				
Accumulated depreciation – movement				
Equipment, fixtures, furniture and fittings			(1)	(1)

	2014 Rm	2013 Rm
2 Intangible asset		
Computer software – internally generated cost		
Cost at the beginning of the year	**5**	
Additions	**2**	5
Cost at the end of the year	**7**	5
Net carrying value at the end of the year	**7**	5

The computer software has not been brought into use so no amortisation is applicable for 2014.

	2014 Rm	2013 Rm
3 Interests in subsidiaries		
3.1 Summary		
Shares held at cost	**11 254**	11 070
Impairment provision	**(395)**	(516)
Intergroup balances – measured at fair value	**165**	830
Total interests in subsidiaries	**11 024**	11 384
3.2 Movement analysis		
Shares at cost		
Shares at cost at the beginning of the year	**11 070**	10 887
Acquisitions during the year	**50**	15
Net capital injections	**134**	168
Shares at cost at the end of the year	**11 254**	11 070
Impairment provision		
Impairment provision at the beginning of the year	**(516)**	(516)
Impairment reversal through profit or loss	**121**	
Impairment provision at the end of the year	**(395)**	(516)
Intergroup balances – measured at fair value		
Intergroup balances at the beginning of the year	**830**	276
Advances	**346**	560
Receipts	**(147)**	(16)
Adjustment for deferred taxation relating to assets sold to Liberty Group Limited	**(26)**	
Interest income		10
Loan waivers	**(838)**	
Intergroup balances at the end of the year[1]	**165**	830

[1] *Intergroup balances are callable on demand*

Notes to the **company annual financial statements**

for the year ended 31 December 2014 (continued)

3 Interests in subsidiaries (continued)

	Amount of issued share capital	Percentage of issued share capital units held		Shares at cost		Impairment provision		Intergroup balances	
		2014 %	2013 %	2014 Rm	2013 Rm	2014 Rm	2013 Rm	2014 Rm	2013 Rm
3.3 Subsidiaries unlisted – directly owned				**11 254**	11 070	**(395)**	(516)	**165**	830
Insurance									
Liberty Group Limited	**R28 895 619**	**100**	100	**8 407**	8 407			**(153)**	
Liberty Life Assurance Uganda Limited	**Ushs1 000 000 000**	**51**	51	**5**	5			**2**	1
Liberty Life Swaziland Limited	**E2 400 000**	**100**	100	**8**	8				2
Asset management									
STANLIB Limited	**R423,110,000**	**100**	100	**1 308**	1 308			**123**	137
Liberty Holdings Swaziland Proprietary Limited	**E100**	**100**	100	**3**	3			**1**	
Stanbic Investment Management Services (EA) Limited (Kenya)	**KShs61 440 000**	**100**	100	**28**	28			**1**	1
STANLIB Lesotho Proprietary Limited	**M1 950 000**	**74,9**	74,9	**6**	6				1
Stanbic Investment Management Services Limited (Ghana)	**GHS727 843**	**100**		**15**				**4**	
STANLIB Uganda Ltd	**UShs246 384 800**	**100**		**1**					
Investment holding									
Lexshell 615 Investments Proprietary Limited	**R100**	**100**	100					**16**	140
Liberty Holdco Nigeria Limited	**N10 000 000**	**100**	100	**1**	1			**48**	34
Liberty Holdings Botswana Proprietary Limited	**P12 612 527**	**74**	74	**10**	10			**3**	2
Liberty Holdings Kenya Limited	**KShs2 026 187 651**	**57,7**	56,8	**230**	199			**8**	6
Liberty Holdings Namibia Proprietary Limited	**N$159 101 100**	**75**	75	**119**	119			**41**	43
Liberty Holdings Zambia Limited	**K5 000 000**	**100**	100	**3**				**4**	
Libgroup Jersey Holdings Limited (Incorporated in Jersey)	**£2**	**100**	100	**37**	37	**(35)**		**(2)**	(2)
Stonehouse Capital Proprietary Limited		**100**	100					**62**	58
Own Your Life Rewards Proprietary Limited	**R31 395**	**100**	100	**185**	185			**2**	(6)
Health services									
Liberty Health Holdings Proprietary Limited	**R605 070 410**	**100**	74,9	**650**	516	**(360)**	(516)		409
Other									
Liberty Group Properties Proprietary Limited (Property Asset Management)	**R100**	**100**	100	**236**	236			**5**	4
Liberty Nominees Proprietary Limited (Shareholder transactions)	**R1**	**100**	100						
Dormant									
Liberty Group Shelf Company No. 1 Proprietary Limited	**R100**	**100**	100						
Standard Insurance Limited Swaziland	**E2 500 000**	**100**	100	**2**	2				

Liberty Holdings Limited, indirectly through its various subsidiaries, has interests in a number of other subsidiaries. Further details can be obtained from the group financial statements in note 41. A register containing full information on all the group subsidiaries is available for inspection at the registered office of the company.

	2014 Rm	2013 Rm
4 Financial investments		
4.1 Financial investments comprise:		
Financial instruments designated at fair value through profit or loss		
Quoted in an active market – unlisted		
Mutual funds – money market	**229**	346
Unquoted and unlisted		
Equities	**7**	243
Preference shares		110
Total financial investments	**236**	699
4.2 Movement analysis		
Balance at the beginning of the year	**699**	976
Additions	**3**	2 536
Disposals	**(484)**	(2 873)
Fair value adjustments – through profit or loss	**18**	60
Balance at the end of the year	**236**	699
5 Prepayments and other receivables		
Outstanding amount on sale of subsidiary shares to non-controlling interest	**12**	16
Sundry receivables	**22**	10
Total prepayments and other receivables (all current)	**34**	26
6 Cash and cash equivalents		
Cash at bank and on hand	**14**	6
Short-term cash deposits	**1**	1
Total cash and cash equivalents	**15**	7

	Notes	2014 Rm	2013 Rm
7 Employee benefits			
7.1 Summary			
Short-term employee benefits	7.2	**44**	64
Long-term employee benefits (cash-settled)	7.3	**13**	46
Total employee benefits		**57**	110

7.2 Short-term employee benefits

	Leave pay		Short-term incentive schemes		Total	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Balance at the beginning of the year	**2**	2	**62**	45	**64**	47
Additional provision raised	**5**	5	**40**	64	**45**	69
Utilised during the year	**(5)**	(5)	**(60)**	(47)	**(65)**	(52)
Balance at the end of the year	**2**	2	**42**	62	**44**	64

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. Only discretionary leave can 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 2014 comprise R37 million (2013: R59 million) senior management and specialist group incentive scheme and R5 million (2013: R3 million) general staff incentive schemes.

7.3 Long-term employee benefits (cash-settled)

	Share unit rights plan		2010 Deferred bonus scheme		Total	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm	**2014 Rm**	2013 Rm
Balance at the beginning of the year	**31**	65	**15**	10	**46**	75
Net accrual for past service	**8**	16		3	**8**	19
Adjustments for referenced unit price movements	**4**	12	**3**	3	**7**	15
Cash settlements	**(40)**	(62)	**(8)**	(1)	**(48)**	(63)
Balance at the end of the year	**3**	31	**10**	15	**13**	46
Total service cost	**12**	28	**3**	6	**15**	34
Recovered from the Standard Bank group[1]				1		1
Charged to subsidiary companies	**8**	22	**2**	4	**10**	26
Expensed through profit or loss	**4**	6	**1**	1	**5**	7

[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.*

7 Employee benefits (continued)

7.3 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. No grants were awarded under the SUR plan in 2014 or 2013 due to the current preference of the remuneration committee to utilise the restricted share plans.

	Units 2014	Units 2013
At the beginning of the year	**351 162**	878 034
Vested during the year	**(324 853)**	(526 872)
At the end of the year	**26 309**	351 162
Average LHP reference price per unit	**R 82,33**	R 80,16

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is 5 months (2013: 11 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 was 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 2014	Units 2013
At the beginning of the year	**130 869**	137 562
Exercised	**(26 572)**	(4 685)
Cancelled	**(4 084)**	(2 008)
At the end of the year	**100 213**	130 869
Average LHP reference price per unit	**R74,70**	R74,70

The scheme will be fully settled during March 2015.

7.4 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:

	2014 R'000	2013 R'000
Retirement		
Defined benefit funds[1]	**563**	455
Defined contribution funds	**7 472**	6 917

[1] *Funded from employer surplus account.*

	Asset/ (liability) at the beginning of the year	(Provision)/ release for year	Transfer through intergroup transaction[1]	Asset/ (liability) at the end of the year
8 Deferred taxation				
Normal taxation	16	130		**146**
Utilisation of tax losses	4	142		**146**
Provisions	12	(12)		
Capital gains taxation	(28)	1	**26**	**(1)**
Total	(12)	131	**26**	**145**

[1] *With effect from 12 December 2014 Liberty Holdings Limited disposed off a number of financial investments to Liberty Group Limited totalling R302 million. A deferred capital gains taxation liability to the amount of R26 million was transferred because the transaction is deemed intergroup for tax purposes with a corresponding base cost transfer.*

	2014 Rm	2013 Rm
Movement summary		
Balance at the beginning of the year	**(12)**	(7)
Release through statement of comprehensive income	**131**	(5)
Transfer through intergroup transaction	**26**	
Balance at the end of the year (all non-current)	**145**	(12)
9 Other payables		
Sundry payables	**173**	197
Total other payables (all current)	**173**	197
10 Investment income		
Financial instruments and subsidiary loans designated at fair value through profit or loss		
Interest income	**30**	44
Dividends received		
Unlisted instruments	**5**	9
Subsidiaries[1]	**1 852**	2 310
Sundry income	**1**	2
Total investment income	**1 888**	2 365
[1] *Dividends received from subsidiaries:*		
Liberty Group Limited	**1 290**	1 652
STANLIB Limited	**435**	440
Liberty Group Properties Proprietary Limited	**40**	35
STANLIB Lesotho Proprietary Limited	**4**	3
Lexshell 615 Investments Proprietary Limited		4
Libgroup Jersey Holdings		158
Liberty Life Uganda Assurance Limited	**24**	
Liberty Holdings Kenya Limited	**35**	13
Liberty Holdings Namibia Proprietary Limited	**6**	5
Liberty Holdings Botswana Proprietary Limited	**18**	
Total	**1 852**	2 310

	2014 Rm	2013 Rm
11 Investment (losses)/gains		
Financial instruments designated at fair value through profit or loss		
Unquoted and unlisted equities and preference shares	**18**	60
Subsidiaries		
Subsidiary impairment reversal	**121**	
Loan waiver – Liberty Health Holdings Proprietary Limited	**(548)**	
Loan waiver – Lexshell 615 Investments Proprietary Limited	**(290)**	
Foreign exchange differences on subsidiary loan settlement	**5**	(1)
Total investment (losses)/gains	**(694)**	59
12 Fee revenue		
Administration fees for services to group companies	**145**	170
13 Share-based payments – equity-settled		
Reconciliation of reserve		
Equity growth scheme (rights)		
Liberty Holdings Limited ordinary shares	**45**	86
Restricted scheme plans		
Liberty Holdings Limited ordinary shares	**139**	88
Total share-based payments reserve	**184**	174
Movement for the year	**10**	29
Per profit or loss – equity-settled schemes	**121**	88
Allocated costs to subsidiaries	**9**	19
Transfer of vested rights to retained surplus	**(104)**	(62)
Dividend payments to participants	**(23)**	(17)
Recovered from the Standard Bank group	**7**	1

Details of these schemes and the relevant IFRS 2 valuation assumptions are contained in note 34 to the group financial statements.

Notes to the **company annual financial statements**
for the year ended 31 December 2014 (continued)

	2014 Rm	2013 Rm
14 General marketing and administration expenses		
Comprising:		
Employee costs	252	262
Office and sundry costs	89	154
Total general marketing and administration expenses	341	416
General marketing and administration expenses include the following:		
Audit fees – current year	6	5
Depreciation of equipment	1	1
Consulting fees	33	41
Non-recoverable value added tax	5	4
Employee costs	252	262
Salaries and wages	69	64
Staff and management retention and incentive schemes	45	65
Share-based payment expenses – equity-settled	121	88
– cash-settled	5	7
Other	12	38
15 Taxation		
15.1 Sources of taxation		
South African normal taxation	(130)	8
Current year taxation		14
Current deferred taxation	(142)	
Underprovision prior year deferred taxation	12	(6)
South African capital gains taxation	(1)	11
Current year deferred taxation	1	11
Overprovision prior year deferred taxation	(2)	
Dividend withholding taxation	11	3
Total taxation	(120)	22

15.2 Taxation rate reconciliation

	CIT[1] Rm	CGT[2] Rm	Total Rm
2014			
Taxation per profit or loss	(119)	(1)	(120)
Profit before taxation per statement of comprehensive income	859	139	998
	%	%	
Effective rate of taxation	(13,8)	(0,7)	
Income exempt from normal taxation:			
Dividends received	60,5		
Non-tax deductible expenses	(17,3)		
(Over)/underprovision prior year	(1,4)	1,5	
Amounts excluded from capital gains tax		17,9	
Standard rate of South African taxation	28,0	18,7	

15 Taxation (continued)

15.2 Taxation rate reconciliation (continued)

	CIT[1] Rm	CGT[2] Rm	Total Rm
2013			
Taxation per profit or loss	11	11	22
Profit before taxation per statement of comprehensive income	2 119	59	2 178
	%	%	
Effective rate of taxation	1,0	18,7	
Income exempt from normal taxation:			
Dividends received	30,0		
Non-tax deductible expenses	(3,0)		
Standard rate of South African taxation	28,0	18,7	

[1] *CIT represents corporate income taxation.*

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

	2014 Rm	2013 Rm
16 Reconciliation of total earnings to cash (utilised)/generated by operations		
Total earnings	**1 118**	2 156
Adjustments for:		
Interest received	**(30)**	(44)
Dividends received	**(1 857)**	(2 310)
Taxation	**(120)**	22
Adjustments for non-cash items:		
Subsidiary impairment reversal	**(121)**	
Depreciation	**1**	1
Investment gains	**(18)**	(60)
Loan waiver	**838**	
Share-based payment expenses including allocated cost to subsidiaries	**137**	108
	(52)	(127)
Working capital changes:	**(85)**	151
(Increase)/decrease in prepayments and other receivables	**(8)**	45
Decrease in employee benefits	**(53)**	(12)
(Decrease)/increase in other payables	**(24)**	118
Cash (utilised)/generated by operations	**(137)**	24
17 Dividends paid		
Dividends as per statement of changes in shareholders' funds:		
Ordinary	**(1 720)**	(1 566)
Special ordinary		(371)
Preference	**(2)**	(2)
Total dividends paid	**(1 722)**	(1 939)

	2014 Rm	2013 Rm
18 Taxation paid		
Taxation payable at the beginning of the year	**(40)**	(39)
Taxation attributable	**(11)**	(17)
Taxation payable at the end of the year	**15**	40
Total taxation paid	**(36)**	(16)

19 Remuneration of directors and prescribed officers

Refer to the 2014 integrated report for details of directors and prescribed officers remuneration.

20 Related party disclosure

A list of related parties, as defined, is contained in the related party disclosures note 41 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:

20.1 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 3 to the company financial statements.

Details of dividends received from subsidiaries are provided in note 10 to the company financial statements.

	2014 Rm	2013 Rm
Fees earned for management and administration services:		
Liberty Group Limited	**95**	121
Liberty Group Properties Proprietary Limited	**4**	5
STANLIB Limited	**16**	19
Various foreign registered subsidiaries	**30**	25
Total	**145**	170

20.2 Acquisition of subsidiaries from group companies

Effective 31 December 2013 Liberty Holdings Limited acquired the following interests in subsidiaries from its wholly owned subsidiary Liberty Group Limited:

	Cost Rm
Liberty Life Assurance Uganda Limited	5
Liberty Life Swaziland Limited	8
Standard Insurance Limited (Swaziland)	2
	15

20.3 Financial investments

With effect from 12 December 2014 Liberty Holdings Limited disposed off a number of financial investments to Liberty Group Limited totalling R302 million. A deferred capital gains taxation liability to the amount of R26 million was transferred as a result of the disposal of these investments, as the transaction is deemed intergroup for tax purposes with a corresponding base cost transfer.

20 Related party disclosure (continued)

20.4 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 charges:

	2014 Rm	2013 Rm
Standard Bank group	**7**	2
Liberty Group Limited	**17**	40
Liberty Group Properties Proprietary Limited	**1**	1
STANLIB Limited	**1**	4
Total	**26**	47

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. The Standard Bank group charged Liberty Rnil million (2013: R1 million) as a recovery of these share-based payment costs.

21 Additional notes

Please refer to the following notes on the group financial statements:

Black Economic Empowerment (BEE) transaction – note 43.

Key judgements in applying assumptions on application of accounting policies on pages 10 to 12.

Notes

Appendices

Contents	Page

Appendix A – Detailed accounting policies

for the year ended 31 December 2014

The basis of preparation and key accounting policy elections are detailed on 9

1 New IFRS standards that are not yet effective

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

The following new or amended standards have been issued by the IASB however 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 at this stage.

Standard	Scope	Potential impact to the group
IFRS 9 *Financial Instruments* Effective for years commencing 1 January 2018, with retrospective application Issued July 2014	The final version of IFRS 9 combines the classification and measurement of financial assets and liabilities, impairment and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. All recognised financial assets that were within the scope of IAS 39 will be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Choices of measurement are limited to fair value or amortised cost. Fair value adjustments, depending on the model, can be categorised through profit or loss or through other comprehensive income (OCI). 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. In terms of financial liabilities, entities that elect to measure a financial liability at fair value are required to present the portion of the change in fair value due to the changes in the entity's own credit risk in OCI, rather than within profit or loss. Despite the business model outcome, an entity may, at initial recognition, designate a financial asset at fair value through profit or loss (to eliminate or significantly reduce any accounting mismatch that would arise from measuring financial assets and liabilities on different bases) as an alternative to amortised cost measurement. Impairments of amortised cost measured assets will be recognised on an expected credit loss model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses. The revised general hedge accounting requirements are better aligned with an entity's risk management activities and provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting.	The impact on the annual financial statements has not yet been fully determined. 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 total earnings in the statement of comprehensive income that may occur on application of IFRS 9 and IFRS 4.

1 New IFRS standards that are not yet effective (continued)

Standard	Scope	Potential impact to the group
IFRS 15 *Revenue from Contracts with Customers* Effective for years commencing 1 January 2017, most likely, with retrospective application Issued May 2014	The standard establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 replaces the existing revenue standards, namely, IAS 11 *Construction Contracts*; IAS 18 *Revenue*; and the related interpretations on revenue recognition; IFRIC 13 *Customer Loyalty Programmes*; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers*; and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. This standard sets out the requirements for recognising revenue that applies to all contracts with customers except for contracts that are within the scope of the standards on leases, insurance contracts and financial Instruments. IFRS 15 is essentially a 'residual' standard in that an entity first evaluates contracts under any other applicable standard and thereafter applies IFRS 15. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Depending on whether certain criteria are met, revenue is recognised: i. over time, in a manner that depicts the entity's performance; or ii. at a point in time, when control of the goods or services is transferred to the customer. This means that an entity needs to evaluate the nature of its performance obligations and review its contract terms. Each promise to deliver a good or provide a service must be identified and constitutes a performance obligation if the promised good or service is distinct. This may result in a different interpretation from the previous revenue standard in that some performance obligations should be separately recognised and not combined together with other goods and services and vice versa.	The impact to the group has been assessed and it is unlikely that there will be a significant financial impact to Liberty on adoption of IFRS 15. More quantitative disclosures are required under IFRS 15 regarding disaggregation of revenue into appropriate categories, the remaining performance obligations and the amount of the transaction price that is allocated to the remaining obligations in a contract, and the changes in contract asset, liabilities and costs. Disclosure needs to be made of the significant judgements applied and changes in judgements in determining the timing of satisfaction of performance obligations, and the determination of the transaction price.

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

Effective annual periods beginning on or after 1 July 2014

- Defined Benefit Plans: Employee Contribution (Amendments to IAS 19)

Annual Improvements 2010 – 2012:

- Share-based Payment: Definition of vesting condition (IFRS 2)
- Business Combination: Accounting for contingent consideration in a business combination (IFRS 3)
- Operating Segments: Aggregation of operating segments, and reconciliation of the total of the reportable segments' assets to the entity's assets (IFRS 8)
- Fair Value Measurement: Short-term receivables and payables (IFRS 13)
- Property, Plant and Equipment: Revaluation method – proportionate restatement of accumulated depreciation (IAS 16)
- Related Party Disclosures: Key management personnel services (IAS 24)

1 New IFRS standards that are not yet effective
(continued)

The following narrow scope amendments have been issued by the IASB, which are not yet effective (continued)

Annual Improvements 2011 – 2013:

- Business Combination: Scope exemptions for joint ventures (IFRS 3)
- Fair Value Measurement: Scope of paragraph on portfolio exemption (IFRS 13)
- Investment Property: Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (IAS 40)

Effective annual periods beginning on or after 1 January 2016

- Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS 11)
- Classification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (proposed amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28)

Annual improvements 2012 – 2014

- Non-current Assets Held for Sale and Discontinued Operations (changes in methods of disposal) (IFRS 5)
- Financial Instruments Disclosures (servicing contracts, and applicability of the amendments to IFRS 7 to condensed interim financial statements) (IFRS 7)
- Employee Benefits (discount rate: regional market issue) (IAS 19)
- Interim Financial Reporting (disclosure of information elsewhere in the interim financial report) (IAS 34)

The above narrow scope amendments are not expected to significantly impact the group's financial results or disclosures.

Accounting developments at the IASB that will potentially impact Liberty

The IASB is still deliberating on IFRS 4 *Insurance Contracts* which, if issued as a standard, may materially impact the group's current financial position.

The revised exposure draft on Insurance Contracts sets out the proposals for the accounting for insurance contracts, with targeted key areas for comment. The earliest date for IFRS 4 Phase II to become effective is expected to be 1 January 2019.

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

In addition, the IASB have continued deliberating on leases. The new leases standard is expected in H2 2015. It is expected that the effective date would be three years after the issue of the standard. The main change to the standard is to lessee accounting, in that operating leases will be brought on balance sheet with a "right of use" asset and corresponding future lease payments. Interest and amortisation will be presented separately in the statement of comprehensive income. Lessor accounting will be largely unaffected and therefore it is not expected that this standard will have a significant impact on the group as it is mainly impacted by lessor accounting.

2 Basis of consolidation

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

Interests in subsidiaries

Interest in subsidiaries comprises interests in subsidiary companies, mutual funds and structured entities.

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

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

The subsidiaries are consolidated from the date on which control is transferred to the group (effective date of acquisition) and are no longer consolidated from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Intergroup transactions, balances and unrealised gains and losses are eliminated on consolidation.

Interests in subsidiary companies in the company financial statements are shown at cost less any required impairment (which is assessed annually). Acquisition costs are recorded as an expense 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 carrying amounts of these investments are reviewed annually for impairment.

2 Basis of consolidation (continued)

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 transferred includes the fair value of 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, being 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 identifiable net assets acquired, 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 arrangements

Joint arrangements are arrangements whereby the group and one or more parties have joint control of an entity. classification of a joint arrangement as either a joint operation or a joint venture depends on the contractual rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control, have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

For interests in joint operations, the group recognises its share of assets, liabilities, revenues and expenses. The group accounts for the assets, liabilities, revenue and expenses in accordance with the relevant IFRSs applicable to those assets, liabilities, revenues and expenses.

Interests in joint ventures – equity accounted

Interests in joint ventures in the group financial statements are accounted for using equity accounting principles for the duration in which the group has the ability to exercise joint control.

The group's interests in these joint ventures are carried initially at cost. The group's share of post-acquisition profit or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. Any goodwill in respect of joint ventures acquired is recognised as part of interests in joint ventures in the statement of financial position.

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. At each reporting date the group determines whether there is objective evidence that the interests in joint ventures are impaired. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in accounting policy 8. Where the accounting policies for joint ventures are not consistent, in all material respects, with policies adopted by the group, adjustments are made to ensure consistency with the group policies.

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

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

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

Interests in associates

An associate is an entity over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investment. Judgement is applied in assessing which entities the group has the ability to exercise significant influence. In the case of voting rights, it is generally demonstrated by the group holding 20% or more of the voting power of the investee.

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

2 Basis of consolidation (continued)

Interests in associates – equity accounted

Interests in associates are accounted in the group financial statements using the equity method of accounting from the date significant influence commences until the date significant influence ceases. The group's interests in associates are carried initially at cost. The group's share of post-acquisition profit or losses is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. Any goodwill in respect of associates acquired is recognised as part of interests in associates in the statement of financial position. At each reporting date the group determines whether there is objective evidence that the interests in joint ventures are impaired. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in accounting policy 8. 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 measured at fair value – mutual funds

The mutual funds in which the group has exposure to economic interest in the fund and has the irrevocable management agreement over the fund's asset manager, therefore providing significant influence, are deemed to be interests in associates. On initial recognition, they are designated as at fair value through profit or loss, based on the measurement exemption in IAS 28 *Investments in Associates and Joint Ventures* for investment-linked insurance funds.

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

Acquisitions of subsidiaries under common control

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

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

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

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

Distributions of ordinary shares held in subsidiaries

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

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

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

Transactions with non-controlling interests

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

3 Foreign currencies

The group's presentation currency is South African rand (ZAR). All amounts are shown in rand millions unless otherwise indicated. 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 that differ to the functional currency at the statement of financial position date are translated into the functional currency at the ruling rate at that date.

3 Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction, and those measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains or losses are recognised as part of fair value adjustments on financial instruments in profit or loss.

Group foreign operations

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

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

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

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

4 Fair value

Fair value is applied as defined in IFRS 13.

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

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

Fair value measurements are categorised into level 1, 2 or 3.

5 Equipment and owner-occupied properties under development

The group's equipment provides it with the necessary infrastructure to operate effectively. Equipment principally comprises computer equipment and fixtures and fittings. The cost of these assets is recognised in the income statement over time as a depreciation charge. Computer equipment is normally depreciated over 2–5 years, while the remaining assets are depreciated over 5–15 years.

Owner-occupied properties under development are properties being constructed to provide the group infrastructure space, but which are not yet ready for use by the group. These properties are accounted for at the cost of development less any impairment.

6 Properties

The group holds both investment properties and owner-occupied properties. Investment properties are held to earn rental income and capital appreciation. Investment properties include property that is being constructed or developed for future use as investment property. Owner-occupied properties are held by the group for use in the supply of services or for its own administration purposes.

Measurement

Investment properties are reflected at valuation based on fair value which takes into account characteristics that market participants would consider at the statement of financial position date. Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses. If the open-market valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. Refer to accounting policy 4 for more detail. If the fair value of investment property under construction or development cannot be measured reliably, it is measured at cost until such time as construction is complete or fair value can be reliably measured. The open-market fair value is determined annually by independent professional valuators. The fair value adjustments on investment properties are included in profit or loss as investment gains in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

6 Properties (continued)

The fair value adjustments on owner-occupied properties are recognised in OCI and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss. On disposal or transfer (change in use) of owner-occupied properties to investment properties, the amounts included in the revaluation reserve are transferred directly to retained surplus. The deemed cost for any reclassification (between investment properties and owner-occupied properties) is at fair value, at the date of reclassification.

Depreciation in respect of owner-occupied properties

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

7 Intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method of accounting. The cost of a business combination is the fair value of the purchase consideration due at the date of acquisition. Goodwill represents the excess of the cost of acquisition over the fair value attributable to Liberty's share of 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.

Development costs are recognised as an intangible asset when the following criteria are met:

- the group is able to demonstrate its intention and ability to complete and use the software;
- the technical feasibility of the development can be demonstrated;
- the availability of resources to complete the development;
- it can be demonstrated 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.

7 Intangible assets (continued)

Technology-based intangible assets

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

Distribution forces

The group capitalises the value attributed to contracted distribution forces that are acquired through business combinations that provide a competitive advantage to procure future new business. Values attributable to distribution forces are capitalised at the date of acquisition at the fair value determined by an independent valuer. The fair values are determined by an excess earnings valuation methodology. Subsequent to initial recognition the value of the distribution forces are amortised on a straight-line basis over their estimated economically beneficial lives. The estimated life is re-evaluated on an annual basis.

Tradenames

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

Amortisation of intangibles

Amortisation of intangibles is charged to profit or loss. Goodwill is not amortised. The expected useful lives are included in note 6 to the group annual financial statements.

8 Impairment of assets

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 includes observable data that comes to the attention of the group about the following events:

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

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

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

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

8 Impairment of assets (continued)

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.

9 Financial assets

General

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, in line with the group's strategy to manage financial investments acquired to match its insurance and investment contract liabilities. In addition, shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis.

Financial assets comprise:

- financial instruments;
- pledged assets; and
- interests in associates, to which the measurement exemption in IAS 28 *Investments in Associates and Joint Ventures* applies.

Initial measurement

Financial assets are initially recognised at fair value plus directly attributed transaction costs on trade date, which is the date when the group becomes party to the contractual terms of the financial asset. The transaction costs relating to the acquisition of financial assets carried at fair value through profit or loss are expensed immediately in profit or loss.

Subsequent measurement

Subsequent to initial measurement, financial assets are measured either at fair value or amortised cost, depending on their classification, as follows:

Financial assets classified as fair value through profit or loss

These instruments comprise:

- financial assets held-for-trading;
- financial assets held for hedging; and
- financial assets designated as at fair value through profit or loss at inception.

Financial assets are designated on initial recognition as at fair value through profit or loss when the financial assets are:

- used to match investment contract liabilities measured 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
- 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.

Subsequent to initial recognition the fair values are remeasured at each reporting date.

Realised and unrealised gains or losses arising from changes in the fair value of these financial assets are recognised in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise.

9 Financial assets (continued)

The fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined by reference to regulated exchange quoted ruling market prices at the close of business on the last trading day on or before the statement of financial position date. If quoted market prices are not available, reference is also made to readily and regularly available broker or dealer price quotations. For units in mutual funds and shares in open-ended investment companies, fair value is determined by reference to published repurchase prices.

If a market for a financial asset is not active, the group establishes fair value by using various 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.

- *Over-the-counter options (OTC)*

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

- *Pledged assets*

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

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.

9 Financial assets (continued)

Financial assets classified as held-to-maturity

Held-to-maturity investments are non-derivative 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 initially recognised at fair value plus directly attributable transaction costs and subsequently 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, with fixed or determinable payment dates that are not quoted in an active market 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. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method less any required impairment.

10 Financial liabilities

General

Financial liabilities comprise:

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

Measurement

Financial liabilities that are categorised and designated at initial recognition as being at fair value through profit or loss are recognised as at fair value. Transaction costs, which are directly attributable to the acquisition or on issue of these financial liabilities, are recognised immediately in profit or loss. Financial liabilities that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liabilities.

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

Derivative financial liabilities are subsequently measured as described in accounting policy 11.

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

The measurement of policyholder liabilities under investment contracts is described in accounting policy 17.

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

11 Derivative financial instruments

Derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into. Subsequently, 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 current legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

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

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

Hedge accounting

Derivatives that qualify for cash flow hedge accounting

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

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

11 Derivative financial instruments (continued)

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 in the statement of comprehensive income. The ineffective part of any gain or loss is recognised immediately in profit or loss as investment income gains or losses.

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

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

Derivatives that do not qualify for hedge accounting

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

12 Derecognition of financial instruments

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

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

13 Cash and cash equivalents

Cash and cash equivalents comprise:

- balances with banks;
- highly liquid short-term funds on deposit; and
- cash on hand.

It does not include money market securities held for investment. Instruments included in this category are those with an initial term of three months or less from the acquisition date. Cash and cash equivalents are carried at cost which due to their short-term nature, approximates fair value.

14 Share capital

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

Treasury shares

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

15 Black economic empowerment (BEE) transaction

Investments in BEE entities via equity instruments, the proceeds of which were used by the BEE entities to finance share purchases from shareholders to facilitate Liberty's 2004 BEE transaction, do not meet the IAS 39 definition of a financial asset and are considered to be a reduction of equity. Cash flows arising from Liberty Holdings Limited's dividends are used by the BEE entities to redeem these equity instruments and fulfil dividend obligations and are recognised directly in equity. The number of shares in the earnings per share calculation is reduced for the respective weighted average Liberty Holdings Limited shares held by the BEE entities.

16 Dividend distribution

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

17 Policyholder insurance and investment contracts

Policyholder contracts are classified into four categories, depending on the duration of or the type of investment benefit or insurance risk, namely:

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

17 Policyholder insurance and investment contracts (continued)

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 measurable variable.

Discretionary participation features (DPF)

A number of insurance and investment contracts contain a discretionary participation feature (DPF). 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.

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. The naming convention has changed and the term 'Professional Guidance Note' (PGN) was replaced with either 'Advisory Practice Note' (APN) or 'Standard of Actuarial Practice' (SAP) depending on whether the former PGN was 'best practice' or 'mandatory' respectively. These are available on the Actuarial Society of South Africa website (www.actuarialsociety.org.za). Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the annual financial statements.

Long-term insurance contracts and investment contracts with DPF measurement

These contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as described in SAP 104, using a discounted cash flow methodology. The liability is reflected as policyholder liabilities under insurance contracts and investment contracts with DPF. The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return and tax and any expected losses in respect of options.

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins. Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The liabilities in respect of the investment guarantees underlying maturity and death benefits and guaranteed annuity options are measured in accordance with APN 110 on a market-consistent basis. Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity.

Profits emerge over the lifetime of the contracts in line with the risks borne by the group. Discretionary margins include an allowance for the shareholders' participation in the reversionary and terminal bonuses expected to be declared each year in respect of with-profit business, as well as an allowance for both the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market-related business. In addition discretionary margins are held where required for prudent reserving.

17 Policyholder insurance and investment contracts
(continued)

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.

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 (PVIF) business 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.

17 Policyholder insurance and investment contracts
(continued)

Acquisition costs

Acquisition costs for long-term insurance contracts represent commission and other costs (including bonuses payable and the company's contribution to agents' pension and medical aid funds) that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts and investment contracts with DPF makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

Investment contracts without DPF measurement

Measurement

The group issues investment contracts without fixed benefits (unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity). Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets, derivatives and/or investment property and are designated at inception as at fair value through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within the group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option. For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. No initial profit is recognised immediately as any profit on initial recognition is amortised over the life of the contract.

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

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

Amounts received and claims incurred on investment management contracts

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

Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed.

These costs are expensed when incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised over the expected life of the contract, taking into account all decrements, on a straight-line basis, as they represent the right to receive future management fees.

Amortisation periods are as follows:

- Linked annuities 10 – 16 years
- Corporate investment business 1 year
- Other investment contracts 5 years

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

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

Investment contracts with a DPF switching option

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

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables and payables related to insurance contracts are subsequently measured in terms of IFRS 4, whilst those related to investment contracts are fair valued through profit or loss in terms of accounting policy 4.

17 Policyholder insurance and investment contracts
(continued)

Short-term insurance

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

Gross written premiums on short-term contracts

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

Provision for unearned premiums on short-term contracts

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

Liability adequacy on short-term contracts

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

Provision for reported claims and claims incurred but not reported (IBNR) on short-term contracts

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

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

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

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

Deferred revenue liability in respect of short-term contracts

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

Receivables and payables related to short-term insurance contracts

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

18 Reinsurance contracts held

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

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts.

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.

Outward reinsurance premiums are recognised as an expense and are accounted for in the same accounting period that premiums received are recognised as revenue.

19 Offsetting

Assets and liabilities are offset and the net amount reported in the statement of financial position when:

- there is a current legally enforceable right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterpart.

Appendix A – Detailed accounting policies

for the year ended 31 December 2014 (continued)

20 Revenue recognition

Insurance premium revenue

Insurance premium revenue includes life-Insurance premiums, health insurance premiums and short-term insurance premiums. These are accounted for as described in accounting policy 17.

Investment income

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 respectively in profit or loss using the effective interest rate method.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Rental income in respect of group owner-occupied properties is eliminated on consolidation. Accrued investment income on instruments held at amortised cost is assessed for impairment in line with accounting policy 8. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

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.

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.

21 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. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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

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

21 Employee benefits (continued)

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

Other post-employment obligations

Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income immediately. Appointed qualified actuaries value these obligations annually.

22 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 reporting date, including any prior year under or overprovisions.

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 for differences:

- Relating to goodwill;
- Arising from initial recognition of assets or liabilities which affect neither accounting nor taxable profits or losses; and
- Relating to investments in subsidiaries and joint arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

In respect of temporary differences arising on fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposal.

A deferred taxation asset is recognised for the carry forward of unused taxation losses, unused taxation credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilised. The major categories of assets and liabilities giving rise to a deferred taxation balance are investment properties revaluation surpluses, policyholder valuation basis, life fund special transfers, deferred acquisition costs, deferred revenue, unrealised gains on investments, intangible assets and provisions.

23 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.

24 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.

25 Share-based payment transactions

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

Equity compensation plans

The equity compensation staff incentive schemes that have unvested conditions are the equity growth scheme and the restricted share plan scheme.

Equity growth scheme

The equity growth scheme implemented during 2005 confers rights to permanent employees to acquire Liberty Holdings Limited shares equivalent to the value of the right at date of exercise. Delivery of the shares is affected at future dates, which are determined at the time of granting the rights. The rights issued to participants carry no entitlement to dividends or voting rights.

25 Share-based payment transactions (continued)

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 predetermined 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 reporting 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.

26 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.

Appendix B – Group equity value report and independent auditor's report

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 2014 on pages 204 to 209, 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 contained in the annual financial statements and supporting information.

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 provided it is clearly understood by the recipients of the 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: **J Goncalves**
Registered auditor

Johannesburg
25 February 2015

Appendix B – Group equity value report

as at 31 December 2014

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 following component parts:

2.1 South African covered business:

The wholly owned subsidiary, Liberty Group Limited, comprises the 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. The full embedded value report is included in Appendix C.

2.2 Other businesses:

STANLIB	Valued using a 10 times (2013: 10 times) multiple of estimated sustainable earnings.
Liberty Properties	Valued using a 10 times (2013: 10 times) multiple of estimated sustainable earnings.
Liberty Health	As Liberty Health has yet to establish a history to support a sustainable earnings calculation, adjusted IFRS net asset value is applied.
Liberty Africa Insurance	Liberty Africa Insurance is an emerging cluster of both long and short-term insurance businesses located in various African countries outside of 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. At 31 December 2014 and 2013 the combined valuations approximated the group's IFRS net asset value. Therefore the IFRS net asset value was used.
LibFin Credit	LibFin originates appropriate illiquid assets that provide acceptable illiquidity premiums. The value of this origination is reflected at a 10 times (2013: 10 times) multiple of estimated sustainable earnings adjusting for related expenses and prudential margin.
Liberty Holdings	The net market value of assets and liabilities held by the Liberty Holdings Limited company excluding investments in any subsidiaries which are valued separately.

2.3 Other adjustments:

These comprise the fair value of share rights allocated to staff not employed by the South African covered businesses, adjusting certain deferred tax assets to current values and allowance for certain shareholder recurring costs incurred in Liberty Holdings Limited capitalised at a multiple of 9 times (2013: 9 times).

3 BEE normalised group equity value

3.1 Analysis of BEE normalised group equity value

	SA covered business Rm	Other busi-nesses Rm	Group funds invested Rm	Adjust-ments Rm	Net worth Rm	Value of in-force: SA covered business Rm	Total Rm
2014							
SA insurance operations	**10 958**		**10 958**	**(5 508)**	**5 450**	**22 941**	**28 391**
Individual arrangements						**20 927**	
Group arrangements						**2 014**	
Value of in-force acquired	**74**		**74**	**(74)**			
Working capital and other assets	**6 183**		**6 183**	**(466)**	**5 717**		**5 717**
South African insurance operations	**17 215**		**17 215**	**(6 048)**	**11 167**	**22 941**	**34 108**
Other group businesses:							
STANLIB		**649**	**649**	**5 751**	**6 400**		**6 400**
South Africa		**444**	**444**	**5 356**	**5 800**		**5 800**
Other Africa		**205**	**205**	**395**	**600**		**600**
Liberty Properties		**45**	**45**	**280**	**325**		**325**
Liberty Health		**342**	**342**		**342**		**342**
Liberty Africa Insurance		**586**	**586**		**586**		**586**
LibFin Credit				**900**	**900**		**900**
Liberty Holdings		**650**	**650**	**(100)**	**550**		**550**
Cost of required capital						**(1 456)**	**(1 456)**
Net equity as reported under IFRS	**17 215**[(1)]	**2 272**	**19 487**	**783**	**20 270**	**21 485**	**41 755**
BEE preference funding	**807**		**807**		**807**		**807**
Allowance for future shareholders costs		**(356)**	**(356)**		**(356)**	**(1 952)**	**(2 308)**
Allowance for employee share options/rights	**(136)**	**(94)**	**(230)**		**(230)**		**(230)**
BEE normalised equity value	**17 886**	**1 822**	**19 708**	**783**	**20 491**	**19 533**	**40 024**
Summary of adjustments:							
Negative rand reserves	**(5 508)**		**(5 508)**				
Deferred acquisition costs	**(573)**		**(573)**				
Deferred revenue liability	**207**		**207**				
Frank Financial Services allowance for future expenses	**(100)**		**(100)**				
Carrying value of in-force business acquired	**(74)**		**(74)**				
Fair value adjustment of non-SA covered business		**6 931**	**6 931**				
Impact of discounting on deferred tax asset		**(100)**	**(100)**				
	(6 048)	**6 831**	**783**				

(1) Reconciliation to SA covered business net worth as per analysis in supplementary information.	
Net equity of SA covered business as reported under IFRS	***17 215***
Adjustments as above	***(6 048)***
Allowance for employee share options/rights	***(136)***
BEE preference share funding	***807***
Net worth	***11 838***

Appendix B – Group equity value report

as at 31 December 2014 (continued)

3 BEE normalised group equity value (continued)

3.1 Analysis of BEE normalised group equity value (continued)

	SA covered business Rm	Other businesses Rm	Group funds invested Rm	Adjustments Rm	Net worth Rm	Value of in-force: SA covered business Rm	Total Rm
2013							
SA insurance operations	10 775		10 775	(5 350)	5 425	21 637	27 062
Individual arrangements						19 830	
Group arrangements						1 807	
Value of in-force acquired	150		150	(150)			
Working capital and other assets	4 145		4 145	(381)	3 764		3 764
South African insurance operations	15 070		15 070	(5 881)	9 189	21 637	30 826
Other group businesses:							
STANLIB		570	570	5 080	5 650		5 650
South Africa		396	396	4 854	5 250		5 250
Other Africa		174	174	226	400		400
Liberty Properties		50	50	350	400		400
Liberty Health (including Total Health Trust)		87	87	(87)			
Liberty Africa Insurance		488	488		488		488
LibFin Credit				650	650		650
Liberty Holdings		1 389	1 389	(47)	1 342		1 342
Cost of required capital						(1 566)	(1 566)
Net equity as reported under IFRS	15 070[1]	2 584	17 654	65	17 719	20 071	37 790
BEE preference funding	905		905		905		905
Allowance for future shareholders costs		(247)	(247)		(247)	(1 970)	(2 217)
Allowance for employee share options/rights	(236)	(175)	(411)		(411)		(411)
BEE normalised equity value	15 739	2 162	17 901	65	17 966	18 101	36 067
Summary of adjustments:							
Negative rand reserves	(5 350)		(5 350)				
Deferred acquisition costs	(513)		(513)				
Deferred revenue liability	185		185				
Internally generated software	(53)	53					
Carrying value of in-force business acquired	(150)		(150)				
Fair value adjustment of non-SA covered business		5 993	5 993				
Liberty Health loan impairment		(100)	(100)				
	(5 881)	5 946	65				

[1] Reconciliation to SA covered business net worth as per analysis in supplementary information	
Net equity of SA covered business as reported under IFRS	*15 070*
Adjustments as above	*(5 881)*
Allowance for employee share options/rights	*(236)*
BEE preference share funding	*905*
Net worth	*9 858*

3 BEE normalised group equity value (continued)

3.2 BEE normalised group equity value earnings and value per share

Rm (unless otherwise stated)	2014 SA covered business	2014 Other businesses	2014 Total	2013 SA covered business	2013 Other businesses	2013 Total
BEE normalised equity value at the end of the year	31 371	8 653	40 024	27 959	8 108	36 067
Equity value at the end of the year	30 564	8 653	39 217	27 054	8 108	35 162
BEE preference shares	807		807	905		905
Adjustments from group restructure				(6)	6	
Capital transactions		355	355		15	15
Funding of restricted share plan	117	(117)		87	(87)	
Intergroup dividends	1 290	(1 290)		1 653	(1 653)	
Dividends paid		1 719	1 719		1 939	1 939
BEE normalised equity value at the beginning of the year	(27 959)	(8 108)	(36 067)	(25 574)	(7 166)	(32 740)
Equity value at the beginning of the year	(27 054)	(8 108)	(35 162)	(24 562)	(7 166)	(31 728)
BEE preference shares	(905)		(905)	(1 012)		(1 012)
BEE normalised equity value earnings	4 819	1 212	6 031	4 119	1 162	5 281
BEE normalised return on group equity value (%)	17,3	15,4	16,9	16,2	16,1	16,1
BEE normalised number of shares (000's)			286 201			286 057
Number of shares in issue (000's)			256 946			257 801
Shares held for the employee restricted share scheme (000's)			3 459			2 460
Adjustment for BEE shares (000's)			25 796			25 796
BEE normalised group equity value per share (rand)			139,85			126,08

Appendix B – Group equity value report

as at 31 December 2014 (continued)

3 **BEE normalised group equity value** (continued)

3.3 Sources of BEE normalised group equity value earnings

	2014			2013		
	SA covered business Rm	**Other busi-nesses Rm**	**Total Rm**	SA covered business Rm	Other busi-nesses Rm	Total Rm
Value of new business written in the year	**914**	**27**	**941**	806	33	839
Expected return on value of in-force business	**2 131**		**2 131**	1 843		1 843
Variances/changes in operating assumptions	**540**	**(176)**	**364**	(14)	(53)	(67)
Operating experience variances (including incentive outperformance)	**709**	**(40)**	**669**	249	(15)	234
One period replacement of shareholder expenses and inflating expenses	**(122)**	**(67)**	**(189)**	(113)	(38)	(151)
Transfer of shareholder expense reserve	**69**	**(69)**				
Operating assumption changes	**(62)**		**(62)**	54		54
Changes in modelling methodology	**(54)**		**(54)**	(204)		(204)
Headline earnings of other businesses		**732**	**732**	17	672	689
Operational equity value profits	**3 585**	**583**	**4 168**	2 652	652	3 304
Non-headline earnings adjustments					(126)	(126)
Development costs	**(52)**	**(25)**	**(77)**	(53)	(29)	(82)
Economic adjustments	**1 186**	**(338)**	**848**	1 451	174	1 625
Investment return on net worth	**965**	**(285)**	**680**	1 024	174	1 198
Internally generated software	**53**	**(53)**				
Credit portfolio earnings	**189**		**189**	132		132
Change in fair value on cash flow hedges	**(93)**		**(93)**	(130)		(130)
Investment variances	**14**		**14**	1 028		1 028
Change in economic assumptions	**58**		**58**	(603)		(603)
Increase in fair value adjustments on value of other businesses		**911**	**911**		484	484
Change in allowance for share rights	**100**	**81**	**181**	69	7	76
Group equity value earnings	**4 819**	**1 212**	**6 031**	4 119	1 162	5 281

3 BEE normalised group equity value (continued)

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

Rm (unless otherwise stated)	2014	2013
South African covered business:		
Individual arrangements	**1 640**	1 580
Traditional Life	**1 472**	1 387
Direct channel	**77**	91
Credit Life	**91**	102
Group arrangements	**249**	141
Gross value of new business	**1 889**	1 721
Overhead acquisition costs impact on value of new business	**(874)**	(833)
Cost of required capital	**(101)**	(82)
Net value of South African covered new business	**914**	806
Present value of future expected premiums	**44 916**	37 753
Margin (%)	**2,0**	2,1
Liberty Africa Insurance:		
Net value of new business	**27**	33
Present value of future expected premiums	**413**	362
Margin (%)	**6,5**	9,1
Total group net value of new business	**941**	839
Total group margin (%)	**2,1**	2,2

Appendix C – South African covered business embedded value

for the year ended 31 December 2014

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 2012. 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 company.

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. Required capital has been calculated at 1,5 x CAR, consistent with risk appetite. 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, guaranteed investment plans and embedded derivatives; 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.

2 BEE normalised embedded value

	2014 Rm	2013 Rm
Risk discount rate (%)[a]	**10,84**	10,94
Net worth	**11 838**	9 858
Ordinary shareholders' funds on published basis	**17 215**	15 070
BEE preference share funding	**807**	905
Adjustment of ordinary shareholders' funds from published basis[b]	**(5 874)**	(5 731)
Adjustment for carrying value of in-force business acquired[c]	**(74)**	(150)
Allowance for fair value of share options	**(136)**	(236)
Frank Financial Services allowance for future expenses	**(100)**	
Net value of life business in-force	**19 533**	18 101
Value of life business in-force	**20 989**	19 667
Cost of required capital	**(1 456)**	(1 566)
BEE normalised embedded value	**31 371**	27 959

3 BEE normalised embedded value earnings

	2014 Rm	2013 Rm
Embedded value at the end of the period	**31 371**	27 959
Adjustments arising from the group restructure		(6)
Funding of restricted share plan	**117**	87
Intergroup dividends	**1 290**	1 653
Less embedded value at the beginning of the period	**(27 959)**	(25 574)
Embedded value earnings	**4 819**	4 119
Return on embedded value (%)	**17,3**	16,2

Appendix C – South African covered business embedded value

for the year ended 31 December 2014 (continued)

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. The reserving basis has been kept constant and only future experience assumptions have been varied. This methodology is consistent with the methodology adopted in prior years. Each value is shown with only the indicated parameter being changed.

	Value of in-force life business less cost of required capital	**Value of new business written in**	Value of in-force life business less cost of required capital	Value of new business written in
	2014		2013	
	Rm	**Rm**	Rm	Rm
Base value	**19 533**	**914**	18 101	806
Value of in-force/new business	**20 989**	**1 015**	19 667	888
Cost of required capital	**(1 456)**	**(101)**	(1 566)	(82)
100 basis point increase in risk discount rate	**18 058**	**747**	16 674	680
Value of in-force/new business	**19 886**	**875**	18 634	783
Cost of required capital	**(1 828)**	**(128)**	(1 960)	(103)
100 basis point decrease in interest rate environment	**19 810**	**1 043**	18 313	891
Value of in-force/new business	**21 270**	**1 145**	19 890	973
Cost of required capital	**(1 460)**	**(102)**	(1 577)	(82)
10% fall in equity and property market values	**19 008**		17 548	
Value of in-force	**20 464**		19 114	
Cost of required capital	**(1 456)**		(1 566)	
100 basis point increase in equity and property returns	**20 571**	**952**	19 205	839
Value of in-force/new business	**21 760**	**1 035**	20 487	906
Cost of required capital	**(1 189)**	**(83)**	(1 282)	(67)
10% decrease in maintenance expenses	**20 401**	**971**	18 957	857
Value of in-force/new business	**21 857**	**1 072**	20 523	939
Cost of required capital	**(1 456)**	**(101)**	(1 566)	(82)
10% decrease in new business acquisition expenses (other than commissions)		**1 011**		893
Value of new business		**1 112**		975
Cost of required capital		**(101)**		(82)
10% decrease in withdrawal rates	**20 978**	**1 106**	19 500	968
Value of in-force/new business	**22 434**	**1 207**	21 066	1 050
Cost of required capital	**(1 456)**	**(101)**	(1 566)	(82)
5% improvement in mortality and morbidity for assurances	**20 778**	**1 051**	19 236	940
Value of in-force/new business	**22 234**	**1 152**	20 802	1 022
Cost of required capital	**(1 456)**	**(101)**	(1 566)	(82)
5% improvement in mortality for annuities	**19 281**	**894**	17 923	804
Value of in-force/new business	**20 737**	**995**	19 489	886
Cost of required capital	**(1 456)**	**(101)**	(1 566)	(82)

5 Analysis of BEE normalised embedded value earnings

	2014				2013			
	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Em-bedded value Rm	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Em-bedded value Rm
Embedded value at the end of the period	**11 838**	**20 989**	**(1 456)**	**31 371**	9 858	19 667	(1 566)	27 959
Plus dividends paid	**1 290**			**1 290**	1 653			1 653
Plus funding of restricted share plan	**117**			**117**	87			87
Adjustments arising from group restructure					(39)	33		(6)
Embedded value at the beginning of the period	**(9 858)**	**(19 667)**	**1 566**	**(27 959)**	(8 535)	(18 516)	1 477	(25 574)
Embedded value earnings	**3 387**	**1 322**	**110**	**4 819**	3 024	1 184	(89)	4 119
Components of embedded value earnings								
Value of new business written in the period	**(1 498)**	**2 513**	**(101)**	**914**	(1 267)	2 155	(82)	806
Expected return on value of life business[d]		**2 121**	**10**	**2 131**		1 809	34	1 843
Expected net of tax profit transfer to net worth	**3 266**	**(3 266)**			2 816	(2 816)		
Operating experience variances[g]	**480**	**31**	**198**	**709**	79	280	(110)	249
Development expenses	**(52)**			**(52)**	(53)			(53)
Operating assumption changes[h]	**(19)**	**(43)**		**(62)**	(8)	(53)	115	54
One period replacement of shareholder expenses		**(122)**		**(122)**		(113)		(113)
Transfer of shareholder expense income to Liberty Holdings		**69**		**69**				
Changes in modelling methodology[i]	**2**	**(56)**		**(54)**	(84)	(123)	3	(204)
Embedded value earnings from operations	**2 179**	**1 247**	**107**	**3 533**	1 483	1 139	(40)	2 582
Economic adjustments	**1 108**	**75**	**3**	**1 186**	1 472	45	(49)	1 468
Investment return on net worth[j]	**925**			**925**	911			911
Credit portfolio earnings	**189**			**189**	132			132
Investment variances		**14**		**14**	484	544		1 028
Changes in economic assumptions[k]	**(6)**	**61**	**3**	**58**	(55)	(499)	(49)	(603)
Change in allowance for fair value of share rights[l]	**100**			**100**	69			69
BEE normalised embedded value earnings	**3 387**	**1 322**	**110**	**4 819**	3 024	1 184	(89)	4 119

Appendix C – South African covered business embedded value

for the year ended 31 December 2014 (continued)

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.	
	2014 **%**	2013 %
Government stock	**8,04**	8,14
Equities	**11,54**	11,64
Property	**9,04**	9,14
Cash	**6,54**	6,64
The risk discount rate has been set equal to the risk free rate plus 80% of the equity risk premium	**10,84**	10,94
Maintenance expense inflation rate	**5,06**	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.

	2014 **Rm**	2013 Rm
Capital Alliance Holdings Limited (CAHL)	**(73)**	(145)
Business previously acquired by CAHL	**(1)**	(5)
	(74)	(150)

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 from the point of sale to the valuation date in respect of 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.

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 2014 operating experience variance of R709 million (2013: R249 million) comprised:

Operating experience variances	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
2014				
Individual arrangements	**381**	**67**		**448**
Mortality and morbidity	**182**	**3**		**185**
Policyholder behaviour	**22**	**97**		**119**
Other	**177**	**(33)**		**144**
Group arrangements	**152**	**(36)**		**116**
Short-term incentives outperformance	**(103)**			**(103)**
Cash-settled incentives linked to share price	**(22)**			**(22)**
Other (non-individual arrangements)	**72**		**198**	**270**
Total	**480**	**31**	**198**	**709**
2013				
Individual arrangements	177	189		366
Mortality and morbidity	90	65		155
Policyholder behaviour	66	129		195
Other	21	(5)		16
Group arrangements	63	91		154
Short-term incentives outperformance	(154)			(154)
Cash-settled incentives linked to share price	(23)			(23)
Other (non-individual arrangements)	16		(110)	(94)
Total	79	280	(110)	249

Appendix C – South African covered business embedded value

for the year ended 31 December 2014 (continued)

6 Notes to embedded value (continued)

h) The amount of negative R62 million (2013: positive R54 million) arises mainly due to the strengthening of the basis for policyholder behaviour on investment products.

i) The amount of negative R54 million (2013: negative R204 million) comprises a number of minor modelling and data refinements.

j) Reconciliation of embedded value investment return on net worth to LibFin Investments earnings

	2014 Rm	2013 Rm
LibFin Investments	**1 382**	1 878
Adjustments for differences between the statutory and published basis	**(124)**	(201)
90:10 book	**(328)**	(626)
Direct Financial Services	**(47)**	(65)
Change in fair value of cash flow hedges	**(93)**	(130)
Bancassurance obligations relating to Liberty Africa and STANLIB	**(32)**	(5)
Software asset impairment reversal	**53**	
Frank Financial Services allowance for future expenses	**(100)**	
BEE preference scheme	**55**	64
Other, including positive tax variances	**159**	(4)
Investment return on net worth	**925**	911

k) The amount of positive R58 million (2013: negative R603 million) relates to changes in economic assumptions as described in note a.

l) The amount of R100 million (2013: R69 million) in respect of the change in the fair value of share rights arises from the change in the number of 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.

m) The assets backing the required capital are consistent with the long-term strategic mix of shareholder funds approved by the Liberty Holdings board.

Appendix D – Analysis of ordinary shareholders' funds invested

for the year ended 31 December 2014

	Group funds invested		Contribution to earnings	
	2014 Rm	2013 Rm	**2014 Rm**	2013 Rm
South African insurance	**17 215**	15 070	**3 544**	3 603
Insurance operating surplus			**2 633**	2 909
Present value of in-force business	**74**	150	**(76)**	(80)
Investment portfolios	**10 958**	10 775	**729**	575
Fixed assets and working capital[(1)]	**9 683**	7 145	**438**	337
Subordinated notes (excluding accrued interest)	**(3 500)**	(3 000)	**(180)**	(138)
Other insurance	**928**	575	**29**	12
Liberty Africa insurance	**586**	488	**59**	52
Liberty Health (including Total Health Trust)	**342**	87	**(30)**	(40)
Asset management operations	**694**	620	**703**	677
STANLIB	**649**	570	**662**	633
South Africa	**444**	396	**603**	571
Other Africa	**205**	174	**59**	62
Liberty Properties	**45**	50	**41**	44
Shareholder expenses and sundry income			**(359)**	(276)
Liberty Holdings Limited	**650**	1 389		
Preference share dividend			**(2)**	(2)
Headline earnings			**3 915**	4 014
Preference share dividend			**2**	2
Intangible assets derecognition and impairment				(126)
FCTR recycled through profit or loss				18
Liberty Holdings shareholders' funds/total earnings	**19 487**	17 654	**3 917**	3 908
BEE normalised:				
Liberty Holdings shareholders' funds/headline earnings	**19 487**	17 654	**3 915**	4 014
BEE preference shares	**807**	905	**53**	62
BEE normalised shareholders' funds/headline earnings	**20 294**	18 559	**3 968**	4 076

(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 subordinated notes issue. Inter-divisional interest is charged at 8,77% nacm.*

Appendix E – Liberty Holdings Limited and Liberty Group Limited rights and restricted shares and utilisation of share incentive scheme allocation

at 31 December 2014

E1 Summary of unvested or unexercised Liberty shares under option, restricted and subject to rights at 31 December 2014

	Shares/options/rights under share schemes at 1 January	Awards granted	Implemented[1]	Cancelled	Shares/options/rights under share schemes at 31 December
2014					
Share option schemes	**39 800**		**(39 800)**		
Share rights schemes	**8 424 047**	**29 738**	**(2 907 154)**	**(372 670)**	**5 173 961**
Restricted shares – long-term plan	**1 682 721**	**1 166 108**	**(303 519)**	**(66 821)**	**2 478 489**
– deferred plan	**777 487**	**531 979**	**(300 290)**	**(28 510)**	**980 666**
Total	**10 924 055**	**1 727 825**	**(3 550 763)**	**(468 001)**	**8 633 116**

[1] *Implemented represents the fulfilment of obligations by the group under each scheme.*

Refer to the group equity value report on page 204 for the mark to market value of unvested shares/rights under option.

E2 Share Options and Equity Growth Scheme

Date granted	Price payable per share	Final vesting date	Shares/rights under option at the beginning of the year	Rights granted during the year	Option/rights implemented during the year	Rights cancelled during the year	Rights under option at the end of the year
Share option schemes							
15-Mar-04	50,65	15-Mar-09	39 800		39 800		
Share rights schemes							
21-Apr-05	58,40	21-Apr-10	95 150		75 700		19 450
6-Oct-05	59,40	6-Oct-10	38 000		38 000		
3-Mar-06	81,61	3-Mar-11	291 400		83 600	4 700	203 100
18-Apr-06	77,28	18-Apr-11	60 000		60 000		
2-May-06	79,38	2-May-11	20 000		20 000		
1-Jun-06	73,40	1-Jun-11	30 000			30 000	
28-Feb-07	80,25	28-Feb-12	506 800		206 000	56 000	244 800
22-May-07	93,30	22-May-12	90 000		5 000		85 000
1-Jun-07	92,00	1-Jun-12	50 000				50 000
3-Sep-07	89,71	3-Sep-12	25 000				25 000
12-Oct-07	95,50	12-Oct-12	18 871		18 871		
4-Dec-07	89,50	4-Dec-12	50 000				50 000
2-Jan-08	89,75	2-Jan-13	124 225		37 425		86 800
22-Feb-08	73,21	22-Feb-13	493 365		171 465	41 700	280 200
15-May-08	70,22	15-May-13	5 000				5 000
12-Jun-08	72,70	12-Jun-13	170 000		170 000		
2-Jul-08	61,50	2-Jul-13	87 500		87 500		
7-Jul-08	58,88	7-Jul-13	3 000				3 000
21-Aug-08	71,00	21-Aug-13	5 000			5 000	
15-Sep-08	73,00	15-Sep-13	10 000		10 000		
15-Oct-08	72,50	15-Oct-13	15 000				15 000
24-Oct-08	57,00	24-Oct-13	20 362		17 500		2 862
17-Nov-08	61,00	17-Nov-13	5 000		5 000		
12-Jan-09	61,00	12-Jan-14	40 000				40 000
18-Feb-09	65,15	18-Feb-14	1012 538		410 463	50 550	551 525
13-Mar-09	62,50	13-Mar-14	3 750		3 750		
20-May-09	62,08	20-May-14	15 000		14 918	82	
16-Sep-09	63,50	16-Sep-14	2 500		2 500		
21-Sep-09	66,00	21-Sep-14	4 500		4 500		
Balance carried forward			**3 331 761**		**1 481 992**	**188 032**	**1 661 737**

Date granted	Price payable per share	Final vesting date	Shares/rights under option at the beginning of the year	Rights granted during the year	Option/rights implemented during the year	Rights cancelled during the year	Rights under option at the end of the year
Balance brought forward			**3 331 761**		**1 481 992**	**188 032**	**1 661 737**
26-Oct-09	67,00	26-Oct-14	21 500		21 500		
2-Nov-09	67,56	2-Nov-14	70 000				70 000
1-Dec-09	66,80	1-Dec-14	5 000		2 500		2 500
25-Nov-09	70,15	25-Nov-14	50 000				50 000
1-Dec-09	66,00	1-Dec-14	223 650		69 300		154 350
5-Jan-10	68,12	5-Jan-15	340 000		128 250		211 750
1-Feb-10	67,00	1-Feb-15	62 500		18 750		43 750
1-Mar-10	70,26	1-Mar-15	160 000		120 000		40 000
23-Feb-10	69,00	23-Feb-15	1 219 819		444 620	40 149	735 050
9-Mar-10	73,75	9-Mar-15	2 500		1 250		1 250
24-Mar-10	72,51	24-Mar-15	48 000		5 000	3 500	39 500
23-Jul-10	76,80	23-Jul-15	1 500		1 125		375
10-Aug-10	76,56	10-Aug-15	25 000				25 000
9-Sep-10	71,25	9-Sep-15	36 000		23 250		12 750
1-Oct-10	70,85	1-Oct-15	17 500		8 750		8 750
14-Oct-10	71,84	14-Oct-15	10 000				10 000
18-Oct-10	71,43	18-Oct-15	20 000		10 000		10 000
1-Nov-10	75,01	1-Nov-15	50 000			50 000	
1-Dec-10	70,00	1-Dec-15	101 200		50 600		50 600
1-Feb-11	72,12	1-Feb-16	140 000				140 000
24-Feb-11	74,70	24-Feb-16	1 853 465		497 397	63 543	1 292 525
28-Mar-11	68,00	28-Mar-16	68 500		21 570		46 930
3-May-11	71,90	3-May-16	10 000				10 000
31-May-11	72,16	31-May-16	41 400		20 700		20 700
1-Jun-11	73,00	1-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
1-Sep-11	76,65	1-Sep-16	5 000		900		4 100
29-Sep-11	81,10	29-Sep-16	11 000		5 500		5 500
3-Oct-11	80,00	3-Oct-16	10 000				10 000
3-Nov-11	80,30	3-Nov-16	184 000		14 000	13 000	157 000
17-Oct-11	83,00	17-Oct-16	5 000				5 000
26-Oct-11	80,49	26-Oct-16	50 000				50 000
1-Nov-11	81,58	1-Nov-16	3 000				3 000
3-Jan-12	79,48	3-Jan-17	30 000				30 000
1-Mar-12	89,40	1-Mar-17	10 000				10 000
2-May-12	88,19	2-May-17	42 500				42 500
1-Mar-12	87,90	1-Mar-17	22 106				22 106
13-Jun-12	85,97	13-Jun-17	14 446			14 446	
1-Mar-14	123,39	1-Mar-19		29 738			29 738
			8 463 847	**29 738**	**2 946 954**	**372 670**	**5 173 961**
Value of rights under option in the money (Rm)							**252,8**

Appendix E – Liberty Holdings Limited and Liberty Group Limited rights and restricted shares and utilisation of share incentive scheme allocation

at 31 December 2014 (continued)

E3 Liberty Holdings group restricted share plan (long-term plan)

Date granted	Award price per share	Final vesting date	Shares at the beginning of the year	Shares granted during the year	Shares vested during the year	Shares cancelled during the year	Shares at the end of the year
01 Mar 12	87,90	01 Mar 16	654 376		216 356	13 978	424 042
02 Aug 12	92,20	02 Aug 16	53 609		17 869		35 740
22 Aug 12	93,51	22 Aug 16	189 690		63 229		126 461
01 Nov 12	99,10	01 Nov 16	18 196		6 065		12 131
01 Mar 13	118,75	01 Mar 17	35 529			8 472	27 057
01 Mar 13	121,02	01 Mar 18	492 085			16 527	475 558
02 Apr 13	119,19	02 Apr 17	2 517				2 517
01 May 13	123,00	01 May 18	2 964				2 964
30 May 13	126,01	30 May 17	3 968				3 968
01 Aug 13	119,00	01 Aug 18	38 539				38 539
01 Sep 13	115,00	01 Sep 18	108 220			4 340	103 880
01 Oct 13	117,00	01 Oct 18	74 573				74 573
01 Nov 13	124,00	01 Nov 18	8 455				8 455
28 Feb 14	122,58	28 Feb 19		10 673			10 673
01 Mar 14	123,39	01 Mar 19		1 010 722		23 504	987 218
24 Mar 14	119,18	24 Mar 19		2 517			2 517
01 May 14	126,03	01 May 19		3 174			3 174
22 May 14	129,25	22 May 19		11 605			11 605
01 Sep 14	130,58	01 Sep 19		2 834			2 834
28 Nov 14	131,24	28 Nov 19		124 583			124 583
			1 682 721	**1 166 108**	**303 519**	**66 821**	**2 478 489**
Market value of shares (Rm)			**204,6**				**304,1**

E4 Liberty Holdings group restricted share plan (deferred plan)

Date granted	Award price per share	Final vesting date	Shares at the beginning of the year	Shares granted during the year	Shares vested during the year	Shares cancelled during the year	Shares at the end of the year
01 Mar 12	87,90	01 Sep 15	278 143		136 547	5 754	135 842
01 Mar 13	121,02	01 Sep 16	499 344		163 743	11 279	324 322
01 Mar 14	123,39	01 Sep 17		531 979		11 477	520 502
			777 487	**531 979**	**300 290**	**28 510**	**980 666**
Market value of shares (Rm)			**94,5**				**120,3**

E5 Utilisation of shareholder approved long-term incentive 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 2014:

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 2013	(10 620 702)	(981 202)	(1 769 044)	(13 370 948)
Cancellations for the period 1 September 2008 to 31 December 2013	5 085 266	63 386	86 323	5 234 975
Available balance for scheme allocation at 31 December 2013				**13 639 846**
Awards	**(29 738)**	**(531 979)**	**(1 166 108)**	**(1 727 825)**
Cancellations	**372 670**	**28 510**	**66 821**	**468 001**
Available balance for scheme allocation at 31 December 2014				**12 380 022**

[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). At 31 December 2014 the highest cumulative restricted share allocation to one participant is 329 395 shares (2013: 188 789).

Awards granted less any subsequent cancellations are accumulated and reduce the number of shares available within the approved scheme allocations.

Appendix F – 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 these investments in mutual funds are controlled by the group. 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 Absolute Plus Fund (previously 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.

2.2 STANLIB Global Balanced Fund of Funds (previously 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. The minimum foreign exposure should be 85% of the portfolio, maximum 100%.

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.

2.3 STANLIB Global Bond Feeder Fund

Objective – The objective is to obtain long-term growth of capital and income.

Mandate restrictions – The fund is a feeder fund that invests in an underlying roll-up fund, the STANLIB Global Bond Fund.

Typical investments – Apart from assets in liquid form its participatory interest is in a single portfolio, namely the STANLIB Global Bond Fund.

Risk exposure – Moderate fund exposed to interest, currency and liquidity risk.

2 Funds managed by STANLIB (continued)

2.4 STANLIB Global Equity Fund

Objective – The objective is to obtain long-term growth of capital and income.

Mandate restrictions – The minimum foreign exposure shall be 85% of the portfolio, maximum 100%.

Typical investments – Apart from assets in liquid form, the portfolio shall solely comprise participatory interests of collective investment schemes with majority exposure to securities in recognised international markets.

Risk exposure – Moderate fund exposed to interest, currency and liquidity risk.

2.5 STANLIB Inflation Linked Bond Fund

Objective – The investment objective is to provide an efficient investment medium whereby investors can participate in a portfolio that will seek to achieve maximum overall inflation linked return, in the form of both interest income and capital growth.

Mandate restrictions – The portfolio may not invest in property and preference shares.

Typical investments – Investments will consist of a spread of predominantly non-equity securities and will include but is not limited to bonds, fixed deposits, structured money market instruments and collective investment schemes.

Risk exposure – Moderate fund exposed to interest and credit risk.

2.6 STANLIB Inflation Plus 5% Fund

Objective – The main objective is high growth of capital and income, a reasonable level of current income and relative stability for capital invested to obtain long-term wealth accumulation.

Mandate restrictions – The fund has the following strategic asset allocation: 50% growth assets, 40% defensive assets and 10% offshore assets.

Typical investments – The portfolio will comprise of a mix of financially sound securities of companies listed on exchanges and non-equity securities.

Risk exposure – Conservative to moderate fund exposed to property, equity and interest rate risk.

2.7 STANLIB Infrastructure Private Equity Fund

Objective – To make early stage infrastructure investments of an equity and equity-related nature in infrastructure projects.

Mandate restrictions – The fund may invest up to 5% (or up to 10% with the approval of the Advisory Board) of the Fund Commitments in development funding.

Typical investments – Investments in Greenfield projects (newly developed infrastructure projects being established for the first time) and Brownfield projects (existing infrastructure projects undertaking significant expansion works). The fund will focus on renewable energy projects with a South African focus.

Risk exposure –Moderate fund exposed to equity price risk.

2.8 STANLIB Institutional Money Market Fund

Objective – The primary objective is to achieve as high a level of current income as is consistent with capital preservation and liquidity.

Mandate restrictions – The portfolio may not have any direct or indirect foreign exposure.

Typical investments – Investments in a well-diversified portfolio of money market instruments.

Risk exposure – Moderate fund exposed to interest and credit risk.

2.9 STANLIB Institutional Property

Objective – The objective is to obtain long-term growth of capital and income.

Mandate restrictions – The portfolio may not have any direct or indirect foreign exposure.

Typical investments – Property shares, property loan stock, debentures, debenture stock and debenture bonds, unsecured notes, collective investment schemes in property and other securities.

Risk exposure – Moderate to high fund exposed to property price, interest and credit risk.

2.10 STANLIB Multi-Manager Balanced Fund

Objective – To provide investors with long-term capital growth.

Mandate restrictions – Maximum foreign exposure is as per the maximum foreign exposure limits of the South African Multi Asset Equity classification as amended from time to time.

Typical investments – Apart from assets in liquid form, the portfolio will consist of a flexible combination of equity, bond, money market and property securities.

Risk exposure – Moderate to aggressive fund exposed to equity price, interest and currency risk.

Appendix F – Consolidated mutual funds

(continued)

2 Funds managed by STANLIB (continued)

2.11 STANLIB Multi-Manager Bond Fund

Objective – The investment objective is to outperform the All Bond Composite Index over the long term.

Mandate restrictions – The portfolio may not include any equity securities, real estate securities or cumulative preference shares.

Typical investments – The fund shall invest in bonds, fixed deposits and other interest-bearing securities.

Risk exposure – Moderately conservative fund exposed to interest rate and inflation risk.

2.12 STANLIB Multi-Manager Defensive Balanced Fund

Objective – The investment objective is to achieve a combination of current income and long-term capital growth at risk levels consistent with low equity portfolios.

Mandate restrictions – The portfolio may not include any equity securities, real estate securities or cumulative preference shares. The portfolios can have a maximum effective equity exposure of up to 40% and a maximum effective property exposure of up to 25%.

Typical investments – The fund shall invest in a spectrum of investment markets both locally and globally.

Risk exposure – Aggressive fund exposed to interest rate and inflation risk.

2.13 STANLIB Multi-Manager Enhanced Yield Fund

Objective – The primary objective is to produce a high level of income and stability of capital by investing in interest earning and money market instruments.

Mandate restrictions – This portfolio may not invest in equity securities, real estate securities or cumulative preference shares.

Typical investments – Bonds, fixed deposits and other interest earning securities which have a fixed maturity date and either have a predetermined cash flow profile or are linked to benchmark yields.

Risk exposure – Conservative fund exposed to interest rate and currency risk.

2.14 STANLIB Multi-Manager Equity Fund

Objective – The aim is to provide investors with medium to long-term capital growth, with income generation as a secondary objective.

Mandate restrictions – Maximum foreign exposure is as per the maximum foreign exposure limits of the South African Equity General Classification as amended from time to time.

Typical investments – Equity securities listed on the JSE and other recognised stock exchanges.

Risk exposure – Aggressive fund exposed to equity price and currency risk.

2.15 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.

2.16 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.

2.17 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%. The manager will only include foreign collective investment schemes which have been approved by the FSB to be marketed in South Africa.

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.

2 Funds managed by STANLIB (continued)

2.18 STANLIB Multi-Manager Real Return Fund

Objective – The objective is to obtain a well constructed, low risk multi-asset class portfolio that seeks to achieve above inflation returns over the long term.

Mandate restrictions – The portfolio will be managed in compliance with the Prudential Investment Guidelines that are applicable to retirement funds.

Typical investments – The portfolio consists of a flexible combination of equity, bond, debentures, preference shares, money market and property securities.

Risk exposure – Moderate fund exposed to equity price, interest and liquidity risk.

2.19 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, up to the maximum as per the ASISA Domestic Fixed-Interest Varied Specialist Portfolio.

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.

2.20 Kruger STANLIB Prudential Fund of Funds

Objective – The primary objective is to achieve a stable income and capital growth.

Mandate restrictions – At least 75% of the assets must be invested in South Africa at all times.

Typical investments – Investments in a balanced and diversified portfolio of collective investments.

Risk exposure – Conservative fund exposed to equity price, interest, currency and credit risk.

2.21 STANLIB Quants Fund

Objective – The aim is to achieve stable medium to long-term capital growth with lower volatility than that of other general equity portfolios.

Mandate restrictions – The fund is a domestic flexible asset allocation fund and not allowed to invest offshore.

Typical investments – Quantitative analysis and a multi-factor styling model are used in selecting securities. Shares in companies listed on exchanges and where appropriate other securities. The equity selection style will rotate between growth and value shares.

Risk exposure – Moderate fund exposed to equity price and interest rate risk.

2.22 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. The minimum equity exposure shall be 75% of the portfolio, minimum South African exposure 85% of the portfolio, maximum foreign exposure shall be limited to 15% of the portfolio.

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.

2.23 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.

2.24 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.

Appendix F – Consolidated mutual funds

(continued)

2 Funds managed by STANLIB (continued)

2.25 STANLIB Value Fund

Objective – The primary objective is to achieve medium to long-term capital growth.

Mandate restrictions – The securities should predominantly consist of shares in listed companies.

Typical investments – The shares to be acquired will be shares which in the opinion of the manager have greater intrinsic value that reflected by their share price in the relevant market.

Risk exposure – Aggressive fund exposed to equity price and liquidity risk.

2.26 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.

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.

STANLIB Balanced Fund

Objective – The objective is to provide investors with a long-term capital growth from a diversified and actively managed portfolio of equities.

STANLIB Global Balanced Cautious Fund

Objective – The objective is to adopt a conservative approach to investment from a diversified and actively managed portfolio.

Mandate restrictions for all funds in section 2.26 – 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.

3 Funds managed by Investec

3.1 Investec International High Yield Fund

Objective – The objective is to provide a long-term total return to shareholders in excess of that obtainable from holding bank deposits.

Mandate restrictions – Not more than 20% in the value of the fund may consist of transferable securities (government and other public securities limited to 10%).

Typical investments – Cash instruments, fixed interest securities, convertible securities and quoted equity securities.

Risk exposure – Moderate fund exposed to interest, currency and liquidity risk.

4 Funds managed by Rand Merchant Bank

4.1 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.

5 Funds managed by Life Settlements Funds Limited

5.1 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 G – Long-term policyholder liabilities and short-term insurance liabilities reconciliation for the year ended 31 December 2014

	Long-term insurance									
Group	**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**
2014										
Balance at beginning of year	**180 742**	**9 056**	**(1 161)**	**74 146**	**(513)**	**185**	**262 455**		**262 455**	
Inflows	**59 339**	**2 614**	**(1 138)**	**22 550**					**54 416**	
Insurance premiums	**38 882**	**1 820**	**(1 015)**				**39 687**		**39 687**	**39 687**
Fund inflows				**14 729**			**14 729**		**14 729**	
Investment returns	**20 450**	**794**	**(123)**	**7 821**						
Unwinding of discount rate	**753**	**2**	**(128)**				**627**	**(627)**		
Fair value adjustment				**7 473**			**7 473**	**(7 473)**		**(7 473)**
Property expenses				**348**			**348**	**(348)**		
Investment returns	**19 697**	**792**	**5**				**20 494**	**8 426**[1]	**28 920**	**28 920**
Management fees on assets under management	**7**						**7**		**7**	**7**
Outflows	**(42 324)**	**(743)**	**970**	**(15 454)**						
Claims and policyholders benefits	**(30 677)**	**(581)**	**925**	**(14 213)**					**(45 332)**	
Insurance claims	**(30 677)**	**(581)**	**925**				**(30 333)**	**(786)**	**(31 119)**	**(31 119)**
Fund outflows				**(14 213)**			**(14 213)**		**(14 213)**	
Acquisition costs	**(3 804)**	**(70)**	**7**	**(302)**			**(4 169)**	**60**	**(4 109)**	**(4 109)**
Net movement in acquisition costs								**(60)**	**(60)**	
General marketing and administration expenses	**(4 887)**	**(87)**	**18**	**(837)**			**(5 793)**		**(5 793)**	**(5 793)**
Finance costs	**(266)**			**(85)**			**(351)**		**(351)**	**(351)**
Profit share allocations	**(867)**						**(867)**		**(867)**	**(867)**
Taxation	**(1 823)**	**(5)**	**20**	**(17)**			**(1 825)**	**10**[1]	**(1 815)**	**(1 815)**
Fair value on third-party mutual fund interests										
Switches		**(786)**		**786**				**786**	**786**	
Net income from insurance operations	**(2 444)**	**(35)**	**28**	**(45)**	**(60)**	**22**	**(2 534)**		**(2 534)**	
Changes in estimates	**(103)**	**(6)**	**(1)**				**(110)**			
Service fee income				**(938)**		**22**	**(916)**			**916**
Expenses				**876**	**(60)**		**816**			
Planned margins and other variances	**(3 952)**	**(42)**	**43**				**(3 951)**			
New business	**190**		**1**				**191**			
Shareholder taxation on transfer of net income	**1 421**	**13**	**(15)**	**17**			**1 436**			
Change in policyholder liabilities										**(15 469)**
Change in policyholder liabilities – application of shadow accounting								**12**	**12**	
Foreign currency translation	**43**	**71**	**(1)**				**113**		**113**	
Balance at end of year	**195 356**	**10 177**	**(1 302)**	**81 983**	**(573)**	**207**	**285 848**		**285 848**	**2 534**

[1] *Includes owner-occupied properties – fair value adjustment (R22 million) and related taxes (R10 million).*

Group	Short-term insurance: Outstanding claims and IBNR Rm	Short-term insurance: Unearned premiums Rm	Short-term insurance: Reinsurance assets - short-term Rm	Short-term insurance: Deferred acquisition costs Rm	Short-term insurance: Deferred revenue liability Rm	Short-term insurance: Short-term comprehensive income items Rm	Total Rm	Short-term insurance segment Rm	Long-term insurance segment Rm	Total insurance segment Rm	Other segments Rm	Per statement of comprehensive income Group Rm
2014												
Balance at beginning of year	489	357	(448)	(14)	9		393					
Inflows		1	10			1 182						
Insurance premiums		1	10			1 026	1 037	1 037	39 687	40 724		40 724
Fund inflows												
Investment returns						81						
Unwinding of discount rate												
Fair value adjustment									(7 473)	(7 473)		(7 473)
Property expenses												
Investment returns						81	81	81	28 920	29 001	6 742	35 743
Management fees on assets under management						75	75	75	7	82	2 240	2 322
Outflows	(195)		191			(1 110)						
Claims and policyholders benefits	(195)		191			(608)						
Insurance claims	(195)		191			(608)	(612)	(612)	(31 119)	(31 731)		(31 731)
Fund outflows												
Acquisition costs						(84)	(84)	(84)	(4 109)	(4 193)	(386)	(4 579)
Net movement in acquisition costs												
General marketing and administration expenses						(390)	(390)	(390)	(5 793)	(6 183)	(3 192)	(9 375)
Finance costs									(351)	(351)	(56)	(407)
Profit share allocations									(867)	(867)	(9)	(876)
Taxation						(28)	(28)	(28)	(1 815)	(1 843)	(83)	(1 926)
Fair value on third-party mutual fund interests											(3 585)	(3 585)
Switches												
Net income from insurance operations				(3)		(76)	(79)					
Changes in estimates												
Service fee income									916	916		916
Expenses				(3)								
Planned margins and other variances						(76)						
New business												
Shareholder taxation on transfer of net income												
Change in policyholder liabilities									(15 469)	(15 469)		(15 469)
Change in policyholder liabilities – application of shadow accounting												
Foreign currency translation	22	9	(9)				22					
Balance at end of year	316	367	(256)	(17)	9	(4)	415	79	2 534	2 613	1 671	4 284

Appendix G – Long-term policyholder liabilities and short-term insurance liabilities reconciliation for the year ended 31 December 2014 (continued)

	Long-term insurance									
Group	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 long-term insurance segment Rm	Long-term insurance segment Rm
2013										
Balance at beginning of year	164 666	3 855	(978)	68 163	(439)	165	235 432		235 432	
Inflows	57 926	2 716	(1 031)	23 883					46 915	
Insurance premiums	32 756	1 745	(965)				33 536		33 536	33 536
Fund inflows				13 379			13 379		13 379	
Investment returns	25 170	971	(66)	10 504						
Unwinding of discount rate	947	1	(67)				881	(881)		
Fair value adjustment				10 135			10 135	(10 135)		(10 135)
Property expenses				369			369	(369)		
Investment returns	24 223	970	1				25 194	11 353[1]	36 547	36 547
Management fees on assets under management										
Outflows	(39 158)	(974)	801	(14 718)						
Claims and policyholders benefits	(27 223)	(741)	763	(13 398)					(37 386)	
Insurance claims	(27 223)	(741)	763				(27 201)	3 213	(23 988)	(23 988)
Fund outflows				(13 398)			(13 398)		(13 398)	
Acquisition costs	(3 473)	(122)	6	(239)			(3 828)	74	(3 754)	(3 754)
Net movement in acquisition costs								(74)	(74)	
General marketing and administration expenses	(4 581)	(104)	10	(1 026)			(5 701)		(5 701)	(5 701)
Finance costs	(209)			(68)			(277)		(277)	(277)
Profit share allocations	(971)						(971)		(971)	(971)
Taxation	(2 701)	(7)	22	13			(2 673)	10[1]	(2 663)	(2 663)
Fair value on third-party mutual fund interests										
Switches		3 213		(3 213)				(3 213)	(3 213)	
Net income from insurance operations	(2 809)	(14)	50	31	(74)	20	(2 796)		(2 796)	
Changes in estimates	218		(2)				216			
Service fee income				(920)		20	(900)			900
Expenses				964	(74)		890			
Planned margins and other variances	(4 667)	(21)	69				(4 619)			
New business	59						59			
Shareholder taxation on transfer of net income	1 581	7	(17)	(13)			1 558			
Change in policyholder liabilities										(20 698)
Change in policyholder liabilities – application of shadow accounting								22	22	
Foreign currency translation	117	260	(3)				374		374	
Balance at end of year	180 742	9 056	(1 161)	74 146	(513)	185	262 455		262 455	2 796

[1] *Includes owner-occupied properties – fair value adjustment (R32 million) and related taxes (R10 million).*

Group	Short-term insurance: Outstanding claims and IBNR Rm	Short-term insurance: Unearned premiums Rm	Short-term insurance: Reinsurance assets – short-term Rm	Short-term insurance: Deferred acquisition costs Rm	Short-term insurance: Deferred revenue liability Rm	Short-term insurance: Short-term comprehensive income items Rm	Total Rm	Short-term insurance segment Rm	Long-term insurance segment Rm	Total insurance segment Rm	Other segments Rm	Per statement of comprehensive income Group Rm
2013												
Balance at beginning of year	244	281	(192)	(10)	9		332					
Inflows		15	(19)			1 080						
Insurance premiums		15	(19)			934	930	930	33 536	34 466		34 466
Fund inflows												
Investment returns						64						
Unwinding of discount rate												
Fair value adjustment									(10 135)	(10 135)		(10 135)
Property expenses												
Investment returns						64	64	64	36 547	36 611	10 972	47 583
Management fees on assets under management						82	82	82		82	2 242	2 324
Outflows	173		(176)			(1 008)						
Claims and policyholders benefits	173		(176)			(556)						
Insurance claims	173		(176)			(556)	(559)	(559)	(23 988)	(24 547)		(24 547)
Fund outflows												
Acquisition costs						(74)	(74)	(74)	(3 754)	(3 828)	(405)	(4 233)
Net movement in acquisition costs												
General marketing and administration expenses						(327)	(327)	(327)	(5 701)	(6 028)	(3 051)	(9 079)
Finance costs									(277)	(277)	(50)	(327)
Profit share allocations									(971)	(971)	(13)	(984)
Taxation						(51)	(51)	(51)	(2 663)	(2 714)	(254)	(2 968)
Fair value on third-party mutual fund interests											(7 832)	(7 832)
Switches												
Net income from insurance operations				(2)	(2)	(61)	(65)					
Changes in estimates												
Service fee income					(2)				900	900		900
Expenses				(2)								
Planned margins and other variances						(61)						
New business												
Shareholder taxation on transfer of net income												
Change in policyholder liabilities									(20 698)	(20 698)		(20 698)
Change in policyholder liabilities – application of shadow accounting												
Foreign currency translation	72	61	(61)	(2)	2	(11)	61					
Balance at end of year	489	357	(448)	(14)	9		393	65	2 796	2 861	1 609	4 470

Appendix H – Summary of the group's assets and liabilities by measurement basis for the year ended 31 December 2014

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	Calculated amount Rm	Other Rm
2014								
Assets								
Equipment and owner-occupied properties under development			975					
Owner-occupied properties	1 464							
Investment properties	27 022							
Intangible assets			160		167			41
Defined benefit pension fund employer surplus						277		
Deferred acquisition costs			590					
Reinsurance assets								
– long-term insurance		1 302						
– short-term insurance								256
Operating leases – accrued income	1 261							
Pledged assets held at fair value through profit or loss	6 991							
Interests in associates – measured at fair value through profit or loss	16 497							
Financial investments	291 517			1 327				
Derivative assets	7 777							
Deferred taxation							455	
Prepayments, insurance and other receivables	3 668							
Cash and cash equivalents	13 985							
Total assets	**370 182**	**1 302**	**1 725**	**1 327**	**167**	**277**	**455**	**297**
Percentage (%)	**98,5**	**0,3**	**0,5**	**0,4**		**0,1**	**0,1**	**0,1**
Liabilities								
Long-term policyholder liabilities	83 674	203 842	3 575					
Insurance contracts	1 691	193 665						
Investment contracts with DPF		10 177						
Financial liabilities under investment contracts	81 983		3575					
Short-term insurance liabilities								683
Third-party financial liabilities arising on consolidation of mutual funds	34 501							
Employee benefits	948					423		
Deferred revenue			216					
Deemed disposal taxation liability							268	
Deferred taxation							4 131	
Provisions								173
Derivative liabilities	5 148							
Insurance and other payables	14 251							
Current taxation							265	
Total liabilities	**138 522**	**203 842**	**3 791**			**423**	**4 664**	**856**
Percentage (%)	**39,3**	**57,9**	**1,1**			**0,1**	**1,3**	**0,2**

[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.

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
2013									
Assets									
Equipment and owner-occupied properties under development			1 114						
Owner-occupied properties	1 410								
Investment properties	27 299								
Intangible assets			139		297				39
Defined benefit pension fund employer surplus						210			
Deferred acquisition costs			527						
Interests in joint ventures	400			4					
Reinsurance assets									
– long-term insurance		1 161							
– short-term insurance									448
Operating leases – accrued income	1 315								
Pledged assets held at fair value through profit or loss	1 348								
Interests in associates – equity accounted							72		
Interests in associates – measured at fair value through profit or loss	15 361								
Financial investments	277 829			1 214					
Assets held for trading	6 387								
Deferred taxation								354	
Prepayments insurance and other receivables	3 841								
Cash and cash equivalents	9 870								
Total assets	345 060	1 161	1 780	1 218	297	210	72	354	487
Percentage (%)	98,4	0,3	0,5	0,4	0,1	0,1		0,1	0,1
Liabilities									
Long-term policyholder liabilities	76 168	187 776		3 167					
Insurance contracts	2 022	178 720							
Investment contracts with DPF		9 056							
Financial liabilities under investment contracts	74 146			3 167					
Short-term insurance liabilities									846
Third-party financial liabilities arising on consolidation of mutual funds	39 983								
Employee benefits	969					375			
Deferred revenue			194						
Deemed disposal taxation liability								544	
Deferred taxation								3 586	
Provisions									195
Derivative liabilities	4 860								
Insurance and other payables	9 716								
Current taxation								904	
Total liabilities	131 696	187 776	194	3 167		375		5 034	1 041
Percentage (%)	40,0	57,0	0,1	1,0		0,1		1,5	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.

Appendix I – Forward exchange contracts

for the year ended 31 December 2014

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
2014						
Sell						
Australian dollars	8,9	US dollars	7,6	1,17	4	
Canadian dollars	10,5	US dollars	8,8	1,19	3	
Danish krona	13,5	US dollars	2,3	5,96	1	
Euros	11,6	US dollars	14,5	0,80	6	
Japanese yen	262,3	US dollars	2,3	113,89	1	
Korean wons	11 253,6	US dollars	10,3	1 092,58		
Mexican peso	22,4	US dollars	1,5	14,63		
New Zealand dollars	7,3	US dollars	5,8	1,27	1	
Polish zloty	15,4	US dollars	4,6	3,35	3	
Pound sterling	3,8	US dollars	5,9	0,64		
Swedish krona	18,6	US dollars	2,5	7,44	1	
US dollars	3,0	Australian dollars	3,5	0,85	(1)	Varies between 5 January 2015 and 13 April 2015
US dollars	5,6	Brazilian real	14,8	0,38	(2)	
US dollars	4,2	Canadian dollars	4,8	0,88	(1)	
US dollars	13,4	Chilean peso	8 108,0	0,002	(1)	
US dollars	1,8	Danish krona	10,6	0,17	(1)	
US dollars	18,5	Euros	14,7	1,26	(7)	
US dollars	4,7	Hungarian forint	1 179,1	0,004	(3)	
US dollars	8,0	Indian rupees	497,0	0,02	(2)	
US dollars	6,5	Indonesian rupiah	80 400,0	0,0001	(1)	
US dollars	17,6	Japanese yen	2 052,1	0,01	(5)	
US dollars	3,7	Korean won	4 022,6	0,0009		
US dollars	8,1	Pound sterling	5,1	1,60	(2)	
US dollars	2,9	South Africa rand	32,7	0,09	(1)	
US dollars	2,1	Swedish krona	15,1	0,14	(2)	
Total					(9)	

Foreign currency	Foreign currency amount 'm	Settlement currency	Settlement value 'm	Average rate	Rand carrying value Rm	Maturity dates
2013						
Sell						
Australian dollars	27,4	US dollars	25,7	1,06	13	
Brazilian real	5,9	US dollars	2,5	2,40		
Canadian dollars	2,7	US dollars	2,5	1,07		
Euros	8,8	US dollars	11,9	0,74	(2)	
Japanese yen	170,1	US dollars	1,7	103,05		
Korean wons	5 213,0	US dollars	4,8	1 076,30	(1)	
Mexican peso	16,7	US dollars	1,3	13,03		
New Zealand dollars	11,3	US dollars	9,3	1,22		
Polish zloty	35,7	US dollars	11,5	3,10	(3)	
Swedish krona	8,4	US dollars	1,3	6,56		
Thailand baht	31,4	US dollars	1,0	32,38		
US dollars	1,3	Australian dollars	1,5	0,89		Varies between 6 January 2014 and 2 April 2014
US dollars	1,6	Brazilian real	3,9	0,42		
US dollars	1,2	Canadian dollars	1,3	0,94		
US dollars	11,9	Chilean peso	6 191,3	0,002	(2)	
US dollars	6,8	Euros	4,9	1,37		
US dollars	2,5	Indian rupees	164,0	0,02	1	
US dollars	10,6	Japanese yen	1 086,9	0,01	(2)	
US dollars	5,8	Korean won	6 166,2	0,001	1	
US dollars	1,1	Philippine peso	47,8	0,02		
US dollars	1,8	Pound sterling	1,1	1,64		
US dollars	1,1	Swedish krona	7,1	0,15		
US dollars	1,1	Thailand baht	34,8	0,03		
US dollars	2,3	Turkish lira	4,6	0,50	(3)	
Total					2	

Appendix J – Six year review

	2014	2013	2012	2011	2010	2009
Earnings performance						
BEE normalised headline earnings (Rm)	**3 968**	4 076	3688	2 737	2 597	135
BEE normalised headline earnings per share (cents)	**1403,3**	1 439,6	1 300,1	956,7	907,6	47,2
BEE normalised headline return on average IFRS equity (%)	**20,4**	23,3	24,0	20,2	21,2	1,1
Solvency						
IFRS shareholders' funds (Rm)	**19 487**	17 654	15 410	13 211	11 716	10 515
CAR requirement Liberty Group Limited (Rm)[1]	**4 534**	4 564	2 791	2 495	2 688	2 542
CAR ratio Liberty Group Limited (times covered)[1]	**3,07**	2,56	2,71	2,89	2,67	2,81
Group equity value metrics						
BEE normalised group equity value (Rm)	**40 024**	36 067	32 740	28 639	26 030	24 118
BEE normalised group equity value per share (Rand)	**139,85**	126,08	115,43	100,15	91,01	84,32
BEE normalised group equity value profits (Rm)	**6 031**	5 281	5 886	3 981	3 223	(1 777)
BEE normalised return on group equity value (%)	**16,9**	16,1	20,8	15,3	13,4	(6,5)
Group embedded value of insurance new business written (Rm)	**941**	839	691	410	261	301
Long-term insurance new business margin (%)	**2,1**	2,2	2,0	1,4	1,2	1,3
Sustainability metrics (non-financial)						
Group employees	**10 563**	10 098	9 449	8 523	7 607	8 009
Salaried	**6 617**	6 587	6 281	5 752	5 318	5 564
Commission remunerated	**3 946**	3 511	3 168	2 771	2 289	2 445
dti scorecard	**89.07**	86.11	89.32	85.70	75.03	69.19
Corporate social investment spend (Rm)	**45**	45	39	33	31	33
Taxes collected on behalf of SA government (Rm)	**4 790**	5 553	4 816	3 197	3 416	2 626
CO_2 emissions (tonnes)	**49 357**	46 781	51 210	50 479	46 525	47 372
Customer complaint volumes (elevated to group level)	**3 340**	3 181	2 718	3 728	4 380	4 326
Share statistics						
Share price (Rand)						
Closing	**122,69**	121,60	111,17	79,48	72,50	69,20
High	**137,33**	139,65	116,01	88,50	82,33	75,25
Low	**110,60**	108,43	78,16	66,30	62,30	54,41
Total number of shares in issue at 31 December (millions)	**286**	286	286	286	286	286
Weighted average number of shares in issue (millions)	**283**	283	284	286	286	286
Distributions per ordinary share declared (cents)	**634**	581	658	480	455	455
Distributions as a percentage of opening equity value (%)	**5,0**	5,0	6,6	5,3	5,4	4,8
Market capitalisation (Rm)	**35 114**	34 802	31 817	22 747	20 737	19 793
JSE all share index	**49 771**	46 256	39 250	31 986	32 119	27 666
Life insurance index	**39 078**	32 300	25 578	17 642	15 213	13 865

[1] 2013 and 2014 post Life Licence rationalisation.

	2014	2013	2012	2011	2010	2009
Insurance activities						
Long-term insurance new business (Rm)[(2)]						
Recurring premiums and inflows	**5 169**	4 907	4 451	3 727	3 210	3 217
Retail segment (South Africa)	**4 281**	4 177	3 797	3 086	2 722	2 921
Corporate	**676**	575	523	533	437	265
Liberty Africa	**212**	155	131	108	51	31
Single premiums and inflows	**26 194**	20 414	16 039	14 256	11 170	11 950
Retail segment (South Africa)	**20 935**	18 237	15 082	13 171	9 950	10 739
Corporate	**5 192**	2 144	892	1 053	1 051	1 202
Liberty Africa	**67**	33	65	32	169	9
Indexed new business (Rm)	**7 789**	6 947	6 055	5 152	4 327	4 412
Cash flows (Rm)						
Premium income and inflows	**55 453**	47 845	41 355	36 054	30 932	30 075
Claims and policyholders' benefits	**(45 158)**	(41 158)	(36 454)	(31 716)	(31 205)	(28 808)
Net cash inflow/(outflow) (Rm)	**10 295**	6 687	4 901	4 338	(273)	1 267
Long-term:						
Retail segment (South Africa)	**5 921**	6 111	6 058	4 784	990	2 966
Corporate (including STANLIB Multi-Manager)	**3 512**	(120)	(1 795)	(770)	(1 536)	(1 776)
Liberty Africa	**437**	325	309	216	259	77
Short-term	**425**	371	329	108	14	n/a
Death and disability claims paid (Rm)	**7 579**	6 738	6 271	5 944	5 761	4 910
Annuity claims paid (Rm)	**5 018**	4 480	4 091	3 717	3 476	3 170
Retail SA maintenance costs per policy (Rand)						
– complex products[(3)]	**481,00**	457,00	439,00	415,69	363,25	333,50
Asset management activities						
Net external cash flows (Rm)	**(6 112)**	16 169	14 327	(91)	22 179	2 755
STANLIB – South Africa	**(5 142)**	21 662	20 312	(5 488)	15 699	(1 572)
STANLIB – Other Africa	**(2 179)**	(5 937)	(5 985)	5 397	6 480	4 327
GateWay LISP	**1 209**	444				
Assets under management (Rbn)	**633**	611	528	455	442	396
STANLIB – South Africa	**482**	476	402	341	355	318
STANLIB – Other Africa	**41**	38	36	39	29	23
LibFin/other internal managers	**52**	41	32	25	10	n/a
Liberty Properties	**28**	31	35	27	25	22
Externally managed	**30**	25	23	23	23	33
Cost to income ratio (%)						
STANLIB – South Africa	**54,7**	54,2	54,2	54,0	54,7	51,6
Liberty Health						
Lives ('000)						
Under administration	**441**	476	519	498	528	460
Licenced on proprietary IT platforms	**914**	940	921	1 107	1 085	863
Insured under Liberty Blue product range	**90**	78	84	68	33	17
Risk net claims loss ratio (%)	**68**	68	64	89	82	n/a

(2) *Excluding annual contribution increases.*
(3) *Simple products are weighted either 25% or 50% of a complex product.*
n/a = Not reported or not applicable.

Appendix K – Abbreviations and definitions

Abbreviations

ALBI	All Bond Index
APN	Advisory Practice Note
BEE	Black Economic Empowerment
BESA	Bond Exchange of South Africa
CAR	Capital adequacy requirement
CE	Chief executive
CfC	Liberty Kenya Holdings Limited (previously CfC Insurance Holdings Limited) and its subsidiaries
CGT	Capital gains taxation
CGU	Cash generating unit
CRO	Chief risk officer
DAC	Deferred acquisition costs
DPF	Discretionary participation features
DRL	Deferred revenue liability
EVRM	Enterprise-wide value and risk management
FAIS	Financial Advisory and Intermediary Services
FCTR	Foreign Currency Translation Reserve
FSB	Financial Services Board
FSV	Financial soundness valuation
FTSE	Financial Times and Stock Exchange
GAAC	Group audit and actuarial committee
GAC	Group actuarial committee
GAO	Guaranteed annuity option
GBSMC	Group balance sheet management committee
GCROC	Group control and risk oversight committee
GIAS	Group internal audit services
GRC	Group risk committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRIC	International financial reporting interpretations committee
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
OCAR	Ordinary capital adequacy requirement
OTC	Over-the-counter
PVIF	Present value of acquired in-force
SAM	Solvency Assessment and Management
SAP	Standard of Actuarial Practice
TCAR	Termination capital adequacy requirement

Definitions

Advisory Practice Note (APN)	Notes issued by the Actuarial Society of South Africa to provide advice to members and guide members in their relevant area of practice.
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.
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 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 FSB'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 to the amount of capital the insurer has as a multiple of the minimum requirement.
Claims loss ratio	A measure of underwriting risk for short-term insurance which is measured as a ratio of claims incurred divided by 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 discretionary participation features (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 upfront 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.
Development costs	Represents project costs incurred on developing or enhancing future revenue opportunities.
Discretionary participation features (DPF)	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.

Appendix K – Abbreviations and definitions

(continued)

Definitions (continued)

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 (FSB)	An independent government endorsed institution which oversees the South African non-banking financial services industry in the public interest.
Financial soundness valuation (FSV)	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 option (GAO)	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 (IBNR)	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	A measure of long-term 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	Negative liabilities included within long-term policyholder liabilities arising when the discounted value of expected future inflows exceeds the discounted value of expected future outflows.
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.

Definitions (continued)

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.
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 SAP 104 plus any additional capital considered appropriate by the board given the risks in the business.
Return on embedded/group equity value	This is the ratio of embedded value/group equity value profits to the embedded 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.
Standard Bank	Standard Bank Group Limited and its subsidiaries (excluding Liberty).
Standards of Actuarial Practice (SAP)	Standards to which all members of the Actuarial Society of South Africa must adhere.
Statutory actuary	An actuary appointed by the insurer and approved by the FSB. 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.

Notes

Notes

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