

Liberty Holdings Limited
2010 Integrated Annual Report

sustainable
value



LIBERTY

Own your life

Common abbreviations used in this report

CAR	Capital adequacy requirement
DPF	Discretionary participation features
IFRS	International Financial Reporting Standards
DTI	Department of Trade and Industry
EV	Embedded value
PGN	Professional guidance note
GAAC	Group audit and actuarial committee
GRC	Group risk committee
TCF	Treating customer fairly
CE	Chief executive
SAM	Solvency Assessment and Management
FSB	Financial Services Board
JSE	Johannesburg Stock Exchange

Quick contacts

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Customer Call Centre
Tel: 0860 456 789

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Shareholder and analyst roadmap

Whilst we encourage all stakeholders of Liberty to review the entire report, the table below gives guidance to sections of the report that are probably more relevant to the specific interests of the shareholders and analysts.

Shareholders:

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Rationale for the integrated annual report

This is the first annual report issued by Liberty to be styled as an integrated annual report. In addition to the financial information contained in previous annual reports, the 2010 integrated annual report incorporates recommendations made by the King Report on Corporate Governance for South Africa 2009 (King III) by integrating non-financial information relating to the group. King III was issued in September 2009 and calls for entities to issue an integrated report with an "apply or explain why not" approach. The Johannesburg Stock Exchange is amongst the first listing exchanges to require the adoption of certain principles within King III – as such listed South African companies have to produce an integrated report for their financial years commencing on or after 1 March 2010.

This report marks the start of Liberty's journey to support the information needs of all the group's stakeholders, and provides a more holistic view.

The sustainability information included in this report has been guided by the Global Reporting Initiative's G3 Guidelines, the Department of Trade and Industry's Codes for Broad-Based Black Economic Empowerment (DTI Codes), the JSE Limited's Socially Responsible Investment Index (JSE SRI) and Accountability's AA1000 Principles Standard. The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and comply with the South African Companies Act, 1973.

In addition to the integrated annual report, a separate sustainability report, which contains further information on the group's social, environmental and financial performance, has been prepared and is available on the Liberty website (www.liberty.co.za).

Throughout this report the following entities are referred to as follows:

LGL: Liberty Group Limited

Liberty/The group: Liberty Holdings Limited and its subsidiaries

Liberty has chosen to delay the distribution of the formal notice of the Annual General Meeting, to be held on 13 May 2011, until there is greater clarity in respect of the implementation of the new South African Companies Act.

Liberty Holdings Limited

Integrated Annual Report 2010

**LIBERTY***Own your life*

Who we are

For more than 50 years, Liberty has helped South Africans manage their lifestyle risk and protect their investments for the future. With in excess of R400 billion of assets under management, Liberty is the custodian of a sizeable portion of South Africa's savings.

Liberty's strategic focus is to ensure that it provides flexible, sustainable investment and risk products that preserve and enhance the financial future of its customers. Liberty has 2,6 million retail policies in-force.

Liberty hires and develops some of the best people in their fields to ensure that our customers receive competitive returns on their savings and that the price and structure of our risk products are at the forefront of the market.

Liberty aims to be a market leading financial services company in many countries in Africa, using our points of differentiation and our strengths in South Africa to provide products to customers that meet their needs according to the laws and customs of each country.

Backed by innovative technologies, our years of experience and an unwavering commitment to the highest standards of integrity, Liberty continues to create value for its shareholders and its customers, and to contribute positively to the development of the countries and communities in which it operates.

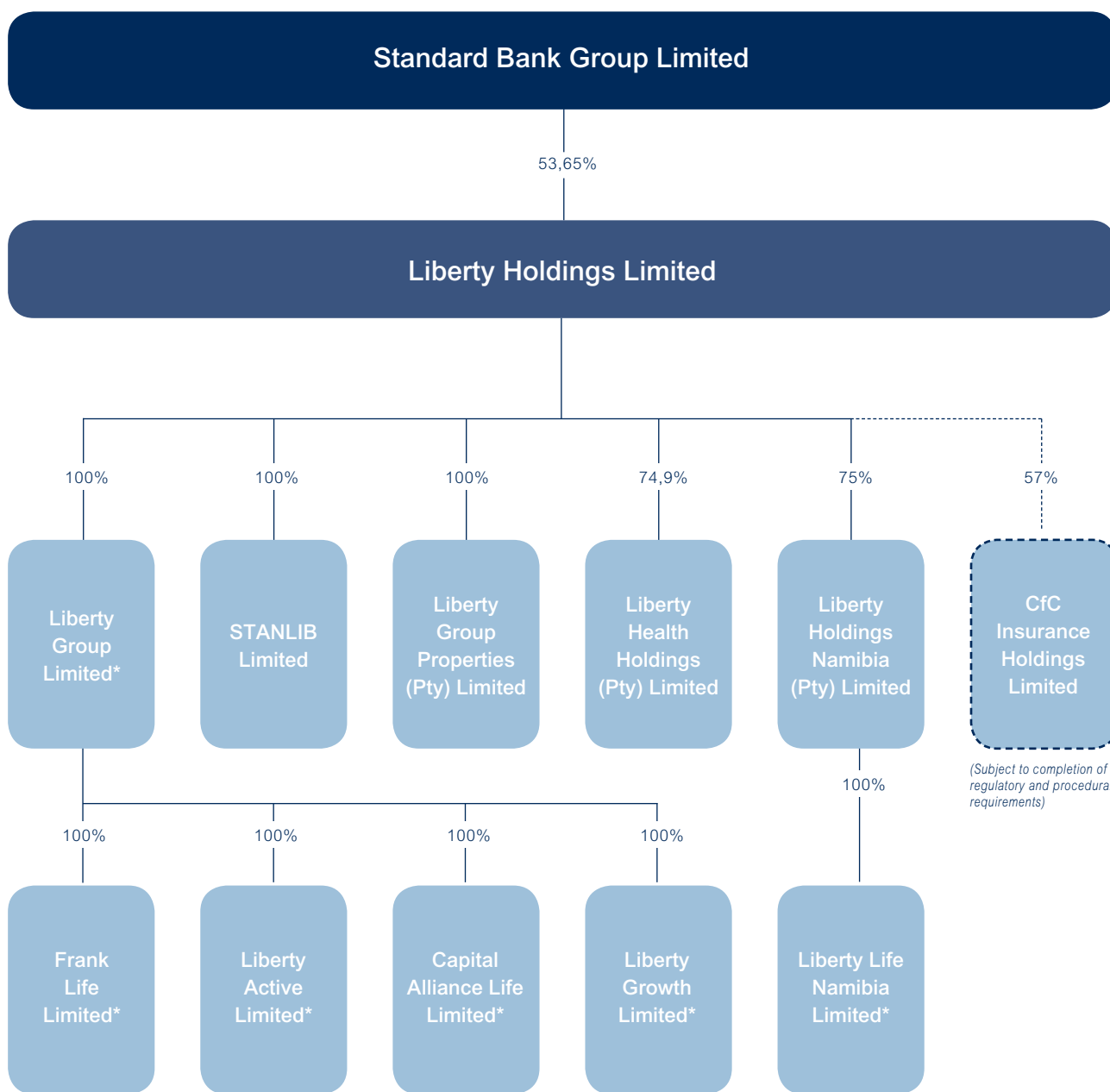
We live by a set of values, which are:

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



Find out more
information
on www.liberty.co.za

Group entity structure (Only significant holding or operating subsidiaries are depicted)



* Registered long-term insurer

Other operating subsidiaries

Held by:

Liberty Holdings Limited: Stanbic Investment Management Services (Pty) Limited (Botswana), Stanbic Investment Management Services (East Africa) Limited (Kenya), Stanlib Lesotho (Pty) Limited, Stanlib (Swaziland) (Pty) Limited

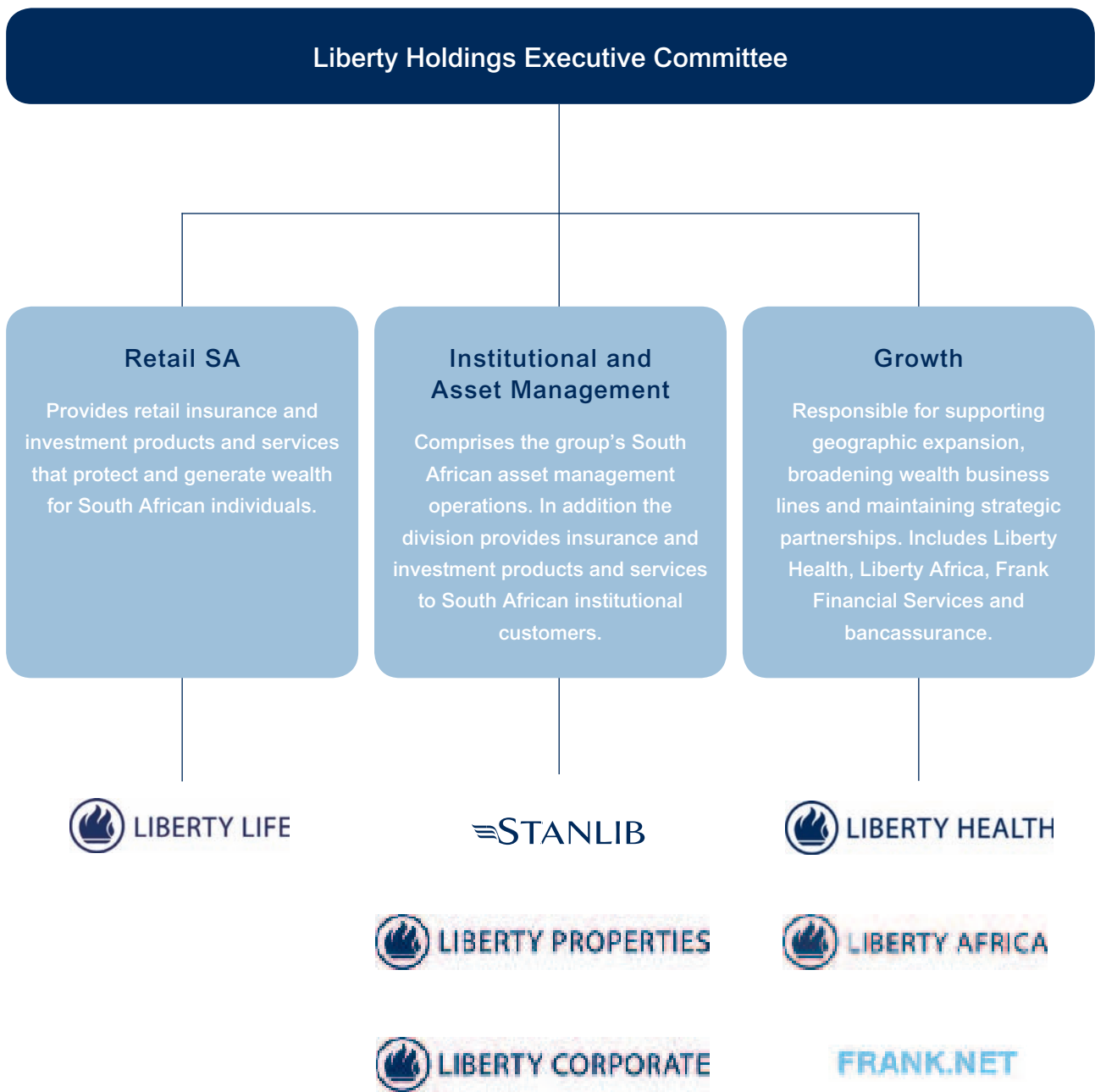
STANLIB: STANLIB Asset Management Limited, STANLIB Wealth Management Limited, STANLIB Collective Investments Limited, STANLIB Multi-Manager Limited

Liberty Group Properties (Pty) Limited: Liberty Group Property Development (Pty) Limited, Liberty Group Property Management (Pty) Limited

Liberty Group Limited: Liberty Life Uganda Assurance Limited, Liberty Life Botswana (Pty) Limited, Liberty Life Swaziland Limited

Liberty Life Namibia Limited: United Funeral Insurance Limited, Stanlib Namibia (Pty) Limited

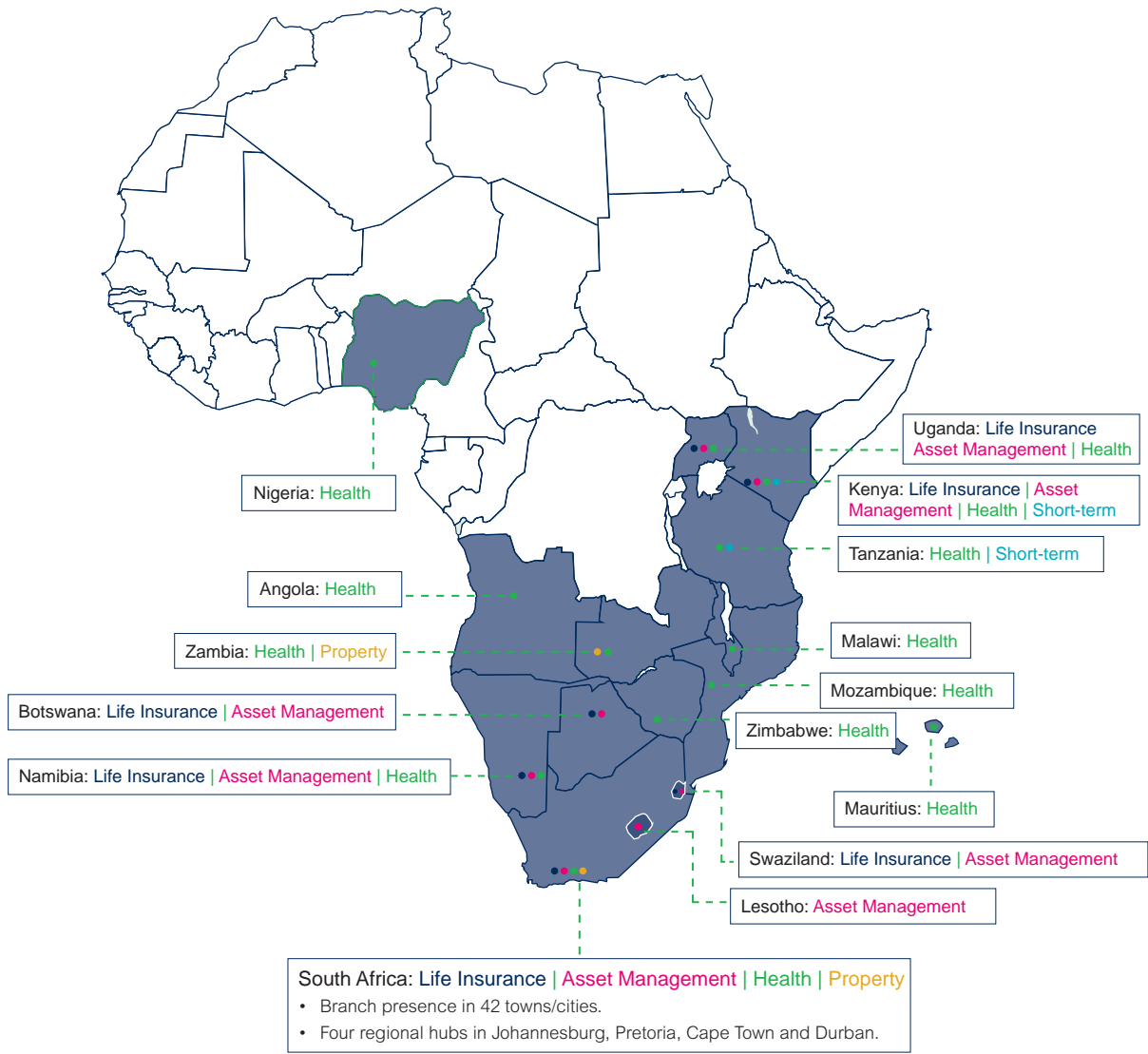
Organisational structure



Supported and enabled by the following group functions:



Liberty's presence in Africa



The group's products distributed by the business units in the various territories are detailed in appendix C of this report

growing
diversity

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review of 2010



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BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DIARY

LIBERTY ANNUAL PROFIT REBOUNDS

The results were widely expected after the company said this month earnings likely totalled between 890 and 980 cents per share.

125

Annual results 2010



Standard partnership core to Liberty strategy

Financial services and insurance group Liberty Holdings says its commercial partnership with Standard Bank is core to its business strategy, as it provides the group with a competitive advantage in the form of a combined client base of which to leverage its core competencies



fin24



Time ripe to buy abroad
The overseas property market has much to offer SA investors.



For
Gret
stor

Competition: 2010-2011: 2010-2011: 2010-2011: 2010-2011: 2010-2011: 2010-2011:

Table provided by: ZAGUSI: 6.01 + (0.43%) ZAGUSI: 6.10 + (0.00%) ZAGUSI: 6.10 + (0.00%) ZAGUSI: 6.10 + (0.00%)

Where are it? [Politics](#) [Special Reports](#) [Opinion](#)

Hot Topics: [Budget 2011](#) [Bhaki Crisis](#) [Nyangoma Crisis](#) [Loy](#)

FINANCIAL SERVICES

Liberty makes a grand comeback

Feb 24 2011

Liberty Holdings reported a surging rebound in full year profit on Thursday... Shares of Liberty are up about 7% so far this year, outperforming Johannesburg's All Share Index which is flat.

ECONOMY

Business Daily

NEWS WORTH KNOWING

VOL CLIV... No 3239

Liberty Life reports surge in profits

Liberty Holdings has announced a massive increase in earnings of 907c per share in the year December up from 47,2c in the comparative period which CEO Bruce Hemphill said were boosted by the performance of its retail business where the firm has managed to 'super base.'

Key indicators (continued)

Indicators	Performance	Three year review								
<p>Add value to customers</p>										
<p>Assets under management</p>	<p>R409 billion</p>	<p>Assets under management (Rbn)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Assets under management (Rbn)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>400</td> </tr> <tr> <td>2009</td> <td>360</td> </tr> <tr> <td>2008</td> <td>330</td> </tr> </tbody> </table>	Year	Assets under management (Rbn)	2010	400	2009	360	2008	330
Year	Assets under management (Rbn)									
2010	400									
2009	360									
2008	330									
<p>Asset management net cash inflows</p>	<p>R22 179 million</p>	<p>Asset management net cash inflows (Rm)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Asset management net cash inflows (Rm)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>22 179</td> </tr> <tr> <td>2009</td> <td>3 000</td> </tr> <tr> <td>2008</td> <td>13 000</td> </tr> </tbody> </table>	Year	Asset management net cash inflows (Rm)	2010	22 179	2009	3 000	2008	13 000
Year	Asset management net cash inflows (Rm)									
2010	22 179									
2009	3 000									
2008	13 000									
<p>Insurance indexed new business</p>	<p>R4 327 million</p>	<p>Insurance indexed new business (Rm)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Insurance indexed new business (Rm)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>4 327</td> </tr> <tr> <td>2009</td> <td>4 500</td> </tr> <tr> <td>2008</td> <td>4 800</td> </tr> </tbody> </table>	Year	Insurance indexed new business (Rm)	2010	4 327	2009	4 500	2008	4 800
Year	Insurance indexed new business (Rm)									
2010	4 327									
2009	4 500									
2008	4 800									
<p>Death and disability claims</p>	<p>R5 761 million</p>	<p>Death and disability claims (Rm)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Death and disability claims (Rm)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>5 761</td> </tr> <tr> <td>2009</td> <td>4 900</td> </tr> <tr> <td>2008</td> <td>5 100</td> </tr> </tbody> </table>	Year	Death and disability claims (Rm)	2010	5 761	2009	4 900	2008	5 100
Year	Death and disability claims (Rm)									
2010	5 761									
2009	4 900									
2008	5 100									
<p>Complaints volumes (elevated to a group level)</p>	<p>4 380</p>	<p>Complaint volumes</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Complaint volumes</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>4 380</td> </tr> <tr> <td>2009</td> <td>4 300</td> </tr> <tr> <td>2008</td> <td>5 400</td> </tr> </tbody> </table>	Year	Complaint volumes	2010	4 380	2009	4 300	2008	5 400
Year	Complaint volumes									
2010	4 380									
2009	4 300									
2008	5 400									
<p>Attract and retain quality employees</p>										
<p>Salaried</p>	<p>5 318</p>	<p>Number of salaried employees</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Number of salaried employees</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>5 318</td> </tr> <tr> <td>2009</td> <td>5 600</td> </tr> <tr> <td>2008</td> <td>5 400</td> </tr> </tbody> </table>	Year	Number of salaried employees	2010	5 318	2009	5 600	2008	5 400
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2010	5 318									
2009	5 600									
2008	5 400									

Indicators	Performance	Three year review																
<p>Attract and retain quality employees <i>continued</i></p> <hr/> <p>Commission-remunerated</p> <p>South African staff turnover</p>	<p>2 289</p> <p>10,6%</p>	<p>Number of commission-remunerated employees</p> <table border="1"> <caption>Number of commission-remunerated employees</caption> <thead> <tr> <th>Year</th> <th>Number of employees</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>2300</td> </tr> <tr> <td>2009</td> <td>2500</td> </tr> <tr> <td>2008</td> <td>2600</td> </tr> </tbody> </table> <p>South African staff turnover (%)</p> <table border="1"> <caption>South African staff turnover (%)</caption> <thead> <tr> <th>Year</th> <th>Turnover (%)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>11</td> </tr> <tr> <td>2009</td> <td>9</td> </tr> <tr> <td>2008</td> <td>12</td> </tr> </tbody> </table>	Year	Number of employees	2010	2300	2009	2500	2008	2600	Year	Turnover (%)	2010	11	2009	9	2008	12
Year	Number of employees																	
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<p>Limit impact on environment</p> <hr/> <p>CO₂ emissions in South Africa</p>	<p>46 525 tonnes</p>	<p>CO₂ emissions (tonnes)</p> <table border="1"> <caption>CO₂ emissions (tonnes)</caption> <thead> <tr> <th>Year</th> <th>Emissions (tonnes)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>46000</td> </tr> <tr> <td>2009</td> <td>47000</td> </tr> <tr> <td>2008</td> <td>46000</td> </tr> </tbody> </table>	Year	Emissions (tonnes)	2010	46000	2009	47000	2008	46000								
Year	Emissions (tonnes)																	
2010	46000																	
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2008	46000																	
<p>Assist in transformation of South Africa</p> <hr/> <p>DTI score</p> <p>Corporate social investment spend</p>	<p>75.03 – level 3</p> <p>R30,5 million</p>	<p>DTI score</p> <table border="1"> <caption>DTI score</caption> <thead> <tr> <th>Year</th> <th>DTI score</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>75</td> </tr> <tr> <td>2009</td> <td>70</td> </tr> </tbody> </table> <p>Corporate social investment spend (Rm)</p> <table border="1"> <caption>Corporate social investment spend (Rm)</caption> <thead> <tr> <th>Year</th> <th>Spend (Rm)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>30</td> </tr> <tr> <td>2009</td> <td>33</td> </tr> <tr> <td>2008</td> <td>28</td> </tr> </tbody> </table>	Year	DTI score	2010	75	2009	70	Year	Spend (Rm)	2010	30	2009	33	2008	28		
Year	DTI score																	
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2009	70																	
Year	Spend (Rm)																	
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2009	33																	
2008	28																	
<p>Provide compliant and responsible financial services</p> <hr/> <p>Taxes paid and collected on behalf of the South African government</p>	<p>R3 416 million</p>	<p>Taxes paid and collected on behalf of the South African government (Rm)</p> <table border="1"> <caption>Taxes paid and collected on behalf of the South African government (Rm)</caption> <thead> <tr> <th>Year</th> <th>Amount (Rm)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>3400</td> </tr> <tr> <td>2009</td> <td>2600</td> </tr> <tr> <td>2008</td> <td>2400</td> </tr> </tbody> </table>	Year	Amount (Rm)	2010	3400	2009	2600	2008	2400								
Year	Amount (Rm)																	
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Chairman's letter to shareholders



Saki Macozoma

Liberty made strong operational progress during 2010 and delivered a pleasing set of financial results. The investment made in people, processes and enhanced risk management over the past two years is having the desired effect. The challenges are being addressed and a platform of quality and sustainability from which to secure Liberty's future competitiveness and growth has been established.

Business environment

During 2010, a combination of unprecedented monetary expansion and extensive fiscal stimulus helped most economies achieve positive growth. Financial market conditions steadied further during the year, despite the fears of a sovereign default in the Euro-area. These improvements, however, disguise the more complex economic reality of a two-speed global recovery reflected in a still modest economic improvement in many of the advanced economies, especially the Euro-area and Japan, and a much stronger performance in most emerging economies including China and India.

Although the South African economy is out of recession, the pace of recovery has lagged many other emerging economies. However, the latest indicators of consumer activity suggest that South African consumers are in a far better position now than a year ago. This is due to rising incomes, lower debt servicing costs, stable and relatively elevated confidence levels, slightly easier access to credit, an improvement in house prices and a rise in wealth levels. The continuation of these trends in 2011 should be positive for our business.

Performance

Supported by low inflation, declining interest rates and improved financial market conditions globally, South Africa's bond and equity markets recorded impressive gains in 2010. The bond market provided a total return of 15% in 2010 although performance tapered off towards

the end of 2010 due to increased fears of higher inflation. In contrast, the local equity market had a robust end to the year, providing a total return of 19% for 2010 as a whole.

Liberty's strategies to enhance balance sheet management and improve persistency trends have started to bear fruit. This, together with strong local equity market performance, contributed to the group's strong earnings performance in 2010.

Strategy

Over the past two years, Liberty has been building a business model and analytical capability that can now be leveraged for innovation and growth. Positive and sustainable progress has been made in strengthening the core insurance business to deliver improved performance. Liberty will build on the foundations already in place and utilise its strong commercial partnership with Standard Bank to facilitate growth in selected African markets.

Although 2010 was a year of consolidation of Liberty's African businesses, the strategy to diversify the business in terms of geography and business lines continues to gain impetus, with Liberty now having a presence in 14 African countries outside of South Africa.

Governance and corporate citizenship

Liberty has always maintained high standards of corporate governance, the detail of which is set out in a separate section of this report. This, the first integrated annual report which incorporates additional non-financial information relating to the group, reflects Liberty's ongoing commitment to good corporate governance and the principles contained in the third King report on corporate governance in South Africa.

The group's transformation efforts are having the desired effect and we continue to make a positive contribution to South Africa's previously disadvantaged communities

through the products and services offered to our entry level market customers. Corporate social investment activities continue to focus on education, which is absolutely crucial to the development and sustainability of the South African economy.

Solvency Assessment and Management

Liberty is focusing on, and has already started work in respect of, the Financial Services Board's Solvency Assessment and Management programme. The basis of this programme is contained in the principles of the Solvency II Directive, as adopted by the European Parliament, adapted for South African circumstances. The objective is to strengthen policyholder protection by aligning the capital requirements of the insurers with their risk profiles. The programme also aims to instil greater risk awareness into governance, operations and decision making of insurers.

Appreciation

I would like to express my thanks to each of my fellow board members for their contribution, counsel and unwavering support throughout the year.

A particular word of thanks must go to Alan Romanis who retired after an impressive 17 years of service to the board. Alan's contribution to the board as well the group audit and actuarial and group risk committees over the years has been immense and he will certainly be missed. I wish him well.

Hylton Appelbaum resigned from the board, also after 17 years of dedicated service, to pursue other interests. I thank Hylton for his significant contribution over the years, particularly to Liberty's corporate social investment initiatives.

Rex Tomlinson resigned as deputy chief executive to pursue other interests after six years at Liberty. Russell

Harte resigned as financial director to take up a position within the Standard Bank group. My thanks go to Rex and Russell for their contribution and I wish them well in their future endeavours.

Casper Troskie was appointed financial director in October 2010 and I welcome him to the board.

Finally, I must express my sincere appreciation to the management team, staff and intermediaries whose efforts have made this year's results possible. Every day, their contributions and interactions with the board and other stakeholders keep the group focused, creating sustainable value for our shareholders.



Saki Macozoma
Chairman

23 February 2011

Chief executive's review



Liberty's 2010 results reflect the significant operational progress made during the year, particularly in the South African retail insurance business and the positive performance of investment markets. Substantial progress was made on customer retention, the ability to manage the balance sheet within adopted risk appetite, the appointment of a new team in STANLIB and the expansion of the bancassurance agreement with Standard Bank.

Redefining strategy in a changing business environment

Extensive changes to the economic, social and environmental context in which the group operates have taken place over the past few years. At the high point of an aggressive and prolonged global bull market in 2006, Liberty committed to a growth strategy based on leveraging its relationship with Standard Bank and diversifying away from a perceived over reliance on its South African retail insurance business.

During this process, opportunities to leverage Liberty's relationship with Standard Bank outside of South Africa, which would enable Liberty to diversify the business geographically at less risk than competitors, were identified. Liberty commenced a process to broaden and extend the bancassurance relationship in terms of business lines and geography. The group also acquired CFC in East Africa and UFI in Namibia, establishing short-term insurance capabilities outside of South Africa.

The shift in investment product purchases away from on-balance sheet to off-balance sheet product resulted in management pursuing the ownership of an independent third party asset manager, resulting in the acquisition of 100% of STANLIB in 2007.

Accounting and actuarial changes meant that there was significant emphasis placed on the management of the balance sheet and accordingly, LibFin was established.

In addition, a new customer segment consisting of individuals not seeking to obtain advice on their insurance purchases was emerging. Consideration was thus given to investing in a direct capability. Over the past two years, research and product development was undertaken in this regard and Frank Financial Services incorporating FRANK.NET was launched in the final quarter of 2010.

The health industry presented real opportunities, both in South Africa and the rest of Africa. Liberty established a health business through the acquisition of NHA, VMed and THT in Nigeria and also launched health insurance products in various African territories.

While significant progress was made in implementing the new strategy, the market collapse in late 2008 and early 2009 and the resultant market volatility and challenging consumer environment highlighted issues requiring attention in Retail SA which had been masked by strong earnings generated during the bull market. The most pressing issue was the declining rate of client retention.

Furthermore, the rapidly declining interest rate environment, combined with Liberty's dominance of the South African guaranteed product market, meant that Liberty had no option but to de-risk its balance sheet.

Against this backdrop, success in 2010 was critical for Liberty and our commitment to the market was to focus on three strategic objectives. These objectives were:

- To strengthen the insurance business;
- To build excellence in balance sheet management; and
- To continue diversification by geography and business line.

Strengthening the insurance business

Retail SA

Liberty had been experiencing a significant and broad deterioration of withdrawal rates across all distribution

channels and major product lines for some time, but symptoms of substantial deterioration were identified in late 2008.

In June 2009, the long-term actuarial withdrawal assumptions were strengthened at an after tax cost of R685 million. In addition, a short-term persistency reserve was established in anticipation of higher policy withdrawal rates for a further period of 18-24 months.

During the second half of 2009, Steven Braudo was appointed as the head of Retail SA and immediately directed the focus of his management team on sustainable shareholder value creation.

A dedicated team comprising senior executives with a diverse range of technical skills was established to urgently address the persistency challenges through a dedicated customer management programme. The overall objective was to ensure that policy withdrawal rates were reduced to below the long-term assumptions.

The customer retention programme has been a success and withdrawal rates are now tracking below the long-term actuarial assumptions at 31 December 2010. A positive withdrawal experience variance of R73 million was achieved, excluding the release of any short-term reserves.

2010 indexed new business sales achieved by Retail SA were down by seven percent at R3.72 billion for the year. This was not an unexpected result given that Liberty terminated in excess of 1200 unprofitable broker contracts and significantly reduced the incidence of internal churn in 2010. Entry level market (ELM) new business volumes were down by 35% as a result of the termination of business generated through unprofitable call centre contracts. However, management is confident that the focus on quality of business will result in improved

shareholder value in the longer term despite the short-term impact on sales.

Retail SA's recurring premium investment and retirement business performed well with a 10% uplift achieved in 2010. Retail sales channels contributed to a 13% increase in the sales volumes of STANLIB funds, demonstrating that the strategy to capture off-balance sheet business in line with changing market trends is working.

New business margin is an important measure of the health of our business. The margin deteriorated over the past two years, primarily as a result of strengthening the long-term persistency assumptions on most products in 2009 as well as a relative increase in the costs of acquisition. Given the conservative stance adopted in respect of improving persistency assumptions, it is anticipated that margin should recover by 2012.

Significant strides have been made in transforming Retail SA into a customer-centric business. There is a dedicated customer management division with more than 50 professionals and 120 contact centre agents focused on delivering on segmentation, value propositions, marketing, customer defence, customer campaigns and the financial adviser value proposition. In 2011, further delivery in each of these pillars will form the foundation of Retail SA's strategy.

Liberty Corporate

Liberty Corporate has been a strong player in the small to medium business market for many years. However, pension reform will result in significant changes to this mature and highly intermediated industry. The new environment is likely to favour large, low cost providers and Liberty Corporate is positioning itself to take advantage of the opportunities created by these reforms. Management believes that Liberty can capture profitable corporate customer segments for specialised investment and risk

Chief executive's review (continued)

products and expand its presence in the large umbrella fund market in South Africa and the rest of Africa.

Building excellence in balance sheet management

The time and effort invested in LibFin is paying dividends and its capabilities have proven to be successful in difficult markets. The delivery on strategy is already evident in LibFin's robust 2010 financial results. During the year, LibFin continued to focus on building and developing the infrastructure required for a specialist risk and investment management capability. LibFin is a leading-edge, unique proposition and is already demonstrating the role it will play in Liberty's future market competitiveness.

The shareholder's investment portfolio was transitioned to a new structure during 2010 and delivered improved investment returns with reduced volatility under difficult market conditions. Significantly improved earnings in the portfolio were largely the result of being well positioned to benefit from the more favourable market conditions experienced towards the end of 2010.

Diversification by geography and business line

Liberty's diversification strategy is focused on building businesses for the future in new markets by leveraging the group's existing core competencies and its relationship with Standard Bank.

STANLIB

Management has spent the last year critically reviewing STANLIB's business and developing a new operating model, the purpose of which is to lay the platform to move STANLIB from a distribution-led captive investment house, to an independent investment-led third party manager.

The new operating model has been finalised and is in the process of being implemented. It allows for a clear focus on expertise and areas of specialisation as well as creating alignment between customer and fund manager interests.

During 2010 STANLIB committed to investing in experienced staff as well as reviewing and enhancing risk and investment processes. While certain fund managers chose to leave during 2010, a number of key experienced fund managers joined the team significantly increasing the experience base and resulting in a stronger investment team.

STANLIB's recent fund performance indicated significant improvement and its prominence in fixed interest, money market and property franchises was maintained.

Liberty Properties

Liberty Properties has been a consistently good performer and 2010 was no exception, with the business delivering another set of satisfactory results for policyholders and shareholders alike. Returns from the property portfolio in 2010 were 11.91%, comfortably exceeding the 9.5% total return that was declared as an interim bonus for 2010, and is ahead of comparable direct property portfolios.

Major projects were completed at Eastgate, Pietermaritzburg, Umhlanga and Mitchells Plain. Progress on the development of the flagship project at Sandton City was good despite the diversion of the 2010 FIFA World Cup. The major third party projects in Zambia and Swaziland continue to progress satisfactorily.

Liberty Health

In 2010, Liberty Health continued to grow aggressively in Africa. There was robust delivery from a membership perspective with particular success in Liberty Blue, which saw cumulative lives increasing by almost 100% between January and December 2010.

Although Liberty Health has not delivered against its profit projections, largely due to the cost of capacity build and membership attrition in the South African operation, the strategic rationale for the business remains sound and management is confident that it will deliver the desired results in the longer term.

Liberty Africa

The strategic rationale for entering the Africa market is to enable the group to leverage its core competencies in insurance, administration and asset management, utilising the competitive advantage of the geographic footprint and client base available to Liberty through its relationship with Standard Bank.

In Africa, the immediate business opportunity lies primarily in the institutional market and will be accessed in the first instance via the Standard Bank footprint. The retail market in most countries, Kenya being an exception, is not yet considered sufficiently developed to justify an investment, other than by way of embedded product where Liberty has an existing presence and capability that can be leveraged using the Standard Bank network. Through this network, Liberty has established a footprint in 14 African countries outside of South Africa.

The acquisition of CfC Insurance Holdings was subject to further regulatory delays and is in the process of being finalised.

Direct distribution

Frank Financial Services marketing under FRANK.NET was launched in the final quarter of 2010. The technology and infrastructure which has been created gives Liberty the capability to exploit new opportunities with Standard Bank through affinity programmes and white label products.

Bancassurance

The commercial partnership with Standard Bank is core to Liberty's business strategy, as it provides a competitive advantage in the form of a footprint and client base off which to leverage core competencies. During 2010 the bancassurance agreement was renegotiated and expanded.

The expanded bancassurance agreement has been designed to provide further advantages to Liberty and Standard Bank in respect of geographic, channel and product expansion opportunities. There is mutual commitment to maximise these opportunities.

People and transformation

Good progress was made with Liberty achieving an improved overall DTI score and being classified as a level three contributor in terms of the DTI Codes relating to Broad-Based Black Economic Empowerment. During 2010 Liberty focused particularly on employment equity objectives, skills development programmes and increasing procurement from black owned suppliers, with progress made on all fronts.

Sustainability

Liberty acknowledges its responsibility to sustainably achieve value creation for all of its stakeholders. The top 6 sustainability issues identified by management in 2010 are to:

1. Deliver sustainable financial results;
2. Provide compliant and reasonable financial services;
3. Add value to customers;
4. Attract and retain quality employees;
5. Limit Liberty's impact on the environment; and
6. Drive transformation in South Africa.

How Liberty manages these issues and focus areas is discussed in more detail in this integrated report and the separate sustainability report, available on the Liberty website (www.liberty.co.za).

Prospects

The group's results are linked to the performance of the economies and investment markets in which the group operates with South Africa being the most important. The significant progress made in our core operations in 2010 positions the group favourably for continued delivery of good operational performance and to take advantage of any improvements in the markets. Our focus will be on lowering unit costs and improving new business sales and margins in the insurance business. In our asset management business, we will continue to build the capacity to deliver superior investment returns.

Appreciation

My sincere appreciation to my executive team for their continued co-operation and team effort. My thanks are also extended to the board for generously sharing their wisdom and experience, to our staff and financial advisers for carrying the Liberty brand so proudly, to our shareholders for their continued support and to our customers for choosing Liberty to help them own their lives.



Bruce Hemphill
Chief Executive

23 February 2011

Economic review

A two-speed world economic recovery

Following a challenging and tumultuous 2009, most economies registered positive growth during 2010 with a strengthening of a wide range of global economic indicators, especially in the final months of the year. The world economic recovery is however uneven across countries and regions. In particular, the growth dynamics for many emerging and developing countries are encouraging, led by China, while economic conditions remain subdued and below potential in a number of developed economies, especially Japan and the Euro-area.

Emerging economies achieved a growth rate of approximately 7% in 2010, well above the 3% recorded in advanced economies. Developing Asia, which includes China and India, continued to convincingly outperform the other regions of the world, although a number of other emerging economies, including sub-Saharan Africa, have also maintained a consistently strong performance. During 2010, sub-Saharan Africa grew by around 5% and is expected to exceed the growth in all other regions of the world, except for developing Asia, in 2011. This reflects sustained strength in domestic demand in many of the region's economies, as well as rising global demand for commodities.

Euro-area sovereign debt crisis remains a concern

In the first few months of 2010, the European sovereign debt crisis erupted and threatened to tip the global economy back towards recession. Fortunately, a multi-billion Euro package from the European Union and International Monetary Fund for debt-burdened European governments stabilised the situation, at least in the short term. High deficit countries, including Greece and Ireland, have been forced to undertake radical revisions to their public sector finances. In addition, countries such as Portugal, Spain, Belgium and Italy have undertaken significant measures to curtail public sector spending and systematically improve their public sector debt levels. These tighter fiscal policies will tend to restrict growth in many European economies during 2011.

Fortunately Germany, which is the largest economy within the Euro-area, has performed particularly well, helped by an improved export performance. Consequently, manufacturing sentiment has risen at a rapid pace during 2010, with demand for capital goods reaching a record high towards year end.

Concerns over government fiscal balances are not confined to Europe. The average gross general government debt to gross domestic product (GDP) ratio for advanced economies is projected to rise from almost 91% of GDP at the end of 2009 to 110% of GDP in 2015, bringing the increase from pre-crisis levels to 37 percentage points. Among the group of seven largest industrial nations, the government debt to GDP ratio is expected to rise to levels exceeding those prevailing in the aftermath of the Second World War. Japan remains the world's most indebted government with a debt to GDP ratio of over 200%. In contrast, within emerging economies the government debt to GDP ratio is projected to resume a gradual decline from 38% in 2010 to an estimated 34% in 2015.

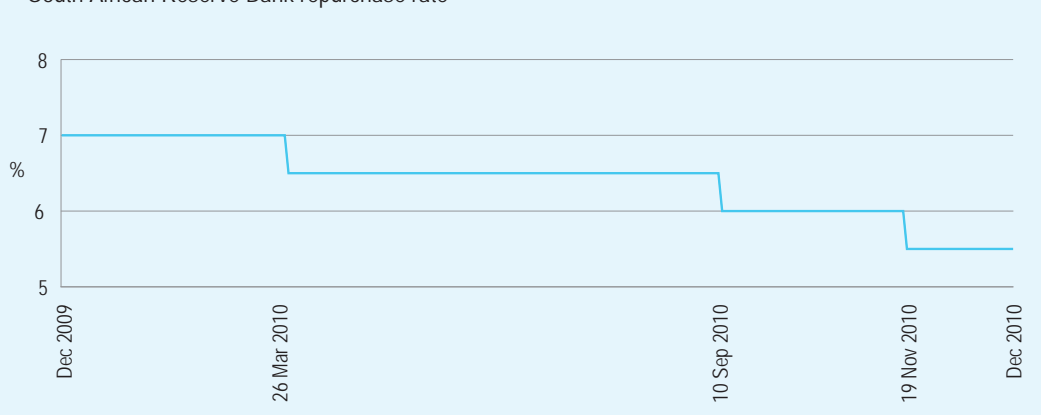
United States (US) has navigated the worst of the credit crisis, but risks remain

The US economic recovery has broadened and become more consistent over the past year. For 2010 as a whole, the country grew by 2,9% after declining by 2,6% in 2009. The 2009 decline was the worst annual economic performance of the US since the Second World War. In value terms, adjusting for inflation, the US economy is now finally back to its previous peak level of output, which was recorded in the second quarter of 2008.

The US labour market has also improved since the recession officially ended in June 2009. However, at the end of 2010 the rate of unemployment remained exceptionally high at over 9%. During 2010, the economy created 1 124 000 jobs, at an average of 94 000 jobs per month. That is a little below the estimated 100 000 increase in the number of people entering the job market every month. At this stage it appears likely that the labour market will take a number of years to fully recover from the recession, especially when one considers that the previous two employment booms in the US were driven by very specific industry dynamics, namely the growth in the hi-tech sector, which ultimately led to a bubble in technology stocks, and the growth in the housing market, which ultimately led to a structural oversupply of housing and the credit crisis.

While the US is officially out of recession, it does not mean that the economic recovery in the world's largest economy is without risk. Rather, there remain a number of key structural economic concerns including an over-supply of housing with further declines in house prices likely, excessively high debt levels especially within the public

South African Reserve Bank repurchase rate



sector, including State debt, a high level of unemployment and under-employment, an aging infrastructure and an excessive liquidity overhang caused by the extreme monetary and fiscal stimulus. This stimulus will have to be systematically withdrawn over the next couple of years. These factors suggest that the US will struggle to return to its historical average growth rates, but equally the economy appears to have successfully navigated the worst of the credit crisis and avoided a double-dip recession.

South African economy is recovering, but urgently needs to create employment

The latest growth estimates for South Africa suggest that economic activity is expanding within all major sectors of the economy. This includes mining, manufacturing, retail trade and finance. In 2010, the South African economy grew by an estimated 2,8%, which is a healthy improvement relative to a decline of 1,7% in 2009, but unfortunately still not sufficient to close the output gap and lead to a sustained increase in employment.

Crucially, indicators of household activity suggest that South African consumers are in far better shape now than a year ago. This includes rising real incomes, lower debt servicing costs, a more stable labour market, relatively elevated confidence levels, slightly easier access to credit, an improvement in house prices and a rise in household wealth levels. In combination these factors suggest that consumer spending can continue to expand at a solid pace into 2011.

Inflation fell more than expected in 2010, allowing the South African Reserve Bank to cut interest rates to their lowest level in more than 30 years

During 2010, South Africa's inflation rate surprised on the downside, averaging 4,3% for the year as a whole; well below the 7,2% recorded in 2009. The strength of the rand combined with subdued food inflation provided significant downward pressure on the consumer price index throughout the year. In that regard, the recent sharp upward trend in global food and energy inflation is a significant concern.

The rebound in the value of the rand during 2010 surprised most currency analysts, with the currency ending the year up more than 10% against the US dollar. This performance resulted in the rand being one of the strongest currencies among emerging economies in 2010. The strength

of the rand was largely due to record foreign capital inflows, mainly in the form of portfolio investment into the South African bond and equity markets. In fact, foreign investment in the South African bond market achieved a record of more than R50 billion in 2010, while the foreign inflow into the equity market exceeded R30 billion.

Supported by the persistently low level of consumer inflation, a strong rand exchange rate and the modest pace of the economic recovery, the South African Reserve Bank cut the repo rate by a further 50 basis points to 5,5% in November 2010. This was the third interest rate cut in 2010, taking interest rates down by a total of 650 basis points during the current business cycle and to their lowest level since 1974.

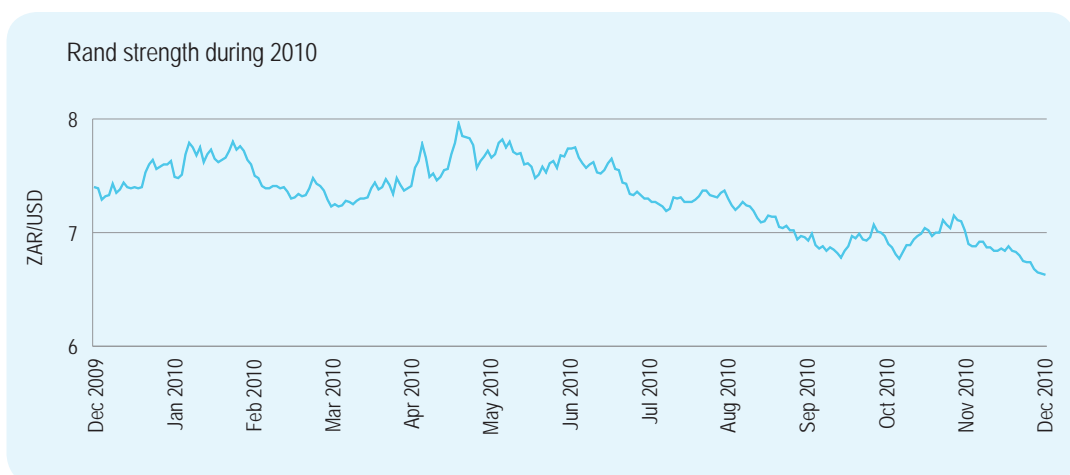
Conclusion

The world economy continued to recover in 2010 with emerging economies, once again, outperforming the developed world. While the risk of a return to recession conditions, especially in the US, has diminished significantly, other risks have arisen including a sovereign debt crisis in the Euro-area as well as significantly higher food and energy prices. In 2011, the emerging economies in particular are going to have to balance the need to contain rising inflation against the desire to maintain a high growth rate.

During the year, South Africa benefited from a number of positive factors including the continuation of an infrastructural boom that was started a number of years ago, and the success of hosting the 2010 Soccer World Cup. In addition, inflation has been contained and interest rates have been significantly reduced. South Africa has also been the recipient of significant foreign capital inflows that are vital given the country's low domestic savings rate.

The challenge ahead is clear. South Africa needs to generate a sustainable increase in investment and employment otherwise the current economic recovery will ultimately lack vibrancy and the country will continue to underperform relative to its potential.

Kevin Lings – STANLIB Economist



Update on strategy

Introduction

The directors and management of Liberty undertake an annual review of the group's strategy, assessing prior performance and amending objectives as required with reference to the economic environment and internal Liberty specific insights.

The 2010 review continued the focus on setting plans that will ensure long-term sustainability and relevance of wealth services in the South African and broader African markets.

Whilst the Business Unit reviews in this integrated report provide an overview of achievements during 2010 and direction going forward, this section provides a brief overview of the industry dynamics, strategic challenges and Liberty's strategic response.

Industry review

The insurance and asset management industry continues to undergo significant change from a regulatory, accounting and market perspective.

In 2006, probably at the high point of a prolonged global bull market, many traditional South African insurers adopted a strategy to diversify away from an over reliance on South African retail insurance business, which was seen as a saturated, mature market with limited opportunity for growth.

The retail insurance market has continued to grow at a double digit rate and the South African insurance industry showed remarkable resilience to the economic turmoil of 2008. Banks and niche players have gained market share. Direct channels in particular captured a new type of consumer, willing to purchase without any intermediary advice. Banks leveraged their customer relationships to sell embedded products as well as standalone policies. Retailers also sold embedded insurance products and increased their footprint in financial services. Thus, the industry has become highly diverse and competitive, with over 80 active life licences in issue including retailers, direct providers, brokerages, asset managers and other financial services institutions.

Industry outlook

A raft of new regulation is being introduced (refer risk management section, page 101) to meet a variety of objectives such as greater transparency, clearer disclosures, increased resistance to investment market volatility, South African social reform and improved customer focus and relevance. This will contribute to a more professional and challenging operating environment. The introduction of legislation dealing with conflicts of interest and the pending introduction of a Treating Customers Fairly (TCF) framework are intended to deal with a variety of issues such as:

- Ensuring product choice is appropriate to individual customers' needs;
- Providing a clear framework for dealing equitably with complaints;
- Providing greater transparency on costs and charges; and
- Dealing with situations where advisers may be conflicted in terms of products they sell.

These changes will require modification and potentially significant change to the industry's distribution strategies.

Risk products

The South African market for long-term risk products produced good growth between 2004 and 2009, driven by shifts in population income brackets with the R11 000 and above per month income group growing significantly over this period. During this time, life cover users in South Africa increased by 35% and funeral policy holders by 94%. During the same period, there was a 10% increase in the number of people using medical insurance. Medical aid and saving products indicated an increased uptake in the higher income brackets.

Looking ahead, continued growth across all income brackets is anticipated, albeit less pronounced than during the last five years. The scope and context to provide financial products to the entry level market will be defined by regulatory developments.

Asset management

The asset management industry continues to grow at a rapid pace on the back of strong investment markets and shifts in savings from on-balance sheet to off-balance sheet vehicles. The industry is highly intermediated, with most of the flows being directed into the industry via IFA/broker platforms in the retail market or through asset consultants in the institutional market.

Independent asset managers, with superior capability, have been the chief beneficiaries of this growth. The industry remains highly competitive and the ability of asset managers to attract new and retain existing funds is dependent on long-term performance and the stability of their investment management teams. Independent asset managers who have successfully achieved this, have attracted significant growth in funds over the last few years.

Africa outside of South Africa

South Africa continues to account for the bulk of Africa's total wealth business. However, the rest of Africa presents growth opportunities due to:

- Low financial services penetration with growth of 8% forecast over the next five years;
- Growing African economies resulting in growing middle classes;
- Pension fund and insurance reform, driven by the International Monetary Fund (IMF); and
- Focused investment in infrastructure development.

Challenges

As the insurance and asset management industries evolve, new business models will emerge which clearly differentiate industry participants around core competencies, brand association, specific customer segment offerings and distribution models. In the UK market, successful new business models focusing on product specialisation, closed book administration, or low cost product provision have emerged.

Regulation impacting the customer

South African retirement and national health reform, micro-insurance and community banking regulatory developments will together define the scope and context for the provision of financial products into all consumer income levels.

The proposed TCF regulatory framework will result in more meaningful focus on customer outcomes at all levels in financial institutions and at all stages of the product lifecycle. TCF implementation will shift the consumer protection emphasis back from intermediaries to product suppliers.

At Liberty, the process of preparing for these changes is well underway with senior management cascading initiatives through the business. Extensive experience, gained through participation in industry bodies and from staff who were involved in managing UK businesses through the same change process, already exists in the business.

Competitive environment

Competition within the insurance and asset management industries remains significant. Changes in regulation, which will increase the cost of compliance and the risk of non-compliance, will increase barriers to entry into the industries and probably drive consolidation. Globally, a growing proportion of risk products are being distributed directly, placing pressure on the profitability of those businesses distributing product through intermediated channels.

Regulation such as Solvency II/SAM and Basel III in particular will act as a catalyst for strategic and structural ownership change as industry participants are required to further increase capital efficiency, adjust business models in order to operate profitably and deal with operational and methodological complexity introduced by the new regulation.

The expected adoption of an IFRS measurement standard on insurance should improve transparency and consistency of revenue recognition and disclosure within the industry.

Capital requirements

The management and measurement of capital will become more risk sensitive and complex with the proposed implementation of Solvency II and the FSB's SAM programme. Significant costs are expected to be associated with the implementation of SAM and IFRS 4 over the next three to five years.

Technology

New age systems and applications are key to unlocking new markets, enabling distribution channels, driving cost down, becoming more efficient, adhering to regulatory and accounting requirements and providing necessary management information. Going forward, the insurance and asset management industries will be required to make capital investments to keep pace with the highly dynamic digital environment and improve operating systems.

Talent management

Global talent supply and demand has created a highly mobile workforce. South African companies need to attract scarce skills from across Africa and globally, and not limit talent acquisition to the local market which is capacity-challenged.

During 2010, certain fund managers chose to leave STANLIB. They were replaced by experienced investment professionals, thereby strengthening both the leadership and investment management teams.

Liberty's response

Over the past two years, Liberty has built a business model and analytical capability that can now be leveraged for innovation and growth. This includes:

- A new, improved structure and the hiring of strong industry leadership skills at board and management levels;
- Improved risk and regulatory management;
- Building strong balance sheet management capability;
- Systems development and improving the IT control environment;
- Building enhanced capability to manage persistency;
- Strengthening the collaboration and partnership with Standard Bank;
- Cost control through process redesign;
- Introduction of a new asset management business model; and
- Capability built to drive diversification by the establishment of an African footprint, a health business and a direct offering.

Liberty will build on the foundations already in place, with a strong focus on building customer segment specific offerings to best meet customer needs and thereby improve the persistency of sales. Customer insights, strong marketing capability and the implementation of the latest technology to enable multi-channel distribution will drive the retail business into the future.

Liberty's strong commercial partnership with Standard Bank will facilitate growth in Africa and increase the sale of value added products to customers of the broader group.

The strategic rationale for the health business is built on the commercial opportunities brought about through the evolution of the SA health market and the opportunity to participate in profitable health insurance risk pools in African markets.

Overall, Liberty is well positioned to respond to the strategic challenges of the industry.

Process

Liberty's strategy is initially formulated by management following detailed data gathering, analysis and extensive research, planning and workshops. The process culminates in a two day board strategy workshop, during which the proposed objectives are discussed and analysed in detail.

Following the incorporation of all input emanating from the workshop, detailed operating budgets, taking account of the strategic objectives, are prepared by management and approved by the board at the November board meeting.

Performance against the approved strategic objectives is subsequently monitored at each board meeting.

Update on strategy (continued)

Scorecard and 2011 update

A summary of the significant group strategic objectives described in the 2009 annual report, an assessment of progress made in 2010 and the key approved strategic objectives for 2011 follow.

Strategic scorecard

Business area	2010 objectives	Self assessment	
Retail SA	Persistency <ul style="list-style-type: none"> Continue to improve policyholder persistency. 	✓	
	Sales and Distribution <ul style="list-style-type: none"> Develop segmented client solutions. Return the entry level market (ELM) product proposition to profitability. 	$\frac{3}{4}$ ✓ $\frac{3}{4}$ ✓	
	Costs and margin <ul style="list-style-type: none"> Reduce acquisition costs to enhance margins. 	$\frac{1}{2}$ ✓	
Asset Management and Institutional	STANLIB <ul style="list-style-type: none"> Improve investment performance at STANLIB. 	$\frac{3}{4}$ ✓	
	Corporate <ul style="list-style-type: none"> Grow new business in Liberty Corporate. 	✓	
Growth	Growth and return on investment <ul style="list-style-type: none"> Expand the Liberty Africa business. Continue to grow Liberty Health services and products. 	$\frac{3}{4}$ ✓ $\frac{3}{4}$ ✓	
	Bancassurance <ul style="list-style-type: none"> Leverage the bancassurance competitive advantage. 	✓	
	Alternative distribution platforms <ul style="list-style-type: none"> Complete the development of a direct distribution channel. 	✓	

Achievements in 2010	2011 objectives
<p>The customer retention programme has largely been successful and a significant improvement in policyholder persistency has been evidenced.</p> <p>With respect to risk products, recent experience is below the long-term assumption. Investment products have steadily improved and are slightly above the long-term assumption.</p>	<p>Persistency</p> <ul style="list-style-type: none"> • Further improve persistency levels, specifically investment products, to achieve levels at or below long-term assumptions, while maintaining risk products at current levels.
<p>The customer base and market was segmented. Strategies for the identified target market segments were finalised during 2010.</p> <p>Successfully closed all non-profitable external call centre distribution channels. In recent months, the ELM business has produced significantly improved results.</p>	<p>Sales and Distribution</p> <ul style="list-style-type: none"> • Target defined consumer segments with specific value propositions and campaigns. • Enhance capacity to develop and innovate profitable new products. • Re-establish sales capacity and drive profitable growth into the chosen market segments. • Redefine the ELM business case to target sustainable profitable business.
<p>Overhead and semi-variable costs within acquisition channels have seen real decreases. However, in light of the closure of unprofitable ELM call centre business, sales efficiency has nominally declined. Overall, progress has been made.</p>	<p>Costs and margin</p> <ul style="list-style-type: none"> • Maintain the strong focus on costs and improve acquisition cost efficiency ratios.
<p>The business has been restructured, a new management team is in place and investment performance has improved.</p> <p>STANLIB received two Raging Bull awards in February 2011 for the performance of the STANLIB Property Income Fund and STANLIB Income Fund. STANLIB was ranked first in the Alexander Forbes Large Manager Watch for the year to 31 December 2010.</p>	<p>STANLIB</p> <ul style="list-style-type: none"> • Implement STANLIB's new operating model. • Continue to improve investment performance.
<p>New product development and distribution strategies have been implemented and a new management team is in place, positioning the business for growth. The increase in new business during 2010 was good.</p>	<p>Corporate</p> <ul style="list-style-type: none"> • Grow new business in Liberty Corporate via the launch of competitive new products, particularly targeting medium to large retirement funds.
<p>In 2010 the acquisition of United Funeral Insurers in Namibia was completed. The acquisition of Stanlib (Swaziland) (Proprietary) Limited and Stanbic Investment Management Services (Proprietary) Limited in Botswana was also completed. All of the conditions precedent in relation to the acquisition of CFC in Kenya were met and the transaction will be effective in the first half of 2011.</p> <p>In the Health business cumulative lives have increased and the Liberty Blue risk product has been launched in 11 African countries outside South Africa.</p>	<p>Growth and return on investment</p> <ul style="list-style-type: none"> • Complete the consolidation of the existing Liberty Africa businesses and leverage the investments. • Shift focus from growth to margin improvement and achieve efficiencies inherent in the Liberty Health business model.
<p>Bancassurance sales continued to increase during 2010 and a significant milestone was achieved with the extension of the bancassurance agreement. The agreement now includes asset management and health products, in addition to risk and life wrapped investment products previously included. The agreement covers South Africa and the rest of Africa.</p>	<p>Bancassurance</p> <ul style="list-style-type: none"> • Deliver the business case underpinning the revised bancassurance agreement.
<p>The direct distribution channel, FRANK.NET was launched in November 2010.</p>	<p>Alternative distribution platforms</p> <ul style="list-style-type: none"> • Deliver the FRANK.NET business case. • Leverage the technology and infrastructure with Standard Bank.

Value creation and related drivers

The business model

Introduction

In achieving its vision, Liberty's primary objective is that the business should sustainably create value at an attractive rate of return for its shareholders (comprising equity value growth, dividends and return of capital). This requires a sound business model, effective risk management, good governance and responsible stakeholder relationships coupled with an appropriate sharing of financial reward. The group's approach and performance in respect of these requirements are explained and commented on throughout this report.

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

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

This section summarises, at a high level, the key drivers of shareholder value creation within the current business model. Targets and objectives relating to these drivers are integrated into management performance contracts and are constantly monitored by the group's various governance forums.

Value performance metrics

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

Understanding trends and having appropriate valuation models and assessment is therefore critical to managing risk and ensuring a sustainable business model. Liberty invests considerable resources in skilled financial and actuarial resources, model development and continually utilises world-wide recognised consultants to benchmark and advise on best practice to assist in remaining competitive. In addition, relevant value metrics are required in order to not only manage risk but provide management and all stakeholders relevant information and, in the case of shareholders, provide evidence of whether the primary objective is being met.

Liberty has chosen the following metrics as the main scorecards to assess performance and value creation:

- **IFRS earnings, earnings per share, return on equity and financial position** – This provides the net profit related to the group's activity during the year under review as well as a summary of the group's assets and obligations at the year end date. The indicators are compiled in accordance with an internationally recognised accounting framework and generally accepted accounting policies. Earnings are additionally expressed as an amount per ordinary share and as a return on average equity employed. It should be noted that earnings in a long-term insurer tend to be more volatile than most other financial service entities as they are significantly influenced by actual investment market performance for the period as well as changes to economic or non-economic assumptions used in valuing contract liabilities. These changes to assumptions result in a 'capitalised' or multiple effect which is the consequence of the change being modelled over the remaining duration of contracts which have average durations well in excess of one year.
- **Embedded value, embedded value profits and return on embedded value** – Embedded value is a widely utilised financial reporting framework in the long-term insurance industry – there are several methodologies available to calculate embedded values, with Liberty's choice being the guidance (referred to as PGN 107) provided by the Actuarial Society of South Africa. Liberty utilises embedded value as a representation of the existing net asset value (net worth) of the group adjusted for the present value of the future expected earnings on existing in-force insurance contracts and the estimated current values of the various non-insurance businesses. Embedded value profits are derived through the analysis of year on year movements that are

split between capital flows and profit. The analysis and attribution of sources of profit are an important indicator of performance as it allows for the identification of the reliability of previous assumptions as well as specific reasons for value creation or destruction. Embedded value is also expressed as an amount per ordinary share which provides a broad basis for shareholders to assess inherent value compared against current ruling share prices. Return on embedded value is a profit efficiency measure providing a return on investment metric. The group has in recent times targeted a long-term sustainable range between 14,5 to 15,5% per annum for this metric.

- **Value of insurance new business and margin** – Utilising embedded value principles, the new insurance and investment contracts entered into by regulated long-term insurance licensed entities, during the reporting period, are modelled to derive an amount which represents the estimated current value those contracts will provide to the group over their expected duration. A margin is then calculated as a ratio of this value divided by the present value of expected premiums.

Group entity value

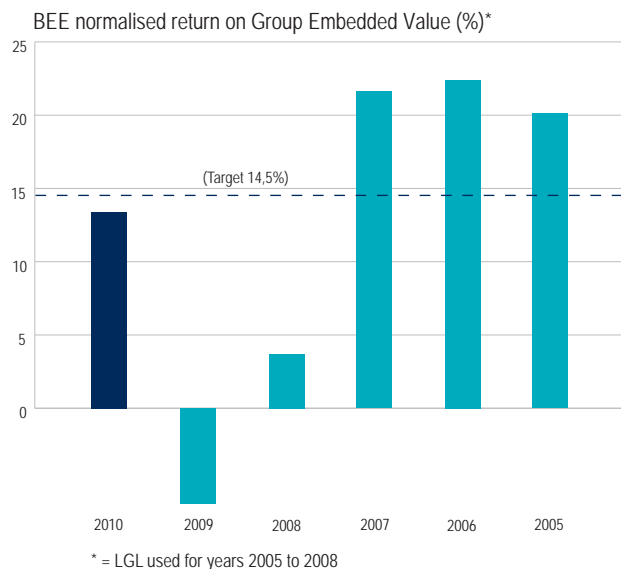
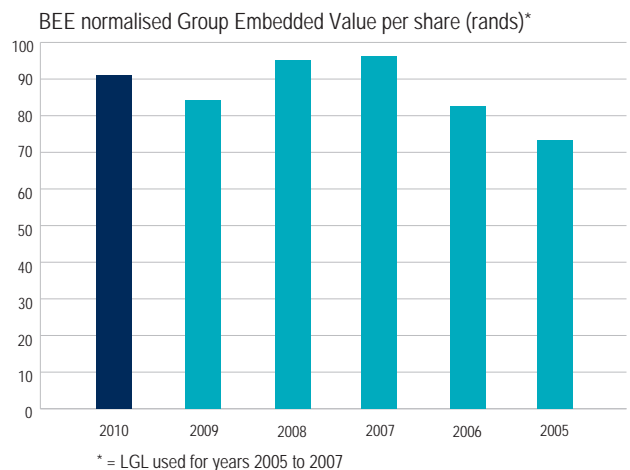
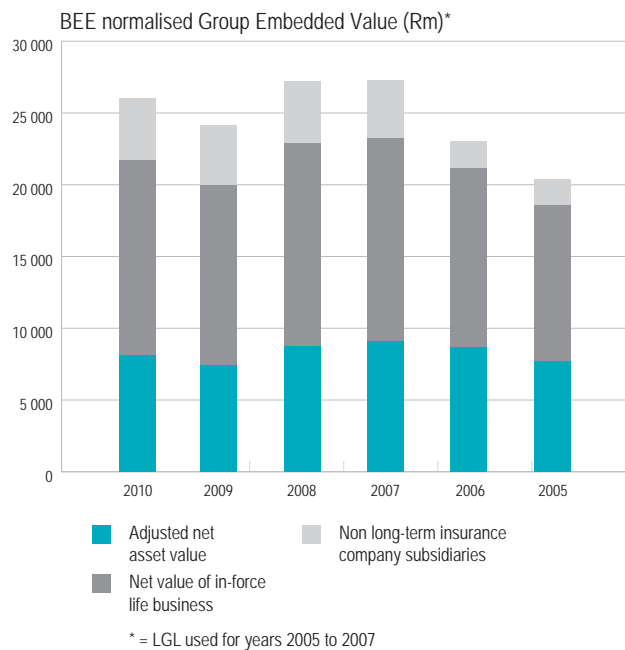
Utilising the above, an indicative group entity value can be derived as the sum of:

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

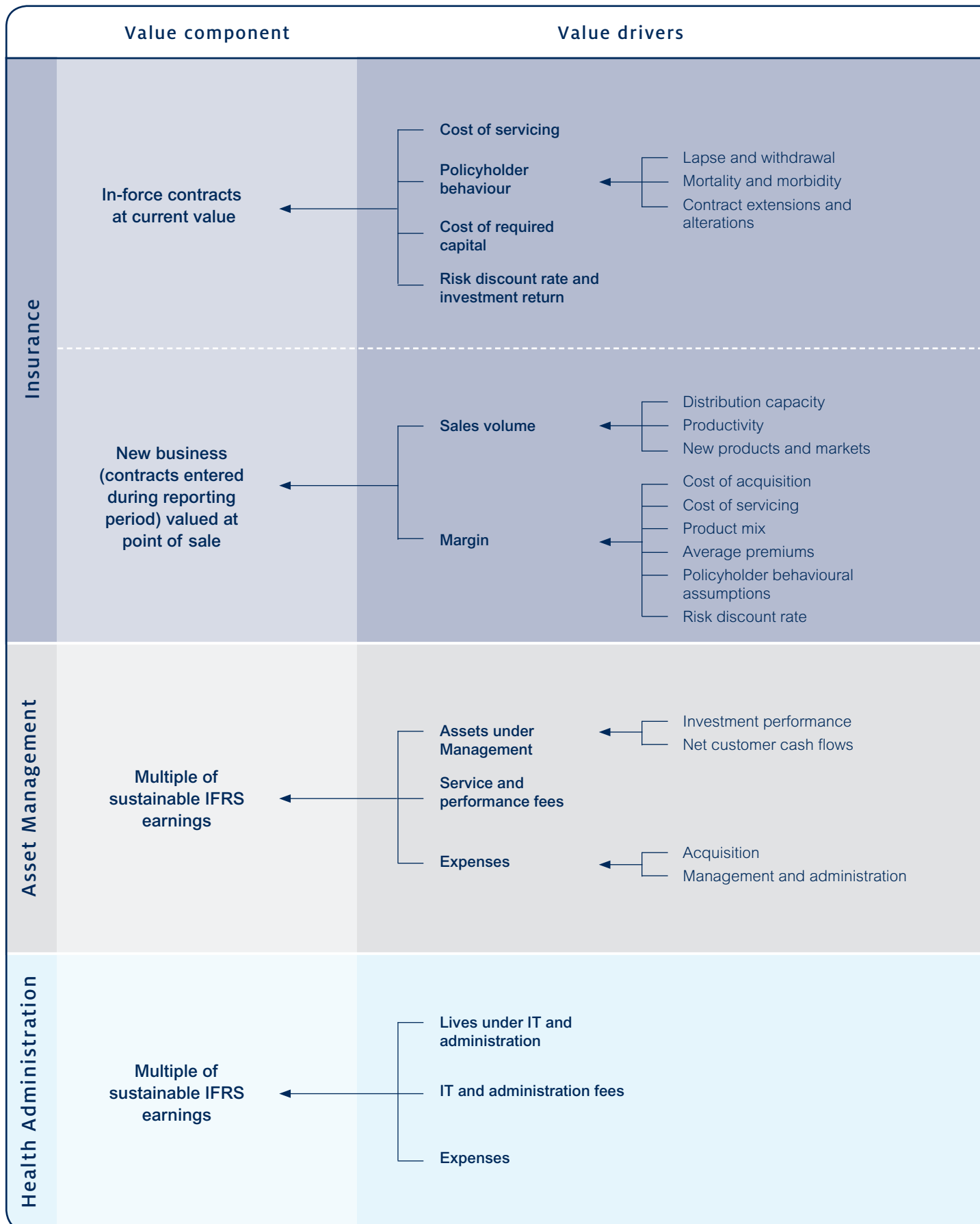
Value creation

Value creation will be dependent on management’s ability to increase the value of each operational component. These operational components will generally have several influences (drivers) that are controllable and require active management in addition to some that are external by nature and less controllable.

The diagram that follows depicts these operational components of value by significant business operation, with the key underlying drivers of that value referenced to the various metrics that give an indication of performance and where they are commented on in this report.



Value creation and related drivers (continued)



General commentary on the value driver performance is contained in chief executive's review, Financial review and Group Embedded Value report

Relevant reported metrics	Metric reporting reference	Applicable BU commentary
Maintenance cost per policy (LGL– Retail SA) Value of in-force covered business (LGL) VIF movement analysis: – Operating variances and assumption changes (LGL) – Cost of required capital (LGL) – Investment variances and economic assumption changes (LGL)	Six year review Group Embedded Value report	Retail SA/Corporate Retail SA/Corporate/ Liberty Health LibFin
Indexed premium Value of new business New business margin	Six year review Key indicators Financial review Group Embedded Value report	Retail SA/Corporate/ Liberty Africa
Assets under management Service fee margin Acquisition and operating expenses Cost to income ratio	Six year review Key indicators Financial review Six year review	STANLIB/Liberty Properties/Liberty Africa
Lives under IT and administration Operating expenses	Six year review Financial review	Liberty Health

Value added statement for the year ended 31 December 2010

Wealth created	2010 Rm	2009 Rm	% change
Premium income and reinsurance recoveries	31 490	30 678	2,6
Investment and other operating income	27 892	20 728	34,6
Commissions paid to agents and brokers	(2 906)	(3 114)	6,7
Payments to outside suppliers	(2 745)	(2 627)	(4,5)
Total wealth created	53 731	45 665	17,7
Wealth distributed amongst stakeholders			
Employees (salaries and other benefits)	2 270	1 957	16,0
Government (in the form of taxes)	2 098	1 221	71,8
Policyholders (policyholder claims, benefits and increase in reserves)	45 375	41 081	10,5
Providers of capital	2 159	2 014	7,2
Ordinary distributions paid to Liberty shareholders	1 301	1 301	–
Earnings attributable to preference shareholders	506	368	37,5
Distributions to non-controlling interests	167	146	14,4
Finance cost	185	199	(7,0)
Retentions to support future growth	1 829	(608)	>100
Retained surplus/(deficit)	1 269	(1 057)	>100
Depreciation, amortisation and impairments	560	449	24,7
Wealth distributed and retained	53 731	45 665	17,7
Percentage of wealth distributed (excluding suppliers and policyholders)	%	%	
Employees	24,1	23,6	
Government	22,2	14,7	
Providers of capital	22,9	24,2	
Agents and brokers	30,8	37,5	
	100,0	100,0	

71,8% increase in collections on behalf of government due to **recovery**

in group profitability and **positive** investment markets

increase of **10,5%** in wealth distribution to policyholders **significantly**

up due to growth in investment markets

strong **retention** to support **future growth** achieved

Report of the independent auditors on the Group Embedded Value

To the members of Liberty Holdings Limited

We have audited the Group Embedded Value report of Liberty Holdings Limited for the year ended 31 December 2010 on pages 28 to 35 which has been prepared in accordance with the embedded value basis set out in paragraphs 2 and 3. 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 is on pages 202 to 302.

Directors' responsibility for the Group Embedded Value report

The company's directors are responsible for the preparation and presentation of the Group Embedded Value report in terms of the embedded value basis set out in paragraphs 2 and 3 and for such internal control as the directors determine is necessary to enable the preparation of the Group Embedded 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 Embedded 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 Embedded Value report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Group Embedded Value report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Group Embedded 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 Embedded 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 embedded value principles used and the reasonableness of valuation estimates made by the directors, as well as evaluating the overall presentation of the Group Embedded 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 Embedded Value report has been prepared in all material respects in accordance with the basis set out in paragraphs 2 and 3 of the Group Embedded Value report.



PricewaterhouseCoopers Inc.

Director: **V Muguto**

Registered Auditor

Johannesburg

23 February 2011

Group Embedded Value report for the year ended 31 December 2010

1. Introduction

Following regulatory approval, phase two of Liberty Holdings' legal entity reorganisation was implemented effective 1 January 2010. This entailed the transfer of non long-term insurance legal entities from Liberty Group Limited to Liberty Holdings Limited. In addition, as part of the strategy to expand the geographical footprint in chosen African countries, a sub group of both insurance and asset management entities has been established in Namibia, controlled by Liberty Holdings Namibia (Pty) Limited, in which Liberty Holdings Limited owns 75%.

Liberty now presents a Group Embedded Value report to reflect the combined value of the various components of Liberty's businesses. Group Embedded Value as described below has been calculated on a basis consistent with that used in past reporting periods.

2. Component parts of the Group Embedded Value and valuation techniques used

Group Embedded Value has been calculated as the sum of three component parts:

Liberty Group Limited

After the reorganisation, Liberty Group Limited comprises the cluster of South African long-term insurance entities and related asset holding entities. The embedded value methodology applied historically in terms of Professional Guidance Note (PGN) 107 issued by the Actuarial Society of South Africa will continue to be used to derive the value of this business cluster. The embedded value report of the covered business of Liberty Group Limited has been reviewed by the company's statutory actuary (refer 3 below).

Liberty Africa

Liberty Africa is an emerging cluster of wealth businesses located 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 Embedded Value and therefore a detailed analysis of this valuation has not been presented.

Balance of Liberty Holdings

This comprises the following:

STANLIB: Valued using a 10 times (2009: 10 times) multiple of estimated sustainable earnings.

Liberty Properties: Valued using a 10 times (2009: 10 times) multiple of estimated sustainable earnings.

Liberty Health: Liberty Health is in a growth phase and has yet to establish a history to support a sustainable earnings calculation. A valuation has not been used and the Group Embedded Value includes Liberty Health at net asset value.

Liberty Holdings' net asset value: The net market value of assets and liabilities held by the Liberty Holdings Limited company excluding investments in subsidiaries valued separately.

Other adjustments: This comprises the present value of future secondary tax on companies at 10% on future anticipated dividends, the fair value of share options/rights allocated to staff not employed by Liberty Group Limited and allowance for certain shareholder recurring costs incurred in Liberty Holdings capitalised by a multiple of 6 times.

3. Description of embedded value of covered business of Liberty Group Limited

The current version of Professional Guidance Note PGN 107 came into force for all financial years ending on or after 31 December 2008. PGN 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.

3. Description of embedded value of covered business of Liberty Group Limited (continued)

The value of in-force covered business is the discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities, which differs from the release of profits on the published accounting basis. This value is reduced by the present value of after tax future shareholder recurring and non-recurring expenses. Covered business is defined as business regulated by the FSB as long-term insurance business written in Liberty Group Limited or its subsidiary life companies.

For reversionary and smoothed bonus business, the value of in-force covered business has been calculated assuming that bonuses are changed over time so that the full amount of the bonus stabilisation reserves is distributed to policyholders over the lifetime of the in-force policies.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory CAR calculated in accordance with PGN 104 plus any additional capital considered by the board appropriate given the risks in the business. For Liberty Group Limited, required capital has been calculated at 1,7 x CAR. For subsidiary life companies a multiple of 1,5 x CAR has been used. The cost of required capital is the present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.

The value of new business written is the present value at the point of sale of the projected stream of after tax profits from that business, reduced by the cost of required capital. New business is defined as covered business arising from the sale of new policies and once off premium increases in respect of in-force covered business during the reporting period. Risk policies with an inception date prior to the reporting date where no premium has been received are included in the embedded value and value of new business. The contractual terms of these policies state that Liberty Group Limited is on risk from the inception date, even though a premium may not have been received. This definition is consistent with that used in the financial statements.

The value of new business has been calculated on the closing assumptions. Investment yields at the point of sale have been used for new fixed annuities and guaranteed capital bonds; 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.

4. Group Embedded Value

4.1 Group Embedded Value at 31 December 2010

	2010				2009
	Liberty Group Limited Rm	Liberty Africa Rm	Balance of Liberty Holdings Rm	Total Rm	Total Rm
Group Embedded Value	20 385	132	4 394	24 911	22 959
Adjusted for BEE preference shares	1 119			1 119	1 159
BEE normalised Group Embedded Value	21 504	132	4 394	26 030	24 118
Number of applicable shares ('000)				260 226	260 226
Adjustment for BEE ordinary shares				25 796	25 796
BEE normalised number of applicable shares ('000)				286 022	286 022
Group Embedded Value per share (R)				95,73	88,23
BEE normalised Group Embedded Value per share (R)				91,01	84,32

Group Embedded Value report (continued) for the year ended 31 December 2010

4. Group Embedded Value (continued)

4.2 BEE normalised Group Embedded Value profits

	2010				2009
	Liberty Group Limited Rm	Liberty Africa Rm	Balance of Liberty Holdings Rm	Total Rm	Total Rm
Group Embedded Value at the end of the year	21 504	132	4 394	26 030	24 118
Adjustments arising from the group restructure	3 979	(108)	(3 871)	–	
Business acquisitions		(18)	18	–	
Intergroup dividends	1 092		(1 092)	–	
Less capital raised			(20)	(20)	(23)
Plus impact of share buy backs			30	30	34
Plus net capital reduction paid			1 301	1 301	1 301
Less Group Embedded Value at the beginning of the year	(24 051)		(67)	(24 118)	(27 207)
Group Embedded Value profit/(losses)	2 524	6	693	3 223	(1 777)
Return on Group Embedded Value	12,6%			13,4%	(6,5%)

4.3 Group Embedded Value of new business and new business margins

	2010			2009
	Liberty Group Limited Rm	Liberty Africa Rm	Total Rm	Total Rm
Gross value of new business	285	9	294	323
Cost of required capital	(33)	–	(33)	(22)
Net value of new business written in the year	252	9	261	301
Retail ⁽¹⁾	236	9	245	288
Corporate ⁽²⁾	16	–	16	13
Present value of future expected premiums	22 498	173	22 671	23 082
Margin	1,1%	5,2%	1,2%	1,3%

⁽¹⁾ Retail margin: 1,3% (2009: 1,5%).

⁽²⁾ Corporate margin: 0,4% (2009: 0,3%).

4.4 Balance of Liberty Holdings

	2010 Rm	2009 Rm
STANLIB	3 600	
Liberty Properties	750	
Liberty Health	–	
Liberty Holdings' net asset value	477	67
Share options/rights allowance	(75)	
STC allowance	(257)	
Shareholder expense allowance	(101)	
	4 394	67

4. Group Embedded Value (continued)

4.5 Analysis of balance of Liberty Holdings Group Embedded Value profits

	2010 Rm
Change in STC allowance	(32)
Change in capitalised value of non-financial service subsidiaries	70
Change in allowance for fair value of employee share options/rights	(2)
Change in shareholder expense allowance	(101)
Investment return including earnings of non long-term insurance subsidiaries	758
	693

4.6 Liberty Group Limited embedded value at 31 December 2010

	2010		2009	
	Embedded value Rm	BEE normalised embedded value Rm	Embedded value Rm	BEE normalised embedded value Rm
Risk discount rate ^(a)	11,07%	11,07%	12,10%	12,10%
Net worth	6 836	7 955	10 345	11 504
Ordinary shareholders' funds on published basis	10 870	11 989	10 446	11 605
Adjustment of ordinary shareholders' funds from published basis ^(b)	(3 411)	(3 411)	(3 021)	(3 021)
Financial services subsidiaries fair value adjustment ^(c)	–	–	3 703	3 703
Adjustment for carrying value of in-force business acquired ^(d)	(440)	(440)	(555)	(555)
Allowance for fair value of share options/rights	(183)	(183)	(228)	(228)
Net value of in-force life business	13 549	13 549	12 547	12 547
Value of in-force business	14 982	14 982	13 957	13 957
Cost of required capital	(1 433)	(1 433)	(1 410)	(1 410)
Embedded value	20 385	21 504	22 892	24 051

Group Embedded Value report (continued) for the year ended 31 December 2010

4. Group Embedded Value (continued)

4.7 Sensitivity to risk discount rate and other assumptions

In order to indicate sensitivity to varying assumptions, the value of the in-force life business less cost of required capital and the value of the new business written for Liberty Group Limited are shown below for various changes in assumptions. Each value is shown with only the indicated parameter being changed.

	Value of in-force life business less cost of required capital at 31 December 2010 Rm	Value of new business written in 2010 Rm
Base value	13 549	252
Value of in-force/new business	14 982	285
Cost of required capital	(1 433)	(33)
100 basis point increase in risk discount rate	12 367	180
Value of in-force/new business	14 182	231
Cost of required capital	(1 815)	(51)
100 basis point decrease in interest rate environment	13 524	298
Value of in-force/new business	14 991	331
Cost of required capital	(1 467)	(33)
10% fall in equity and property market values	13 105	
Value of in-force	14 538	
Cost of required capital	(1 433)	
100 basis point increase in equity and property returns	14 564	259
Value of in-force/new business	15 868	289
Cost of required capital	(1 304)	(30)
10% decrease in maintenance expenses	14 157	289
Value of in-force/new business	15 590	322
Cost of required capital	(1 433)	(33)
10% decrease in new business acquisition expenses (other than commissions)		309
Value of new business		342
Cost of required capital		(33)
10% decrease in withdrawal rates	14 548	354
Value of in-force/new business	16 015	387
Cost of required capital	(1 467)	(33)
5% improvement in mortality and morbidity for assurances	14 306	338
Value of in-force/new business	15 742	371
Cost of required capital	(1 436)	(33)
5% improvement in mortality for annuities	13 413	250
Value of in-force/new business	14 846	283
Cost of required capital	(1 433)	(33)

4. Group Embedded Value (continued)

4.8 Analysis of Liberty Group Limited embedded value profits

	2010				2009			
	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
Embedded value at the end of the year	6 836	14 982	(1 433)	20 385	10 345	13 957	(1 410)	22 892
Plus dividends paid	975			975	1 054			1 054
Adjustments arising from group restructure	4 074	(93)	(2)	3 979				
Embedded value at the beginning of the year	(10 345)	(13 957)	1 410	(22 892)	(11 701)	(14 640)	452	(25 889)
Embedded value profits	1 540	932	(25)	2 447	(302)	(683)	(958)	(1 943)
Components of embedded value profits:								
Value of new business written in the year	(936)	1 221	(33)	252	(1 062)	1 385	(22)	301
Expected return on value of life business ^(e)		1 611	8	1 619		1 465	(47)	1 418
Expected net of tax profit transfer to net worth	2 371	(2 371)	–	–	1 849	(1 888)	39	
Operating experience variance ^(h)	64	270	(7)	327	81	(307)	19	(207)
Operating assumption changes ⁽ⁱ⁾	(163)	(249)	22	(390)	(612)	(1 308)		(1 920)
Embedded value profits/(loss) from operations	1 336	482	(10)	1 808	256	(653)	(11)	(408)
Investment return on net worth	270			270	152			152
Investment variances	(125)	84		(41)	(280)	104	19	(157)
Changes in economic assumptions ^(j)	121	225	(15)	331	(257)	(196)	(966)	(1 419)
Changes in modelling methodology	(34)	141		107	(130)	62		(68)
Change in allowance for fair value of share options/rights ^(k)	(28)			(28)	(43)			(43)
Embedded value profits/(loss)	1 540	932	(25)	2 447	(302)	(683)	(958)	(1 943)
BEE preference dividends	77			77	101			101
BEE normalised embedded value profits/(loss)	1 617	932	(25)	2 524	(201)	(683)	(958)	(1 842)

Group Embedded Value report (continued) for the year ended 31 December 2010

4. Group Embedded Value (continued)

Notes to Liberty Group Limited 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.	
	2010 %	2009 %
Government stock	8,27	9,30
Equities	11,77	12,80
Property	9,27	10,30
Cash	6,77	7,80
The risk discount rate has been set equal to the risk free rate plus 80% of the equity risk premium	11,07	12,10
Maintenance expense inflation rate	5,27	6,30

b) **Adjustment of 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) **Financial service subsidiaries fair value adjustment**

As a result of the legal entity reorganisation of Liberty Holdings, the non long-term insurance legal entities were transferred to Liberty Holdings Limited. Therefore, this adjustment is no longer applicable to Liberty Group Limited (refer 4.4).

d) **Adjustment for carrying value of 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 in-force life business.

	2010 Rm	2009 Rm
Investec Employee Benefits	(25)	(36)
Capital Alliance Holdings Limited (CAHL)	(393)	(491)
Business previously acquired by CAHL	(22)	(28)
	(440)	(555)

- e) The expected return on the value of life business is obtained by applying the previous year's discount rate to the value of in-force life business at the beginning of the period and the current year's discount rate for half a year to the value of new business.

- f) 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.

g) **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 automatic premium and benefit increases.

- h) 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.

4. Group Embedded Value (continued)

Notes to Liberty Group Limited embedded value (continued)

The net 2010 operating experience variance of R327 million comprised:

Operating experience variances	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
Mortality and morbidity	196	6		202
Persistency	(1)	274		273
Expenses	(248)			(248)
Other	117	(10)	(7)	100
Total	64	270	(7)	327

The mortality and morbidity variance includes profits of R131 million on credit life net of the preference dividend payable to Standard Bank in terms of the joint venture agreement.

The expense variance mainly comprises project costs which are not reserved for in the embedded value.

- i) The amount of negative R390 million operating assumption changes in 2010 comprises:

Operating assumption changes	Net worth Rm	Value of in-force covered business Rm	Cost of required capital Rm	Embedded value Rm
Expenses	(66)	(304)		(370)
Retail SA	(66)	(19)		(85)
Corporate		(93)		(93)
Shareholder		(192)		(192)
Mortality	(192)	(152)		(344)
Persistency	(30)	83		53
Other	125	124	22	271
Total	(163)	(249)	22	(390)

The expense assumption changes comprise:

- A small increase in the assured future maintenance costs of retail business;
- An increase in the allocation of maintenance expenses to corporate business; and
- An increase to the allowance for future shareholder expenses.

Mortality assumption changes comprise mainly a strengthening of the assured future mortality for annuitants (R102 million) and a recalibration of the mortality curve at older ages for universal life business where previously little experience was available when setting the assumptions (R218 million).

Persistency assumption changes are mainly on corporate business where scheme termination assumptions have been reduced in line with experience.

Other assumption changes largely comprise an increase in the assumed tax relief on expense ratio and the rebasing of some discretionary margins.

- j) The amount of R331 million (2009: negative R1 419 million) relates to changes in economic assumptions as described in note a).
- k) The amount of negative R28 million (2009: negative R43 million) in respect of the change in the fair value of share options/rights arises from the change in the number of shares under option/share rights for staff employed by Liberty Group Limited and the increase in the market value of Liberty Holdings Limited share price over the reporting period.
- l) The assets backing the required capital are consistent with the long-term strategic mix of shareholder funds approved by the Liberty Holdings board in November 2009.

Financial review

strong earnings

R2,6 billion

BEE normalised headline earnings

excellent cash inflows

R22,2 billion

positive flows into asset management business

good growth in Group Embedded

Value **R91,01**

per share, up 8%

robust capital LGL CAR cover

2,7 times

dividend

maintained

Overview

Liberty recorded a strong earnings result with BEE normalised headline earnings being R2 597 million for the year ended 31 December 2010, compared to the R135 million reported for 2009. This is a significant improvement indicating a return to relatively normal levels of earnings from core insurance operations and a positive investment performance, despite the sluggish South African economic recovery and the lingering investment market uncertainty throughout 2010.

The progress made by Retail SA in improving policyholder persistency is well ahead of initial estimates and whilst it is still too early to adjust long-term persistency assumptions, persistency operating variances were net positive excluding any release of short-term provisions. Management is confident of ongoing progress in this area.

The focus on quality in Retail SA insurance sales has, as expected, resulted in lower volumes and lower new business margins. Margins have been negatively affected by acquisition cost inefficiency combined with continuing conservative persistency assumptions. Improving new business margins is a matter of priority.

Returns on the shareholder investment portfolio reflect strong fourth quarter equity market performance and by design are comparable to a low risk balanced portfolio. The asset/liability positions were managed within mandated risk limits and capital ratios remain strong. The substantial equity derisking costs of R519 million included in the 2009 result, as anticipated, were a once-off event.

STANLIB and Liberty Africa asset management operations continued to attract excellent net cash inflows, of R15,7 billion and R6,5 billion respectively. Particular strength was evidenced in the money market funds and fixed interest franchise. Total assets under management have reached R409 billion, with growth achieved by all asset managers (STANLIB, Liberty Properties and Liberty Africa).

BEE normalised headline earnings per ordinary share is 907,6 cents (2009: 47,2 cents) and a final dividend of 291 cents (2009: capital reduction of 291 cents) has been declared.

Group earnings indicators	2010	2009
Earnings attributable to ordinary shareholders (Rm)	2 393	44
BEE normalised headline earnings (Rm)	2 597	135
Basic earnings per share (cents)	918,6	16,4
BEE normalised headline earnings per share (cents)	907,6	47,2

Contribution to earnings by business unit	2010 Rm	2009 Rm	% change
South African long-term insurance			
Retail SA	899	(82)	>100
Corporate	103	(29)	>100
LibFin	1 443	(8)	>100
Asset management			
STANLIB	361	362	(0,3)
Liberty Properties	96	80	20,0
Business development			
Liberty Africa	10	29	(65,5)
Liberty Health	(43)	(47)	8,5
Frank Financial Services	(44)	(11)	(>100)
Central overheads and sundry income	(303)	(252)	(20,2)
Headline earnings	2 522	42	>100
BEE preference share adjustment	75	93	(19,4)
BEE normalised headline earnings	2 597	135	>100

South African long-term insurance

Retail SA

Following the recent significant deterioration in operational results, Retail SA's key objectives are to bring policyholder persistency back to acceptable levels, regain market share in the traditional risk and investment markets and achieve improvements in the value of new business margin through product innovation, appropriate pricing, improved quality of sales and cost efficiency.

The recovery of headline earnings to R899 million for the year compared to the 2009 loss of R82 million is reflective of the considerable improvement in persistency and sales quality.

Management's action has resulted in the flagship risk products' persistency improving well ahead of expectations, leading to overall positive net operating variances. Experience on investment products has improved over 2009 and following the closure of the unprofitable call centre distribution channel, entry level market (ELM) risk products have stabilised broadly in line with assumption. Experience investigations performed on major product lines for the 31 December 2010 policyholder liability valuations indicated that no changes to long-term persistency assumptions were required.

Death claims on complex products were marginally higher than previously assumed, resulting in the strengthening of liability assumptions at the older ages in the respective mortality curves.

The reduction in ELM sales, lower guaranteed capital bond (GCB) sales and the decision to focus on quality has led to indexed new business (excluding contractual increases) decreasing by 7,0% to R3 717 million (2009: R3 995 million). However, good growth was recorded in retirement savings products. The new business embedded value profit margin of 1,3% (2009: 1,5%) predictably decreased slightly, mainly due to the lower policy volumes and proportionately higher sales of lower margin investment products.

Net cash flows were positive at R990 million for the period (2009: R2 764 million), lower than 2009 as a result of the lower single premium GCB sales and higher per policy claim values following the recovery of the investment markets.

A key focus for management in 2011 is improving acquisition cost efficiency and managing increases in maintenance costs within actuarial inflation assumptions.

Corporate

Corporate's earnings were R103 million compared to the 2009 loss of R29 million, which included the once-off provision of R125 million relating to the retirement fund administration project. A 40,8% increase in indexed new business was achieved and embedded value profit margin was 0,4%.

A combination of winding up retirement funds under the administration project, significant redemptions of older generation investment products and continued consumer job losses for most of the year impacted withdrawal levels on corporate funds. This resulted in net cash outflows for the period of R1 517 million (2009: outflow of R1 776 million).

Financial review (continued)

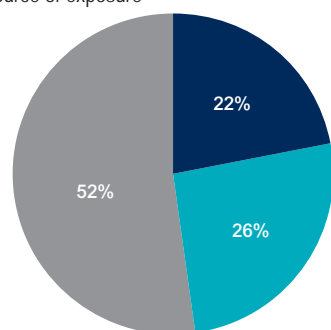
Long-term insurance: new business	2010 Rm	2009 Rm	% change
Retail	12 722	13 700	(7,1)
Single	9 966	10 748	(7,3)
Recurring	2 756	2 952	(6,6)
Corporate	1 658	1 467	13,0
Single	1 204	1 202	0,2
Recurring	454	265	71,3
Indexed	4 327	4 412	(1,9)
Retail SA	3 717	3 995	(7,0)
Corporate	542	385	40,8
Liberty Africa	68	32	>100

LibFin

The revised shareholder investment portfolio of approximately R17 billion, formulated in the second half of 2009, was fully transitioned during the year and contributed R1 814 million before tax to headline earnings. This represents a return of 11,2% for the period, which is reflective of a low risk balanced portfolio construct and is broadly in line with the relevant benchmarks.

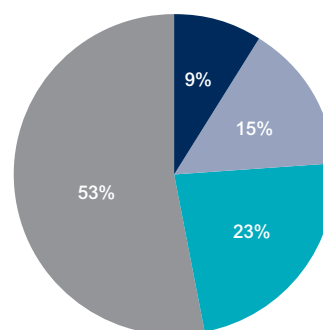
LibFin markets continued to manage market risk exposures within the risk framework implemented and enjoyed favourable earnings of R269 million. Core earnings include some positive one-off items arising from further risk reduction and favourable asset management performance relative to liability assumptions. Ongoing progress has been made in improving hedging effectiveness and management are endeavouring to ensure that the volatility of asset/liability mismatch earnings will continue to reduce in the future.

Shareholder Investment Portfolio by source of exposure



■ 90:10 participation
■ Excess assets in life funds
■ Assets backing capital

Shareholder Investment Portfolio by asset class



■ Preference shares
■ Foreign currency holdings
■ Local equities
■ Local cash, fixed income, property and other

Long-term insurance: net customer cash flows	2010 Rm	2009 Rm	% change
Retail	1 059	3 031	(65,1)
Premiums	23 725	23 291	1,9
Claims	(22 666)	(20 260)	(11,9)
Corporate	(1 346)	(1 764)	23,4
Premiums	7 130	6 784	5,1
Claims	(8 476)	(8 548)	0,8
Medical risk	14		>100
Premiums	77		>100
Claims	(63)		>100
Net cash flows	(273)	1 267	(>100)
Retail SA	990	2 764	(64,2)
Corporate	(1 517)	(1 776)	14,6
STANLIB	(19)	202	(>100)
Liberty Health	14		>100
Liberty Africa	259	77	>100

Asset management (STANLIB and Liberty Properties)

STANLIB's headline earnings totalling R361 million (2009: R362 million) were adversely impacted by lower performance fees and loss of institutional mandates including the Public Investment Corporation of R9,5 billion.

STANLIB net cash inflows (excluding inter group flows) for the period were R15,7 billion (2009: outflow of R1,6 billion). Money market products attracted strong net inflows of R19,1 billion (2009: R10,8 billion) resulting in total assets under management (including inter-company life funds) increasing to R355,2 billion at 31 December 2010 compared to the R317,8 billion reported at 31 December 2009.

Liberty Properties' earnings after taxation increased by 20,0% to R96 million, driven mostly by increased property development fees. Liberty Properties is currently managing extensions to the Eastgate and Sandton City complexes, as well as the development of a third party owned shopping complex in Lusaka, Zambia.

Asset management net cash flows	2010 Rm	2009 Rm	% change
STANLIB			
Retail and Institutional	(3 431)	(12 344)	72,2
Money market	19 130	10 772	77,6
Net cash flows	15 699	(1 572)	>100
Liberty Africa			
Retail and Institutional	4 754	3 668	28,9
Money market	1 726	659	>100
Net cash flows	6 480	4 327	49,8
Total asset management net cash flows	22 179	2 755	>100

The business unit recorded a headline loss of which Liberty's share is R43 million. The goodwill asset within the business unit of R114 million (Liberty share: R85 million) has been fully impaired.

Health management during 2011 will focus on margin through reduced costs and improved pricing for risk with less emphasis on low margin volume growth.

Liberty Africa

The acquisition of CfC Insurance Holdings Limited (CfC) has been further delayed, and will now take place in the first half of 2011 (all regulatory approvals have now been received). Good operational earnings were reported by CfC in 2010.

Liberty Africa's asset management operations enjoyed positive net cash inflows of R6,5 billion for the year (2009: R4,3 billion) bringing assets under management to R29,0 billion (2009: R22,3 billion). Progress was made in extending insurance and asset management operations in Namibia, Botswana and Swaziland.

Attributable headline earnings of R10 million are lower than 2009 due mainly to the inclusion of the relevant bancassurance profit share payments previously expensed in Retail SA.

Business development initiatives

Liberty Health

Liberty Health's results were impacted by a highly competitive South African environment and consequential margin pressure, particularly in the second half, as well as high early utilisation of annual limits on the risk business.

Assets under management	2010 Rbn	2009 Rbn
Retail	105	89
Institutional	59	63
Money market	97	72
Liberty inter group Properties	123	117
	25	22
Total assets under management	409	363
STANLIB	355	318
Liberty Africa	29	23
Liberty Properties	25	22

Frank Financial Services

Frank Financial Services which is a direct distribution channel offering simple risk products, utilising the internet medium and inbound call centres, was launched in November 2010. The R44 million loss (2009: R11 million loss) reflects expensed start up costs.

Group Embedded Value

The BEE normalised Group Embedded Value per share at 31 December 2010 is R91,01 compared to R84,32 at 31 December 2009. Positive operating variances, lower risk discount rates, the sustained recovery of investment markets and good earnings more than offset the capital reductions of R1 301 million paid during 2010.

Capital adequacy cover

Despite the group restructure, which transferred qualifying assets representing 0,16 ratio of cover to Liberty Holdings Limited, the capital adequacy cover of Liberty Group Limited remains good at 2,67 times the statutory requirement (31 December 2009: 2,81). This capital adequacy cover is well ahead of the internal target of 1,7 times. All the group subsidiary life licences are well capitalised.

Six year review

	2010	2009	2008	2007	2006	2005
Performance indicators						
BEE normalised headline earnings (Rm) ⁽¹⁾	2 597	135	1 573	3 129	2 589	1 929
BEE normalised headline earnings per share (cents) ⁽¹⁾	907,6	47,2	574,6	1 100,4	930,2	694,8
BEE normalised headline return on average IFRS equity (%) ⁽²⁾	21,2	1,1	12,5	26,1	23,0	18,9
Solvency						
IFRS shareholders' funds (Rm) ⁽²⁾	11 716	10 515	11 633	11 029	10 665	9 434
Main life licence companies:						
CAR requirement (Rm)						
Liberty Group Limited	2 688	2 542	3 020	4 102	3 945	3 782
Liberty Active Limited	482	424	404	264	284	236
Capital Alliance Life Limited	782	801	886	1 116	843	745
CAR ratio (times covered)						
Liberty Group Limited	2,67	2,81	2,66	2,03	2,27	2,04
Liberty Active Limited	1,76	1,75	1,48	2,82	2,18	4,14
Capital Alliance Life Limited	2,13	1,59	1,42	1,58	1,74	1,11
Group Embedded Value⁽³⁾						
BEE normalised Group Embedded Value (Rm) ⁽¹⁾	26 030	24 118	27 207	27 250	23 016	20 404
Adjusted net asset value	8 131	7 415	8 729	9 060	8 696	7 692
Net value of in-force life business	13 549	12 547	14 188	14 191	12 420	10 874
Non long-term insurance company subsidiaries	4 350	4 156	4 290	3 999	1 900	1 838
BEE normalised Group Embedded Value per share (rands) ⁽²⁾	91,01	84,32	95,12	96,10	82,55	73,41
BEE normalised Group Embedded Value profits (Rm) ⁽¹⁾	3 223	(1 777)	1 000	4 961	4 577	3 539
BEE normalised return on Group Embedded Value (%) ⁽¹⁾	13,4	(6,5)	3,7	21,6	22,4	20,1
Group Embedded Value of insurance new business written (Rm)	261	301	724	785	607	777
Insurance new business margin (%)	1,2	1,3	2,6	2,8	2,5	3,0
Sustainability metrics (non-financial)						
Group employees	7 607	8 009	7 876	7 071	5 772	6 092
Salaried						
	5 318	5 564	5 334	4 561	3 994	4 185
Commission – remunerated						
	2 289	2 445	2 542	2 510	1 778	1 907
DTI scorecard ⁽⁴⁾	75	69				
Financial Services Charter scorecard ⁽⁴⁾			93	86	70	56
Corporate social investment spend (Rm)	31	33	28	21	19	16
Taxes collected and paid on behalf of SA government (Rm) ⁽⁵⁾	3 416	2 626	2 394	3 831		
CO ₂ emissions (tonnes) ⁽⁵⁾	46 525	47 372	45 953	44 358		
Customer complaint volumes (elevated to group level) ⁽⁵⁾	4 380	4 326	5 390	6 558		
Share statistics⁽³⁾						
Share price (rands)						
Closing	72,50	69,20	62,46	75,33	70,00	63,00
High	82,33	75,25	76,67	80,00	76,87	63,33
Low	62,30	54,41	50,11	65,67	56,67	49,33
Total number of shares in issue at 31 December (millions)	286	286	286	147	147	148
Weighted average number of shares in issue (millions)	286	286	159	139	140	140
Distribution per ordinary share paid (cents)	455	455	259	352	670	267
Distribution as a percentage of opening embedded value (%) ⁽¹⁾	5,4	4,8	4,5	4,5	5,0	4,4
Market capitalisation (Rm)	20 737	19 793	17 864	11 095	10 309	9 325
JSE all share index	32 119	27 666	21 509	28 958	24 915	18 097
Life insurance index	15 213	13 865	9 390	18 846	18 278	14 260

⁽¹⁾ Liberty Group Limited used as a comparative for 2005 to 2008.

⁽²⁾ Liberty Group Limited used as a comparative for 2005 to 2007.

⁽³⁾ 2007 onwards incorporates the revised PGN 107 principles.

⁽⁴⁾ In 2005 to 2008 the scorecard was measured against the Financial Services Charter targets. The 2009 and 2010 figures reflect the scorecard as measured against the DTI Codes of Good Practice.

	2010	2009	2008	2007	2006	2005
Insurance activities						
New business (excluding annual contribution increases) (Rm)						
Recurring premiums and inflows	3 210	3 217	3 437	2 987	2 454	2 600
Retail SA	2 722	2 921	2 966	2 584	2 145	2 253
Corporate	437	265	417	379	309	347
Liberty Africa ⁽⁶⁾	51	31	54	24		
Single premiums and inflows	11 170	11 950	13 458	13 642	13 077	13 114
Retail SA	9 950	10 739	11 882	12 282	11 172	10 797
Corporate	1 051	1 202	1 567	1 348	1 905	2 317
Liberty Africa ⁽⁶⁾	169	9	9	12		
Indexed new business	4 327	4 412	4 782	4 351	3 762	3 911
Cash flows (Rm)						
Premium income and inflows	30 932	30 075	31 346	34 752	27 901	27 291
Claims and policyholder benefits	(31 205)	(28 808)	(34 207)	(30 459)	(24 275)	(21 565)
Net cash (outflow)/inflow	(273)	1 267	(2 861)	4 293	3 626	5 726
Retail SA	990	2 966	408	1 882	3 607	4 948
Corporate	(1 536)	(1 776)	(3 319)	2 371	19	778
Liberty Africa ⁽⁶⁾	259	77	50	40		
Liberty Health ⁽⁷⁾	14					
Death and disability claims paid	5 761	4 910	5 134	4 812	4 095	3 709
Annuity claims paid	3 476	3 170	3 201	2 858	2 666	2 369
Retail SA maintenance costs per policy (rands)						
– complex products ⁽⁸⁾	363,25	333,50	315,65	283,61	279,04	258,29
Asset management activities						
Net cash flows (Rm)	22 179	2 755	13 374	13 107	(5 783)	12 795
STANLIB	15 699	(1 572)	5 115	8 888	(5 783)	12 795
Liberty Africa ⁽⁶⁾	6 480	4 327	8 259	4 219		
Assets under management (Rbn)	409	363	337	357	309	290
STANLIB	355	318	299	328	294	276
Liberty Africa ⁽⁶⁾	29	23	19	12		
Liberty Properties	25	22	19	17	15	14
Cost to income ratio (%)						
STANLIB	54,7	51,6	50,3	46,2	48,0	52,1
Liberty Health⁽⁷⁾						
Lives ('000)						
Under administration	528	460	267			
Licensed on proprietary IT platforms	1 085	863	1 351			
Insured	33	17				

⁽⁵⁾ Not available before 2007.

⁽⁶⁾ Liberty Africa business unit was created in 2007.

⁽⁷⁾ Liberty Health risk products applicable from 2010 and the business unit from 2008.

⁽⁸⁾ Simple products are weighted at 50% or 25% of a complex product.

⁽⁹⁾ 2005 to 2007 share prices have been restated to adjust for the 3:1 share split in 2008 as if it occurred at the beginning of 2005.

2011 targets

The group's results are linked to the performance of the economies and investment markets in which the group operates, with South Africa being the most important. The significant progress made in the core operations in 2010 positions the group favourably for continued delivery of good operational performance and to take advantage of any improvements in these markets.

The following is a selection of the agreed targets the group strives to achieve.

Indicators	Performance target
Return on embedded value	14,5% – 15,5%
LGL CAR cover	greater than 1,7 times
Retail SA new business margin	greater than 2,0% (medium-term target 2,5%)
Retail SA maintenance expense inflation	5,27%
Staff turnover in South Africa	below 11%
DTI score	77.81
2011 corporate social investment spend	1% of adjusted net operating profit after tax
Women staff	56%

There will be strong focus on increasing quality new business volumes in Liberty's core insurance operations, as well as lowering acquisition unit costs. As regards the Growth unit, focus will be on increasing the return on investment from the Africa, Health and Frank businesses. The asset management businesses will continue to build the capacity to deliver superior investment returns.

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about Liberty

Did you know

Liberty listed on the Johannesburg Stock Exchange (JSE) in **1962**

First company to launch retirement annuities in South Africa

6 644 individual ordinary shareholders are currently invested in Liberty

R6,9 billion was paid in shareholder distributions over the past five years

R92 million was spent on social responsibility programmes over the past **three** years

Fifth consecutive **year** of **inclusion** in the JSE Socially Responsible Investment index

Liberty Foundation and SABC **founded** the **Liberty Learning Channel** in **1990**

3,3 million credit life policies are in-force

334 525 members are administered under corporate retirement schemes

2,6 million Retail SA policies are in-force

Call centre answers on average **100 000** calls per month 76% of them within **20** seconds

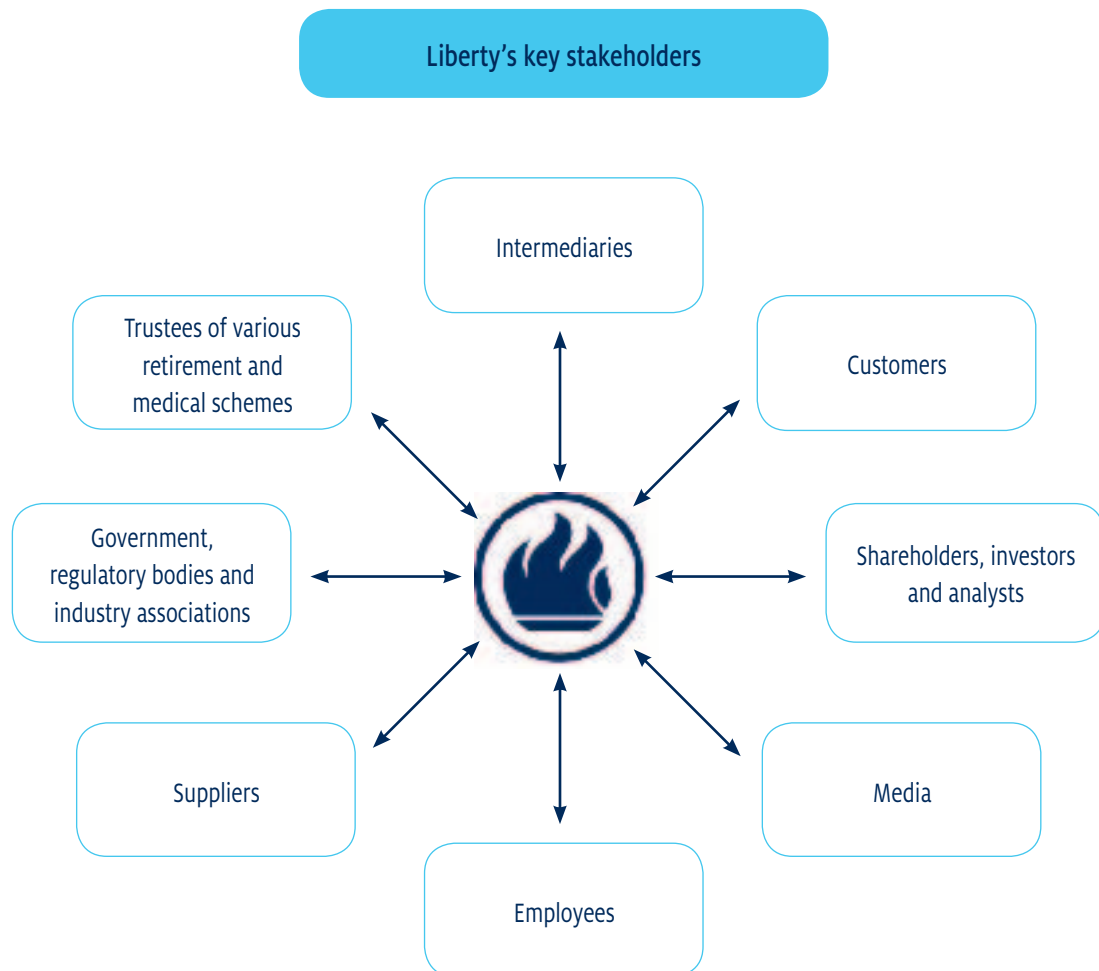
Liberty's retail, commercial and hospitality **property portfolio** is over **1,5 million sqm** in size and worth over **R20 billion**

Engaging stakeholders

Liberty views its stakeholders as integral to the sustainability of its business and therefore continually engages with the various stakeholder representatives to identify immediate issues for resolution and formulate action plans to ensure future mutually beneficial relationships.

Regular engagement is key to an understanding of expectations and interests, and fosters trust thereby limiting the possibility of dispute and possible financial loss.

Constructive engagement is also a key component of the Liberty brand’s development and protection.



Details of how Liberty engages with its stakeholders are explained in the table which follows.

Engaging stakeholders (continued)

Stakeholder	How Liberty engages with stakeholder	Issues and actions taken
Intermediaries	<p>Liberty engages with tied financial advisers and independent financial advisers through:</p> <ul style="list-style-type: none"> • Daily e-mail updates • Dedicated financial adviser website • Monthly electronic sales aids • Quarterly and annual roadshows • Quarterly lifestyle magazine, Your Wealth 	<p><i>Service experience</i> Surveys of intermediaries were introduced in 2010 and found that most intermediaries were satisfied with the overall service experience provided by Liberty.</p> <p>Quarterly surveys will continue with notable trends being reported to the group executive committee (Exco) to enable appropriate action to be taken.</p> <p><i>Remuneration</i> The new “Financial Adviser Value Proposition” addresses remuneration by further aligning intermediaries’ interests with those of Liberty.</p>
Customers	<p>Customers and potential customers are engaged through:</p> <ul style="list-style-type: none"> • Liberty’s intermediaries (agents and independent financial advisers) • Inbound call centre • Consumer experience surveys of current and recently terminated Liberty customers to understand their experiences with, and attitude to, Liberty and its products and services are conducted on a regular basis • Marketing campaigns via TV, radio and printed media • Monthly newsletters to Retail SA customers containing topical information to aid consumer education 	<p><i>Treating customers fairly (TCF)</i> TCF self audits were conducted and action plans to address issues identified are being implemented.</p> <p><i>Customer complaints</i> The group customer relations unit focuses on the resolution of customer complaints which are escalated, facilitating resolution and managing the customer experience during the resolution process.</p> <p>The primary reasons for complaints are as follows:</p> <ul style="list-style-type: none"> • Poor investment performance; • Payments not made; • Claim repudiation; and • Inability to access policy information. <p>The group customer relations unit also addresses systemic reasons for complaints, received directly from customers or via regulatory bodies and external dispute resolution bodies, and ensures that resources are directed correctly to prevent repeat complaints by improving service levels and processes.</p> <p><i>Product affordability</i> Recent surveys confirmed that the current economic environment had made affordability a key reason for clients terminating their policies. These insights are used in prioritising elements of the customer value propositions that will be developed. During 2010, in response to customer feedback on the impact of economic conditions, Liberty introduced product flexibility, such as premium holidays and the ability for policyholders to change premium patterns to prevent withdrawals and lapses.</p>

Stakeholder	How Liberty engages with stakeholder	Issues and actions taken
Shareholders, investors and analysts	<p>The Liberty annual report provides extensive information on the group (www.liberty.co.za).</p> <p>The investor relations function within Liberty coordinates engagement with the investment community through:</p> <ul style="list-style-type: none"> • The Stock Exchange News Service • Corporate website • Investor updates • Media releases • Formal annual and interim results presentations • Presentations on specific subjects • Roadshows • Specific one on one meetings • The annual general meeting <p>Interaction between Liberty and its 53,65% shareholder, Standard Bank, takes place via various business forums, with the objective of enhancing value for all Liberty shareholders.</p>	<p><i>Investor sentiment</i></p> <p>Sentiment is gauged from discussions with analysts and from investor reports. Queries received from analysts are dealt with and responded to by appropriate members of management through the investor relations function. Responses are summarised and provided to Exco on a monthly basis and notable issues are escalated to the board for its consideration.</p> <p>This exercise is also completed immediately prior to the interim and annual results presentations to ensure that relevant areas are addressed in the presentation process.</p> <p>72 meetings were held with shareholders and analysts during 2010, with 159 participants being engaged during these meetings.</p> <p><i>Core issues raised</i></p> <p>These included:</p> <ul style="list-style-type: none"> • Level of new business margins; • New business volumes and quality of business; • Bancassurance arrangements; and • Consistency of disclosure to the investment community. <p>Management provided appropriate responses to all such issues raised by the investment community. Where possible the issues are addressed at the annual and interim results presentations.</p> <p><i>Bancassurance agreement</i></p> <p>During 2010, the bancassurance agreement was renegotiated to include additional business lines, providing Liberty with a distinct competitive advantage.</p> <p><i>Arm's length dealings</i></p> <p>A transaction monitoring committee reviews all transactions between Liberty and Standard Bank to ensure that all dealings are at arm's length and do not prejudice either entity.</p>
Media	<p>Media are engaged through:</p> <ul style="list-style-type: none"> • Direct contact via the Liberty communications team • Interviews and press briefings • Proactive press releases, articles, thought leadership articles • Digital platforms and social media platforms • Targeted interventions utilising the expertise of specialist agencies • Content sharing engagements with specific media 	<p><i>Accessibility of key members of management</i></p> <p>Specific media are given one-on-one time with Liberty executives and key spokespeople across the group. This assists in building effective relationships with key media affording them the opportunity to speak to key decision makers within the business.</p> <p><i>Accuracy and quality of media reporting</i></p> <p>Regular sessions are held with key media which deal with pertinent issues relevant to the group's business, such as the STANLIB Fund Focus sessions. These provide media with useful understanding of the business.</p> <p><i>Customer complaints</i></p> <p>The communications team ensures that any customer complaints received via the media are investigated by group customer relations and that an appropriate response is provided. This ensures that media allow Liberty the 'right of reply'.</p>

Engaging stakeholders (continued)

Stakeholder	How Liberty engages with stakeholder	Issues and actions taken
Employees	<p>Liberty has extensive mechanisms in place to engage with employees. These include:</p> <ul style="list-style-type: none"> • Face-to face interactions between staff and managers • Corporate intranet • Newsbreak e-mails • Wealth TV, an internal TV news network • Quarterly Liberty News print magazine • Quarterly Let's Talk sessions with the group's executives • Senior management report back sessions with groups of staff • Executive lunches • Passion for Excellence awards recognise and reward employees for excellent service 	<p><i>Employee satisfaction</i></p> <p>An Employee Attitudinal Survey (EAS) was conducted in 2009 with results communicated to Exco and the board. The response rate to Liberty's 11th EAS, conducted in November 2009, was 72% (compared to 70% in 2008). Satisfaction scores measured at 70% in 2009, 1% up from 2008.</p> <p>The key issues raised in 2009 included leadership's effectiveness in managing change, opportunities for personal development and the fairness of employment practices.</p> <p>These factors were incorporated into action plans and are being addressed. The next EAS will be conducted in 2011.</p> <p>Face to face interaction between staff and managers is addressed on a case by case basis by group human resources.</p> <p><i>Remuneration and other benefits</i></p> <p>Refer to the remuneration of Liberty's people section for information on benefits provided to employees.</p>
Suppliers	<p>Liberty engages with suppliers and business partners through:</p> <ul style="list-style-type: none"> • On-site meetings • Presentations • Supplier portal website • Supplier forums 	<p><i>BEE accreditation of suppliers</i></p> <p>Liberty corresponds regularly with suppliers around the verification of their BEE credentials.</p> <p><i>Supplier satisfaction</i></p> <p>Information sessions with new and existing suppliers are held to establish and strengthen relationships and inform suppliers of Liberty's procurement processes and requirements. Liberty interacts with approximately 100 suppliers and partners on a monthly basis.</p> <p><i>Supplier issues</i></p> <p>The main issues raised by suppliers relate to:</p> <ul style="list-style-type: none"> • Late payment of amounts owing; and • Time taken to follow up queries. <p>During 2011, an external supplier survey will be conducted. A supplier forum for Liberty's major IT suppliers and a general supplier summit will also be held.</p>

Stakeholder	How Liberty engages with stakeholder	Issues and actions taken
Government, regulatory bodies and industry associations	<p>Liberty actively engages with regulatory bodies and industry associations as follows:</p> <ul style="list-style-type: none"> • The group's legal services and compliance units facilitate engagement with policymakers and regulators • Industry engagements with policymakers and regulators are mainly through numerous committees of the Association for Savings and Investments in South Africa • Direct engagement is undertaken with the National Credit Regulator, the Financial Services Board (FSB) and the South African Reserve Bank through Standard Bank • Significant involvement in the FSB's Solvency Assessment and Management project, with twenty Liberty representatives serving on the steering committee and various task groups • Engagement with various regulatory bodies which receive customer complaints and the FAIS Ombud, Pension Funds Adjudicator and Ombudsman for Long-term Insurance • Participation in committees and sub-committees of the South African Institute of Chartered Accountants and the Actuarial Society of South Africa • The group's tax department liaises with SARS in respect of topical tax issues, compliance with laws and regulation, and regulatory reviews 	<p><i>Regulatory matters impacting Liberty</i></p> <p>Key engagements in 2010 focused on the money laundering legislation, the Consumer Protection Act, the Protection of Personal Information Bill, Long-term Insurance Act – Binder Regulations, as well as various developments in terms of FAIS including fit and proper requirements, disclosure requirements and conflict of interest.</p> <p>Engagement with policymakers and regulators has enabled Liberty to have significant influence and involvement in the shaping of final policy documents, new legislation as well as the establishment of relationships, particularly with the FSB on investigations and regulatory requirements</p> <p><i>Customer complaints</i></p> <p>Refer to the Customers section above.</p> <p><i>Accounting and actuarial matters impacting Liberty</i></p> <p>Contribution is made to the various committee processes. Input was provided into comment letters sent to the International Accounting Standards Board and various discussion papers on topical issues during 2010.</p> <p>Engagements with regulatory bodies and industry associations are listed and reported to Exco on a monthly basis for noting or action as appropriate. Significant issues are presented to the board for their consideration.</p> <p><i>Tax governance</i></p> <p>An enhanced tax governance process was introduced within Liberty to:</p> <ul style="list-style-type: none"> • Define strategic tax management procedures and controls; and • Provides tax guidelines and policies to the group to facilitate compliance with tax laws and regulation.

Engaging stakeholders (continued)

Stakeholder	How Liberty engages with stakeholder	Issues and actions taken
Trustees of various retirement funds and medical schemes	<p>Liberty interacts with these boards of trustees by having appropriate representatives attend trustee meetings to ensure that issues raised by trustees, where relevant to Liberty, are addressed by Liberty</p> <p>Sub-committees, in which Liberty representatives participate have been established to facilitate effective management of these funds. These include communication, investment, legal and regulatory, audit and risk, and general administration committees</p> <p>A <i>trustee information</i> website is available at www.liberty.co.za</p>	<p><i>Trustee focus areas</i></p> <p>These include:</p> <ul style="list-style-type: none"> • Client service; • Investment returns; • Benefit payments; • Transfers; and • General governance matters. <p>Fund principal officers either deal through established Liberty channels, directly with Liberty management, or through the various sub-committees to facilitate resolution of issues.</p>

Plans for 2011

Formalised strategies, policies and processes, for which board approval will be sought, are under development. These will add to the existing activities and support more meaningful engagement with stakeholder groups going forward.

Interactions with the South African Reserve Bank and other regulators are a regular agenda item for the Liberty Holdings executive committee and board. In 2011 stakeholder engagement reporting will be extended to include feedback on all stakeholder groups.

Liberty’s people

For Liberty to achieve its stated vision of being a leading emerging markets financial services organisation, it is an imperative to attract and retain world class skilled people.

People management objectives

The key objective is to develop a depth and calibre of human resource that is capable of delivering sustainable growth across multiple geographies, products and regulatory regimes, within the board approved risk tolerance levels.

Secondary objectives are to recruit appropriately, retain talent, provide competitive remuneration, strengthen leadership, continually train and develop skills, enhance employee wellness and, particularly within the South African environment, achieve diversity. The involvement of employees in corporate social investment initiatives is also encouraged.

Profile of Liberty’s people

Liberty employs close to 7 600 people in South Africa (including approximately 2 300 tied agents who are remunerated primarily through commission) and 92 employees across 12 jurisdictions outside of South Africa.

Within the 2010 staff complement, Liberty employed approximately 65 chartered accountants, 60 qualified actuaries, and a number of other recognised professionals, for example lawyers, doctors and engineers.

The average years’ service as at 31 December 2010 of senior management associated with the core insurance operations is nine and a half years.

Staff turnover and capacity

The group is successfully improving its profile in the labour markets after suffering in recent years, mainly due

to the recent poor financial results. This is evidenced by improvements in Employee Attitude Survey scores and success in attracting talent.

Overall staff turnover (excluding retrenchments, dismissals, inter group transfers and mutually agreed separations) for the year ended 31 December 2010 was 10,6% (2009: 9,1%). This was within the group’s internal target of 11% and within the industry norm of 14% (2009: 13%).

Good progress has been made in attracting critical skills (for example investment professionals). Particular challenges were encountered in attracting the right talent to implement Liberty’s strategy to expand into Africa and diversify into wealth management. Shortages in some skills categories such as qualified and experienced actuaries persisted.

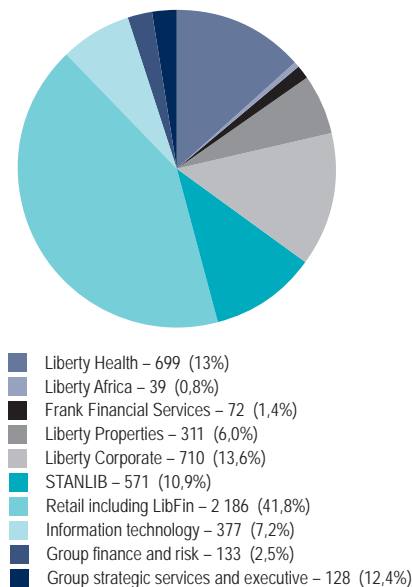
The Employee Attitudinal Survey is an internal tool used to measure employee attitudes towards Liberty as an employer and levels of satisfaction with the working environment. Key findings of the 2009 survey were shared in 2010 with all employees through the intranet, staff newsbreaks, the @Liberty newsletter and the quarterly Let’s Talk sessions. The 2009 key findings have been incorporated into the group’s strategic decision-making and employment practices for 2010.

The next survey will be undertaken in 2011.

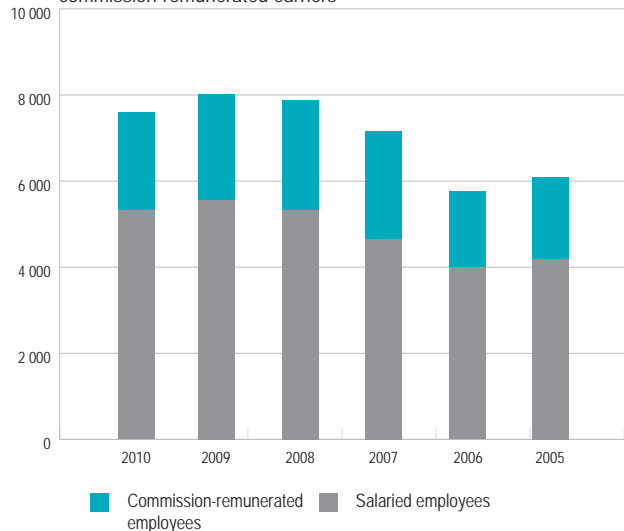
Ensuring strong leadership

Quality leadership is essential to entrench ethical behaviour and strong performance at all levels of the organisation, and to attract and retain the right mix of skills and demographics. In research conducted by Liberty in 2010,

Total South African salaried employees split by business units for 2010



Headcount split between salaried employees and commission-remunerated earners



Liberty's people (continued)

the quality of managers was cited as a key determinant of duration of employment. Leadership significantly impacts the effectiveness of strategic decision-making within an organisation, and is therefore directly related to sustainability of the business as a whole.

Liberty's Leadership Charter, contained on page 76, offers guiding principles for Liberty's management with the focus being the achievement of Liberty's vision. The charter defines the behaviours required to be a successful Liberty leader and it is the responsibility of all leaders in the business to ensure the charter is adhered to in order to encourage commitment and passion from Liberty's employees.

Liberty provides leadership programmes in conjunction with Standard Bank at the Standard Bank Global Leadership Centre. In total, 378 Liberty employees (55% black participation and 50% female participation) participated in the Global Leadership Centre's training programmes in 2010.

Encouraging employee wellness

Liberty offers a number of employee wellness programmes which are part of the comprehensive employee value proposition.

Independent Counselling & Advisory Services is an employee assistance programme which includes telephonic and face-to-face counselling. The Octogen Money Sense programme offers personal debt counselling and online budget management to Liberty employees. Liberty also offers an in-house staff financial advice centre, based at Liberty's head office, which provides financial planning services and policies at no cost to the employee.

Employees made extensive use of the employee Wellness Centre at Liberty's head office in 2010. The Centre offers the services of a doctor, occupational nurse, optometrist, physiotherapist, dentist, reflexologist and dietician. In 2010, a pharmacy opened its doors and an acupuncturist and podiatrist was added to the services provided.

Most employees have access to a gym and recreational facilities as well as a subsidised canteen and in-house shops.

Development of talent

On-going skills development is essential to ensure that Liberty staff at all levels remain up-to-date with the latest industry developments and best practice. The availability of opportunities for personal and professional development is a key retention strategy as they contribute to employees' sense of well-being and career progression.

In 2010, Liberty spent R21 million on staff training for approximately 2 000 employees (as compared to R27 million in 2009). Of this training spend, 68% related to black employees and 55% to female employees.

Embracing diversity

One of the objectives of the Liberty Leadership Charter is to "actively drive transformation and embrace diversity".

Liberty is committed to creating an equitable workplace that embraces diversity and respects the dignity of all employees. The group believes that its long-term sustainability and competitiveness depends on it reflecting the society in which it operates. As such, transforming the group's workforce in South Africa is a strategic business imperative.

In terms of the regulatory environment, Liberty is bound by the Employment Equity Act of 1998, the DTI Codes of Good Practice and the Financial Sector Charter.

Liberty achieved a DTI level 3 B-BBEE rating (75.03 points) in 2010, which is a year earlier than anticipated (2009: level 4). Liberty's Employment Equity rating in 2010 was 9,32 out of 15 (as verified by Empowerdex).

Black employees (Africans, Coloureds and Indians) represent 67,5% of Liberty's workforce.

Liberty's business units continue to implement plans to address the racial and gender composition of its workforce in South Africa, and enjoyed modest success in 2010. For instance, the representation of black staff in top management positions improved from 23,1% in 2009 to 41,7% in 2010, well ahead of the Department of Labour (DoL) target of 17%. The representation of black staff in senior management positions improved from 25,2% to 35,2% during the same period, slightly lower than the DoL target of 37,7%.

	Dec 2010 Target – Black	Dec 2010 Actual – Black
DoL occupational level		
Top management	17,0%	41,7%
Senior management	37,7%	35,2%
Professionally qualified	44,2%	43,7%
Skilled technical	65,8%	67,8%
Semi-skilled	86,0%	88,2%
Unskilled	93,8%	93,3%

Women represent 56,4% of Liberty's employees at all levels, exceeding Liberty's 2010 target of 55%.

Disabled people account for 0,9% of Liberty's workforce at all levels, exceeding Liberty's 2010 target of 0,6%.

Remuneration of Liberty’s people

Governance structures

The boards have appointed and mandated the Remuneration Committee (the Remco) to assist in fulfilling its remuneration responsibilities. In addition, the directors’ affairs committee oversees key talent recruitment and development. The details of these committees and their specific mandate are contained within the corporate governance section of this report. Within this mandate the Remco governs and monitors specific policies and approved remuneration structures. The group chief executive, working with the group human resources executive, ensures that these policies and structures are effectively communicated to the relevant business unit executives for implementation. Feedback to the Remco is provided in the Remco committee meetings as well as special meetings when required. The chairman of the Remco engages with the group chief executive and the group human resources executive as and when needed during the year.

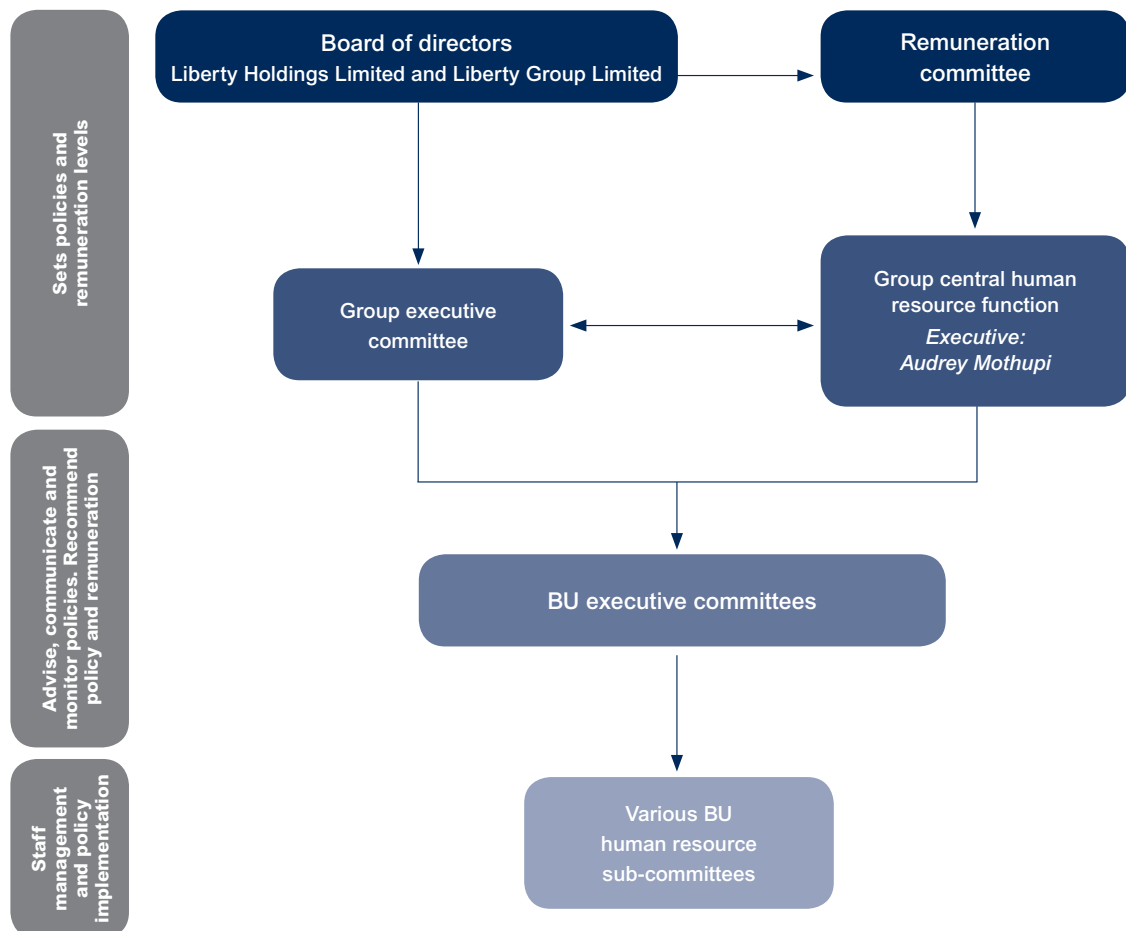
The business unit executives have full responsibility to manage their employees within these policies and are empowered in all aspects of human resource management. This enhances the effectiveness of the relationship of leadership with their respective staff. All business units

have dedicated human resource expertise and many have appointed human resources committees to assist in this responsibility.

The Remco approves the group’s primary bonus pools and oversees the principles applied in allocating these pools to business units and individuals. The Remco members have unrestricted access to information to inform their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the group.

The Remco continued to utilise the services of a number of advisers to provide guidance and compensation benchmarking throughout 2010, including Vasdex and Associates, Remchannel and 21st Century Business and Pay Solutions. In addition, the services of two British consultancies, Towers Watson UK Limited and Oliver Wyman Limited were utilised in the latter part of 2010 to review the remuneration structures within the Liberty group. The review has led to the refinement of some remuneration principles with the key objective to ensure that Liberty’s reward framework supported the business and was competitive across all businesses.

The review indicated that the reward framework needed expanding around short-term and long-term incentives



Remuneration of Liberty's people (continued)

to differentiate, where appropriate, from the previous incentive structure, which was based solely off a life insurance business.

Consequently, and in accordance with the adopted portfolio approach, referred to in the Remuneration policy section below, the Remco introduced various new incentive structures during 2010. This is intended to support Liberty's wealth strategy by ensuring appropriate reward structures for the different businesses.

The Remco also consults with the Standard Bank group from time to time on remuneration matters in their capacity as the majority shareholder.

Remuneration policy

The remuneration policy is designed to support the organisation's talent management strategy, which is driven by its business strategy and to foster an environment of career flexibility and portability. The principles of the remuneration policy are to provide a framework for evaluating current programmes, designing and implementing future programmes, outlining governance of programmes at the group and business unit level and helping to ensure that each element of the strategy works in concert with other elements. There is a responsibility to balance employees' desires to be well-remunerated with shareholders' expectations of efficient cost management.

Reward programmes will be targeted competitively versus the relevant external market. Actual positioning will vary based on individual and Liberty performance, with significant upside opportunities for outstanding performance.

Liberty's remuneration policy in respect of permanent salaried employees includes the following principles:

- Attract, motivate and retain high calibre people at all levels of the organisation with due consideration to the highly competitive financial services environment;
- Promote a strong and sustained individual and team performance aligned to the group's stated vision and strategic objectives;
- To allow for the portability of employees between Liberty and the wider Standard Bank group, a transfer policy is adopted that allows approved transfers to be a continuation of service and benefits. The objective is to ensure that the transfer process is as seamless as possible for the employee;
- To assist in the objective of developing a diverse financial services group, ensure that a portfolio approach is adopted in respect of incentive schemes to appropriately reward employees weighted to their specific business units' performance, avoiding undue reliance on the group's overall performance;

- Achieve a balance between fixed and variable remuneration, appropriate for seniority and role, recognising the need for flexibility in package design to acknowledge scarce skill sets and unique individual experience;
- In respect of senior management, ensure that the variable component of remuneration is more significant than guaranteed remuneration; thereby increasing the alignment of performance to remuneration;
- Recognise individual performance measured with reference to agreed financial targets and key performance objectives, with significant differentiation between "outstanding" versus "meets expectations" levels of performance assessment;
- Avoid remuneration structures unrelated to performance and severance arrangements that potentially reward "failure";
- Develop short-term incentives that are specific to delivery resulting in competitiveness and performance;
- Create long-term incentive award schemes that assist in retention and reward consistent achievement of strategic objectives. Long-term incentives seek to ensure that the objectives of management and shareholders are broadly aligned over longer time periods;
- Ensure that incentive schemes do not reward risk taking outside of board approved risk mandates; and
- Maintain transparent remuneration design and processes for all stakeholders.

Elements of the remuneration package

Salaried employees

Remuneration packages of salaried employees contain some or all of the following components:

Guaranteed benefits: base salary, medical expense insurance, death and disability risk insurance, retirement funding, annual leave and other benefits depending on local legislation and market practice;

Variable remuneration: short- and long-term cash incentives and share option and rights schemes.

Commission-remunerated employees

Liberty distributes various insurance and investment products via several independent and tied sales channels. The tied sales channels include agents who are exclusively contracted and managed by Liberty. Their remuneration structures are based off set commission rules linked to the quality, quantum and mix of products sold. There is normally a basic minimum monthly rate of earnings, however the majority of agents achieve commission earnings well in

excess of this minimum basic amount. Included in the commission rules are claw back provisions in the event that the customer lapses their policy or investment within prescribed periods from sale date. Various customer retention, quality and volume incentives are offered to assist in achieving sales and customer retention targets. Based on performance and grading certain agents qualify for a deferred unit trust forward purchase scheme which is used as a retention mechanism. Agents are also eligible on a voluntary basis to join the group's sponsored medical aid schemes and various defined contribution retirement schemes.

Description of the remuneration package components

Guaranteed benefits

All permanent employees, irrespective of level, receive a guaranteed element of remuneration. This is based on cost to company (CTC). CTC comprises a fixed cash portion, compulsory and optional benefits. Compulsory benefits include medical aid (unless covered by a spouse or guardian scheme), life and disability cover and retirement fund membership. Increases in base salary to adjust for cost of living increases are typically effective from 1 April each year.

In respect of the CTC component, the group is currently benchmarked between the 60th and 65th percentile of the Financial Services market with superior performers positioned at the 75th percentile or above.

The guaranteed component market positioning has decreased in recent years, in line with the policy of increasing the proportion of performance-related pay.

Comparative studies of peer groups and leading South African companies are used together with market survey data in arriving at levels of guaranteed pay. Market surveys are utilised to establish appropriate salary scales, to monitor pay policies, to track market movements and to obtain general employment practice information such as labour turnover and incentive bonus scheme practices.

Retirement funding benefits are currently provided through a number of defined contribution funds. Medical aid benefits are provided by the group's closed scheme, Libcare, as well as the sponsored open scheme, Liberty Medical Scheme. Death and disability risk benefits are provided to most employees at various minimum levels with the flexibility within the package construct to voluntarily increase the risk cover amounts.

Post retirement benefits

The group's exposure to post retirement benefits is limited to the group's defined benefit retirement fund and the post retirement medical subsidy. These benefits

are no longer offered to new employees and are only eligible to employees who have joined the group prior to 1 March 2001 in respect of defined benefit retirement fund and prior to 1 July 1998 in respect of the post retirement medical subsidy benefit.

A significant portion of employees converted to defined contribution retirement schemes after accepting an offer of conversion made on 1 March 2001. Only 212 employees remain as members of the defined benefit retirement fund.

The group's post retirement medical subsidy is dependent on the past employee's monthly pension levels and ranges between the equivalent of 50% to 95% of annual premiums to an approved medical aid. To qualify the employee must reach retirement age whilst in the employ of Liberty. Currently 602 (2009: 546) pensioners receive this subsidy and 1 515 (2009:1 690) staff are eligible for this subsidy at retirement age. Full details of these obligations are contained in note 18 on the annual financial statements contained in this report.

Variable remuneration

Short-term cash incentive schemes

The group operates a number of short-term incentive schemes that offer cash payments on an annual basis based on performance and qualification in a particular year. Key principles include minimum qualifying service periods in the year, pro rata adjustments for service periods less than a year and eligibility requirements to be in the employment of the group at award date. All required taxation laws are complied with and participants are advised as to the taxation implications of the various schemes.

A brief description of the schemes currently in existence follow:

Senior management group incentive scheme

Executive directors, divisional directors, senior managers, other nominated managers and key specialists participate in the senior management group incentive scheme. This scheme is based on the achievement of short-term performance targets relevant to the individual and their respective teams. These targets are aligned to the achievement of the group's and respective business unit's overall objectives for the year. Incentive payments for each level of management are subject to a maximum amount based on a percentage of annual cost to company and range from 15% to 200% depending on the level of seniority and strategic influence. Amounts awarded are subject to the Remco discretion and are influenced by the overall financial performance of the group. A total of 489 employees were eligible in respect of this scheme for the 2010 financial year.

Remuneration of Liberty's people (continued)

Participants of the scheme are assessed on group and business unit financial measures and individual key performance indicators. Each of these components is assigned a weighting based on the relevant influence that the participant has on the measures. Discretion is applied to recognise outstanding performance or to recognise exceptional circumstances.

Amounts awarded in excess of R1 million per individual are subject to the long-term deferred bonus scheme rules (refer below).

Investment professional schemes

The group employs a number of highly skilled investment professionals and management who manage assets entrusted by the group's clients under various mandates as well as shareholders' capital holdings and potential market risk exposures. Specific short-term incentive schemes are designed to reward outperformance relative to agreed benchmarks and compliance to mandate. In respect of those employed at STANLIB a portion of the awarded incentive is deferred in terms of the STANLIB deferred bonus scheme (refer below). A total of 43 investment professionals and management were eligible in respect of these schemes for the 2010 financial year.

General staff incentive schemes

All business units have general staff short-term incentive schemes designed around the business unit objectives and specific tasks performed within the various functions. All the schemes are linked to individual and business unit performance. Typically these schemes limit awards up to a maximum of 15% of total annual cost to company.

Long-term cash incentives

Deferred bonus scheme (DBS)

In order to additionally assist in aligning management and shareholder objectives and to retain key skills Liberty, effective March 2011, implemented the DBS for participants in the senior management incentive scheme. The scheme is applicable for the 2010 senior management group incentive scheme awards. Certain percentages ranging from 20% in relation to award amounts in excess of R1 million to 30% in excess of R6 million are deferred. These deferred amounts are converted into units, the value of which is linked to the Liberty share price (dividends declared are not adjusted to the unit value). The vesting date is three years from award date and the amount payable will be the equivalent of the unit value at that date plus a payment of 5% on original deferred value. Participants have the right to extend their net vesting values for a further year which will then qualify them for an additional payment of 25% of the vested value. The extended amounts remain linked to the unit values.

In the event that a participant retires or becomes permanently disabled, participation in the DBS will continue as if an active employee. In the event that a participant dies, the vesting date shall be accelerated to the date of death, and any vested unexercised units can be exercised within one year from date of death. In the event that an employee resigns or is dismissed, unvested units are forfeited, and vested unexercised units can be exercised up to and including the employee's last working day. In the case of retrenchment, unvested units are pro-rated to determine an amount that may be exercised.

Share unit rights (SUR) plan

Liberty introduced a cash-settled share unit scheme in 2009 where units are allocated to qualifying executives and senior management, the value of which is linked directly to the Liberty share price (dividends declared are not adjusted to the unit value). The unit values are settled in cash three years after the grant date, given the continued employment of the participant over the three year period. Thirteen executives and senior management have been awarded share unit rights.

Participants who resign or are dismissed prior to the vesting date forfeit any unvested units. In the event a participant retires or becomes permanently disabled, participation in the SUR plan will continue as if an active employee. In the event that a participant dies, the settlement date is accelerated to that date. Board discretion shall be applied where a participant is retrenched.

STANLIB contingent incentive award plan

A deferred incentive scheme was introduced in 2010 for investment professionals and key management in the STANLIB asset management business. The various awards granted are deferred over a three year vesting period. The amounts deferred are compulsorily invested into applicable STANLIB unit trusts to allow for alignment of the investment professional to the funds under their management. Amounts payable are based on the value of the unit trusts on date of vesting.

Participants who leave the group prior to vesting date forfeit any unvested units. In the event that an employee dies, becomes permanently disabled or retires, the vesting date shall be accelerated to the date of death, date of disability or date of retirement, whichever is applicable.

Various business unit long-term incentive schemes

Certain executives and senior management of various business units, particularly those with significant growth targets, participate in specific long-term incentive schemes based on value created over periods ranging between three to five years. These incentives have extended payment periods past vesting dates. Participants who

leave the group prior to vesting or payment date forfeit any unvested or deferred amounts.

Phantom share scheme

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

Share option/right holders were not entitled to receive dividends on their share options/rights and therefore each employee who had outstanding share options/rights at that date received a participation right in a phantom share scheme to compensate for the economic opportunity cost applicable to the capital no longer available. The number of phantom rights were calculated as the number of share options/rights outstanding multiplied by R3,60, divided by the average Liberty Group Limited share price over five days starting 5 June 2006 (R73,81 per share). The vesting dates of these rights have been matched to the share options/rights in respect of which they were granted, with the earliest date being 11 August 2006, and can be exercised at the option of the employee over a maximum of a 12 year period from 12 June 2006. On exercise Liberty Group Limited will compensate the employee in cash for the difference between strike price and the market price of a Liberty Holdings Limited share at the date of exercise. The phantom share scheme qualifies as a cash-settled scheme, as Liberty incurs a liability to the employee based on the price of Liberty Holdings Limited's shares.

Long-term share incentives

Executive directors, divisional directors, senior managers and key specialists are eligible to participate in the group's shareholder approved share incentive schemes. The schemes are intended to promote an alignment of interests with those of shareholders and to provide a longer term incentive as part of the remuneration structure to attract new, skilled and competent employees and to retain their services.

On an annual basis, a comprehensive review of existing allocations is undertaken and appropriate new awards are made. In exceptional cases, awards may also be made outside of this review period to attract or retain talent.

Awards of options and rights are based on a multiple of CTC and vest over a five year period, with 50% of an award vesting after three years and a further 25% vesting after four and five years, respectively. Awards have an expiry period of ten years from date of award.

The share option and equity growth schemes are continually reviewed in the light of emerging trends to align the schemes with shareholder interests.

Liberty operates four equity-settled share incentive schemes, being the Liberty Life Association of Africa Limited Share Trust, the Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme.

In relation to share options and rights granted:

- The specific grant is not subject to prior shareholder approval, as the schemes have been approved by shareholders in general meetings. Any amendments to the schemes are submitted for shareholder approval;
- No options or rights are issued at a pricing discount;
- The directors have the discretion to vary the vesting periods and this discretion has been applied in certain instances;
- Option and right holders are not entitled to dividends and do not have voting rights. Following the approval by Liberty Group Limited shareholders of the Liberty Life Equity Growth Scheme at the annual general meeting held on 23 May 2005, the granting of new share options in terms of the Liberty Life Association of Africa Limited Share Trust and the Liberty Group Share Incentive Scheme was discontinued (although options previously granted and outstanding in terms of these schemes will continue to be implemented in full). Share incentives have subsequently only been granted in terms of the Liberty Life Equity Growth Scheme, and after the 2008 section 311 scheme of arrangement, in terms of the Liberty Equity Growth Scheme; and
- In terms of both the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme, the beneficiaries acquire the right to participate in the growth of Liberty Holdings Limited's ordinary shares and the value of such participation is delivered to the beneficiaries in the form of Liberty Holdings Limited ordinary shares.

As at 31 December 2010, the following Liberty Holdings Limited ordinary shares were held in reserve in respect of the share option and rights schemes in terms of shareholder approvals:

- In respect of former Liberty Group Limited share options scheme: 1 249 610 shares;
- In respect of the former Liberty Life Equity Growth Scheme: 5 608 375 shares; and
- In respect of the Liberty Equity Growth Scheme as adopted by Liberty Holdings Limited: 23 391 625 shares.

Further details of the various share incentives schemes can be found in note 32 to the annual financial statements in this report.

Remuneration of Liberty's people (continued)

The table below summarises these package components and categories of staff that are eligible.

	Executives	Qualifying management and scarce skills	Staff
Guaranteed			
Base salary	✓	✓	✓
Benefits	✓	✓	✓
Variable			
Short-term cash incentives			
Senior management group incentive scheme	✓	✓	
Investment professional schemes		✓	
General staff incentive schemes			✓
Long-term cash incentives			
Share unit rights plan	✓	✓	
Deferred bonus scheme	✓	✓	
STANLIB contingent incentive award plan	✓	✓	
Various business unit long-term incentive schemes	✓	✓	
Phantom share scheme	✓	✓	
Long-term share incentives			
Equity growth scheme	✓	✓	

Black Managers' Trust

As part of the group's BEE transaction in 2004, 10 318 458 Liberty Holdings Limited ordinary shares (converted from Liberty Group Limited shares in terms of the 2008 section 311 scheme of arrangement) were reserved for allocation to qualifying black employees and certain non-executive directors. As at 31 December 2010 all the shares have fully vested. There are restrictive trading conditions until 31 December 2014. In terms of the group's transformation strategy three non-executive directors have been included in the scheme. Refer to the directors' remuneration section for further details.

Retention agreements

As part of the group's strategy to retain specific and key employees the group may selectively enter into agreements in terms of which retention payments are made. Retention payments have to be repaid or forfeited should the individual concerned leave within a stipulated period. The Remco has in recent years curtailed these agreements in favour of performance related long-term incentives.

Accounting for remuneration

IFRS and the group's accounting policies determine the accounting treatment of each component of remuneration with detailed disclosures within the relevant notes on the annual financial statements. In summary, costs are accounted for in relation to the applicable service rendered with the liability for long-term cash incentive schemes being measured annually utilising probability adjusted future expected outcomes present valued at appropriate risk free rates. Share-based payments are valued at grant date and expensed over the vesting periods.

King III remuneration disclosures

The recently issued King III Report on Corporate Governance in South Africa recommends that the details of the top three employee earners should be disclosed. For security and competitive reasons, the Remco have chosen not to disclose these details for 2010.

Liberty and Liberty Group Limited shares under option and subject to rights at 31 December 2010

Date granted	Price payable per share	Final vesting date	Shares/ rights under option at the beginning of the year	Option/rights granted during the year	Option/rights implemented during the year	Option/rights cancelled during the year	Shares/rights under option at the end of the year
Share option schemes							
14 Apr 00	41,70	14 Apr 05	45 201		45 201		
21 Nov 00	42,70	21 Nov 05	35 300		35 300		
03 Apr 01	44,90	03 Apr 06	111 398		11 954		99 444
10 Apr 01	41,50	10 Apr 06	204 866		13 275		191 591
16 Apr 02	54,60	16 Apr 07	254 175		21 075		233 100
14 Mar 03	46,15	14 Mar 08	371 575		53 400	2 000	316 175
12 Sep 03	46,40	12 Sep 08	30 000		10 000		20 000
24 Nov 03	46,25	24 Nov 08	13 600		5 500		8 100
15 Mar 04	50,65	15 Mar 09	346 275		67 100	72 975	206 200
01 Sep 04	51,40	01 Sep 09	120 000		120 000		
15 Nov 04	59,95	15 Nov 09	55 000				55 000
02 Dec 04	60,39	02 Dec 09	100 000				100 000
03 Jan 05	63,00	03 Jan 10	20 000				20 000
Share rights schemes							
21 Apr 05	58,40	21 Apr 10	437 325		116 275	25 000	296 050
06 Oct 05	59,40	06 Oct 10	50 000				50 000
21 Nov 05	65,10	21 Nov 10	30 000				30 000
01 Dec 05	69,10	01 Dec 10	20 000				20 000
03 Mar 06	81,61	03 Mar 11	866 200			150 400	715 800
18 Apr 06	77,28	18 Apr 11	60 000				60 000
02 May 06	79,38	02 May 11	20 000				20 000
01 Jun 06	73,40	01 Jun 11	30 000				30 000
03 Jul 06	72,00	03 Jul 11	20 000				20 000
10 Aug 06	72,00	10 Aug 11	60 000			10 000	50 000
23 Oct 06	74,00	23 Oct 11	20 000				20 000
28 Feb 07	80,25	28 Feb 12	1 506 100			260 900	1 245 200
11 Apr 07	83,24	11 Apr 12	10 000				10 000
02 May 07	92,25	02 May 12	50 000				50 000
22 May 07	93,30	22 May 12	105 000			7 500	97 500
01 Jun 07	92,00	01 Jun 12	50 000				50 000
03 Sep 07	89,71	03 Sep 12	175 000				175 000
14 Sep 07	88,88	14 Sep 12	20 000				20 000
12 Oct 07	95,50	12 Oct 12	20 000				20 000
02 Nov 07	92,95	02 Nov 12	100 000				100 000
04 Dec 07	89,50	04 Dec 12	80 000				80 000
12 Dec 07	92,90	12 Dec 12	50 000				50 000
02 Jan 08	89,75	02 Jan 13	249 950			72 025	177 925
14 Jan 08	81,00	14 Jan 13	20 000			20 000	
22 Feb 08	73,21	22 Feb 13	1 661 000			279 500	1 381 500
03 Mar 08	76,00	03 Mar 13	20 000				20 000
10 Apr 08	77,80	10 Apr 13	15 000				15 000
18 Apr 08	77,62	18 Apr 13	10 000				10 000
05 May 08	71,55	05 May 13	40 000				40 000
13 May 08	73,00	13 May 13	30 000				30 000
15 May 08	70,22	15 May 13	5 000				5 000
26 May 08	69,01	26 May 13	6 720			6 720	
04 Jun 08	71,00	04 Jun 13	6 000			6 000	
12 Jun 08	72,70	12 Jun 13	170 000				170 000
02 Jul 08	61,50	02 Jul 13	315 000				315 000
Balance carried forward							6 623 585

Remuneration of Liberty's people (continued)

Liberty and Liberty Group Limited shares under option and subject to rights at 31 December 2010 (continued)

Date granted	Price payable per share	Final vesting date	Shares/ rights under option at the beginning of the year	Option/rights granted during the year	Option/rights implemented during the year	Option/rights cancelled during the year	Shares/rights under option at the end of the year
Balance brought forward							6 623 585
07 Jul 08	58,88	07 Jul 13	6 000				6 000
11 Jul 08	57,95	11 Jul 13	15 000				15 000
01 Aug 08	63,90	01 Aug 13	36 500				36 500
21 Aug 08	71,00	21 Aug 13	24 400			4 400	20 000
15 Sep 08	73,00	15 Sep 13	10 000				10 000
23 Sep 08	75,00	23 Sep 13	11 450				11 450
15 Oct 08	72,50	15 Oct 13	40 000				40 000
24 Oct 08	57,00	24 Oct 13	81 450				81 450
03 Nov 08	60,80	03 Nov 13	5 000			5 000	
17 Nov 08	61,00	17 Nov 13	14 000				14 000
12 Jan 09	61,00	12 Jan 14	55 000				55 000
21 Jan 09	58,83	21 Jan 14	24 000			9 000	15 000
13 Feb 09	68,25	13 Feb 14	8 500				8 500
18 Feb 09	65,15	18 Feb 14	2 454 000		18 495	270 505	2 165 000
13 Mar 09	62,50	13 Mar 14	50 000			50 000	
13 Mar 09	62,50	13 Mar 14	20 000				20 000
15 Apr 09	65,99	15 Apr 14	130 000			130 000	
06 May 09	64,00	06 May 14	60 000				60 000
20 May 09	62,08	20 May 14	30 000				30 000
01 Jun 09	60,00	01 Jun 14	40 000				40 000
22 Jul 09	65,69	22 Jul 14	55 000			5 000	50 000
03 Aug 09	60,38	03 Aug 14	25 500				25 500
16 Sep 09	63,50	16 Sep 14	10 000				10 000
21 Sep 09	66,00	21 Sep 14	9 000				9 000
26 Oct 09	67,00	26 Oct 14	45 000				45 000
02 Nov 09	67,56	02 Nov 14	70 000				70 000
01 Dec 09	66,80	01 Dec 14	10 000				10 000
25 Nov 09	70,15	25 Nov 14	50 000				50 000
01 Dec 09	66,00	01 Dec 14	398 500			53 000	345 500
01 Dec 09	66,00	01 Dec 14	7 000				7 000
05 Jan 10	68,12	05 Jan 15		574 000		49 000	525 000
01 Feb 10	67,00	01 Feb 15		65 000			65 000
01 Feb 10	67,00	01 Feb 15		35 000			35 000
01 Mar 10	70,26	01 Mar 15		160 000			160 000
23 Feb 10	69,00	23 Feb 15		2 390 000	978	146 522	2 242 500
09 Mar 10	73,75	09 Mar 15		5 000			5 000
24 Mar 10	72,51	24 Mar 15		98 000		14 000	84 000
23 Jul 10	76,80	23 Jul 15		11 500			11 500
10 Aug 10	76,56	10 Aug 15		25 000			25 000
09 Sep 10	71,25	09 Sep 15		41 000			41 000
01 Oct 10	70,85	01 Oct 15		35 000			35 000
14 Oct 10	71,84	14 Oct 15		10 000			10 000
18 Oct 10	71,43	18 Oct 15		20 000			20 000
01 Nov 10	75,01	01 Nov 15		50 000			50 000
01 Dec 10	70,00	01 Dec 15		101 200			101 200
			11 830 985	3 620 700	518 553	1 649 447	13 283 685

⁽¹⁾ The price payable per share was reduced by R3,60 per share for all options outstanding as at 9 June 2006, the record date for Liberty Group Limited's capital reduction of R3,60 per share.

⁽²⁾ The majority of the above options/rights have vesting periods of 50%, 75% and 100% after years 3, 4 and 5 from date of grant. After vesting, options/rights may be implemented at any time except during closed periods. Options/rights expire on the tenth anniversary from the date of grant of the options/rights.

Closing price for a Liberty ordinary share on 31 December 2010 was R72,50 (2009: R69,20). Details regarding executive directors' share options can be found on page 72.

Corporate citizenship and South African transformation

Being a responsible corporate citizen entails acting with economic, social and environmental responsibility and Liberty's actions in this regard are reflected in the various sections of this integrated annual report. As a business, Liberty can be measured on its transformation progress as well as the impact it has on the communities and environment in which it operates and how its people live its values. A full sustainability report is available on www.liberty.co.za.

Transformation and empowerment

Liberty's commitment to transformation is not driven by compliance, but by the understanding that businesses need to contribute to the country's socio-economic transformation in a way that will bring meaningful change to the lives of all South Africans. Transformation and empowerment are fundamental to the future growth and sustainability of the financial services sector and the South African economy.

All Broad-Based Black Economic Empowerment elements were managed through the Financial Sector Charter, the Department of Trade and Industry (DTI) Codes of Good Practice and the Department of Labour Employment Equity guidelines.

A transformation steering committee was set up to drive the transformation agenda and to continuously monitor progress throughout the business.

During 2010, Liberty focused particularly on employment equity objectives, skills development programmes and increasing procurement from black owned suppliers. Good progress was made with Liberty achieving an overall DTI score of 75.03 points, classifying Liberty as a level 3 (2009: level 4) contributor in terms of the Codes. The DTI score was verified by Empowerdex.

Transformation and Employment Equity (EE) remained top priorities for the group in 2010. With the Department of Labour having approved Liberty's EE plan, the focus for 2010 was on ensuring improved representation of black staff in leadership positions. The representation of black staff in top management positions improved from 23% in 2009 to 41% in 2010. The representation of black staff in senior management positions also improved from 28,5% to 35%. In total 85% of new appointments were black candidates, of which 51% were African, compared to 39% in 2009.

DTI element	Total weighting	Liberty's audited score Sept 2010	Liberty's audited score Sept 2009
Ownership	20	15.35	14.21
Management	10	4.44	4.11
Employment Equity	15	9.32	9.68
Skills Development	15	8.85	7.17
Preferential Procurement	20	17.07	14.02
Enterprise Development	15	15.00	15.00
Socio-economic Development	5	5.00	5.00
Total DTI score	100	75.03	69.19

Corporate Social Investment (CSI)

Liberty is committed to supporting development in South Africa and the rest of Africa, with a history of social investment spanning almost 40 years. The main focus areas of Liberty's CSI initiatives are educational support for learners and consumer education to improve financial literacy.

In education, Liberty has long-term partnerships with specialist organisations, Mindset Network and Bubblegum Educational Design, to develop and distribute educational workbooks for mathematics and science. Mindset Network is a non-profit organisation which develops, sources and distributes written material, computer-based video and multimedia education content to underprivileged schools. Bubblegum Educational Design produces and distributes maths and science workbooks for high schools in South Africa. STANLIB contributes to education through its Lapdesk programme, which distributes portable desks that can be used in classrooms and at home by learners.

In 2010 Mindset Network developed and launched a new Grade 12 Matric revision programme called Learn Xtra, comprising broadcast video lessons and detailed print support. This revision programme played a critical role during the public sector strikes, and was supplemented by the development of 2 000 free Grade 12 exam revision packs to provide additional support. The Madiba 67 project, in which Mindset Network will donate digital libraries of Mindset school lessons to 67 underprivileged schools across South Africa, continued in 2010. The donated libraries include over 280 hours of video lessons and 96 interactive multi-media lessons with support softcopy worksheets. By the end of 2010, 28 schools in Gauteng, Free State, Eastern Cape, Limpopo, and the North West had received the digital libraries.

Corporate citizenship and South African transformation (continued)

Bubblegum Educational Design continued to produce content for Maths 911 and Science Catalyst. Both of these consist of live shows broadcast on DSTV Channel 319 accompanied by supporting learner materials. Bubblegum Educational Design broadcast 208 hours of Maths and Science programming in 2010. In the same period, Liberty supported the distribution of 105 000 Maths 911 workbooks to 246 schools in eight provinces, and 5 000 Science Catalyst workbooks to more than 50 schools in Gauteng, North-West and KwaZulu-Natal.

The 2010 spend on face-to-face consumer education was approximately R2 million. Liberty adopted a regional approach to the roll out of consumer education, starting with KwaZulu-Natal in 2009 and 2010. Training takes place at worksites and within communities and covers the basics of budgeting, learning to differentiate between needs and wants, debt management, banking, insurance and saving, and writing a will. To date, more than 37 000 people have received financial literacy training through the ELM unit's workshops, and 11 360 students have attended STANLIB's investment workshops since 2006. By investing in educating consumers on the subject of financial management and promoting financial literacy, Liberty is empowering disadvantaged communities.

	2010 Rm	2009 Rm	2008 Rm
Total corporate social investment expenditure*	30,5	32,8	28,3

* Includes STANLIB spend and administration costs.

A CSI intranet portal was developed for employees to raise awareness of CSI and to promote interactive dialogue and participation. During the year Liberty also had a

book donation drive targeting Liberty employees. In total, over 24 000 books were collected and given to schools already supported by Liberty through its partnership with Bubblegum and Mindset.

A fundraising campaign was conducted to support environmental conservation ('Own your Planet') and local non-profits providing essential community services ('Own your Community').

Other CSI fundraising activities included a CANSA Shavathon and a Casual Day for the Sunshine Association who care for children with disabilities. Liberty and STANLIB both have staff matching schemes, where they match employees' monetary donations on a rand-for-rand basis, up to a limit of R5 000 per employee per year. Through these schemes, Liberty and STANLIB donated over R300 000 to charities selected by staff.

Limiting the business' impact on the natural environment

Although Liberty's activities have a minimal impact on the environment, it has an environmental commitment statement in terms of which it remains committed to actively identifying and managing those aspects of its operations which have a direct environmental impact.

Liberty is constantly searching for ways to reduce electricity consumption. In 2010, a third party review of the Eastgate Shopping Centre, the Liberty Life Centre and Libridge was commissioned to identify opportunities to reduce energy consumption and carbon emissions. Liberty Properties will begin to implement the findings of these reviews during 2011, initially prioritising improving the efficiency of all equipment installed at Liberty Life Centre and Libridge, as well as upgrading the building management systems at these two sites.

Limiting the business' impact on the environment	2010	2009	2008
Total measured CO ₂ emissions (head office buildings and branches) (tonnes)	46 525	47 372	45 953
Purchased electricity (kWh)	39 951 463	41 201 265	40 608 300
Water usage (head office buildings and major branches and shopping centres) (kilolitres)	133 631	104 756	146 210

Governance and risk management

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governance risk management

Governance developments at Liberty

King III principles adopted

Lead independent director appointed

The **5 standing committees** of the board were **reconstituted** to ensure committees operate at **optimum efficiency** and avoid duplication of skills

Remuneration philosophy will be **presented to shareholders** for non-binding vote at the **13 May 2011** annual general meeting

Group audit and actuarial committee and group risk committee **mandates updated**

The group audit and actuarial committee and group risk committee now have **separate chairmen**, allowing more in-depth focus on respective mandates and issues to be dealt with

Combined **assurance Framework** adopted

IT governance **processes** and **structures** in place

Production of an **integrated annual report** for **2010**

Committed to full implementation of King III principles in 2011

Statement of commitment

The directors of Liberty Holdings Limited (company) and its subsidiaries are responsible for developing, approving and monitoring appropriately high standards of corporate governance for the group and fully endorse the principles of the South African Code of Corporate Practices and Conduct as recommended in the King Report on Corporate Governance (King II). The directors believe that Liberty has implemented and complied with the applicable requirements of King II and that Liberty complied with the Listings Requirements of the JSE Limited in all respects, with regard to the year under review.

Whilst the board is satisfied with its level of compliance with applicable governance and regulatory requirements, it recognises that its practices can always be improved, and accordingly the board has and will continuously review the company's governance framework against prevailing governance best practice.

Liberty is committed to a transparent governance process that provides stakeholders with a high degree of confidence that the group is being managed ethically, within prudent risk parameters and in compliance with international best practice.

The King Report on Corporate Governance for South Africa, 2009 (King III) became effective for the reporting periods commencing from 1 March 2010. The group conducted an extensive review of the King III principles and the company's existing governance practices. Liberty has elected to report against the King III principles for this year, as the group has substantively applied or will apply these principles within the forthcoming year. In instances where the group has not yet applied, or has elected not to apply, certain of the principles, these exceptions are explained under the appropriate sections throughout this report. As part of the progressive journey to comply with King III, the remuneration philosophy will be presented to shareholders for a non-binding vote of approval at the forthcoming annual general meeting.

Board of directors



From left to right: Saki Macozoma, Bruce Hemphill, Casper Troskie, Angus Band, Jacko Maree, Professor Leila Patel, Tim Ross

Saki Macozoma (BA) (Unisa)

Appointed to the board: 2003

Aged 53, is the non-executive chairman of Liberty Holdings Limited and Liberty Group Limited. He is deputy chairman of Standard Bank Group Limited as well as non-executive director of The Standard Bank of South Africa Limited. He is currently the chairman of STANLIB Limited, Safika Holdings (Pty) Limited, the Council of Wits University and the President of Business Leadership SA. He chairs the transformation and directors' affairs committee of Liberty Holdings Limited and is a member of the remuneration committee.

Bruce Hemphill (BA, CPE, Solicitor)

Appointed to the board: November 2008

Aged 47, is the chief executive of Liberty Holdings Limited and Liberty Group Limited and serves on the transformation committee of Liberty Holdings Limited. He is also a director of STANLIB Limited. He is a member of the Standard Bank group executive committee.

Casper Troskie (BCom (Hons), CA(SA))

Appointed to the board: October 2010

Aged 47, is the financial director of Liberty Holdings Limited and Liberty Group Limited. Prior to joining Liberty he was the chief financial officer of Standard Bank group. Before that he was a partner at Deloitte with responsibility for leading the national Deloitte Financial Services Team including the insurance and actuarial practices.

Angus Band (BA, BAcc, CA(SA))

Appointed to the board: November 2008

Aged 58, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the remuneration committee and serves on the transformation committee and directors' affairs committee of Liberty Holdings Limited. He is also a member of the audit and actuarial committee of both Liberty Holdings Limited and Liberty Group Limited. He is the chairman of AVI Limited and Aveng Limited.

Jacko Maree (BCom, MA (Oxon))

Appointed to the board: 1997

Aged 55, is a non-executive director of Liberty Holdings Limited and Liberty Group Limited. He serves on the transformation and directors' affairs committees of Liberty Holdings Limited. He is the chief executive of Standard Bank Group Limited and a director of various subsidiaries of the Standard Bank group.

Professor Leila Patel (PhD, MSW)

Appointed to the board: November 2008

Aged 58, is an independent director of Liberty Holdings Limited and Liberty Group Limited. She serves on the transformation committee of Liberty Holdings Limited. She is Professor of Social Development Studies – University of Johannesburg and director of The Centre for Social Development in Africa.

Tim Ross (CTA, CA(SA))

Appointed to the board: November 2008

Aged 66, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the audit and actuarial committee of both Liberty Holdings Limited and Liberty Group Limited. He also serves on the risk committee of both Liberty Holdings Limited and Liberty Group Limited. He is a director and chairman of the audit committees of Eqstra Holdings Limited and Pretoria Portland Cement Company Limited and a member of their risk committees. He is also a director of Adcorp Holdings Limited and chairman of their audit and risk committees. He is a director of CIDA Empowerment.



From left to right: Peter Wharton-Hood, Dr Sibusiso Sibisi, Swazi Tshabalala, Tony Cunningham, Peter Moyo, Jim Sutcliffe

Peter Wharton-Hood (BCom (Hons), CA(SA), AMP (Harvard))

Appointed to the board: November 2008

Aged 45, is a non-executive director of Liberty Holdings Limited and Liberty Group Limited. He is also a member of the remuneration committee of Liberty Holdings Limited. He is currently the Group Deputy Chief Executive of Standard Bank Group Limited and a director of various subsidiaries of the Standard Bank group.

Dr Sibusiso Sibisi (BSc (Imperial College, London), PhD (Cambridge))

Appointed to the board: November 2008

Aged 55, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the risk committee of Liberty Holdings Limited and Liberty Group Limited. He is the chief executive officer of the CSIR and is a director of Murray & Roberts Limited.

Swazi Tshabalala (BA (Econ), MBA)

Appointed to the board: November 2008

Aged 45, is an independent director of Liberty Holdings Limited and Liberty Group Limited. She serves on the risk committee of Liberty Holdings Limited and Liberty Group Limited. She also serves on the directors' affairs committee of Liberty Holdings Limited. She is the chief executive officer of the Industrial Development Group, a diversified investment holdings company.

Tony Cunningham (MA (Cambridge), FIA)

Appointed to the board: February 2009

Aged 55, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the risk committee and audit and actuarial committee of both Liberty Holdings Limited and Liberty Group Limited. He is a qualified actuary and Fellow of the Institute of Actuaries. He has over 30 years' experience in the insurance and investment advisory fields.

Peter Moyo (BCompt (Hons), CA(SA), HDip Tax Law (Wits), AMP (Harvard))

Appointed to the board: February 2009

Aged 48, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He serves on the risk committee, the audit and actuarial committee and the remuneration committee of Liberty Holdings Limited as well as serving on the audit committee and risk committee of Liberty Group Limited. He is also a director of Amabubesi, a diversified investment holding company. He is a non-executive director of Pinnacle Technology Holdings Limited, chairman of Vodacom Group Limited and non-executive director of Transnet Limited where he also serves as a member on their audit committee. He is also the chairman of the audit committee in the office of the Auditor General and is a member of the Advisory Council of the Stellenbosch Business School.

Jim Sutcliffe (BSc, FIA)

Appointed to the board: September 2009

Aged 54, is an independent director of Liberty Holdings Limited and Liberty Group Limited. He is the chairman of the risk committee of Liberty Holdings Limited and Liberty Group Limited and is a member of the audit and actuarial committee of both Liberty Holdings Limited and Liberty Group Limited. He is an actuary by training and is a Fellow of the Institute of Actuaries. He is an independent non-executive director on the boards of Lonmin PLC, Sun Life Financial Inc. and Sun Life Assurance Company of Canada.

Remuneration of directors

Introduction

The non-executive and executive directors have different responsibilities and remuneration policies are structured according to these roles. Non-executive directors' fees, including the chairman's fee, are proposed by the board and recommended to the shareholders for approval at the Annual General Meeting. Non-executive directors do not receive short-term incentives and, with the exception of the directors who qualified for the 2004 black ownership transaction, do not participate in any long-term incentive schemes. Details regarding the non-executive directors' terms of engagement and remuneration process are provided in the Corporate governance section. Proposed fees for the 2011 directorships of Liberty Holdings Limited and Liberty Group Limited, as set out in the notice to members, to be distributed separately, are based on a carefully considered assessment of the increased responsibility placed on non-executive directors arising from increased requirements for regulatory oversight. Fees are annually benchmarked to equivalent responsibilities in the financial services sector. The board considered the King III proposal for non-executive directors' fees to comprise a base fee as well as an attendance fee per meeting. In light of the current non-executives' exemplary attendance record in recent years it has been decided not to change the current policy of a set annual fee. This policy will be reviewed annually with due consideration to attendance records.

The policy for executive directors' remuneration is determined by the group's remuneration committee (as detailed in the corporate governance section). The guaranteed benefits and variable remuneration for executive directors are awarded on the same basis and using the same qualifying criteria as for other group executive members, as outlined within the remuneration of Liberty's people section on page 53.

Non-executive directors

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

Name	2010 R'000	2009 R'000
HI Appelbaum ⁽¹⁾	117	219
AWB Band	621	582
AP Cunningham ⁽²⁾	597	649
SJ Macozoma	1 795	1 685
JH Maree ⁽³⁾		
MP Moyo	504	291
L Patel	374	446
– Fees	234	219
– Share-based payments ⁽⁴⁾	140	227
A Romanis ⁽¹⁾	252	472
SP Sibisi	569	629
– Fees	429	402
– Share-based payments ⁽⁴⁾	140	227
JH Sutcliffe ⁽²⁾	597	216
BS Tshabalala	601	682
– Fees	461	455
– Share-based payments ⁽⁴⁾	140	227
TDA Ross	706	662
PG Wharton-Hood ⁽³⁾		
Total	6 733	6 533
Paid by Liberty Holdings Limited	1 263	6 533
Paid by Liberty Group Limited	5 470	

⁽¹⁾ HI Appelbaum resigned and A Romanis retired from the board on 12 May and 13 May 2010 respectively.

⁽²⁾ Rand equivalent of £53 250 paid to both AP Cunningham (2009: £50 000) and JH Sutcliffe (2009: £16 667) respectively.

⁽³⁾ JH Maree and PG Wharton-Hood are full time employees of the Standard Bank group and therefore do not receive directors' fees from Liberty.

⁽⁴⁾ The share-based payments represent the year's allocated expense as calculated under International Financial Reporting Standards.

Non-executive directors' interests in shares held in the Black Managers' Trust

As approved by shareholders, three non-executive black directors participated in the black ownership initiative through the Black (Katleho) Managers' Trust, as the board believed it significantly assisted in securing the services of black directors with the necessary competence. Details regarding their interests in shares is as follows:

Summary of non-executive directors interests in shares held in the Black Managers' Trust

Option holder	Date awarded	Rights to number of shares	Current effective strike price of rights	IFRS expense for the year R'000	Implementation date ⁽¹⁾
Prof L Patel	7 Dec 2004	100 000	R43,92	140	31 Dec 2014
Dr SP Sibisi	7 Dec 2004	100 000	R43,92	140	31 Dec 2014
Ms BS Tshabalala	1 Nov 2006	100 000	R43,92	140	31 Dec 2014

⁽¹⁾ These shares were fully vested at 31 December 2010, however they have restrictive trading conditions until 31 December 2014.

With regard to the strike price, it should be noted that the shares to which the beneficiaries will be entitled on completion of the vesting period in 2010 were acquired by the Black Managers' Trust in 2004 at R48,50 per share. Subsequent capital repayments funded by Liberty's capital and dividend distributions have reduced the effective strike price to R43,92. The acquisition was financed by the trust issuing redeemable preference shares to Liberty Group Limited, with the preference share obligation being serviced by shareholder distributions in respect of the shares held by the trust. On repayment of the preference share obligation in full by the trust, beneficiaries will receive their share entitlement in terms of the trust as fully paid at no cost to them. The benefits received by the beneficiaries are therefore determined by the number of rights they are awarded and not the "strike price" as the strike price is nil in the hands of the beneficiary. The benefit will be the number of shares times the full market price of the shares on the date the shares are delivered to the beneficiary. Other than the participation of black non-executive directors in the black ownership initiative as described above, non-executive directors do not participate in any share-based incentive scheme.

Interest of directors, including their families, in the share capital of Liberty

Direct interests	Number of shares 2010	Number of shares 2009
<i>Beneficial</i>		
HI Appelbaum ⁽¹⁾		60 000
A Romanis ⁽¹⁾		230 876
PG Wharton-Hood	1 006	1 006
	1 006	291 882

⁽¹⁾ HI Appelbaum resigned and A Romanis retired from the board during 2010, however continued to hold 60 000 and 230 876 Liberty Holding Limited shares respectively at 31 December 2010.

Indirect interests

By virtue of either directorships in or material shareholdings held directly or indirectly by Standard Bank Group Limited 53,65% (2009: 53,65%) in the issued ordinary share capital of Liberty, Messrs SJ Macozoma and JH Maree, being directors of Liberty and Standard Bank Group Limited, had in aggregate an indirect beneficial and non-beneficial interest in 153 456 360 (2009: 153 456 360) ordinary shares in Liberty at 31 December 2010.

By virtue of Mr SJ Macozoma's directorship and 23% shareholding in Safika Holdings (Proprietary) Limited (Safika) and by virtue of Safika controlling 2,46% (2009: 3,0%) of Liberty, Mr SJ Macozoma had an additional indirect beneficial interest in 1 616 129 (2009: 1 909 830) ordinary shares in Liberty at 31 December 2010.

By virtue of their participation in the Katleho Managers' Trust, Prof L Patel, Dr SP Sibisi and Ms BS Tshabalala each have an indirect beneficial interest in 100 000 ordinary shares in Liberty.

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 23 February 2011.

Remuneration of directors (continued)

Executive directors

During the period under review, the Liberty board chose not to appoint a deputy chief executive following the resignation of Mr RG Tomlinson with effect from 30 June 2010. Therefore executive board members at 31 December 2010 are the chief executive and financial director. The positions of chief executive and financial director qualify as board appointments in line with best practice and JSE requirements.

Chief executive (CE) – Mr JB Hemphill

The CE was appointed by the board, which ensures that the role and function of the CE is formalised and his performance is evaluated against specified criteria, in line with King III recommended practice.

Mr Hemphill is an employee of the Standard Bank group and has been seconded full time to Liberty in the role of CE. This is in accordance with the approved principle of portability within the Standard Bank group and ensured various benefits received prior to this appointment as CE remained unaffected.

The remuneration committee has set his remuneration with due consideration to his performance, experience and responsibility together with extensive benchmarking of similar roles equivalent to Liberty's size, industry and risk profile. The board considers the relationship with the group's holding company, Standard Bank, critical to the ability to add value to shareholders, particularly through bancassurance arrangements and joint initiatives on a mutually beneficial basis. Consequently the remuneration committee includes long-term share incentives in Standard Bank as well as in Liberty in the total remuneration package of the CE. In line with previous shareholder approvals, share incentive awards in Standard Bank awarded prior to the appointment of Mr Hemphill as CE of Liberty, remain unaffected.

Mr Hemphill's contract is subject to a one month termination clause.

Mr Hemphill's basic salary was adjusted in 2010 in consideration of the increased responsibility following the board's decision not to appoint a deputy chief executive after the resignation of Mr RG Tomlinson.

The performance related payments and long-term cash and share incentives offered to the CE are subject to the Remco's assessment of performance against various predetermined criteria. The agreed criteria are weighted so that 70% applies to the financial performance of the group, against key budgeted financial measures, and 30% applies to strategic objectives and qualitative aspects of performance. Mr Hemphill's performance in respect of the financial performance criteria was assessed at 78% and in respect of strategic and qualitative aspects of performance the rating was 90%. In terms of the incentive scheme rules Mr Hemphill's performance related incentive amounted to R6 million (2009: R2,250 million) which represented 1,33 times his annual package of R4,5 million.

The measurement criteria are aligned to long-term sustainable strategies and support value creation for shareholders.

In 2010 there were twelve group financial performance measures including the following core measures:

Value of insurance new business (VONB)

VONB is an embedded value metric that measures the expected current value, at point of sale, of value added by new business activities in insurance operations.

Contribution to embedded value – Retail SA

This metric measures the contribution to the main operating in-force contract performance indicators for the Retail SA insurance business, based on the methodology of embedded value. The contribution looks to best measure the management controllable value-add to the business and includes expense, persistency, mortality and morbidity experience.

Headline earnings

Headline earnings is a commonly used measure of profitability and is measured at a group and business unit level to achieve appropriate balance between the overall group result and the objectives of the respective business units.

Financial director (FD) – Mr CG Troskie 12 October 2010 onwards and Mr WR Harte 1 January 2010 to 12 October 2010

The performance, appropriateness and expertise of the financial directors that held office were confirmed suitable in terms of the JSE Listings Requirements.

Mr Troskie is a full time employee of Liberty, however in terms of general shareholder approval, his long-term share incentives in Standard Bank awarded prior to his appointment, remain unaffected. Liberty with effect from his date of appointment has assumed the future cost in respect of these incentives.

Mr Troskie's contract is subject to a three month termination clause.

As with the CE, the performance related payments and long-term cash and share incentives offered to the FD are subject to the Remco's assessment of performance against various predetermined criteria. Due to Mr Troskie's appointment to the board on 12 October 2010, he has not qualified for the 2010 Liberty short-term performance related payments.

Mr Harte, the previous financial director, resigned from the board on 12 October 2010 to pursue an opportunity within the greater Standard Bank group. The costs relating to Mr Harte's long-term cash incentives and long-term equity-settled share options were transferred to a fellow Standard Bank group subsidiary from the date of resignation. With regards to the allocation of 2010 performance related payments, his performance was assessed for the year under review until the date of his resignation.

The remuneration received by executive directors is as follows:

	Basic salaries R'000	Performance related payments R'000	Retirement and medical benefits R'000	Expense allowances R'000	Other benefits R'000	Long-term cash incentives ⁽⁴⁾ R'000	Total emoluments R'000	Long-term share incentives ⁽⁵⁾ R'000
2010								
Paid by subsidiaries								
JB Hemphill	3 995	4 850	461	7	3	1 022	10 338	4 130
RG Tomlinson ⁽¹⁾	1 422	1 500	147	120	21		3 210	872
WR Harte ⁽²⁾	1 907	2 060	194	47	58	427	4 693	1 924
CG Troskie ⁽³⁾	844		102		1		947	
	8 168	8 410	904	174	83	1 449	19 188	6 926
2009								
Paid by subsidiaries								
JB Hemphill	3 319	2 250	393	7	3		5 972	2 378
RG Tomlinson	2 788	2 000	292	240	85		5 405	1 332
WR Harte ⁽²⁾	1 185	925	119	30	68		2 327	871
	7 292	5 175	804	277	156		13 704	4 581

⁽¹⁾ Resigned from the board on 30 June 2010.

⁽²⁾ WR Harte was appointed to the board on 29 June 2009 and resigned on 12 October 2010. Remuneration, including incentives, is calculated pro rata to the period served as a director.

⁽³⁾ Appointed to the board on 12 October 2010.

⁽⁴⁾ Long-term cash incentives comprise the year's allocated expense in relation to the share units rights plan in terms of International Financial Reporting Standards.

⁽⁵⁾ Long-term share incentives comprise the year's allocated expense in terms of International Financial Reporting Standards.

Summary of executive directors' interests in deferred bonus scheme

Name	Date granted	Date fully vested	Units allocated	Unit value at allocation date (R)
JB Hemphill	24 Feb 2011	24 Feb 2014	15 395	1 150 000

2011 is the first year of the deferred bonus scheme and therefore there are no prior granted allocations or expense attributable to 2010.

Remuneration of directors (continued)

Summary of executive directors' interests in share unit rights plan

Name	Date granted	Date fully vested	Units allocated	Unit value at allocation date (R)	Units transferred during the year	Units at end of the year	Current value at end of year R'000	Expense during the year ⁽²⁾ R'000
			72 464	5 000 000	(21 739)	50 725	3 678	1 317
JB Hemphill	23 Feb 2010	23 Feb 2013	50 725	3 500 000		50 725	3 678	1 022
WR Harte ⁽¹⁾	23 Feb 2010	23 Feb 2013	21 739	1 500 000	(21 739)			296

⁽¹⁾ Appointed as Liberty director on 29 June 2009 and resigned on 12 October 2010. Subsequent to his date of resignation the cost of the share unit rights plan are transferred to a fellow Standard Bank group subsidiary.

⁽²⁾ As calculated in accordance with International Financial Reporting Standards.

Summary of executive directors' interests in Liberty shares/rights under option

Details regarding the group's share incentive schemes can be found in the remuneration of Liberty's people section.

Date granted	Price payable per share	Date fully vested	Share options/ rights under option at beginning of year	Share options/ rights granted during year	Share options/ rights implemented during year	Share options/ rights cancelled during year	Share options/ rights transferred during year ⁽³⁾	Share options/ rights under option at end of year
JB Hemphill			400 000	240 000				640 000
21 Apr 2005	R58,40	21 Apr 2010	40 000					40 000
18 Apr 2006	R77,28	18 Apr 2011	60 000					60 000
28 Feb 2007	R80,25	28 Feb 2012	120 000					120 000
22 Feb 2008	R73,21	22 Feb 2013	80 000					80 000
18 Feb 2009	R65,15	18 Feb 2014	100 000					100 000
23 Feb 2010	R69,00	23 Feb 2015		240 000				240 000
RG Tomlinson ⁽¹⁾			350 000		(160 000)	(190 000)		
1 Sep 2004	R51,40	1 Sep 2009	120 000		(120 000)			
21 Apr 2005	R58,40	21 Apr 2010	40 000		(40 000)			
3 Mar 2006	R81,61	3 Mar 2011	60 000			(60 000)		
28 Feb 2007	R80,25	28 Feb 2012	80 000			(80 000)		
22 Feb 2008	R73,21	22 Feb 2013	50 000			(50 000)		
WR Harte ⁽²⁾			225 000	75 000			(300 000)	
2 May 2007	R92,90	2 May 2012	50 000				(50 000)	
12 Dec 2007	R92,90	12 Dec 2012	50 000				(50 000)	
22 Feb 2008	R73,21	22 Feb 2013	75 000				(75 000)	
18 Feb 2009	R65,15	18 Feb 2014	50 000				(50 000)	
23 Feb 2010	R69,00	23 Feb 2015		75 000			(75 000)	

⁽¹⁾ Resigned as a director on 30 June 2010.

⁽²⁾ Appointed as Liberty director on 29 June 2009 and resigned on 12 October 2010.

⁽³⁾ Subsequent to his date of resignation the cost of the awards are transferred to a fellow Standard Bank group subsidiary.

Summary of executive directors' interests in Standard Bank shares/rights under option

Date granted	Price payable per share	Date fully vested	Shares options/ rights under option at beginning of year	Share options/ rights granted during year	Share options/ rights imple- mented during year	Share options/ rights under option at end of year
JB Hemphill			97 500	150 000	(22 500)	225 000
11 Mar 2004 ⁽¹⁾	R40,65	11 Mar 2009	7 500		(7 500)	
21 Apr 2005 ⁽¹⁾	R60,35	21 Apr 2010	20 000		(15 000)	5 000
21 Apr 2005 ⁽¹⁾	R60,35	21 Apr 2012	20 000			20 000
6 Mar 2009	R62,39	6 Mar 2014	25 000			25 000
6 Mar 2009	R62,39	6 Mar 2016	25 000			25 000
5 Mar 2010	R111,94	5 Mar 2015		75 000		75 000
5 Mar 2010	R111,94	5 Mar 2017		75 000		75 000
CG Troskie			75 000	30 000		105 000
2 Jan 2009 ⁽¹⁾	R83,00	2 Jan 2014	37 500			37 500
2 Jan 2009 ⁽¹⁾	R83,00	2 Jan 2016	37 500			37 500
5 Mar 2010 ⁽¹⁾	R111,94	5 Mar 2015		15 000		15 000
5 Mar 2010 ⁽¹⁾	R111,94	5 Mar 2017		15 000		15 000

⁽¹⁾ Awards prior to the respective appointments to the Liberty board.

Group executive committee



From left to right: Bruce Hemphill, Steven Braudo, Thabo Dloti, Casper Troskie, Giles Heeger, Bernard Katompa, Audrey Mothupi

Bruce Hemphill

Age: 47

Title: Chief Executive – Liberty

Joined Standard Bank: 1993

Joined Liberty: 2006, appointed Chief Executive

Qualifications: BA, CPE, Solicitor

Experience: Qualified solicitor. Prior to joining the group as chief executive at STANLIB, Bruce held senior management positions in merchant and investment banking at Standard Bank, both locally and internationally. He is a member of the Standard Bank group executive committee.

Steven Braudo

Age: 39

Title: Chief Executive – Retail SA

Joined Liberty: 2008

Qualifications: BEconSc, BSc(Hons), FASSA, CFA, AMP (Harvard)

Experience: Life Assurance, Employee Benefits and Asset Management. Prior to joining Liberty, Steven was the Managing Director of Investment Solutions with responsibilities spanning across South Africa and the United Kingdom.

Thabo Dloti

Age: 41

Title: Chief Executive – Investment Business

Joined Liberty: 2010

Qualifications: BBusSc (Actuarial Science), AMP (Harvard)

Experience: Head of STANLIB and the Asset Management and Institutional business (which include Liberty Corporate and Liberty Properties). Prior to joining Liberty, Thabo was the CEO of Old Mutual Investment Group SA (OMIGSA) where he ran a portfolio of 15 asset management businesses and was an executive committee member.

Casper Troskie

Age: 47

Title: Group Financial Director

Joined Liberty: 2010

Qualifications: BCom (Hons), CA(SA)

Experience: Casper is a Chartered Accountant. He was previously the chief financial officer of Standard Bank group and before that, a partner at Deloitte with responsibility for leading the national Deloitte Financial Services Team including the insurance and actuarial practices.

Giles Heeger

Age: 38

Title: Chief Executive – Liberty Financial Solutions

Joined Standard Bank: 2000

Joined Liberty: 2008

Qualifications: BBus Sc (Hons), PGDA, MSc, CA(SA)

Experience: Structured debt finance, market risk, derivatives and global markets. Giles qualified as a Chartered Accountant and joined Liberty from Standard Bank, where he was the director of Sales and Structuring in the Global Markets Division of the Corporate and Investment Banking unit.

Bernard Katompa

Age: 50

Title: Chief Executive – Liberty Africa

Joined Liberty: 2007

Qualifications: BCom (Hons), BSc, MComm, CPA, AMP (Harvard)

Experience: Certified Public Accountant with extensive international experience in senior management with BHP Billiton, most recently as VP and chief financial officer at Samancor Manganese.

Audrey Mothupi

Age: 40

Title: Chief Executive – Group Strategic Services

Joined Liberty: 2005

Qualifications: BA (Hons)

Experience: Audrey joined Liberty from SABC, where she was head of strategy for the public broadcasting service. Prior to that Audrey was a management consultant with Monitor Group based in Johannesburg.



From left to right: Samuel Ogbu, Frik van der Merwe, Ian van Schoor, Thiru Pillay, Lindi Dlamini, Peter Botha

Samuel Ogbu

Age: 48

Title: Chief Executive – Liberty Properties

Joined Liberty: 2007

Qualifications: BA (Hons), ACA, MBA

Experience: Samuel has a strong track record in general and commercial management in both South Africa and the United Kingdom, and previously held executive management positions with Old Mutual SA and Sage Life.

Frik van der Merwe

Age: 57

Title: Chief Information Officer

Joined Liberty: 2008

Qualifications: MDP/EDP (Wits), EDP (IMD)

Experience: Frik has a background of technology and general management in the financial services industry. He was group CIO at Absa responsible for South Africa and Africa operations before joining Liberty. He served on various Global Barclays Technology boards.

Ian van Schoor

Age: 43

Title: Chief Executive – Growth Cluster

Joined Standard Bank: 1992

Joined Liberty: 2007

Qualifications: BCom, LLB, LLM (Tax), CFP, AMP

Experience: Ian has broad-based wealth management experience ranging from fund management and product development to business development builds. He has extensive sales, marketing, distribution and bancassurance experience gained in his last seventeen years with the broader Standard Bank group.

Thiru Pillay

Age: 40

Title: Chief Risk Officer – Liberty

Joined Liberty: 2007, appointed Group Executive, Internal Audit

Qualifications: BCompt (Hons), CA(SA), CIA

Experience: Prior to joining Liberty as group executive, Internal Audit, Thiru was the senior executive partner responsible for risk management and internal audit services at Ernst & Young for their African practice (including South Africa). Thiru has also previously held executive positions in South African Airways and Transnet.

Lindi Dlamini

Age: 40

Title: Group Executive – Retail SA Operations

Joined Liberty: 1996

Qualifications: BA (Law), LLB, LLM (Tax Law), CFP

Experience: After one year in the short-term industry, Lindi joined Liberty as a legal adviser in 1996. She has since been in various legal and governance roles and for the last few years has looked after customer service and back office operational divisions of the Retail SA life business. She now oversees all of Retail SA customer services and operations.

Peter Botha

Age: 51

Title: Chief Executive – Liberty Health

Joined Liberty: 2008

Qualifications: MBBCH, MBA

Experience: Before joining Liberty as chief executive of Liberty Health, Peter was the managing director of Momentum Africa. Prior to Momentum, Peter was also the managing director of African Life Health. Peter is a qualified medical doctor with extensive healthcare experience across Africa.

Corporate governance

Leadership charter

Liberty senior management have subscribed to the following leadership charter, which outlines the agreed leadership standards for the group. This charter guides leaders' behaviours in the fulfilment of their role in the business.

A Liberty leader will at all times:

- Be a proud, committed ambassador for Liberty, its vision, its people and its products;
- Put the customer at the centre of thought and actively meet their needs;
- Create a high performance culture by assuming and demanding accountability based on clear expectations;
- Engage in active listening and constructive debate in pursuit of the best outcomes for the business;
- Be fair, sincere, consistent and transparent;
- Put themselves and their people in the knowledge position that enables informed and courageous decision-making;
- Actively drive transformation and embrace diversity;
- Ensure that effective, meaningful communication and feedback takes place with appropriate engagement;
- Inspire passion in the workplace by energising and inspiring people and so creating an environment of partnership, recognition and fun;
- Develop people to be their best through empowerment, appropriate mentoring and the removal of obstacles; and
- Help to grow the value of the company to its shareholders over the long term.

Code of business ethics

Liberty subscribes to the highest levels of professionalism and integrity in conducting its business and in dealings with stakeholders. All Liberty employees and representatives are expected to act in a manner that inspires trust and confidence from the general public. Liberty has formalised a code of ethics, which prescribes the group's approach to business ethics and its obligations to customers, shareholders, employees, representatives, suppliers, the general public and the authorities. Responsibility for ensuring compliance with the code has been delegated to management.

The chairman

The chairman, Mr SJ Macozoma, is not considered independent as he is a shareholder and director of Safika Holdings (Pty) Limited, the shareholder of Lexshell 620 Investments (Pty) Limited which is a 2,16% shareholder of Liberty. In addition, he is the deputy chairman of Standard Bank group, the majority shareholder.

Though the chairman cannot be classified as independent in terms of the governance criteria, the board is of the view that the chairman brings valuable expertise, experience

and skill to the board and does exercise independent judgement in relation to board matters. Nevertheless, the board has appointed a lead independent director to provide leadership and advice to the board in the event that the chairman decides that he is conflicted in any matter or decision facing the board.

Lead independent director

As recommended by King III, and in compliance with the JSE Listings Requirements Regulation 3.84(c), the board appointed Mr AWB Band as lead independent director at the board meeting on 25 November 2010. The board recognises that the function of the lead independent director is to provide leadership and advice to the board when the chairman has a conflict of interest without detracting from or undermining the authority of the chairman.

Board of directors

The company has a unitary board structure consisting of thirteen directors. Their particulars are as set out on pages 66 and 67 of this report. The members of the board of directors are as follows:

SJ Macozoma (Non-executive chairman)
 JB Hemphill (Chief executive)
 CG Troskie (Financial director)
 AWB Band (Independent)
 AP Cunningham (Independent)
 JH Maree (Non-executive)
 MP Moyo (Independent)
 L Patel (Independent)
 TDA Ross (Independent)
 SP Sibisi (Independent)
 JH Sutcliffe (Independent)
 BS Tshabalala (Independent)
 PG Wharton-Hood (Non-executive)

Mr RG Tomlinson resigned as a director on 30 June 2010 in line with his stated intention to pursue other interests.

Mr HI Appelbaum resigned as a director at the close of the board meeting on 12 May 2010 due to other commitments.

The Articles of Association also provide for the ceasing to hold office of any director who has reached the age of seventy by the termination of the annual general meeting of the company next succeeding the date upon which he/she reached the age of seventy. Therefore Mr A Romanis retired at the close of the annual general meeting on 13 May 2010.

Mr WR Harte resigned as financial director on 12 October 2010 to pursue an opportunity within the greater Standard Bank group and Mr CG Troskie was appointed in his place on the same date.

Four board meetings were held during 2010. In addition, a two day strategy session was held in September 2010.

The directors are drawn from diverse backgrounds and bring a wide range of experience, insight and professional skills to the board. There are two executive directors and eleven non-executive directors, of whom eight are classified as independent in terms of the Companies Act and as envisaged by King III.

The boards of Liberty Holdings Limited and Liberty Group Limited are constituted with the same directors and as far as possible function as an integrated unit. Both boards have the same non-executive chairman, chief executive and financial director. The board meetings of these companies are combined meetings resulting in improved efficiency and flow of information.

Role and function

The board provides leadership to the group as well as an independent review on all issues of strategy, performance, resources and standards of conduct, either directly or through its committees.

The board acknowledges its responsibility for overall corporate governance and the ultimate control of the group's various businesses, as well as for ensuring that there is clear strategic direction and that appropriate management structures are in place.

Key structures, which are described in this integrated annual report, are designed to provide an appropriate level of assurance as to the proper control and conduct of the group's affairs. The board agrees the group's objectives and participates in discussions on, and monitors the progress of:

- Strategic direction and policy;
- Operational performance;
- Business acquisitions and disposals;
- Major capital expenditure;
- Significant financial matters;
- Risk management;
- Compliance;
- Succession planning;
- Remuneration policies;
- Executive management's activities;
- Transformation and requirements of the Financial Sector Charter/Codes of Good Practice; and
- Any other matters that have a material impact on Liberty's affairs.

The Liberty board meets quarterly and additional meetings are arranged as and when necessary. The chief executive oversees and manages the group's daily operations.

Separately from the formal board meeting schedule, the chairman holds meetings, collectively and one-on-one, with the other non-executive directors, without any executives being present, to provide a forum for any issues to be raised.

Independence

The executive element of the board is balanced by a strong independent group of non-executive directors so that no individual or small group of individuals can dominate the board's decision-making. In addition, the board's independence from the daily executive management team is ensured by adhering to a number of key principles, including:

- The roles of non-executive chairman and chief executive are separate;
- Eleven of the thirteen directors are non-executive, with eight of the eleven non-executive directors being independent;
- The group audit and actuarial committee consists of five independent, non-executive directors;
- The group risk committee consists of six independent, non-executive directors;
- The group remuneration committee consists of three independent non-executive directors, one non-executive director and the non-executive chairman of the board;
- The group transformation committee consists of two independent non-executive directors, one executive director and two non-executive directors, one of whom is the chairman of the board;
- The group directors' affairs committee consists of the non-executive chairman of the board and three non-executive directors, two of whom are independent;
- Non-executive directors do not hold service contracts with the group and, with the exception of share rights granted to black non-executive directors, their remuneration is not linked to the group's financial performance; and
- All directors have access to the advice and services of the company secretary and are entitled, at the expense of Liberty and after consultation with the chairman, to seek independent, professional advice on the affairs of the group. There is a policy setting out the agreed procedure for them to do so. No director obtained independent professional advice on the affairs of Liberty during 2010.

Corporate governance (continued)

Board mandate

The board operates in terms of a mandate that sets out its roles and responsibilities. Key terms of reference as set out in the mandate are:

- Approve the group's objectives;
- Approve the strategies and plans for achieving those objectives;
- Periodically review the corporate governance process and assess achievement against objectives;
- Review board and board committee mandates and approve recommended changes;
- Delegate to the chief executive or any director holding any executive office or any senior executive any of the powers, authorities and discretions vested in the board, including the power of sub-delegation. Delegate similarly such powers, authorities and discretions to any committee and subsidiary company board as may be created from time to time;
- Take ultimate responsibility for the group's remuneration policy;
- Evaluate and approve where appropriate the remuneration to be paid to non-executive directors for board and committee membership based on recommendations made by the group remuneration committee, for ultimate approval by shareholders at the annual general meeting;
- Approve company and group capital funding and the terms and conditions of rights or other issues and any prospectus in connection therewith;
- Ensure that an adequate budget and planning process exists, approve annual budgets for the group and ensure that performance is measured against approved budgets and plans and approve the delegation of authority for management expenditure;
- Approve significant acquisitions, mergers, take-overs, divestments of operating companies, equity investments and new strategic alliances by the group;
- Consider and approve significant capital expenditure recommended by the group executive committee;
- Consider and approve any significant changes proposed in accounting policy or practice and consider the recommendations of the group audit and actuarial committee;
- Review and approve management's valuation of unlisted investments;
- Consider and approve the external audit fee and budgeted audit fee as per the recommendation of the group audit and actuarial committee;
- Consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders, and consider and agree the basis for considering the group to be a going concern as per the recommendation of the group audit and actuarial committee;
- Have ultimate responsibility for systems of financial, operational and internal controls, the adequacy and review of which will be delegated to committees, with the board ensuring that reporting on these issues is adequate;
- Ensure that an effective risk management process exists and is maintained throughout the group;
- Have ultimate responsibility for regulatory compliance and ensure that reporting to the board is comprehensive;
- Take ultimate responsibility for treating customers fairly;
- Ensure balanced reporting to stakeholders on the group's position and that such reporting is done in a manner that can be understood by stakeholders; and
- Review non-financial matters which have not been specifically delegated to a committee of the board.

The board has noted that the formation of a social and ethics committee is advocated by King III and is a proposed requirement in terms of the new Companies Act, 2008. As the regulations to the Companies Act, 2008, are yet to be finalised, and accordingly have not been implemented, the board has decided to await the finalisation of these regulations in order to obtain clarity as to the requirements and duties pertaining to the proposed committee. In the interim the board has retained the responsibility for matters of a social and ethical nature. The Liberty Code of Ethics is reviewed, updated and submitted to the board for approval on an annual basis.

There are a number of diverse dispute resolution mechanisms throughout Liberty which address the needs of various stakeholders and work has commenced on formulating a group wide dispute policy to accommodate all key stakeholders.

Board evaluation

The performance of the board and its committees is evaluated periodically against their respective mandates and the results are collated by the external auditors. Feedback is provided to the directors' affairs committee and thereafter to the board. This feedback is also taken into account by the chairman in his meetings with the other non-executive directors to ensure that any concerns regarding board processes or capabilities are addressed. This year the board has decided to undergo an external evaluation and accordingly the Institute of Directors has been engaged to carry out the evaluation for report back to the chairman.

Every second year the profile of the board is evaluated by the directors' affairs committee to determine an overall view of the skills on the board, identify any possible gaps and make a recommendation to the board should this be necessary.

At the close of every board meeting, an evaluation form is completed by the directors recording the effectiveness of that particular meeting and the quality of any presentations

and board papers. The feedback from the evaluation process is submitted to the company secretary, and comments and any required actions are taken prior to, or at the subsequent board meeting.

Membership and attendance

The number of directors' meetings and number of meetings attended by each of the directors of Liberty Group Limited and Liberty Holdings Limited during the year are as set out below.

Director	Board meetings including strategy session		Group audit and actuarial committee		Group risk committee		Group remuneration committee		Group transformation committee		Group directors' affairs committee	
	A	B	A	B	A	B	A	B	A	B	A	B
SJ Macozoma	5	5					4	4	4	4	4	4
HI Appelbaum	2	2							2	2		
AWB Band	5	5	4	4	4	4	4	4			4	4
AP Cunningham	5	5	4	4	4	4						
WR Harte	4	4										
JB Hemphill	5	5							4	4		
JH Maree	5	5							4	4	4	4
MP Moyo	5	5	4	4	4	4	4	4				
L Patel	5	5							4	4		
A Romanis	2	2	2	2	2	2	1	1				
TDA Ross	5	5	4	4	4	4						
SP Sibisi	5	4	4	4	4	3						
JH Sutcliffe	5	5	4	4	4	4						
CG Troskie	1	1										
BS Tshabalala	5	5	4	4	4	4					4	4
RG Tomlinson	2	2							2	2		
PG Wharton-Hood	5	5										

Column A indicates the number of meetings held during the year while the director was a member of the board or committee.

Column B indicates the number of meetings attended by the director during the year while the director was a member of the board or committee.

Appointment and re-election of directors

In accordance with the Articles of Association of Liberty Holdings Limited, only the non-executive directors are subject to retirement by rotation and re-election by shareholders at least once every three years. In February 2011, the directors' affairs committee considered the candidates who are standing for election or re-election at this year's annual general meeting as detailed in the Notice of Annual General Meeting. In accordance with its findings it recommends to shareholders the re-election of Messrs AP Cunningham, MP Moyo, PG Wharton-Hood and Ms BS Tshabalala.

The appointment of executive directors is approved directly by the board. There are currently two executive directors and members of the board have regular contact with the other senior executive management through their participation in board and board committee meetings, in addition to other briefing sessions by senior executives.

Induction of new directors and ongoing information updates

A comprehensive induction programme has been developed and is in place for new directors to ensure they are adequately briefed and have the required knowledge of the group's structure, operations, policies and industry related issues, to enable them to fulfil their duties and responsibilities. The induction also includes an opportunity for the directors to meet with key executive management of the various business units. The secretary is responsible for the administration of the induction programme.

In addition, one-on-one meetings are scheduled with management in key positions to provide briefings regarding complex industry-specific issues. Directors are also invited to information sessions which are held periodically through the year to assist in keeping the directors abreast of economic and industry trends.

Corporate governance (continued)

New directors are provided with details of all applicable legislation, the company's articles and memorandum, board minutes, relevant mandates and documentation setting out their duties and responsibilities as directors.

Board of directors of subsidiary and associate companies

Apart from Liberty Group Limited, whose board of directors is the same as that of Liberty Holdings Limited, all other operating subsidiaries have their own boards of directors. The role of these boards involves participating in discussions on, and maintaining the progress of, strategic direction and policy, operational performance, approval of major capital expenditure, consideration of significant financial matters, risk management, compliance, succession planning and any other matters that do or may impact materially on the subsidiary companies' activities.

Share dealing by directors and senior personnel

Liberty has implemented a code of conduct relating to share dealing by directors and other senior personnel who, by virtue of the key positions they hold, have comprehensive knowledge of the group's affairs. The code imposes closed periods to prohibit dealing in Liberty Holding Limited securities before the announcement of mid year and year end financial results or during any other period considered price sensitive. This is in compliance with the requirements of Chapter VIII, entitled Market Abuse, of the Securities Services Act, 2004, and the JSE Listings Requirements in respect of dealings by directors. The company secretary undertakes the administration required to ensure compliance with this code, under the direction of the chief executive.

The code goes further by also restricting dealings by directors and other senior personnel in any company's securities that may be affected by a transaction or proposed transaction involving Liberty Holdings Limited, any group subsidiary or its holding company.

Company secretarial function

The company secretary is required to provide the directors of the company, collectively and individually, with guidance on their duties, responsibilities and powers. She is also required to ensure that all directors are aware of legislation relevant to, or affecting, the company and to report at any meetings of the shareholders of the company or of the company's directors any failure to comply with such legislation, including the JSE Listings Requirements.

The company secretary is required to ensure that minutes of all shareholders' meetings, directors' meetings and the meetings of any committees of the board are properly recorded and that all required returns are lodged in accordance with the requirements of the Companies Act. The administration of closed periods for dealing in listed

securities of Liberty Holdings Limited and the induction of new directors are also responsibilities of the company secretary.

Board committees

Five standing committees of the board, to which certain of its functions have been delegated, were in place during 2010. In addition, a sub-committee of the board was constituted during the year to oversee the renegotiation of the bancassurance agreement with Standard Bank.

The standing committees were audit and actuarial, risk, remuneration, transformation and directors' affairs which all operated in accordance with the written terms of reference stipulated by the board. Terms of reference were reviewed by the external auditors.

At the November 2010 meeting, the directors' affairs committee undertook a review of the committees of the board and mandated certain changes for the 2011 year to ensure that each of the committees continued to operate at optimum efficiency and to avoid duplication of skills. The recommendations of the directors' affairs committee were accepted and approved by the board.

Details of these reconstituted committees are as follows:

Group audit and actuarial committee

TDA Ross (Chairman)
AWB Band
AP Cunningham
MP Moyo
JH Sutcliffe

In line with the decision of the directors' affairs committee, Dr SP Sibisi and Ms BS Tshabalala resigned from the committee effective 31 December 2010. Mr A Romanis retired after the annual general meeting on 13 May 2010 and therefore resigned from this committee.

The chairman and members are elected by the board and are subject to shareholder approval to be obtained at the annual general meeting. All members of the group audit and actuarial committee are independent directors who are suitably qualified, having the necessary expertise required to discharge their responsibilities.

Four meetings were held during 2010.

Principal objectives

The group audit and actuarial committee's principal objectives are to:

- Act as an effective communication channel between the board and the external auditors and the head of internal audit;
- Assist the board in ensuring that the external audit is conducted in a thorough, objective and cost effective manner;

- Nominate the external auditors annually for appointment by the shareholders and determine fees and terms of engagement;
- Provide the board with an assessment of the effectiveness of the external auditors and the internal audit function;
- Provide the board with an assessment of the effectiveness of the compliance function;
- Adopt a combined assurance model and ensure it is consistently applied to provide a co-ordinated approach to all assurance activities;
- Ensure that the combined assurance received is appropriate to address all the significant risks facing the group;
- Monitor the relationship between the external assurance providers of the group;
- Enhance the quality, effectiveness and relevance of the published financial statements and other public documentation of a financial nature issued by Liberty, with focus on the actuarial assumptions, parameters, valuations and reporting guidelines;
- Assist the board in approving disclosure of sustainability issues in the integrated annual report by ensuring that the information is reliable and does not conflict with the financial results;
- Provide the board with an independent point of reference in seeking a resolution of interpretative and controversial issues that impact on the published financial statements and other public announcements issued by Liberty;
- Monitor the application of the policy governing the provision of non-audit services by Liberty's external auditors and review the extent and nature of non-audit services provided;
- Consider the governance over information technology (IT);
- Provide the board with assurance that the group remains a going concern;
- Consider and recommend to the board any changes to accounting policies or practice used to prepare the group's financial statements;
- Review and recommend to the board the management actions assumed in calculating the capital adequacy of the group;
- Review and recommend to the board the statutory actuary's recommended changes to the policyholder bonus philosophy and policyholder bonus rates;
- Review the assumptions and the results thereof used

in calculating the policyholder liabilities and the embedded value calculations and recommend to the board for approval; and

- Review and oversee tax governance and compliance.

PricewaterhouseCoopers Inc. (PwC) is Liberty's lead appointed firm of external auditors. However, certain of the group's subsidiaries are audited by SizweNtsaluba.

Pursuant to section 270A (1)(d) and (e) of the Companies Act, the board has approved a policy governing the provision of non-audit services by the group's external auditors in order to maintain independence. The policy requires the group audit and actuarial committee's prior approval for any non-audit assignment with a fee in excess of R500 000.

The committee also reviewed the budgeted audit fee for the 2010 financial year and the final fee for 2009 which were both considered appropriate.

On 21 February 2011, the group audit and actuarial committee resolved that, pursuant to sections 270(2)(d) and 270A (1) of the Companies Act, it had no objection to the audit firm, PwC, and the audit partner, Mr V Muguto, being re-appointed as the group's auditor for the financial year ending 31 December 2011, and that it had satisfied itself that both the audit firm and audit partner were independent of the group.

The members of the group audit and actuarial committee review the audit plans, budgets and scope of the external and internal audit functions. The external auditors, head of internal audit, statutory actuary, chief executive, head of group compliance and company secretary all have unrestricted access to the chairman of the group audit and actuarial committee.

In fulfilling its oversight responsibilities, the committee has reviewed and discussed the audited financial statements and the related schedules as reported in the integrated annual report with company management. The committee considers that the report complies with the Companies Act and International Financial Reporting Standards and has therefore recommended the annual financial statements for approval by the board. These statements will be open for discussion at the forthcoming annual general meeting.

As advocated by King III, the committee has overseen the preparation of the integrated annual report for 2010 and has recommended the approval of the integrated annual report by the board.

The board has mandated the committee to provide oversight over IT strategy and execution. As such, the committee will oversee the implementation and review of all relevant IT governance mandates, policies, processes

Corporate governance (continued)

and control frameworks while ensuring compliance with all the standards adopted by the group.

In order to assist the committee in the discharge of its duties in respect of IT governance, the committee has also mandated the establishment of executive oversight of IT through the group risk oversight committee (GROC) to ensure that the IT strategy supports the business goals and objectives while providing the flexibility to exploit market opportunities and support the sustainability objectives of the group. The GROC will also be responsible for the implementation of, and measurement against, the IT governance framework and related initiatives in conjunction with the other existing oversight bodies. Furthermore, the GROC will also provide assurance to the board on all IT matters, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Combined Assurance framework through which the relationships and interdependencies of IT and business are considered holistically.

Liberty has adopted the IT governance principles advocated by King III and focus is on embedding these throughout the group.

The audit and actuarial committee is also the audit and actuarial committee of Liberty Group Limited which has responsibility for Liberty Group Limited's life insurance subsidiaries, namely Frank Life Limited, Liberty Active Limited, Capital Alliance Life Limited, Liberty Growth Limited, Liberty Life Swaziland Limited, Liberty Life Botswana Limited and Liberty Life Assurance Uganda Limited. Internal review committees were established to fulfil the audit committee functions for these wholly owned life insurance subsidiaries. These committees report on a quarterly basis to the audit and actuarial committee of Liberty Group Limited. The group's wholly owned asset management subsidiary, STANLIB Limited (which includes three regulated entities, namely STANLIB Multi-Manager Limited, STANLIB Collective Investments Limited and STANLIB Asset Management Limited), has its own internal review committee as does Liberty Health Holdings (Proprietary) Limited and the other regulated companies in the Africa business unit. These internal review committees meet quarterly. Reports by the chairmen of the internal review committees are provided to, and minutes of meetings are reviewed at, the group audit and actuarial committee meetings.

Meetings

Group audit and actuarial committee meetings which are held concurrently with Liberty Group Limited audit and actuarial committee, are held at least four times a year and are attended by the external auditors, Liberty Group Limited statutory actuary, head of internal audit,

chief executive, financial director, chief risk officer and appropriate members of the senior executive management team.

Group risk committee

JH Sutcliffe (Chairman)

AP Cunningham

MP Moyo

TDA Ross

SP Sibisi

BS Tshabalala

In line with the decision of the directors' affairs committee, Mr TDA Ross stepped down as chairman and Mr JH Sutcliffe was appointed chairman in his stead, effective 31 December 2010. Mr AWB Band resigned from the committee, also effective 31 December 2010. Mr A Romanis retired after the annual general meeting on 13 May 2010 and therefore resigned from this committee.

Four meetings were held during 2010.

Principal objectives

The group risk committee's principal objectives are to:

- Review Liberty's risk philosophy, strategy, policies and processes recommended by executive management;
- Review and assess the integrity of the processes and procedures for identifying, assessing, recording and monitoring of risk;
- Ensure that material corporate risks have been identified, assessed and received attention;
- Review compliance with risk policies and with the overall risk profile of Liberty;
- Review IT risk in relation to business continuity;
- Review the adequacy and effectiveness of Liberty's risk management function and its implementation by management;
- Review the adequacy of insurance coverage; and
- Provide the board on a quarterly basis with an assessment of the state of risk management within Liberty and recommendations to address serious risk issues.

The members of the group risk committee review reports provided by executive management dealing with the significant risks faced by Liberty which have been identified in accordance with the group's risk management methodology. Presentations dealing with topical risk issues are made by executive management. The committee also reviews reports dealing with reinsurance retention limits, the group's risk management processes, relevant corporate governance issues and developments and short-term insurance matters. The chief risk officer has unrestricted access to the chairman of the group risk committee.

The group risk committee is mandated to oversee the management of risk in general and IT risk in relation to business continuity in particular. The executive committee is responsible for the implementation of risk mitigating initiatives where the assessed risk is beyond the risk appetite as defined by the board. IT risk is managed as a constituent of both the strategic and operational risks of the group.

The group risk committee is also the risk committee of Liberty Group Limited and also has responsibility for Liberty Group Limited's life insurance subsidiaries, namely Frank Life Limited, Liberty Active Limited, Capital Alliance Life Limited, Liberty Growth Limited, Liberty Life Swaziland Limited, Liberty Life Botswana Limited and Liberty Life Assurance Uganda Limited.

Meetings

Group risk committee meetings are held at least four times a year and are attended by the financial director, the chief risk officer, the head of internal audit, Liberty's external auditors, the chief executive and appropriate members of the senior executive management team.

Group remuneration committee

AWB Band (Chairman)

SJ Macozoma

MP Moyo

JH Sutcliffe

PG Wharton-Hood

All the members of this committee are non-executive directors.

Mr A Romanis resigned from this committee after the annual general meeting on 13 May 2010 at which meeting he retired. Messrs Sutcliffe and Wharton-Hood were appointed to this committee effective 31 December 2010.

Four meetings were held during 2010.

Principal objectives

The objectives of the remuneration committee are to formulate remuneration strategy and policies for approval by the board and to monitor the implementation of such policies and report thereon to the board, thereby enabling the board to discharge its responsibilities relating to the following:

- Determining the policy for total executive remuneration and approving the individual remuneration packages for each of the executive directors and other senior executives, as appropriate;
- Ensuring that competitive reward strategies and programmes are in place and are market-related to facilitate the recruitment, motivation and retention of high performance staff;

- Ensuring that reward structures do not drive excessive risk taking;
- Reviewing the design and management of salary structures and policies, incentive schemes and share schemes;
- Developing and implementing a remuneration philosophy to enable a reasonable assessment of reward practices and governance process to be made by stakeholders;
- Recommending the level of non-executive directors' fees, including the chairman's fee, to the board after receiving inputs from executive directors, for ultimate approval by shareholders;
- Ensuring the adequacy of retirement funding and healthcare benefits; and
- Ensuring compliance with applicable laws and codes.

Further information on remuneration is provided in the section entitled remuneration of Liberty's people on page 53. This section contains the remuneration philosophy which will be put to shareholders for a non-binding vote at the annual general meeting scheduled for 13 May 2011.

Group transformation committee

SJ Macozoma (Chairman)

AWB Band

JB Hemphill

JH Maree

L Patel

Mr HI Appelbaum resigned from this committee on 12 May 2010 and Mr RG Tomlinson resigned from the committee on 30 June 2010. Mr AWB Band was appointed to the committee effective 31 December 2010.

Four meetings were held during 2010.

Principal objectives

The group transformation committee's principal objectives are to:

- Ensure that appropriate policies on transformation are developed and maintained, and guide transformation initiatives within Liberty;
- Monitor the implementation of transformation policies, practices and procedures to ensure compliance with current and evolving legislation and related regulations in South Africa, with particular reference to the Financial Sector Charter and DTI Codes of Good Practice;
- Ensure that the group meets the requirements of the Financial Sector Charter and DTI Codes of Good Practice and that any issues arising therefrom are addressed; and
- Monitor achievements against targets and report thereon to the board.

Corporate governance (continued)

Meetings

Group transformation committee meetings are held four times a year and are attended by the group human resource executive and appropriate members of the senior executive management team.

Group directors' affairs committee

SJ Macozoma (Chairman)

AWB Band

JH Maree

BS Tshabalala

There have been no changes to the committee for 2010, and none recommended at the date of this report.

Four meetings were held during 2010.

Principal objectives

The directors' affairs committee's principal objectives are to:

- Assist the board in discharging its responsibility for ensuring that the composition and structure of the board and its committees enables the board to fulfil its obligations in terms of the board mandate;
- Evaluate the performance of the chairman, the board and each board member and to report on the outcome of these evaluations to the board;
- Identify, evaluate and recommend nominees to the board of directors, board committees, pension and provident funds of the group;
- Review succession plans for the board and key executives;
- Review and make recommendations on the re-election of directors retiring by rotation, and the continuation of service of a director who has reached retirement age;
- Assist the board of directors in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures and practices in the group;
- Review and approve annually any policies and proposals for ethical codes and codes of conduct for the group and ensure that they are widely distributed throughout the group;
- Ensure that an appropriate induction course is in place for all new directors and that there is ongoing development and exposure for directors to enable them to remain up-to-date on relevant business and statutory developments;
- Consider and approve share awards to black managers and qualifying black non-executive directors as recommended by management; and

- Consider any other matters relating to the black ownership initiative.

Meetings

In terms of its mandate, the directors' affairs committee is required to meet at least twice a year.

Governance and the management of risk

Introduction

The group's governance structures and processes are aligned with enterprise-wide value and risk management principles. In particular these structures and processes provide clarity of accountability for the management of risk.

Governance and the 'three lines of defence' model

The group has adopted the 'three lines of defence' model for managing risk. This model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues throughout the group. The model incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation. The implementation of this model ensures that risk management is embedded in the culture of the organisation and provides assurance to the board and senior management that risk management is effective.

Within this structure the group relies on the board, on its key committees and on the group executive committee to provide oversight of the operation of the group's enterprise wide value and risk management.

Roles and responsibilities within the governance model

The roles, responsibilities and accountabilities for managing, reporting and escalating risks and issues have different emphasis throughout the group's 'three lines of defence'. These have been defined as follows:

Oversight

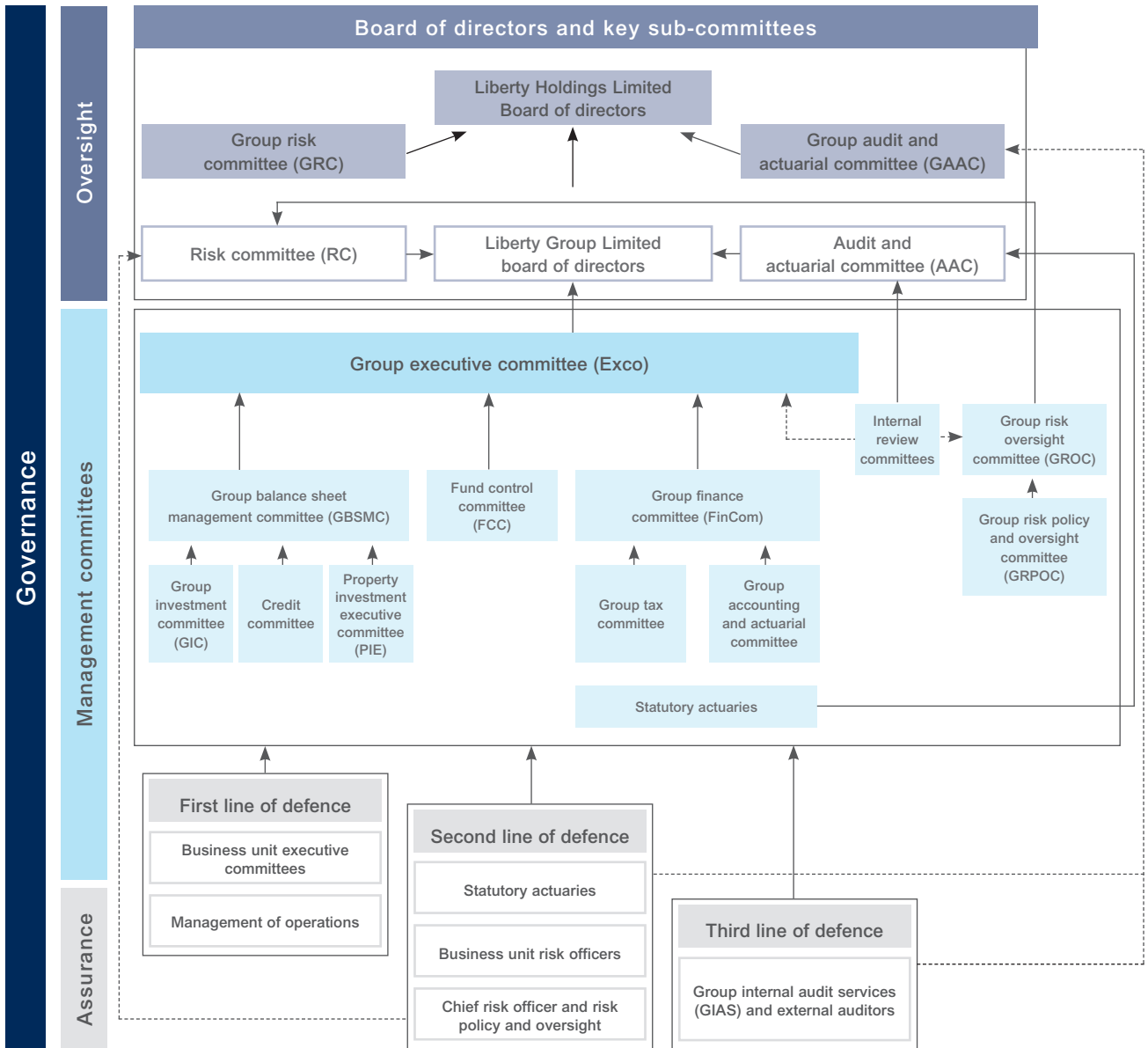
Board of directors and key committees

The board of directors and key committees of the board provide an oversight function of the group's risk management activities. Their accountabilities have been described in the preceding commentary.

Management

The chief executive utilises the group executive committee and key management committees to manage the components of risk.

The diagram below depicts the group’s risk management governance model.



Group executive committee (Exco)

The members of Exco are the chief executives of the various business units (BUs) and central service functions. Exco meets monthly and its key responsibilities in respect of risk management are to ensure:

- That Liberty Holdings Limited and its subsidiaries is being operated within board approved risk appetite;
- The completeness of design and implementation of risk frameworks and processes;
- That risks are being actively identified and that actions are being taken to address these; and
- That new risks are being properly managed within risk appetite.

Exco fulfils these obligations through the operation of the group risk oversight committee and the group balance sheet management committee.

Each BU has an executive committee which is chaired by the chief executive of that BU who reports directly to the chief executive on all aspects of the business, including the identification and management of risk as well as significant areas of growth. The retail insurance customer retention initiative, which is managed through a retention committee, is the responsibility of the Retail SA executive committee. Policyholder assets are considered by the fund control committee which is chaired by the chief executive of LibFin and is accountable to the Retail SA executive committee.

Corporate governance (continued)

Group risk oversight committee (GROC)

The GROC supports Exco in the execution of its operational risk management responsibilities. The committee is responsible for reviewing risk operating models and governance structures, the approval and implementation of risk and compliance strategies, governance standards and policies for the group.

The membership of GROC is drawn from Exco, specifically including the group chief risk officer. GROC is chaired by the chief executive and meets four times a year for the purpose of reviewing risk and compliance reports prepared by the BUs. A group consolidated risk report is then compiled for the GRC.

Significant issues escalated by BU heads requiring executive action are considered. Where conflicting views exist between the three lines of defence, the GROC will resolve these issues. Significant issues may include adverse audit, actuarial or compliance reports and other key concerns such as market conditions requiring discussion prior to tabling at GRC and/or GAAC.

Group risk policy and oversight committee (GRPOC)

The GRPOC is responsible for assisting the GROC in discharging its responsibilities relating to the management of risk and compliance in the group. In particular, the GRPOC develops, recommends for approval and oversees implementation of risk management policies and standards. Key members of GRPOC are the statutory actuary, heads of risk policy and oversight in each BU and members of group risk policy and oversight functions. The GRPOC is chaired by the group chief risk officer. GRPOC provides a platform for BU heads of risk policy and oversight to interact with group wide projects and initiatives such as the capital and risk analysis and transformation programme which is driving the group-wide implementation of the enterprise-wide value and risk management framework. The intention for 2011 is to expand the mandate of the GRPOC to include responsibility for combined assurance as envisaged in King III.

Internal review committees

Internal review committees (IRCs) are in place to assist the GAAC and the audit committee of Liberty Group Limited in discharging its accountabilities for major subsidiary entities. The IRCs are sub-committees of the GAAC and function under the same charter as the GAAC. However, there is a reporting responsibility to both Exco and the GROC.

The chairpersons of these committees attend the GAAC and GRC meetings as well as the audit and actuarial committee meetings of Liberty Group Limited.

Group balance sheet management committee (GBSMC)

The members of the GBSMC are specifically chosen by the chief executive for their financial, actuarial and

risk qualifications and experience and the committee is chaired by the group financial director. The GBSMC assists Exco in the management of the group's financial position. This includes managing the level and mix of capital as well as cash requirements and liquidity. The committee monitors the capital that is invested in the legal entities that have life licences in order to support the capital adequacy requirements prescribed by the Long-term Insurance Act or specific levels set by the High Court on prior sanctioned transfers of insurance business. Proposals are made to Exco, which in turn motivates to the board the level of additional capital to be held in excess of the statutory minimum requirements. The GBSMC also manages the capital requirements of non-life subsidiaries and considers the requirements of investors. Decisions requiring the utilisation of capital are approved by the committee and additional future capital requirements to support proposed new products, group strategies and business acquisitions, is assessed.

A major focus of the GBSMC is market, credit and liquidity risk. The GBSMC considers and approves asset allocation, hedging, financial position management and other market risk management recommendations made by LibFin, as well as approving and monitoring market, credit and liquidity risks against agreed limits (including the criteria for selecting counterparties for the purposes of over-the-counter derivatives). A separate credit committee has been constituted to consider credit opportunities as well as credit exposure positions and to make appropriate recommendations to the GBSMC.

The GBSMC is responsible for reviewing and recommending to Exco, which in turn recommends to the board, the group's dividend policy as well as the allocation of risk appetite and related economic capital to BUs and new initiatives or ventures. Policyholder returns and related asset manager performance, as well as the performance of the Shareholder Investment Portfolio, are also monitored by the GBSMC.

Group investment committee (GIC)

Assisting the GBSMC is the GIC, which has been created to form a group view on the markets and thus provide a base upon which the GBSMC can make decisions. This committee is chaired by the chief executive of LibFin who seeks the advice of various economists and market specialists from time to time. The tactical asset allocation decisions of STANLIB are also considered when forming the market view of the group. In considering the interests of policyholders, the fund control committee also factors in the group market view formed by the GIC. LibFin manages the Shareholder Investment Portfolio and the market view formed by the GIC supports LibFin in considering changes

to the tactical asset allocation within the strategic asset allocation framework, as approved by the board.

Property investment executive committee (PIE)

The PIE's mandate is to manage the group's property investment strategies in relation to the purchasing, developing and selling of property assets within a pre-approved limit framework. It reviews and reports on the performance of property portfolios to the GBSMC. The PIE conducts post-investment audits and is responsible for determining the appropriate mix of assets in relation to the agreed property portfolio mandates as put in place by the GBSMC or the board. The PIE is accountable to the Liberty Properties executive committee.

Group finance committee (FinCom)

The FinCom assists Exco in the management of the financial operations and activities of the group. Its mandate is to review and implement financial controls, processes and procedures for the group, including the planning and budgeting processes as well as reviewing and providing input to the group's delegation of authority framework. The members of this committee are the financial officers in each BU, chaired by the group financial director or his delegate. Two sub-committees of this committee, namely the group finance and actuarial technical committee and the group tax committee, assist the FinCom in the execution of its mandate. These committees are made up of specialists in each specific area and are chaired by the group financial director or his delegate.

Fund control committee (FCC)

The FCC has been established to assist the Retail SA BU in discharging its responsibilities relating to the overall management and monitoring of policyholder funds and portfolios and their related processes and, in conjunction with LibFin (whose chief executive chairs the committee), to assume greater ownership and accountability for the investment offering that is delivered through its broad range of products. Policyholder returns and related asset manager performance are monitored by the FCC and the committee approves the appointment of asset managers. The FCC manages the portfolio range from a strategic and tactical perspective. The FCC is accountable to the Retail SA executive committee.

The three lines of defence

The "three lines of defence" that support Exco and its key sub-committees are as follows:

First line – business unit management

Business unit management, including BU executives and senior management are accountable for:

- Managing day-to-day risk exposures by applying appropriate procedures, internal controls and group policies;

- The effectiveness of risk management and risk outcomes, and for allocating resources to execute risk management activities;
- Tracking risk events and losses, identifying issues and implementing remedial actions to address these issues; and
- Reporting and escalating material risks and issues to GROC, GRC, GAAC or other governance bodies as deemed appropriate.

Business unit management have the authority to manage risks within their approved mandates and may also recommend the taking of risk beyond their mandate to the group's risk policy and oversight function.

Product approval process

A revised product approval policy provides the framework within which BUs are mandated to develop products taking cognisance of the risks associated with the product as well as its development and implementation. New products must be developed by the BUs in line with the group's vision and strategy whilst adhering to legal and regulatory requirements and 'the treating customers fairly' principles. Engagement with LibFin and the heads of market and credit risk is mandated through the process of developing and approving new products, taking into account potential complexity and the market in which the organisation operates. The group's statutory actuaries must be satisfied that new products will not materially affect the financial soundness of the group or the affected life licence entity. In addition, any new products that could impact significantly on the group's financial position must be approved at the GBSMC to ensure that the risks are properly understood and the potential future impact appropriately managed. The GROC reviews reports on the development and risk management of new products and services.

Second line – chief risk officer, statutory actuaries, group and business unit risk policy and oversight functions

The second line of defence comprises the group's risk policy and oversight functions.

Chief risk officer (CRO)

The CRO is a member of Exco and GROC, and is accountable for the effective and objective functioning of the second line of defence. The CRO reports to the chief executive and financial director, and has direct and unrestricted access to the group risk committee (GRC) chairman. Development of group-wide risk management policies, overseeing their implementation, and reporting on risk issues to Exco, GRC and the board form a key component of this role.

Corporate governance (continued)

Statutory actuaries of life licence subsidiaries

The statutory actuary of each legal entity with a life assurance licence exercises oversight of the solvency of these legal entities, compliance with existing product terms and the financial soundness of new products.

The statutory actuaries have a duty under the Long-term Insurance Act to carry out actuarial investigations and to report on those investigations and in particular to ensure that they have satisfied themselves that life licence legal entities remain solvent and able to meet liabilities at all times. They report on the solvency of these legal entities to their respective boards, the independent auditors and the Financial Services Board (FSB).

In terms of the Long-term Insurance Act, the statutory actuaries have unrestricted access to the board, the independent auditors and the FSB.

The statutory actuaries have a duty to report any contravention of the Long-term Insurance Act that they become aware of in the normal course of their duties to the board and, if not resolved, to the FSB.

From a risk management point of view, the statutory actuaries identify and monitor the risks faced by the life licences legal entities which could have a material impact on the entity's ability to meet policyholder obligations and advise management if they believe that the policyholder obligations are at risk of not being met.

Business unit heads of risk policy and oversight (RPO)

BU heads of RPO are responsible for contributing to the development of group level policies, enabling and overseeing their implementation and maintaining their operation at a BU level.

Heads of RPO are responsible for ensuring that issues raised and proposed at the GRPOC meetings are communicated to the BU executive committees in order that the BU s remain cognisant of all risk-related matters, including proposed policies and mandates.

The BU heads of RPO have a reporting line to the chief risk officer and access to the GRC.

Third line – assurance

The third line of defence comprises the group's assurance functions that are intended to provide an independent and balanced view of all aspects of risk management (both first and second line of defence) across the group to the various governance bodies within the organisation.

Group internal audit services (GIAS)

GIAS is responsible for providing independent and objective assurance to management and the board on the adequacy and effectiveness of the group's risk management, governance, business processes and controls. GIAS is responsible for validating compliance with the group's overall risk framework and risk governance structures and for providing independent assurance to management and the board on the effectiveness of the first and second lines of defence. Internal audit programmes are based on an assessment of risk areas as well as on issues highlighted by GAAC and management. GIAS maintains a formal "Findings Tracking System" to ensure that all audit findings raised are addressed through clear action plans in a timely manner. GIAS subscribes to regular independent quality assurance reviews. The latest review conducted by the South African Institute of Internal Auditors did not reveal any non-conformance findings in relation to GIAS.

External auditors

The external auditors have a statutory duty to report their independent opinion on the group's financial statements to the shareholders. They also report to the GAAC on any weaknesses in accounting and operational controls which come to their attention during their audits.

GIAS and the external auditors have unrestricted access to the chairman of the GAAC, the chief executive and the members of the board. GIAS and the external auditors also meet formally at least every quarter to ensure optimal alignment and reliance on the work of GIAS.

Risk management for the year ended 31 December 2010

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Risk management (continued) for the year ended 31 December 2010

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

1.1 Introduction

Liberty offers a comprehensive range of financial products and services to the retail and corporate markets, distributing tailored risk, insurance, investment, retirement and health products through its network of licensed financial advisers. Liberty is committed to increasing shareholder value through the prudent management of risks inherent in the production, distribution and maintenance of these products and services. Liberty is mindful of achieving this objective in the interests of all stakeholders. The group continues to explore opportunities to develop and grow its business organically, with strategic plans being subject to careful consideration of the trade-off between risk and reward, taking into account the risk appetite limits approved by the board.

The group's main value creation activities can be summarised into four categories:

1. *Providing risk cover* – Liberty's core competency is to understand the life and health related risk needs of individuals and groups, and design sustainable products that provide financial security to policyholders and their families in times of death, sickness or ill health and disability.
2. *Providing asset management services* – primarily through its own asset manager subsidiaries, STANLIB and Liberty Properties, as well as selected third party asset managers. Liberty uses its financial skills to provide competitive investment products and investment advice to a broad range of customers.
3. *Assuming market risk* – through the management of assets backing shareholder funds and of exposures arising from asset-liability mismatches which the group wishes to retain.
4. *Providing administration and consulting services and property development management* – through the provision of administration and consulting services to retirement and health schemes and management expertise to project-manage property developments.

The EVRM framework approved by the board in 2008 continues to provide direction to the operation and development of the group's value creation and risk management processes.

Liberty's risk management processes have proven effective throughout 2010, despite a tough consumer economic environment.

Ultimate responsibility for risk management resides with the board which ensures that all BU executives are responsible and are held accountable for risk management within their divisions. The BU executives are enabled by risk specialists who instil best practice risk management across all staff within the divisions. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types. The risk management governance model on page 85 illustrates these roles and responsibilities in the context of the three lines of defence.

1.2 Risk management objectives

The group's key risk management objectives are to:

- Grow shareholder value by generating a long-term sustainable return on capital;
- Ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- Meet the statutory requirements of the FSB, and other regulators; and
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis.

The management of risks is currently focused on managing shareholder exposures within strategic limits whilst ensuring sufficient allocation of capital on both a regulatory and economic capital basis given the limits in place.

1.3 EVRM principles

The EVRM framework is based upon the following principles:

- *Identification of risks* – All risks assumed through value creating activities should be identified and categorised in accordance with the group's risk taxonomy.

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

1.3 EVRM principles (continued)

- *Clarity of accountability and ownership of risks* – Effective risk management requires clarity of accountability for the management of risks and the associated value creation outcomes. Where economies of scale or more effective value and risk management can be realised through group-wide aggregation of certain risks, these risks are aggregated and managed by centres of excellence created for that purpose.
- *Risk appetite needs to be set making use of limits and controls and the risks need to be managed accordingly* – Risk appetite defines the maximum amount of risk the group is willing to assume in aggregate. Risk taking activities should be constrained by limits in respect of specific risks within the group's risk taxonomy. Risk specific limits should be aligned with overall risk appetite.
- *Risk quantification and measurement* – Risks should be quantified in accordance with the metrics used in setting limits and with the dimensions used in the measurement of risk appetite.
- *Risk monitoring and reporting* – Risks should be monitored against set limits and reported on in accordance with the group's governance model.
- *Assessment of value creation on a risk adjusted basis* – Value creation should be measured using risk adjusted profitability metrics in order to align management's risk taking activity with sustainable shareholder value creation.

Risk management is being aligned with the EVRM framework which has substantially been based on the risk management principles underlying the Solvency II framework.

Solvency II is a European principles-based and risk focused regulatory regime for European insurers (both long-term and short-term) intended to be fully implemented in Europe by 1 January 2013. It requires a clear and definitive link between the strategy and operations of the institution and the risk management elements thereof. Solvency II has some alignment with the Basel II accord and the Basel III developments applicable to banks.

Solvency II represents a significant shift away from the prescriptive rules-based systems used for regulatory purposes in the past and essentially relies on three pillars:

- ***Pillar I: Minimum standards (quantitative requirements)***

This pillar describes the market consistent basis for the measurement of assets and liabilities. In addition, this pillar defines the quantification of the solvency capital requirement using either advanced internal models of economic capital or a simpler risk-based standard approach as the default alternative.

- ***Pillar II: Supervisory review (qualitative requirements)***

Insurers need to put in place appropriate governance and risk management systems. These systems are enhanced through an Own Risk and Solvency Assessment (ORSA). The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short-term and long-term risks an insurance undertaking faces or may face and to determine the internal capital necessary to ensure that the group's overall solvency needs are met at all times.

- ***Pillar III: Market discipline***

This pillar deals with the disclosure required to be made to various stakeholders such as regulators, shareholders and policyholders. Disclosures designed to drive improvements in risk management through improved transparency are expected to be particularly comprehensive.

During 2010, further developments in Solvency II continued with another quantitative impact study (namely QIS5) being conducted and the drafting of additional implementing measures and supervisory guidance. The outcome of these developments may have implications on the ultimate capital requirements in Europe.

The FSB is in the process of developing a new risk-based solvency regime for South Africa, known as Solvency Assessment and Management (SAM), based on the principles of the Solvency II Directive, but adapted to South African specific circumstances where necessary. SAM will continue to monitor the developments under Solvency II. The EVRM framework and associated risk governance systems are thus expected to be broadly consistent with the eventual requirements of SAM.

Risk management (continued)

for the year ended 31 December 2010

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

1.4 Implementation of the EVRM framework

The group is implementing the EVRM framework through the multi-year Liberty SAM programme, designed to achieve enterprise-wide value optimisation (value creation, value realisation and value protection). This programme covers:

- **Business applications**

This framework will continue to improve core decision-making processes by embedding risk adjusted measures in value creating activities, such as:

- performance measurement and incentivisation;
- asset and liability management;
- strategic planning; and
- product design and pricing.

Risk adjusted metrics will provide group-wide consistent measures thereby building a common understanding of risks that flow from decisions aimed at creating shareholder value.

- **Measurement**

Effective implementation of the framework requires the group to have the ability to measure its financial position on a market consistent basis, measure its economic capital requirements, measure its risk exposure relative to the group's risk appetite and measure risk adjusted profitability metrics in order to deliver on all the business applications mentioned above.

The group's focus in 2010 was on improving the systems and data processes that are used to provide input into the economic capital models.

The development of economic capital models in respect of the insurance business is well advanced. These models have provided additional useful insights that have been used to improve the group's management of risk.

To date these models have primarily helped to refine the group's management of market risk and are influencing product pricing and the group's reinsurance strategy.

Further development of these models has been planned as part of the Liberty SAM programme. The increased sophistication of these models will enable them to be increasingly entrenched in risk management processes during 2011.

- **Governance and organisational structure**

The three lines of defence model, described in detail in the corporate governance section, has been adopted in Liberty's governance of risk-taking and management activities. Investment market, credit and liquidity exposures are managed by LibFin across the group.

- **Operational and information technology infrastructure**

Effective implementation of the framework requires quality and timely information to enable effective decision-making capabilities. Whilst the group has significantly improved the information relating to value creation and risk management in 2010, this continues to be a key priority for the year ahead.

- **Risk appetite and culture**

Risk appetite is an articulation of the aggregate level of risk that is acceptable to the group. In 2008, the board approved an enhanced quantitative risk appetite statement. This risk appetite statement was reviewed in the first quarter of 2010, with the revisions being approved by the board in May 2010.

Since 2008, quarterly reporting to the board has included an estimation of risk exposure relative to risk appetite at the time.

2. Risk appetite and capital management

2.1 Introduction

Liberty's capital management strategy seeks to ensure that the group is adequately capitalised to support the risks assumed by the group in accordance with the group's risk appetite. It further seeks to fund working capital and strategic requirements, thereby protecting policyholder and customer interests while optimising shareholder risk adjusted returns and delivering in accordance with the group's dividend policy.

2.2 Risk appetite

Risk appetite is defined as the aggregate amount of risk that is acceptable to the group. As such, risk appetite defines the group's willingness and capacity to accept a high or low level of exposure to specific risks or groups of risks.

The risk appetite statement was reviewed in the first quarter of 2010, with the revisions being approved by the board in May 2010. These revisions were immediately adopted for any future assessments of the group's risk appetite position.

The group's revised risk appetite statement is defined across four risk measures: comprehensive earnings, embedded value, regulatory capital requirement coverage and economic capital coverage. The first two measures assess the impact of the level of risk in the operations, whereas the second two compare required against available capital.

A risk-based stress approach was adopted to ensure that all the measures would dynamically reflect the changes in the group's risk exposure as the group took on or mitigated risk, thereby providing a direct linkage between risk management and capital management.

Each of these risk appetite measures is described in more detail below.

Comprehensive earnings at risk is a measure of the fall in IFRS comprehensive earnings over the next year (normalised for the BEE transaction) in a moderate stress event (e.g. '1 in 10' year event) relative to forecast IFRS comprehensive earnings over the next year.

Embedded value at risk is a measure of the fall in embedded value over the next year in a moderate stress event (e.g. '1 in 10' year event) relative to the embedded value at the financial position date. It only pertains to the long-term insurance entities within the group.

Regulatory capital requirement coverage is a measure of the amount of financial resources required by all regulated entities on the statutory basis needed to meet a specified minimum multiple of the sum of regulatory capital requirements over a one-year time horizon following a moderately severe stress event (e.g. '1 in 25' year event). Both the regulatory capital requirement and available capital are similarly stressed in order to calculate the regulatory capital requirement coverage.

Economic capital coverage is a measure of a specified multiple of the amount of financial resources on the economic basis needed to protect against economic insolvency over a one-year time horizon following an extreme stress event (e.g. '1 in 200' year event).

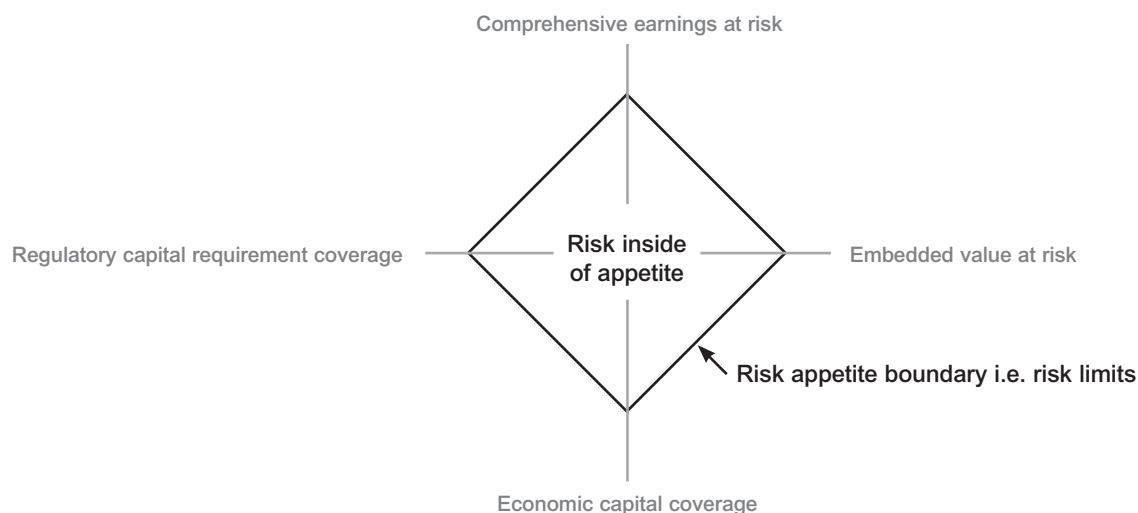
On a quarterly basis, the group's risk exposure relative to risk appetite on each risk measure is reported to the GBSMC, GROG and GRC. Corrective action is taken if the group is outside of risk appetite. If risk exposure is within appetite, risk-taking opportunities that could enhance risk adjusted shareholder value can be identified and implemented.

Risk management (continued) for the year ended 31 December 2010

2. Risk appetite and capital management (continued)

2.2 Risk appetite (continued)

For internal reporting purposes, the group's risk exposure relative to risk appetite on each risk measure is represented graphically. Separate, but related, models are run for each of the four measures. The following is a graphical illustration of the risk appetite statement.



The group currently allows for insurance, market, credit and operational risk in measuring its exposures in respect of the risk appetite measures.

The choice concerning 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 policyholders and customers through appropriate maintenance of the group's ongoing solvency. Thus, the risks accepted by the group, as reflected in its strategic plans, are assessed in terms of their potential impact on shareholder returns and on the group's risk appetite measures. Consideration is also given to the strategic and working capital requirements of the business in the short, medium and long term.

The group's risk appetite statement will continue to be reviewed as and when considered necessary to ensure its continued appropriateness.

2.3 Capital management

Due to varying requirements of different stakeholders, the group reports and manages capital on a number of different bases, as reflected in the risk appetite statement. It is important to note that the risk appetite statement defines the capital requirements in both regulatory capital and economic capital terms. The capital management process ensures that the group's available capital exceeds the capital required both currently and going forward and to ensure that the group has unfettered access to its capital at all times to meet its requirements.

Statutory basis

Available statutory capital is the amount by which the value of the assets exceeds the value of the liabilities, where the assets and liabilities are measured on the statutory basis in accordance with the South African Long-term Insurance Act and associated regulations and any further guidance notes issued by the Actuarial Society of South Africa. These regulations are applicable to long-term insurance licensed entities within South Africa. Similar regulatory bases operate in other jurisdictions in Africa in which the group undertakes insurance operations.

2. Risk appetite and capital management (continued)

2.3 Capital management (continued)

The table below summarises the assets, liabilities and excess assets for the group's significant insurance companies on the statutory basis.

Statutory basis (Rm)	STANLIB						
	LGL ⁽³⁾	Liberty Active	Capital Alliance	Liberty Growth ⁽³⁾	Multi-Manager	Liberty Africa ⁽¹⁾	Frank Life ⁽²⁾
2010							
Total assets	168 329	17 757	19 068	2 160	125	363	16
Less liabilities	161 157	16 908	17 399	1 739	27	262	1
Policyholder liabilities	154 037	15 551	16 576	1 708		213	
Other liabilities	7 120	1 357	823	31	27	49	1
Excess of assets over liabilities	7 172	849	1 669	421	98	101	15
2009							
Total assets	156 667	16 368	17 942	2 155	73	182	
Less liabilities	149 523	15 627	16 666	1 817	20	73	
Policyholder liabilities	145 264	14 627	15 812	1 788	–	40	
Other liabilities	4 259	1 000	854	29	20	33	
Excess of assets over liabilities	7 144	741	1 276	338	53	109	

⁽¹⁾ Liberty Africa comprises Liberty Life Namibia and its subsidiary United Funeral Insurance in 2010, Liberty Life Uganda, Liberty Life Swaziland and Liberty Life Botswana.

⁽²⁾ New life company started in 2010.

⁽³⁾ 2009 restated to reflect final numbers submitted to the Financial Services Board.

Statutory capital requirements are the amounts by which the regulators require the statutory basis assets to exceed the statutory basis liabilities for each individual regulated entity. Liberty Holdings Limited has no statutory capital requirements of its own since it is not a regulated entity. However the various regulated subsidiaries do have statutory capital requirements.

The South African regulator, the FSB, requires long-term insurers to hold a CAR calculated in accordance with the Long-term Insurance Act of 1998 including Board Notice 72 of 2005 and PGN 104: *Valuation of Long-term insurers* issued by the Actuarial Society of South Africa.

The CAR is calculated as the greatest of:

- MCAR – the minimum capital requirement for maintaining a South African long-term insurance licence. MCAR is consequently only relevant to smaller South African life licences.
- TCAR – this requirement examines a highly selective scenario in which all policies with surrender values greater than the policy liability terminate immediately (similar to a run-on-a-bank scenario).
- OCAR – a risk-based measure based on a number of market and insurance risk stress tests, which together with compulsory margins are intended to provide approximately a 95% confidence level over the long term that the insurer will be able to meet its obligations to policyholders. In the calculation of OCAR allowance may be made for management actions. Currently in the calculation of OCAR for LGL and Capital Alliance, it has been assumed that non-vested bonuses on with profit policies will be removed if stabilisation reserves fall below -7,5% of the basic guaranteed liability. These assumed management actions have been approved by the board.

Additional discretionary margins and additions to CAR may be held if the statutory actuary feels that the prescribed requirements are not appropriate for the risks undertaken.

For non-South African life insurance subsidiaries of LGL, the capital requirements are calculated as the maximum of any capital requirements required by the applicable local regulations and the capital calculated as per the South African CAR calculation, but not subject to the MCAR, per life licence. At 31 December 2010, the MCAR per life licence is the greatest of R10 million, a quarter of annual operating expenses and an amount equal to 0,3% of its gross contingent liabilities under unexpired policies, whereas at 31 December 2009, the MCAR per life licence was R10 million. For life insurance subsidiaries held outside of LGL, the capital requirements are those required by the applicable local regulations.

Risk management (continued)

for the year ended 31 December 2010

2. Risk appetite and capital management (continued)

2.3 Capital management (continued)

The group subsidiaries STANLIB Collective Investments and STANLIB Asset Management are required to hold a statutory capital requirement calculated in accordance with the Collective Investment Schemes Control Act of 2002 equivalent to thirteen weeks of operating costs.

LGL, in addition to its own licence requirements, was the holding company of all the other life licence entities in the group in 2009. At 31 December 2010, STANLIB Multi-Manager and Liberty Life Namibia are no longer subsidiaries of LGL, but remain subsidiaries of Liberty Holdings Limited. For CAR assessment purposes within LGL, its subsidiaries are held at their net asset value, less their statutory capital requirements.

The table below summarises the statutory capital adequacy requirement for each of the group's insurance companies and the available capital held on the statutory basis.

	2010										
	LGL ⁽²⁾	Liberty Active ⁽¹⁾	Capital Alliance ⁽¹⁾	Liberty Growth ⁽²⁾	Liberty Life Namibia ⁽²⁾⁽⁵⁾	STANLIB Multi-Manager ⁽³⁾⁽⁴⁾	Liberty Life Botswana	Liberty Life Swaziland	Liberty Life Uganda	United Funeral Insurance ⁽⁷⁾	Frank Life ⁽³⁾⁽⁸⁾
Statutory capital adequacy requirement (Rm)	2 688	482	782	74	6	41	4	7	3	2	10
Available statutory capital (Rm)	7 172	849	1 669	421	61	98	8	11	12	9	15
Target CAR coverage ratio (times) ⁽⁶⁾	1,7	1,5	1,5	1,5	2,0	1,5	2,0	2,0	2,0	2,0	1,5
Actual CAR coverage ratio (times)	2,7	1,8	2,1	5,7	9,9	2,4	1,9	1,6	4,1	4,6	1,5

⁽¹⁾ Based on TCAR.

⁽²⁾ Based on OCAR.

⁽³⁾ Based on MCAR.

⁽⁴⁾ STANLIB Multi-Manager is a life licence contained within a subsidiary of STANLIB Limited. At 31 December 2010, STANLIB Limited is no longer a subsidiary of LGL. It is now a subsidiary of Liberty Holdings Limited.

⁽⁵⁾ At 31 December 2010, Liberty Life Namibia is no longer a subsidiary of LGL. It is now a subsidiary of Liberty Holdings Limited.

⁽⁶⁾ Target CAR coverage will be reviewed once the operational use of the risk appetite statement has matured and there is greater clarity around the capital requirements under SAM.

⁽⁷⁾ Effective 1 January 2010, United Funeral Insurance became a subsidiary of Liberty Life Namibia.

⁽⁸⁾ Frank Life, a subsidiary of LGL, started operations in 2010.

	2009									
	LGL ⁽¹⁾	Liberty Active ⁽²⁾	Capital Alliance ⁽¹⁾	Liberty Growth ⁽²⁾	Liberty Life Namibia ⁽²⁾⁽⁵⁾	STANLIB Multi-Manager ⁽³⁾⁽⁴⁾	Liberty Life Botswana	Liberty Life Swaziland	Liberty Life Uganda	Liberty Life
Statutory capital adequacy requirement (Rm)	2 542	424	801	83	6	10	2	8	4	4
Available statutory capital (Rm)	7 144	741	1 276	338	79	53	5	14	10	10
Target CAR coverage ratio (times) ⁽⁶⁾	1,7	1,5	1,5	1,5	2,0	1,5	2,0	1,5	2,0	2,0
Actual CAR coverage ratio (times)	2,8	1,7	1,6	4,0	12,3	5,3	2,1	1,8	2,7	2,7

⁽¹⁾ Based on TCAR.

⁽²⁾ Based on OCAR.

⁽³⁾ Based on MCAR.

⁽⁴⁾ STANLIB Multi-Manager is a life licence contained within a subsidiary of STANLIB Limited. At 31 December 2009, STANLIB Limited was a subsidiary of LGL.

⁽⁵⁾ At 31 December 2009, Liberty Life Namibia was a subsidiary of LGL.

⁽⁶⁾ Target CAR coverage will be reviewed once the operational use of the risk appetite statement has matured and there is greater clarity around the capital requirements under SAM.

2. Risk appetite and capital management (continued)

2.3 Capital management (continued)

A capital buffer over the CAR is held to reduce the risk of breaching the statutory requirement. This buffer is set at a level intended to optimise the trade-off between retaining sufficient capital to remain within risk appetite on the CAR dimensions, while maximising returns for shareholders.

Capital Alliance Life Limited is required by the conditions of the Section 37 transfer in respect of other Investec Employee Benefits business to maintain a CAR coverage that depends on the results of a prescribed calculation (the results of this calculation lie between 1,25 and 1,5 times CAR coverage) until 31 December 2011.

In terms of the group's dividend policy, should CAR coverage of LGL fall below 1,5 times, consideration will be given to a reduction in the group's dividend to shareholders.

If the group is within risk appetite on the CAR coverage as well as the economic capital dimensions, and does not require the excess capital to fund strategic plans, then consideration is given to reducing capital by means of special dividends, capital reductions or share buy-backs as appropriate.

During 2010 there have been no breaches of regulatory CAR requirements.

IFRS (published) basis

Published capital is the amount by which the value of the assets exceeds the value of the liabilities where the assets and liabilities are measured in accordance with IFRS. The variability of comprehensive earnings, calculated in accordance with IFRS, is used as a risk measure in the risk appetite statement.

From a capital management perspective, the amount of capital on the published basis is not a primary focus of the group, as the statutory and economic capital bases are considered more pertinent. The published earnings, however, is one of the focal interests of the group. IFRS comprehensive earnings at risk is one of the principal measures included within the group's risk appetite statement.

The table below summarises the assets, liabilities and excess assets of the group's significant insurance companies on the published basis.

Published basis (Rm)	LGL	Liberty Active	Capital Alliance	Liberty Growth	STANLIB Multi-Manager	Liberty Africa ⁽¹⁾	Frank Life ⁽²⁾
2010							
Total assets	186 274	21 589	19 530	2 170	13 696	448	19
Less liabilities	176 671	20 712	17 374	1 677	13 595	262	1
Liabilities under insurance contracts	104 592	17 408	15 239	1 586		40	
Liabilities under investment contracts with DPF	2 634					5	
Liabilities under investment contracts	57 928	1 945	1 329	33	13 568	168	
Other liabilities	11 517	1 359	806	58	27	49	1
Excess of assets over liabilities	9 603	877	2 156	493	101	186	18
2009 restated							
Total assets	172 819	18 826	18 651	2 168	9 362	188	
Less liabilities	161 749	18 133	16 826	1 744	9 309	73	
Liabilities under insurance contracts	98 567	15 135	14 560	1 435		28	
Liabilities under investment contracts with DPF	2 692						
Liabilities under investment contracts	52 090	1 996	1 424	265	9 289	11	
Other liabilities	8 400	1 002	842	44	20	34	
Excess of assets over liabilities	11 070	693	1 825	424	53	115	

⁽¹⁾ Liberty Africa comprises Liberty Life Namibia and its subsidiary United Funeral Insurance in 2010, Liberty Life Uganda, Liberty Life Swaziland and Liberty Life Botswana.

⁽²⁾ New life company started in 2010.

Risk management (continued)

for the year ended 31 December 2010

2. Risk appetite and capital management (continued)

2.3 Capital management (continued)

The table below provides a reconciliation of the excess assets between the published and statutory bases.

	LGL Rm	Liberty Active Rm	Capital Alliance Rm	Liberty Growth Rm	STANLIB Multi- Manager ⁽²⁾ Rm	Liberty Africa ⁽¹⁾ Rm	Frank Life ⁽⁶⁾ Rm
2010							
Excess of assets over liabilities – statutory basis	7 172	849	1 669	421	98	101	15
Excess of assets over liabilities – published reporting basis	9 603	877	2 156	493	101	186	18
Difference	(2 431)	(28)	(487)	(72)	(3)	(85)	(3)
Items of difference							
CAR requirements of subsidiaries ⁽³⁾	(1 362)		(74)				
Write-up of subsidiaries from cost to NAV ⁽³⁾	440		197			(81)	
Debt instruments ⁽⁴⁾	2 000						
Difference between statutory and published valuation methodologies	(3 223)	2	(582)	(65)			(3)
Inadmissible assets ⁽⁵⁾	(286)	(30)	(28)	(7)		(4)	
2009							
Excess of assets over liabilities – statutory basis	7 144	741	1 276	338	53	109	
Excess of assets over liabilities – published reporting basis	11 070	693	1 825	424	53	115	
Difference	(3 926)	48	(549)	(86)	–	(6)	
Items of difference							
CAR requirements of subsidiaries ⁽³⁾	(1 482)	(6)	(83)				
Write-up of subsidiaries from cost to NAV ⁽³⁾	(1 588)	75	111				
Debt instruments ⁽⁴⁾	2 000						
Difference between statutory and published valuation methodologies	(2 633)	(1)	(559)	(76)			
Inadmissible assets ⁽⁵⁾	(223)	(20)	(18)	(10)		(6)	

⁽¹⁾ Liberty Africa comprises Liberty Life Namibia and its subsidiary United Funeral Insurance in 2010, Liberty Life Uganda, Liberty Life Swaziland and Liberty Life Botswana.

⁽²⁾ Liberty Life Namibia and STANLIB Multi-Manager were subsidiaries of LGL in 2009 but are no longer subsidiaries of LGL in 2010. They are now subsidiaries of Liberty Holdings Limited.

⁽³⁾ 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.

⁽⁴⁾ For the purposes of the published accounts, the subordinated debt of R2 billion raised by LGL is included in other liabilities. For statutory purposes, the subordinated debt is regarded as capital.

⁽⁵⁾ The assets that are inadmissible for statutory purposes consist largely of intangible assets and the defined benefit pension fund employer surplus.

⁽⁶⁾ New life company started in 2010.

2. Risk appetite and capital management (continued)

2.3 Capital management (continued)

Economic capital basis

Available financial resources is the amount by which the value of the assets exceeds the value of the liabilities, where the assets and liabilities are measured on a market consistent basis.

The economic capital requirement is the amount of financial resources required to protect against economic insolvency due to unexpected events. As such the economic capital requirement is a quantification of risk exposure.

The approaches taken by the group to calculate the available financial resources and economic capital requirements are broadly consistent with the approaches currently proposed under Solvency II. These approaches value both assets and liabilities using market consistent valuation principles. For elements of the liability that can be replicated by market instruments, the measurement of the liability uses assumptions based on the observable market data to produce liability values equal to the price of these replicating instruments.

For elements of the liability not observable in the market, measurement is based on a best estimate discounted cash flow valuation with risk margins calculated using a cost of capital approach. The economic capital requirement is the amount of capital required to remain economically solvent in extreme events (e.g. Solvency II requires stresses at a 99,5% confidence level over a one year time horizon). The primary risk events considered in the calculation of the economic capital requirements are covered in the respective risk categories in this report.

The group is in the process of reviewing the latest quantitative impact study (QIS5) under Solvency II in order to assess any necessary changes to the economic capital models.

With the continuing development of the group's economic capital modelling capability, the economic capital requirement is increasingly being used in the group's risk and capital management, e.g. in the determination of the group's exposure to market risk. As economic capital becomes more important, so will the return on economic capital as a group-wide measure of value creation. The process of embedding risk adjusted economic metrics in decision-making processes will form part of the SAM implementation.

Embedded value basis

The embedded value is comprised of the net worth and the value of in-force business less the cost of solvency capital. Embedded value is an alternative measure of capital employed to that in the IFRS representation.

In decision-making processes within the life business, management makes use of return on embedded value as the key measure of shareholder value creation. The embedded value at risk is one of the measures in the group's risk appetite statement.

Further details on embedded value are provided in the Group Embedded Value report.

2.4 Capital funding

Life companies have in the last few years been permitted by the FSB partially to fund their requirements with forms of capital other than equity. LGL raised R2 billion in subordinated debt in 2005 at a fixed rate of 8,93%, paid bi-annually, to fund the working capital of the group, and to lower its weighted average cost of capital (WACC).

The group continues to consider further ways of lowering WACC in order to enhance shareholder value. One of the main drivers of the implemented Liberty Holdings Limited restructure is to improve the group's ability to raise alternative forms of funding.

Risk management (continued) for the year ended 31 December 2010

2. Risk appetite and capital management (continued)

2.4 Capital funding (continued)

On 13 August 2010, Fitch Ratings affirmed the outlook for LGL's National Insurer Financial Strength rating at 'AA(zaf)' and LGL's National Long-term rating at 'AA-(zaf)'. The affirmations reflect Liberty's well-established business positions in South Africa, its strong and diversified distribution networks and good capital position. It also reflects the substantially improved financial performance in the first half of 2010, significant restructuring initiatives implemented to address the negative persistency experience and enhanced risk management. Fitch considers the strength and diversity of Liberty's distribution network and success in bancassurance with the Standard Bank group as key positive rating drivers, however, offsetting this is earnings volatility stemming from the group's product persistency experience and exposure to investment market conditions.

At the time of the rating review, Fitch's view of the outlook for both these ratings remained negative. The outlook reflected Fitch's residual concern over persistency levels given uncertainty about the speed and scale of economic recovery. Although the first half of 2010 indicated significant persistency improvement, Fitch believes it remains to be seen whether this improvement will be sustained. As reported elsewhere in this report, persistency improvements have continued in the second half which should contribute to improving the 2011 Fitch outlook.

Fitch has simultaneously affirmed LGL's R2 billion subordinated debt issue to 'A+(zaf)'.

2.5 Capital management actions

No significant capital management activities were considered necessary during 2010.

2.6 Group-wide consistent measures of risk and capital

The economic capital models and risk adjusted profitability framework currently under development provide a group-wide consistent measure of risk, based on the conceptual platform laid by Solvency II.

The CAR currently does not provide a consistent measure of risk. The TCAR requirement is the result of a highly improbable stress test on a single risk factor and hence provides little information for the management of risk. The OCAR, on the other hand, is a risk-based measure which together with compulsory margins is intended to provide approximately a 95% confidence level over the long term that the insurer will be able to meet its obligations to policyholders. The margins and capital requirements are based on prescriptive rules that may not reflect the group's actual experience and risk management processes, and an attribution of discretionary margins to risk is subjective. The OCAR is inadequately risk sensitive, especially in respect of insurance risks. This results in an arbitrary linkage between risk and capital. Most importantly, the CAR is relevant only to long-term insurance businesses. As a result it does not provide a measure of risk-based capital requirements for all activities across the group.

Going forward, increasing emphasis is likely to be placed on the economic capital requirements in monitoring the risk exposures due to the greater clarity and consistency that they will provide and due to their improved alignment with the capital requirements under SAM.

3. Changing regulatory and business landscape

There are a number of changes that are anticipated in the group's regulatory and business landscape within the next seven years. These changes are expected to have a significant impact on the group's solvency requirements, financial reporting and the way it conducts its business and may impact the flow of funds into the industry.

The group's board and management are actively monitoring and preparing for the possible implications of these various regulatory and legislative changes. Liberty seeks positive and constructive engagement with its various regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for our industry and all its stakeholders. In light of the far-reaching consequences, the board anticipates that significant project spend and additional skilled people will be required to cope with these changes.

The main changes anticipated to have significant impacts particularly on South African and in some instances international operations are briefly described below.

3.1 Solvency Assessment and Management (SAM)

The FSB is in the process of developing a new risk-based solvency regime for South African long-term and short-term insurers, known as the Solvency Assessment and Management (SAM) regime. This initiative will align the South African insurance industry with the standards of the International Association of Insurance Supervisors (IAIS). This process is being guided by principles around insurance regulation produced by the IAIS and developments in Europe. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II.

The FSB is currently intending to implement both the standardised and internal model approaches under the SAM regime by January 2014 for both long-term and short-term insurers, with all insurers required to do a parallel run on the standardised model in 2013. Given the urgency around the issue of effective group supervision that was highlighted by the global financial crisis in 2008 and 2009, interim measures for the supervision of insurance groups in South Africa will be introduced as early as 2012.

In recent years, the group has made significant progress in implementing the EVRM framework aligned with the risk management principles underlying Solvency II. Liberty believes that the EVRM framework developments to date will position the group well to ensure the successful implementation of SAM. Liberty has a SAM coordinator to maintain direct access to the SAM governance structures, and has representation on the FSB's SAM steering committee, sub-committees and task groups.

3.2 International Financial Reporting Standards (IFRS) 4 Phase II

The recognition and measurement of insurance liabilities is currently the focus of IFRS 4 Phase II, the joint International Accounting Standards Board (IASB) and United States' Financial Accounting Standards Board (FASB) project on the accounting for insurance contracts. Although various decisions on principles regarding measurement have been tentatively agreed by the IASB and FASB, there is still significant debate and uncertainty around the classification of insurance contracts, the methodologies used to value them and transition arrangements on adoption of the IFRS. Currently the IASB plans to publish a final IFRS on insurance contracts in mid 2011. The implementation date is likely to follow two to three years thereafter.

An IFRS 4 Phase II exposure draft was released in July 2010 for comments by 30 November 2010. There has been a widespread global response to this exposure draft. Liberty has been extensively involved in South African industry bodies commenting on this exposure draft and will continue to monitor any tentative decisions that are made prior to the final IFRS standard being published. It is anticipated that the final standard will have a significant impact on the group's current reported financial position and future revenue recognition, but to date there is insufficient clarity around certain decisions to be able to understand and provide guidance on the specific implications of the new standard for Liberty.

Risk management (continued) for the year ended 31 December 2010

3. Changing regulatory and business landscape (continued)

3.3 Conflicts of Interest

An amendment to the FAIS' General Code of Conduct for Financial Services Providers (FSPs) and Representatives contains legislation concerning conflicts of interest. Implementation of the legislation has already commenced and will be effective by April 2011. It addresses concerns that the FSB has about conflicts of interest between FSPs, representatives and clients and will severely impact the practice of incentives that FSPs use to reward both tied and independent financial advisers for achieving sales objectives. The amendment requires the FSP to avoid, and where this is impossible mitigate, any situation that may prevent it from rendering an unbiased and fair financial service.

An implementation project is in place to ensure compliance by the various deadlines. The FSB imposed interim deadlines of 19 July and 19 October 2010 have been met and a monitoring review is in progress to test effectiveness.

The requirements regarding remuneration of own representatives, the requirements around the management policy of conflicts of interest and the compliance reporting requirements, all take effect on 19 April 2011 and the group is well placed to achieve timely implementation.

3.4 Consumer Protection Act (CPA)

The CPA constitutes an overarching framework for consumer protection, and all other laws which provide for consumer protection. The Act affects a wide range of consumers and transactions. The definition of a "consumer" includes not only the person (either a natural or juristic person) to whom goods or services are promoted or supplied, but also the actual user of the goods or the recipient or beneficiary of the services. In other words, a consumer may be a person other than the person who entered into an agreement with a supplier and paid for the goods or services.

Certain administrative provisions of the Act came into effect in April 2010. The general effective date of 24 October 2010 has however been deferred to 31 March 2011. A proposed monetary threshold of R3 million that will apply to entities (to determine application of the act) has been gazetted for comment. Areas that are required to be compliant by March 2011 are STANLIB (in its capacity as a collective investment schemes manager and as a pension fund administrator), Liberty Corporate (in its capacity as a pension fund administrator), Liberty Health and Liberty Properties.

FAIS regulated activities are exempt. Long-term insurance activities are also temporarily exempt, provided the long-term insurance legislation is aligned to the CPA by 31 October 2012.

3.5 Protection of Personal Information (PPI) Bill

The PPI Bill applies to all personal information that Liberty holds in respect of data subjects. Data subjects include employees, vendors, policyholders (natural and juristic), intermediaries (tied and independent) and associated companies. The basic requirement of PPI relates to obtaining consent for processing and notifying the data subject of the purpose for which personal information will be processed. The Bill when enacted will impact Liberty's legacy, existing business and new generation data.

Liberty anticipates that the Bill may be enacted during the course of 2011. At present the Bill provides for 12 months from date of enactment to comply with the legislation. ASISA has applied for certain implementation extensions. The Minister may also extend the compliance period up to three years.

The group has formally launched a programme that has established a legal standing committee that will interpret the Bill and provide practical guidelines for the group to adopt. A project charter for the implementation of the Bill within the required deadlines is in the process of being completed.

3. Changing regulatory and business landscape (continued)

3.6 Social security and retirement reform

The South African government's intention to establish a broad-based contributory social security arrangement will have an impact on the life insurance and retirement funding industry and, subsequently, the group.

Depending on whether or not government proposals result in some redirection of compulsory savings away from the industry, a variety of risks exist.

Although the 2012 deadline for implementation looks increasingly unlikely, the retirement fund industry has already commenced planning for the reform. National Treasury has issued various papers for discussion, and has commenced with investigations into costs of administration across the retirement fund industry.

A task team comprising business representatives from across the group has begun investigations into the impact of the reform proposals on the group, as well as opportunities that the impending changes create in the insurance and pensions businesses.

3.7 Health care reform

The South African government's intention to establish a mandatory national health insurance (NHI) with the goals of providing universal medical coverage for all South Africans with equity and solidarity among the population through the pooling of risks and funds will have an impact on private health insurance. The establishment of NHI would likely result in reduced incentives to join private health insurance and may impose additional restrictions on private health insurers.

The African National Congress (ANC) released its NHI discussion document in September 2010. However, an official Department of Health position paper is awaited prior to any further preparatory planning being undertaken by Liberty Health. Liberty is represented on the industry forums that will be formulating industry responses.

3.8 Treating Customers Fairly (TCF)

The FSB published their TCF discussion document in April 2010. The proposed TCF regulatory framework will create a more meaningful focus on customer outcomes at all levels of decision-making within financial institutions, and at all stages of the product lifecycle.

The impact will mainly be on LGL and STANLIB retail operations and sales and distribution, but institutional operations will also be indirectly impacted to the extent that individual end customers (e.g. fund members) are affected.

Liberty has created a TCF steering committee to drive implementation.

3.9 Pension Funds Act amendments relating to fund member investment restrictions

Amendments to Regulation 28, which deals with the spread of investments that retirement funds may hold, are currently available for industry comment. These amendments aim to reduce the investment risk to which members saving for retirement are exposed in order to ensure more predictable retirement benefits. Regulation 28 covers retirement annuities, preservation funds, pension funds and provident funds which are all sold by Liberty.

The main change to the regulation requires retirement funds to ensure that the spread of investments held at a member level (previously at a retirement fund level) complies with certain limits. In addition, new asset class categories have been defined and changes have been made to the maximum investment levels allowed. These changes will require the asset composition of existing investment portfolios to be reviewed and adjusted if needed.

The changes needed to investment portfolio asset compositions and administration systems cannot be finalised before there is greater clarity around the final amendments. Furthermore, the implementation date is uncertain at this stage. Provisions excluding existing policies from complying with all these amendments are currently under discussion.

A working group in Liberty has been established and allocated responsibility for keeping abreast of and giving input on developments to Regulation 28. This working group is also ensuring that the necessary process and system changes are made so that Liberty can comply with the new regulation.

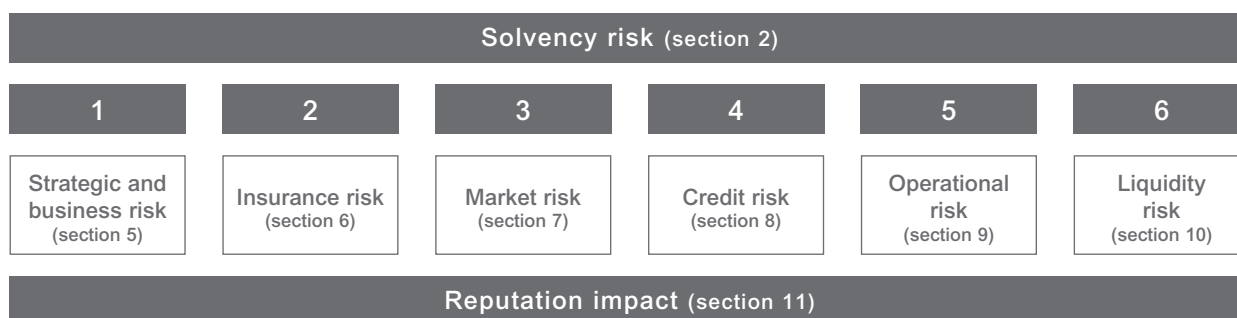
Risk management (continued)

for the year ended 31 December 2010

4. Risk taxonomy

As part of the group's EVRM, the board has approved the risk categories that reflect the diverse nature of the group's business activities. These risk categories form the group's risk taxonomy and cover the range of risks to which the group is exposed. The risk taxonomy allows management and the board to develop specific frameworks and policies covering the management of each risk, as well as to obtain accurate, reliable and expeditious information with which to measure and monitor risks.

The diagram below depicts the group's taxonomy.



Solvency risk is the risk that the group does not have sufficient assets to cover its liabilities and capital requirements. It arises from risk events that occur in other risk classes in the risk taxonomy, and is therefore considered to be an aggregate level risk. It is considered to be of primary importance and both statutory and economic solvency have been integrated into the group's risk appetite measures.

Concentration risk is not a specific pillar of the group's risk taxonomy but is considered across each risk category. Section 12 summarises the significant identified concentration risks that are not commented on in other sections.

In the sections that follow, each risk category included in the taxonomy is discussed in more detail, including a description of the following:

- Ownership and accountability;
- Risk identification, assessment and measurement; and
- Detail on actions taken and processes followed to manage the risks.

Although each risk category is discussed in isolation in the following sections, it is important to recognise that risks typically exhibit some correlation as they do not typically occur in isolation. The correlations need to be considered in the management of the risk and allowed for accordingly in capital calculations.

In the OCAR calculation, the resilience scenario assumes that the equity price, property price, interest rate and currency risk occur simultaneously (i.e. perfectly positively correlated) and that all other risks, except operational risk, occur independently of one another (i.e. no correlation). Operational risk is assumed to occur simultaneously with all other risks.

In the calculation of economic capital requirements, assumptions are made as to the correlations that apply between risk factors in extreme events.

5. Strategic and business risk

5.1 Definition

Strategic risk is the risk that the group's future business plans and strategies may be inadequate to prevent financial loss or protect the group's competitive position and shareholder returns. Business risk arises from unexpected losses due to changes in business volumes, margins and costs.

5.2 Ownership and accountability

The board is accountable for setting the group's objectives and the strategies and plans to achieve those objectives. The board approves any subsequent material changes in strategic direction, as well as significant acquisitions, mergers, take-overs, disinvestment of operating companies, equity investments and new strategic alliances by the company or its subsidiaries.

The group CE is responsible for the development of the strategic plan and implementing the approved strategic plan at both a group and BU level. The group strategic plan is supported and implemented by the various BU chief executives.

The group CRO provides oversight of the implementation of the group's strategic plans across the group and the BUs.

5.3 Risk management

The group's strategy is approved annually by the board through a formal strategic planning process. Exco will review and assess the BU strategies to ensure that they are aligned with the overall group strategy, which is subsequently presented to the board for approval. On a quarterly basis, the board reviews the group's performance relative to the approved strategy and ensures that management takes corrective action to address any risks that may impact on the achievement of the strategy.

On a monthly basis, BU heads of risk and compliance prepare a risk report for review and discussion at a BU executive committee level. The risk reports provide an overview of the BU's risk profile encompassing all risks across the risk taxonomy (including strategic and business risk). Furthermore, the quarterly risk reporting process to the GROC and GRC forms an integral part of monitoring BU risks and the group's overall risk profile. The reports include information on:

- strategic and business risks;
- the actions implemented to mitigate these risks, accountable persons and implementation or resolution date; and
- progress on implementing the action plans since the previous reporting cycle.

Strategic and business risks deemed to be outside of the group's risk appetite are escalated to the board.

5.4 Current strategic and business risks

5.4.1 Current economic environment

Formal processes have been established to understand current trends and strategic and business risks. In particular, the group investment committee forms a group view of the markets. These processes are supplemented with specific reviews and research related to key issues in the industry. This allows executive and BU management to monitor appropriately the external business environment (industry trends, customer behaviour, competitors etc.) and discuss risks and opportunities at a BU and executive management level.

Risk management (continued)

for the year ended 31 December 2010

6. Insurance risk

6.1 Definition

Insurance risk from management's perspective is the risk that future claims (in relation to death, disability, ill health, retrenchment and withdrawal) and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing. In addition to these insurance risks, the group assumes further risks in relation to policyholder behaviour (including lapses and converting recurring premium policies to paid up) and tax which could have adverse impacts on the group's earnings and capital if different from that assumed in the measurement of policyholder liabilities. From a risk management perspective, management groups these risks under insurance risk.

The insurance risks that the group is exposed to that have the greatest impact on the financial position and comprehensive income are covered in more detail in sections 6.6 to 6.10.

6.2 Ownership and accountability

The management and staff in all BUs taking on insurance risk are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

The statutory actuaries and the heads of risk in the BUs provide independent oversight of the compliance with the group's risk management policies and procedures and the effectiveness of the group's insurance risk management processes.

6.3 Risk identification, assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are conducted at least annually on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts. If the investigations indicate that these deviations are likely to persist in future, the assumptions will be adjusted accordingly in the subsequent measurement of policyholder liabilities.

Insurance risks are assessed and reviewed against the group's risk appetite. 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 13. Embedded value sensitivities for insurance risks are included in the Group Embedded Value report. The statutory and economic capital requirements are discussed in section 2.

6.4 Risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

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

- report at least annually on the financial soundness of the life companies within the group;
- approve policy for assumptions used to provide best estimates plus compulsory and discretionary margins (as described in the accounting policies);
- oversee the setting of these assumptions; and
- report on the actuarial soundness of premium rates in use for new business, and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

In addition, all new products and premium rates are approved through the product approval process after sign off by the relevant statutory actuary.

The group makes use of reinsurance to reduce its exposures to some insurance risks.

6. Insurance risk (continued)

6.5 Reporting

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

In respect of insurance risks, the reports contain the results of any experience investigations conducted (e.g. on mortality, morbidity, withdrawals including lapses or expenses) along with other indicators of actual experiences. These reports also raise any issues identified and track the effectiveness of any mitigation plans put in place.

Monthly reports are submitted by the BU head of RPO. On a quarterly basis, the chief executives of the BUs assuming insurance risks report on the status of BU insurance risk management to GROC. Major insurance risks are incorporated into a report of the CRO on the group's overall risk which is submitted to GRC. Where it is deemed necessary, material insurance risk exposures are escalated to the board.

6.6 Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to actual policyholder behaviour being different from expected.

The primary policyholder behaviour risk is persistency risk. This arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total when this is not in line with expectations. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a profit margin or return on capital. A deterioration in persistency generally gives rise to a loss as the loss of these future charges generally exceeds the charges that the group applies to the policyholder benefits in these events.

Prior to 2010, the group experienced a deterioration in persistency for a number of years, in part due to the downturn in the economic cycle and poor sales management strategy. In times of volatile investment markets with negative returns, customers are more likely to discontinue their contributions into market-related investment or retirement products, preferring the security of cash or money market returns. This is exacerbated when there is an increase in interest rates, and there is an increased propensity to repay debt, rather than invest for the long term.

The recent economic downturn in South Africa has also given rise to a sharp decline in disposable household income, which places pressure on the affordability of insurance products – giving rise to an increase in policy discontinuance rates.

The group has implemented an integrated and comprehensive programme to improve its management of persistency risk. Given the significant impact of deteriorating persistency on the group's financial performance, a special customer management unit was established in 2009 to address the persistency risks. The customer management unit is a multidisciplinary team of experienced individuals from within the group, complemented by selected external recruits or contractors.

The customer management team has been focused on the implementation of a broad programme of initiatives, extending risk management activities in place to include:

a. Quality and profitability of new business written

- Improved underwriting at policy inception;
- An increased emphasis on quality of business written; and
- Implementation of reviewed intermediary compensation.

b. Product flexibility and migration options

- In recognition of the reality of customers' changing financial circumstances, several options have been made available to customers to assist them through times of difficulty.

Risk management (continued) for the year ended 31 December 2010

6. Insurance risk (continued)

6.6 Policyholder behaviour risk (continued)

c. *Protecting the in-force book of business*

- Processes have been put in place to protect a policy under threat of withdrawal;
- Focus is placed on the satisfactory performance of the product owned by the customer;
- Continued emphasis on customer service level adherence and customer satisfaction levels; and
- Processes have been put in place to ensure ongoing intermediary support.

d. *Actuarial risk management*

- Building terms into the policy contracts that enable the deduction of charges from policy proceeds for the recoupment of expenses and commission incurred early in the life of the contract subject to regulatory limits;
- Not providing withdrawal benefits as a contractual benefit on certain policies where the policyholder can select against (i.e. take undue financial advantage of) the group (e.g. non-participating life annuity contracts);
- Applying appropriate market value penalties on the withdrawal benefits of discretionary participation feature contracts when the withdrawal benefits exceed the value of assets backing the contracts; and
- Monitoring actual policyholder behaviour on a monthly basis so that deteriorating experience can be identified – policy pricing and the measurement of the liabilities may be changed if the deteriorating experience is expected to continue and cannot be mitigated.

Customer retention initiatives have already begun to bear fruit in 2010 and Liberty has seen a reduction in the withdrawal rates on certain major product lines. Broadly the rates are ahead of plan in terms of their rate of recovery.

Changes in regulations in recent years have impacted the group's exposure to policyholder behaviour risk:

- Since 2006, the deduction of certain charges from policy proceeds has been limited in terms of the Long-term Insurance Act, increasing the group's exposure to the risks associated with policyholder behaviour. The estimated effect of these regulations has been allowed for in the measurement of policyholder liabilities and in provisions in respect of terminated contracts; and
- Effective 1 January 2009, industry commission regulations were reformed such that the commission paid on many products with investment components is more closely aligned to premium collection and terms of the contract. This reduces the risk of non-recovery of commission on new policies subsequently cancelled or paid up, thereby reducing the group's exposure to the risks associated with policyholder behaviour.

In the measurement of policyholder liabilities, the liabilities are adjusted by a margin as described in the accounting policies depending on whether a surrender benefit is payable or not. In addition, an allowance is made for withdrawals in the TCAR and OCAR. The TCAR examines a highly selective scenario in which all policies with surrender values greater than the policy liability terminate immediately (similar to a run-on-a-bank scenario). A proportion of the TCAR calculation is allowed for in the OCAR calculation.

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.

6. Insurance risk (continued)

6.6 Policyholder behaviour risk (continued)

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 reasonable than the event being tested in the TCAR calculation.

6.7 Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life assurance business being higher than expected.

Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected.

The group has the following processes and procedures in place to manage mortality and morbidity risk:

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience.
- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period:
 - For retail risk business, most in-force risk premiums and all new business risk premiums are reviewable (after 10 to 15 years on Lifestyle Protector business; annually on Credit Life and Entry Level Market business).
 - For corporate risk business, the risk premiums (charges) are reviewable annually.

Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases, may reduce their mitigating effects. Furthermore, charges can only be increased to the extent that they can be supported by gross premiums, although this is not relevant on contracts where gross premiums can be reviewed.

- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All retail business applications for risk cover are underwritten. For smaller sums assured this 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.
- 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).
- 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.

Risk management (continued) for the year ended 31 December 2010

6. Insurance risk (continued)

6.7 Mortality and morbidity risk (continued)

- The actual claims experience is monitored on a regular basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a bi-annual basis, but mortality claim ratios are reviewed monthly.
- Allowance for AIDS is made in product pricing and special AIDS provisions are held within policyholder liabilities to provide for deterioration in experience as a result of assured lives becoming HIV infected after inception of the contract. Liberty's historical experience is that the actual deterioration in mortality and morbidity due to HIV and AIDS is less than allowed for in the measurement of policyholder liabilities, calculated in accordance with South African actuarial guidance.
- 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.
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

For LGL retail business, mortality and morbidity benefits in excess of R9,0 million (2009: R9,0 million) per individual are reinsured under a risk premium surplus reinsurance arrangement. Business written in the past was reinsured at lower retention levels, which are fixed for the life of the contract. For LGL corporate business, mortality and morbidity benefits in excess of R3,5 million (2009: R3,5 million) per main member are reinsured on an annually-renewable basis. Reinsurance with lower retention levels is in place for Capital Alliance and Liberty Active. The retention limits under surplus reinsurance arrangements are reviewed annually to keep pace with inflation. The group performs an annual review on the reinsurance cover in line with the stated risk appetite and reinsurance strategy. A proportion of both corporate and retail income disability business is reinsured on a proportionate quota share and surplus basis. Special risks are reinsured on a case-by-case basis.

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

Retail sums assured at risk (R)	Before reinsurance		After reinsurance	
	Rm	%	Rm	%
2010				
Bancassurance (all less than R1 499 999)	62 747	9	62 747	10
0 – 1 499 999	251 443	36	235 695	40
1 500 000 – 2 999 999	142 338	21	128 944	21
3 000 000 – 7 499 999	155 241	23	139 913	23
7 500 000 and above	78 438	11	37 289	6
Total	690 207	100	604 588	100
2009				
Bancassurance (all less than R1 499 999)	60 947	9	60 947	11
0 – 1 499 999	256 425	39	238 929	41
1 500 000 – 2 999 999	132 590	20	118 881	21
3 000 000 – 7 499 999	140 853	21	126 092	22
7 500 000 and above	68 430	11	30 649	5
Total	659 245	100	575 498	100

6. Insurance risk (continued)

6.7 Mortality and morbidity risk (continued)

Corporate sums assured at risk (R)	Before reinsurance		After reinsurance	
	Rm	%	Rm	%
2010				
0 – 1 499 999	221 433	73	219 748	76
1 500 000 – 2 999 999	45 413	15	44 637	15
3 000 000 – 7 499 999	29 986	10	23 640	8
7 500 000 and above	7 912	2	2 574	1
Total	304 744	100	290 599	100
2009				
0 – 1 499 999	233 824	76	233 740	79
1 500 000 – 2 999 999	40 315	13	40 315	13
3 000 000 – 7 499 999	25 344	8	20 744	7
7 500 000 and above	9 136	3	2 135	1
Total	308 619	100	296 934	100

The tables above show that the sums assured are spread over many lives and that the exposure to individual lives has been reduced by means of surplus reinsurance arrangements. Given the large number of assured lives, the random fluctuation in mortality claims is expected to be small, as the larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome becomes.

Catastrophe reinsurance consolidated across the group's life licences is in place to reduce the risk of many claims arising from the same event. The reinsurance covers events that result in claims of more than R50 million (2009: R50 million) up to a limit of R800 million (2009: R600 million) for single event disasters and R1 600 million (2009: R1 200 million) in aggregate over the treaty year. Various events are excluded from the catastrophe reinsurance (e.g. epidemics, radioactive contamination, war).

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	2010 %	2009 %
Administrative/professional	28	26
Retail	24	23
Light manufacturing	32	31
Heavy manufacturing	15	19
Heavy industrial and other high risk	1	1
Total	100	100

In the measurement of policyholder liabilities, margins as described in the accounting policies are added to the best estimate mortality and morbidity rates. In addition, an allowance is made for the mortality and morbidity fluctuation risk in the OCAR calculation. No additional allowance is made for mortality or morbidity catastrophes in the CAR calculation.

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.

Risk management (continued) for the year ended 31 December 2010

6. Insurance risk (continued)

6.7 Mortality and morbidity risk (continued)

The risk of a loss arising from a random fluctuation in either mortality or morbidity rates is ignored. Given the large number of lives with mortality and morbidity cover, this risk has a far smaller impact than the specific risks allowed for.

The group views mortality and morbidity risks as risks that are core to the business. These risks will be retained if they cannot be mitigated or transferred on risk adjusted value enhancing terms. Mortality and morbidity risk gives rise to significant economic capital requirements in particular due to potential catastrophic events. Since it is difficult to obtain reinsurance for certain catastrophic events, such as epidemics (e.g. H1N1 flu), on reasonable terms, the mortality and morbidity economic capital requirements are likely largely to remain.

6.8 Longevity risk

Longevity risk is the risk of loss arising due to 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 risk on these liabilities is continued medical advances and improvement 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 improvements in the pricing of new business and the measurement of policyholder liabilities – this allowance will be based on the trends identified in experience investigations and external data.

The eligibility of annuitants payable in South Africa with valid South African ID numbers is established by a monthly check of existence with the Department of Home Affairs. The eligibility of other annuitants is established with the requirement of proof of existence certificate reports on an annual basis.

Proof of existence certificate reports are required annually from annuitants to ensure that annuities are only paid to eligible policyholders.

Claims on disability income business also give rise to annuity payments which are contingent on the claimant's longevity and continued disablement. The claims management of the disability income business is covered under morbidity risk.

Undue concentration of life annuities would leave the group heavily exposed to the longevity experience of a few lives. The profile of annuity amounts payable per life net of reinsurance in respect of life and disability income annuities is as follows:

Annuity amount per annum (R)	2010		2009	
	Number of life and disability annuities in payment	Annual annuity amount exposure Rm	Number of life and disability annuities in payment	Annual annuity amount exposure Rm
0 – 240 000	94 010	1 696	97 342	1 679
240 000 – 480 000	442	138	379	118
480 000 – 720 000	73	41	64	37
720 000 and above	23	23	17	17
Total	94 548	1 898	97 802	1 851

The table above shows that the concentration risk is likely to be small given the large number of lives and the annuity profile being heavily weighted to lower annuity amounts per annum.

In the measurement of annuitant liabilities, a margin as described in the accounting policies is subtracted from the best estimate mortality. The best estimate mortality includes an allowance for future mortality improvements. In addition, an allowance is made for the annuitant mortality fluctuation risk in the OCAR calculation. No additional allowance is made for fluctuations in the rate of annuitant longevity improvements.

6. Insurance risk (continued)

6.8 Longevity risk (continued)

In the calculation of economic capital requirements, allowance is made for the following risks in respect of longevity:

- The risk that the actual base level of longevity experience is different from that expected; and
- The risk that the rate of longevity improvement is different from that expected.

The group views longevity risk as a strategic risk that is core to its business. This risk will be retained if it cannot be mitigated or transferred on risk adjusted value enhancing terms. The economic capital requirement in respect of longevity risk is relatively small.

6.9 Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected.

Allowance is made for expected future expenses in the measurement of policyholder liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

The group manages the expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business;
- regularly monitoring withdrawal rates including lapses; and
- implementing cost control measures in the event of expenses exceeding budget or of significant unplanned reductions in in-force policies.

In the measurement of policyholder liabilities, a margin as described in the accounting policies is added to the best estimate expenses. In addition, an allowance for general administration expenses (excluding acquisition costs incurred on new policies) incurred in the previous reporting period 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 the assumed rate of inflation. (The risk that inflation is higher than expected is treated as a market risk.)

Even though expense risk does not give rise to large capital requirements, the management of expense risk is core to the business. The expenses that the group is expected to incur on policies are allowed for in product pricing. If the expenses expected to be incurred are considerably higher than those of insurers offering competing products, the ability of the group to sell business on a profitable basis will be impaired. This does not only have capital implications, but can also affect the group's ability to function as a going concern in the long term.

6.10 Tax risk

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

Allowance for tax is made in the measurement of policyholder liabilities at the rates applicable at the financial position date. Adjustments may be made for known future changes in the tax regime.

No explicit allowance is made for tax risk in the OCAR calculation.

The calculation of the economic capital requirement does allow for the risk of a change in tax. This economic capital requirement is small.

Risk management (continued)

for the year ended 31 December 2010

7. Market risk

7.1 Definition

Market risk is the risk of adverse financial impact 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 exposure to fluctuation in property values.

The group's shareholders are exposed to market risk arising from the following main areas:

- The policyholder asset-liability mismatch risk. This is where the group's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts. This includes annuity mismatches, embedded derivative mismatches and the market risk arising from negative rand reserves (present value of recognised future charges less the present value of future expenses and risk claims);
- Financial assets and liabilities utilised to support the group's capital base (also referred to as shareholder funds);
- Exposure to 10% of the returns on a defined portion of the assets backing unit-linked liabilities. This arises from certain contracts which include terms that allocate 10% of the investment returns to Liberty. This market risk is referred to as the 90/10 fee exposure; and
- Exposure to management fee revenues not already recognised in the negative rand reserves.

The market risk associated with policyholder unit funds and with-profit funds pooling investment performance, excluding the risks materialising to the group's shareholders from the exposures described above, is ultimately borne by the policyholders. Poor performance on policyholder funds, however, can lead to reputational damage and subsequently to increased policyholder withdrawals and a reduction in new business volumes. This performance risk is managed by the FCC through the monitoring of asset managers and through the setting of appropriate policyholder fund mandates.

The key components of market risk are as follows:

- Equity risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of equity price and/or dividend changes;
- Interest rate risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of interest rate changes;
- Currency risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability as a result of changes in exchange rates. This can either be in the form of a mismatch between currencies of assets and liabilities, or on assets supporting capital, or the functional currency of the local entity being different to the reporting currency of the group; and
- Property market risk: is the risk arising from a change in the value and/or future cash flows of an asset or liability, as a result of changes in property market prices and/or rental income.

7.2 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 asset-liability mismatches in terms of its delegated authority and within the limits set by the GBSMC. STANLIB, Liberty Properties and other external asset managers remain responsible for managing the investment risks within their investment mandates.

Group market risk provides an independent oversight of the effectiveness of market risk management processes and reports on the status of market risk management to GBSMC, GROG and GRC.

7. Market risk (continued)

7.3 Risk identification, assessment and measurement

In the case of market risks which arise from shareholder funds, the risk can be identified, assessed and measured by considering the market risks that apply to the assets in which these funds have been invested.

In the case of asset-liability mismatches, risks both to the assets and corresponding liabilities need to be assessed together. The group is exposed to market risk to the extent that these exposures may result in a loss due to the assets increasing by less than the liabilities or the assets falling by more than the liabilities.

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

7.4 Alignment of market risk exposure to risk appetite statement

The amount of market risk assumed within the group is currently driven by the group risk appetite statement. This is translated into market risk limits which are applied to the various LibFin portfolios and monitored by group market risk.

At 31 December 2010, the group was within market risk limits.

7.5 Risk management

For management purposes, the group's market risk remains split into two main categories:

- Market risks to which the group wishes to maintain exposure on a long-term strategic basis. This includes market risks arising from assets backing shareholder funds, as well as those arising from the 90/10 fee exposure. In aggregate this is referred to as the Shareholder Investment Portfolio and is managed by LibFin Investments; and
- Market risks to which the group does not wish to maintain exposure on a long-term strategic basis as they are not expected to provide 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 Risk Management Portfolio and is managed by LibFin Markets.

a) *Shareholder Investment Portfolio*

The group recognises the importance of investing its capital base, namely the shareholder funds, in a diversified portfolio of financial assets. The market risk arising from this shareholder fund exposure is modelled and managed together with the 90/10 fee exposure that exposes shareholders to 10% of the returns on a defined portion of assets backing unit-linked liabilities. This consolidated portfolio is referred to as the Shareholder Investment Portfolio.

LibFin Investments determines the long-term asset mix of this investment portfolio by applying a strategic asset allocation methodology with a long-term investment horizon. The typical asset classes included in this portfolio are equity, fixed income, property and cash, both in local and foreign currency (hence there is exposure to exchange rate movements as well as movements in the underlying asset class). STANLIB is mandated by LibFin Investments to manage the underlying assets in this portfolio.

Tactical asset allocation is performed by STANLIB within their mandate. This is similar to the way in which an asset manager would invest on behalf of a client with a long-term investment horizon.

On a through-the-cycle basis, this conservative, diversified portfolio was constructed to maximise after tax returns for a level of risk consistent with the group's risk appetite statement. In the short-term, market movements will contribute to some earnings volatility. The diversified nature of the portfolio should, however, shield against significant earnings volatility.

Market risk exposure from management fee revenues, other than exposure to the 90/10 fee exposure, is not managed as part of the Shareholder Investment Portfolio.

The Shareholder Investment Portfolio for 2010 was benchmarked on a strategic asset allocation of 20% for local equity, 25% for local bonds, 20% for local cash, 10% for local preference shares, 10% for local property, 10% for offshore equity and 5% for offshore bonds and cash.

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

7.5 Risk management (continued)

b) Risk Management Portfolio

The group has a number of market risk exposures arising from asset-liability mismatches to which it does not wish to be exposed on a long-term strategic basis. As a result, it has chosen to mitigate these risks through a dedicated ongoing hedging programme. The decision to hedge these risks is based on the fact that:

- continuing to assume these market risks may result in the group operating outside of its risk appetite;
- these market risks are capital intensive and over time have the potential to reduce shareholders' returns on capital unless actively managed; and
- some of the market risks (for instance those which arise from selling investment guarantees) are asymmetric in nature, and could compromise the group's solvency in severe market conditions. This is because current regulatory capital rules require available capital to be impaired for mark to market changes of such instruments.

The exposures which are included in this hedging programme include the following:

- Embedded derivatives provided in contracted policies (e.g. minimum investment return guarantees and guaranteed annuity options as described in 7.8);
- The interest rates exposure from writing guaranteed immediate annuities and guaranteed capital bonds (credit risk on the backing assets is, however, not hedged and serves as a diversified source of revenue for the group); and
- Negative rand reserves.

The net market risk impact of these exposures is managed by LibFin Markets utilising the hedge instruments available in the market. The nature of the existing business results in certain risks being difficult to hedge (e.g. long-dated volatility, long-dated interest rates, and correlations). The hedging programme can as a result only remove those market risks from the group's financial position where appropriate matching assets exist.

The group continued to make progress in terms of the infrastructure required to manage this business. This has resulted in a further improvement in the quality, granularity and frequency of market risk analytics necessary to manage these exposures. Ongoing work is however required in improving the frequency and granularity of the underlying data.

7.6 Risk reporting

Daily market risk reports are generated within LibFin on the Risk 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 group's exposures to market risk are also summarised twice a month across the Risk Management Portfolio and the Shareholder Investment Portfolio 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, embedded derivatives and other market risk mismatches) and by the components of market risk (equity, interest rate, property and foreign asset risk).

The market risk exposure report is reviewed on a monthly basis by GBSMC (in addition to specific LibFin and market and credit risk reports). This committee 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.

On a quarterly basis, the heads of market and credit risk report to GROC and 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 in the group asset-liability matching report and is reviewed and appropriate action taken on a monthly basis. This process ensures 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.

7. Market risk (continued)

7.7 Summary of group assets subject to market risk (refer class table in section 14)

The table below summarises the group's exposure to financial and property 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 shareholders – Assets that are specifically held to support Liberty's capital base. The group's shareholders assume the entire market risk-related to these assets.

Non-controlling interests – Non-controlling interests are the non-Liberty shareholder participants mainly in unincorporated property partnership subsidiaries. Their risk exposure is mainly to property price risk in respect of the relevant properties contained in the partnerships.

Third party financial liabilities arising on consolidation of mutual funds – Certain mutual funds in which the group owns in excess of 50% of units are classified as subsidiaries and are consolidated into the group results. The market risks on the underlying assets that is assumed by the non-Liberty unit holders in these mutual funds are classified as "Third party financial liabilities".

Risk category (Rm)	Attributable to					
	Total financial, property and insurance assets	Policyholder market-related liabilities	Other policyholder liabilities ⁽²⁾	Ordinary shareholders	Non-controlling interests	Third party financial liabilities on mutual funds
2010						
Equity price	98 175	95 017	(5 790)	3 269		5 679
Interest rate	83 437	39 725	24 215	17 550	54	1 893
Property price	25 099	19 971	(1 498)	1 000	2 609	3 017
Mixed portfolios ⁽¹⁾	26 974	26 207	(816)	1 172		411
Reinsurance assets	847		847			
Total	234 532	180 920	16 958	22 991	2 663	11 000
Percentage (%)		77,2	7,2	9,8	1,1	4,7
2009 restated						
Equity price	85 280	85 376	(6 491)	1 409		4 986
Interest rate	84 701	40 420	24 530	16 713	77	2 961
Property price	23 203	20 174	(1 192)	(408)	2 343	2 286
Mixed portfolios ⁽¹⁾	22 119	21 146	(451)	1 100		324
Reinsurance assets	788		788			
Total	216 091	167 116	17 184	18 814	2 420	10 557
Percentage (%)		77,4	7,9	8,7	1,1	4,9

⁽¹⁾ Mixed portfolios are subject to a combination of equity price, interest rate and property price risks depending on each portfolio's construction. A substantial portion of the mixed portfolios will be subject to equity price and interest rate risk. The exact proportion is practically difficult to calculate accurately given the number of mutual funds and hedge funds contained in the group portfolios.

⁽²⁾ Negative exposure to the various risk categories can occur in 'Other policyholder liabilities' since the present value of future charges can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholder market-related liabilities. The policyholder market risk exposure, however, remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholder market-related liabilities by the amount of these negative liabilities.

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

7.8 Market risk by product type

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

(a) Unit-linked products

A significant portion of the market risk (including equity, interest rate, currency and property risk) is borne by the group's policyholders through the linkage to the value of their policies. Unit-linked policyholders in particular have all the exposure to these risks.

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

Certain market risk exposures do, however, arise in relation to these unit-linked products:

- In respect of IFRS defined insurance contracts with unit-linked components, the liability is reduced by the corresponding negative rand reserve. Some market risk is consequently retained on this business to the extent that the negative rand reserve does not move in line with the unit liabilities. This risk is managed as part of the Risk Management Portfolio;
- A significant portion of unit-linked business has embedded derivatives in the form of minimum investment return guarantees. This risk is managed as part of the Risk 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; and
- Management fees charged on this business are determined as a percentage of the fair value of the underlying assets held in the linked funds, which are subject to market risk. As a result the management fees are volatile, although always positive. This risk in respect of management fees not included in the negative rand reserves is not currently actively managed.

(b) Market-related guarantees and options

Significant exposure to market risk (equity, interest rate, property and currency risk) arises on market-related guarantees and options. These product features are embedded in various products, and IFRS and PGNs 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 arising from minimum investment return guarantees and guaranteed annuity options on a daily basis. LibFin Markets actively manages the group's exposure to these embedded derivatives within the Risk Management Portfolio as part of its dedicated hedging programme.

The policyholder liabilities in respect of minimum investment return guarantees and guaranteed annuity options amounted to R1 590 million (2009: R1 378 million) and R258 million (2009: R466 million) respectively.

(i) Minimum investment return guarantees

Minimum investment return guarantees are provided on the death and/or maturity proceeds of policies invested in selected investment portfolios. The liabilities from these embedded derivatives are valued in accordance with valuation techniques that approximate market consistent option pricing techniques using stochastic Monte Carlo simulation. These techniques mirror a mid-market market consistent price to be paid to externally transfer the risk.

The value of the minimum investment guarantees is not only sensitive to the assumptions used in their valuation, but is also highly dependent on the 'moneyness' (defined here as the ratio of the guaranteed value as at the financial position date to the value of the investment as at the financial position date) as well as the outstanding term to maturity on the contract at the financial position date.

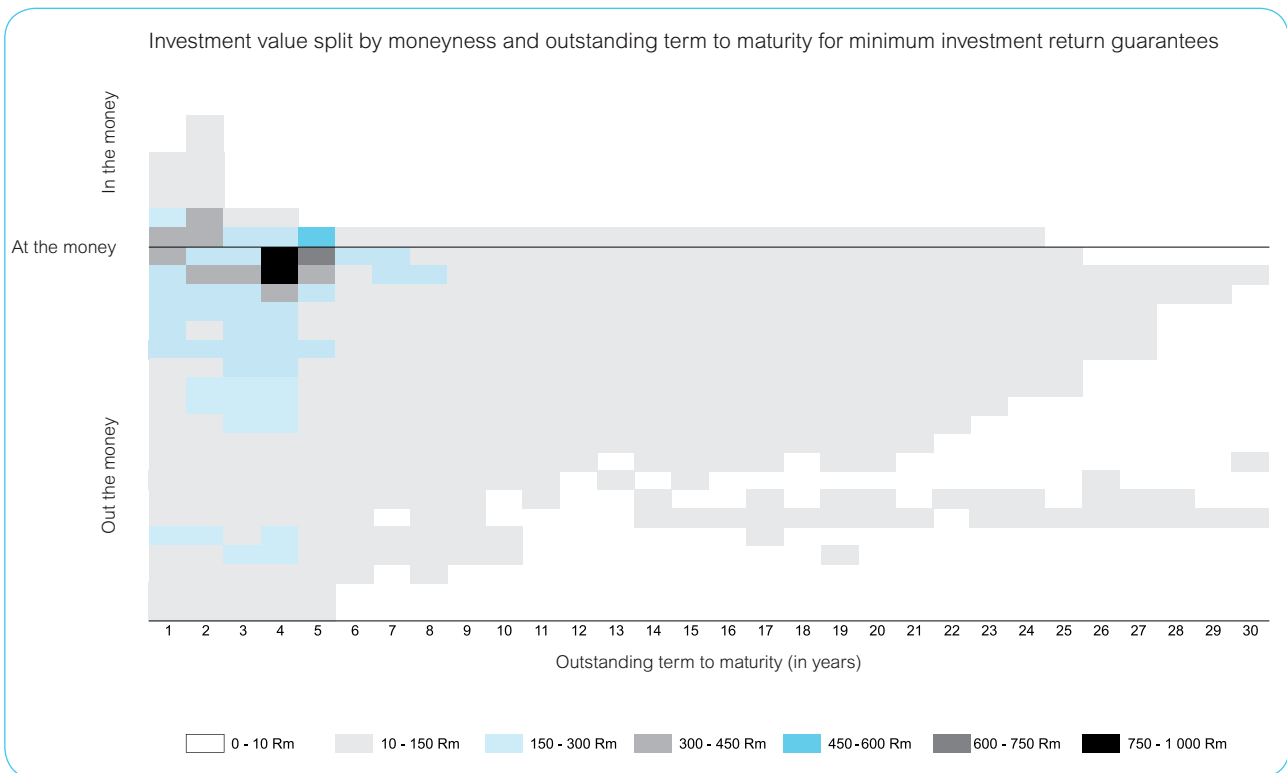
7. Market risk (continued)

7.8 Market risk by product type (continued)

(b) Market related guarantees and options (continued)

(i) Minimum investment return guarantees (continued)

The following graph shows the investment value subject to minimum investment return guarantees on maturity for LGL and Liberty Active Limited (which account for more than 97% of the liability in respect of minimum investment return guarantees for the group) split by outstanding term to maturity and moneyness (as defined above):



Notes

1. The various shades represent the investment value in millions at the financial position date within bands of moneyness and outstanding term to maturity. They ignore the impact of any risk reduction transactions entered into to match these positions.
2. Investment values above the dotted line are in-the-money (i.e. the guaranteed value exceeds the investment value at the financial position date); Investment values below the dotted line are out-the-money (i.e. the investment value exceeds the guaranteed value at the financial position date).
3. No allowance is made in the above graph for investment growth or premiums payable after the financial position date.

The graph above shows that the majority of the investments subject to minimum investment return guarantees are out-the-money at the financial position date. Investment values currently in-the-money with an outstanding term of one year to maturity are likely to result in actual guarantee payments being made to the policyholder unless markets positively out-perform in the months following 31 December 2010.

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

7.8 Market risk by product type (continued)

(b) Market-related guarantees and options (continued)

(ii) Guaranteed annuity options (GAOs)

GAOs give the policyholder the option to convert the maturity proceeds of a retirement annuity at a predefined rate. From 1997 onwards very few policies with GAOs were sold and from 2001 GAOs were no longer offered as the group believed that it could not adequately manage the associated risks at the time and anticipated a low interest rate environment going forward. As in the case of minimum investment return guarantees, liabilities from these embedded derivatives are valued in accordance with valuation techniques that approximate market consistent option pricing using stochastic Monte Carlo simulation techniques.

GAOs expose the group to interest rate risk. Interest rates impact not only the projected value of the proceeds of the policy but also the value of the annuity offered at the date of retirement.

The following table provides the typical guaranteed conversion terms sold with the GAOs, as well as the annuity payments per annum that are affordable using best estimate interest rate and annuitant longevity assumptions as at the financial position date, along with interest rate sensitivities:

Age	Annuity payment per annum per R1 000 of annuity consideration							
	Guaranteed conversion rate		Best estimate annuity rates (BE)		BE interest rate x 1,12		BE interest rate x 0,88	
	Male	Female	Male	Female	Male	Female	Male	Female
55	69,80	63,50	86,55	83,51	93,71	90,81	79,48	76,30
60	78,00	70,20	90,11	87,08	97,03	94,14	83,27	80,12
65	88,00	79,00	94,44	91,64	101,11	98,42	87,85	84,94
70	97,50	88,00	99,64	97,21	106,04	103,70	93,31	90,79

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.

The above table shows that at best estimate assumptions at the financial position date, the annuity payment per annum that is affordable per R1 000 of annuity consideration, exceeds the annuity payment per annum as per the guaranteed annuity rate (i.e. the options are out-the-money at the financial position date). The same is true for most interest rate sensitivities provided, however, the table shows that the options would be in-the-money for males aged 65 and 70 if interest rates at 31 December 2010 were to fall relatively by 12%. The above table also shows that 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 the proceeds of the policy typically have a large equity component, they also give rise to an equity risk – increasing equity prices generally increase the value of the GAO liabilities. Similarly other smaller components of the investment proceeds are exposed to interest rate, property and currency risk.

To some extent the upside equity risk exposure on GAOs can be offset against the downside equity risk exposure on guaranteed maturity values.

The bulk of GAO exposure relates to policies with terms to maturity up to 15 years. However, terms to maturity extend as far out as 30 years.

7. Market risk (continued)

7.8 Market risk by product type (continued)

(c) *Non-participating annuities*

Non-participating annuities (including disability income annuities in payment) provide benefit payments that are fixed and guaranteed (although a small proportion of the business provides inflation related increases on annuities in payment). These liabilities are backed almost entirely by fixed income securities. The group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

LibFin Markets manages interest rate risk on this business in the Risk Management Portfolio as part of its dedicated hedging programme by comparing the bucketed interest rate risk of the asset portfolio to the liabilities issued. The buckets are typically defined with respect to time, and by taking into account the common hedge instruments available in the market. The bucketed risk of the liabilities is determined by projecting expected cash flows from the contracts using best estimates of future longevity, and bucketing risks of similar durations.

The bucketed risk is a linear measure of how the values of assets and liabilities change in response to interest rate changes. However, values do not change linearly as interest rates change. As a result, principal component analysis and defined stress tests are also monitored to capture this non-linear risk.

While LibFin Markets is responsible for the management of all of the annuity market risk, some of the annuity portfolios have been outsourced to traditional fixed income asset managers.

(d) *Long-term insurance contracts with discretionary participating features*

The group has a number of portfolios of long-term insurance contracts with DPFs, most of which have been acquired through acquisitions of other insurers. Each portfolio is backed by a distinct asset profile, often as a result of conditions included in the scheme of transfer in terms of which the business was acquired. The assets backing these liabilities are generally segregated from the group's other assets to ensure that the assets are used exclusively to provide benefits for the relevant policyholders.

Bonuses are declared on this business taking a number of factors into account, including the previous bonus rates declared, policyholder reasonable expectations, expenses, actual investment returns on the underlying assets, expectations of future investment returns and the extent to which the value of assets exceeds the value of benefits allowing for both the guaranteed benefits and projected future bonus at the most recently declared rates, amongst 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.

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 2010, the assets exceeded the guaranteed portion of liabilities on all of these portfolios.

(e) *Pure risk products*

Pure risk products are predominantly recurring premium policies that provide benefits that are fixed and guaranteed at inception of the contract. Since future recurring premiums often exceed future benefits, the liabilities on these products are normally negative. These liabilities are sensitive to interest rates and their exposure is included as part of the Risk Management Portfolio.

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

7.8 Market risk by product type (continued)

(f) *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 Risk Management Portfolio.

Structured products are single premium policies that provide a guaranteed minimum maturity benefit together with predefined market-related upside. The group's philosophy dictates that these obligations are matched exactly. At inception of these contracts, assets which have proceeds that exactly match the payout under the policy are purchased.

7.9 Market risk by asset class for financial instruments

7.9.1 *Interest rate risk*

The tables below give additional detail on financial instrument assets and liabilities and their specific interest rate exposure. Due to practical considerations interest rate risk details contained in investments in non-subsidiary mutual funds are not provided. Derivative instrument exposure to interest rates is reflected in section 7.10.

Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered significant given the short-term duration of these underlying cash flows.

Financial instrument assets	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate ⁽¹⁾ %
2010				
<i>Held at fair value through profit or loss</i>				
Government, municipal and utility stocks	26 089	61	26 028	7,75
Non-parastatal term deposits	27 062	7 402	19 660	7,36
Investment policies	136	136		8,42
Preference shares	4 044	3 610	434	6,81
Collateral deposits	524	524		5,12
Cash and cash equivalents	5 858	5 091	767	4,80
<i>Loans and receivables</i>				
Mortgages and loans	813	813		8,00
<i>Held-to-maturity</i>				
Loan receivables to joint ventures	156	152	4	10,08
Total	64 682	17 789	46 893	
2009				
<i>Held at fair value through profit or loss</i>				
Government, municipal and utility stocks	22 676	97	22 579	8,30
Non-parastatal term deposits	33 158	4 455	28 703	8,05
Investment policies	35		35	6,69
Preference shares	4 210	3 946	264	7,46
Cash and cash equivalents	10 637	6 627	4 010	6,60
<i>Loans and receivables</i>				
Mortgages and loans	770	770		9,31
<i>Held-to-maturity</i>				
Loan receivables to joint ventures	149	145	4	10,08
Total	71 635	16 040	55 595	

⁽¹⁾ Effective interest rate is the rate applicable at 31 December on a naom basis averaged on a weighted basis with reference to carrying value.

7. Market risk (continued)

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

7.9.1 Interest rate risk (continued)

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

	2010 Carrying amount Rm	2009 Carrying amount Rm
Within 1 year	11 966	15 117
1 – 5 years	18 944	23 924
6 – 10 years	10 766	9 828
11 – 20 years	12 145	13 679
Over 20 years	8 021	6 084
Open ended	2 840	3 003
Total	64 682	71 635

Financial instrument liabilities	Carrying value Rm	Exposed to cash flow interest rate risk Rm	Exposed to fair value interest rate risk Rm	Effective interest rate ⁽²⁾ %
2010				
<i>Held for trading</i>				
Collateral deposits	483	483		5,22
<i>At amortised cost</i>				
Callable capital bond ⁽¹⁾	2 054		2 054	8,61
Non-controlling interests loan	89	89		5,40
Total	2 626	572	2 054	
2009				
<i>At amortised cost</i>				
Callable capital bond ⁽¹⁾	2 054		2 054	8,61
Redeemable non-participating preference shares	74	74		6,63
Non-controlling interests loan	83	83		7,15
Total	2 211	157	2 054	

⁽¹⁾ Contractually repriced on 12 September 2012, at which date it is callable by LGL, with compulsory redemption on 12 September 2017.

⁽²⁾ Effective interest rate is the rate applicable at 31 December on a naom basis averaged on a weighted basis with reference to the carrying value.

The maturity profile of the financial instrument liabilities is included in section 10.4.1.

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

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

7.9.2 Currency risk

Offshore assets are held in policyholder portfolios to match the corresponding liabilities. The group is exposed to currency risk through minimum investment return guarantees issued on contracts invested in offshore portfolios and related mismatches, 90/10 fee exposure and management fees. In addition, some of the shareholder capital base is invested in offshore assets.

Investment guarantees, with effect from 2005, are no longer offered on new business invested in offshore portfolios. The rand denominated value of management fees derived from these contracts is also subject to currency risk. Strengthening of the rand against the offshore currencies reduces the rand value of management fees on offshore portfolios and increases the liability in respect of rand denominated minimum investment return guarantees on this business.

The total exposure to financial instruments expressed in rands (converted at closing rates) at 31 December 2010 is R27 753 million (2009: R29 078 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 rands and are not subsidiaries. This exposure to mutual funds and investment policies however is not material to the group. The table below segregates the currency exposure by major currency at 31 December:

Currency risk Rm	British pound		US dollar		Euro		Japanese yen		Australian dollar		Other	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Debt instruments	232	391	2 058	4 343	780	690	345	15	188		830	21
Equity instruments	1 059	64	7 014	12 428	1 439	85	1 120	26	278	70	4 571	126
Mutual funds	309	137	6 451	5 454	551	447	64	81			78	84
Prepayment, insurance and other receivables	1	5	87	330		1			73	71	42	95
Cash and cash equivalents	34	920	631	1 921	34	1 101	1				14	52
Derivatives	62	34	(756)	33	(99)	12	135		2		99	3
Collateral deposits					5							8
Investment policies											21	30
Interest in joint ventures												
Total	1 697	1 551	15 485	24 509	2 710	2 336	1 665	122	541	141	5 655	419
Foreign currency amount⁽¹⁾	165	131	2 333	3 325	305	220	20 411	1 530	80	22		
Closing rate at 31 December⁽²⁾	10,29	11,88	6,64	7,37	8,87	10,61	0,08	0,08	6,76	6,63		
Average rate during the year⁽²⁾	11,30	13,09	7,32	8,42	9,71	11,67	0,08	0,09	6,78	6,62		

⁽¹⁾ Certain currency exposures are reduced by means of forward exchange contracts. These contracts are summarised under the derivatives section below.

⁽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.

7.9.3 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 2010 the proportion of unlet space in the property portfolio was 4,2% (2009: <2,5%).

7. Market risk (continued)

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

7.9.3 Property market risk (continued)

Property market risk also arises in respect of shareholder exposures to investment guarantees and negative rand reserves, and this risk is managed as part of the dedicated hedging programme.

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

	2010 Rm	2009 Rm
Investment properties	22 484	20 029
Owner-occupied properties	1 513	1 345
Properties under development		347
Mutual funds with >80% property exposure	1 102	1 482
	25 099	23 203
Attributable to non-controlling interests	(2 609)	(2 343)
Net exposure	22 490	20 860
Concentration use risk within properties is summarised below:		
Shopping malls	18 343	16 309
Office buildings	2 650	2 753
Hotels	2 392	2 091
South African listed property securities held via mutual fund investments	1 102	1 482
Other	612	568
	25 099	23 203

7.10 Derivative instruments

Certain group entities are parties to contracts for derivative financial instruments, mainly entered into as part of the dedicated hedging strategy. These instruments are used to mitigate equity, interest rate and currency risk and include vanilla futures, options, swaps, swaptions and forward exchange contracts.

Derivative financial instruments are either traded on a regulated exchange e.g. South African Futures Exchange (SAFEX), or negotiated over-the-counter (OTC) as a direct arrangement between two counterparties. Instruments traded on SAFEX are margined and SAFEX is the counterparty to each and every trade. OTC instruments are only entered into with appropriately approved counterparties and are entered into in terms of signed international swap and derivative (ISDA) agreements with each counterparty.

The fair value adjustments on derivative instruments held at 31 December are included in the held for trading category of liabilities and assets in note 11 to the group's financial statements. Fair value adjustments offsetting these derivative market values are reflected in the change in value of assets and liabilities shown elsewhere in the financial statements.

Derivative assets and liabilities

	2010 Rm	2009 Rm
Total carrying amount of derivative financial instruments		
Gross carrying amount of assets	2 135	457
Gross carrying amount of liabilities	(1 426)	(58)
Net carrying value	709	399

Risk management (continued)

for the year ended 31 December 2010

7. Market risk (continued)

7.10 Derivative instruments (continued)

Open derivative positions

	Maturity analysis of net fair value							Underlying principal amount/notional ⁽¹⁾ Rm
	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		
2010								
Derivatives held for trading								
<i>Foreign exchange derivatives</i>								
Forwards	(2)			(2)	20	(22)		27 397
<i>Interest rate derivatives</i>	(25)	455	328	758	1 968	(1 210)		74 356
Futures	(36)			(36)	7	(43)		916
Forwards	13	1		14	19	(5)		6 485
Swaps	(2)	454	214	666	1 828	(1 162)		59 375
Swaptions			114	114	114			7 580
<i>Equity derivatives</i>	(91)	44		(47)	147	(194)		(493)
Futures	(114)	1		(113)	56	(169)		(3 153)
Options	21			21	39	(18)		2 606
Swaps	2	(7)		(5)	2	(7)		4
Other		50		50	50			50
Total derivative assets/ (liabilities) held for trading	(118)	499	328	709	2 135	(1 426)		
2009								
Derivatives held for trading								
<i>Foreign exchange derivatives</i>	76			76	79	(3)		1 514
Forwards	19			19	22	(3)		134
Options (euro denominated)	8			8	8			561
Options (pound denominated)	24			24	24			422
Options (dollar denominated)	25			25	25			397
<i>Interest rate derivatives</i>	(1)	27	296	322	367	(45)		26 656
Swaps	(1)	27	200	226	271	(45)		22 076
Swaptions			96	96	96			4 580
<i>Equity derivatives</i>	1			1	11	(10)		1 169
Futures								(886)
Options	1			1	11	(10)		2 055
Total derivative assets/ (liabilities) held for trading	76	27	296	399	457	(58)		

⁽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 R524 million assets in respect of liabilities, R483 million liabilities in respect of assets.

7. Market risk (continued)

7.10 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.

Forward exchange contract summary	Foreign currency amount 'm	Settlement currency	Settlement value 'm	Average rate	Rand carrying value Rm	Maturity dates
2010						
Sell						
Australian dollars	0,9	Indian rupees	31,8	0,03	(2)	
Australian dollars	106,8	US dollars	104,4	1,02	(4)	
Canadian dollars	36,4	US dollars	35,9	1,01		
Euros	34,2	Japanese yen	3 756,1	0,01	1	
Euros	47,3	Pound sterling	40,7	1,16		
Euros	3,2	Swiss francs	3,9	0,82	(1)	Varies between
Euros	987,5	US dollars	1 308,3	0,75		1 January 2011
Japanese yen	56,0	Polish zloty	2,6	21,54	1	to 16 March 2011
Japanese yen	1 926,1	US dollars	23,2	83,02		
New Zealand dollars	99,9	US dollars	73,8	1,35		
Pound sterling	113,0	Euros	132,7	0,85		
Pound sterling	296,9	US dollars	466,8	0,64		
Swedish krona	405,1	US dollars	58,8	6,89		
US dollars	190,7	Canadian dollars	192,6	0,99	1	
US dollars	360,2	Euros	270,7	1,33	1	
US dollars	585,6	Japanese yen	49 180,8	0,01	2	
US dollars	116,8	New Zealand dollars	156,6	0,75		
US dollars	70,3	Norwegian krona	423,0	0,17		
US dollars	68,2	Pound sterling	43,6	1,56	1	
US dollars	24,0	Singapore dollar	31,4	0,76		
US dollars	25,1	Swedish krona	173,0	0,15		
US dollars	7,2	Turkish lira	10,4	0,69	(2)	
US dollars	94,3	Swiss francs	92,3	1,02		
Total					(2)	
2009						
Sell						
Australian dollars	1,0	New Zealand dollars	1,3	0,80		
Euros	0,6	Swiss francs	1,0	0,67		
Euros	8,5	US dollars	12,5	0,68	2	
Euros	20,5	South African rand	229,8	0,09	4	
New Zealand dollars	1,3	Pound sterling	0,6	2,26		Varies between
Pound sterling	0,6	New Zealand dollars	1,3	0,44		1 January 2010
Pound sterling	18,0	South African rand	229,0	0,08	10	to 17 March 2010
Pound sterling	3,3	US dollars	5,5	0,61		
Swiss francs	0,9	Swedish krona	6,6	0,14		
US dollars	1,1	Australian dollars	1,2	0,91		
US dollars	1,4	Canadian dollars	1,5	0,95		
US dollars	2,5	Euros	1,7	1,47		
US dollars	7,7	Japanese yen	684,6	0,01	(2)	
US dollars	1,2	Norwegian krone	7,0	0,18		
US dollars	1,0	Pound sterling	0,6	1,60		
US dollars	1,1	Swedish krona	7,6	0,14		
US dollars	40,0	South African rand	307,9	0,13	5	
Total					19	

Risk management (continued) for the year ended 31 December 2010

7. Market risk (continued)

7.11 Market risk capital requirements

The statutory liability calculations allow for prudential margins on investment returns in their calculation. In addition, an allowance is made for equity, property, interest rate and currency risk in the OCAR calculation. Equity and interest rate risks are typically by far the biggest contributors to OCAR.

In the calculation of economic capital requirements allowance is made for the market risk arising from the major asset classes, including equity, property, interest rate and currency risk. The equity, property and currency risk allows for a fall in current prices. In allowing for interest rate risks, the extreme events consider the impact of parallel shifts as well as twists and inflections in the yield curve on both the assets and liabilities.

The equity, property, interest rate and currency risks give rise to economic capital requirements. The group's economic capital requirements allow for diversification benefits between market risk and other risks such as insurance risk. The diversification benefits enable the group to take on market risk on risk adjusted value enhancing terms. The market risks taken on by the group, however, are subject to the group's limits. If the group is not within appetite, the removal of market risk is generally considered prior to exploring reducing core strategic risks such as mortality risk.

8. Credit risk

8.1 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 a function of exposure at default and probability of default and comprises default, settlement and spread risk.

- **Default risk** is the risk of credit loss as a result of failure by a counterparty to meet its financial and/or contractual obligations. It has three components:
 - o **Issuer risk:** the exposure at default (EAD) arising from traded credit products.
 - o **Primary credit risk:** the EAD arising from lending and related product activities. Primary credit risk generally refers to non-tradable, illiquid or hold-to-maturity credit risk.
 - o **Pre-settlement credit risk:** the EAD of unsettled forward and derivative transactions, arising from the default of the counterparty to the transaction and measured as the cost of replacing the transaction at current market rates.
- **Settlement risk** is the risk of loss from a transaction settlement, where value is exchanged, failing which the counter value is not received in whole or part.
- **Spread risk** (also known as credit migration risk) is the result of changes to spreads due to changing circumstances (micro and macro). It is the risk that a portfolio or a counterparty's credit quality will materially deteriorate over time without allowing for a repricing of the exposure to compensate Liberty for the now higher default risk being carried.

Given the nature of Liberty's assets, credit risk is a relatively small risk when measured in terms of economic capital, however, the potential for default does exist and this risk is monitored and managed within the group. The credit risk portfolio at 31 December 2010 remains heavily weighted to South African counterparties including government, state owned enterprises and banks (mainly ABSA, FirstRand Bank, Nedbank and Standard Bank). However, with the advent of the LibFin Credit origination business and the introduction of a centralised credit portfolio management capability, additional diversification has been introduced to the portfolio during the year under review.

Key activities that result in the origination of credit risk are:

- financial asset instruments including debt instruments (including bonds, loans and term deposits and investment policies);
- reinsurance assets including amounts due from reinsurers in respect of claims already paid;
- 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.

Counterparty types to which the group is exposed to credit risk include sovereigns (governments), state owned enterprises, financial institutions and corporate entities. In addition, the group is also exposed to credit risk through investment in securitisation issuance, mutual funds and investment policies.

Risk management (continued) for the year ended 31 December 2010

8. Credit risk (continued)

8.2 Ownership and accountability

The board has delegated credit risk management to the group CE who in turn has delegated this responsibility to the GBSMC. GBSMC has responsibility for decisions affecting directly managed credit exposures and is currently supported by a group credit committee which considers and, where appropriate, recommends all credit applications for new directly managed credit opportunities. GBSMC is also responsible for defining the credit characteristics of asset manager mandates supported by LibFin Investments. While GBSMC is primarily responsible for decisions directly impacting shareholders, GBSMC does consider the impact of shareholder decisions given the possible impact that these will have on policyholders.

The group head of credit risk has functional responsibility for shareholder and policyholder credit risk generated across the group and reports to the CRO. The purpose of the group credit risk management functions is to establish and define the overall framework for the consistent and unified governance, identification, measurement, monitoring, management and reporting of credit risk, including instances where third party asset managers are mandated to manage credit assets.

In terms of the Credit Risk Management Framework, credit exposures are either managed in-house through LibFin and operational BUs or out-sourced to asset managers. Credit risk portfolios are managed in line with investment guidelines communicated in mandates to asset managers, which define the asset characteristics and guidelines for the particular credit portfolio. Responsibility for the credit assessment, decision-making process and on-going management and reporting of the credit assets is delegated, in line with the agreed mandate, to the asset manager. The group credit risk function maintains responsibility for consolidating and reporting all shareholder and policyholder credit risk originated through the multiple origination channels.

Where sufficiently large credit risk is originated by BUs, this credit risk is managed by a BU head of credit risk. This function has the responsibility for ensuring that the Group Credit Risk Framework is adopted and that adequate systems, policies and procedures are put in place to identify effectively all credit risk originated within the BU; adopt credit risk measurement methodologies as prescribed by the group; monitor and manage the consolidated BU credit portfolio's profile and report on portfolio and counterparty risk reviews to the group head of credit risk.

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

8.3 Risk identification, measurement and assessment

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

8.4 Debt instruments

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.

LibFin managed assets

LibFin Markets has created internal capacity to manage certain assets exposed to credit risk. The LibFin Markets capability is supported by the LibFin credit risk function in terms of the three lines of defence model adopted by the group as per the approved EVRM framework. Typically these assets are originated on the back of shareholder exposure generated through annuities and guaranteed capital endowments as well as investment of excess shareholder funds.

8. Credit risk (continued)

8.4 Debt instruments (continued)

Assets managed by appointed asset managers

Asset managers primarily take credit risk in funds backing policyholder liabilities. LibFin Investments conducts due diligences (including a due diligence of the asset manager's internal credit process) on these asset managers and specifies the characteristics of these indirectly managed credit portfolios through specific mandates.

Mandates ordinarily stipulate the following credit characteristics for indirectly managed funds:

- combination of listed and unlisted debt;
- combination of rated and unrated debt;
- where rated, allocation to different rating categories;
- single name and industry concentration limits;
- combination of domestic and offshore debt;
- where offshore, identification of specific countries and/or rated countries; and
- maximum tenor for each of the above allocations.

In the case of LGL and Liberty Active Limited the principal asset manager is STANLIB Limited while in the case of Capital Alliance Life Limited the principal asset manager is Investec Asset Management Limited. In addition, there are a number of smaller asset managers that are responsible for asset management, particularly offshore and shareholder assets.

8.5 Rating methodology

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

Sovereign

Obligations of the South African government are considered to be of the highest quality and are subject to minimal credit risk. Sovereign exposures include state owned enterprises (SOEs) where an explicit government guarantee exists.

Corporate, bank, non-bank financial institutions and SOEs where no government guarantee exists

Where rated, counterparty exposure is categorised according to credit ratings obtained from external rating agencies including Fitch, Moody's and S&P. Where counterparties are rated by more than one agency, the lowest of the ratings has been used in this analysis. For counterparties for which there are no credit ratings available, exposures are classified as unrated.

Securitisation

Exposure to securitisation issuances is categorised according to credit ratings obtained from external rating agencies including Fitch, Moody's and S&P. Where transactions are rated by more than one agency, the lowest of the ratings has been used.

Mutual funds

The group is exposed to credit risk generated by debt instruments which are invested by mutual funds in which the group invests. The group's exposure to mutual funds is classified at fund level and not at the underlying asset level and, although mutual funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets.

As per the prior year, this risk has been classified at fund level under the classification of pooled funds.

Risk management (continued) for the year ended 31 December 2010

8. Credit risk (continued)

8.5 Rating methodology (continued)

Further credit risk reduction measures are obligatory for South African mutual funds as required by control clauses within the Collective Investment Scheme Control Act of 2002.

Investment policies

The group is exposed to counterparty credit risk in respect of investment policies as well as the underlying debt instruments supporting the valuation of the policy. This risk has been classified under pooled funds.

Rating scale

The rating scale applied is based on internal definitions as described below and reflects long-term local currency ratings. It is consistent with the rating scale adopted in the prior year.

Investment grade

AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' ratings indicate a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

Non-investment grade

BB Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.

Not rated

N/R 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. This does not imply that the potential default risk is higher or lower than for rated assets. A detailed internal analysis of such investments is performed to assess the riskiness of the investment.

8.6 Credit exposure

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.

8. Credit risk (continued)

8.6 Credit exposure (continued)

Rm	Sove- reign	AAA	AA	A	BBB and below	Not rated	Pooled funds	Total carrying value
2010								
Debt instruments	13 597	12 124	22 393	6 632	634	2 628	13 883	71 891
– Listed preference shares		5	1 455	1		353		1 814
– Unlisted preference shares			1 515	25		690		2 230
– Listed term deposits	13 597	10 415	8 939	4 168	588	431		38 138
Local	13 503	8 175	8 258	3 472	181	164		33 753
Foreign	94	2 240	681	696	407	267		4 385
Unlisted term deposits		1 704	10 482	2 438	46	343		15 013
Local		1 704	10 471	2 431	46	318		14 970
Foreign			11	7		25		43
Mortgages and loans			2			811		813
Mutual funds – debt instruments							13 883	13 883
Local							13 019	13 019
Foreign							864	864
Investment policies							14 268	14 268
Prepayments, insurance and other receivables								
– Local ⁽¹⁾			230	58		2 366		2 654
– Accrued income ⁽¹⁾			47			41		88
– Reinsurance recoveries			183	58		14		255
– Other						2 311		2 311
Prepayments, insurance and other receivables								
– Foreign						203		203
Reinsurance assets			207	626		14		847
Derivatives and collateral deposits		1 229	951	399		80		2 659
Loan receivables to joint ventures						156		156
Cash and cash equivalents		98	5 309	11		440		5 858
Local		75	4 978	11		80		5 144
Foreign		23	331			360		714
Total assets bearing credit risk	13 597	13 451	29 090	7 726	634	5 887	28 151	98 536

⁽¹⁾ The total carrying value excludes R27 million dividend income relating to equities.

Risk management (continued)

for the year ended 31 December 2010

8. Credit risk (continued)

8.6 Credit exposure (continued)

Rm	Sove- reign	AAA	AA	A	BBB and below	Not rated	Pooled funds	Total carrying value
2009								
Debt instruments	12 812	9 454	27 853	6 630	713	3 352	9 965	70 779
– Listed preference shares			1 401	45	10	495		1 951
– Unlisted preference shares			1 625			634		2 259
– Listed term deposits	12 812	8 310	10 286	5 699	657	701		38 465
Local	12 442	6 930	9 759	3 481	154	300		33 066
Foreign	370	1 380	527	2 218	503	401		5 399
Unlisted term deposits		1 144	14 541	886	46	752		17 369
Local		1 144	14 541	886	46	731		17 348
Foreign						21		21
Mortgages and loans						770		770
Mutual funds – debt instruments							9 965	9 965
Local							9 416	9 416
Foreign							549	549
Investment policies							10 821	10 821
Prepayments, insurance and other receivables								
– Local ⁽¹⁾		22	68	13		2 027		2 130
– Accrued income ⁽¹⁾		2	19			95		116
– Reinsurance recoveries		20	49	13				82
– Other						1 932		1 932
Prepayments, insurance and other receivables								
– Foreign ⁽¹⁾		(1)	38	28		437		502
– Accrued income						3		3
– Reinsurance recoveries		(1)	38	28		1		66
– Other						433		433
Reinsurance assets			261	531		(4)		788
Derivatives		49	406	2				457
Loan receivables to joint ventures						149		149
Cash and cash equivalents		201	6 458	2 326		1 652		10 637
Local		179	4 954			1 510		6 643
Foreign		22	1 504	2 326		142		3 994
Total assets bearing credit risk	12 812	9 725	35 084	9 530	713	7 613	20 786	96 263

⁽¹⁾ The total carrying value excludes R23 million dividend income relating to equities.

8.7 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.

Creditworthiness is assessed when appointing reinsurers. Financial position strength, performance, track record, relative size and ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is done at least annually.

8. Credit risk (continued)

8.7 Reinsurance assets (continued)

Furthermore to mitigate credit exposures to reinsurers, reinsurance management performs the following annual checks on reinsurers:

- Copies of reinsurers' claim paying abilities, as assessed by reputable rating agencies, and copies of valuers' certificates are obtained and analysed;
- Meetings and administration process audits are conducted with reassurers with whom the group has larger exposures; and
- Reinsurance agreements are reviewed and amended as appropriate with accurate and complete records kept up to date.

8.8 Derivatives

A detailed credit analysis of all LibFin derivative counterparties is performed and approved by GBSMC prior to any trading taking place. In addition, trading is limited to financial institutions with a minimum local currency credit rating of 'A' as determined by a reputable credit rating agency. Derivative counterparty exposure is outlined in section 7.10 of this report. ISDA Agreements and Credit Support Annexures (CSAs) are negotiated with all trading counterparties. In addition, the group's appointed asset managers enter into derivative contracts within their mandates to manage mainly currency risk inherent in the relevant investment portfolios. The risk procedures in operation at the respective asset managers require a minimum derivative counterparty rating of 'A'.

8.9 Scrip lending

Scrip lending is the process of providing listed equities or term deposits held by the group to external parties on a lending arrangement, for a negotiated fee, to be returned on a fixed date.

The process is well recognised and strictly regulated by, amongst others, the FSB within the South African environment and is generally encouraged to support liquidity in the financial markets.

Scrip lending counterparties are restricted to appropriately accredited financial institutions. During 2010 the highest level of scrip lending activity at any one time amounted to R1 847 million (2009: R1 606 million) and at 31 December 2010 there was no scrip lent (2009: R1 559 million). These are disclosed as pledged assets in the statement of financial position. Scrip lending activities have resulted in R2 million (2009: R2 million) in scrip lending fees. Fees earned have been split between shareholders and policyholder benefits.

Scrip lending held for the benefit of registered retirement plans is subject to approval by the relevant trustees of these plans.

8.10 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.

8.11 Credit assessment changes recognised in profit or loss

Fair value instruments

The group invests in both listed and unlisted debt instruments. Changes to credit spreads for listed instruments are based on available market information and/or a proxy (where appropriate), combined with management input and override depending on the liquidity of the listed asset. Unlisted financial assets are generally not actively traded and changes to the credit spread for these instruments are fair valued with reference to proxy listed assets (where appropriate), combined with management input and override, market research and other compelling evidence which is all collated to form a view on current value.

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

For 2010, the change in the fair value movement recognised in profit or loss, with respect to unlisted debt instruments in a non-active market, is a negative R5 million (2009: negative R58 million).

Risk management (continued) for the year ended 31 December 2010

8. Credit risk (continued)

8.12 Impairments

The table below indicates the impairments raised against financial assets.

Financial assets impaired – all rand denominated

	2010 Rm	2009 Rm
Mortgages and loans		
Gross carrying value	854	814
Less: Accumulated impairment	(41)	(44)
Net carrying value	813	770

Mortgages and loans, comprising policy loans, are impaired when the amount of the loan exceeds the policyholder's investment balance. The fair value of mortgages and loans is R813 million (2009: R702 million). The mortgages and loans are recoverable through offset against their respective liabilities (policy benefits) at policy maturity date.

The impairment loss is determined on an incurred loss approach as the difference between the instrument's carrying value and the present value of the asset's estimated future cash flows, including any recoverable collateral, discounted at the instrument's original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

8.13 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.

8.14 Consideration of own credit risk for financial liabilities measured at fair value through profit or loss

Liberty has considered the impact of changes in credit risk in the fair value measurement of its policyholder investment contract liabilities. Credit risk changes will only have a significant impact in extreme circumstances, when Liberty's ability to fulfil the 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 years under review.

8.15 Standard Bank Group Limited (Standard Bank) credit risk concentration

Standard Bank is Liberty Holdings Limited's holding company. Normal credit processes are followed before any asset exposure is entered into with Standard Bank. Assets within the life licence entities in respect of qualifying capital are governed by total exposure limits to any one institution, set by the FSB.

	2010			2009		
	Overall group investment Rm	Exposure to Standard Bank Rm	%	Overall group investment Rm	Exposure to Standard Bank Rm	%
Equity instruments	83 246	1 868	2,2	74 498	2 624	3,6
Preference shares	4 044	281	6,9	4 210	265	6,3
Term deposits	53 964	6 142	11,4	56 604	8 094	14,3
Cash and cash equivalents	5 858	1 255	21,4	10 637	1 887	17,7
Pledged assets – scrip lending				1 559	875	56,1
Derivatives	2 135	345	16,2	457	214	46,8
Collateral deposits	524	392	74,8			
Total exposure to Standard Bank		10 283			13 959	

The group invests in various structured entities that are credit enhanced by Standard Bank. The total value of these investments is R2 618 million (2009: R2 977 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.

9. Operational risk

9.1 Definition

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. Operational risk is therefore pervasive across all financial institutions and all other operational companies.

Operational risk is recognised as a distinct risk category which the group strives to manage within acceptable levels through sound operational risk management practices. The group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular business environments.

Executive management defines the operational risk appetite at a group and BU level. This operational risk appetite supports effective decision-making and is central to embedding effective risk management. The objective in managing operational risk is to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities.

9.2 Ownership and accountability

Management and staff at every level of the business are accountable for the day-to-day identification and management of operational risks. It is also management's responsibility to report any material operational risks, risk events and issues identified to senior management through certain pre-defined escalation procedures.

The heads of risk and compliance in the BUs provide oversight of the effectiveness of the group's operational risk management processes and assist BU managers by providing training, advice and assistance with the on-going implementation of the board approved Operational Risk and Compliance Framework. The GRPOC reports on the status of BU operational risk management to the GROC.

9.3 Risk identification, assessment and measurement

The process of operational risk management starts with the operational risk assessment of identified areas. Consideration is then given to the need for a group or BU policy to define the approach to mitigating this risk.

Risk and compliance policies are developed where necessary to:

- ensure compliance with internal principles and with legal and regulatory requirements;
- address associated risks in the business, define roles, responsibilities and expectations at all levels;
- guide staff at all levels on how to conduct Liberty's business;
- ensure that staff apply consistent processes throughout the group; and
- help management to develop operating processes.

Group policies are approved by the GROC and board. All other policies are approved at the appropriate governance level subject to compliance with group policy principles. Where necessary a project-based approach is used to introduce and implement the consequential risk and compliance changes to the organisation, which typically result in changes to processes and roles. Project teams implement changes according to the requirements stipulated in the group's change management policy and the group's project management methodology and standards.

Once identified, operational risks are assessed to determine the potential impact to the group should the risk events occur, and reviewed against the group's risk appetite. Mitigating actions are developed for any operational risks that fall outside of management's assessment of risk appetite.

Risk management (continued) for the year ended 31 December 2010

9. Operational risk (continued)

9.4 Risk management

The group's operational risk and compliance framework is embedded within the business promoting sound risk management practices across the group. During 2010 a number of additional risk policies and related scorecards were developed and implemented. Policy compliance is also the subject of ongoing monitoring across the group and operational risk management forms part of the day-to-day responsibilities of management at all levels.

GIAS is the group's third line of defence and performs an independent review of the operational risk management framework, policies and practices to ensure that operational risk practices are implemented consistently across the group as operational risk management matures.

Risk management activities in relation to operational risks include but are not limited to:

Information technology (IT) risk: The group is highly dependent on and constantly increasing its use of information technology to ensure improved operations and customer service. The group's IT systems enable it to take its products to markets across the African continent and so carry out its expansion strategy.

The group is, therefore, exposed to various IT risks which include the disruption of transaction processing, information loss and/or malicious attacks from third parties.

Maintaining technological advantage requires a strong IT risk management culture and function that allows the group to identify and manage IT risks effectively. In order to prevent potential risk events and ensure best practice levels of continuous IT service and security, BU management review and ensure compliance with relevant IT policies and procedures, conduct control and risk self-assessments and are subject to internal and external audits. Second line (group IT head of risk and compliance) and third line (GIAS) risk management provide oversight of compliance with IT policies. IT risk management practices include simulated disaster recovery scenarios.

Process risk: The group's approach to process improvement focuses on process efficiency and work quality mainly through application of the lean six sigma process methodology. This methodology has a risk and compliance identification component which ensures that processes undergoing improvement incorporate input from risk and compliance specialists, as well as other generic process stakeholders like GIAS and group finance.

Regulatory risk: The regulatory environment is monitored closely to ensure that the group implements new or amended legislation requirements promptly to ensure compliance and avoid unnecessary fines and penalties or the revocation of any business licence.

Regulatory monitoring is done by group compliance and group legal services, mainly in the form of a regulatory dashboard, which details all new regulatory items that have a potential impact on the business as well as detail on the affected area and level of impact. Liberty seeks positive and constructive engagement with its various regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for our industry and all its stakeholders. The business is also focused on optimising business opportunities whilst achieving regulatory compliance benefits.

There are a number of changes that are anticipated in the regulatory landscape in the coming years. These changes are expected to have a significant impact on the group's solvency requirements, financial reporting and the way it conducts its business and may impact the flow of funds into the industry. The main changes in the regulatory landscape anticipated to have significant impacts in coming years are described in more detail in section 3.

9. Operational risk (continued)

9.4 Risk management (continued)

Compliance risk: The risk of regulatory sanctions, financial loss or damage to reputation as a result of not complying with legislation, regulation or internal policies is managed through the established compliance functions within the group and a compliance policy. The policy ensures that compliance requirements are identified and implemented through the development of appropriate policies and procedures and that regular monitoring and reporting of breaches is carried out within the businesses and at the centre to provide the board with assurance on the status of compliance within the organisation. A compliance steering committee continually identifies and interprets regulatory requirements and ensures the business establishes projects to manage any implications.

Taxation risk: Tax risk is the risk of suffering a loss, financial or otherwise, as a result of an incorrect interpretation and application of taxation legislation or the impact of new taxation legislation on existing products. Tax risk can also arise if the group's objectives in relation to its tax strategy are not met.

Corporate governance, increasingly complex tax legislation as well as improved tax collection and enforcement by revenue authorities, are driving increased focus on tax risk and the controls that mitigate tax risk to an acceptable level.

In order to manage and mitigate tax risk to acceptable levels, the group has developed a tax risk framework, incorporating a clear tax strategic plan and tax risk management policies. The framework seeks to optimise shareholder value while complying with legislation and aims to assist Liberty with the achievement of its overall objectives and strategy. It directs the behaviour of employees and helps to confirm to stakeholders that Liberty's tax affairs are well managed and controlled. The framework provides transparency and clarity on internal policies, control processes and procedures.

The tax risk framework is supported by the group's commitment to the management of tax affairs and related tax risks, as follows:

- effective, well-documented and controlled processes ensure tax compliance and role accountability;
- tax risks are assessed by the group's governance structures and reviewed by the GAAC;
- the tax 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 reputable professional tax advisers; and
- the group engages with revenue authorities in a transparent and constructive manner.

Human resources: The group remains concerned about the availability of specialist technical skills available in South Africa to provide first world financial services. It focuses on recruitment, development and retention through a number of group-wide initiatives. Refer to the section entitled "Liberty's people and their remuneration".

Business continuity management (BCM): BCM is implemented to reduce the risk of not continuing normal business activities should a crisis occur.

BCM is an integral component of the group's risk management framework. The various BUs are regularly exposed to deployment of updated methodologies, testing and training to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to operational continuity of the group.

Contingency and recovery plans for core services, key systems and priority business processes have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant. Appropriate reaction and recovery structures and plans exist, which are subject to testing on a cyclical basis.

Risk management (continued) for the year ended 31 December 2010

9. Operational risk (continued)

9.4 Risk management (continued)

Customer complaints: The group's customer relations team was established to resolve high-level complaints from customers, regulators, media forums and complaints made directly to executives to ensure a favourable reputation is maintained. Complaints are handled with due care and diligence to minimise any related reputation risks and to avoid adverse determinations and regulatory rulings. Any disputed complaints that cannot be resolved by management are referred to independent dispute resolution for a final assessment. The FSB's TCF discussion paper published in April 2010 includes a key outcome that customers shall not face unreasonable barriers to making a complaint. The group considers the current practices to be in line with this desired outcome, but will review these practices once the TCF roadmap is issued by the FSB.

Costs are monitored and recorded centrally for compensation, concessions, *ex-gratia* payments, regulator rulings and determinations.

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 safety, health and environmental risk oversight committee which comprises executive representation from various divisions across the group.

Raising awareness and training will be an ongoing element of managing environmental risk and identifying opportunities and business solutions to global environmental and social problems.

Internal and external fraud: The group adopts a 'zero-tolerance' approach to fraud. The group forensic services function supports management in meeting their objective of minimising fraud risk. In terms of the group's anti-fraud policy, line management is responsible for ensuring that controls at all stages of a business process are adequate for the prevention and detection of fraud. Prevention and detection measures are periodically rolled out by forensic services to support management.

The group has a stated Code of Ethics and to assist in the maintenance of the Code, an independent and externally managed best practice fraud hotline (0800 20 45 57) and internal email facility (fraud@liberty.co.za) are in place. These provide the means to ensure that actual and/or suspected fraud or irregularities are confidentially and promptly reported, investigated and acted on. In addition, the group's whistle-blowing policy aims to protect whistle-blowers in the workplace against recrimination and victimisation and promotes staff participation in reporting fraud. All reported cases are strictly investigated in line with international standards. Fraud perpetrators are reported to the South African Police Services and criminal proceedings are instituted.

Internal controls: The internal controls implemented in respect of high-risk processes, e.g. the payment of death and disability claims, are reviewed regularly by management for effectiveness. GIAS provide additional assurance on the adequacy and effectiveness of internal controls by conducting independent risk-based reviews in line with the board-approved three-year rolling internal audit plan. Control weaknesses are reported to management and corrective action plans are implemented by management and independently reviewed by GIAS.

Monitoring of controls around business risk is performed by BU management, BU risk functions, GRPOC 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.

9.5 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.

9. Operational risk (continued)

9.6 Reporting

The preparation of monthly and quarterly risk reports forms an integral part of monitoring the group's overall operational risk profile. These reports are prepared by each BU and presented to the relevant BU executive committees for review and discussion.

The reports include information relating to:

- critical operational risks the group faces or is potentially facing;
- risk event losses and issues (together with intended mitigating actions);
- the effectiveness of mitigation plans and progress made from reporting cycle to reporting cycle;
- trends in relation to fraud and security incidents, litigation and customer complaints; and
- actual losses and control failures experienced.

Monthly reports are submitted by the second line of defence risk function. On a quarterly basis the group CRO compiles and submits a risk report on the group's overall risk profile to the GROC and GRC and, where necessary, material risk exposures are escalated to the board.

9.7 Assurance

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

9.8 Short-term insurance

A comprehensive insurance programme which addresses the diversified requirements of the group is in place and is determined after extensive research, investigations and consulting with insurance risk and control experts. The group's financial cover for director's and officer's liability, and for commercial crime and professional indemnity, is underwritten by Novae which leads the programme, and is coinsured by a number of Lloyd syndicates and other insurance companies.

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

Director's and officer's liability insurance

This insurance was renewed on 31 December 2010 for the 2011 year and is designed to protect all directors and officers of the group and all its subsidiary companies by indemnifying them against losses resulting from a wrongful act, an error or omission allegedly committed in their capacity as directors or officers.

Commercial crime (CC) and professional indemnity (PI)

CC cover essentially provides indemnity against losses arising from crime or fraud perpetrated against the group by all employees or third parties. This insurance also covers losses resulting directly from the fraudulent input of data on Liberty's systems, including fraud-related computer virus attacks and the modification and destruction of electronic data. PI cover indemnifies third parties against financial loss resulting from negligent acts, errors and omissions by the group. Combined CC and PI cover was renewed on 31 December 2010 for the 2011 year.

In addition to the above financial covers, the group ensures that all property investments are adequately insured for material damage and business interruption. All insurance relating to assets covers the contents of buildings occupied by the group, including computers and office equipment. Political, riot and public liability insurance are also purchased.

Management, together with the group's local and offshore brokers, 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.

Risk management (continued)

for the year ended 31 December 2010

10. Liquidity risk

10.1 Definition

Liquidity risk is the risk that the group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the group. This might arise in circumstances where the group's assets are not marketable, or can only be realised at excessive cost.

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour.

The FSB's approval of the group's issuance of subordinated debt, namely the R2 billion callable capital bonds, includes a requirement to hold qualifying liquid assets equal to at least the amount of the outstanding debt issued. As at 31 December 2010 and 2009 this requirement has been met and attested to by the statutory actuary of LGL.

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

10.2 Ownership and accountability

The ownership and accountability for liquidity risk is the same as for market risk. In order to enhance further the management of liquidity risk, the role of group treasurer has been established during the year. The group treasurer sits on the GBSMC and works in conjunction with LibFin to ensure that the liquidity needs of the group can be met.

Liquidity requirements are reviewed on a monthly basis by LibFin and the GBSMC. These requirements are also monitored on an ongoing basis as part of the group's normal operating activities.

10.3 Liquidity profile of assets

The group's assets are liquid as the following table illustrates. However, given the quantum of investments held relative to the volumes of trading within the relevant exchanges and counterparty transactions, a substantial short-term liquidation may result in current values not being realised due to demand-supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

Contractual maturity profiles of the group's financial instrument assets are contained in section 7.9.1. No maturity profile can be reliably given for the group's investments in mutual funds, equities and non-term financial debt instruments given the volatility of equity markets and uncertain policyholder behaviour.

Financial asset liquidity	2010		2009	
	%	Rm	%	Rm
Liquid ⁽¹⁾	73	171 758	73	158 115
Medium ⁽²⁾	17	38 777	17	36 255
Illiquid ⁽³⁾	10	23 997	10	21 721
	100	234 532	100	216 091

⁽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).

10. Liquidity risk (continued)

10.4 Maturity profile of liabilities

10.4.1 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 10.4.2, as these are managed according to expected and not contractual cash flows. Derivative financial instruments are shown in a separate table in 7.10.

Contractual cash flows (Rm)	0 – 3 months ⁽¹⁾	4 – 12 months	1 – 5 years	6 – 10 years	Total	Total carrying value
2010						
<i>Held for trading</i>						
Collateral deposits	483				483	483
<i>At amortised cost</i>						
Callable capital bond	54	124	2 126		2 304	2 054
Non-controlling interests loan			103		103	89
Third party financial liabilities arising on consolidation of mutual funds	11 000				11 000	11 000
Insurance and other payables	6 034	6	30		6 070	6 070
Total	17 571	130	2 259		19 960	19 696
Percentage portion	88%	1%	11%		100%	
2009						
<i>At amortised cost</i>						
Callable capital bond	54	125	2 303		2 482	2 054
Redeemable non-participating preference shares	7	4	82		93	74
Non-controlling interests loan			101		101	83
Third party financial liabilities arising on consolidation of mutual funds	10 557				10 557	10 557
Insurance and other payables	5 577	5	20	2	5 604	5 604
Total	16 195	134	2 506	2	18 837	18 372
Percentage portion	86%	1%	13%		100%	

⁽¹⁾ 0 – 3 months are either due within the time frame or are payable on demand.

10.4.2 Liquidity risks arising out of obligations to policyholders

On unit-linked business, liquidity risk and asset-liability matching risk arising as a result of changes in lapse and withdrawal experience is limited through policy terms and conditions that restrict claims to the value at which assets are realised.

In the case of property-backed contracts, it is not normally possible to realise the assets as claim payments arise due to the relatively small number of high value properties and illiquidity of the assets. For this reason property exposures are afforded specific attention by the property investment executive committee 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 property shares and property unit trusts and also liquid fixed interest assets. This buffer 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.

Risk management (continued)

for the year ended 31 December 2010

10. Liquidity risk (continued)

10.4 Maturity profile of liabilities (continued)

10.4.2 Liquidity risks arising out of obligations to policyholders

On non-participating annuities, the liquidity risk is largely managed by predominantly investing in highly liquid fixed interest securities with appropriately timed cash flows. In addition, the investment proceeds along with new business consideration generally are more than sufficient to meet current annuity payments.

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

The following tables 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 table represent the expected cash flows arising from the value of units, allowing for future premiums (excluding future non-contractual premium increases), growth, benefit payments and expected policyholder behaviour. The amounts in the non-unit liability cash flow table represent the expected cash flows from the non-unit liabilities. All the cash flows are shown gross of reinsurance. Undiscounted cash flows are shown and the effect of discounting is taken into account to reconcile to total policyholder liabilities under insurance contracts, investment contracts and investment contracts with DPF. For unit-linked contracts, the cash flows relating to the DPF portion are assumed to occur in proportion to the cash flows of the guaranteed units. The cash flows for the guaranteed element and the non-guaranteed element of insurance contracts with DPF have been combined and are included in the unit cash flow table. In respect of annually-renewable risk business (namely lumpsum group risk business, group disability income business and credit life business) no allowance has been made for the expected cash flows except in respect of incurred but not reported claims (IBNR) and disability income annuities in payment where applicable. The liabilities in respect of embedded derivatives are assumed to run off in the same proportion as the unit cash flows that give rise to them.

Expected cash flows	Investment contracts		Investment with DPF		Insurance contracts	
	2010 Rm	Restated 2009 Rm	2010 Rm	2009 Rm	2010 Rm	Restated 2009 Rm
Unit liabilities						
Within 1 year	5 185	5 455	254	384	9 502	7 528
1 – 5 years	6 622	4 890	14	7	29 470	23 120
6 – 10 years	5 079	3 763	136	101	9 566	7 150
11 – 20 years	10 988	8 978	466	420	28 945	28 495
Over 20 years	27 043	27 171	1 766	1 780	34 135	37 540
Total unit liabilities	54 917	50 257	2 636	2 692	111 618	103 833
Non-unit liabilities						
Within 1 year	471	460	(1)	(1)	2 749	2 739
1 – 5 years	980	1 122	(1)	(1)	10 272	9 085
6 – 10 years	298	327	(1)	(1)	7 781	8 326
11 – 20 years	95	94	(1)		14 944	13 085
Over 20 years	1	3			31 660	30 610
Effect of discounting cash flows	(391)	(420)	2	3	(40 151)	(37 913)
Total non-unit liabilities	1 454	1 586	(2)		27 255	25 932

10. Liquidity risk (continued)

10.4 Maturity profile of liabilities (continued)

10.4.2 Liquidity risks arising out of obligations to policyholders (continued)

	Investment contracts		Investment with DPF		Insurance contracts	
	2010 Rm	Restated 2009 Rm	2010 Rm	2009 Rm	2010 Rm	Restated 2009 Rm
Total policyholder liabilities						
Within 1 year	5 656	5 915	253	384	12 251	10 267
1 – 5 years	7 602	6 012	13	6	39 742	32 205
6 – 10 years	5 377	4 090	135	100	17 347	15 476
11 – 20 years	11 083	9 072	465	419	43 889	41 580
Over 20 years	27 044	27 174	1 766	1 780	65 795	68 150
Effect of discounting cash flows	(391)	(420)	2	3	(40 151)	(37 913)
Total policyholder liabilities	56 371	51 843	2 634	2 692	138 873	129 765

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

Rm	2010		2009	
	Carrying value	Surrender value	Restated Carrying value	Surrender value
Insurance contracts	138 873	111 985	129 765	103 952
Investment contracts with DPF	2 634	2 431	2 692	2 557
Investment contracts	56 371	55 833	51 843	51 423
Total policyholder liabilities	197 878	170 249	184 300	157 932

The contractual worst case cash flows for investment contracts would be an immediate cash flow amounting to the surrender value of investment contracts at the financial position date.

10.5 Capital requirements

The group's view is that liquidity risk has to be managed by means other than capital. If assets and liabilities are not well matched by term, even a large amount of capital may provide only a small buffer in an extreme liquidity event.

Liquidity risk is most likely to arise due to a sharp increase in benefit withdrawals or risk-related claims. The liquidity risk arising from withdrawals is largely managed by policy terms and conditions in the contract that enable the group to reduce withdrawal benefits in the event that asset prices fall. The liquidity risk arising from risk-related claims is managed by having reinsurance arrangements in place for catastrophic events. Liquidity risks arising on maturity benefits are managed by closely monitoring the expected future maturities and realising assets in advance if large outflows are expected.

Liquidity risk is also managed by matching liabilities with backing assets that are of similar maturity, duration and risk nature. The liquidity profile of the total financial position is reviewed on a regular basis to ensure that the cash flow profile of liabilities can be met as they fall due. This position is reported to the GBSMC.

In terms of prevailing long-term insurance regulations, the group cannot borrow. Significant banking facilities are available to the group through its association with the Standard Bank group and contingency funding arrangements are regularly reviewed with the group's ultimate parent company.

As a result of the liquidity risk mitigation measures in place, the group's exposure to liquidity risk is expected to be small. Currently no allowance is made for liquidity risk in the CAR calculation or in the economic capital requirements.

Risk management (continued) for the year ended 31 December 2010

11. Reputational risk

The group defines reputational risk as the risk which arises when an actual risk event occurs that has the potential to influence materially stakeholders' perceptions of, and trust and confidence in, the group.

Reputational damage is usually a consequence of failed risk management and is, therefore, managed by having effective risk management processes in place and by effectively dealing with the impact of any significant risk event.

The group also takes cognisance of research showing the extreme and long-term negative effects on the share prices of companies that have experienced losses caused by risks that were not understood by shareholders and analysts. At least in part, these effects reflect the market's loss of confidence in the reputation and transparency of these companies. With this in mind, the group is committed to making risk disclosures which assist its shareholders and analysts in gaining a full understanding of its business.

Reputational risk can also arise through the group's business practices being considered inappropriate, given changes in the social and economic environment. The group's risk identification processes include the early identification and appropriate management of environmental changes and their potential impacts.

The group has established a vision and values as described on page 1 that are expected to be upheld by all employees with the intention of guiding actions and behaviours throughout the organisation in order to continue to secure the support, trust and confidence of its stakeholders.

The group's leadership charter emphasises the importance of the customer, as well as fairness, sincerity and transparency in all its dealings. As such a Treating Customers Fairly (TCF) approach is actively encouraged. The group makes use of independent dispute resolution and established a customer relations department to ensure that customers who perceive that they are not being fairly dealt with are able to escalate their complaints or issues for resolution. The group monitors the complaints that are handled by these functions and ensures that management takes the necessary action to address problem areas in a prompt and efficient manner.

No explicit allowance is made for reputational damage in the OCAR or economic capital requirements. An implicit allowance is included in the run-on-the-bank type of scenario allowed for in TCAR and in the economic capital requirement's withdrawal catastrophe event, as these could occur as a result of reputational damage.

Each BU, legal entity or support function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. Risks to reputation can be evaluated by considering the likelihood of the risk occurring and the likely impact. The impact of such risks is considered explicitly alongside financial or other impacts.

Should a risk event occur, the group's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place at both executive and BU level to ensure the effective management of any such events. This includes ensuring that the group's perspective is fairly represented in the media.

Matters identified as a reputational risk to the group will be reported to the group CRO, who if required will escalate these matters as appropriate.

12. Concentration risk

12.1 Introduction

Concentration risk is the risk that the group is exposed to financial loss which if incurred would be significant due to the aggregate (concentration) exposure the group has to a particular asset, counterparty, customer or service provider.

In addition to concentration risks detailed in previous sections the group has identified the following risks detailed below.

12.2 Asset manager allocation

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

	2010		2009	
	%	Rm	%	Rm
Liberty Properties (subsidiary)	9	21 669	9	19 784
STANLIB (subsidiary)	69	160 773	66	141 242
Investec	9	19 746	8	18 113
Ermitage	1	2 343	7	14 324
Frank Russell		641		778
Investment Solutions	6	14 250	5	10 788
Other	6	15 110	5	11 062
	100	234 532	100	216 091

Risks associated with asset managers are:

- 1) Poor fund performance resulting in the reduced ability of the group to retain and sell investment related products; and
- 2) Adoption of poor credit policies exposing the group to undue credit risk.

Both aspects are closely monitored by the FCC and GBSMC.

12.3 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.

The table below summarises South African asset concentration. With the exception of R45 million (2009: R37 million) of liabilities, all other liabilities are rand denominated or denominated in currencies that are at a government fixed exchange rate to the rand.

Financial, property and insurance assets:

Risk category	2010			2009		
	South African rand Rm	Foreign currency Rm	Total Rm	South African rand Rm	Foreign currency Rm	Total Rm
Equity price	79 101	18 927	98 028	70 134	15 135	85 269
Interest rate	75 230	6 219	81 449	73 742	10 513	84 255
Property price	24 931	168	25 099	23 193	10	23 203
Mixed portfolios	23 999	2 975	26 974	18 811	3 308	22 119
Reinsurance assets	847		847	788		788
Derivatives	2 692	(557)	2 135	375	82	457
	206 800	27 732	234 532	187 043	29 048	216 091
	88,2%	11,8%	100,0%	86,6%	13,4%	100,0%

Risk management (continued)

for the year ended 31 December 2010

13. Sensitivity analysis

The group's earnings and available capital are exposed to insurance and market risks amongst others through its insurance and asset management operations. Assumptions are made in respect of the market and insurance risks in the measurement of policyholder liabilities. This section provides sensitivity analyses to changes in some of these variables.

The sensitivities provided cannot simply be extrapolated to determine prospective earnings forecasts and caution is advised to any user doing this. They do, however, provide insight into the impact that changes in these risks can have on policyholder liabilities and attributable profit after taxation.

The upper and lower sensitivities chosen reflect management's best judgement of a reasonably 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 variables	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the policyholder withdrawal rates
Expense per policy	A level percentage change in the expected maintenance expenses

Sensitivities on expected taxation have not been provided.

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

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

Market risk variables	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term equity, property and interest rate option volatility assumptions
Equity price	A change in 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.

13. 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.

31 December 2010	Change in variable	Impact on policyholder liabilities	Impact on ordinary shareholder equity and attributable profit after taxation
Assumption description	%	Rm	Rm
Insurance assumptions			
<i>Mortality</i>			
Assured lives	+2	175	(126)
	-2	(176)	126
Annuitant longevity	+4 ⁽¹⁾	218	(157)
	-4 ⁽²⁾	(208)	150
<i>Morbidity</i>			
	+5	253	(182)
	-5	(253)	182
<i>Withdrawals</i>			
	+8	313	(226)
	-8	(349)	252
<i>Expense per policy</i>			
	+5	198	(141)
	-5	(198)	141
Market assumptions			
<i>Interest rate yield curve</i>			
	+12	(2 710)	(230)
	-12	3 230	171
<i>Option price volatilities</i>			
	+20	206	(133)
	-20	(189)	123
<i>Equity prices</i>			
	+15	12 889	954
	-15	(12 751)	(1 010)
<i>Rand exchange rates</i>			
	+12 ⁽³⁾	(1 954)	(367)
	-12 ⁽⁴⁾	1 975	371

⁽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.

Risk management (continued)

for the year ended 31 December 2010

13. Sensitivity analysis(continued)

31 December 2009	Change in variable	Impact on policyholder liabilities	Impact on ordinary shareholder equity and attributable profit after taxation
Assumption description	%	Rm	Rm
Insurance assumptions			
<i>Mortality</i>			
Assured lives	+2	155	(112)
	-2	(162)	116
Annuitant longevity	+4	246	(173)
	-4	(234)	165
<i>Morbidity</i>			
	+5	272	(191)
	-5	(278)	195
<i>Withdrawals</i>			
	+8	255	(184)
	-8	(292)	211
<i>Expense per policy</i>			
	+5	187	(134)
	-5	(193)	139
Market assumptions			
<i>Interest rate yield curve</i>			
	+12	(2 962)	(485)
	-12	3 540	406
<i>Option price volatilities</i>			
	+20	243	(172)
	-20	(171)	120
<i>Equity prices</i>			
	+15	12 481	595
	-15	(12 374)	(606)
<i>Rand exchange rates</i>			
	+12 ⁽¹⁾	(1 431)	(180)
	-12 ⁽²⁾	1 442	231

⁽¹⁾ Strengthening of the rand.

⁽²⁾ Weakening of the rand.

14. Summary of the group's financial, property and insurance assets and liabilities per class

14.1 Assets

	Rand denominated		Foreign currency denominated		Total	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Equity instruments	67 765	62 383	15 481	12 799	83 246	75 182
Listed ordinary shares on the JSE	66 437	61 699	1 427		67 864	61 699
Listed ordinary shares on foreign exchanges			14 054	12 672	14 054	12 672
Unlisted	1 328	684		127	1 328	811
Debt instruments	53 575	55 354	4 433	5 460	58 008	60 814
Listed preference shares on the JSE or foreign exchanges	1 809	1 911	5	40	1 814	1 951
Unlisted preference shares	2 230	2 259			2 230	2 259
Listed term deposits ⁽¹⁾ on BESA, JSE or foreign exchanges	33 753	33 066	4 385	5 399	38 138	38 465
Mortgages and loans	813	770			813	770
Unlisted term deposits ⁽¹⁾	14 970	17 348	43	21	15 013	17 369
Mutual funds ⁽²⁾	35 156	26 664	7 453	6 203	42 609	32 867
Active market	34 130	26 031	7 241	6 203	41 371	32 234
Property	934	1 472	168	10	1 102	1 482
Equity instruments	10 594	7 324	3 446	2 336	14 040	9 660
Interest-bearing instruments	12 735	9 210	652	549	13 387	9 759
Mixed assets classes	9 867	8 025	2 975	3 308	12 842	11 333
Non-active market	1 026	633	212		1 238	633
Equity instruments	742	427			742	427
Interest-bearing instrument	284	206	212		496	206
Investment policies	14 268	10 813		8	14 268	10 821
Interest linked	136	27		8	136	35
Mixed assets classes	14 132	10 786			14 132	10 786
Reinsurance assets	847	788			847	788
Derivatives	2 692	375	(557)	82	2 135	457
Derivative collateral deposits	519		5		524	
Prepayments, insurance and other receivables	2 681	2 153	203	502	2 884	2 655
Current balance related to						
– insurance contracts	696	527	42	5	738	532
– investment contracts	78	107			78	107
Other prepayments, insurance and other receivables	1 907	1 519	161	497	2 068	2 016
Loan receivables on joint ventures	156	149			156	149
Cash and cash equivalents	5 144	6 643	714	3 994	5 858	10 637
Property	23 997	21 721			23 997	21 721
	206 800	187 043	27 732	29 048	234 532	216 091

⁽¹⁾ Term deposits include instruments which have a defined maturity date and capital repayment. These instruments are by nature interest-bearing at a predetermined rate, which is either fixed or referenced to quoted floating indices.

⁽²⁾ Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.

Risk management (continued)

for the year ended 31 December 2010

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

14.2 Liabilities

	Policyholder liability class			Total per statement of financial position Rm
	Insurance contracts Rm	Investment contracts Rm	Investment contracts with DPF Rm	
2010				
Policyholder liabilities				197 878
Unit-linked (excluding discretionary participation features (DPF))	96 552	55 219		151 771
Business with DPF	19 026		2 634	21 660
Non-participating annuities (including disability income in claim)	17 647	1 117		18 764
Guaranteed capital endowments	7 066			7 066
Retail pure risk (excluding disability income annuities in claim)	(3 643)			(3 643)
Corporate risk (excluding group disability income annuities in claim)	412			412
Embedded derivatives	1 813	35		1 848
Third party financial liabilities arising on consolidation of mutual funds				11 000
Financial liabilities at amortised cost				2 143
Held for trading liabilities				1 909
Insurance and other payables				6 070
Current balance related to insurance contracts				3 095
Current balance related to investment contracts				65
Other				2 910
	138 873	56 371	2 634	219 000
2009 (Restated)				
Policyholder liabilities				184 300
Unit-linked (excluding discretionary participation features (DPF))	89 214	50 552		139 766
Business with DPF	18 024		2 692	20 716
Non-participating annuities (including disability income in claim)	16 006	1 246		17 252
Retail capital endowments	6 953			6 953
Retail pure risk (excluding disability income annuities in claim)	(3 023)	9		(3 014)
Corporate risk (excluding group disability income annuities in claim)	782			782
Embedded derivatives	1 809	36		1 845
Third party financial liabilities arising on consolidation of mutual funds				10 557
Financial liabilities at amortised cost				2 211
Held for trading liabilities				58
Insurance and other payables				5 604
Current balance related to insurance contracts				2 561
Current balance related to investment contracts				60
Other				2 983
	129 765	51 843	2 692	202 730

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

14.3 Reconciliation of financial asset classes to financial position

	Asset class					Total per statement of financial position Rm
	Equity instruments Rm	Debt instruments Rm	Mutual funds Rm	Investment policies Rm	Derivatives Rm	
2010						
Properties						23 997
Owner-occupied properties						1 513
Investment properties						21 521
Operating leases – accrued income						1 107
Operating leases – accrued expense						(144)
Held-to-maturity financial instruments with joint ventures						156
Reinsurance assets						847
Interest in associates – mutual funds			5 814			5 814
Financial investments	83 246	58 008	36 795	14 268		192 317
Held for trading assets		524			2 135	2 659
Prepayments, insurance and other receivables						2 884
Cash and cash equivalents						5 858
Total financial, property and insurance assets	83 246	58 532	42 609	14 268	2 135	234 532
2009						
Properties						21 721
Properties under development						347
Owner-occupied properties						1 345
Investment properties						19 058
Operating leases – accrued income						1 156
Operating leases – accrued expense						(185)
Held-to-maturity financial instruments with joint ventures						149
Reinsurance assets						788
Pledged assets	684	875				1 559
Interest in associates – mutual funds			4 979			4 979
Financial investments	74 498	59 939	27 888	10 821		173 146
Held for trading assets					457	457
Prepayments, insurance and other receivables						2 655
Cash and cash equivalents						10 637
Total financial, property and insurance assets	75 182	60 814	32 867	10 821	457	216 091

Risk management (continued)

for the year ended 31 December 2010

15. Summary of the group's assets and liabilities by measurement basis

Financial position measurement basis at 31 December 2010

	Fair value Rm	Financial soundness ⁽¹⁾ Rm	Cost less amortisation ⁽²⁾ Rm	Amortised cost ⁽²⁾ Rm	Amortised fair value ⁽²⁾ Rm	Past service Rm	Equity accounted ⁽²⁾ Rm	Calculated amount Rm	Other Rm
Note	1	2	3	4	5	6	7	8	9
Assets									
Equipment and properties under development			957						
Owner-occupied properties	1 513								
Investment properties	21 521								
Intangible assets			305		741				
Defined benefit pension fund employer surplus						202			
Deferred acquisition costs			364						
Interests in joint ventures				156			449		
Reinsurance assets		847							
Operating leases – accrued income	1 107								
Interests in associates – mutual funds	5 814								
Financial investments	191 504			813					
Held for trading assets	2 659								
Deferred taxation								147	
Prepayments, insurance and other receivables	2 884								
Cash and cash equivalents	5 858								
Total assets	232 860	847	1 626	969	741	202	449	147	
Percentage (%)	97,8	0,4	0,7	0,4	0,3	0,1	0,2	0,1	
Liabilities									
Policyholder liabilities	58 184	139 694							
Insurance contracts	1 813	137 060							
Investment contracts with DPF		2 634							
Financial liabilities under investment contracts	56 371								
Financial liabilities at amortised cost				2 143					
Third party financial liabilities arising on consolidation of mutual funds	11 000								
Employee benefits	430					400			
Deferred revenue			139						
Deferred taxation								2 437	
Provisions									172
Operating leases – accrued expense	144								
Held for trading liabilities	1 909								
Insurance and other payables	6 070								
Current taxation								740	
Total liabilities	77 737	139 694	139	2 143		400		3 177	172
Percentage (%)	34,7	62,5	0,1	1,0		0,2		1,4	0,1

⁽¹⁾ Subject to liability adequacy test.

⁽²⁾ Subject to annual impairment tests.

Note

1. Amounts equal or materially approximate fair value.
2. Financial Soundness Valuation Methodology defined within South African actuarial guidance notes.
3. Original cost less straight-line amortisation over defined periods, limited to residual value.
4. Amortised cost utilising the effective interest rate method.
5. Fair value at acquisition less straight-line amortisation over defined periods, limited to residual value.
6. Past services obligation determined using the projected benefit method.
7. Cost of investment plus equity accounted post acquisition earnings.
8. Gross calculated amounts utilising appropriate tax rates not present valued over expected settlement periods.
9. In 2010, other comprises provisions at best estimate liability.

15. Summary of the group's assets and liabilities by measurement basis (continued)

Financial position measurement basis at 31 December 2009

	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 ⁽²⁾ Rm
Note	1	2	3	4	5	6	7	8	9
Assets									
Equipment and properties under development			1 176						
Owner-occupied properties	1 345								
Investment properties	19 058								
Intangible assets			231		865				114
Defined benefit pension fund employer surplus						170			
Deferred acquisition costs			337						
Interests in joint ventures				149			426		
Reinsurance assets		788							
Operating leases – accrued income	1 156								
Pledged assets	1 559								
Interests in associates – mutual funds	4 979								
Financial investments	172 376			770					
Held for trading assets	457								
Deferred taxation								152	
Prepayments, insurance and other receivables	2 655								
Cash and cash equivalents	10 637								
Total assets	214 222	788	1 744	919	865	170	426	152	114
Percentage (%)	97,5	0,4	0,8	0,4	0,4	0,1	0,2	0,1	0,1
Liabilities (Restated)									
Policyholder liabilities	53 652	130 648							
Insurance contracts	1 809	127 956							
Investment contracts with DPF		2 692							
Financial liabilities under investment contracts	51 843								
Financial liabilities at amortised cost				2 211					
Third party financial liabilities arising on consolidation of mutual funds	10 557								
Employee benefits	306					354			
Deferred revenue			126						
Deferred taxation								1 999	
Provisions									204
Operating leases – accrued expense	185								
Held for trading liabilities	58								
Insurance and other payables	5 604								
Current taxation								561	
Total liabilities	70 362	130 648	126	2 211		354		2 560	204
Percentage (%)	34,1	63,3	0,1	1,0		0,2		1,2	0,1

⁽¹⁾ Subject to liability adequacy test.

⁽²⁾ Subject to annual impairment tests.

Note

1. Amounts equal or materially approximate fair value.
2. Financial Soundness Valuation Methodology defined within South African actuarial guidance notes.
3. Original cost less straight-line amortisation over defined periods, limited to residual value.
4. Amortised cost utilising the effective interest rate method.
5. Fair value at acquisition less straight-line amortisation over defined periods, limited to residual value.
6. Past services obligation determined using the projected benefit method.
7. Cost of investment plus equity accounted post acquisition earnings.
8. Gross calculated amounts utilising appropriate tax rates not present valued over expected settlement periods.
9. In 2009, other comprises goodwill at cost and provisions at best estimate liability.

Risk management (continued) for the year ended 31 December 2010

16. Fair value hierarchy

16.1 Introduction

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction. The group adopted the amendments to IFRS 7 with effect from 1 January 2009. This requires disclosure of fair value measurements by level according to the following fair value measurement hierarchies:

- Level 1 – Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities. These prices would primarily originate from the Johannesburg Stock Exchange, the Bond Exchange of South Africa or an international stock or bond exchange.
- Level 2 – Values are determined using valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the balance sheet date. The valuation techniques or models are periodically reviewed and the outputs validated.
- Level 3 – Values are estimated indirectly using valuation techniques or models for which one or more of the significant inputs are reasonable assumptions (that is unobservable inputs), based on market conditions.

16. Fair value hierarchy (continued)

16.2 Asset hierarchy

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

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2010					
Assets					
Equity instruments	81 918		1 328		83 246
Listed ordinary shares on the JSE	67 864				67 864
Foreign equities listed on an exchange other than the JSE	14 054				14 054
Unlisted equities			1 328		1 328
Debt instruments	39 952	16 262	981		57 195
Preference shares listed on the JSE	1 814				1 814
Unlisted preference shares		1 974	256		2 230
Listed term deposits ⁽¹⁾ on BESA, JSE or foreign exchanges	38 138				38 138
Unlisted term deposits ⁽¹⁾		14 288	725		15 013
Mutual funds ⁽²⁾	4 120	37 251			42 609
Active market	4 120	37 251			41 371
Property		1 102			1 102
Equity	4 100	9 940			14 040
Interest-bearing instruments		13 387			13 387
Mixed	20	12 822			12 842
Non-active market			1 238		1 238
Property					
Equity			742		742
Interest-bearing instruments			496		496
Mixed					
Investment policies		14 268			14 268
Derivatives		2 135			2 135
Equity		147			147
Foreign exchange		20			20
Interest rate		1 968			1 968
Derivative collateral deposits		524			524
Assets subject to fair value hierarchy analysis	125 990	70 440	3 547		199 977
Assets not subject to fair value hierarchy analysis					
Mortgages and loans				813	813
Reinsurance assets					847
Prepayments, insurance and other receivables					2 884
Loan receivables to joint ventures					156
Cash and cash equivalents					5 858
Properties					23 997
	125 990	70 440	3 547	813	234 532

⁽¹⁾ Term deposits include instruments which have a defined maturity date and capital repayment. These instruments are by nature interest-bearing at a predetermined rate, which is either fixed or referenced to quoted floating indices.

⁽²⁾ Mutual funds are categorised into property, equity or interest-bearing instruments based on a minimum of 80% of the underlying asset composition of the fund by value being of a like category. In the event of "no one category meeting this threshold" it is classified as mixed assets class.

Risk management (continued)

for the year ended 31 December 2010

16. Fair value hierarchy (continued)

16.2 Asset hierarchy (continued)

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2009					
Assets					
Equity instruments	74 371		811		75 182
Listed ordinary shares on the JSE	61 699				61 699
Foreign equities listed on an exchange other than the JSE	12 672				12 672
Unlisted equities			811		811
Debt instruments	40 416	18 700	928		60 044
Preference shares listed on the JSE	1 951				1 951
Unlisted preference shares		2 042	217		2 259
Listed term deposits ⁽¹⁾ on BESA, JSE or foreign exchanges	38 465				38 465
Unlisted term deposits ⁽¹⁾		16 658	711		17 369
Mutual funds ⁽²⁾	162	32 072	633		32 867
Active market	162	32 072			32 234
Property	1	1 481			1 482
Equity	90	9 570			9 660
Interest-bearing instruments	39	9 720			9 759
Mixed	32	11 301			11 333
Non-active market			633		633
Property					
Equity			427		427
Interest-bearing instruments			206		206
Mixed					
Investment policies		10 821			10 821
Derivatives		457			457
Equity		11			11
Foreign exchange		79			79
Interest rate		367			367
Assets subject to fair value hierarchy analysis	114 949	62 050	2 372		179 371
Assets not subject to fair value hierarchy analysis					
Mortgages and loans				770	770
Reinsurance assets					788
Prepayments, insurance and other receivables					2 655
Loan receivables to joint ventures					149
Cash and cash equivalents					10 637
Properties					21 721
	114 949	62 050	2 372	770	216 091

⁽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.

16. Fair value hierarchy (continued)

16.3 Reconciliation of level 3 financial assets

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

	2010 Rm	2009 Rm
Balance at the beginning of the year	2 372	2 365
Fair value adjustment recognised in profit or loss as part of investment gains	234	119
Additions	1 739	288
Disposals	(798)	(400)
Balance at the end of the year	3 547	2 372

R3 144 million (R2 127 million in 2009) of the financial instrument assets contained in level 3 are held to match obligations to policyholders and as such any change in measurement would result in a similar adjustment to either policyholder insurance contracts, policyholder investment contracts or policyholder investment contracts with DPF.

Consequently the group's overall profit or loss is not significantly sensitive to the inputs of the models applied to derive fair value.

16.4 Liability hierarchy

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

Liability hierarchy	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2010					
Investment contract liabilities		56 336	35		56 371
Policyholder Embedded derivatives		56 336	35		56 336 35
Third party financial liabilities arising on consolidation of mutual funds		11 000			11 000
Derivatives		1 426			1 426
Derivative collateral deposits		483			483
Liabilities subject to fair value hierarchy analysis		69 245	35		69 280
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					138 873
Investment contracts with DPF					2 634
Financial liabilities at amortised cost				2 143	2 143
Insurance and other payables					6 070
		69 245	35	2 143	219 000

Risk management (continued)

for the year ended 31 December 2010

16. Fair value hierarchy (continued)

16.4 Liability hierarchy (continued)

Liability hierarchy (Restated)	Level 1 Rm	Level 2 Rm	Level 3 Rm	Held at amortised cost Rm	Total Rm
2009					
Investment contract liabilities		51 807	36		51 843
Policyholder Embedded derivatives		51 807	36		51 807 36
Third party financial liabilities arising on consolidation of mutual funds		10 557			10 557
Derivative financial liabilities		58			58
Liabilities subject to fair value hierarchy analysis		62 422	36		62 458
Liabilities not subject to fair value hierarchy analysis					
Insurance contracts					129 765
Investment contracts with DPF					2 692
Financial liabilities at amortised cost				2 211	2 211
Insurance and other payables					5 604
		62 422	36	2 211	202 730

16.5 Reconciliation of level 3 financial liabilities

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

	2010 Rm	2009 Rm
Balance at the beginning of the year	36	44
Variance due to experience		5
Change due to non-economic assumptions	(1)	(1)
Change due to economic assumptions		(12)
Balance at the end of the year	35	36

17. Consolidated mutual funds

17.1 Introduction

The group invests in various registered mutual funds for the purposes of providing for obligations within policyholder contracts.

Several of the investments in mutual funds exceed 50% of the total value of the underlying net assets of that fund. These funds are consequently defined as subsidiaries in terms of the group's accounting policies, and are consolidated into the group results.

Each fund has its own legal constitution and operates within a distinct mandate that is delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act of 2002, in South Africa prescribes maximum limits to concentration risk exposures.

Each fund's trustees or board appoints administrators who are responsible to ensure that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to bring it immediately to the attention of the fund's trustees or board and management of the administrators for remedial action.

The mutual funds into which the Liberty group has invested that are defined as subsidiaries are managed by STANLIB Limited, a fellow group subsidiary, or Ermitage Funds Limited, an international based asset manager.

Described below is each mutual fund subsidiary and their respective mandate and objectives.

17.2 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.

17.2.1 STANLIB Multi-Manager Property Fund

Objective – To achieve an investment medium for investors which shall have as its primary objective growth of capital and income, with the focus on income yield relative to income growth.

Mandate restrictions – Liquidity may not exceed 50%. This portfolio may not have any foreign exposure.

Typical investments – Listed property shares and property-related securities including property loan stock, debentures, debenture stock and debenture bonds, unsecured notes and collective investment schemes in property.

Risk exposure – Aggressive fund exposed to property price, interest rate and credit risk.

Risk management (continued) for the year ended 31 December 2010

17. Consolidated mutual funds (continued)

17.2 Funds managed by STANLIB (continued)

17.2.2 *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.

17.2.3 *STANLIB Multi-Manager Global Equity Feeder Fund (previously known as STANLIB Multi-Manager International Fund of Funds)*

In territories other than South Africa, participatory interests will be included in the portfolio only where the regulatory environment is to the satisfaction of the manager and the trustees and of sufficient standard to provide investor protection at least equal to that in South Africa, as the Collective Investment Schemes Control Act of 2002 may allow from time to time, and liquid assets which are consistent with the portfolio's investment policy.

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.

17.2.4 *STANLIB Institutional Property Fund*

Objective – Growth of capital and to provide an income source for investors.

Mandate restrictions – Not permitted to invest in assets in foreign investment markets.

Typical investments – A specialist portfolio investing in property securities, consisting of property shares, stock including property loan stock, debentures, debenture stock and debenture bonds, unsecured notes and collective investment schemes in property.

Risk exposure – Aggregate fund exposed to property price, interest rate and credit risk.

17.2.5 *STANLIB International Aggressive Fund of Funds*

Objective – Long-term growth of capital and income.

Mandate restrictions – The inclusion of equity portfolios will not be limited to a specific sector.

Typical investments – Assets in liquid form and participatory interests in other collective schemes. These include a selection of international based equity-orientated collective investment schemes.

Risk exposure – Aggressive fund exposed to equity price, interest rate, credit and currency risk.

17. Consolidated mutual funds (continued)

17.2 Funds managed by STANLIB (continued)

17.2.6 *STANLIB International Balanced Fund of Funds*

Objective – Long-term growth of capital and income.

Mandate restrictions – The investments to be included will, apart from assets in liquid form, consist solely of participatory interests of other collective schemes.

Typical investments – The participatory interests to be included would normally include a selection of participatory interests of international based equity and bond collective investment schemes. The inclusion of equity portfolios will not be limited to a specific sector.

Risk exposure – Aggressive fund exposed to equity price, interest rate, credit and currency risk.

17.2.7 *STANLIB Funds Limited*

STANLIB Asset Management Limited is the investment manager in respect of the class funds, while HSBC Luxembourg 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.

STANLIB 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.

Mandate restrictions for all funds in section 17.2.7 – 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.

Risk management (continued) for the year ended 31 December 2010

17. Consolidated mutual funds (continued)

17.3 Funds managed by Ermitage

Ermitage Funds Limited is the investment manager of the funds below while LaCrosse Global Fund Services (Ireland) Limited is the administrator of these funds.

17.3.1 *Ermitage Distressed and Event Fund*

Objective – To achieve consistent absolute, risk adjusted returns over the medium term, principally through investments in a combination of event-driven and risk arbitrage strategies. The fund will seek to achieve lower risk and volatility than global equity markets as a whole.

Mandate restrictions – The fund will not lend to or invest in a single entity such that more than 20% of its gross assets are lent to or invested in that entity. No more than 20% of its gross assets may be exposed to the creditworthiness or solvency of any one counterparty. The fund may not invest in real property or physical commodities. Borrowings shall be temporary in nature and shall not exceed 100% of the net asset value of the fund.

Typical investments – The underlying funds will invest in equity securities of entities engaged in corporate mergers and acquisitions and loan stock or debt of companies with proven products and business track records which are involved in the restructuring/rescheduling of their debt programme or other structural realignment. Bank debt and securities of corporations in distressed circumstances may present compelling opportunities for which the fund can seek to exploit opportunities.

Risk exposure – The fund is exposed to equity price, interest rate, credit and currency risk.

17.3.2 *Ermitage Asset Selection Fund*

Objective – To seek consistent annual returns representing a meaningful premium over the risk-free rate through investments in funds investing primarily in relative value and arbitrage strategies.

Mandate restrictions – The fund may not hold more than 20% of the net asset value of the fund in any single investment fund. No more than 20% of the gross assets of the fund may be lent to or invested in the securities of any one issuer or may be exposed to the creditworthiness or solvency of any one counterparty. Borrowings and leverage will only be temporary and in any event will not exceed 100% of the net asset value of the fund. Borrowings will be used for short-term liquidity purposes and will not be used for gearing. Option premiums and futures margins cannot in aggregate exceed 10% of the net asset value of the fund.

Typical investments – Investment funds or managed accounts with investment managers whose methodology aims to provide absolute rather than relative returns.

Risk exposure – The fund is exposed to equity price, interest rate, credit and currency risk.

17.3.3 *Ermitage Global Long/Short Fund*

Objective – To achieve consistent absolute, risk adjusted returns principally through investments in global equity markets primarily in long and short equities and equity-linked instruments, but also, to a lesser extent, in the currency and debt markets.

Mandate restrictions – The fund will not lend to or invest in a single entity such that more than 20% of its gross assets are lent to or invested in that entity. This restriction will not apply in relation to investment in securities issued by a government, government agency or instrument of a European Union Member State. The fund will not expose more than 20% of its gross assets to the creditworthiness or solvency of any one counterparty. No real property or physical commodities may be acquired.

Typical investments – Investments in global equity markets primarily in long and short equities and equity linked instruments, and, to a lesser extent, in the currency and debt markets.

Risk exposure – The fund is exposed to equity price, interest rate, credit and currency risk.

Business unit reviews

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business. unit reviews

Retail SA

Retail SA

Contribution to earnings

R899 million

Indexed new business

- R3 717 million

Employees

- 2 164

LibFin

Contribution to earnings

R1 443 million

Shareholder positions under management

- R17 327 million

Employees

- 22

Institutional and Asset Management

STANLIB

Contribution to earnings

R361 million

Assets under management

- R355 billion

Employees

- 571

Liberty Properties

Contribution to earnings

R96 million

Assets under management

- R25 billion

Employees

- 311

Liberty Corporate

Contribution to earnings

R103 million

Indexed new business

- R542 million

Employees

- 710

Growth

Liberty Health

Contribution to earnings

(R43) million

Lives under administration ('000 lives)

- Administration: 528
- IT lives: 1 085
- Insured lives: 33

Employees

- 699

Liberty Africa

Contribution to earnings

R10 million

Assets under management

- R29 billion

Employees

- South Africa: 39
- Rest of Africa: 92

Retail SA excluding LibFin



Retail SA is responsible for the development, marketing, distribution, servicing and administration of insurance risk and investment products to individuals throughout South Africa.

This includes:

- Customer research and analytics to help understand the market, available opportunities and the needs of customers on a segmented basis;
- Development of, and enhancements to, products based on customer needs and financial adviser feedback;
- The provision of technical support to improve sales and distribution efficiency and productivity;
- Provision of marketing campaigns designed to target relevant customer segments creating awareness of the brand and specific product features;
- Continuously providing good service to existing and prospective customers and financial advisers utilising technology enhancements to improve efficiency and delivery;
- Owning the end-to-end customer experience throughout the product life cycle;
- Managing risk, specifically mortality and morbidity, persistency and expense; and
- Administration of key operational processes, such as:
 - premium collection;
 - policy maintenance;
 - policy benefits assessment and payment;
 - financial management and control; and
 - communication through customers' preferred media.

This review provides a perspective of the Retail SA insurance activities with the earnings related to investment markets being discussed in the LibFin review.

Highlights of the year under review

- Significantly improved retention of customers and advisers
- Implementation of an integrated business model, incorporating manufacturing, marketing and distribution capabilities
- Launch of the Lifestyle Protector marketing campaign
- Significant progress made towards achieving a sustainable business case for entry level market business

Retail SA excluding LibFin (continued)

Performance review

Key performance indicators	2010 Rm	2009 Rm
Headline earnings	899	(82)
Release of planned margins and management fees	1 508	1 386
Variiances and assumption changes	(265)	(1 421)
Annual contribution increases	355	356
Credit life – bancassurance	147	144
New business strain	(462)	(522)
Taxation and other items	(384)	(25)
Indexed new business	3 717	3 995
Recurring	2 722	2 921
Single	995	1 074
Net cash flows	990	2 764
Embedded value of new business	229	288
Embedded value of new business margin (%)	1,3	1,5
Maintenance cost per complex policy (R)	363	334
Total policies in-force ('000)	2 573	2 667

The recovery of the headline earnings to R899 million is mainly reflective of the excellent progress made in addressing the policyholder persistency issues that have impaired the results of the past few years. Recent experience indicates that on the core risk products persistency is well below long-term assumptions whilst savings and entry level market (ELM) products have improved to be broadly in line with long-term assumptions. Persistency variiances were net positive for the year excluding any release of short-term provisions.

The release of planned margins represents the profit expectations as modelled on the existing in-force book and management fees are the various set charges which are primarily based on policyholder underlying unit values.

The increase in margin release and management fees of 8,8% over 2009 is due to the release of higher additional compulsory margins reserved in 2009 following increases in lapse assumptions and improved fees from a higher average asset base, mainly due to the effect of the recovery of the equity markets over the course of 2009 and 2010.

Mortality experience on comprehensive risk products has been higher compared to expected levels and the liability assumptions at older ages were strengthened. This led to a net overall variiances and assumption changes result of negative R265 million.

In terms of the existing agreement with Standard Bank, Liberty is entitled to between 10% and 20% (depending on products) of risk profits on simple credit life products sold by the bank's distribution channels.

The performance of credit life underwriting profit remains strong and is 9,8% ahead of 2009. However the mix of business changed which resulted in Liberty's share being proportionately lower, recording an increase of 2%.

New business strain consists of recognised profits or losses at point of sale. The excess of upfront acquisition expenses, commissions over claims and maintenance costs over policy premiums, gives rise to a strain on most classes of business, although Lifestyle Protector generates a small surplus at new business stage. Total impact of new contracts written is a loss of R462 million before tax. Strengthened persistency assumptions, reduced sale volumes and higher consequential overhead acquisition expense per policy continue to have a negative impact.

Indexed new business premiums for the year amounted to R3 717 million, a decrease of 7,0% on the 2009 comparative. The decrease is mainly due to lower risk, guaranteed capital bond and ELM sales. This is largely as a result of the management action to remove internal churn of risk products in the tied agency and franchise channels, and the remedial action of closing broker ELM call centres.

The value of new business margin of 1,3% has been considerably impacted by the second order impact of lower absorption of distribution overheads following the reduced sales volumes.

The margin additionally continues to be adversely affected by the 2008 and 2009 strengthening of persistency assumptions. The current positive persistency experience

does indicate the real margin is higher, however positive persistency assumption changes will only be effected after sufficient time has elapsed to support the sustainability of the improvements.

Net cash inflows of R990 million are significantly lower than the R2 764 million inflows in 2009 due to reduced single premium cash inflows arising from GCB sales (there is very little profit margin attached to GCBs) combined with higher claim amounts. Claim amounts are higher due to the improvement in investment returns which in turn increases the average unit value per policy.

Report back on the focus areas for 2010

Manage persistency of the retail business

Following the decline in persistency experienced in 2009, a task team led by senior management was put in place to examine the underlying reasons for policy withdrawals. This enabled the creation of a strategy to reverse the trend.

The actions that followed are proving to be very successful, with an improvement in persistency across all product lines.

Over the past year there has been a shift in Liberty's distribution objectives to include the retention of existing clients as well as the quality of business written as key focus areas. The customer retention programme emphasised active customer management, end-to-end customer experience and partnerships with intermediaries in order to meet the primary objective of further enhancing customer service.

Actions included:

- Setting up a Retentions Contact Centre to allow staff to take pre-emptive action to minimise lapses;
- Road shows to discuss the importance of retention with advisers and to highlight how they can contribute;
- Building specialised management information systems that track individual intermediary performance, mainly from a productivity and persistency perspective, producing a comparable matrix based scorecard;
- Ensuring the timeous submission of detailed credit control reports to financial advisers in order to improve premium collections;
- The introduction of product flexibility, such as premium holidays and the ability for policyholders to change their premium patterns;
- Improving levels of customer experience and measuring customer satisfaction through ongoing customer surveys; and

- Improved knowledge of customer processes amongst operations staff and advisers to enable them to anticipate potential payment problems and take preventative action.

As a result of these actions, lapse rates on the flagship risk products reached their lowest point since January 2007. The investment in the "Own your life" campaign as well as the unique recognition and reward mechanisms which form part of the financial adviser value proposition, are expected to further improve sales and persistency in the long term.

New business margin is expected to recover by the end of 2012, driven mainly by higher new business volumes and improved persistency. Cost efficiencies will also result from deliberate management actions to reduce expenses and from higher volumes of business.

Strengthen distribution channels

Retail SA developed a financial adviser value proposition for both tied and independent intermediaries. The proposition presents real innovation, attracting experienced financial advisers and aligning their interests with their clients and Liberty. Through this, Liberty aims to further strengthen its dedicated, loyal and motivated sales force.

The proposition is partnership based and holistic involving changes in recruitment practices, training and support for financial advisers to take into account factors other than direct compensation.

Part of the sales and distribution drive is the inclusion of non-traditional channels and products in the overall mix. The successful renegotiation of the bancassurance arrangement with Standard Bank has taken place and the strong relationship is expected to continue to contribute to growth going forward.

In the latter part of 2010 there was a launch of an integrated marketing campaign focused on driving sales of risk products and emphasising the importance of financial advice as part of the overall value proposition. In addition investments were made in analytics, processes and technology to actively launch campaigns into the existing customer base.

Transforming entry level market (ELM)

Liberty remains committed to providing financial services to lower income earners, particularly those earning up to R11 000 per month. These customers form an important part of the overall Retail SA growth strategy and there is recognition of the profit potential within this segment of the market.

A dedicated management team was appointed during 2010 to formulate and deliver against agreed strategies.

Retail SA excluding LibFin (continued)

An improvement programme commenced in September 2009 and has resulted in a significant turnaround in operational performance in 2010, with most key business metrics trending in the right direction. Highlights include:

- A steady improvement in risk margins;
- Improved premium collection rates;
- Steady improvement in first-year policy lapses;
- Increase in average premium size; and
- Stabilisation of the ELM book.

In excess of 30 management actions and projects were implemented during the year to drive the turnaround and included:

- Major restructuring of the tied sales agency to flatten management layers and improve overall accountability;
- Rationalisation of broker contracts to focus on quality, including the cancellations of agreements with more than 60 non-performing broker call centres;
- Introduction of new ELM products and enhancements to existing offerings;
- Withdrawal of loss-leading product lines;
- Review and implementation of new remuneration and commission structures in support of quality business; and
- Implementation of more conservative policyholder affordability measures.

A clearly articulated mid-term strategy has been formulated to revitalise the business in 2011 and re-position the business for growth.

Enhancing customer satisfaction

Retail SA conducted extensive research into its customer markets by improving customer management practices and competencies to provide a basis for understanding customer issues. The research will be used to transform the way Liberty interacts with its customers.

Initiatives to further enhance customer experience during the course of the year included:

- Successfully completing the organisational restructuring planned in 2009 to facilitate effective management of customer relationships and clear lines of accountability;
- Creating a Customer Interaction Cluster with accountability for superior service and measured against feedback obtained through an ongoing Voice-of-the-Customer survey. The Customer Interaction Cluster has over 200 employees dedicated to providing quality customer service;
- Designing a delivery framework which views service from the customer's experience perspective. The

framework sets out the minimum service standards that Liberty staff are expected to adhere to;

- Conducting root cause analysis of complaints and attending regulatory forums to gain a better understanding of the reasons behind customer complaints so that appropriate action can be taken to remediate issues;
- Implementing plans to convert as much of the customer correspondence as possible to email so as to facilitate communication with customers through an alternative and convenient medium;
- Making better use of automated underwriting;
- Providing information via regular customer newsletters;
- Providing relevant information via the company's website;
- Enhancing the web self-service capability so that customers can service their contracts at leisure; and
- Shortening and simplifying customer documentation.

Treating Customers Fairly

The Financial Services Board (FSB) circulated a discussion paper to the industry in April 2010 on Treating Customers Fairly (TCF) and emphasised that it is one of the industry's key strategic issues. TCF is at the core of Liberty's business philosophy, from new product design through to complaints and benefit payments. Management fully supports a customer focus across the product lifecycle.

During 2010 the following further steps were taken to embed TCF across the business:

- A TCF steering committee was established;
- Representatives from the business unit participate on the TCF working group constituted by ASISA;
- Feedback was provided to ASISA on the FSB's TCF discussion paper;
- Initial awareness was created via presentations to staff and advisers followed by regular updates with the aim of firmly embedding TCF within the Liberty culture; and
- Work is underway to complete self audits and gap analyses in order to form a base from which to build strategies and action plans for 2011.

Meeting regulatory requirements

In addition to TCF, a number of new regulatory requirements have been introduced or are on the horizon, which affect the operations of Retail SA. Projects and plans have been put in place to implement the new requirements, without impacting significantly on the delivery capacity of the business. These initiatives included:

- Introducing practices to ensure “fit and proper” compliance with Liberty’s licence extension to intermediaries;
- Finalising the roll-out of practices related to Conflict of Interest regulations;
- Implementing practices related to those sections of the anticipated Consumer Protection Act relevant to the business;
- Drawing up plans to meet the anticipated requirements of Solvency Assessment and Management (SAM) regulations;
- Developing plans to take account of probable changes in revenue recognition arising from IFRS 4, phase II; and
- Complying with SARS requirements to provide the tax reference numbers of all customers.

Investing in human capital

Skills enhancement and development continues to be a focus of the leadership team.

- A total of eighty-four learners, ten of whom are disabled, participated in learnerships within Retail SA during 2010. The majority of learners gained work experience within the various divisions and will now be integrated within the business. Six of the ten disabled learners will be full time employed in 2011;
- R6,6 million of the total R21,2 million of the Liberty training spend for 2010 was within the Retail SA division; and
- Retail SA exceeded its employment equity targets set for 2010 at all employment category levels except for the senior management level. 2011 stretch targets have been set for all employment categories.

Enhancing information technology (IT)

A new management information system was rolled out to the distribution force and will provide management with a valuable tool to analyse policy trends and intermediary performance. This information will be used to proactively drive management action to achieve strategy. Combined with the financial adviser value proposition, the system should result in an improvement in the quality of new business and retention.

A digital strategy project as well as investigations into the customer, intermediary and product platforms in order to adapt the business to the changing environment and needs of consumers have been launched.

The IT operating model has been altered to ensure closer alignment of IT and business priorities. This is to ensure the business is in a position to respond promptly to changes in its operating environment.

Delivering on commitments

Key objectives identified in 2009	Assessment
Improve policyholder persistency	✓
Grow new business and improve new business margin	3/4
Reduce acquisition costs	3/4
Enhance sales productivity	3/4
Entrench the “Own your life” philosophy	✓
Return the entry level market product proposition to profitability	3/4
Develop segmented client solutions	3/4

✓ = Substantially achieved 3/4 = Good progress

1/2 = Moderate progress

The way forward

Over the next three years, Retail SA’s strategy will be to systematically work on unlocking further value by focusing on identified quality issues in the core insurance business. Customer retention will remain a strategic priority for the business, leading to increased profitability. In addition, quality will be emphasised over volume in terms of sales. This is fundamental to sustainable shareholder value creation. Key elements of strategy are:

- *Market and consumer:* to target defined consumer segments with specific value propositions and enhance capacity to develop and innovate new products;
- *Sales and distribution:* to re-establish sales capacity and drive profitable growth into the chosen market segments;
- *Customer Management:* to enhance tenure and broaden product offerings to existing customers;
- *Customer Retention:* to return to competitive persistency levels; and
- *Strategy Execution:* to increase the delivery capacity of the Retail SA business.

Liberty Financial Solutions (LibFin)

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

LibFin actively manages risks arising from financial market exposures which originate in the life insurance business through mismatches between assets and liabilities, and investment performance of shareholder and policyholder asset exposures.

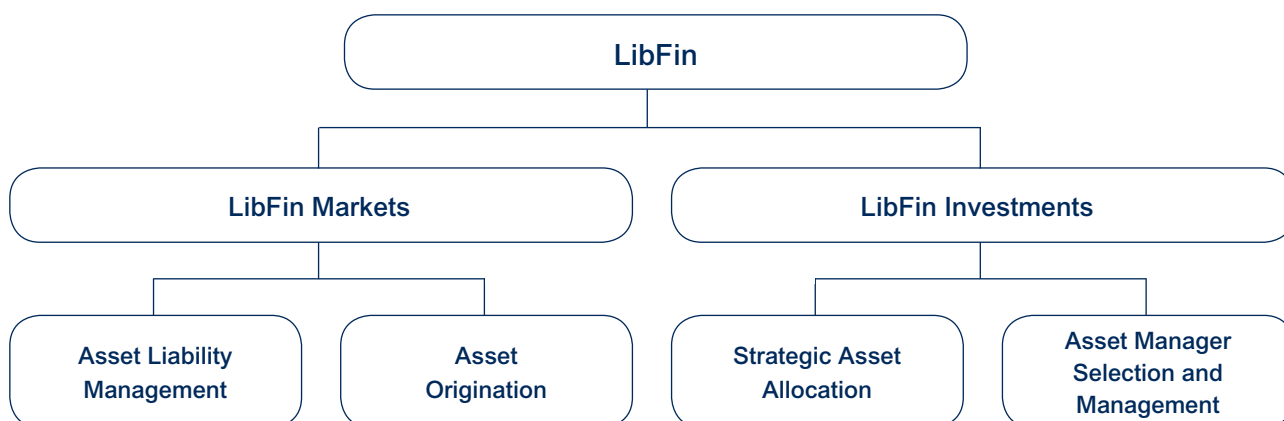
The primary objectives are to:

- Construct asset portfolios which match Liberty's liability portfolios as closely as possible;

- Construct a shareholder investment portfolio which maximises after tax returns whilst complying with Liberty's risk appetite and to review the portfolio on an ongoing basis; and
- Ensure that investment portfolios meet policyholder requirements and expectations.

Structure

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



LibFin Markets

The primary responsibility of LibFin Markets is to manage market risk exposure arising from the complex and long-dated asset-liability mismatches within the insurance business. These are represented in the risk management portfolio and arise as a result of the following product sets:

- Annuities and Guaranteed Capital Bonds;
- Embedded derivatives (including investment guarantees); and
- Negative rand reserves.⁽¹⁾

⁽¹⁾ Recognised value of future management fees and insurance profits.

LibFin Markets aims to invest in assets which closely match these liabilities, and ensure the income from these assets meets or exceeds the cost of the liabilities. It also seeks to extract value by investing a portion of the underlying funds in a well-diversified portfolio of government and corporate instruments.

LibFin Investments

LibFin Investments oversees the management of approximately R210 billion of shareholder and policyholder assets. The team has built a specialist competency which is leveraged across policyholder and shareholder funds. Appropriate portfolio construction and fund allocation to underlying specialist asset managers, along with ongoing performance evaluation, ensures quality investment performance.

Highlights of the year under review

- Reduction in earnings volatility from market risk
- Embedded derivative risk profitably managed, despite challenging market conditions
- Successful implementation and review of restructured Shareholder Investment Portfolio
- Increased focus on improved performance delivery from asset managers
- Origination of new assets to better match liability portfolios
- Facilitated the launch of a new structured retail investment product

Performance review

Performance indicators	2010 Rm	2009 Rm
Total headline earnings	1 443	(8)
LibFin Investments	1 174	214
LibFin Markets	269	297
Equity de-risking		(519)
Shareholder positions under management	17 327	16 512
Local equities	3 952	3 498
Preference shares	1 617	1 460
Local cash, fixed income, property and other	9 152	8 903
Investments denominated in foreign currency	2 606	2 651

During 2010 LibFin focused on the continued implementation of its strategy of developing a specialist risk management capability for Liberty. Management executed key mandates, implemented systems solutions and is substantially delivering on its stated objectives.

The main benefit of the LibFin Markets' strategy was the reduction of the volatility of earnings arising from changes in market variables. LibFin Markets had a positive year with total after tax profit of R269 million. This arose largely from credit margins earned in the annuity and GCB portfolios and strong returns generated by the managers of assets backing the liabilities. The performance was additionally supported by a positive performance from the embedded derivatives portfolio.

LibFin Investments produced a good result for the year under review with the Shareholder Investment Portfolio (SIP) generating positive returns of R1 814 million before tax (2009: negative R221 million). The SIP was transitioned to a new structure and delivered improved investment returns with reduced volatility under difficult market conditions.

The portfolio construct is similar to a low risk balanced portfolio and achieved a gross return of 11,2% which is broadly in line with relevant benchmarks.

LibFin Investments worked closely with STANLIB and other asset managers to improve investment processes and strategies for delivery of better long-term investment performance. Together with STANLIB, the team worked on reconstructing building block portfolios and ensured Liberty's main balanced fund Excelsior range of portfolios delivered above peer median performance over the year.

Report back on the focus areas for 2010

Managing investment performance

LibFin Investments' main focus in 2010 was to enhance business processes and develop new business rules while driving relationships with asset managers to ensure they deliver appropriate investment performance over the longer term. Working closely with the insurance business and the group's asset managers the team successfully implemented the reconstruction of various portfolios and made changes to portfolio managers where required. A number of asset manager mandates were revised while the establishment of a formal asset manager due diligence framework has enabled, and will continue to enable, rigorous evaluation of asset manager performance.

The SIP was fully transitioned to a new portfolio structure early in 2010. This was reviewed and refined in the last

Liberty Financial Solutions (LibFin) (continued)

quarter as part of an annual process. The portfolio was managed within risk appetite and delivered better returns with lower volatility than the previous portfolio would have delivered during the current financial year.

Managing market risk

LibFin Markets continued to successfully implement its matching programme to reduce earnings volatility and capital utilisation. Market risk exposure was well controlled despite ongoing market volatility over the first half of 2010, and overall the exposures were profitably managed for the year. Implied volatility risk remains largely unhedged, although a cost-benefit analysis of this will be conducted in 2011, with a view to possibly extending the matching programme to incorporate this risk in the future.

Market risk management continued to be enhanced as infrastructure and operational improvement resulted in more frequent and accurate risk analytics, to ensure effective asset liability management. Enhancements to the liability valuation systems allowed for more frequent and accurate management information on the underlying exposures.

Generating alternative revenue streams

LibFin Markets aims to generate yield enhancement on fixed income portfolios by investing in a diverse range of assets including government and corporate exposures. The targets set for this activity were exceeded and the investment in skilled resources and risk infrastructure continued.

LibFin also commenced working with Liberty's Retail SA product development team, resulting in the successful execution of their first new product offering and forming a foundation for future development of advanced product offerings in the retail market.

Responsible investing

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

Delivering on commitments

LibFin Markets

Key objectives identified in 2009	Assessment
Refinement of risk management systems and processes to improve execution of ongoing daily risk management activities	¾
Managing market exposure using more frequently updated position information to minimise profit or loss volatility	✓
Originating attractive investments for the annuity and GCB portfolios	✓

LibFin Investments

Key objectives identified in 2009	Assessment
Final implementation of the shareholder investment portfolio	✓
Completion of a review of various policyholder asset portfolios	✓
Due diligence reviews of all direct asset managers	✓
Revision and refinement of relevant asset manager mandates	✓

✓ = Substantially achieved ¾ = Good progress

½ = Moderate progress

Investing in human capital

LibFin continues to attract top talent and has positioned itself as an employer of choice. The unit surpassed its employment equity targets in all areas, with high proportions of new employees recruited during the period being from previously disadvantaged backgrounds.

Information technology

A key focus area during 2009 and 2010 was the enhancement of the systems, processes and infrastructure necessary to deliver on LibFin Markets' risk management mandate. A front office position management system was implemented during the year and this has improved the unit's ability to manage complex asset-liability mismatches.

Much work has also been done to improve the provision of risk metrics on the underlying liability exposures. This includes the production of more frequent, accurate and granular information on embedded derivative, negative rand reserve, annuity and GCB positions, as well as improving data quality and consistency across the organisation.

LibFin Investments has commenced work on developing in-house portfolio construction tools which will enhance the capability to deliver and monitor investment returns to policyholder and shareholder expectations.

The way forward

LibFin has met its strategic objectives over the reporting period and over the next year aims to:

- Complete the infrastructure build required to support effective market risk management;
- Continue to ensure appropriate risk adjusted investment performance for the group's policyholders and shareholders;
- Continue to leverage product innovation; and
- Grow the diversified earnings base without significantly increasing capital requirements.

Institutional and Asset Management



The Institutional and Asset Management cluster comprises:

STANLIB: The group's asset management subsidiary

Liberty Properties: Responsible for the development, management, administration and marketing of Liberty's extensive commercial, retail and hotel property portfolio

Liberty Corporate: Provides risk and retirement funding solutions for companies

STANLIB

STANLIB provides wealth management and investment solutions to individuals, retirement vehicles and institutional customers. It is the largest unit trust manager in the country by market share, one of the top three asset managers by assets under management (R355 billion at 31 December 2010) and has a presence in eight African countries.

Assets managed are on behalf of Liberty policyholders, a number of third parties including parastatals, pension funds, provincial governments, municipalities, corporates, medical aid schemes and more than 400 000 individuals.

The business unit is structured as follows:

Investment

The investment and research teams, leveraging off a centralised research process. Individual accountability is set within a well structured and disciplined investment framework.

Retail

A comprehensive range of investment solutions for individuals, covering collective investments (unit trusts), pre-retirement savings (retirement annuities and pension/

provident preservation funds) and post retirement savings (linked life annuities). In addition the business offers a range of multi-manager funds and access to select external fund managers. These product offerings all have a local and international capability.

Institutional

The sourcing, servicing and retention of investment assets, predominantly from groupings of individuals (pension, provident and medical aid funds), more sophisticated buyers (such as multi-managers, fund-of-funds and trusts), parastatals and corporate clients.

Institutional and Asset Management – STANLIB (continued)

Highlights of the year under review

- Good progress made with implementation of a new business model to build strong third party fund management capabilities
- Strengthened the team by making key appointments to drive the growth strategy
- Improved investment performance, winning two Raging Bull awards in February 2011
- Successfully expanded the product range by launching two Exchange Traded Funds

Performance review

Performance indicators	2010 Rm	2009 Rm
Liberty's share of STANLIB's earnings	361	362
Headline earnings	360	353
Liberty's share of preference dividends	1	9
Net cash flows*	15 699	(1 572)
Retail	5 908	5 632
Institutional	(9 339)	(17 976)
Money market	19 130	10 772
Assets under management and administration (Rbn)	355	318
Retail	147	126
Institutional	86	75
Liberty inter group	122	117
Operating cost to income ratio (%)	54,7	51,6
Service fee margin (%)	0,31	0,32

* Excludes intercompany life funds.

STANLIB's earnings for the year to 31 December 2010 of R361 million were flat compared with the prior year, reflecting the challenging year that STANLIB has experienced. This result was largely due to the significant reduction of the PIC mandate (R9,5 billion), pressure on service fee margin due to clients switching from high margin assets to lower margin money market products and increased direct costs relating to staff recruitment and information technology development. The cost to income ratio accordingly increased to 54,7%.

Net cash inflows of R15,7 billion reflects the strong flows into retail funds and money market products.

Report back on the focus areas for 2010

Implementing a new operating model

During 2010, management spent a significant amount of time reviewing the relationship with Liberty with the aim

of commercialising the relationship and developing a new operating model.

The new operating model will lay the foundation for moving the business from a distribution-led to an investment-led third party fund management business. The model builds on clear investment methodologies and introduces enhanced investment processes and disciplines, easily interrogated and understood by asset consultants. This allows the existing franchises within STANLIB to focus on long-term strategic objectives, with a high degree of specialisation.

During 2010 STANLIB focused on the first phase of implementing the new operating model which included:

- Ensuring quality fund management by employing and retaining the right talent to deliver on promises;

- Building an effective operational platform to maximise operational efficiencies;
- Enhancing and safeguarding STANLIB's reputation and brand; and
- Building a strong culture of teamwork and excellence within STANLIB.

Improving investment performance

Investment performance is a function of a number of factors within asset management, namely people, philosophy, process and time. During 2010 investment was made in experienced staff as well as the review and enhancement of risk and investment processes.

This resulted in a broad improvement in the general investment performance of STANLIB managed funds during 2010. The performance framework now aims to continually improve performance over a three to five year period.

The STANLIB Property Income Fund and STANLIB Income Fund were named as top performers in the 2010 prestigious Raging Bull Awards. STANLIB was also ranked first in the Alexander Forbes Large Manager Watch for the year to 31 December 2010 and named the 2010 Principal Officers Association Awards Cash Manager of the Year. The STANLIB Financials (A) Fund won the Morningstar Award for Equity – Financial Services funds.

Strengthening the team

Investment skill and depth are the cornerstones of any successful third party fund management business. During 2010, a number of senior appointments were made at STANLIB, which have significantly improved the amount of experience in the business. Appointments included a new chief executive officer, chief investment officer (CIO), head of research, head of credit, and head of value and small caps.

Whilst a number of analysts and portfolio managers chose to leave STANLIB during 2010, almost all these positions have been filled with new incumbents, many of whom have significantly more experience than their predecessors.

An investment business manager role was created in order to assist the CIO and head of research to extract efficiencies from within the investment team environment, therefore freeing up investment professionals to focus on making the investment decisions.

Meeting the needs of investors

In addition to its existing Top 40 and ALSI Index Tracking Unit Trusts, STANLIB expanded its offering to include

Index Tracking Exchange Traded Funds (ETFs) – the STANLIB Top 40 ETF and the STANLIB SWIX40 ETF. These ETFs were listed on the JSE and offer investors a wider investment choice across a spectrum of active and passive funds, a holistic offering under one investment house.

Meeting regulatory requirements

Systems were implemented during the year to address the requirements of the Consumer Protection Act and the Conflict of Interest provisions of the General Code under the Financial Advisory and Intermediary Services Act.

Ensuring responsible investment

STANLIB is a signatory to the United Nations' Principles of Responsible Investments (PRI) and recognises that its long-term economic success depends on the sustainable development of the social and economic communities within which it operates.

Signatories to the PRI commit to the following principles:

- Incorporating economic, social and governance (ESG) issues into investment analysis and decision-making processes;
- Incorporating ESG issues into ownership policies and practices;
- Seeking appropriate disclosure on ESG issues by the entities in which investments are made;
- Promoting acceptance and implementation of the Principles within the investment industry;
- Working together to enhance effectiveness in implementing the PRIs; and
- Reporting on activities and progress towards implementing the PRIs.

During 2010 STANLIB formalised policies and procedures to incorporate ESG issues into investment analysis and decision-making processes. In addition management promoted the acceptance and implementation of PRIs within the investment industry.

Institutional and Asset Management – STANLIB (continued)

Delivering on commitments

Key objectives identified in 2009	Assessment
Tightly manage the investment process	✓
Ensure stability of the investment team	¾
Re-establish core investment propositions in appropriate market segments	✓
Defend the current asset base and clients by leveraging current strong propositions	¾
Increase fund solutions marketing to intermediaries	✓
Improve convenience in client and intermediary service (through enhanced e-Commerce)	¾
Expand product and distribution opportunities in emerging segments	¾
Grow the Linked Investment Service Provider proposition and offshore solutions	¾

✓ = Substantially achieved ¾ = Good progress

½ = Moderate progress

Investing in human capital

Retention of key talent and transformation continues to be the main focus of STANLIB's human capital team. Extensive recruitment activity took place during the year in respect of the resources team, analytic functions and the institutional sales team.

Good progress in transforming STANLIB was made across all of the BEE categories, however the senior management and skilled technical categories remain focus areas for 2011.

Information technology

STANLIB's administration platform was upgraded and along with the use of mobile technology and a redesigned website, facilitated the build of an improved retail servicing platform for clients.

The way forward

STANLIB's objectives for 2011 include:

- Implementing the new operating model;
- Taking multi-manager capabilities to the third party market;
- Investigating new areas of asset management, including direct property investment;
- Leveraging existing capabilities in the listed property sector to a broader South African clientele;
- Redefining STANLIB's market participation through a multi-specialist franchise platform, new bespoke capabilities and a revised specialist retail strategy; and
- Continuing to build the investment process and risk mitigation capabilities to sustain the improved investment performance.

Institutional and Asset Management – Liberty Properties

Liberty Properties develops and manages direct property assets and other real estate investments in the retail, commercial and hospitality sectors worth R25 billion. The majority of these are owned by Liberty and are used to provide property exposure in the asset portfolios which support policyholder liabilities and products.

Liberty's property portfolio includes a stable of super-regional centres, a well tenanted and strategically located office portfolio and 13 hotels operated by Southern Sun.

Liberty Properties has three core offerings:

Property development: Providing property development services to the group and third party clients in Africa;

Property management: Providing property management services for the retail and office sectors; and

Investment and asset management: Providing opportunities to invest in some of the most prestigious retail and hospitality assets in Southern Africa.

Highlights of the year under review

- The Liberty Properties portfolio delivered another strong performance in difficult trading conditions
- 27 consecutive years of double digit returns
- A successful 2010 FIFA World Cup boosted revenues of Liberty-owned hotels and shopping centres
- The profile in South Africa, the rest of Africa and beyond was strengthened
- Significant progress was made in building real estate asset management and investment capabilities

Performance review

Performance indicators	2010 Rm	2009 Rm
Net fee income	243	209
Property management	127	117
Property development	77	62
Asset and hotel management	39	30
Headline earnings	96	80
Liberty Properties	86	72
Fountainhead (asset management)	10	8
Value of direct properties under management (Rbn)	25	22

Despite a challenging operating environment, Liberty Properties delivered a good financial performance. Net fee income increased by 16% in 2010 and headline earnings by 19%, driven largely by increased property development fees.

At a property management level, the sluggish economy impacted negatively on new rental deals, rental renewals and collection of debts, while the hospitality

industry experienced a marked reduction in business travel and conventions. This was offset to some extent by the additional tourism business flowing from the 2010 FIFA World Cup tournament. The challenge for business development was securing mandates for new projects and ensuring that current projects delivered on commitments.

Institutional and Asset Management – Liberty Properties (continued)

Report back on the focus areas for 2010

Delivering to customers and investors

As a property developer and investment manager, Liberty Properties strives to balance the different needs of all its stakeholders. Shareholders expect a reasonable return on capital, tenants require optimum and cost effective conditions within which to run their businesses, customers require easy access and continuity of services and the company is expected to develop and manage operations in a way that is responsible to the environment.

With 70% of its portfolio invested in retail, consumer confidence has a marked impact on Liberty Properties' performance. Although the first four months of the reporting period was affected by the generally weak economic environment, the super-regional retail and hospitality assets were well placed to take advantage of the influx of tourists and increased retail activity during the 2010 FIFA World Cup. The resultant exposure for the Liberty brand amongst potential investors outside South Africa was especially pleasing, with an increase in the number of lease enquiries from prestigious international brands. Detailed planning, with a special focus on security, ensured that there were no incidents at any of the group's properties during the tournament.

Despite difficult trading conditions, an active development programme that disrupted business in three of the shopping centres and an oversupply of hotel beds in certain nodes, the portfolio delivered inflation-beating results that exceeded targets.

Developing superior properties

Property development is a key focus area and contributes substantially to the business unit's revenue stream. The past two years have seen unprecedented development activity for the division, with more than R3,5 billion worth of projects in the pipeline.

While the majority of Liberty Properties' property development business is in South Africa, it has begun to extend its reach into the rest of Africa.

South Africa

Some of the key projects in South Africa include:

- *The R1,7 billion extension and refurbishment of Sandton City.* The total extension and refurbishment, which will provide an additional 30 000m² of gross lettable area (GLA), is expected to be completed in 2011;
- *A R600 million extension of Eastgate Mall.* Phase one of the development, which comprised a new piazza and food court area, together with the development of a high-end fashion area and an 800-car parkade, was completed in 2010. This has extended the GLA of the Eastgate Centre by 25 000m²;
- *A R450 million extension to the Promenade shopping centre.* A portion of the project was completed in 2010, adding 25 000m² of GLA, including a food and entertainment area with further construction on the existing retail area to be completed in April 2011;
- *The completion of two hotels in KwaZulu Natal, the Midlands Stay Easy and Umhlanga Garden Court.* Both hotels opened in time for the 2010 FIFA World Cup and opened with high occupancy rates;
- *The acquisition of a small shopping centre adjacent to Greenacres shopping centre in Port Elizabeth;* and
- *Refurbishment of Sandton Towers.* This project is due to commence in 2011.

Rest of Africa

Emerging markets in general and sub-Saharan Africa in particular have become more stable and attractive to investors seeking higher returns than those available in developed markets in the near term. Africa remains an attractive proposition from a property investment perspective given that South African and other retailers are seeking space on the continent to take advantage of rapidly emerging consumer markets. Demand for business and leisure hotel accommodation is also growing rapidly, particularly in Africa's economic hotspots, including Nigeria, Kenya, Angola and Mozambique.

In 2010:

- Progress continued on the mixed-use development in Lusaka, Zambia, valued at R1,4 billion. The Zambian project is Liberty Properties' first third party client development, and its first development project outside of South Africa. The project is expected to be completed towards the end of 2011;
- Following approval of an environmental impact assessment in December 2010, construction of an office complex in Mbabane, Swaziland, for the Public Sector Pension Fund (PSPF) has commenced; and
- A concept for the development of a shopping centre in Swaziland has been approved by the PSPF. Development plans will be progressed once transfer of the site is completed.

Meeting regulatory requirements

Liberty Properties ensured that it met various regulatory and legislative requirements affecting the construction and retail industries. During 2010, new regulations under the Financial Intelligence Centre Act were introduced requiring certain transactions to be reported to the Financial Intelligence Centre within 48 hours. Since many of Liberty Properties' tenants pay cash, this required major

changes to operations and systems, which were completed successfully. Arrangements to meet the requirements of the Consumer Protection Act have been put in place and in line with the Protection of Personal Information Act, investment was made in developing the necessary systems and processes to properly handle information collected from thousands of shopping centre customers.

Reducing environmental impact

Global awareness of the threat of climate change continues to increase and Liberty Properties strives to reduce its impact on the natural environment. Its core competency is the management of large retail facilities. It will continue to investigate and implement cost-effective solutions to reduce the consumption of water and energy as well as to increase waste recycling across its portfolio. Government incentives and corporate environmental responsibility policies are likely to be a key factor influencing the choice of facilities amongst tenants, particularly international companies. Locally, regulation limiting carbon emissions and encouraging carbon disclosure will also influence the property sector over the coming years.

During 2010, Liberty Properties commissioned a holistic study to investigate energy management as well as the use of grey water, potential for recycling and the carbon footprint. The business also developed an environmental strategy to minimise the risk of “environmental obsolescence” across the portfolio.

Green Building Council of South Africa (GBCSA)

Liberty Properties is a member of the GBCSA, a non-profit entity which was founded to accelerate the transformation of South African buildings towards environmental sustainability. New buildings take into account green design concepts, while retro-fitting on legacy stock has a green emphasis.

Energy

Projected electricity price increases have highlighted the importance of reducing electricity consumption. Liberty Properties has undertaken to save energy by using energy efficient lighting, optimising heating and cooling efficiencies and usage time, using variable speed drive motors which optimise energy use where practical, and implementing building management systems to control consumption more effectively.

In 2010, an overall 4% saving on electricity consumption was achieved across the portfolio. Despite the growth in the total built area and the increased usage of electricity in support of construction efforts, the consumption pattern confirms a declining trend.

Water

Liberty Properties has installed sub-meters for all previously unmetered tenants to control water consumption patterns and identify trends to be monitored. Water consumption patterns are now effectively monitored, which has enabled the business to identify major leaks as well as areas for potential saving. At the newly built Umhlanga Garden Court, grey water is re-used throughout the operations, helping to reduce overall water consumption.

Waste

Liberty Properties continues to explore ways to ensure that waste is managed efficiently and strives to reduce waste to landfills to zero percent. Recycling performance for Liberty Properties’ shopping centres improved from 79% of total waste volume in 2009 to 83% in 2010.

Delivering on commitments

Key objectives identified in 2009	Assessment
Transition from a single-stranded property management business to a property-focused wealth brand with property development, property management and asset management capabilities, operating in emerging markets	✓
Create an African-wide property franchise deriving earnings across the property spectrum	¾
Increase assets under management without straining the group’s financial position	✓
Maximise opportunities across the Standard Bank African footprint	½
Work in partnership with other players in the property market to secure third party business	¾
Substantially increase development activity in South Africa and the rest of Africa	✓

✓ = Substantially achieved ¾ = Good progress

½ = Moderate progress

Investing in human capital

Liberty Properties has implemented a range of human resource initiatives to ensure transformation at all levels of the business. In terms of the Financial Services Charter, the division has a 4% gap to close on employment equity targets. The business will also need to align its targets and transformation strategy with the new Property Sector Charter. The draft, which was published in October 2010,

Institutional and Asset Management – Liberty Properties (continued)

proposes a new BEE scorecard as well as the principles and methodologies for measuring the BEE compliance of participants within the property sector. Once gazetted, the Charter will replace the generic Broad Based Black Economic Empowerment Codes of Good Practice as the source of measurement of BEE compliance of enterprises operating in the property sector.

The draft Charter also introduces a new measurement element, Economic Development, which measures the degree of participation by enterprises in property development and transformational infrastructure projects that support development, empower small enterprises and contribute towards equitable access to economic resources in under-resourced areas.

As part of its transformation strategy, Liberty Properties invests in a development programme that provides on-the-job experience to talented individuals. Five individuals have completed the programme and remain employed by the business and another five will complete the programme during 2011.

Enhancing information technology

The implementation of the SAP Flexible Real Estate module was completed. This will increase the efficiency of business processes and provide support to third party business initiatives.

The way forward

The key objectives of Liberty Properties for 2011 include:

- Redefining Liberty Properties' strategy to create a real estate investment business capable of competing for multiple institutional quality clients. This will be done through securing superior property capacity to feed property-backed product sales;
- Strengthening the African footprint through collaboration with Liberty Africa and Standard Bank;
- Revising the Liberty Properties operating model to support an investment business culture; and
- Developing and fostering an enabling and empowering culture commensurate with a focus on the investment business.

Institutional and Asset Management – Liberty Corporate

Liberty Corporate provides financial security and wealth creation products to groups of employees. These include pension, provident, investment and risk solutions to meet the retirement and risk funding needs of company employees.

Liberty Corporate is also responsible for the development and sale of insurance products, the administration of retirement funds and the provision of financial advice and intermediary services.

Highlights of the year under review

- Improved sales volumes in a very competitive environment with indexed new business up 41%
- Established a new investment product team
- Launched a direct property fund for corporate investors
- Launched new group risk products

Performance review

Performance indicators	2010 Rm	2009 Rm
Headline earnings	103	(29)
Indexed new business	542	385
Recurring	437	265
Single	105	120
Net cash outflows	(1 517)	(1 776)
Premium income	6 783	6 759
Recurring premiums	5 695	5 516
Single premiums	1 088	1 243
Claims and benefits	(8 300)	(8 535)
Embedded value of new business	16	14
Embedded value new business margin (%)	0,4	0,3
Fund members under administration ('000)	1 191	1088

Liberty Corporate had a reasonable year, with improved management fees and lower costs resulting in improved headline earnings of R103 million compared to a loss of R29 million in 2009. The 2009 result included the once-off provision of R125 million relating to the retirement fund administration project.

Indexed new business showed a 40,8% improvement due to incentives, campaigns and new product launches. The embedded value profit margin improved to 0,4%.

A combination of winding up retirement funds under the retirement fund administration project, significant redemptions of older generation investment products and continued consumer job losses for most of the year impacted withdrawal levels on corporate funds, resulting in net cash outflows for the year.

Institutional and Asset Management – Liberty Corporate (continued)

Report back on the focus areas for 2010

Enhancing product offerings

The pension funds industry in South Africa is on the verge of major change resulting from pension fund reform regulations. The legislation is expected to introduce one compulsory scheme that is centrally provided creating a price ceiling for private providers. This change is likely to favour large, low-cost providers and Liberty Corporate is positioning its product offering to take advantage of the opportunities created by these reforms.

Product enhancements during the past year included the introduction of an educator benefit which provides cover for school fees as part of life cover policies, as well as a product which allows employers to provide their staff with access to telephonic legal assistance, trauma counselling and medical advice.

Improving service levels

Liberty Corporate focused on delivering a compelling employee benefits solution to the market by:

- Developing investment products;
- Developing a low-cost umbrella product;
- Enhancing the distribution of products;
- Developing a specialised insurance capability; and
- Creating operational efficiencies.

Because products are commoditised in the employee benefit space, Liberty Corporate differentiates itself through a superior service and administration. Over the past 18 months, significant investment was made in developing efficient operational processes. While service levels have improved, direct administration costs were flat, primarily the result of lower staff costs due to natural attrition. The business continues to review its administration model to allow for the automation and simplification of operations.

Liberty Specialised Insurance was established in 2010 and infrastructure was established to focus on the provision of long and short-term customised insurance solutions to corporate clients.

The successful roll out of the first phase of the new IT support system, Liber8, has enabled Liberty Corporate to automate the front end of the administration process. This has significantly improved user-friendliness, particularly for smaller entrepreneurs, as well as enabling more efficient reconciliation of accounts.

Member online benefit statements were also redesigned to enhance simplicity.

Diversifying distribution channels

Liberty Corporate engaged closely with the heads of Liberty's retail sales channels and finalised its bancassurance strategy to build on existing key partnerships and improve understanding and consequent sales of products. It will also invest in direct corporate distribution through servicing umbrella clients directly and implementing consulting on specialised investment solutions.

Strengthening the team

A new chief executive officer, Seelan Gobalsamy, was appointed with complete accountability for the business. To assist with delivery on the growth initiatives, an experienced head of product was also appointed.

Delivering on commitments

Key objectives identified in 2009	Assessment
Increase penetration into the existing small and medium enterprises market, including the use of alternative distribution channels	¾
Accelerate efforts to grow into the medium and large fund market	¾
Focus on servicing and retaining customers through an optimised operational infrastructure	✓
Maximise the value of corporate customers by cross and up-selling additional solutions throughout the group	✓
Continue to assess opportunities for the corporate product in other African markets	n/a
Adapt the business model taking account of the changing retirement fund landscape	¾

✓ = Substantially achieved ¾ = Good progress

½ = Moderate progress

n/a = discontinued as a strategic objective.

The way forward

Liberty Corporate has been positioned for growth and objectives for 2011 include:

- Launching an affordable and convenient tiered umbrella fund;
- Designing competitive investment products including multi-manager solutions and linked investments;
- Establishing relationships with the top-end market by emerging as a niche player providing investment and risk products;
- Continuing to reduce the cost base and streamline operations; and
- Building the investment skill set to leverage off STANLIB, LibFin and Standard Bank capabilities.

Growth



In response to changing industry dynamics, regulation and customer buying patterns, Liberty's growth strategy is driven by diversification and growing revenues from new sources. It seeks to identify and acquire new customer segments through innovative operating models and geographic expansion.

The Growth unit comprises:

Group bancassurance relationships: Leveraging Standard Bank's existing reach and capabilities will significantly assist in driving growth of Liberty's wealth solutions.

Liberty Health: Provides health solutions, including technology, administration and insurance services to more than 1,1 million customers in emerging markets.

Liberty Africa: Enables Liberty to expand into other African territories with the ultimate goal of becoming a leading wealth management company on the continent.

Frank Financial Services (Frank): Provides direct financial services to customers across different segments. It is owned and capitalised by Liberty Holdings, but operates as a completely independent business to the other insurance entities in the group.

Highlights of the year under review

- The health business experienced rapid membership growth
- A short-term insurance capability was established in East Africa through the acquisition of CfC in Kenya
- The African business was restructured and appropriate technical resources were deployed to support the acquisition of CfC in East Africa
- Frank was successfully launched
- The bancassurance agreement with Standard Bank was revised and expanded

Bancassurance

The bancassurance agreement with Standard Bank was revised and expanded effective 1 January 2011. The agreement emphasises the formulation of new acquisition models focusing on embedded products and new transactional and institutional acquisition models.

The new acquisition models and product lines will be implemented not only across Standard Bank's South African distribution footprint, but more broadly across the African continent.

The revised agreement also contemplates bringing new business lines into the ambit of bancassurance. These include investment, short-term insurance and health.

Growth – Liberty Health

Liberty Health is strategically structured as a multi-revenue health organisation.

Health consists of three business units:

- **VMed:** an accredited administration and managed care organisation with clients in South Africa and the rest of Africa. VMed provides administration services to medical schemes, health insurers and health management organisations.
- **NHA:** the largest independent health related IT vendor in Africa providing technology solutions covering more than one million lives. Its technology platforms are used by administration businesses in South Africa and other emerging markets.
- **Blue** provides health insurance to corporates for their employees in African countries excluding South Africa.

Highlights of the year under review

- VMed was awarded the contract to administer Spectramed Medical Scheme
- NHA was awarded the contract to provide technology solutions to Pro Sano Medical Scheme members
- NHA also secured a number of blue-chip clients in Africa, including Alexander Forbes (East Africa, UAP (Kenya) and Total Health Trust (Nigeria)
- The Liberty Blue health risk product (Blue) was successfully rolled out in 11 countries across Africa with a network of 1 400 medical providers on the continent

Performance review

Performance indicators	2010	2009
Earnings before interest, depreciation, tax and amortisation (Rm)	1	(62)
Headline loss – Liberty share (Rm)	(43)	(47)
Lives under administration ('000)	528	460
Lives processed on IT platforms ('000)	1 085	863
Risk lives in Africa ('000)	33	17

Liberty Health operates in a highly competitive South African environment and consequently came under margin pressure in 2010, particularly in the second half of the year. It was also impacted by early utilisation of annual benefit limits within the growing risk operations. This led to a headline loss for 2010 of which Liberty's share was R43 million. During 2010 the business focused on efficiency, with the core businesses of VMed and NHA being restructured to improve service levels.

The increase in lives under management from Spectramed and Pro Sano was to some extent offset by membership attrition in the Liberty Medical Scheme and Spectramed to the Government Employee Medical Scheme (GEMS). The growth in membership in Africa was positive, with the number of risk lives growing from 17 000 to 33 000 during 2010.

Report back on the focus areas for 2010

Strengthening the business

The health business continues to provide a platform from which to grow scale in South Africa to support an African health insurance business. The business continues to grow lives under management across 11 African countries and will enable Liberty to take advantage of risk pooling on the continent.

During 2009 and 2010 the administered lives grew rapidly and the management team is now focused on enhanced capacity management. This was supplemented by a focus on operational processes which improved customer service at VMed during 2010.

The resultant consolidation and restructuring now provides an optimal model for future growth of the business. Two offices were closed in Johannesburg and amalgamated

into a central Cape Town office, streamlining administration processes and increasing efficiency.

In East Africa, Liberty Health is in the process of finalising the integration of CfC and Heritage Health into a single health administration business, offering a standardised health insurance product under the Blue brand.

The secondment of resources to Nigeria to support Liberty Health's growth ambitions in the region was concluded with a substantial pipeline of new business being generated.

Meeting customers' needs across Africa

Over the past 18 months Blue expanded into 11 African countries. It offers comprehensive medical cover, in-country payment and technology solutions, leveraging Standard Bank's footprint across the continent. This has proved a powerful distribution channel to reach corporate customers. Blue is now being distributed to other multinationals in Africa, with the health insurance model positioning the business to grow its risk profits.

More than 1 400 health providers have been contracted into a health providers' network, enabling the management of supply of healthcare services through standardised tariffs. Products have been refined to take into account country-specific requirements and to provide customers with complete cover, including evacuation and out-patient benefits. The development of a new health insurance product aimed at Chinese and Indian temporary workers in Africa was completed and will be launched in 2011.

Growing the business

In South Africa, regulation affecting the private health industry has been implemented in the drive towards implementing a national health insurance model. Most of the changes have resulted in increased risk for medical schemes. Similarly, administration has become more complex and costly. As a result, Liberty Health is focused on creating scale to driving efficiencies and support the African health business.

Liberty Health's value proposition is not only to provide low cost administration services to increase accessibility to health cover, but also bespoke technology to differentiate its services. In addition, the business provides a number of entry points to win new business, build relationships and create up-selling opportunities.

African markets, where health insurance is funded outside of government expenditure with cash-based settlement practices, represent a lucrative opportunity for a professionally managed healthcare service provider such as Liberty Health. The business is able to provide locally priced competitive product sets, but also an administration and claims handling capability. The in-

country management of health provider networks in Africa, together with the intellectual property of benefits design, actual claims experience and the pooling of all African risk in a single cell captive creates competitive pricing capabilities.

Delivering on commitments

Key objectives identified in 2009	Assessment
Integrate Spectramed into the VMed administration	✓
Expand the technology membership base in South Africa and the rest of Africa	✓ ₂
Expand Liberty Health Blue into 17 countries in Africa behind the Standard Bank footprint in Africa	✓ ₄
Grow the membership of Blue to over 80 000 lives	✓ ₂

✓ = Substantially achieved ✓₄ = Good progress

✓₂ = Moderate progress

Looking forward

During 2011, Liberty Health's objectives include:

- Focusing on margin through reduced costs and improved claims experience with less emphasis on aggressively acquiring growth at low margin;
- Growing the administration business through mergers, acquisitions and third party administration;
- Establishing business units that leverage off the technology and administration business to generate additional revenue streams;
- Introducing NHA's new technology code to new markets; and
- Growing Blue to 75 000 lives.

Growth – Liberty Africa

Liberty Africa identifies and captures growth opportunities and facilitates the group's provision of a comprehensive wealth offering to customers. Geographical expansion is managed through regional management hubs.

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

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

Highlights of the year under review

- A stable African footprint has been established, with a substantial presence in East Africa
- United Funeral Insurance (UFI), a boutique funeral insurance service provider, was acquired in Namibia to provide additional scale to the Namibian insurance operations and to serve as localisation partners as required by legislation
- A country prioritisation framework, together with the revised strategy and operating models, was implemented
- The Liberty Africa team has been resourced with the necessary technical skills to implement the strategy across Africa

Performance review

Performance indicators	2010 Rm	2009 Rm
Headline earnings (Liberty share)	10	29
Insurance operations	9	36
Asset management	16	15
Liberty Health	1	1
Head office expenses	(16)	(23)
Insurance operations		
Indexed new business	68	32
Net insurance cash inflows	259	77
Asset management operations		
Net asset management cash inflows	6 480	4 327
Assets under management	29 005	22 347

Due to regulatory delays, the acquisition of CfC and Heritage in East Africa was not concluded during the year, negatively impacting earnings. Earnings were also affected by the 2010 bancassurance profit share of R15 million, previously paid by Retail SA, now being paid by Liberty Africa as well as a difficult trading environment in Namibia and Swaziland.

Asset management cashflows are ahead of 2009 due to better than anticipated inflows into segregated and money market assets, bringing assets under management to R29 billion.

Report back on the focus areas for 2010

Growing business in Africa

The case for the diversification of wealth businesses into African markets is compelling. With supportive macro-economic fundamentals in place as well as an improved regulatory and competitive landscape, sizeable opportunities exist, particularly in the areas of bancassurance, health and asset management.

The continent also has low financial services penetration and high levels of foreign direct investment. Growth in some African economies has resulted in growing middle

classes, with an increased propensity to spend. Pension fund and insurance reform driven by the International Monetary Fund also create opportunities. In addition, increased presence of South African multinationals creates a potentially large client base into which various wealth products can be sold.

During 2010, the strategic plan for geographical expansion was revisited and revised to focus on consolidation of existing businesses, with a specific focus on embedded product and group acquisition models in Africa. The cost base was right sized to support this.

The necessary skills and technical resources have been put in place in the East Africa region to assist with the implementation of the strategic plan. The business is on track to meet its return on investment hurdle rates within three years.

Localising African operations

Meeting localisation requirements through equity participation is important to ensure the long-term sustainability of Liberty's operations in Africa. This not only means involving local communities to achieve buy-in and unlock value for all stakeholders, but also ensuring commercial and social relevance in the countries in which operations are established.

In Botswana, Swaziland, Lesotho and Namibia, Liberty is creating opportunities for local partners to become involved not only as shareholders, but also as managers in the business. In Botswana, local partners now hold 25% of the equity in Liberty's local business. In Namibia, the acquisition of UFI has enabled Liberty Africa to localise 25% of its operations in the insurance sector and in Lesotho, Liberty will finalise plans to bring local partners on board during 2011.

Bedding down East African operations

The strategy of pursuing expansion into different territories was intentionally delayed during 2010 to enable management to focus on consolidating and bedding down the existing operations before making further acquisitions.

Skilled resources were seconded to East Africa to assist with the acquisition of the non-banking entities of CfC Stanbic in Kenya. The acquisition will provide Liberty with a complete set of businesses (investment, health, long- and short-term insurance) and will enable the group to provide a comprehensive wealth offering in East Africa. It was initially anticipated that this transaction would be completed during the first quarter of 2010, however, it was delayed through the regulatory approval process and will now be finalised during the first half of 2011.

Strengthening asset management and insurance capabilities

Assets under management grew to R29 billion during 2010. Kenya, Botswana, Lesotho and Swaziland made

strong contributions to this performance, especially in the institutional funds.

The insurance business grew substantially but did not meet its growth targets due to a slow take on of schemes and higher than anticipated claims experience.

Delivering on commitments

Key objectives identified in 2009	Assessment
Expand bancassurance activities and introduce local partners in Namibia and Botswana	✓
Pursue entry into Zambia, Mozambique and Angola to build regional scale	n/a
Secure a leading position in Kenya, Tanzania and Uganda through the acquisition of CfC	¾
Acquisition opportunities in Nigeria and Ghana will be explored	n/a
Leveraging competitive bancassurance advantage through Standard Bank's footprint	½
Establishing, where viable, independent wealth operations to service multiple wealth business lines through various distribution channels	✓
Integrate CfC business into the group	½
Enter markets by way of partnership, or by way of limited scale acquisitions with emphasis on low capital intensive businesses to maximise cash flow	½

✓ = Substantially achieved ¾ = Good progress

½ = Moderate progress

n/a = The strategic plan for geographical expansion was revisited and was revised to focus on consolidation and achieving the business cases of existing businesses and concluded acquisitions.

The way forward

Liberty Africa will focus on the following objectives for 2011:

- Bed down the CfC acquisition and unlocking value;
- Roll out the new bancassurance agreement;
- Drive down cost to income ratios across head office and in-country operations through improved processes and automation;
- Diversify distribution channels; and
- Eliminate loss-making lines of business.

Growth – Frank Financial Services (Frank)

Frank provides simple, convenient, fast and attractively priced products directly to consumers through web and mobile channels as well as call centres to action inbound marketing campaigns.

The business unit consists of:

- Frank Life, with its own life licence; and
- Frank Financial Services, a distribution company which provides opportunity for Liberty to expand into direct investment and short-term insurance over the longer term.

Highlights of the year under review

- Successfully launched in fourth quarter 2010, after two years of research and development
- Offers four products: life cover, serious illness cover, disability cover and salary protection, with more products to follow
- Web-enabled technology platform is mobile and scalable across geographies giving the group a portable platform for rapid deployment into new markets
- Enables Liberty to explore multiple distribution channels for different markets and leverage the Standard Bank Affinity relationships

Report back on the focus areas for 2010

Diversifying distribution channels

Mobile and internet technologies are making financial services more accessible to more customers and present an important opportunity for expansion. Combined with changing customer demographics and buying patterns, harnessing technology to explore new distribution models remains a key focus of the growth unit.

The establishment of a direct financial services capability, through Frank, not only diversifies Liberty's distribution channels, but provides a technology platform that can be leveraged into transactional models in Africa, generating further returns on the investment.

The shift in social and income demographics in South Africa over the next few years will lead to exponential growth in internet usage. The ageing of a young population, combined with a growing rate of penetration across the African continent of digital and mobile technologies, will have a significant impact on buying patterns with direct players positioned to benefit from these trends. Frank capitalises on the life investment market by addressing a gap in the market. It is not licensed to provide any degree of financial advice and is not able to access any Liberty customer data by law and by design.

Meeting customers' needs

Frank is a technologically enabled company that aims to meet the needs of a new un-serviced customer segment, which is inaccessible and unviable for financial advisers. Its core proposition is to service the transactional needs of clients who do not seek or need advice, but who want a simple and immediate solution to an insurance need.

The business has positioned itself to play a significant role in servicing the needs of social media networks such as Facebook and YouTube as well as search engines such as Google and Yahoo. In the mobile arena, Frank will capitalise on the growth and penetration of mobile networks in South Africa and across the African continent.

Frank embraces the paperless way of doing business, with policies contracted through the web medium.

Enhancing technology

Frank's web-based operating system uses an intelligent interactive approach which means that each client is asked to answer a limited number of questions that are appropriate to their individual circumstances. This approach simplifies and speeds up the underwriting process, enabling Frank to accurately assess the risk of each policy and provide customised pricing through technology-enabled platforms, representing a significant innovation for the market.

The way forward

Frank's objectives for 2011 include:

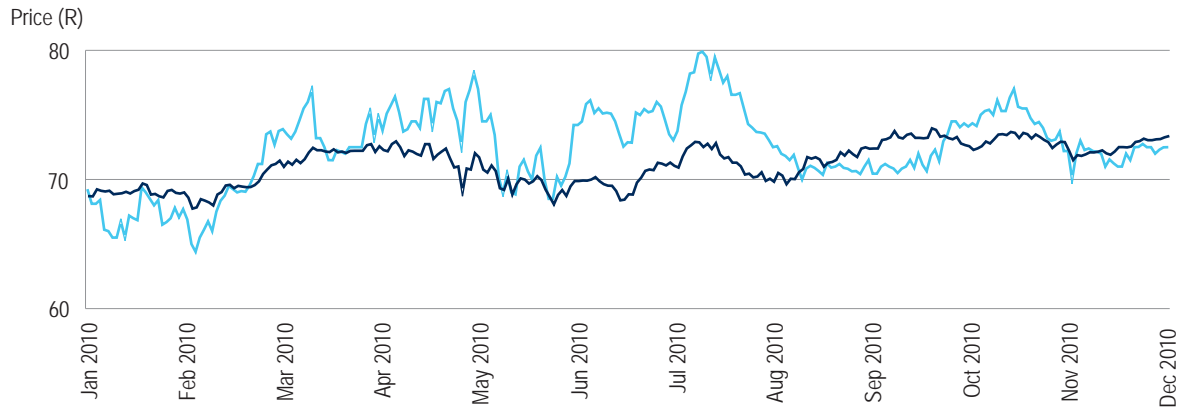
- Growing policy values and number of policies sold;
- Focusing on profitability;
- Launching new investment and health products;
- Growing access to products via mobile technology;
- Supporting the Standard Bank Affinity programme; and
- Investigating expansion opportunities into other African territories and other emerging markets.

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shareholder information

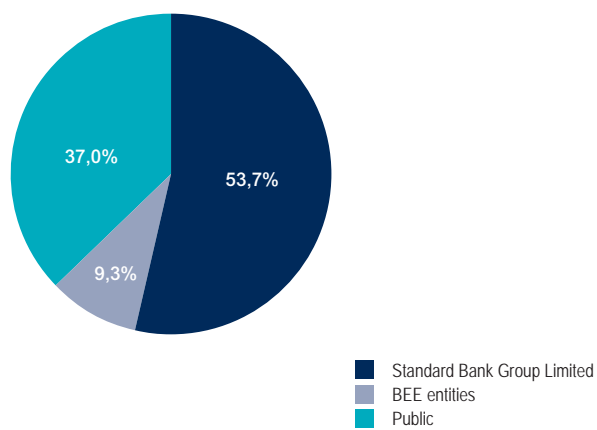
Share price performance 2010
Sector comparison over one year



Source: Dalastream

— Liberty Holdings Limited — Financial services index

Effective ownership of the group



■ Standard Bank Group Limited
■ BEE entities
■ Public

Shareholder analysis

Ordinary shareholders' spread

	Number of shareholders	%	Number of shares	% of issued shares
1 – 10 000 shares	7 875	94,05	4 805 262	1,68
10 001 – 100 000 shares	351	4,19	11 806 388	4,13
100 001 – 1 000 000 shares	125	1,49	35 981 254	12,57
1 000 001 – 10 000 000 shares	19	0,23	52 444 233	18,34
10 000 001 shares and over	3	0,04	180 985 236	63,28
	8 373	100,00	286 022 373	100,00

Distribution of ordinary shareholders

	Number of shareholders	%	Number of shares	% of issued shares
Licenced financial institutions	189	2,26	192 245 249	67,21
BEE empowerment vehicles	4	0,05	25 796 145	9,02
Other empowerment vehicles	1	0,01	835 572	0,29
Individuals	6 644	79,35	5 206 983	1,82
Mutual funds	189	2,26	23 702 705	8,29
Nominees and trusts	793	9,47	2 189 046	0,77
Retirement vehicles and medical aid schemes	258	3,08	35 011 827	12,24
Companies and corporations	295	3,52	1 034 846	0,36
	8 373	100,00	286 022 373	100,00

Non-public/public ordinary shareholders

	Number of shareholders	%	Number of shares	% of issued shares
Non-public shareholders	7	0,08	180 089 083	62,96
Standard Bank Group Limited	1	0,01	153 456 360	53,65
BEE empowerment vehicles	4	0,05	25 796 145	9,02
Other empowerment vehicles	1	0,01	835 572	0,29
Directors' holdings	1	0,01	1 006	
Public shareholders	8 366	99,92	105 933 290	37,04
	8 373	100,00	286 022 373	100,00

Beneficial ordinary shareholders holding 3% or more

	Number of shares	% of issued shares
Standard Bank Group Limited	153 456 360	53,65
Government Employees Pension Fund	21 452 385	7,50
The Black Managers' Trust (Lexshell 622 Investments (Pty) Ltd)	10 318 458	3,61

Shareholder analysis (continued)

Preference shareholders' spread

	Number of shareholders	%	Number of shares	% of issued shares
1 – 1 000 shares	16	10,39	10 152	0,07
1 001 – 10 000 shares	40	25,97	215 525	1,44
10 001 – 100 000 shares	66	42,86	2 915 056	19,43
100 001 – 1 000 000 shares	30	19,48	6 372 593	42,48
1 000 001 shares and over	2	1,30	5 486 674	36,58
Total	154	100,00	15 000 000	100,00

Distribution of preference shareholders

	Number of shareholders	%	Number of shares	% of issued shares
Close corporations	1	0,65	156 510	1,04
Individuals	116	75,33	6 149 020	40,99
Mutual funds	2	1,30	1 483 574	9,89
Nominees and trusts	24	15,58	2 028 610	13,53
Other corporations	1	0,65	5 000	0,03
Private companies	9	5,84	1 096 186	7,31
Public companies	1	0,65	4 081 100	27,21
	154	100,00	15 000 000	100,00

Beneficial preference shareholders holding 5% or more

	Number of shares	% of issued shares
Nedbank Corporate Private Equity	4 081 100	27,21
Santam RSA Equity Portfolio	1 405 574	9,37

Dividend policy and distributions

The initial base for the dividend policy was determined in 2004. Subject to the statutory CAR cover remaining above 1,5 times, growth in the group's dividend will be broadly in line with the medium-term growth in embedded value. The interim dividend will be declared as 40% of the previous full year's dividend.

Total distributions to shareholders	2010 Rm	2009 Rm
Paid		
Ordinary shareholders	1 301	1 301
2009 final capital reduction No. 82 of 291 cents (2008: capital reduction No. 80 of 291 cents) paid on 29 March 2010 to shareholders registered on 26 March 2010	832	832
2010 interim capital reduction No. 83 of 164 cents (2009: capital reduction No. 81 of 164 cents) paid on 6 September 2010 to shareholders registered on 3 September 2010	469	469
Preference shareholders	2	2
Dividend 64 (2009: No. 62) of 5,5 cents paid on 5 July 2010 to shareholders registered on 2 July 2010	1	1
Dividend 65 (2009: No. 63) of 5,5 cents paid on 3 January 2011 to shareholders registered on 31 December 2010	1	1
Total	1 303	1 303

Declared dividend

The directors have agreed to maintain the final distribution, balancing shareholder expectations with the need to fund growth and taking account of the previous distributions which were paid in less favourable circumstances.

The directors have approved a final dividend of 291 cents per ordinary share, to shareholders recorded at the close of business on 25 March 2011 to be paid on 28 March 2011.

Shareholder distributions (per share)	2010 Cents	2009 Cents
Interim	164	164
Final	291	291
Total	455	455

Shareholders' diary

Financial year end	31 December 2011
Declaration of final distribution for 2010	24 February 2011
Final distribution for 2010 paid to ordinary shareholders	28 March 2011
Annual general meeting	13 May 2011
Preference dividend declared for the six months ended 30 June 2011	6 June 2011
Preference dividend paid for the six months ended 30 June 2011	4 July 2011
Publication of interim results and declaration of interim distribution	4 August 2011
Interim distribution for 2011 paid to ordinary shareholders	5 September 2011
Preference dividend declared for the six months ended 31 December 2011	5 December 2011
Preference dividend paid for the six months ended 31 December 2011	3 January 2012

Annual general meeting

Liberty has chosen to delay the distribution of the formal notice of the Annual General Meeting, to be held on 13 May 2011, until there is greater clarity in respect of the implementation of the new South African Companies Act.

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financial reports

Approval of the annual financial statements

In accordance with Companies Act requirements, the directors are responsible for the preparation of the annual financial statements which conform with International Financial Reporting Standards (IFRS) and in accordance with IFRS, fairly present the state of affairs of the company and the group as at the end of the financial year, and the net income and cash flows for that period.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for shareholder investments and group assets. Accounting policies supported by judgements, estimates, and assumptions which comply with IFRS are applied on a consistent and going concern basis. 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 detail of such, including the operation of the internal audit function, is provided in the governance and risk management section of the report.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Group Embedded Value report as set out on pages 28 to 35 and the financial statements of the group and company for the year ended 31 December 2010, prepared in accordance with IFRS, which are set out on pages 202 to 302 were approved by the board of directors on 23 February 2011 and signed on its behalf by



JB Hemphill
Chief executive



SJ Macozoma
Chairman

Johannesburg
23 February 2011

Certificate by the company secretary

Compliance with Companies Act 61 of 1973

In terms of Section 268g(d) of the Companies Act, 1973, as amended, I certify that the company has lodged with the Registrar of Companies all such returns as are required by the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.



J Parratt
Company secretary

Johannesburg
23 February 2011

Independent auditor's report

To the members of Liberty Holdings Limited

We have audited the group annual financial statements and annual financial statements of Liberty Holdings Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate statements of comprehensive income, changes in shareholders' funds and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 202 to 302.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Liberty Holdings Limited as at 31 December 2010, 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 in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Inc.

Director: **V Muguto**

Registered auditor

Johannesburg

23 February 2011

Report of the group audit and actuarial committee for the year ended 31 December 2010

The group audit and actuarial committee (GAAC) has been constituted in accordance with applicable legislation and regulations. The members of the GAAC are all independent non-executive directors of the group. Four meetings were held in 2010 during which the members fulfilled their functions as prescribed by the Companies Act, 61 of 1973 and the Long-term Insurance Act, 52 of 1998.

The members of the GAAC were formally appointed by the board during the year. The composition of the committee and details of their attendance at committee meetings is set out on page 179. The committee executed its duties and responsibilities, in accordance with the terms of reference of its mandate. Detail of the activities of the GAAC is contained in the corporate governance section on page 80.

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 the chairman of the group risk committee during 2010 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 and external auditors, the GAAC is of the opinion that the accounting and internal controls, including the internal financial controls, are adequate. Nothing has come to the attention of the GAAC to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report.

The GAAC has satisfied itself that the auditors are independent of the group and thereby are able to conduct their audit functions without any influence from the group. The GAAC has reviewed the performance, appropriateness and expertise of the financial director, Mr Casper Troskie, and confirms his suitability as financial director in terms of the JSE Listings Requirements. The GAAC has also satisfied itself, through the assurance from the internal and external auditors, of the expertise, resources and experience of the group's finance function.

The GAAC has reviewed the integrated annual report and recommended the report to the board for approval.



Tim Ross

Chairman

Group audit and actuarial committee

Johannesburg

23 February 2011

Directors' report

The directors of Liberty Holdings Limited have pleasure in presenting their report, which forms part of the audited annual financial statements of the group for the year ended 31 December 2010.

Main business activities

Liberty is the holding company of various operating subsidiaries engaged in the provision of financial services including long-term insurance, investment, asset management and health risk and administration.

Liberty is incorporated in the Republic of South Africa and is a public company listed on the JSE.

Review of results

Ordinary shareholders' attributable headline earnings for the group were R2 522 million, considerably improved from R42 million in 2009 due mainly to improved persistency in the group's insurance operations and positive investment performance. Detailed commentary on these results is contained throughout the various sections in the accompanying annual report.

Corporate governance

The directors of the company have unanimously adopted the principles recommended in the South African Code of Corporate Practice and Conduct obtained in the King Report on Corporate Governance – 2002 (King II). In addition, the directors have unanimously endorsed the recently published King Report on Corporate Governance for South Africa 2009 (King III) which is effective for years commencing on or after 1 March 2010. The directors have elected to report against the King III principles in the accompanying annual report as the group will apply these principles in the forthcoming year. Compliance disclosures are included in the governance and risk management disclosures within the annual report.

Share capital

There were no changes in the authorised or issued share capital of the company during the financial year.

Capital reductions in lieu of dividends/dividends

2009 final

On 24 February 2010, the directors declared a cash distribution by means of a capital reduction out of share premium of 291 cents per ordinary share in lieu of a final dividend, to shareholders recorded at the close of business on 26 March 2010, which was paid on 29 March 2010.

2010 interim

On 5 August 2010, a capital reduction out of share premium of 164 cents per ordinary share in lieu of an interim dividend was declared to shareholders recorded at the close of business on 3 September 2010 and was paid on 6 September 2010.

2010 final

On 23 February 2011, the directors declared an ordinary dividend of 291 cents per share to shareholders recorded at the close of business on Thursday, 17 March 2011, to be paid on Monday, 28 March 2011.

Directorate and secretary

Particulars of the company's directors are contained on pages 66 and 67. Resignations and appointments to the board during the year were as follows:

Mr HI Appelbaum resigned at the close of the board meeting on 12 May 2010 due to other commitments. In terms of the Articles of Association Mr A Romanis retired at the close of the annual general meeting on 13 May 2010, having reached the age of 70. Mr RG Tomlinson resigned on 30 June 2010 in line with his stated intention to pursue other interests.

Mr WR Harte resigned as financial director on 12 October 2010 to pursue an opportunity within the greater Standard Bank group and Mr CG Troskie was appointed in his place on the same date.

The company secretary is Jill Parratt. The address of the company secretary is that of the registered office as stated in this annual report.

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

At the date of this report, the directors held, directly and indirectly, interests in the company's ordinary issued share capital as reflected on page 69 of this report.

There have been no changes to the interest of directors, including their families, in the share capital as disclosed above to date of approval of the annual financial statements, namely 23 February 2011.

Shares/rights under option

Liberty operates various share incentive schemes, being the Liberty Life Association of Africa Limited Share Trust, The Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme.

An analysis of Liberty's obligations in respect of ordinary shares under options or rights and the movement in executive directors' interest in shares under options/rights at 31 December 2010 is included in pages 69 to 73.

Contracts

Shareholders are referred to the related party disclosure in note 39 to the group financial statements for disclosure pertaining to contracts relating to directors.

Holding company

At 31 December 2010, the group's holding company, Standard Bank Group Limited, held 53,65% (2009: 53,65%) of Liberty.

Restructuring and acquisitions during the year**Restructure**

With effect from 1 January 2010 the following subsidiaries were transferred from Liberty Group Limited to Liberty Holdings Limited via *in specie* dividends and capital distribution from share premium:

- Capital Alliance Holdings Limited
- Libgroup Jersey Holdings Limited
- Liberty Group Properties (Proprietary) Limited
- Liberty Health Holdings (Proprietary) Limited
- Lexshell 615 (Proprietary) Limited
- Liberty Nominees (Proprietary) Limited
- Stonehouse Capital (Proprietary) Limited
- Liberty Group Shelf Company No. 1 (Proprietary) Limited
- STANLIB Limited

These transfers are part of the phased restructure of the group to separate the non South African long-term insurance subsidiaries from the direct control by Liberty Group Limited. The purpose of the restructure is to ensure optimisation of capital, regulatory and governance structures.

Acquisitions

Liberty Holdings Limited acquired the following shareholdings from the Standard Bank group:

- 100% of Stanlib (Swaziland) (Proprietary) Limited; and
- Additional 50% of Stanbic Investment Management Services (Proprietary) Limited.

The wholly owned subsidiary, Liberty Group Limited acquired an additional 5,0% holding in the joint venture, Total Health Trust Limited from Tritech Computers (Nigeria) Limited.

The 75% owned subsidiary, Liberty Holdings Namibia (Proprietary) Limited acquired 100% of United Funeral Insurance Limited from United Africa Group (Proprietary) Limited.

Refer note 34 for further details.

Subsidiaries, associates and joint ventures

The interests in subsidiary companies and in associated and joint venture companies, where considered significant in the light of the group's financial position and results, are set out in note 39.

Subsidiaries

Details of the interests in subsidiary companies are contained in note 5 to the company financial statements.

Shareholders

At 31 December 2010 Liberty had 8 373 (2009: 8 635) shareholders, consisting of individuals, corporate investors and financial institutions.

Analyses of Liberty ordinary and preference shares at 31 December 2010 are included in the shareholder information section of this report.

Special resolutions during the year 2010

Group companies passed the following special resolutions during the year for the purposes indicated:

Liberty Holdings:

To authorise the acquisition of shares by the company or a subsidiary.

Name changes:

- Abrina 7055 Limited to Frank Life Limited
- Friedshelf 965 (Proprietary) Limited to Frank Financial Services (Proprietary) Limited

Management by third parties

None of the businesses of the company or its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest.

Borrowing powers

In terms of the company's Articles of Association the amount which the group may borrow is unlimited. However, any borrowings within the subsidiary life licence entities are subject to the Financial Services Board of South Africa's prior approval.

Events after reporting date

There are no significant events after the reporting date, being 31 December 2010, to the date of approval of the annual financial statements, namely 23 February 2011.

Accounting policies

Summary of significant accounting policies

1. Basis of preparation

The 2010 consolidated and company financial statements of Liberty Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), and comply with the South African Companies Act.

All amounts are shown in rand millions unless otherwise stated.

IFRS comprise International Financial Reporting Standards, International Accounting Standards and Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or after 1 January 2010.

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

Carried at fair value:

- Derivative financial instruments;
- Financial instruments held for trading or designated at fair value through profit or loss;
- Investment properties and owner-occupied properties;
- Interests in mutual funds which are included in interests in associates;
- Policyholder investment contract liabilities; and
- Third party financial liabilities arising on the consolidation of mutual funds.

Carried at a different measurement basis:

- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the financial soundness valuation (FSV) basis as set out in note 16 to the accounting policies; and
- Retirement benefit obligations which are measured in terms of the projected unit credit method.

Accounting policy elections

The group has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- Interests in joint ventures are accounted for using equity accounting principles (accounting policy 2);
- Mutual fund investments, held by investment-linked insurance funds, in which the group holds between 20% – 50% economic interest, are designated on initial recognition as at fair value through profit or loss (accounting policy 2);
- Equipment is stated at cost less accumulated depreciation (accounting policy 4);
- Investment and owner-occupied properties are accounted for using the fair value model (accounting policy 5);
- After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses (accounting policy 6);
- In general, financial assets are designated as at fair value through profit or loss (accounting policy 8); and
- Unrecognised actuarial gains or losses on post-employment benefits are recognised in profit or loss over a period not exceeding the expected average remaining working life of active employees (accounting policy 22).

Changes in accounting policies

The accounting policies are consistent with those adopted in the previous year except for the following:

Short-term insurance

The group has adopted a policy relating to short-term insurance (medical expense risk) as a result of undertaking short-term insurance business in the year under review. Refer to accounting policy 16 Policyholder insurance and investment contracts for further details.

Common control transactions

Phase 2 of the group restructuring included transferring via dividend distributions the existing non long-term insurance subsidiary legal entities from Liberty Group Limited to direct ownership by Liberty Holdings Limited. Accordingly, the group expanded its accounting policy for common control transactions to reflect the accounting treatment for the distributions and receipt of ordinary shares within the group. Refer to accounting policy 2 Basis of consolidation for further details.

Accounting policies (continued)

1. Basis of preparation (continued)

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

Refer to standards or interpretations early adopted for detail on changes in accounting policies as required by this amendment.

New or amended standards and interpretations effective in 2010

The following revisions or amendments to published standards are mandatory for the group's accounting periods beginning on or after 1 January 2010:

Standard/interpretation	Scope	Effective date
Conceptual Framework for Financial Reporting 2010	Covers the objective of financial reporting and qualitative characteristics of useful financial information.	Issued in September 2010, with immediate effect
IFRS 3 <i>Business Combinations</i> (Revised 2008)	Scope of the standard extended to apply to business combinations involving only mutual entities and to business combinations achieved by contract alone. All acquisition-related costs should be expensed.	Annual periods beginning on or after 1 July 2009
Amendments to IAS 27 <i>Consolidated and Separate Financial Statements</i>	Addressing accounting for step acquisitions and acquisitions of additional non-controlling interests in subsidiaries (or disposals thereof).	Annual periods beginning on or after 1 July 2009

Whilst applicable to the group, the changes to the framework have not resulted in any changes to accounting policies or disclosures. In respect of the IFRS 3 and IAS 27 amendments, refer to accounting policy 2 Basis of consolidation for the group's revised accounting policies. Whilst these amendments have resulted in changes to the group's accounting policies, there has not been any material impact on any of the financial statement line items or earnings per share in 2010.

New or amended standards and interpretations effective in 2010 and not significant or applicable to the 2010 results of the group

The group has also adopted all other effective new and amended IFRSs (not previously early adopted), as of 1 January 2010. The following new standards, amendments or interpretations are effective for the current financial year with no material impact on the group's accounting policies or results, and no restatement of prior period results.

Standard/interpretation	Scope	Effective date
IFRIC 17 <i>Distributions of Non-Cash Assets to Owners</i>	IFRIC 17 clarifies the accounting treatment for non-cash distributions of non-cash assets to owners.	Annual periods beginning on or after 1 July 2009
Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (2008 Improvements)	Addresses the relevant disclosure requirements where an entity is committed to a sale involving the loss of control of a subsidiary.	Annual periods beginning on or after 1 July 2009
Amendments to IFRS 2 <i>Share-based Payment</i>	Clarifies that business combinations are outside the scope of IFRS 2.	Annual periods beginning on or after 1 July 2009
Amendments to IAS 17 <i>Leases</i>	Classification of leases of land and buildings.	Annual periods beginning on or after 1 January 2010
Amendments to IAS 38 <i>Intangibles</i>	Additional consequential amendments arising from revised IFRS 3.	Annual periods beginning on or after 1 July 2009
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Scope exemption for business combinations.	Annual periods beginning on or after 1 January 2010
Amendments to IFRIC 19 <i>Reassessment of Embedded Derivatives</i>	Scope of IFRIC 19 amended so that certain acquired embedded derivatives remain outside the scope.	Annual periods beginning on or after 1 July 2009

Accounting policies (continued)

1. Basis of preparation (continued)

New or amended standards or interpretations early adopted

In line with the group's holding company, the following amendment has been early adopted in accordance with the transitional provisions of the standards or interpretations.

Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued in December 2010, effective for annual periods beginning on or after 1 January 2012, with earlier application permitted).

In terms of the amendment, if deferred tax liabilities or assets arise from investment properties that are measured using the fair value model in IAS 40 *Investment Properties*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

The group has elected to early adopt the IAS 12 amendment, which requires retrospective application. This has resulted in the deferred tax liability previously raised in respect of certain investment property surpluses being restated from the use rate to the sale rate and has correspondingly reversed the reduction to policyholder liabilities. The affected comparative figures for 2009 and, in the case of the financial statement position and related notes for 2008, have been restated and presented in the annual financial statements for the year ended 31 December 2010.

There is no impact on total earnings or earnings per share. Refer to note 42 for further details on the restatement.

New or amended standards and interpretations applicable to the group not yet effective

The following new standards and interpretations are not yet effective for the current financial year. The group will comply with the new standards and interpretations from the effective date.

Standard/interpretation	Scope	Effective date
IFRS 3 <i>Business Combinations</i>	Transitional requirements for contingent considerations in a business combination that occurred before the effective date of the revised IFRS 3, measurement of non-controlling interests and the requirement for the application guidance in IFRS 3 to be applied to un-replaced and voluntarily replaced share-based payment awards.	Annual periods beginning on or after 1 July 2010
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity.	Annual periods beginning on or after 1 January 2011
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Transition requirements for amendments.	Annual periods beginning on or after 1 July 2010
IFRIC 13 <i>Customer Loyalty Programmes</i>	Clarifying the fair value of an award credit.	Annual periods beginning on or after 1 January 2011
IFRS 9 <i>Financial Instruments</i>	<p>This standard introduces new requirements for the classification and measurement of financial assets and liabilities. All recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows and those cash flows are solely payments of principal and interest generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss. A fair value option (provided certain specified conditions are met) is still available as an alternative to amortised cost measurement.</p> <p>In terms of financial liabilities, entities that elect to measure a financial liability at fair value will now present the portion of the change in fair value due to the changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss.</p>	Annual periods beginning on or after 1 January 2013

Accounting policies (continued)

1. Basis of preparation (continued)

New or amended standards and interpretations applicable to the group not yet effective (continued)

Standard/interpretation	Scope	Effective date
Amendments to IFRS 7 <i>Financial Instruments</i>	These amendments emphasise the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.	Annual periods beginning on or after 1 January 2011
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i>	These amendments improve the disclosure requirements in relation to transferred assets.	Annual periods beginning on or after 1 July 2011
Amendments to IAS 24 <i>Related Party Disclosures</i>	The revised standard clarifies the definition of a related party, requires additional disclosure in respect of commitments between related parties and provides certain exemptions for government-related entities.	Annual periods beginning on or after 1 January 2011
Amendments to IAS 34 <i>Interim Financial Reporting</i>	These amendments provide guidance on IAS 34 disclosure requirements.	Annual periods beginning on or after 1 January 2011

It is not expected that the above amendments will have any material impacts to the group results or disclosures.

Other potential accounting developments

The IASB have issued the following exposure drafts which, if issued as standards, are likely to materially impact the group's current financial position:

- Insurance contracts
- Revenue recognition on contracts with customers
- Leases

As these documents are still in the exposure draft phase, there is still insufficient clarity to be able to report on the implications of the proposed standards.

2. Basis of consolidation

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

Interests in subsidiaries

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

Subsidiaries are entities in which the group has the power to govern their financial and operating policies and/or in which the group has more than 50% of the voting rights or economic interest. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the group controls another entity.

The results of the subsidiaries are included from the date on which control is transferred to the group (effective date of acquisition) and are no longer included from the date that control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in profit or loss. Interests in subsidiary companies in the company financial statements are shown at cost less any required impairment (which is assessed annually). Any acquisition-related costs are recorded as expenses in the period in which they are incurred, except for the costs to issue debt or equity securities which are recognised in accordance with IAS 32 and IAS 39.

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

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

Accounting policies (continued)

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 the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The cost of an investment in a subsidiary is adjusted to reflect changes in consideration arising from contingent consideration amendments. Transaction costs for any business combination prior to 1 January 2010 are capitalised as part of the cost of an acquisition. Transaction costs on or after 1 January 2010 are recognised within profit or loss as and when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the group's share of the identifiable net assets, is recorded as goodwill.

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

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

Interests in joint ventures

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

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

Interests in associates

Those mutual funds in which the group has between 20% and 50% economic interest, backing policyholder liabilities, therefore providing significant influence, are deemed to be interests in associates and are, on initial recognition, designated as at fair value through profit or loss, based on the scope exemption in IAS 28 *Investments in Associates* for investment-linked insurance funds.

Initial measurement is at fair value on trade date with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the balance sheet 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.

Accounting policies (continued)

2. Basis of consolidation (continued)

Distributions of ordinary shares held in subsidiaries

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

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

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

Transactions with non-controlling interests

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

3. Foreign currencies

Foreign currency translation

The group's presentation currency is South African rand (ZAR). The functional currency of the group's operations is the currency of the primary economic environment where each operation physically has its main activities.

Transactions and balances

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

Group foreign operations

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

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

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

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

4. Equipment and owner-occupied properties under development

Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Maintenance and repairs, which neither add to the value of assets nor appreciably prolong their useful lives, are recognised in profit or loss. Profits or losses on disposal are included within general marketing and administration expenses in profit or loss.

When significant components of equipment have different useful lives, those components are accounted for and depreciated as separate items.

Accounting policies (continued)

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

Properties under development

Properties under development are owner-occupied properties not yet available for own use. Properties under development are carried at cost less any required impairment. This asset is impaired if the recoverable amount is less than the cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once development is complete, the properties are transferred to owner-occupied properties. Investment property under development is included in investment properties.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis at rates appropriate to the expected useful lives of the assets. Depreciation is calculated on the cost less any impairment and expected residual value. No depreciation is charged on properties under development. The estimated useful lives applied are as follows:

• Computer equipment	3 – 5 years
• Purchased computer software	5 years
• Fixtures, furniture and fittings	8 – 10 years
• Office equipment and office machines	5 – 8 years
• Motor vehicles	5 years
• Plant and machinery	15 years

There has been no change to useful lives from those applied in the previous financial year. The residual values and useful lives are reassessed on an annual basis.

5. Properties

Investment properties

Investment properties are held to earn rental income and capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development and fair value adjustments. Developments on existing properties are measured at fair value. Investment properties include property that is being constructed or developed for future use as investment property.

Owner-occupied properties

Owner-occupied properties are held by the group for use in the supply of services or for its own administration purposes.

Measurement

Investment properties are reflected at valuation based on open-market fair value at the statement of financial position date. Owner-occupied properties are stated at revalued amounts, being fair value at the date of valuation less subsequent accumulated depreciation for buildings and accumulated impairment losses. If the open-market valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. If the fair value of investment property under construction or development cannot be measured reliably, it is measured at cost until such time as construction is complete or fair value can be reliably measured. The open-market fair value is determined annually by independent professional valuers. The fair value adjustments on investment properties are included in profit or loss as investment gains in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination. The fair value adjustments on owner-occupied properties are recognised in other comprehensive income and accumulated in a revaluation reserve in equity to the extent that the accumulated adjustment is a surplus. Any accumulated deficits are recorded in profit or loss. On disposal or transfer (change in use) of owner-occupied properties to investment properties, the amounts included in the revaluation reserve are transferred directly to retained surplus. The deemed cost for any re-classification (between investment properties and owner-occupied properties) is at fair value, at the date of reclassification.

Accounting policies (continued)

5. Properties (continued)

Depreciation in respect of owner-occupied properties

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

6. Intangible assets

Goodwill

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

With effect from 1 January 2004, goodwill is capitalised at opening net carrying value for business combinations prior to that date, or cost in respect of subsequent acquisitions. Goodwill is allocated to the applicable cash-generating units for the purposes of impairment testing. Goodwill is tested annually for impairment and carried at capitalised value less accumulated impairment losses. Any impairment calculated is expensed to profit or loss. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of materials and employee services used or consumed in generating the intangible asset. Capitalisation is further limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development.

Computer software development costs recognised as assets are amortised in profit or loss on a straight-line basis at rates appropriate to the expected useful life of the asset. Amortisation commences from the date the software is available and brought into use. As the software is proprietary and specific to the group operations, no residual value is estimated.

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

Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of a subsidiary, the present value of acquired in-force (PVIF) business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset and amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts. The estimated life is re-evaluated annually. These cash flows ignore the effects of taxation as this is separately adjusted for on application of the deferred taxation accounting policy. The PVIF is carried in the statement of financial position at cost less any accumulated amortisation.

Customer relationships and contracts

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

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

Accounting policies (continued)

6. Intangible assets (continued)

Technology-based intangible assets

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

Amortisation of intangibles

Amortisation of intangibles is charged to profit or loss. Goodwill is not amortised. The expected useful lives are as follows:

- | | |
|--|--------------|
| • Computer software development costs | 2 – 7 years |
| • PVIF business | 5 – 12 years |
| • Customer relationships and contracts | 7 years |
| • Purchased software | 7 years |

7. Impairment

The carrying amounts of the group's assets are reviewed on an annual basis to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Financial assets carried at amortised cost

The group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the group about the following events:

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

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

Accounting policies (continued)

7. Impairment (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed in profit or loss.

Goodwill

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

Impairment of other non-financial assets

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

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

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

8. Financial assets

The group classifies its financial assets at initial recognition into categories, namely held at fair value through profit or loss, held-to-maturity investments and loans and receivables. The classification depends on the purpose for which the asset was acquired and, with the exception of those held at fair value through profit or loss, is reassessed on an annual basis.

In general, financial assets are designated as at fair value through profit or loss, as the group's strategy is to manage financial investments acquired to match its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. Financial assets comprise financial instruments, pledged assets and interests in associates to which the scope exemption in IAS 28 *Investments in Associates* applies.

Initial measurement

Purchases and sales of financial assets are recognised on trade date, which is the date on which the group assumes or transfers substantially all risks and rewards of ownership. Financial assets are initially recognised as follows:

- Fair value through profit or loss – at fair value on trade date, with transaction costs recognised in profit or loss.

This category has two sub-categories, namely financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial instruments that are classified as held for trading are those that are:

- (i) acquired or incurred principally for the purpose of selling or repurchasing in the short term; or
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Accounting policies (continued)

8. Financial assets (continued)

Financial assets designated as at fair value through profit or loss at inception are those that are:

- (i) used to match investment contract liabilities held at fair value and/or insurance contract liabilities, and this designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis; or
 - (ii) managed within the group and performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group executive committee. The group's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair value. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.
- Held-to-maturity and loans and receivables – at fair value on trade date plus transaction costs that are directly attributable to their acquisition.

Those mutual funds in which the company and group have between 20% and 50% economic interest, providing significant influence, are deemed to be interests in associates and are, on initial recognition, designated as at fair value through profit or loss, based on the scope exemption in IAS 28 relating to investment-linked insurance funds.

Subsequent measurement

Financial assets classified as fair value through profit or loss

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in profit or loss within net fair value gains on financial assets at fair value in the period in which they arise. The fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined by reference to regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the statement of financial position date. If quoted market prices are not available, reference can also be made to readily and regularly available broker or dealer price quotations. For units in mutual funds and shares in open ended investment companies, fair value is determined by reference to published repurchase prices.

If a market for a financial asset is not active, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current market value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

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

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

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

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

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

Accounting policies (continued)

8. Financial assets (continued)

Swaps

Swaps are fair valued using a discounted cash flow model. Cash flows are projected either by using the applicable fixed coupon, or by extrapolating the future variable coupon using an applicable market implied curve. These coupons are then valued using a market implied swap discount curve.

Forwards

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

Unlisted equities (including unlisted variable rate preference shares)

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

Fixed deposits and negotiable certificates of deposit

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

Investment policies with other insurers

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

Over-the-counter options (OTC)

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

Pledged assets

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

Financial assets classified as held-to-maturity

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

Loans and receivables

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

9. Financial liabilities

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

Financial liabilities are initially recognised at fair value, net of transaction costs that are directly attributable to the raising of the funds.

The fair value of financial liabilities is determined using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate for a similar instrument adjusted for the credit risk of Liberty.

Derivative financial liabilities are subsequently measured as described in note 10.

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

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

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

Accounting policies (continued)

10. Derivative financial instruments

Derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivative financial instruments are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis. All gains or losses on measurement are recognised in profit or loss within investment gains or losses.

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.

11. Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the investments have expired or on trade date when they have been transferred and the group has also transferred substantially all risks and rewards of ownership. Non-cash financial assets pledged, where the counterparty has the right to sell or repledge the assets to a third party, are classified as pledged assets.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

12. Cash and cash equivalents

Cash and cash equivalents comprise balances with bankers, highly liquid short-term funds on deposit and cash on hand, but do not include money market securities held for investment. Instruments included in this category are those with maturity dates of three months or less.

13. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business reduce the proceeds from the equity issue.

Treasury shares

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

14. Black economic empowerment (BEE) transaction

Investments in BEE entities via equity instruments, the proceeds of which were used by the BEE entities to finance share purchases from shareholders to facilitate the 2004 BEE transaction, do not meet the IAS 39 definition of a financial asset and are considered to be a reduction of equity. Cash flows arising from Liberty Holdings Limited's dividends are used by the BEE entities to redeem these equity instruments and fulfil dividend obligations and are recognised directly in equity. The number of shares in the earnings per share calculation is reduced for the respective weighted average Liberty Holdings Limited shares held by the BEE entities.

15. Dividend distribution

Dividend distribution to the company's 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.

Accounting policies (continued)

16. Policyholder insurance and investment contracts

Professional Guidance Notes (PGNs) 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 PGNs to determine the liability in respect of insurance contracts issued in South Africa. The group has continued to value insurance liabilities in accordance with these PGNs. The PGNs are available on the Actuarial Society of South Africa website (www.actuarialsociety.org.za). Where applicable, the PGNs are referred to in the accounting policies and notes to the annual financial statements.

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 variable.

Discretionary participation features (DPF)

A number of insurance and investment contracts contain a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- (i) that are likely to be a significant portion of the total contractual benefits;
- (ii) whose amount or timing is contractually at the discretion of the group; and
- (iii) that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract; and/or
 - realised and/or unrealised investment returns on a specified pool of assets held by the group

The terms and conditions or practice relating to these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and limits within which the group may exercise its discretion as to the quantum and timing of the payment to policyholders. A proportion, as set out in the policy conditions, of the eligible surplus (usually 9/10ths of the surplus) must be attributed to policyholders as a group (which can include future policyholders), while the amount and timing of the distribution to individual policyholders is at the discretion of the group, subject to the advice of the statutory actuary. Management of this business is in accordance with the group's Published Principles and Practices of Financial Management, as lodged with the Financial Services Board. The terms reversionary bonus and smoothed bonus refer to the specific forms of DPF contracts underwritten by the group.

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

Insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as described in PGN104, 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 PGN104, 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 PGN110 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.

Accounting policies (continued)

16. Policyholder insurance and investment contracts (continued)

Insurance contracts and investment contracts with DPF (continued)

Measurement (continued)

These profits emerge over the lifetime of the contract in line with the risks borne by the group. These discretionary margins include an allowance for the shareholders' participation in the reversionary and terminal bonuses expected to be declared each year in respect of with-profit business, as well as an allowance for both the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market-related business. In addition discretionary margins are held where required for prudent reserving. Liabilities for individual market-related policies where benefits are in part dependent on the performance of underlying investment portfolios (including business with stabilised bonuses) are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element). Reversionary bonus classes of policies and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest, reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate (the non-guaranteed element). The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

In respect of corporate life and lumpsum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. 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 (non-guaranteed element). In accordance with PGN 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.

Incurred but not reported claims

Provision is made in the 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 are calculated using run-off triangle techniques. These liabilities are not discounted due to the short-term nature of IBNR claims. Outstanding claims and benefit payments are stated gross of reinsurance.

Liability adequacy test

At each statement of financial position date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of the insurance liabilities (as measured under the FSV basis) net of any related intangible present value of acquired in-force business (PVIF) assets is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in PGN 104 as well as any additional discretionary margins), the deficiency is recognised in profit or loss.

Premium income

Premiums and annuity considerations on 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.

Accounting policies (continued)

16. Policyholder insurance and investment contracts (continued)

Insurance contracts and investment contracts with DPF (continued)

Reinsurance premiums

Reinsurance premiums are recognised when due for payment in accordance with the terms of each reinsurance contract.

Claims

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

Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs (including bonuses payable and the company's contribution to agents' pension and medical aid funds) that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts and investment contracts with DPF makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

Investment contracts without DPF

Measurement

The 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 (unit-linked) and are designated at inception as at fair value through profit or loss. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within the group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the statement of financial position date. If an investment contract is subject to a put or surrender option exercisable at the reporting date, the fair value of the financial liability is never less than the amount payable on the put or surrender option. For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using market-related rates at the relevant statement of financial position date. No initial profit is recognised immediately as any profit on initial recognition is amortised over the life of the contract.

Service fees on investment management contracts and deferred revenue liability (DRL)

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

Amounts received and claims incurred on investment management contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed when incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised over the expected life of the contract, taking into account all decrements, on a straight-line basis, as they represent the right to receive future management fees. Amortisation periods are as follows:

- Linked annuities 10 – 16 years
- Other investment contracts 5 years

Accounting policies (continued)

16. Policyholder insurance and investment contracts (continued)

Investment contracts without DPF (continued)

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

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

Investment contracts with a DPF switching option

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

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables and payables related to insurance contracts are subsequently measured in terms of IFRS 4, whilst those related to investment contracts are fair valued through profit or loss in terms of accounting policy 8.

Short-term insurance

Insurance premiums include underwriting profit from the group's short-term insurance operations and related insurance activities.

Short-term insurance income includes premium income, commission and policy fees earned as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group. Direct commission income is accounted for as and when cash is received and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

17. Reinsurance contracts held

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

18. Offsetting

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

19. Investment income and finance costs

Investment income for the group comprises rental income from properties, interest and dividends. Dividends are recognised when the right to receive payment is established. Rental income is accounted for on a straight-line basis. Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in profit or loss using the effective interest rate method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Rental income in respect of group owner-occupied properties is eliminated on consolidation. Accrued investment income on instruments held at amortised cost is assessed for impairment in line with accounting policy 7. Scrip lending fees received are recognised on an accrual basis and are included in profit or loss as scrip lending fees within investment income.

20. Hotel operations sales

Hotel operations sales comprises the sale of accommodation, food and beverage, other guest facilities and rentals received. Sales are recognised over the period for which the services are rendered. Revenue is shown net of value added tax, returns, rebates and discounts.

Accounting policies (continued)

21. Fee revenue

Fee revenue includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements. Administration fees received for the administration of medical schemes are recognised when the services are rendered.

22. Employee benefits

Leave pay provision

The group recognises a liability for the amount of accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Incentive scheme

Incentive scheme bonuses are short-term bonuses which are recognised as an expense as incurred when the group has a present or constructive obligation and the amount can be reliably measured.

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. When the calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan.

The group's current service costs to the defined benefit funds are recognised as expenses in the current year.

Experience adjustments and the effect of changes in actuarial assumptions on accumulated past service are recognised as expenses or income in the current year. For active employees, amounts relating to future service are recognised as expenses or income systematically over the periods representing the expected remaining service period of employees.

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

For defined contribution plans, the group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Independent qualified actuaries value these obligations annually.

Accounting policies (continued)

23. Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

Current taxation

Current taxation is the expected taxation payable, using taxation rates enacted at the statement of financial position date, including any prior year under or over provisions.

Deferred taxation

Deferred taxation is provided in full using the liability method. Provision is made for deferred taxation attributable to temporary differences in the accounting and taxation treatment of items in the financial statements. A deferred taxation liability is recognised for all temporary differences, at enacted or substantially enacted rates of taxation at the statement of financial position date, except differences relating to goodwill, initial recognition of assets and liabilities which affect neither accounting nor taxable profits or losses and investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. In respect of temporary differences arising on fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposal. A deferred taxation asset is recognised for the carry forward of unused taxation losses, unused taxation credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilised. The major categories of assets and liabilities giving rise to a deferred taxation balance are investment properties revaluation surpluses, policyholder valuation basis, life fund special transfers, deferred acquisition costs, deferred revenue, unrealised gains on investments, intangible assets and provisions.

24. Provisions

Provisions are recognised when the group has a present legal or constructive obligation of uncertain timing or amount, as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

25. Operating leases

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

The group as lessor

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

The group as lessee

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

26. Share-based payment transactions

Equity compensation plans

Options are granted to permanent employees at the discretion of the directors in terms of which shares in Liberty Holdings Limited (formerly Liberty Group Limited) may be acquired at prices prevailing at the dates of grant of the options. Delivery of the shares so acquired is effected at future dates, which are determined at the time of granting the options. Shares acquired through the share option incentive schemes have to be paid for by the employees at the subscription prices as determined in the option contracts. Shares under option, which have not yet been delivered to participants, carry no shareholder rights. The fair value of share options granted after 7 November 2002 and not vested at 1 January 2005 is measured at grant date and expensed on a straight-line basis over the period during which the employees will become entitled to the options granted (vesting period). The fair value of the options is measured using an appropriate model which takes into account the terms and conditions of the share option scheme as well as the historical share price movement. The expense recognised is adjusted to ultimately reflect the actual number of share options vested after which no further adjustments are made. The expense is credited to a share-based payments reserve. When the options have vested the relevant amount is transferred from the share-based payment reserve to retained surplus.

Accounting policies (continued)

26. Share-based payment transactions (continued)

Equity compensation plans (continued)

Equity compensation plan implemented during 2005

The equity compensation scheme implemented during 2005 confers rights to employees to acquire Liberty Holdings Limited (formerly Liberty Group Limited) shares equivalent to the value of the right at date of exercise. 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 the same basis as the equity compensation plans.

Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date. Until the liability is settled, the fair value is re-measured at each reporting date and date of settlement, with any changes in fair value recognised in profit or loss for the period.

Black economic empowerment (BEE) transaction

The group concluded its BEE transaction on 8 November 2004. The issue of equity-linked instruments to the Black Managers' Trust had not vested with the participants at 31 December 2004. These instruments have been accounted for as an equity-settled share-based payment transaction and the option, inherent in the transaction, has been valued at fair value at the date of the transaction. The fair value is recognised as an expense on a straight-line basis in profit or loss over the vesting period, with a corresponding increase in the share-based payments reserve within equity. The fair value of the options is measured using an appropriate model which takes into account the terms and conditions of the BEE transaction. When the options have vested the relevant amount is transferred from the share-based payment reserve to retained surplus.

27. Segment information

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

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

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

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

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

- (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- (ii) its recoverable amount at the date of the subsequent decision not to sell.

Statement of financial position as at 31 December 2010

	Notes	2010 Rm	Restated 2009 Rm	Restated 2008 Rm
Assets				
Equipment and owner-occupied properties under development	3	957	1 176	946
Owner-occupied properties	4	1 513	1 345	1 282
Investment properties	5	21 521	19 058	16 771
Intangible assets	6	1 046	1 210	1 444
Defined benefit pension fund employer surplus	18	202	170	144
Deferred acquisition costs	7	364	337	344
Interests in joint ventures	8	605	575	505
Reinsurance assets	14	847	788	827
Operating leases – accrued income	5	1 107	1 156	1 067
Pledged assets	9		1 559	1 622
Held for trading assets	11	2 659	457	1 208
Interests in associates – mutual funds	10	5 814	4 979	4 726
Financial investments	11	192 317	173 146	169 760
Deferred taxation	20	147	152	131
Prepayments, insurance and other receivables	12	2 884	2 655	5 884
Cash and cash equivalents	13	5 858	10 637	5 112
Total assets		237 841	219 400	211 773
Liabilities				
Policyholder liabilities		197 878	184 300	172 805
Insurance contracts	14	138 873	129 765	122 624
Investment contracts with discretionary participation features	14	2 634	2 692	2 648
Financial liabilities under investment contracts	15	56 371	51 843	47 533
Financial liabilities at amortised cost	16	2 143	2 211	2 430
Third party financial liabilities arising on consolidation of mutual funds	17	11 000	10 557	10 481
Employee benefits	18	830	660	642
Deferred revenue	19	139	126	114
Deferred taxation	20	2 437	1 999	2 161
Provisions	21	172	204	64
Operating leases – accrued expense	5	144	185	215
Held for trading liabilities	11	1 909	58	77
Insurance and other payables	22	6 070	5 604	8 210
Current taxation		740	561	748
Total liabilities		223 462	206 465	197 947
Equity				
Ordinary shareholders' interests		11 716	10 515	11 633
Share capital	23	26	26	26
Share premium	23	6 654	7 965	9 276
Retained surplus		5 842	3 304	3 166
Other reserves		(806)	(780)	(835)
Non-controlling interests		2 663	2 420	2 193
Total equity		14 379	12 935	13 826
Total equity and liabilities		237 841	219 400	211 773

Statement of comprehensive income for the year ended 31 December 2010

	Notes	2010 Rm	Restated 2009 Rm
Revenue			
Insurance premiums	24	22 812	22 630
Reinsurance premiums	24	(699)	(632)
Net insurance premiums		22 113	21 998
Service fee income from policyholder investment contracts	25	868	823
Investment income	26	10 910	12 255
Hotel operations sales		687	620
Investment gains	27	15 290	7 125
Fee revenue	28	1 487	1 404
Defined benefit pension fund employer surplus		11	13
Total revenue		51 366	44 238
Claims and policyholder benefits under insurance contracts	29	(22 096)	(20 488)
Insurance claims recovered from reinsurers	29	558	603
Change in policyholder liabilities		(8 991)	(7 224)
Insurance contracts		(9 108)	(7 141)
Investment contracts with discretionary participation features		58	(44)
Applicable to reinsurers		59	(39)
Fair value adjustment to policyholder liabilities under investment contracts	15	(6 257)	(5 991)
Fair value adjustment on third party mutual fund interests	17	(549)	(835)
Acquisition costs	30	(2 906)	(3 114)
General marketing and administration expenses	31	(5 931)	(5 434)
Finance costs	33	(265)	(343)
Profit share allocations under bancassurance and other agreements		(504)	(366)
Goodwill impairment	6	(114)	
Equity accounted earnings from joint ventures	8	45	47
Profit before taxation		4 356	1 093
Taxation	35	(1 717)	(857)
Total earnings		2 639	236
Other comprehensive loss		(96)	(11)
Owner-occupied properties – fair value adjustment	4	(99)	25
Foreign currency translation		(28)	(27)
Income and capital gains tax relating to owner-occupied properties – fair value adjustment	35	31	(9)
Total comprehensive income		2 543	225
Total earnings attributable to:			
Ordinary shareholders' interests		2 393	44
Non-controlling interests		246	192
		2 639	236
Total comprehensive income attributable to:			
Ordinary shareholders' interests		2 302	37
Non-controlling interests		241	188
		2 543	225
		Cents	Cents
Basic earnings per share	1	918,6	16,4
Fully diluted basic earnings per share	1	883,3	15,9

Statement of changes in shareholders' funds for the year ended 31 December 2010

Rm	Share capital and share premium	FCTR ⁽¹⁾	CRRF ⁽²⁾	Owner-occupied properties	Empowerment reserve	Share-based payment reserve	Retained surplus	Non-controlling interests	Total
Balance at 31 December 2008	9 302	(28)	3	263	(1 159)	86	3 166	2 193	13 826
Increase in ownership of Liberty Health Holdings							(9)	(1)	(10)
Capital reduction	(1 301)								(1 301)
Section 311 Liberty transaction costs	1								1
Total comprehensive income		(23)		16			44	188	225
Preference dividends							(2)		(2)
Unincorporated property partnerships								42	42
Capital contribution								186	186
Distribution								(144)	(144)
Non-controlling interests' share of subsidiary dividend								(2)	(2)
Share buy-back	(34)								(34)
Subscription for shares	23								23
Black economic empowerment transaction							101		101
Share-based payments						68			68
Transfer of vested equity options reserve						(10)	10		
Payment on settlement of share options							(2)		(2)
Transfer of owner-occupied properties				4			(4)		
Balance at 31 December 2009	7 991	(51)	3	283	(1 159)	144	3 304	2 420	12 935
Capital reduction	(1 301)								(1 301)
Total comprehensive income		(23)		(68)			2 393	241	2 543
FCTR recycled through profit or loss ⁽³⁾		21							21
Issue of shares in subsidiary								40	40
Acquisition of additional interests in subsidiaries							(2)	(16)	(18)
Profit on partial disposal of a subsidiary							18	(18)	
Preference dividends							(2)		(2)
Unincorporated property partnerships								(1)	(1)
Capital contribution								163	163
Distribution								(164)	(164)
Non-controlling interests' share of subsidiary dividend								(3)	(3)
Share buy-back	(30)								(30)
Subscription for shares	20								20
Black economic empowerment transaction					40		77		117
Share-based payments						60			60
Transfer of vested equity options reserve						(96)	96		
Payment on settlement of share options							(2)		(2)
Transfer of owner-occupied properties				40			(40)		
Balance at 31 December 2010	6 680	(53)	3	255	(1 119)	108	5 842	2 663	14 379

The retained surplus, share-based payments, FCTR and owner-occupied properties revaluation reserves are distributable in terms of the company's articles of association and will attract secondary tax on companies of 10,0% if distributed to shareholders.

⁽¹⁾ FCTR: Foreign Currency Translation Reserve.

⁽²⁾ CRRF: Capital Redemption Reserve Fund.

⁽³⁾ Arising from a distribution of a foreign subsidiary's reserves.

Statement of cash flows

for the year ended 31 December 2010

	Notes	2010 Rm	2009 Rm
Cash flows from operating activities		1 632	5 006
Cash utilised by operations	36	(3 443)	(1 314)
Cash receipts from policyholders		31 631	30 707
Cash paid to policyholders, intermediaries, suppliers and employees		(35 074)	(32 021)
Interest received		6 514	6 945
Interest paid		(265)	(343)
Dividends received		1 726	2 610
Distributions in lieu of dividends/dividends paid	37	(1 669)	(1 512)
Distribution to non-controlling interests in unincorporated property partnerships		(164)	(144)
Taxation paid	38	(1 067)	(1 236)
Cash flows from investing activities		(6 480)	562
Net purchases of properties under development, investment and owner-occupied properties		(1 090)	(1 746)
Purchase of equipment		(369)	(320)
Proceeds on sale of equipment		8	7
Acquisition of intangibles		(78)	
Net (purchase)/sale of financial instruments ⁽¹⁾		(4 892)	2 667
Net movements in loans with joint venture companies		(7)	(5)
Acquisition of United Funeral Insurance Limited	34.1.1	(47)	
Acquisition of Health Services related entities	34.1.2		(10)
Acquisition of joint ventures	34.2.1	(5)	(31)
Cash flows from financing activities		67	(43)
Repayment of financial liabilities at amortised cost		(68)	(219)
Non-controlling interests' capital movements in unincorporated property partnerships		163	186
Subscription for shares		20	24
Acquisition of non-controlling interests in subsidiaries		(18)	
Share buy-back		(30)	(34)
Net (decrease)/increase in cash and cash equivalents		(4 781)	5 525
Cash and cash equivalents at the beginning of the year		10 637	5 112
Cash and cash equivalents acquired through business acquisition		2	
Cash and cash equivalents at the end of the year	13	5 858	10 637

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

Notes to the group financial statements for the year ended 31 December 2010

	2010 Rm	2009 Rm
1. Headline earnings and earnings per share⁽¹⁾		
Reconciliation of total earnings to headline earnings attributable to equity holders		
Total earnings attributable to equity holders	2 393	44
Adjustments		
Preference share dividend	(2)	(2)
Basic earnings attributable to ordinary shareholders	2 391	42
Goodwill and intangible assets impairments	96	
Impairment of investment in joint venture	14	
FCTR recycled through profit or loss	21	
Headline earnings attributable to ordinary shareholders	2 522	42
Net income earned on BEE preference shares	75	93
BEE normalised headline earnings attributable to ordinary shareholders	2 597	135
	Cents	Cents
Earnings per share		
Total earnings attributable to ordinary equity holders		
Basic	918,6	16,4
Headline	968,8	16,4
BEE normalised headline	907,6	47,2
Fully diluted earnings attributable to ordinary equity holders		
Basic	883,3	15,9
Headline	931,6	15,9

Definitions:

Basic earnings per share is total earnings divided by the weighted average number of ordinary shares in issue during the year.

Headline earnings per share is 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 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 could potentially cause dilution. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options adjusted for any share-based payment expense recognised. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 000's	2009 000's
1. Headline earnings and earnings per share⁽¹⁾ (continued)		
Weighted average number of shares in issue	260 196	260 222
Weighted average shares before BEE transaction	285 992	286 018
Effect of BEE transaction	(25 796)	(25 796)
Fully diluted weighted average number of shares in issue	270 589	267 378
Weighted average number of shares in issue	260 196	260 222
Adjustments for:		
Implementation of shares under option below fair value	463	483
Effect of BEE transaction	9 930	6 673

⁽¹⁾ Liberty applies the long-term insurance industry exemption contained in circular 3/2009 which allows for no headline earnings adjustment in respect of realised or unrealised remeasurements of investment properties.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

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 four revenue generating service areas, namely Retail long-term insurance, Corporate long-term insurance, Asset Management and Health Services. Additional information on product classifications within the long-term insurance segment and geographical analysis is provided.

The group accounts for inter-segment revenues and transfers as if the transaction were with third parties. Given the nature of the operations there is no single external customer that provides 10% or more of the group's revenues.

The profit or loss information follows a similar format to the consolidated statement of comprehensive income. Total earnings are reconciled to BEE normalised headline earnings, which is one of the key performance measures reported to the group's chief operating decision makers. The group utilises additional measures to assess the performance of each of the segments, which can be found in the chief executive's report, financial review and business unit reviews and include measures such as indexed new business, new business margin, net cash flows, assets under management and embedded value.

Definitions

Long-term Insurance

Products and services sold in terms of the long-term insurance acts in various territories. These products and services are split between retail and corporate customers.

Retail

Products aimed at individuals that provide wealth creation, particularly through retirement savings, and wealth protection through health, life and disability insurance.

Product categories:

- | | |
|-------------------------|--|
| (a) Pure risk | Contracts that only provide insurable risk benefits in the event of death, sickness or disability. |
| (b) Investment and risk | Contracts that offer a combination of savings and risk benefits. These include products that offer a prescribed monetary benefit over a contractually determined period. |

Corporate

Risk and retirement savings products under the umbrella of group schemes marketed to employers who provide those benefits to their employees.

Product categories:

- | | |
|----------------|--|
| (a) Risk | Insurable risk benefits such as life and disability. |
| (b) Investment | Facilitation of employee savings for retirement. |

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 of the group's property portfolios is also included in this segment.

Health Services

Healthcare administration, supply and development of related information technology systems, employee wellness programmes and medical risk management.

Other

Other includes:

- | | |
|-----------------------|--|
| Investment portfolios | Shareholder capital, not allocated to the other operating segments, specifically invested to maximise the investment yield within the group's risk appetite and regulatory requirements. |
| Central costs | Costs associated with the group's central administration and shareholder services including certain corporate social investment and black empowerment activities. |

Reporting adjustments

The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

Notes to the group financial statements (continued) for the year ended 31 December 2010

2. Segment information (continued)

Segment earnings for the year ended 31 December 2010:

Rm	Long-term insurance		Asset management	Health services	Other	Total	Reporting adjustments ⁽¹⁾	IFRS reported
	Retail	Corporate						
Policyholder premiums	23 802	7 130				30 932	(8 819)	22 113
Service fee income from policyholder investment contracts							868	868
Investment returns	19 348	4 992	124	15	1 164	25 643	1 244	26 887
Fee revenue			1 710	338	19	2 067	(580)	1 487
Other ⁽²⁾	269	(269)			11	11		11
Total revenue	43 419	11 853	1 834	353	1 194	58 653	(7 287)	51 366
Net claims and policyholder benefits	(22 729)	(8 476)				(31 205)	9 667	(21 538)
Change in policyholder liabilities	(11 381)	(2 151)				(13 532)	4 541	(8 991)
Fair value adjustment to policyholder liabilities under investment contracts							(6 257)	(6 257)
Fair value adjustment on third party mutual fund interests							(549)	(549)
Acquisition costs	(2 445)	(207)	(249)		(5)	(2 906)		(2 906)
Marketing and administration expenses	(3 467)	(782)	(840)	(415)	(535)	(6 039)	108	(5 931)
Administration expenses		(773)						
Provision for retirement fund administration (refer note 21)		(9)						
Finance costs	(28)		(65)	(57)	(178)	(328)	63	(265)
Profit share allocations	(496)	(1)			(7)	(504)		(504)
Goodwill impairment				(114)		(114)		(114)
Equity accounted earnings from joint ventures	40	4		1		45		45
Profit/(loss) before taxation	2 913	240	680	(232)	469	4 070	286	4 356
Taxation	(1 380)	(61)	(187)	10	(99)	(1 717)		(1 717)
Total earnings/(loss)	1 533	179	493	(222)	370	2 353	286	2 639
Other comprehensive (loss)/income								
Owner-occupied properties – fair value adjustment	(89)	(10)				(99)		(99)
Foreign currency translation	(5)		(7)		(16)	(28)		(28)
Income and capital gains tax relating to owner-occupied properties	28	3				31		31
Total comprehensive income/(loss)	1 467	172	486	(222)	354	2 257	286	2 543
Attributable (to)/from non-controlling interests	5		(10)	51	(1)	45	(286)	(241)
Equity holders	1 472	172	476	(171)	353	2 302	–	2 302
Reconciliation of total earnings/(loss) to headline earnings/(loss) attributable to equity holders								
Total earnings/(loss)	1 533	179	493	(222)	370	2 353	286	2 639
Attributable (to)/from non-controlling interests	2		(13)	52	(1)	40	(286)	(246)
Preference share dividend					(2)	(2)		(2)
Goodwill and intangible assets impairments				96		96		96
Impairment of investment in joint venture					14	14		14
FCTR recycled through profit or loss					21	21		21
Headline earnings/(loss)	1 535	179	480	(74)	402	2 522	–	2 522
Net income earned on BEE preference shares					75	75		75
BEE normalised headline earnings/(loss)	1 535	179	480	(74)	477	2 597	–	2 597

⁽¹⁾ Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, and the elimination of inter-group transactions.

⁽²⁾ Other comprises a transfer of policies from Corporate to Retail as well as additional defined benefit pension fund employer surplus.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

2. Segment information (continued)

Segment earnings for the year ended 31 December 2009 (Restated):

Rm	Long-term insurance		Asset management	Health services	Other	Total	Reporting adjustments ⁽¹⁾	IFRS reported
	Retail	Corporate						
Policyholder premiums	23 291	6 784				30 075	(8 077)	21 998
Service fee income from policyholder investment contracts							823	823
Investment returns	13 152	4 459	137	2	787	18 537	1 463	20 000
Fee revenue			1 526	330	19	1 875	(471)	1 404
Other					13	13		13
Total revenue	36 443	11 243	1 663	332	819	50 500	(6 262)	44 238
Net claims and policyholder benefits	(20 260)	(8 548)				(28 808)	8 923	(19 885)
Change in policyholder liabilities	(9 834)	(1 700)				(11 534)	4 310	(7 224)
Fair value adjustment to policyholder liabilities under investment contracts							(5 991)	(5 991)
Fair value adjustment on third party mutual fund interests							(835)	(835)
Acquisition costs	(2 674)	(221)	(218)		(1)	(3 114)		(3 114)
Marketing and administration expenses	(3 078)	(814)	(721)	(444)	(398)	(5 455)	21	(5 434)
Administration expenses		(654)						
Provision for retirement fund administration (refer note 21)		(160)						
Finance costs	(88)		(85)	(50)	(178)	(401)	58	(343)
Preference dividend	(366)					(366)		(366)
Equity accounted earnings from joint ventures	43	5	(3)	1	1	47		47
Profit/(loss) before taxation	186	(35)	636	(161)	243	869	224	1 093
Taxation	(594)	2	(185)	51	(131)	(857)		(857)
Total (loss)/earnings	(408)	(33)	451	(110)	112	12	224	236
Other comprehensive (loss)/income								
Owner-occupied properties – fair value adjustment	22	3				25		25
Foreign currency translation	(3)		(6)	(2)	(16)	(27)		(27)
Income and capital gains tax relating to owner-occupied properties	(8)	(1)				(9)		(9)
Total comprehensive (loss)/income	(397)	(31)	445	(112)	96	1	224	225
Attributable (to)/from non-controlling interests	(3)		(7)	46		36	(224)	(188)
Equity holders	(400)	(31)	438	(66)	96	37	–	37
Reconciliation of total (loss)/earnings to headline (loss)/earnings attributable to equity holders								
Total (loss)/earnings	(408)	(33)	451	(110)	112	12	224	236
Attributable (to)/from non-controlling interests	(4)		(10)	46		32	(224)	(192)
Preference share dividend					(2)	(2)		(2)
Headline (loss)/earnings	(412)	(33)	441	(64)	110	42		42
Net income earned on BEE preference shares					93	93		93
BEE normalised headline (loss)/earnings	(412)	(33)	441	(64)	203	135	–	135

⁽¹⁾ Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, and the elimination of inter-group transactions.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

2. Segment information (continued)

Analysis of long-term insurance earnings by product classification

Rm	Retail		Corporate		Total
	Pure risk	Investment and risk	Risk	Investment	
For year ended 31 December 2010					
Policyholder premiums	5 321	18 481	1 746	5 384	30 932
Investment returns	(524)	19 872	326	4 666	24 340
Other		269		(269)	
Total revenue	4 797	38 622	2 072	9 781	55 272
Net claims and policyholder benefits	(1 907)	(20 822)	(1 426)	(7 050)	(31 205)
Change in policyholder liabilities	468	(11 849)	(192)	(1 959)	(13 532)
Acquisition costs	(1 469)	(976)	(33)	(174)	(2 652)
Marketing and administration expenses	(927)	(2 540)	(198)	(575)	(4 240)
Finance costs		(28)			(28)
Preference share dividend	(420)	(76)	(1)		(497)
Equity accounted earnings from joint ventures		40		4	44
Profit before taxation and provision	542	2 371	222	27	3 162
Provision for retirement fund administration (refer note 21)				(9)	(9)
Total per operating segment		2 913		240	3 153
For year ended 31 December 2009					
Policyholder premiums	4 698	18 593	1 798	4 986	30 075
Investment returns	66	13 086	9	4 450	17 611
Total revenue	4 764	31 679	1 807	9 436	47 686
Net claims and policyholder benefits	(1 584)	(18 676)	(1 481)	(7 067)	(28 808)
Change in policyholder liabilities	(160)	(9 674)	26	(1 726)	(11 534)
Acquisition costs	(1 654)	(1 020)	(35)	(186)	(2 895)
Marketing and administration expenses	(962)	(2 116)	(167)	(487)	(3 732)
Finance costs		(88)			(88)
Preference share dividend	(366)				(366)
Equity accounted earnings from joint ventures		43		5	48
Profit before taxation and provision	38	148	150	(25)	311
Provision for retirement fund administration (refer note 21)				(160)	(160)
Total per operating segment		186		(35)	151

Notes to the group financial statements (continued)

for the year ended 31 December 2010

2. Segment information (continued)

Other financial detail by operating segment

Rm	Long-term insurance		Asset management	Health services	Other	Total	Reporting adjustments ⁽¹⁾	IFRS reported
	Retail	Corporate						
2010								
Total assets	157 882	39 992	14 719	526	10 666	223 785	14 056	237 841
Additions to non-current assets	847	89	177	12	258	1 383	164	1 547
Interest in joint ventures	350	37	195	21	2	605		605
Interest income	4 512	1 164	125	15	271	6 087	427	6 514
Depreciation			(21)	(20)	(189)	(230)		(230)
Amortisation of PVIF	(124)	(52)				(176)		(176)
Derecognition and impairment of customer relationships and contracts				(20)		(20)		(20)
Amortisation of computer software internally generated					(4)	(4)		(4)
Amortisation of customer relationships and contracts				(16)		(16)		(16)
Impairment of goodwill				(114)		(114)		(114)
Amortisation of deferred acquisition costs	(32)	(151)				(183)		(183)
Release of deferred revenue	15					15		15
2009								
Total assets	145 863	37 681	10 240	108	11 666	205 558	13 842	219 400
Additions to non-current assets	1 505	225	135	30	186	2 081	201	2 282
Interest in joint ventures	307	46	190	32		575		575
Interest income	4 618	1 566	101	2	276	6 563	382	6 945
Depreciation			(19)	(16)	(180)	(215)		(215)
Amortisation of PVIF	(108)	(54)				(162)		(162)
Impairment of PVIF		(14)				(14)		(14)
Derecognition and impairment of customer relationships and contracts				(31)		(31)		(31)
Amortisation of computer software internally generated				(1)	(7)	(8)		(8)
Amortisation of customer relationships and contracts				(19)		(19)		(19)
Amortisation of deferred acquisition costs	(55)	(149)				(204)		(204)
Release of deferred revenue	11					11		11

⁽¹⁾ Reporting adjustments include the consolidation of unincorporated property partnerships, the consolidation of third party mutual fund liabilities, the classification of long-term insurance into defined IFRS 'investment' and 'insurance' products, and the elimination of inter-group transactions.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

2. Segment information (continued)

Segment information from geographical areas

Rm	South Africa		Other Africa ⁽¹⁾		Total	
	2010	2009	2010	2009	2010	2009
Revenue from external customers	51 031	44 027	335	211	51 366	44 238
Total earnings attributable to Liberty equity holders	2 368	(3)	25	47	2 393	44
Non-current assets	27 761	25 474	90	41	27 851	25 515
Total assets	237 315	219 092	526	308	237 841	219 400
Total liabilities	223 140	206 354	322	111	223 462	206 465

⁽¹⁾ Other Africa includes Nigeria, Namibia, Swaziland, Botswana, Kenya, Uganda, Lesotho.

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.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
3. Equipment and owner-occupied properties under development		
Cost at the beginning of the year	2 472	2 121
Additions	369	579
Disposals	(82)	(101)
Total redesignations and transfers	(347)	(127)
Redesignation as investment properties ⁽¹⁾		(136)
Transfers (to)/from owner-occupied properties	(347)	9
Cost at the end of the year	2 412	2 472
Accumulated depreciation and impairment at the beginning of the year	(1 296)	(1 175)
Depreciation	(230)	(215)
Disposals	71	94
Accumulated depreciation and impairment at the end of the year	(1 455)	(1 296)
Net carrying value at the end of the year	957	1 176
Summary of net carrying value		
Properties under development		347
Computer equipment	226	243
Purchased computer software	69	34
Fixtures, furniture and fittings	552	450
Office equipment	80	66
Motor vehicles	30	36

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Balance at the beginning of the year Rm	Additions Rm	Disposals Rm	Depre- ciation Rm	Redesig- nation and transfers Rm	Balance at the end of the year Rm
3. Equipment and owner-occupied properties under development (continued)						
2010						
Cost – movement						
Properties under development ⁽²⁾	347				(347)	
Computer equipment	942	90	(33)			999
Purchased computer software	119	59				178
Fixtures, furniture and fittings	851	177	(36)			992
Office equipment	141	34	(2)			173
Motor vehicles	72	9	(11)			70
	2 472	369	(82)		(347)	2 412
Accumulated depreciation and impairments – movement						
Computer equipment	(699)		24	(98)		(773)
Purchased computer software	(85)			(24)		(109)
Fixtures, furniture and fittings	(401)		36	(75)		(440)
Office equipment	(75)		2	(20)		(93)
Motor vehicles	(36)		9	(13)		(40)
	(1 296)		71	(230)		(1 455)
2009						
Cost – movement						
Properties under development ⁽²⁾	215	259			(127) ⁽¹⁾	347
Computer equipment	935	74	(67)			942
Purchased computer software	107	18	(6)			119
Fixtures, furniture and fittings	673	190	(12)			851
Office equipment	123	22	(4)			141
Motor vehicles	68	16	(12)			72
	2 121	579	(101)		(127)	2 472
Accumulated depreciation and impairments – movement						
Computer equipment	(654)		64	(109)		(699)
Purchased computer software	(75)		6	(16)		(85)
Fixtures, furniture and fittings	(355)		12	(58)		(401)
Office equipment	(59)		3	(19)		(75)
Motor vehicles	(32)		9	(13)		(36)
	(1 175)		94	(215)		(1 296)

⁽¹⁾ Amendments to IFRS effective prospectively from 1 January 2009 necessitated that investment properties under development be redesignated to investment properties. Owner-occupied properties under development were not affected by these amendments.

⁽²⁾ No depreciation is provided for on properties under development.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
4. Owner-occupied properties		
<i>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.</i>		
Fair value at the beginning of the year	1 345	1 282
Additions	7	45
Revaluations	(99)	25
Transfers from/(to) properties under development	347	(9)
Reclassifications (to)/from investment properties	(87)	2
Fair value at the end of the year	1 513	1 345

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.

	2010 Rm	2009 Rm
Cost at the beginning of the year	576	540
Additions	7	45
Reclassifications to investment properties	(143)	
Transfer from/(to) properties under development	347	(9)
Cost at the end of the year	787	576
Accumulated depreciation at the beginning and end of the year⁽¹⁾	(57)	(57)
Cost less accumulated depreciation	730	519

⁽¹⁾ No depreciation was provided in 2010 or 2009 as the residual value of the buildings is equal or greater than the cost less accumulated depreciation.

The valuation of owner-occupied properties and investment properties has been carried out by Ian Mitchell Investment Property Consultants CC (Chartered Valuation Surveyor – Professional Valuer) and Asset Valuation Services CC (Professional Associate Valuer) as at 31 December 2010.

The valuation is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors, adapted for South African law and conditions. The valuation assumes that there will be no change in the social, economic or political circumstances between the date of the valuation and the financial year end of the company.

The basis of value is "market value" which is defined as an opinion of the best price at which the sale of an interest in property, taking into account existing tenant lease terms, would have been completed unconditionally for a cash consideration on the date of valuation assuming:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as at the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used and summed together with the capitalised and discounted value of the projected income to give present value as at 31 December 2010. 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 2010. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Notes to the group financial statements (continued) for the year ended 31 December 2010

4. Owner-occupied properties (continued)

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current long-term bond yield (R204 risk free rate) and the relative attractiveness that an investor may place on property as an asset class.

Primary discount rates range from 7,25% to 12,0% (2009: 7,50% to 12,5%) on a property by property basis. Exit capitalisation rates generally range from 7,25% to 12,0% (2009: 7,50% to 12,5%).

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.

	2010 Rm	2009 Rm
5. Investment properties		
<i>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.</i>		
Fair value at the beginning of the year	19 058	16 771
Redesignation from equipment and owner-occupied properties under development		136
Revaluations net of lease straight-lining	1 293	711
Revaluations	1 285	830
Net movement on straight-lining operating leases	8	(119)
Additions – capitalised subsequent expenditure	1 093	1 628
Disposals	(10)	(186)
Reclassifications from/(to) owner-occupied properties	87	(2)
Fair value at the end of the year	21 521	19 058
At the end of the year investment properties comprised the following property types:		
Shopping malls	18 343	15 962
Hotels	2 392	2 091
Office buildings	1 137	1 408
Other	612	568
Total investment properties	22 484	20 029
Investment properties at fair value	21 521	19 058
Operating leases – accrued income	1 107	1 156
Operating leases – accrued expense	(144)	(185)

The investment properties were independently valued as at 31 December 2010 by registered professional valuers with the South African Council for the Property Valuers Profession as well as members of the Institute of Valuers of South Africa. The method of valuation is more fully described in note 4, owner-occupied properties.

At 31 December 2010 and 2009 unlet space amounted to 4,2% (2009: 2,5%) of available lease area in the investment properties held by the group. The average net rental growth is 13,2% (2009: 11,2%).

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R1 711 million (2009: R1 662 million), including straight-lining operating leases or R1 671 million (2009: R1 493 million) excluding straight-lining operating leases. Direct operating expenses arising on the investment property amounted to R400 million (2009: R303 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 2010 of owner-occupied properties (R1 513 million) and investment properties (R22 484 million) is R23 997 million (2009: R21 374 million). A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R3,3 billion (2009: R3,2 billion) if the assumption decreased, and decrease the total fair value by R2,5 billion (2009: R2,5 billion) if the assumption increased.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
6. Intangible assets		
Cost at the beginning of the year	2 723	2 738
Additions through business acquisition	88	
Additions	78	
Derecognition		(15)
Cost at the end of the year	2 889	2 723
Accumulated amortisation and impairment at the beginning of the year	(1 513)	(1 294)
Amortisation	(196)	(189)
Derecognition and impairment	(134)	(30)
Accumulated amortisation and impairment at the end of the year	(1 843)	(1 513)
Net carrying amount at the end of the year	1 046	1 210
Summary of net carrying value		
Goodwill ⁽¹⁾	–	114
Computer software – internally generated	305	231
Customer relationships and contracts	99	95
Present value of in-force policyholder insurance contracts ⁽²⁾	642	770

	Balance at the begin- ning of the year Rm	Business acqui- sitions Rm	Additions Rm	Impair- ment and derecog- nition Rm	Amorti- sation Rm	Balance at the end of the year Rm	Amortisation period
2010							
<i>Cost – movement</i>							
Goodwill	511					511	
Computer software – internally generated ⁽³⁾	442		78			520	
Customer relationships and contracts	146	40				186	
Present value of in-force policyholder contracts	1 624	48				1 672	
	2 723	88	78			2 889	
<i>Accumulated amortisation and impairment – movement</i>							
Goodwill	(397)			(114)		(511)	No amortisation
Computer software – internally generated	(211)				(4)	(215)	Up to 7 years
Customer relationships and contracts	(51)			(20)	(16)	(87)	Up to 7 years
Present value of in-force policyholder contracts	(854)				(176)	(1 030)	Up to 12 years
	(1 513)			(134)	(196)	(1 843)	

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
7. Deferred acquisition costs		
Balance at the beginning of the year	337	344
Cost of new business acquired	210	197
Amortisation realised through profit or loss	(183)	(204)
Balance at the end of the year	364	337
Current	119	114
Non-current	245	223

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

	2010 Rm	2009 Rm
8. Interests in joint ventures		
8.1 Summary		
Equity loans and ordinary shares at cost	147	142
Held-to-maturity financial instruments ⁽¹⁾	156	149
Share of post-acquisition reserves	316	284
– recognised in profit or loss	319	286
– foreign currency translation	(3)	(2)
Impairment provision	(14)	
Total interests in joint ventures	605	575
8.2 Movement analysis		
Equity loans and ordinary shares at cost		
Balance at the beginning of the year	142	251
Equity loans redesignated as to held-to-maturity financial instruments		(140)
Acquisition of Total Health Trust Limited ordinary shares ⁽²⁾	5	31
Balance at the end of the year	147	142
Held-to-maturity financial instruments⁽¹⁾		
Balance at the beginning of the year	149	4
Equity loans redesignated to held-to-maturity financial instruments		140
Advances	7	5
Balance at the end of the year	156	149
Share of post-acquisition reserves		
Balance at the beginning of the year	284	250
Earnings recognised in profit or loss	45	47
Ordinary dividends received	(12)	(11)
Foreign currency translation reserve movement recognised in other comprehensive income	(1)	(2)
Balance at the end of the year	316	284
Impairment provision		
Impairment charge recognised in profit or loss	(14)	
Balance at the end of the year	(14)	

⁽¹⁾ Held-to-maturity financial instruments comprise:

R4 million (2009: R4 million) on demand interest free loan receivable extended to The Financial Services Exchange (Proprietary) Limited.

R152 million (2009: R145 million) variable interest bearing (2009 and 2010: 10,08% nacm) loan receivable extended to Evening Star 768 (Proprietary) Limited with no set terms of repayment. Accrued interest is paid at least annually.

The combined fair value of these loan receivables is R129 million (2009: R140 million) and are long term in nature.

⁽²⁾ On 1 February 2009, Liberty acquired a 35,3% equity stake in Total Health Trust Limited which is registered and conducts health risk-related services in Nigeria. With effect from 1 January 2010, a further 5,0% equity stake was acquired bringing the total ownership to 40,3%.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

8. Interests in joint ventures (continued)

	Percentage ownership	Equity loans and shares held at cost		Held-to-maturity financial instruments ⁽¹⁾		Share of post-acquisition reserves		Impairment	Total interest		Equity accounted earnings	
		%	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm		2009 Rm	2010 Rm	2009 Rm	2010 Rm
Principal joint ventures – unlisted												
Fountainhead Property Trust Management Limited ⁽⁴⁾ <i>(property trust management)</i>	50,0	47	47			3	2		50	49	3	2
Evening Star 768 (Proprietary) Limited <i>(property trust management)</i>	50,0			152	145	(7)	(4)		145	141	(3)	(4)
The Financial Services Exchange (Proprietary) Limited <i>(financial verification and technology service provider)</i>	33,3			4	4	(2)	(2)		2	2		
The Cullinan Hotel (Proprietary Limited) ⁽³⁾ <i>(hotel developer and manager)</i>	50,0	64	64			323	289		387	353	44	48
Total Health Trust Limited ^{(2) (5)} <i>(health risk services organisation)</i>	40,3	36	31			(1)	(1)	(14)	21	30	1	1
Total		147	142	156	149	316	284	(14)	605	575	45	47

⁽³⁾ This entity has a 31 March year end and therefore management accounts as at 31 December are used to equity account earnings.

⁽⁴⁾ This entity has a 30 September year end and therefore management accounts as at 31 December are used to equity account earnings.

⁽⁵⁾ This entity has a 30 June year end and therefore management accounts as at 31 December are used to equity account earnings.

	2010 Rm	2009 Rm
Statement of financial position extracts⁽⁶⁾		
Non-current assets	517	493
Current assets	72	58
Long-term liabilities – interest bearing	(152)	(148)
Current liabilities	(44)	(44)
Statement of comprehensive income extracts⁽⁶⁾		
Income	202	194
Expenses	(157)	(132)
Commitments⁽⁶⁾		
Capital commitments – authorised by directors but not contracted	7	11
9. Pledged assets held at fair value through profit or loss		
Financial assets that may be repledged by counterparties		
Listed equities on the JSE		684
South African Government Bonds listed on the BESA		875
Maturity profile of the return of pledged assets		
Due in 4 – 12 months		1 559

The pledged assets arose through scrip lending arrangements that were terminated during 2010.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
10. Interest in associates – mutual funds		
Fair value of associates held at fair value through profit or loss	5 814	4 979
Summarised financial information of associates:		
Total investments	17 008	14 200
Current assets	539	475
Current liabilities	(378)	(296)
Total revenue ^{(1) (2)}	596	564

⁽¹⁾ Total revenue is defined as interest, dividend and sundry income.

⁽²⁾ Units or shares held in mutual funds are by their nature demand deposits and are held at fair value. The net income or loss is capitalised to unit values within each fund and consequently there is no net profit or loss. Increase in net assets as a result of operations represents total income less expenses before any distributions or capitalisation.

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

Name	Percentage of participation rights in total issued units		Fair value	
	2010 %	2009 %	2010 Rm	2009 Rm
STANLIB Multi Manager Equity Fund	39	40	697	649
STANLIB Value Fund	42	45	694	631
STANLIB Balanced Fund ⁽¹⁾	31	30	463	389
Ermitage Global Wealth Management Strategies Limited	41	34	453	536
STANLIB Multi Manager Low Equity Fund of Funds	31	39	338	414
STANLIB Multi Manager Real Return Feeder Fund	39	43	280	229
STANLIB Managed Flexible Fund	31	30	276	358
Ermitage Money Market Funds ⁽²⁾	35		253	
STANLIB Aggressive Income Fund	27	30	249	168
STANLIB Global Equity Feeder Fund ⁽³⁾	28	28	218	215
STANLIB Moderately Conservative Fund of Funds	37	39	216	161
STANLIB Multi Manager Medium Equity Fund of Funds	30	33	207	220
STANLIB Resources Fund	24	24	177	174
STANLIB ALSI 40 Fund	22	24	174	147
STANLIB Moderate Fund of Funds	28	28	139	114
STANLIB Conservative Fund of Funds	21	28	133	112
STANLIB Multi Manager Income Feeder Fund	37		124	
STANLIB Shariah Equity Fund	49		122	
Ermitage Global Multi Strategy Fund	49	34	107	111
STANLIB Dynamic Return Fund	32		103	
STANLIB Global Property Feeder Fund	38		96	
STANLIB Quants Fund ⁽⁴⁾	51	48	95	92
STANLIB Nationbuilder Fund	25		70	
STANLIB Multi National Fund	32		66	
STANLIB Small Cap Fund	32		64	
STANLIB International Balanced Fund of Funds ⁽⁵⁾		48		259
Associates at a group level			5 814	4 979

⁽¹⁾ Previously known as the STANLIB Stability Fund.

⁽²⁾ Defined as a subsidiary in the prior year due to percentage of participation rights exceeding 50%.

⁽³⁾ Previously known as the STANLIB International Equity Fund of Funds.

⁽⁴⁾ This interest is disclosed as an associate as the percentage ownership during the year fluctuated at or below what is considered to be a controlling interest.

⁽⁵⁾ Defined as a subsidiary in the current year due to percentage of participation rights exceeding 50%.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
11. Financial investments and held for trading assets and liabilities		
11.1 Financial investments comprise:		
<i>Financial assets designated at fair value through profit or loss</i>		
Quoted in an active market		
<i>Listed</i>	125 943	113 307
Equities	81 918	73 687
Preference shares	1 814	1 951
Commercial term deposits	12 072	15 807
Mutual funds	4 073	79
Government, municipal and utility stocks	26 066	21 783
<i>Unlisted</i>	47 659	44 878
Commercial term deposits	14 990	17 351
Mutual funds	32 646	27 509
Government, municipal and utility stocks	23	18
Unquoted and unlisted	17 902	14 191
Equities	1 328	811
Preference shares	2 230	2 259
Mutual funds	76	300
Investment policies	14 268	10 821
<i>Loans and receivables measured at amortised cost</i>		
Mortgages and loans ⁽¹⁾	813	770
Total financial assets	192 317	173 146
11.2 Held for trading assets and liabilities		
Assets:		
Derivatives	2 135	457
Collateral deposits	524	
	2 659	457
Liabilities:		
Derivatives	1 426	58
Collateral deposits	483	
	1 909	58

⁽¹⁾ The fair value of mortgages and loans is R813 million (2009: R702 million).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Held for trading Rm	Fair value through profit or loss Rm	Loans and receivables Rm	Total Rm
11. Financial investments (continued)				
11.3 Movement analysis of financial investments including pledged assets, held for trading and mutual funds classified as associates: 2010				
Balance at the beginning of the year	399	178 914	770	180 083
Financial investments		172 376	770	173 146
Held for trading assets	457			457
Held for trading liabilities	(58)			(58)
Pledged assets		1 559		1 559
Interest in associates – mutual funds		4 979		4 979
Additions through business acquisitions		2		2
Additions (purchases and issuings)	15 225	143 422	130	158 777
Disposals (sales and redemptions)	(14 115)	(144 577)		(158 692)
Accrued interest	120	1 461	96	1 677
Repayments			(171)	(171)
Fair value adjustments	(879)	14 930		14 051
Derivative assets	1 207			1 207
Derivative liabilities	(2 086)			(2 086)
Impairment			(12)	(12)
Movement on third party share of financial instruments in mutual funds		3 181		3 181
Foreign currency translation		(15)		(15)
Balance at the end of the year	750	197 318	813	198 881
Financial investments		191 504	813	192 317
Held for trading assets	2 659			2 659
Held for trading liabilities	(1 909)			(1 909)
Interest in associates – mutual funds		5 814		5 814
2009				
Balance at the beginning of the year	1 131	175 373	735	177 239
Financial investments		169 025	735	169 760
Held for trading assets	1 208			1 208
Held for trading liabilities	(77)			(77)
Pledged assets		1 622		1 622
Interest in associates – mutual funds		4 726		4 726
Additions (purchases and issuings)	6 470	104 079	173	110 722
Disposals (sales and redemptions)	(4 496)	(107 028)		(111 524)
Accrued interest	117	701	60	878
Repayments			(204)	(204)
Fair value adjustments	(2 823)	9 261		6 438
Derivative assets	(2 337)			(2 337)
Derivative liability	(486)			(486)
Reversal of impairment			6	6
Movement on third party share of financial instruments in mutual funds		(3 462)		(3 462)
Foreign currency translation		(10)		(10)
Balance at the end of the year	399	178 914	770	180 083
Financial investments		172 376	770	173 146
Held for trading assets	457			457
Held for trading liabilities	(58)			(58)
Pledged assets		1 559		1 559
Interest in associates – mutual funds		4 979		4 979

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
11. Financial investments (continued)		
Maturity profile of commercial term deposits, government, municipal and utility stocks and mortgages and loans:		
Less than 1 year	4 917	8 297
1 – 5 years	17 299	18 639
5 – 10 years	10 753	9 541
10 – 20 years	12 142	12 710
Over 20 years	8 040	5 772
Open ended ⁽¹⁾	813	770
Total	53 964	55 729

There is no maturity profile for listed and unlisted equities and other non-term instruments as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

Details of listed and unlisted investments are recorded in registers which may be inspected by members or their duly authorised agents at the company's registered office.

⁽¹⁾ Open ended represent mortgages and 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.

	2010 Rm	2009 Rm
12. Prepayments, insurance and other receivables		
Current balances related to insurance contracts	688	532
Outstanding premium receivables	433	431
Reinsurance recoveries	255	101
Current balances related to investment contracts		
Outstanding premium receivables	78	107
Current balances related to insurance and investment contracts	766	639
Accrued income	136	142
Investment debtors	593	580
Consolidated mutual funds' receivables	97	339
Property consortiums' receivables	68	49
Deposit on subsidiary acquired post balance sheet ⁽²⁾	84	50
Agents, brokers and intermediaries	73	30
Escrow debtor in respect of sale of Prefsure Holdings Limited	73	71
Other debtors	994	755
Total prepayments, insurance and other receivables⁽¹⁾	2 884	2 655
⁽¹⁾ All inflows of economic benefits are expected to occur within one year.		
⁽²⁾ Advance payment on acquisition of CFC Insurance Holdings Limited (2009: R50 million in respect of United Funeral Insurance Limited).		
13. Cash and cash equivalents		
Cash at bank and on hand	519	1 309
Short-term cash deposits	5 339	9 328
Total cash and cash equivalents	5 858	10 637

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010			2009			2008
	Insurance contracts Rm	Investment contracts with DPF ⁽¹⁾ Rm	Reinsurance assets Rm	Restated Insurance contracts Rm	Investment contracts with DPF ⁽¹⁾ Rm	Reinsurance assets Rm	Restated Insurance contracts Rm
14. Policyholder liabilities							
Balance at the beginning of the year	129 765	2 692	(788)	122 624	2 648	(827)	132 067
Additions through business acquisitions	3						
Inflows	40 087	446	(688)	33 582	497	(672)	20 926
Insurance premiums	22 628	184	(699)	22 445	185	(632)	22 820
Investment returns	17 415	262	11	11 089	312	(40)	(1 927)
Unwinding of discount rate	1 305		(41)	1 303		(37)	930
Investments	16 110	262	52	9 786	312	(3)	(2 857)
Equity accounted earnings from joint ventures	44			48			33
Outflows	(29 394)	(484)	586	(26 720)	(446)	602	(29 295)
Claims and policyholder benefits	(21 648)	(448)	558	(20 085)	(403)	603	(23 023)
Claims and policyholder benefits under insurance contracts	(21 648)	(322)	558	(20 085)	(178)	603	(23 023)
Switches between investment with DPF to investment without DPF		(126)			(225)		
Acquisition costs associated with insurance contracts	(2 499)	(6)	1	(2 686)	(6)		(2 395)
General marketing and administration expenses	(3 366)	(23)	1	(2 906)	(34)	1	(3 053)
Profit share allocations	(497)			(366)			(308)
Finance costs	(21)			(54)			(29)
Taxation	(1 363)	(7)	26	(623)	(3)	(2)	(487)
Net income from insurance operations	(1 585)	(20)	43	279	(7)	109	(1 074)
Changes in estimates	84		(20)	662		25	(410)
Discretionary and compulsory margins and other variances	(2 460)	(27)	87	(807)	(10)	85	(1 093)
New business	(32)			136			(161)
Shareholder taxation on transfer of net income	823	7	(24)	288	3	(1)	590
Foreign currency translation	(3)						
Balance at the end of the year	138 873	2 634	(847)	129 765	2 692	(788)	122 624
Current	12 251	253	(134)	10 267	384	(141)	7 995
Non-current	126 622	2 381	(713)	119 498	2 308	(647)	114 629

⁽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.

Notes to the group financial statements (continued) for the year ended 31 December 2010

14. Policyholder liabilities (continued)

Process used to decide on assumptions and changes in assumptions

Mortality

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

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

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

In setting the assumptions, provision is made for the expected increase in AIDS related claims. Allowance for AIDS related deaths is made in the base mortality rates at rates consistent with the requirements of ASSA's PGN 105. The rates are defined using the ASSA2003 models calibrated to reflect Liberty's assurance lives.

For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

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

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal investigation is performed every half year for the large lines of business and annually for the smaller classes and incorporates 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 rates are higher for risk type products than for investment type products, and are higher at early durations.

Investment return

Future investment returns are set for the main asset classes as follows:

- Gilt rate – Effective 10-year yield curve rate at the balance sheet date 8,27% (2009: 9,30%)
- Equity rate – Gilt rate plus 3,5 percentage points as an adjustment for risk 11,77% (2009: 12,80%)
- Property rate – Gilt rate plus 1 percentage point as an adjustment for risk 9,27% (2009: 10,30%)
- Cash – Gilt rate less 1,5 percentage points 6,77% (2009: 7,80%)

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities. The pre-taxation discount rate is set at the same rate. The rate averaged across the blocks of business (excluding annuity and guaranteed capital bond business) is 10,6% per annum in 2010 (2009: 11,4% per annum). Where appropriate the investment return assumption will be adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins as required in terms of PGN 104 issued by the Actuarial Society of South Africa.

For annuity and guaranteed capital bond business, discount rates are set at risk free rates consistent with the duration and type of the liabilities, 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 financial position date. This analysis is used to calculate the acquisition costs incurred and to set the maintenance expense assumption which is based on the budget approved by the board.

Expense inflation

The inflation rate is set at 60% of the risk free rate (gilt rate) at the current valuation, subject to a minimum of the risk free rate less 3%, resulting in a best estimate expense inflation assumption of 5,27% at 31 December 2010 (2009: 6,30%). The expense inflation assumption is set taking into consideration the expected future development of the number of inforce policies, as well as the expected future profile of group maintenance expenses.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

14. Policyholder liabilities (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 of the Income Tax Act at the financial position date. Each company's current tax position is taken into account. Taxation rates consistent with that position, and the likely future changes in that position, are allowed for. In respect of capital gains taxation (CGT), taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains/(losses) at the valuation date, at the full undiscounted value.

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the liabilities, voluntary premium increases that give rise to expected profits are not allowed for. However, compulsory increases and increases that give rise to expected losses are allowed for. This is consistent with the requirements of PGN 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives, in respect of policyholder contracts, are set in accordance with PGN 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. Long-term volatility assumptions are set based on market information where available, otherwise a measure of estimation is required. The 30 year annualised implied-at-the-money volatility assumption, estimated using the asset model output for the FTSE/JSE Top 40 index, is 28,05% (2009: 28,05%). Correlations between asset classes are set based on historical evidence. Two thousand simulations are performed in calculating the liability.

A reserve for minimum investment return guarantees, calculated on a stochastic basis in accordance with PGN 110, is held.

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

	Price	Volatility
A 1-year at-the-money spot put on the FTSE/JSE TOP 40 index	7,60%	23,13%
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	1,46%	23,41%
A 1-year forward on the FTSE/JSE TOP 40 index	8,95%	23,13%
A 5-year at-the-money spot put on the FTSE/JSE TOP 40 index	10,70%	26,26%
A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 1,04 ⁵ of spot	18,78%	26,23%
A 5-year forward on the FTSE/JSE TOP 40 index	20,13%	26,23%
A 5-year put with a strike price equal to 1,04 ⁵ of spot, on an underlying index constructed as 60% FTSE/JSE TOP 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	9,28%	N/A
A 20-year at-the-money spot put on the FTSE/JSE TOP 40 index	4,30%	26,89%
A 20-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 1,04 ²⁰ of spot	18,80%	27,54%
A 20-year forward on the FTSE/JSE TOP 40 index	26,61%	27,74%
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than the strike	0,40%	N/A

Notes to the group financial statements (continued) for the year ended 31 December 2010

14. Policyholder liabilities (continued)

For 2009 using the simulated investment returns, the instruments below were priced as follows:

	Price	Volatility
A 1-year at-the-money spot put on the FTSE/JSE TOP 40 index	6,99%	23,53%
A 1-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 80% of spot	1,33%	23,83%
A 1-year forward on the FTSE/JSE TOP 40 index	9,12%	23,54%
A 5-year at-the-money spot put on the FTSE/JSE TOP 40 index	7,67%	24,50%
A 5-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 1,04 ⁵ of spot	14,33%	24,47%
A 5-year forward on the FTSE/JSE TOP 40 index	18,77%	24,46%
A 5-year put with a strike price equal to 1,04 ⁵ of spot, on an underlying index constructed as 60% FTSE/JSE TOP 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	5,94%	N/A
A 20-year at-the-money spot put on the FTSE/JSE TOP 40 index	4,31%	27,39%
A 20-year put on the FTSE/JSE TOP 40 index, with a strike price equal to 1,04 ²⁰ of spot	18,35%	27,82%
A 20-year forward on the FTSE/JSE TOP 40 index	26,50%	28,01%
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than the strike	0,33%	N/A

The TOP 40 index above is a capital returns index whereas the ALBI is a total return index. Spot refers to the value of the index at market close on 31 December. At-the-money means that the strike value of the option is equal to the spot.

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

Model output yield curve (%)	2010	2009
1 year	5,48	7,10
2 years	5,88	7,52
3 years	6,35	8,03
4 years	6,81	8,34
5 years	7,17	8,55
10 years	7,93	8,80
15 years	7,89	8,43
20 years	7,77	7,90
25 years	7,54	7,40
30 years	7,25	7,00
35 years	7,15	6,69
40 years	7,05	6,47
45 years	6,99	6,31
50 years	6,91	6,20

Changes in assumptions

Modelling and other changes were made to realign valuation assumptions with expected future experience.

These changes resulted in a net decrease in policyholder liabilities of R62 million in 2010 compared to an increase of R506 million in 2009. These amounts exclude the impact on annuities and guaranteed endowments (increase in liabilities of R1 281 million in 2010, decrease in liabilities of R2 769 million in 2009) which is offset by a corresponding change in the value of the backing assets.

The primary items were:

- A change in the assumptions to allow for expected future withdrawals, resulting in a decrease in the liability of R125 million (2009: increase of R765 million);
- Future mortality assumptions were adjusted to reflect expected future experience, amounting to an increase in the liability of R173 million (2009: increase of R2 million);

Notes to the group financial statements (continued)

for the year ended 31 December 2010

14. Policyholder liabilities (continued)

Changes in assumptions (continued)

- A change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R262 million (2009: increase of R466 million);
- A change in the economic valuation assumptions used to calculate the liabilities in respect of minimum investment return guarantees to align the valuation to the market conditions at the valuation date, resulting in a decrease in the liability of R41 million (2009: decrease of R1 285 million);
- The assumptions for annuitant longevity were strengthened, resulting in an increase in the liability of R89 million;
- In 2009 there was also a change in the assumptions and modelling for policies being made paid-up and a change in the method of setting the valuation discount rates for life annuities and guaranteed endowments to reference yield curves appropriate to the assets backing the liabilities. The former resulted in an increase in the liability of R271 million while the latter resulted in an increase of R197 million. No further changes were required in 2010; and
- The balance of modelling changes and corrections resulted in an increase in liabilities of R104 million (2009: increase of R90 million).

	2010 Rm	Restated 2009 Rm	Restated 2008 Rm
15. Policyholder liabilities under investment contracts			
Balance at the beginning of the year	51 843	47 533	51 428
Fund inflows from investment contracts (excluding switches)	8 819	8 077	9 087
Net fair value adjustment	6 257	5 991	(1 018)
Fund outflows from investment contracts (excluding switches)	(9 793)	(9 148)	(11 457)
Switches between investment with DPF to investment without DPF	126	225	311
Service fee income	(881)	(835)	(818)
Balance at the end of the year	56 371	51 843	47 533
Current	5 656	5 915	4 750
Non-current	50 715	45 928	42 783
Total	56 371	51 843	47 533
Net income/(loss) from investment contracts⁽¹⁾	136	(45)	66
Service fee income	881	835	818
Expenses			
Property expenses applied to investment returns	345	250	221
Shareholder taxation on transfer of net income	(47)	53	(20)
Acquisition costs	(175)	(196)	(241)
General marketing and administration expenses	(861)	(953)	(694)
Finance costs	(7)	(34)	(18)

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

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
16. Financial liabilities at amortised cost		
Callable capital bonds ^{(1) (4)}	2 054	2 054
Redeemable non-participating preference shares ^{(2) (4)}		74
Non-controlling interests loan ^{(3) (4)}	89	83
Total financial liabilities at amortised cost	2 143	2 211
Current	54	128
Non-current	2 089	2 083
<i>Movement analysis</i>		
Balance at the beginning of the year	2 211	2 430
Arising through business acquisition		
Interest accrued	185	199
Repayments	(253)	(418)
Balance at the end of the year	2 143	2 211

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

The coupon rate is fixed at 8,93% and payable bi-annually on 12 March and 12 September of each year until 12 September 2012, thereafter floating at three-month JIBAR plus 186 bps and payable quarterly on 12 December, 12 March, 12 June and 12 September until maturity date.

The Financial Services Board's approval of the group issuance of this subordinated debt included a requirement to hold liquid assets in Liberty Group Limited equal to at least the amount of the outstanding debt being R2 billion. This requirement has consistently been complied with during 2010.

⁽²⁾ The 528 STANLIB Limited redeemable non-participating cumulative preference shares of 10 cents each, issued at a share premium of R130 323,71 per share were redeemed on 5 March 2010. The interest on these shares was calculated at 67% of the prevailing prime rate, payable annually in arrears on 28 February.

⁽³⁾ Unsecured non-controlling interests loan to the group subsidiary Liberty Health Holdings (Proprietary) Limited repayable on exercise of reciprocal put and call options any time after 19 November 2013, or as and when Liberty Health Holdings (Proprietary) Limited has surplus cash resources. Interest accrues monthly at the 90 day call rate offered by Standard Bank of South Africa Limited, currently 5,5% (2009: 7,15%).

⁽⁴⁾ The fair value of the callable capital bond is R2 153 million (2009: R2 098 million), the redeemable non-participating preference shares for 2009 was R74 million and the non-controlling interests loan R89 million (2009: R83 million).

	2010 Rm	2009 Rm
17. Third party financial liabilities arising on consolidation of mutual funds		
<i>Movement analysis</i>		
Balance at the beginning of the year	10 557	10 481
Additional mutual funds classified as subsidiaries	246	1 076
Repayments through withdrawal or change in effective ownership	798	(448)
Mutual funds no longer classified as subsidiaries	(1 150)	(1 387)
Fair value adjustment	549	835
Balance at the end of the year	11 000	10 557

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.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Note	2010 Rm	2009 Rm
18. Employee benefits			
18.1 Summary			
Asset:			
Defined benefit pension fund employer surplus	18.6	202	170
Liabilities:			
Short-term employee benefits	18.2	411	306
Long-term employee benefits	18.3	19	
Post-retirement medical aid	18.5(b)	400	354
Total liability		830	660

	Leave pay		Short-term incentive schemes		Total	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
18.2 Short-term employee benefits						
At the beginning of the year	83	64	223	234	306	298
Additional provision raised	109	142	267	198	376	340
Utilised during the year	(108)	(123)	(163)	(209)	(271)	(332)
At the end of the year	84	83	327	223	411	306

All outflows in economic benefits in respect of the short-term employee benefits are expected to occur within one year.

Leave pay

In terms of the group policy, employees are entitled to accumulate a maximum of 20 days compulsory leave and 20 days discretionary leave. Compulsory leave has to be taken within 18 months of earning it, failing which it is forfeited. Discretionary leave can be sold back to the company while compulsory leave cannot be sold back to the company.

Short-term incentive schemes (cash-settled)

In terms of the group remuneration policy, selected employees at the discretion of directors receive an incentive bonus. The incentive bonus relates to employee, group and divisional performance and is approved by the remuneration committee.

Short-term cash incentive schemes as at 31 December 2010 comprise R213 million (2009: R151 million) senior management group incentive scheme, R55 million (2009: R31 million) general staff incentive schemes and R59 million (2009: R41 million) investment professional schemes.

18.3 Long-term employee benefits (cash-settled)

Share unit rights plan (SUR)

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's share price. Given the continued employment of the participant over the three year period, the unit values are settled in cash 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, less applicable taxes. The SUR qualifies as a cash-settled share-based payments transaction and a liability is recognised as employees render their service to the group. A total of 667 544 units were granted during 2010 (2009: nil), none of which had vested by 31 December 2010. The total carrying amount included in long-term cash incentives at 31 December 2010 was R8 million (2009: Rnil).

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is twenty seven months.

STANLIB contingent incentive award plan

A deferred scheme was introduced in 2010 for investment professionals and key management in the STANLIB asset management business. Awards granted are deferred over 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 less any applicable charges and taxes. The liability in respect of the STANLIB contingent incentive award at 31 December 2010 was R11 million (2009: Rnil).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

18. Employee benefits (continued)

18.4 Details of funds

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

Liberty Group Defined Benefit Pension Fund

The group operates a funded defined benefit pension scheme in terms of section 1 of the Income Tax Act, 1962. With effect from 1 March 2001 the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The defined benefit pension scheme was closed to new employees from 1 March 2001. Employer companies contribute the total cost of benefits provided, taking into account the recommendation of the actuaries.

ACA Defined Benefit Fund

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

Rentmeester Defined Benefit Fund

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

Liberty Defined Contribution Pension Fund⁽¹⁾

Liberty Group Limited operates a funded defined contribution pension scheme in terms of section 1 of the Income Tax Act, 1962. The Liberty Defined Contribution Pension Fund offers a benefit to Liberty employees based on the accumulated contributions and investment returns at retirement.

Liberty Provident Fund⁽¹⁾

The Liberty Provident Fund offers a benefit to Liberty employees, based on the accumulated contributions and investment returns at retirement. The group contributes to the scheme for the benefit of employees in terms of the rules of the fund.

Liberty Agency Fund⁽¹⁾

The Liberty Agency Fund offers a benefit to the group's qualifying agents based on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

Liberty Active Provident Fund⁽¹⁾

The fund offers a benefit to Liberty Active employees, based on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

Liberty Franchise Umbrella Fund⁽¹⁾

The Liberty Franchise Umbrella Fund offers a benefit to registered qualifying franchises, on the accumulated contributions and investment returns at retirement. The employer makes a predetermined rate of contribution per month as stipulated in the rules of the fund.

Rentmeester Defined Contribution Pension Fund⁽¹⁾

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

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

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

⁽¹⁾ All these schemes are defined contribution schemes, therefore, there can be no future obligation against the group for unfunded benefits.

Post-retirement medical benefit

The group operates an unfunded post-retirement medical aid benefit for employees who joined the group prior to 1998. Medical aid costs are included in the profit or loss within general marketing and administration expenses in the period during which the employees render services to the group. For past service of employees the group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

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

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Liberty Group Defined Benefit Pension Fund					ACA Defined Benefit Fund ⁽¹⁾		Rent-meester Defined Benefit Fund ⁽¹⁾	
	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
18. Employee benefits (continued)									
18.5 Retirement benefit obligation									
(a) <i>Change in defined benefit funded obligation</i>									
In the opinion of the pension fund valuator, after the most recent statutory actuarial valuation as at 1 January 2011, the Liberty Group defined benefit plan was financially sound.									
Present value of funded obligation at the beginning of the year	1 188	1 111	1 369	583	637	9	9	2	2
Additions through business acquisition				8					
Adjustment ⁽²⁾				688		2			
Valuation adjustment ⁽³⁾	13	(13)							
Service cost benefits earned during the year	66	12	14	14	18				
Interest cost on projected benefit obligation	59	52	59	50	40				
Actuarial loss/(gain)	59	94	19	132	(53)	1			
Benefits paid	(92)	(68)	(350)	(106)	(59)	(7)			
Present value of funded obligation at the end of the year	1 234	1 188	1 111	1 369	583	5	9	2	2
Change in plan assets									
Fair value of plan assets at the beginning of the year	1 280	1 197	1 821	1 613	1 332	13	13	3	3
Valuation adjustment ⁽³⁾		(13)							
Additions through business acquisition				24					
Expected return on plan assets	117	88	164	136	88	1	1		
Actuarial gain/(loss)	28	68	(446)	142	238		(1)		
Employer contribution ⁽⁴⁾	9	8	8	12	14				
Benefits paid	(92)	(68)	(350)	(106)	(59)	(7)			
Fair value of plan assets at the end of the year⁽⁵⁾	1 342	1 280	1 197	1 821	1 613	7	13	3	3
Excess not recognised	108	92	86	452	1 030	2	4	1	1
Analysis of the defined benefit pension fund obligation movement									
Current service cost	13	12	14	14	18				
Interest cost	66	52	59	50	40	1	1		
Expected return on plan assets	(117)	(88)	(164)	(136)	(88)	(1)	(1)		
Net actuarial loss/(gain) recognised in the year	31	26	466	(10)	(291)				
Employer contributions	(9)	(8)	(8)	(12)	(14)				
Total	(16)	(6)	367	(94)	(335)	–	–		

⁽¹⁾ The ACA Defined Benefit Fund and Rentmeester Defined Benefit Fund form part of the Capital Alliance Life group, which was acquired on 1 April 2005.

⁽²⁾ The adjustment of R688 million represents the former member, member and employer surplus accounts which were set up following the approval of the apportionment of the surplus by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001. The R2 million relating to the ACA Defined Benefit Fund in 2010 brings the opening balance of the funded obligation in line with the 2008 valuation performed by the fund's valuator.

⁽³⁾ This adjustment represents the change in the defined benefit funded obligation between the submission of the previous accounting valuation and the subsequent statutory valuation.

⁽⁴⁾ The employer's best estimate of contributions expected to be paid to the Liberty Group Defined Pension Fund during 2011 is nil as it is anticipated the contributions will be decreased to utilise the employer portion of the surplus apportionment approval.

⁽⁵⁾ The fair value of the plan assets for 2010 constitutes: 49,30% cash, 5,70% bonds, 34,10% equities, 10,70% international funds and 0,20% property (2009: 46,94% cash, 6,23% bonds, 36,05% equities, 10,65% international funds and 0,13% property).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
18. Employee benefits (continued)					
18.5 Retirement benefit obligation (continued)					
(b) <i>Change in post-retirement medical aid obligation</i>					
Present value of unfunded obligation at the beginning of the year	354	344	293	261	196
Additions through business acquisition				11	
Service cost benefits earned during the year	6	6	6	5	5
Interest cost on projected benefit obligation	34	29	26	22	17
Benefits paid	(8)	(7)	(6)	(6)	(5)
Actuarial loss/(gain)	14	(18)	25		48
Present value of unfunded obligation at the end of the year	400	354	344	293	261
Net liability recognised in financial position	400	354	344	293	261
Current	8	7	92	77	72
Non-current	392	347	252	216	189

The liability obligation has been updated after the most recent statutory actuarial valuation as at 1 January 2011.

	2010 Rm	2009 Rm
18.6 Defined benefit pension fund employer surplus		
Balance at the beginning of the year	170	144
Additional trustee agreed allocation	11	13
Investment gains	30	21
Agreed contribution to member benefit enhancements	(9)	(8)
Balance at the end of the year	202	170
Current	9	8
Non-current	193	162

The apportionment of the surplus within the Liberty Group Defined Benefit Pension Fund between the employer and the members was approved on 31 August 2007 by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001. The employer surplus has been measured as the approved amount allocated at 1 January 2003 (date of apportionment) adjusted for additional trustees approved allocations and subsequent related investment net gains or losses. The amount will be recovered through future reductions in employer contributions to the plan. The updated liability valuation effective 1 January 2011 resulted in a further allocated surplus of R11 million (2009: R13 million).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

18. Employee benefits (continued)

18.7 Assumptions used in the valuation of obligations⁽¹⁾

	Liberty Group Defined Benefit Pension Fund		Post-Retirement Medical Aid Fund	
	2010	2009	2010	2009
The valuation was based on the following principal actuarial assumptions:				
Anticipated after taxation returns on investments	9,10%	9,13%	8,01%	8,95%
Discount rate	9,10%	9,13%	8,01%	8,95%
Future salary increases (excluding increases on promotion)	6,43%	6,47%		
Medical cost trend rate			6,10%	7,02%
Mortality assumption – pre-retirement	(2)	(2)	(3)	n/a
– post-retirement	(3)	(3)	(3)	(3)
Retirement age – executives	63	63	63	63
– others	65	65	65	65
Investment in ultimate holding company Standard Bank Group Limited	Rm –	Rm 18		

⁽¹⁾ The ACA Defined Benefit Fund and Rentmeester Defined Benefit Fund are paid up funds and therefore, assumptions are not applicable.

⁽²⁾ No pre-retirement mortality has been allowed for in 2009 and 2010.

⁽³⁾ For both the Liberty Group Defined Benefit Pension Fund and the Post-Retirement Medical Aid Fund, the post-retirement mortality assumption is based on the PA(90) Tables for Pensioners (Ultimate Rates) less two years. This was also introduced for the Post-Retirement Medical Aid Fund pre-retirement mortality assumption in 2010.

18.8 Sensitivity analysis

Shown in the table below are sensitivities of the value of the post-retirement medical aid to changes in the medical inflation rates without changes to the risk discount rate:

Variable	Decrease/ (increase) in liability 2010 Rm	Decrease/ (increase) in liability 2009 Rm
1% decrease in medical inflation rate		
– active members	44	17
– pensioners	12	11
1% increase in medical inflation rate		
– active members	(56)	(19)
– pensioners	(15)	(12)

18.9 Transactions between group companies and the funds

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

	2010 Rm	2009 Rm
Retirement		
Defined benefit funds	9	8
Defined contribution funds	218	211
Medical		
Post-retirement medical benefit paid – pensioners	8	7

Notes to the group financial statements (continued) for the year ended 31 December 2010

18. Employee benefits (continued)

18.9 Transactions between group companies and the funds (continued)

18.9.2 The Liberty Group Defined Benefit Pension Fund has various banking relationships with Standard Bank Group Limited and its subsidiaries. The summary of balances deposited, fees paid and interest received are as follows:

	Balance deposited		Interest received	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Balance at 1 January	345	84		
Balance at 31 December	74	345	19	126

18.9.3 The Liberty Group Defined Benefit Pension Fund has outsourced its management to Liberty Group Limited. The summary of fees paid is as follows:

	2010 R'000	2009 R'000
Defined benefit funds	223	190

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

	2010 Rm	2009 Rm
STANLIB Institutional Property	32	
STANLIB Funds Limited	127	119
Standard Bank bonds and deposits	180	66

18.9.5 The following retirement benefit funds have insurance policies with Liberty Group Limited and its subsidiaries, held as investment policies in the funds. A summary of the transactions for each policy with each fund follows:

	Fund value	
	2010 Rm	2009 Rm
Liberty Defined Contribution Pension Fund		
Balance at 1 January	237	198
Premiums	31	36
Fair value adjustments	34	28
Withdrawals	(31)	(25)
Balance at 31 December	271	237
Liberty Provident Fund		
Balance at 1 January	1 535	1 330
Premiums	164	165
Fair value adjustments	219	180
Withdrawals	(213)	(140)
Balance at 31 December	1 705	1 535
Liberty Agency Fund		
Balance at 1 January	868	841
Premiums	55	45
Fair value adjustments	104	118
Withdrawals	(110)	(136)
Balance at 31 December	917	868

Notes to the group financial statements (continued)

for the year ended 31 December 2010

18. Employee benefits (continued)

18.9 Transactions between group companies and the funds (continued)

18.9.5 The following retirement benefit funds have insurance policies with Liberty Group Limited and its subsidiaries held as investment policies in the funds. A summary of the transactions for each policy within each fund follows (continued):

	Fund value	
	2010 Rm	2009 Rm
Liberty Active Provident Fund		
Balance at 1 January and 31 December	1	1
Liberty Franchise Umbrella Fund		
Balance at 1 January	24	20
Premiums	7	6
Fair value adjustments	4	1
Withdrawals	(4)	(3)
Balance at 31 December	31	24
Capital Alliance Holdings Defined Contribution Pension Fund		
Balance at 1 January	167	156
Withdrawals	(23)	(14)
Fair value adjustments	21	25
Balance at 31 December	165	167
Rentmeester Defined Contribution Pension Fund		
Balance at 1 January and 31 December	4	4
19. Deferred revenue		
Balance at 1 January	126	114
Released to profit or loss	(15)	(11)
Deferred income relating to new business	28	23
Net carrying amount at the end of the year	139	126
Current	17	16
Non-current	122	110

Deferred revenue is upfront fees received from policyholder investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and released to income as the services are rendered.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Restated Asset/ (liability) at the beginning of the year Rm	(Provision)/ release for the year Rm	Asset/ (liability) at end of the year Rm
20. Deferred taxation			
Normal taxation	(910)	(215)	(1 125)
Policyholder liabilities difference between statutory and accounting basis	(1 120)	(118)	(1 238)
Utilisation of tax losses and special transfers	479	(194)	285
Intangible assets	(216)	45	(171)
Deferred acquisition costs	(94)	(8)	(102)
Deferred revenue liability	35	4	39
Customer relationships and contracts	(26)	9	(17)
Provisions	32	47	79
Capital gains taxation	(937)	(228)	(1 165)
Total	(1 847)	(443)	(2 290)
Disclosed as:			
Deferred taxation asset	152		147
Deferred taxation liability	(1 999)		(2 437)
	(1 847)		(2 290)
	2010 Rm	Restated 2009 Rm	Restated 2008 Rm
Movement summary			
Balance at the beginning of the year	(1 847)	(2 030)	(2 722)
Additions through business acquisition			(41)
Tax rate adjustment			44
(Provided)/released through the statement of comprehensive income	(443)	183	689
Profit or loss	(474)	192	695
Other comprehensive income	31	(9)	(6)
Balance at the end of the year	(2 290)	(1 847)	(2 030)
Deferred tax assets			
Current			57
Non-current	147	152	74
Deferred tax liabilities			
Non-current	(2 437)	(1 999)	(2 161)

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	Retirement fund administration		Possible claims		Re-structuring	Total	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2009 Rm	2010 Rm	2009 Rm
21. Provisions							
Balance at the beginning of the year	139		65	47	17	204	64
Provision raised	9	160	23	30		32	190
Provision no longer required				(3)			(3)
Utilised during the year	(39)	(21)	(25)	(9)	(17)	(64)	(47)
Balance at the end of the year	109	139	63	65		172	204

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. The provision reflects the best estimate of the current value of future costs less fund recoveries. It is likely this project will take a further three years to complete.

Possible claims

Provision has been made for possible claims arising from investment and new business activities. Due to the nature of the provision, the timing of the expected cash flows is uncertain but likely to be within the next two years.

	2010 Rm	2009 Rm
22. Insurance and other payables		
Current balances related to insurance contracts	3 106	2 561
Outstanding claims and surrenders	2 705	2 313
Commission creditors	396	248
Unearned premium reserve	5	
Current balances related to investment contracts	65	60
Outstanding claims and surrenders	53	45
Other	12	15
Total current balances related to insurance and investment contracts	3 171	2 621
Total other payables	2 899	2 983
Sundry payables	1 465	1 124
Consolidated mutual funds payables	169	723
Property consortiums payable	80	58
Preference share dividends	350	366
Investment creditors	835	712
Total insurance and other payables	6 070	5 604
Current	6 040	5 582
Non-current	30	22

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
23. Share capital and share premium		
<i>Authorised share capital</i>		
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
<i>Unissued shares⁽¹⁾</i>		
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
113 977 627 ordinary shares of 8,33 recurring cents each	9	9
	13	13
Company		
<i>Issued share capital</i>		
286 022 373 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	6 675	7 976
Total issued share capital and share premium	6 701	8 002
Group		
Total issued share capital	26	26
Share premium	6 654	7 965
Company share premium	6 675	7 976
Cumulative fulfilment of employee share options/rights ⁽²⁾	(21)	(11)
Total issued share capital and share premium	6 680	7 991

⁽¹⁾ *Unissued shares reserved*

For the purposes of the assigned Liberty Group Limited Share Option Schemes, 1 249 610 (2009: 1 707 390) ordinary shares of 8,33 recurring cents each.

For the purpose of the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme, 29 000 000 ordinary shares of 8,33 recurring cents each.

⁽²⁾ Reflects the effects of the purchase and sale of the company shares by a subsidiary to meet the obligations of the employee share option schemes.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

Share movement analysis: Company	Number of shares	Share capital Rm	Share premium Rm	Total Rm
23. Share capital and share premium (continued)				
23.1 Share movement analysis				
Ordinary shares				
Issued shares at 1 January 2009 of 8,33 recurring cents each	286 022 373	24	9 263	9 287
Capital reduction No. 80 (291 cents)			(832)	(832)
Capital reduction No. 81 (164 cents)			(469)	(469)
Reversal of overprovided section 311 Liberty transaction costs ⁽¹⁾			1	1
Issued shares at 31 December 2009 of 8,33 recurring cents each	286 022 373	24	7 963	7 987
Capital reduction No. 82 (291 cents)			(832)	(832)
Capital reduction No. 83 (164 cents)			(469)	(469)
Issued shares at 31 December 2010 of 8,33 recurring cents each	286 022 373	24	6 662	6 686
Preference shares				
Issued shares at 31 December 2010 and 2009 of 10 cents each	15 000 000	2	13	15
Total issued share capital and share premium at 31 December 2010		26	6 675	6 701

⁽¹⁾ Shareholders on 21 October 2008 approved a section 311 scheme of arrangement to acquire Liberty Group Limited ordinary shares in exchange for Liberty Holdings Limited ordinary shares.

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 13 May 2011: 83 728 017 (2009: 83 270 237) ordinary shares of 8,33 recurring cents each; 30 000 000 (2009: 30 000 000) redeemable cumulative preference shares of 10 cents each and 6 000 000 (2009: 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 2010: R72,50 (31 December 2009: R69,20).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
24. Premiums		
Insurance premiums	22 812	22 630
Reinsurance premiums	(699)	(632)
Net insurance premiums	22 113	21 998
Fund inflows from investment contracts	8 819	8 077
Net premium income from insurance contracts and inflows from investment contracts⁽¹⁾	30 932	30 075
Retail	19 817	19 525
Corporate	7 130	6 784
Immediate annuities	3 908	3 766
Medical risk	77	
Comprising:		
Recurring	19 550	18 262
Retail	13 719	12 721
Corporate	5 754	5 541
Medical risk	77	
Single premium	11 382	11 813
Retail	6 098	6 804
Corporate	1 376	1 243
Immediate annuities	3 908	3 766
Net premium income from insurance contracts and inflows from investment contracts	30 932	30 075
<i>⁽¹⁾ Premium income is stated net of inter-company transactions between group companies.</i>		
25. Service fee income from policyholder investment contracts		
Service fee income from investment contracts	881	835
Released to profit or loss	15	11
Deferred income relating to new business	(28)	(23)
Total service fee income from policyholder investment contracts	868	823
26. Investment income		
<i>Financial assets designated at fair value through profit or loss</i>		
Interest income	6 404	6 870
Dividends received	1 726	2 610
Listed shares	1 311	1 627
Unlisted instruments	402	969
Manufactured dividends on scrip lending	13	14
Proceeds on sale of dividends	888	1 004
Scrip lending fees	2	2
<i>Investment properties</i>		
Rental income from investment properties	1 711	1 662
<i>Financial instruments held-to-maturity</i>		
Interest income	110	75
<i>Sundry income</i>	39	11
<i>Investment return on defined benefit pension fund surplus</i>	30	21
Total investment income	10 910	12 255

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
27. Investment gains		
Investment properties	1 293	711
Financial instruments designated at fair value through profit or loss	14 779	8 785
Quoted instruments	14 634	8 729
Unquoted instruments	145	56
Financial instruments held for trading through profit or loss	(879)	(2 823)
Cash and cash equivalents	(28)	(31)
Foreign exchange differences on subsidiary monetary items	9	7
FCTR recycled through profit or loss ⁽¹⁾	(21)	
Impairment of investment in joint venture	(14)	
Consolidated mutual funds	151	476
Total investment gains	15 290	7 125
<i>⁽¹⁾ Arising from a distribution of a foreign subsidiary's reserves.</i>		
28. Fee revenue		
Management fees on assets under management	1 149	1 075
Health administration fees	271	237
Fee revenue on software development	67	92
Total fee revenue	1 487	1 404
29. Claims and policyholder benefits⁽¹⁾		
Claims and policyholder benefits under insurance contracts	22 096	20 488
Payments under investment contracts	9 667	8 923
	31 763	29 411
Insurance claims recovered from reinsurers	(558)	(603)
Net claims and policyholder benefits	31 205	28 808
Comprising:		
Retail	22 666	20 260
Death and disability claims	4 043	3 262
Policy maturity claims	4 373	4 102
Policy surrender claims	11 054	9 993
Annuity payments	3 196	2 903
Corporate	8 476	8 548
Death and disability claims	1 718	1 648
Scheme terminations and member withdrawals	6 478	6 633
Annuity payments	280	267
Medical risk	63	
Medical risk	63	
Total claims and policyholder benefits	31 205	28 808
<i>⁽¹⁾ Claims and policyholder benefits are stated net of inter-company transactions between group companies.</i>		
30. Acquisition costs		
Insurance contracts	2 504	2 692
Investment contracts	148	203
Asset management	254	219
Total acquisition costs	2 906	3 114
Incurred during the year	2 933	3 107
Deferred acquisition costs	(210)	(197)
Amortisation and impairment of deferred acquisition costs	183	204

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
31. General marketing and administration expenses		
Comprising		
Employee costs	2 330	2 023
Office costs	1 493	1 603
Training and development costs	351	329
Other	1 757	1 479
Total general marketing and administration expenses	5 931	5 434
General marketing and administration expenses include the following:		
Amortisation of intangible assets	196	189
Auditors' remuneration	36	39
Audit fees – current year	34	36
Other services	2	3
Consulting fees	287	238
Cost of sales – software development	67	85
Depreciation	230	215
Computer equipment	98	109
Purchased computer software	24	16
Fixtures, furniture and fittings	75	58
Office equipment	20	19
Motor vehicles	13	13
Direct operating expenses – on investment properties	400	303
– on owner-occupied properties	22	15
– on hotel operations	490	425
Intangible assets impairment and derecognition	20	45
Loss on disposal of equipment	3	
Asset management fees	90	78
Operating lease charges – equipment	14	18
– property	159	121
Other related South African taxes	257	241
Financial services levy	17	14
Non-recoverable value added taxation	240	227
Provision for retirement fund administration	9	160
Provision for possible claims	23	30
Restructuring expense		53
Retrenchment and other staff related costs		
Infrastructure and office costs		1
Systems and processes		52
Staff costs	2 330	2 023
Salaries and wages	1 547	1 453
Defined benefit pension fund contributions	9	8
Medical aid contributions	127	84
Staff and management incentive and retention schemes	278	204
Share-based payment expenses – equity-settled schemes	60	68
– cash-settled schemes	8	1
Other post-retirement benefits	109	85
Other	192	120

Full details of the directors' emoluments are contained in the remuneration of directors section. The number of staff at 31 December 2010 was 7 607 (2009: 8 009).

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
32. Share-based payments – equity-settled		
<i>Reconciliation of reserve</i>		
Staff options and rights		
<i>Liberty Group Limited or Liberty Holdings Limited ordinary shares</i>		
Company	5	
Allocated cost in or to subsidiaries	223	179
<i>Standard Bank Group Limited ordinary shares</i>		
Allocated cost in subsidiaries	3	2
BEE transaction		
<i>Liberty Holdings Limited (2007 Liberty Group Limited) ordinary shares</i>		
Allocated costs in or to subsidiaries	127	117
<i>Standard Bank Group Limited ordinary shares</i>		
Allocated cost in subsidiaries	4	4
Transfer of vested options/rights to retained surplus	(241)	(93)
Gross reserve	121	209
Previous non-controlling interests' share of reserve	(13)	(65)
Total share-based payments reserve	108	144
<i>Movement for the year</i>	(36)	58
Per profit or loss – equity-settled schemes	60	68
Transfer of vested options/rights to retained surplus	(96)	(10)
Share-based payments – equity-settled schemes		
Expense recognised in profit or loss	60	68
Liberty Holdings Limited Employee Schemes	49	51
Standard Bank Group Limited Employee Schemes	1	
BEE transaction	10	17

Staff options and rights

The group has accounted for share options and rights granted after 7 November 2002 not vested prior to 1 January 2005.

Effect of Liberty Group Limited Scheme of Arrangement on share option and right schemes

In terms of Liberty Group Limited's scheme of arrangement in 2008, Liberty Holdings Limited has assumed, with effect from 1 December 2008, Liberty Group Limited's share options and 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 shares. These share incentive schemes are the Liberty Life Association of Africa Limited Share Trust, the Liberty Group Share Incentive Scheme, the Liberty Life Equity Growth Scheme and the Liberty Equity Growth Scheme. The Liberty Life Equity Growth Scheme confers rights on employees to acquire Liberty ordinary shares equivalent to the value of the right at date of exercise. The eventual value of the rights is 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 in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. The eventual value of the rights is effectively settled by the issue of shares equivalent to the value of the rights. Since April 2005, only rights under the Liberty Life Equity Growth Scheme have been granted to employees.

All of the above mentioned schemes are classified as equity-settled share option plans in accordance with the requirements of IFRS 2.

Notes to the group financial statements (continued) for the year ended 31 December 2010

32. Share-based payments (continued)

Standard Bank Group Limited

Certain STANLIB 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 receipt of shares equivalent to the appreciation amount, being the difference between the share price at exercise date and grant date multiplied by the number of appreciation rights. The Standard Bank Group Share Option Scheme is classified as an equity-settled share option plan and the Standard Bank Group Share Equity Growth Scheme is classified as a cash-settled scheme in accordance with the requirements of IFRS 2.

Liberty Share Incentive Schemes

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

Reconciliation	Price range 2010	Number 2010	Price range 2009	Number 2009
Options/rights outstanding at the beginning of the year		11 180 045		8 606 269
Granted	R67,00 – R76,80	3 620 700	R58,83 – R70,15	3 659 000
Exercised	R46,15 – R69,00	(393 973)	R46,15 – R65,15	(204 021)
Lapsed/cancelled	R46,15 – R93,30	(1 647 222)	R50,65 – R93,30	(881 203)
Options/rights outstanding at the end of the year		12 759 550		11 180 045

The weighted average share price for the year was R71,94 (2009: R63,36).

50% of the options/rights vest in year three, thereafter 25% in year four and five. Typically, the employee must remain in the employment of the company in order to exercise options/rights. The weighted average fair value per share right granted in 2010 is R19,43 (2009: R22,71).

A binomial tree model and a modified binomial tree model were used in order to value the share options and share rights, respectively. The fair value of the share rights granted during the year and the assumptions used are as follows:

	2010	2009
Exercise price	R67,00 – R76,80	R58,83 – R70,15
Expected volatility ⁽¹⁾	29,77% – 30,77%	30,82% – 32,42%
Option life	5 years	5 years
Dividend yield	5,82% – 6,71%	3,82% – 7,12%

The share-based payment expense recognised during 2010 relating to the Liberty share options and rights was R49 million (2009: R51 million).

⁽¹⁾ Expected volatility is determined separately for each tranche of options issued. The expected volatility is based on the annualised historic volatility of the share price for 10 years before the grant date. The volatility is calculated using daily price movements on trading days. The range disclosed shows the minimum and maximum volatility over all tranches issued during the year.

The 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

Reconciliation	Price range 2010	Number 2010	Price range 2009	Number 2009
Options outstanding at the beginning of the year		140 200		183 200
Exercised	R27,81 – R39,90	(54 700)	R27,81 – R39,90	(39 700)
Lapsed/cancelled	R27,81 – R39,90	(6 500)	R39,90	(3 300)
Options outstanding at the end of the year		79 000		140 200

Notes to the group financial statements (continued) for the year ended 31 December 2010

32. Share-based payments (continued)

Share options were exercised regularly throughout the period. The weighted average share price for the year was R107,73 (2009: R66,98). The share-based payment expense recognised during 2010 relating to the Standard Bank Group Share Incentive Scheme is Rnil (2009: R35 000). These options have been classified as an equity-settled scheme, and therefore a share-based payment reserve has been recognised.

A Black-Scholes option pricing model was used in order to value the share options.

Standard Bank Group Equity Growth Scheme

Reconciliation	Price range 2010	Number 2010	Price range 2009	Number 2009
Rights outstanding at the beginning of the year		380 100		475 981
Exercised	R102,85 – R117,00	(57 244)	R81,80 – R100,30	(73 594)
Lapsed/cancelled	R60,35 – R81,00	(39 918)	R60,35 – R81,00	(22 287)
Rights outstanding at the end of the year		282 938		380 100

The share-based payment expense recognised during 2010 relating to the Standard Bank Group Equity Growth Scheme is R0,9 million (2009: R1,4 million). These rights have been classified as a cash-settled scheme and therefore a liability of R9,9 million has been recognised (2009: R9,0 million) and is included in insurance and other payables.

A Black-Scholes option pricing model was used in order to value the share rights.

Black Economic Empowerment (BEE) transaction and IFRS 2

Liberty Holdings Limited

Liberty Group Limited entered into a BEE transaction during 2004, which resulted in the recognition of a share-based payment expense in respect of shares allocated to incentivise black employees.

The Katleho Managers' Trust acquired the right to grant options of 10,3 million shares in Liberty Group Limited to qualifying black employees and directors of the Liberty Group Limited. As a consequence of the scheme of arrangement, these options are now held against Liberty Holdings Limited shares.

At 31 December 2010 all the options have vested, and the cumulative reserve relating to the BEE transaction transferred to retained surplus.

The fair value of the options, being R12,30 per share, were measured using a stochastic simulation model, which incorporated the terms and conditions of the BEE transaction. The model utilised the terms of the issue and required a number of assumptions, which were as follows:

Terms:

- Grant date of the options: 29 October 2004, being the last date of trade before the scheme implementation;
- Market price of the underlying shares at the grant date: R57 per share;
- Preference dividend rate: this rate was originally set at 65% of the prime lending rate.

Assumptions:

- Dividend yield: assumed to equal the average dividend yield of 5,22% for the 12 months preceding the grant date;
- Strike price: this will differ based on the investment return scenario generated by the valuation mode;
- Expiry date: the options are assumed to have a term of 20 years and, therefore, the expiry date will be in the year 2024;
- Volatility: the annualised standard deviation of the monthly return on Liberty Group Limited shares was used, namely 29,71%;
- Risk-free rate of interest: Bond Exchange of South Africa (BESA) zero-coupon South African government bond curve used as at the grant date. From the zero-coupon curve, a forward rate curve was derived; and

The share-based payment expense recognised during 2010 relating to the Liberty BEE transaction was R10 million (2009: R16 million).

Notes to the group financial statements (continued) for the year ended 31 December 2010

32. Share-based payments (continued)

Standard Bank Group Limited

Certain STANLIB staff participate in the Standard Bank BEE share incentive scheme. The Standard Bank group entered into a black economic empowerment transaction during 2004, which also resulted in the recognition of a share-based payment expense. The fair value of the options were measured using a modified European valuation model, which incorporated the terms and conditions of the BEE transaction.

The share-based payment expense recognised during 2010 relating to the Standard Bank Group Limited was R0,4 million (2009: R0,8 million). The BEE transaction is classified as an equity-settled scheme and therefore a share-based payment reserve has been recognised. As at 31 December 2010 all the options have vested, and the cumulative reserve relating to the BEE transaction transferred to retained surplus.

Phantom share scheme

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

Share option/right holders are not entitled to receive dividends on their share options/rights and therefore each employee who had outstanding share options/rights at that date received a participation right in a phantom share scheme to compensate for the economic opportunity cost applicable to the capital no longer available. The number of phantom rights were calculated as the number of share options/rights outstanding multiplied by R3,60, divided by the average Liberty Group Limited share price over five days starting 5 June 2006 (R73,81 per share). The vesting dates of these rights have been matched to the share options/rights in respect of which they were granted, with the earliest date being 11 August 2006, and can be exercised at the option of the employee over a maximum of a 12 year period from 12 June 2006. On exercise Liberty Group Limited 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, as Liberty incurs a liability to the employee based on the price of Liberty Holdings Limited's shares. As the year end closing share price was less than the average share price referred to above of R73,81, the cumulative liability at 31 December 2010 is Rnil (2009: Rnil) and no adjustments were made to profit or loss.

	2010	2009
Reconciliation of options under phantom share scheme	Number	Number
Options outstanding at the beginning of the year	236 210	250 689
Exercised	(2 283)	
Lapsed/cancelled	(23 358)	(14 479)
Options outstanding at the end of the year	210 569	236 210
	Rm	Rm
33. Finance costs		
Interest expense:		
– interest paid on policyholder claims and supplier balances	80	144
– interest on financial liabilities at amortised cost	185	199
Total finance costs	265	343

Notes to the group financial statements (continued)

for the year ended 31 December 2010

34. Business acquisitions and disposals

34.1 Acquisition of subsidiaries

34.1.1 Acquisition of United Funeral Insurance Limited

A group subsidiary, Liberty Life Namibia Limited, with effect from 31 January 2010 acquired 100% of United Funeral Insurance Limited (UFI) from United Africa Group (Proprietary) Limited (UAG). The acquisition is part of the group's strategy to increase its market share of the wealth management business in African countries outside of South Africa.

UFI is engaged in funeral insurance for state pensioners and operates principally in Namibia. The acquisition price was N\$90 million, which was settled through a cash payment of N\$50 million and the issue of N\$40 million equity in a newly formed Namibian registered holding company, Liberty Holdings Namibia (Proprietary) Limited (LHN). LHN simultaneously acquired the entire issued share capital of Liberty Life Namibia Limited from a fellow group subsidiary. The group's ordinary shareholder effective interest in UFI after these transactions is 75%.

As part of these transactions, the group sold 25% of their interest in the existing group 100% owned Namibian operations, to UAG for N\$17 million. The sale transaction is accounted for as a common control transaction, whereas the UFI acquisition has been accounted for by applying purchase price accounting as described in IFRS 3 *Business Combinations*.

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

	2010 Rm
Financial investments	2
Prepayments, insurance and other debtors	5
Cash and cash equivalents	2
Insurance and other payables	(7)
Policyholder liabilities under insurance contracts	(3)
Present value of in-force business (PVIF)	48
Non-contractual customer relationships	40
Net identifiable assets and liabilities	87
Sale of 25% of Namibian operations to non-controlling interests settled by capital contribution	(18)
Net acquisition value	69
Capital contribution by UAG non-controlling interests	(22)
Net consideration paid in cash	47

The cash payment was settled in advance during December 2009 and was included in prepayments, insurance and other receivables as a deposit.

R32 million revenue and a R0,4 million loss (after amortisation of R16 million relating to intangibles arising on acquisition) is included in the consolidated statement of comprehensive income for the year ended 31 December 2010 relating to the UFI acquisition. Liberty's share of this loss is R0,3 million.

34.1.2 Acquisition of additional interest in the Health Service related entities

The group with effect from 1 November 2009 acquired a further 24,8% ownership in the Health Services related entities for R10 million, increasing the total group ownership to 74,9%. This transaction in terms of the group's accounting policies is accounted for as a transaction between owners and the relevant accounting is contained in shareholders' equity. No revaluation of existing values of the respective assets and liabilities was undertaken.

As part of the transaction, non-controlling interests' loans of R74 million were repaid and the full non-controlling interests earn out liability of R80 million was settled.

The acquisition includes reciprocal put and call options that gives the group and the remaining non-controlling interests the right to purchase or sell the non-controlling interests to Liberty at an independently determined fair value. These options are effective any time after 19 November 2013.

Notes to the group financial statements (continued) for the year ended 31 December 2010

34. Business acquisitions and disposals (continued)

34.1 Acquisition of subsidiaries (continued)

34.1.3 Acquisition of additional interest in Stanlib (Swaziland) (Proprietary) Limited and Stanbic Investment Management Services (Proprietary) Limited

In accordance with Liberty's strategy to extend its geographical Africa footprint, the group acquired the remaining ordinary shares not already owned in the subsidiary companies Stanlib (Swaziland) (Proprietary) Limited and Stanbic Investment Management Services (Proprietary) Limited from the group's holding company, Standard Bank Group Limited. The total amount paid was R18 million. These transactions are accounted for as a transaction between owners and the relevant accounting is contained in shareholders' equity. No revaluation of existing values of the respective assets and liabilities was therefore undertaken.

34.2 Acquisition of additional interest in joint ventures

34.2.1 Total Health Trust Limited

As part of the group's strategy to offer health services and to extend the group's geographical footprint, the group acquired, with effect from 1 February 2009, an initial 35,3% of the issued share capital of Total Health Trust Limited (THT) for an amount of R31 million. THT operates in Nigeria and is a health maintenance organisation servicing both government employees and corporate clients.

In terms of the acquisition agreements, the group will increase its shareholding in THT in three tranches over three years. The purchase consideration for an additional 5% in both 2010 and 2011 and 6% in 2012 will be based on the number of lives enrolled on THT's scheme for the applicable years ending 31 December 2009, 2010 and 2011. In 2010 an additional 5% was purchased for R5 million. In addition the purchase consideration of prior share purchases will be adjusted to reflect any increases in the applicable proportionate entity value. The right to this agreed adjustment is classified as a derivative and revalued at reporting dates, with any fair value adjustments being accounted for in profit or loss. A fair value loss of Rnil was recorded in 2010 (2009: Rnil). At 31 December 2010 this derivative liability was Rnil (2009: Rnil).

The agreed additional acquisitions of a further 11% of the entity is reflected in capital commitments at an estimated value of R5,7 million.

Until such stage that the group owns 51% of the issued equity, THT is accounted for as a joint venture and accordingly equity accounted.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	Restated 2009 Rm
35. Taxation		
35.1 Sources of taxation		
South African normal taxation	1 217	537
Current year taxation	1 120	856
Overprovision prior year current taxation	(117)	(55)
Current deferred taxation	214	(264)
Foreign normal taxation	20	10
Current year taxation	19	10
Current deferred taxation	1	
South African capital gains taxation	408	230
Current year taxation	180	154
Overprovision prior year current taxation		(5)
Deferred taxation	228	81
Other related South African taxes	41	89
Retirement fund taxation		(1)
Secondary tax on companies	41	90
Total taxation	1 686	866
Profit or loss	1 717	857
Other comprehensive income	(31)	9

Notes to the group financial statements (continued)

for the year ended 31 December 2010

35. Taxation (continued)

35.2 Taxation rate reconciliation

2010	CIT ⁽¹⁾ Rm	STC ⁽²⁾ Rm	CGT ⁽³⁾⁽⁵⁾ Rm	Total Rm
Taxation per profit or loss	1 264	41	412	1 717
Taxation on other comprehensive income	(27)		(4)	(31)
Total taxation	1 237	41	408	1 686
Taxation specific to policyholder tax funds ⁽⁴⁾	(329)		(355)	(684)
Shareholder taxation	908	41	53	1 002
Profit before taxation per statement of comprehensive income	4 101		255	4 356
Taxable loss directly charged to reserves	(95)		(4)	(99)
Dividends paid		3 018		
Ordinary		2 551		
Preference		467		
Adjustment for the revenue offset to policyholder taxation	(684)			
Total	3 322	3 018	251	
	%	%	%	
Effective rate of shareholder taxation	27,3	1,4	21,0	
Adjustments due to:				
Income exempt from normal taxation:				
Dividends received	4,0			
Equity accounted earnings				
Non-tax deductible expenses	(6,4)			
Over provision of taxes in respect of prior years	2,7			
Utilised tax losses and special allowances/transfers	0,4		6,2	
Base cost difference to historic cost			(13,2)	
Amounts excluded from capital gains tax				
Relief obtained from secondary taxation		8,6		
Standard rate of South African taxation	28,0	10,0	14,0	

⁽¹⁾ CIT represents corporate income taxation.

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

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

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

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

Notes to the group financial statements (continued)

for the year ended 31 December 2010

35. Taxation (continued)

35.2 Taxation rate reconciliation (continued)

2009 Restated	CIT ⁽¹⁾ Rm	RFT ⁽²⁾ Rm	STC ⁽³⁾ Rm	CGT ⁽⁴⁾⁽⁶⁾ Rm	Total Rm
Taxation per profit or loss	540	(1)	90	228	857
Taxation on other comprehensive income	7			2	9
Total taxation	547	(1)	90	230	866
Taxation specific to policyholder tax funds ⁽⁵⁾	(437)	1		(236)	(672)
Shareholder taxation	110		90	(6)	194
Profit before taxation per statement of comprehensive income	1 272			(179)	1 093
Taxable revenue directly charged to reserves	20			5	25
Dividends paid			1 560		1 560
Ordinary Liberty Group Limited Preference			1 175		1 175
			385		385
Adjustment for the revenue offset to policyholder taxation	(672)				
Total	620		1 560	(174)	
Effective rate of shareholder taxation	17,7		5,8	3,4	
Adjustments due to:					
Income exempt from normal taxation:					
Dividends received	7,3				
Equity accounted earnings	(1,7)				
Non-tax deductible expenses	(2,4)				
Over provision of taxes in respect of prior years	9,2			(2,7)	
Utilised tax losses and special transfers	(2,1)				
Amounts excluded from capital gains tax				13,3	
Relief obtained from secondary taxation			4,2		
Standard rate of South African taxation	28,0		10,0	14,0	

⁽¹⁾ CIT represents corporate income taxation.

⁽²⁾ RFT represents retirement funds taxation which is a South African tax and interest on rental income earned within defined retirement tax funds.

⁽³⁾ STC represents secondary tax on companies which is a South African tax on defined dividend distributions to shareholders.

⁽⁴⁾ CGT represents capital gains taxation which is an effective tax on defined capital gains in South Africa.

⁽⁵⁾ 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, retail 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.

⁽⁶⁾ Capital gains taxation arising on the possible disposal of subsidiaries or business units will only be provided for when a firm intention to sell has been mandated by the directors of the holding company.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

35. Taxation (continued)

	2010 Rm	2009 Rm
35.3 Potential future taxation relief		
Secondary taxation credits not utilised and not provided for representing possible future STC relief	46	23
South African assessed losses carried forward not provided for representing uncertain but possible future normal taxation relief	36	77
36. Reconciliation of total earnings to cash utilised by operations		Restated
Total earnings	2 639	236
Adjustments for:		
Interest received	(6 514)	(6 945)
Interest paid	265	343
Dividends received	(1 726)	(2 610)
Taxation	1 717	857
Settlement of share-based payments	(2)	(2)
Net fund outflows after service fees on policyholder investment contracts	(1 729)	(1 681)
Service fee income deferred on new business	28	23
Deferred acquisition costs on new business	(210)	(197)
	(5 532)	(9 976)
Adjustments for non-cash items:		
Policyholder liability transfers	15 248	13 215
Impairment and amortisation of deferred acquisition costs	183	204
Amortisation of deferred revenue liability	(15)	(11)
Retained income of joint ventures	(33)	(36)
Amortisation of intangible assets	196	189
Impairment and derecognition of intangible assets	134	45
Depreciation of equipment	230	215
Adjustment to surplus recognised on defined benefit pension fund	(32)	(26)
Loss on disposal of equipment	3	
Share-based payment expenses	60	68
Investment gains	(15 290)	(7 125)
Investment gains attributable to third party mutual fund financial liabilities	549	835
Income attributable to non-controlling preference shareholders in subsidiaries	464	366
Movement on provisions	(32)	140
	(3 867)	(1 897)
Working capital changes:	424	583
Prepayments, insurance and other receivables	(224)	3 229
Insurance and other payables	648	(2 646)
Cash utilised by operations	(3 443)	(1 314)

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
37. Distributions in lieu of dividends/dividends paid		
Capital reductions/ordinary and preference share dividends as per statement of changes in shareholders' funds	(1 303)	(1 303)
Dividends and redemptions received on preference shares held in relation to BEE transaction	117	101
Distributions paid to non-controlling interests in subsidiaries	(483)	(310)
Total distributions paid	(1 669)	(1 512)
38. Taxation paid		
Taxation payable at the beginning of the year	(561)	(748)
Acquired through business acquisition	(3)	
Taxation attributable	(1 243)	(1 049)
Taxation payable at the end of the year	740	561
Total taxation paid	(1 067)	(1 236)

39. Related party disclosures

List of related parties as defined:

Parent

Direct holding company: Standard Bank Group Limited controls 53,65% (2009: 53,65%) of the issued ordinary shares.

Fellow subsidiaries

All subsidiaries of the Standard Bank Group Limited 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 (Proprietary) Limited, Liberty Group Limited, Liberty Group Properties (Proprietary) Limited, Liberty Group Shelf Company No 1 (Proprietary) Limited, Liberty Holdco Nigeria Limited, Liberty Holdings (Botswana) (Proprietary) Limited, Liberty Nominees (Proprietary) Limited, Libgroup Jersey Holdings Limited, Stanlib Swaziland (Proprietary) Limited, STANLIB Limited, Stonehouse Capital (Proprietary) Limited.

Partially owned

These entities are subsidiaries due to effective control as Liberty Holdings Limited already has majority control or the option to acquire further shares to effect control and/or the right to manage the operations.

Liberty Holdings Namibia (Proprietary) Limited (75%), Liberty Health Holdings (Proprietary) Limited (74,9%), Stanbic Investment Management Services (East Africa) Limited (50%), Stanlib Lesotho (Proprietary) Limited (50%).

Indirectly owned

Wholly owned through directly owned subsidiaries:

Blue Line Management Limited, Capital Alliance Australia Holdings (Proprietary) Limited, Capital Alliance Executive Share Trust, Capital Alliance Holdings Share Scheme, Capital Alliance Investment Holdings (Proprietary) Limited, Capital Alliance Life Limited, Capital Alliance Special Finance (Proprietary) Limited, Electric Liberty (Proprietary) Limited, Frank Life Limited, Frank Financial Services (Proprietary) Limited, Friedshelf 940 (Proprietary) Limited, General Staff Scheme Share Trust, Killyman Estates (Proprietary) Limited, Liberty Active Limited, Liberty Ermitage Luxembourg SA, Liberty Group Property Development (Proprietary) Limited, Liberty Group Property Management (Proprietary) Limited, Liberty Growth Limited, Liberty Hotels (Proprietary) Limited, Liberty Life Association of Africa Limited Share Trust, Liberty Life Botswana (Proprietary) Limited, Liberty Life Swaziland Limited, Liberty Private Fund Administrators Limited, Lodestone Holdings (Proprietary) Limited, LPH Properties Limited, Mooi and Anderson Street Properties (Proprietary) Limited, North City Brokers Limited, Sandton Hotels (Proprietary) Limited, Sillena Ontwikkelingsmaatskappy (Proprietary) Limited, Standard Insurance Limited (Swaziland), STANLIB Asset Management Limited, STANLIB Collective Investments Limited, STANLIB Multi-Manager Limited, STANLIB Wealth Management Limited, The Big Rock (Proprietary) Limited, Stanbic Investment Management Services (Proprietary) Limited, The Liberty Life Educational Foundation, The Liberty Life Foundation, Wedelin Investments 1 (Proprietary) Limited.

Notes to the group financial statements (continued) for the year ended 31 December 2010

39. Related party disclosures (continued)

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

Main Street 645 (Pty) Limited (38,2%), CAL AIL Investments Limited (75%), Liberty Life Namibia Limited (75%), Liberty Life Uganda Assurance Limited (51%), Neil Harvey & Associates (Proprietary) Limited (74,9%), Stanlib Namibia (Proprietary) Limited (75%), Stanlib Namibia Unit Trust Management Company Limited (75%), Unique Payment Services (Proprietary) Limited (74,9%), United Funeral Insurance Limited (75%), VMed Administrators (Proprietary) Limited (74,9%), VMedical Solutions (Proprietary) Limited (74,9%)

Controlled mutual funds

Various mutual funds that the group invests in initially for the purpose of backing policyholder liability obligations are defined as subsidiaries as the economic ownership is greater than 50% – Refer section 17 of the risk management section for details of these mutual funds.

Joint ventures

Details of joint ventures of the group are contained in note 8.

Associates

Details of associates of the group are contained in note 10.

Key management personnel

Key management personnel have been defined as follows:

Standard Bank Group Limited directors and executive committee members;

Liberty Holdings Limited directors and executive committee members.

Refer to the published annual financial statements of Standard Bank Group Limited for details pertaining to its key management members.

Details of the current directors of Liberty Holdings Limited are on pages 66 and 67.

Liberty Holdings Limited executive committee members at 31 December 2010:

Peter Botha	
Steven Braudo	
Lindiwe Dlamini	
Thabo Dloti	Appointed 01 March 2010
Giles Heeger	
Bruce Hemphill (chairman)	
Bernard Katompa	
Audrey Mothupi	
Samuel Ogbu	
Thiru Pillay	
Casper Troskie	Appointed 12 October 2010
Frik van der Merwe	
Ian van Schoor	

Liberty Holdings Limited executive committee members resigned during 2010

Bobby Malabie	Resigned 22 January 2010
Rex Tomlinson	Resigned 30 June 2010
Russell Harte	Resigned 12 October 2010

Notes to the group financial statements (continued)

for the year ended 31 December 2010

39. Related party disclosures (continued)

Key management personnel (continued)

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant full details of all relationships and terms of the transaction are provided.

Post-employment benefit plans

Refer to note 18.

A. Holding company – Standard Bank Group Limited and fellow subsidiaries

A.1 Financial instrument investments

Liberty and its subsidiaries invest from time to time in securities issued by its holding company, Standard Bank Group Limited for the benefit of policyholders:

Standard Bank group ordinary shares Summary of ordinary share holdings and movements	Nominal holding		Fair value	
	2010 '000	2009 '000	2010 Rm	2009 Rm
Holdings at 1 January	25 724	30 911	2 624	2 566
Liberty Group Limited	21 987	25 121	2 243	2 085
Capital Alliance Life Limited	2 111	3 260	216	271
Liberty Growth Limited	64	74	6	6
Liberty Active Limited	1 562	2 456	159	204
Purchases	11 594	12 229	1 121	934
Liberty Group Limited	8 870	8 974	862	677
Capital Alliance Life Limited	103	2 271	11	183
Liberty Growth Limited	1	2		
Liberty Active Limited	2 599	982	246	74
Mutual funds	21		2	
Sales	(19 954)	(17 416)	(2 014)	(1 539)
Liberty Group Limited	(15 999)	(12 108)	(1 623)	(1 103)
Capital Alliance Life Limited	(1 035)	(3 420)	(111)	(269)
Liberty Growth Limited		(12)		(1)
Liberty Active Limited	(2 920)	(1 876)	(280)	(166)
Fair value adjustments			137	663
Liberty Group Limited			116	584
Capital Alliance Life Limited			11	31
Liberty Growth Limited			1	1
Liberty Active Limited			9	47
Holdings at 31 December	17 364	25 724	1 868	2 624
Liberty Group Limited	14 858	21 987	1 598	2 243
Capital Alliance Life Limited	1 179	2 111	127	216
Liberty Growth Limited	65	64	7	6
Liberty Active Limited	1 241	1 562	134	159
Mutual funds	21		2	
Percentage of total issued ordinary shares	1,10%	1,65%		

Notes to the group financial statements (continued)

for the year ended 31 December 2010

39. Related party disclosures (continued)

A. Holding company – Standard Bank Group Limited and fellow subsidiaries (continued)

A.1 Financial instrument investments (continued)

Standard Bank group preference shares Summary of preference share holdings and movements	Nominal holding		Fair value	
	2010 '000	2009 '000	2010 Rm	2009 Rm
Holdings at 1 January	2 737	3 117	265	305
Liberty Group Limited	1 668	2 213	162	217
Capital Alliance Life Limited	1 069	638	103	61
Liberty Active Limited		6		1
Mutual funds		260		26
Purchases	208	1 076	22	107
Liberty Group Limited	29	645	4	63
Capital Alliance Life Limited		431		44
Liberty Active Limited	80		8	
Liberty Growth Limited	99		10	
Sales	(131)	(1 456)	(13)	(160)
Liberty Group Limited	(81)	(1 190)	(8)	(133)
Capital Alliance Life Limited	(15)		(1)	
Liberty Active Limited	(35)	(6)	(4)	(1)
Mutual funds		(260)		(26)
Fair value adjustments			7	13
Liberty Group Limited			4	15
Capital Alliance Life Limited			3	(2)
Holdings at 31 December	2 814	2 737	281	265
Liberty Group Limited	1 616	1 668	162	162
Capital Alliance Life Limited	1 054	1 069	105	103
Liberty Active Limited	45		4	
Liberty Growth Limited	99		10	

Notes to the group financial statements (continued)

for the year ended 31 December 2010

39. Related party disclosures (continued)

A. Holding company – Standard Bank Group Limited and fellow subsidiaries (continued)

A.1 Financial instrument investments (continued)

Standard Bank group term deposits	Fair value	
	2010	2009
Summary of term deposits holdings and movements:	Rm	Rm
Holdings at 1 January	8 094	10 626
Liberty Group Limited	5 827	7 863
Capital Alliance Life Limited	512	434
Liberty Growth Limited	301	52
Liberty Active Limited	1 419	2 239
Mutual funds	30	38
Other	5	
Purchases	2 754	4 387
Liberty Group Limited	1 056	3 469
Capital Alliance Life Limited	389	282
Liberty Growth Limited	32	267
Liberty Active Limited	1 255	335
Mutual Funds	18	29
Other	4	5
Sales	(5 045)	(6 725)
Liberty Group Limited	(2 729)	(5 246)
Capital Alliance Life Limited	(352)	(232)
Liberty Growth Limited	(46)	(38)
Liberty Active Limited	(1 913)	(1 171)
Mutual funds		(38)
Other	(5)	
Fair value adjustments	339	(194)
Liberty Group Limited	274	(259)
Capital Alliance Life Limited	5	27
Liberty Growth Limited	42	20
Liberty Active Limited	16	16
Mutual funds	2	2
Holdings at 31 December ⁽¹⁾	6 142	8 094
Liberty Group Limited	4 428	5 827
Capital Alliance Life Limited	554	512
Liberty Growth Limited	329	301
Liberty Active Limited	777	1 419
Mutual funds	50	30
Other	4	5
⁽¹⁾ Analysis of term deposits as at 31 December:		
Listed:		
Fixed rate notes	1 736	2 232
Fixed rate credit-linked notes	963	96
Floating rate notes		31
Inflation-linked notes	112	128
Unlisted:		
Fixed rate notes	21	144
Fixed rate zero-coupon bonds	1 706	3 099
Fixed rate credit-linked notes	170	275
Floating rate notes	315	238
Inflation-linked notes	1 062	1 227
Negotiable certificates of deposit	57	624
	6 142	8 094

Notes to the group financial statements (continued) for the year ended 31 December 2010

39. Related party disclosures (continued)

A. Holding company – Standard Bank Group Limited and fellow subsidiaries (continued)

A.1 Financial instrument investments (continued)

Standard Bank credit enhanced structured entities Summary of holdings and movements:	Fair value	
	2010 Rm	2009 Rm
Holdings at 1 January	2 977	3 035
Liberty Group Limited	1 940	2 135
Capital Alliance Life Limited	14	19
Liberty Active Limited	1 023	877
Liberty Growth Limited		4
Purchases	2 086	766
Liberty Group Limited	802	683
Capital Alliance Life Limited	196	
Liberty Active Limited	1 066	83
Liberty Growth Limited	22	
Sales	(2 461)	(980)
Liberty Group Limited	(1 210)	(956)
Capital Alliance Life Limited	(131)	(20)
Liberty Active Limited	(1 106)	
Liberty Growth Limited	(14)	(4)
Fair value adjustments	16	156
Liberty Group Limited	(69)	79
Capital Alliance Life Limited	3	14
Liberty Active Limited	82	63
Holdings at 31 December	2 618	2 977
Liberty Group Limited	1 463	1 940
Capital Alliance Life Limited	82	14
Liberty Active Limited	1 065	1 023
Liberty Growth Limited	8	

A.2 Information technology outsourcing arrangement

With effect from 1 October 2004, Liberty partially outsourced its information technology services to Standard Bank of South Africa Limited in terms of an agreement until 31 March 2010. A new contract was entered into extending the above arrangement until 31 December 2011. Fees charged for 2010 amounted to R19 million (2009: R20 million).

A.3 Software development

Standard Bank of South Africa Limited has contracted Liberty to develop a commission and specific customer information system. Fees associated with this development have been charged over five years with the completion date in 2010. 2010 fees received are R3,1 million (2009: R4,4 million).

An annual renewable contract is now in place for an annual maintenance fee of R2,5 million, which is included in the fees received in 2010.

A.4 Banking arrangements

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

Notes to the group financial statements (continued)

for the year ended 31 December 2010

39. Related party disclosures (continued)

A. Holding company – Standard Bank Group Limited and fellow subsidiaries (continued)

A.4 Banking arrangements (continued)

Summary of cash balances, interest earned and fees charged:

	Cash balances		Interest earned		Fees charged	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Holdings at 1 January	1 887	2 693				
Liberty	120	221				
Liberty subsidiaries	1 767	2 472				
Net movements during the year	(632)	(806)				
Liberty	(52)	(101)				
Liberty subsidiaries	(580)	(705)				
Holdings at 31 December	1 255	1 887				
Liberty	68	120	8	12		
Liberty subsidiaries	1 187	1 767	48	71	40	29
Total			56	83	40	29

A.5 Operating lease

Lease expense

Liberty leases a Pretoria property from Standard Bank of South Africa Limited in terms of a lease entered on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease payments for 2010: R90 million (2009: R80 million).

Lease income

Standard Bank of South Africa Limited 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 2010: R63 million (2009: R59 million).

A.6 Bancassurance

Liberty has entered into profit share agreements with Standard Bank of South Africa Limited for the sale and promotion of insurance products. New business premium income in respect of this business in 2010 amounted to R4 407 million (2009: R4 812 million). In terms of the agreement Liberty Active Limited pays between 80% and 90% of profits on simple products and 50% of profits on complex products sold in South Africa through a preference share dividend to Standard Bank of South Africa Limited. Various other African group entities pay the relevant profit share directly. The profit share calculated for 2010 is R463 million (2009: R366 million).

During 2010 Liberty and Standard Bank have conducted a detailed review of the existing bancassurance agreement and have agreed with effect from 1 January 2011 to expand the scope thereof to include asset management, investment and health products in addition to the insurance products. The agreement remains an evergreen agreement with a 24-month notice period for termination, but neither party may give notice of termination until February 2013.

A.7 Insurance

Certain insured risks for Liberty are included in the Standard Bank Group Limited insurance programme. These include R3 billion (2009: R3 billion) cover for crime, fraud and professional indemnity, R1,5 billion plus £100 million (2009: R1,5 billion plus £100 million) directors' and officers' cover and R760 million (2009: R760 million) asset all risks cover. The asset all risks premiums include SASRIA cover R500 million (2009: R500 million). The proportionate share of premiums charged to Liberty by Standard Bank Group Limited for 2010 is R14,9 million (2009: R10,4 million).

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

No asset management fees were paid to STANLIB Asset Management Limited by The Standard Bank Group Retirement Fund in 2010 (2009: R7 million).

A.9 Dividend purchase agreement

In May 2007, Liberty entered into a dividend purchase agreement with Standard Bank.

In terms of this agreement, the rights to dividend income from certain share investments was sold to Standard Bank. Proceeds on the sale of rights to dividends was R888 million (2009: R1 004 million).

Notes to the group financial statements (continued) for the year ended 31 December 2010

39. Related party disclosures (continued)

A. Holding company – Standard Bank Group Limited and fellow subsidiaries (continued)

A.10 Derivatives

Certain derivative transactions were entered into between Liberty Group Limited and the Corporate & Investment Banking Division of Standard Bank Group Limited.

All transactions were entered into in order to hedge the market risk inherent in the group's assets and liabilities.

The transactions were entered into on an arm's length basis and only after obtaining competitive pricing quotations from other financial institutions who conduct business in these markets.

Transaction summary:

	Underlying principal/ notional amount traded		Fair value at 31 December		Amounts included in profit or loss		Underlying principal/ notional position		Open maturity dates
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	
Interest rate									
Swaps	18 563	9 422	255	71	139	(340)	28 191	12 337	<1 – 30 years
Swaptions		1 130	68	96	(28)	(148)	4 580	4 580	9 – 19 years
Forwards	11 292		14		(44)		6 073		
Equity									
Options	6 954	11 229	8	(19)	4	(191)	1 858	2 805	<1 year
Foreign exchange									
Options	3 316	2 679		47	(4)	(10)		1 511	<1 year
Forwards	2 303	1 225		19	11	19		1 225	<1 year
			345	214	78	(670)			

There are collateral liability deposits of R182 million and collateral asset deposits of R392 million as at 31 December 2010 relating to the above derivatives.

A.11 Scrip lending

Scrip lending transactions are entered into between Liberty Group Limited and Standard Bank. The value of scrip lent at 31 December 2010 totalled Rnil (2009: R875 million) and the fees earned were R2 million (2009: R3 million).

A.12 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. 2010 premium income was R85 million (2009: R27 million).

A.13 Stanbic Investment Management Services (East Africa)

A Liberty subsidiary acquired the rights to manage certain assets for an amount of R4 million from a Standard Bank subsidiary in 2009.

A.14 Acquisition of CfC Insurance Holdings Limited (CfC)

As detailed in note 40 Liberty has agreed to acquire a controlling interest in CfC from Standard Bank. The transaction will be effective on completion of various regulatory approvals in 2011.

A.15 Utilisation of the Standard Bank Group Leadership Centre

Liberty utilises for certain employees the various leadership courses offered by the Standard Bank Group Leadership Centre. Fees paid amounted to R28 million (2009: R30 million).

A.16 Standard Bank Namibia Unit Trust Management Company Limited

With effect from 1 January 2010, a Liberty subsidiary acquired a 100% shareholding for an amount of R4 million from a Standard Bank subsidiary.

A.17 Stanbic Investment Management Services (Pty) Limited (Botswana)

With effect from 1 May 2010, Liberty purchased the remaining 50% shareholding that it did not already own for an amount of R15,9 million.

A.18 Stanbic Swaziland (Proprietary) Limited

With effect from 31 December 2010, Liberty exercised the option to control the company and purchased 100% of the share capital from a Standard Bank subsidiary for R2,6 million.

Notes to the group financial statements (continued) for the year ended 31 December 2010

39. Related party disclosures (continued)

B. Transactions with directors and related entities

Refer to note 41 for related party relationships in respect of the 2004 BEE transaction.

B.1 Transactions with Shanduka Group (Proprietary) Limited (Shanduka)

Shanduka is a related entity of Cyril Ramaphosa, a current director of Standard Bank Group Limited.

Cyril Ramaphosa, who is defined as part of key management, effectively controls 31,06% (2009: 29,8%) of Shanduka. Standard Bank Group Limited has a 12,23% (2009: 12,20%) interest in Shanduka.

B.1 (a) Computer equipment

RentWorks Africa (Proprietary) Limited is 25,1% held (2009: 25,1%) by Shanduka.

A portion of the group's computer equipment is leased from RentWorks Africa (Proprietary) Limited under various lease agreements ranging between three to four years with no escalations.

Rentals paid are summarised as follows:

	2010 Rm	2009 Rm
Liberty subsidiaries	5	8

B.1 (b) Preference shares – Shanduka

- In December 2007 Liberty Group Limited purchased R37 million of variable rate cumulative redeemable "A" class preference shares in Shanduka. The preference shares were redeemable on 30 June 2012, or earlier at the option of Shanduka. Up to 8 June 2010 dividends received were R7,5 million (2009: R5 million). The shares were redeemed in June 2010 for R52 million.
- In December 2007 Liberty Group Limited purchased 11 redeemable participating "B" class preference shares in Shanduka for 11 cents. The participation dividend is in reference to the increase in the net asset value of the Shanduka group over the period to 30 June 2012. The shares were redeemed in June 2010 for R23 million.
- In June 2010 Liberty Group Limited purchased R47 million of cumulative redeemable preference shares in Shanduka. The preference shares are redeemable on 28 June 2015 or earlier at the option of Shanduka. The fair value of these preference shares at 31 December 2010 is R50 million.

B.1 (c) Preference shares – Shanduka Newsprint (Proprietary) Limited (Shanduka Newsprint)

Shanduka Newsprint is a subsidiary of Shanduka. In December 2006 Liberty Group Limited purchased R46 million variable rate cumulative redeemable preference shares in Shanduka Newsprint. In June 2010 a further R28 million preference shares were purchased. The preference shares are redeemable on 1 June 2016, or earlier at the option of Shanduka Newsprint. Up to 31 December 2010, no dividend has been received and the fair value of these preference shares is R89 million (2009: R56 million).

B.2 Transaction with Safika Holdings (Proprietary) Limited (Safika)

Safika is a related entity of Saki Macozoma, the current chairman of the board and a director of Liberty and Standard Bank Group Limited.

Saki Macozoma, who is defined as part of key management, effectively controls 23% (2009: 23%) of Safika. Liberty has an effective interest of 5,75% (2009: 5,75%) and Standard Bank Group Limited has a 17,25% (2009: 17,25%) interest in Safika. The fair value of Liberty's interest is R90 million (2009: R70 million). No dividends have been received during the year (2009: Rnil). Safika controls 7 026 647 (2009: 8 677 652) ordinary shares in Liberty which is effectively 2,5% (2009: 3,0%) of the total invested ordinary share capital.

B.3 Construction contracts

Certain of the group's investment properties, namely the Liberty Promenade, Sandton City and Eastgate complexes, are undergoing refurbishments and extensions. Grinaker-LTA Limited, a subsidiary of Aveng Limited, were awarded construction contracts in 2008 to the value of R1 357 million of which R1 019 million has been spent up to 31 December 2010. Angus Band who, through his directorship of Liberty, is defined as a key manager, is currently the chairman of Aveng Limited.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

39. Related party disclosures (continued)

C. Key management personnel of Liberty Holdings Limited and Standard Bank Group Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Liberty Holdings Limited directors', Liberty Group Limited directors' and group executive committee members' aggregate compensation paid by the group or on behalf of the group for services rendered to Liberty Holdings Limited and Liberty Group Limited:

	2010 Rm	2009 Rm
Salaries and other short-term employee benefits	77 298	60 784
Post-employment benefits	3 126	3 358
Long-term cash incentives	10 376	
Long-term share incentives	20 161	16 406
Directors' fees	6 312	5 852
Total	117 273	86 400

(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

	Aggregate insured cover		Premiums received		Surrender value	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Life	54 003	41 229	824	1 261	4 896	8 687
Morbidity	35 981	33 459	(included in life premiums)			

Annuities

	Amounts paid	
	2010 R'000	2009 R'000
Life ⁽¹⁾	353	848

Investment

	Fund value	
	2010 R'000	2009 R'000
Balance at 1 January	42 976	40 614
Appointments and resignations	(24 324)	
Premiums received	2 087	3 033
Investment return credited net of charges	4 582	1 513
Commission and other transaction fees	(42)	(61)
Claims and withdrawals	(5 461)	(2 123)
Balance at 31 December	19 818	42 976

⁽¹⁾ There are no certain or term annuity related party transactions.

Notes to the group financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
40. Commitments		
40.1 Operating lease commitments		
Equipment	82	80
Within 1 year	43	26
1 to 5 years	39	54
Properties	384	503
Within 1 year	162	145
1 to 5 years	222	358
40.2 Capital commitments		
Business acquisitions ⁽¹⁾	143	360
Under agreement with material conditions outstanding	130	330
Authorised by the directors but not contracted	13	30
Equipment	236	296
Under contracts	6	113
Authorised by the directors but not contracted	230	183
Investment properties	1 637	2 465
Under contracts	452	1 272
Authorised by the directors but not contracted	1 185	1 193
Owner-occupied properties		
Authorised by the directors but not contracted	17	20
Total commitments	2 499	3 724

The group's share of commitments of joint ventures amounting to R7 million (2009: R11 million) is disclosed in note 8. The above 2010 capital commitments will be financed by available bank facilities, existing cash resources, internally generated funds, R313 million (2009: R403 million) from non-controlling interests in unincorporated property partnerships, and R5 million (2009: R7 million) from non-controlling interests in Liberty Health Holdings (Pty) Limited.

⁽¹⁾ The board has approved certain business acquisitions related to its stated strategy of broadening the group's financial services offerings. These acquisitions are in the final state of negotiation and finalisation is expected within the next few months from the date of this report. In light of the sensitive nature of the negotiations and certain required regulatory approvals it is not practical to provide full financial details with respect to the transactions. However, the transactions will not have a material impact on the group's earnings and capital structure. Details of the transactions concluded or announced by reporting date are as follows:

- (i) As detailed in note 34.2.1 the group has committed to acquiring an additional 11% equity in Total Health Trust Limited over the next two years. Based on the valuation at 31 December 2010 the amount committed is estimated to be R5,7 million.
- (ii) As announced on SENS dated 3 December 2009 Liberty has entered into agreements in terms of which Liberty will acquire control of Cfc Insurance Holdings Limited (Cfc), currently a subsidiary of Standard Bank Group Limited. Cfc is a leading Kenyan wealth company that comprises life, general and health insurance businesses in Kenya and Tanzania. The group will acquire approximately 57% ownership through subscribing for KES880 million of new equity capital and an initial payment of USD14 million with deferred payments capped at an additional USD4,9 million. The new equity capital subscription has been settled during 2010 and at 31 December 2010 exchange rates the rand equivalent of the outstanding transactional commitments is R125 million. The Cfc acquisition is a related party transaction, as Standard Bank is both a majority shareholder of Liberty with a holding of 53,65% and the ultimate controlling shareholder of Cfc.

Notes to the group financial statements (continued) for the year ended 31 December 2010

41. 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. During 2010, at the request of the various directors and trustees, R40 million was allowed as a redemption of a further portion of the cumulative preference shares.

Position at 31 December 2010:		Original amount invested (2004)	Re-demption (2006)	Re-demption (2010)	Re-remaining amounts invested	Number of Liberty Holdings Limited shares ⁽³⁾
BEE entity	Beneficiary	Rm	Rm	Rm	Rm	
Lexshell 620 (Proprietary) Limited	Safika Holdings (Proprietary) Limited	300	(22)	(5)	273	6 191 075
Lexshell 621 (Proprietary) Limited	Shanduka Group (Proprietary) Limited	200	(15)	(5)	180	4 127 383
Lexshell 622 (Proprietary) Limited	The Black Managers' Trust ⁽¹⁾	501	(37)	(20)	444	10 318 458
Lexshell 623 (Proprietary) Limited	The Community Trust ⁽²⁾	250	(18)	(10)	222	5 159 229
		1 251	(92)	(40)	1 119	25 796 145

⁽¹⁾ Registered as the Kalleho Managers' Trust.

⁽²⁾ Registered as the Kalleho Community Trust.

⁽³⁾ Trading restricted until full redemption of the cumulative preference shares.

The cumulative redeemable preference shares attract dividends at 67% (with effect from 1 March 2008) of Standard Bank's prime lending rate. The preference dividends are payable on each date the company (which has issued the preference shares) receives an ordinary dividend from Liberty Holdings Limited.

In accordance with local and international accounting advice 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.

42. Change in accounting policy and restatements

The International Accounting Standards Board in December 2010 issued Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*, effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.

In terms of the amendment, if deferred tax liabilities or assets arise from investment properties that are measured using the fair value model in IAS 40 *Investment Properties*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Prior to the IAS 12 amendment, the group was required to provide for deferred taxation at the use rate in respect of revaluation surpluses on investment properties held as long-term strategic investments. As advised previously, providing tax at the use rate resulted in a certain amount of double counting of the economic reality as the fair values of the investment properties effectively already discounted the income tax or use rate consequences in respect of future rental income. In order to comply with IAS 12, the group therefore calculated the difference in the deferred tax liability arising from the use versus sale rate and applied the difference to reduce the policyholder liabilities. This had the effect of not impacting total profit or loss.

Notes to the group financial statements (continued) for the year ended 31 December 2010

42. Change in accounting policy and restatements (continued)

The group has elected to early adopt the IAS 12 amendment, which requires retrospective application. This has resulted in the deferred tax liability in respect of these investment property surpluses being restated to the sale rate and has correspondingly reversed the previous reduction to policyholder liabilities.

The affected comparative figures for 2009 and, in the case of the financial statement position and related notes for 2008, have been restated and presented in the annual financial statements for the year ended 31 December 2010.

The financial statement impact of this change is:

Financial statement line item	31 December 2009			31 December 2008		
	As previously reported Rm	Impact of change in accounting policy Rm	Restated Rm	As previously reported Rm	Impact of change in accounting policy Rm	Restated Rm
Policyholder liabilities under insurance contracts	129 254	511	129 765	122 091	533	122 624
Policyholder liabilities under investment contracts	51 598	245	51 843	47 330	203	47 533
Deferred taxation	2 755	(756)	1 999	2 897	(736)	2 161
Net impact to group net asset value and profit or loss		nil			nil	

The cumulative adjustment as at 1 January 2008 was an increase in policyholder liabilities under insurance contracts and policyholder liabilities under investment contracts of R515 million and R196 million respectively and a decrease to deferred taxation of R711 million.

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

Risk management:

- Summary of the assets, liabilities and excess assets of the group's significant insurance companies on the published basis (LGL restated) page 97
- Summary of the group assets subject to market risk page 117
- Expected cash flows for policyholder liabilities page 144
- Cash surrender value for policyholder liabilities page 145
- Summary of the group's liabilities per class page 152
- Financial position measurement basis page 155
- Liability hierarchy page 160

Notes to the group financial statements:

- Note 2 Segment earnings page 230
- Note 14 Policyholder liabilities page 248
- Note 15 Policyholder liabilities under investment contracts page 252
- Note 20 Deferred taxation page 261
- Note 35 Taxation page 274
- Note 36 Reconciliation of total earnings to cash utilised by operations page 277

There is no impact on total earnings or earnings per share.

There were no other accounting policy changes which resulted in further restatements for the year ended 31 December 2010.

Notes to the group financial statements (continued) for the year ended 31 December 2010

43. Key judgements in applying assumptions on application of accounting policies

Key assumptions can materially affect the reported amounts of assets and liabilities. The assumptions require complex management judgements and are therefore continually evaluated. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions, where applicable, for each line item within the statement of financial position are described below.

Equipment

Depreciation charges: The useful lives and residual values per class of equipment are estimated and annually reviewed to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the group and the calculated depreciation charge to be applied in each reporting period. The range of useful lives and the amortisation methodology are contained in section 4 of the accounting policies and details of depreciation charged in note 3 to the financial statements.

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

Determination of fair value: Investment and owner-occupied properties are measured at fair value using various inputs relating to existing tenant terms, location and vacancy levels. Management derived risk adjusted discount rates factor in liquidity and asset class risk. Refer note 4 and 5 on the group financial statements for specific details, including a sensitivity analysis on the fair value of these properties to a change in the capitalisation rate assumption.

Intangible assets

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

Subsequent measurement: The group does not revalue intangible assets and, where there is a finite life to the asset, amortises the initial recognition amounts over estimated useful lives, taking into account any expected residual values relating to each class of intangible asset. The amortisation method used best reflects the pattern in which the asset's future economic benefits are consumed by the group. Details of the amortisation methodology, amortisation charge and useful lives are contained in section 6 of the accounting policies and note 6 to the financial statements.

Goodwill: In assessing possible impairment of recognised goodwill the relevant supporting cash-generating units are required to be defined. Details of these are contained in note 6 to the financial statements.

Deferred acquisition costs and deferred revenue

Revenue recognition: Deferred acquisition costs in respect of investment management contracts are amortised on a straight-line basis over the expected life of the contract. Deferred revenue is released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. Refer to notes 7 and 19 for details of amounts recognised in profit or loss.

Financial assets and liabilities including pledged assets, held for trading assets and liabilities and interest in associates – mutual funds

Fair value measurement: The group holds a number of financial assets and liabilities that are designated at fair value through profit or loss. These are valued at quoted liquid market prices as far as possible. However, if such prices are unavailable, fair value is based on either internal valuations or management's best estimates of realisable amounts. The group's valuation methodologies have been set out in sections 8, 9, 10 and 16 of the accounting policies. The value of the instruments can fluctuate on a daily basis and consequently the actual amounts realised subsequently may differ materially from their value at the reporting date. Full disclosure of unquoted financial instruments, valuation hierarchy and sensitivities are contained in the risk management section of this report.

Current and deferred taxation

Liability determination: The group is subject to taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Asset measurement: Deferred taxation assets are assessed for probable recoverability based on applicable estimated future business performance and related taxable projected income.

Notes to the group financial statements (continued) for the year ended 31 December 2010

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

Policyholder liabilities under insurance contracts and reinsurance assets

Liability and asset determination: Policyholder liabilities under insurance contracts and reinsurance assets are derived from actual claims submitted which are not settled at reporting date, and estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received or paid (net of expected service costs). The key assumptions applied and analysis of their sensitivity have been detailed in the insurance risk and sensitivity analysis components of the risk management section of this report, in section 16 and 17 of the accounting policies and in note 14 to the group financial statements.

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

Liability and asset determination: In deriving probable post-retirement employee benefit liabilities and recognised surpluses, various assumptions, for example mortality, medical cost trend rate and future salary increases, are required. Further details are contained in note 18 on the group financial statements.

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

Expense and liability determination: In calculating the amount to be expensed representing the value of share-based payments granted to employees and the movement in the liability of long-term cash incentive schemes, various assumptions relating to expected take up of rights and incentives, equity share price, dividend yields and related volatility are applied. Details of these are contained in notes 18 and 32 to the financial statements.

Provisions

Provisions are made for known present obligations at reporting date that are likely to result in a future outflow of the group resources. Judgement is applied as to the quantum and timing of these resources considering all available information. Refer to note 21 to the financial statements for specific detail.

Impairment

Impairment tests are conducted on all assets included in the statement of financial position. The recoverable amount is determined as the higher of fair market value or value in use. In determining the value in use, various estimates are applied including deriving future cash flows and applicable discount rates. The value in use calculations and related assumptions and estimates are most applicable to the impairment tests on equipment and properties under development, reinsurance assets, intangible assets (including goodwill) and receivables. Further details are contained in the accounting policies.

44. Risk management disclosures

Risk management disclosures, as required by IFRS, have been included in the risk management section in this report on pages 90 to 164.

Company statement of financial position at 31 December 2010

	Notes	2010 Rm	2009 Rm
Assets			
Interests in subsidiaries	1	9 686	9 621
Interests in joint ventures	2	47	
Financial investments	3	103	
Cash and cash equivalents	4	68	120
Prepayments, insurance and other receivables	5	92	8
Current taxation			12
Total assets		9 996	9 761
Liabilities			
Employee benefits	6	8	
Deferred taxation	7	43	31
Insurance and other payables	8	18	68
Total liabilities		69	99
Equity			
Ordinary shareholders' interests			
Share capital ⁽¹⁾		26	26
Share premium ⁽¹⁾		6 675	7 976
Retained surplus		3 131	1 583
Share-based payment reserve	11	95	77
Total equity		9 927	9 662
Total equity and liabilities		9 996	9 761

⁽¹⁾ For notes on share capital and share premium refer to group financial statements note 23.

Company statement of comprehensive income for the year ended 31 December 2010

	Notes	2010 Rm	2009 Rm
Revenue			
Investment income	9	1 578	1 169
Investment losses	10	(21)	
Total revenue		1 557	1 169
General marketing and administration expenses	12	(42)	(18)
Profit before taxation		1 515	1 151
Taxation	13	(12)	8
Total earnings and comprehensive income		1 503	1 159

Statement of changes in company shareholders' funds for the year ended 31 December 2010

	Share capital and share premium Rm ⁽¹⁾	Share- based payment reserve Rm	Retained surplus Rm	Total Rm
Shareholders' funds at 1 January 2009	9 302	4	423	9 729
Total comprehensive income			1 159	1 159
Capital reduction	(1 301)			(1 301)
Preference dividend			(2)	(2)
Share-based payments		76		76
Transfer of vested equity options reserve		(3)	3	
Section 311 Liberty transaction costs	1			1
Shareholders' funds at 31 December 2009	8 002	77	1 583	9 662
Total comprehensive income			1 503	1 503
Capital reduction	(1 301)			(1 301)
Preference dividend			(2)	(2)
Share-based payments		65		65
Transfer of vested equity options reserve		(47)	47	
Shareholders' funds at 31 December 2010	6 701	95	3 131	9 927

⁽¹⁾ Refer note 23 in the consolidated group financial statements.

Company statement of cash flows for the year ended 31 December 2010

	Notes	2010 Rm	2009 Rm
Cash flows utilised in operating activities		(380)	(62)
Cash (utilised for)/generated from operations	14	(664)	110
Interest received		8	13
Dividends received		1 567	1 143
Distributions in lieu of dividends/dividends paid	15	(1 303)	(1 303)
Taxation refunded/(paid)	16	12	(25)
Cash flows used in/(from) investing activities		328	(40)
Purchase of financial investments		(100)	
Acquisition of subsidiaries		(18)	(35)
Acquisition of joint ventures		(47)	
Net movement on subsidiary loan		493	(5)
Cash flows from financing activities			
Expenses related to issue of shares			1
Net decrease in cash and cash equivalents		(52)	(101)
Cash and cash equivalents at the beginning of the year		120	221
Cash and cash equivalents at the end of the year	4	68	120

Notes to the company financial statements for the year ended 31 December 2010

Risk Management exposure to disclosure

The companies define financial instruments are not material and therefore risk management disclosures are not provided.

	2010 Rm	2009 Rm
1. Interests in subsidiaries		
1.1 Summary		
Shares held at cost	10 198	9 619
Inter group balances	(491)	2
Impairment provision	(21)	
Total interests in subsidiary	9 686	9 621
1.2 Movement analysis		
<i>Shares at cost</i>		
Shares at cost at the beginning of the year	9 619	9 571
Acquisitions during the year	18	35
Dividends <i>in specie</i> and capital reduction receipts	561	13
Shares at cost at the end of the year	10 198	9 619
<i>Inter group balances</i>		
Inter group balances at the beginning of the year	2	(3)
Advances	48	5
Receipts	(541)	
Inter group balances at the end of the year	(491)	2
<i>Impairment provision</i>		
Impairment charge through profit or loss	(21)	
Impairment provision at the end of the year	(21)	

Notes to the company financial statements (continued)

for the year ended 31 December 2010

1. Interests in subsidiaries (continued)

	Amount of issued share capital	Percentage of issued share capital units held		Shares at cost		Inter group balances		Impairment provision
		2010 %	2009 %	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm
1.3 Subsidiaries unlisted – directly owned				10 198	9 619	(491)	2	(21)
<i>Long-term insurance</i>								
Liberty Group Limited	R28 895 619	100	100	8 407	9 605	(414)	2	
Liberty Holdings Namibia (Proprietary) Limited	N\$159 100 900	75	100	119		41		
<i>Asset management</i>								
STANLIB Limited	R423 109 310	100		1 308		1		
Stanbic Investment Management Services (Proprietary) Limited	P1 446 557	100	50	20	5			
Stanlib Lesotho (Proprietary) Limited	M1 950 000	50	50	4	4			
Stanbic Investment Management Services (East Africa) Limited	Shs61 440 001	50	50	4	4			
Stanlib (Swaziland) (Proprietary) Limited	E2	100		3				
<i>Investment holding</i>								
Capital Alliance Holdings Limited	R103 265 676	100		48		(130)		
Lexshell 615 (Proprietary) Limited	R100	100				15		(10)
Libgroup Jersey Holdings Limited (Incorporated in Jersey)	£2	100		37				
Stonehouse Capital (Proprietary) Limited	R100	100						
<i>Health services</i>								
Liberty Health Holdings (Proprietary) Limited	R100 000 000	74,9		11		(5)		(11)
<i>Other</i>								
Liberty Group Properties (Proprietary) Limited (Property Asset Management)	R100	100		236		1		
Liberty Nominees (Proprietary) Limited (Shareholder transactions)	R1	100						
<i>Dormant</i>								
Liberty Holdco Nigeria Limited	N10 000 000	100	100	1	1			
Liberty Group Shelf Company No.1 (Proprietary) Limited	R100	100						

Liberty Holdings Limited, indirectly through Liberty Group Limited, has interests in a number of other subsidiaries. Further details can be obtained from the group financial statements in note 39. A register containing full information on all the group subsidiaries is available for inspection at the registered office of the company.

The interest of the company for the year in the taxed profits of its subsidiaries was R2 640 million (2009: R41 million) and the losses was R193 million (2009: Rnil).

Notes to the company financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
2. Interest in joint ventures		
Ordinary shares at cost		
Acquisition of 50% of Fountainhead and Evening Star ordinary shares ⁽¹⁾	47	
Balance at the end of the year	47	
Statement of financial position extracts⁽²⁾		
Non-current assets	140	
Current assets	10	
Long-term liabilities – interest bearing	(152)	
Current liabilities	(2)	
Statement of comprehensive income extracts⁽²⁾		
Income	36	
Expenses	(36)	
⁽¹⁾ With effect from 1 January 2010, 50% of ordinary shares in Fountainhead Property Trust Management Limited and Evening Star 768 (Proprietary) Limited were acquired from Liberty Group Limited.		
⁽²⁾ Represents the company's proportionate share in the joint venture.		
3. Financial investments		
3.1 Financial investments comprise: <i>Financial assets designated at fair value through profit or loss</i> Quoted in an active market – unlisted Mutual funds	103	
3.2 Movement analysis		
Additions	100	
Accrued interest	3	
Balance at the end of the year	103	
4. Cash and cash equivalents		
Cash at bank and on hand	6	3
Short-term cash deposits	62	117
Total cash and cash equivalents	68	120
5. Prepayment, insurance and other receivables		
Subsidiary short-term receivables		5
Deposit on subsidiary acquired post balance sheet ⁽¹⁾	84	
Sundry receivables	8	3
Current	92	8
⁽¹⁾ Advance payment on acquisition of Cfc Insurance Holdings Limited.		
6. Employee benefits		
Long-term employee benefits	8	

Long-term employee benefits (cash-settled)

Share unit rights plan (SUR)

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's share price. Given the continued employment of the participant over the three year period, the unit values are settled in cash 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, less applicable taxes. The SUR qualifies as a cash-settled share-based payments transaction and a liability is recognised as employees render their service to the group. A total of 667 544 units were granted during 2010 (2009: nil), none of which had vested by 31 December 2010. The total carrying amount included in long-term cash incentives at 31 December 2010 was R8 million (2009: Rnil). R7 million of the liability raised has been charged to subsidiary companies.

The weighted average remaining contractual life (vesting conditions) of the units outstanding at the end of the year is twenty seven months.

Notes to the company financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
7. Deferred taxation		
Capital gains taxation		
Balance at the beginning of the year	31	36
Charge through the profit or loss	12	(5)
Balance at the end of the year	43	31
Non-current	43	31
8. Insurance and other payables		
Subsidiary short-term payables		55
Sundry payables	18	13
Total insurance and other payables (all current)	18	68
9. Investment income		
Cash and cash equivalents		
Interest income	11	13
Subsidiaries and joint ventures		
Dividends ⁽¹⁾	1 567	1 156
Total investment income	1 578	1 169
⁽¹⁾ Dividends received from subsidiaries:		
Liberty Group Limited	1 244	1 155
STANLIB Limited	195	
Liberty Group Properties (Proprietary) Limited	125	
Stanlib Lesotho (Proprietary) Limited	1	1
Dividends received from joint ventures:		
Fountainhead Property Trust Management Limited	2	
Total	1 567	1 156
10. Investment losses		
Subsidiary impairment charge	(21)	
11. Share-based payments – equity-settled		
Reconciliation of reserve		
Staff options/rights		
Company	5	
Allocated cost to subsidiaries	111	61
BEE transaction		
Allocated cost to subsidiaries	29	19
Transfer of vested options/rights to retained surplus	(50)	(3)
Total share-based payments reserve	95	77
Movement for the year	18	73
Per profit or loss – equity-settled schemes	5	
Allocated costs to subsidiaries	60	76
Transfer of vested options	(47)	(3)

Details of these schemes and the relevant IFRS 2 valuation assumptions are contained in note 32 to the group financial statements. The reserve represents the relevant IFRS 2 costs in relation to the group's schemes from the effective date of the section 11 scheme of arrangement being 1 December 2008, from which Liberty Holdings Limited assumed Liberty Group Limited's share options and rights schemes.

Notes to the company financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
12. General marketing and administration expenses		
General marketing and administration expenses		
Comprising:		
Employee costs	26	
Office and sundry costs	16	18
Total general marketing and administration expenses	42	18
General marketing and administration expenses include the following:		
Administration fees		4
Audit fees – current year	2	
Consulting fees		3
Staff costs	26	
Salaries and wages	11	
Staff and management retention and incentive schemes	3	
Share-based payment expenses – equity-settled	5	
– cash-settled	1	
Other	6	
13. Taxation		
Sources of taxation		
South African normal taxation – current year taxation		3
South African capital gains taxation – deferred taxation	(12)	5
Total taxation	(12)	8

Notes

1. A tax rate reconciliation is not provided as the majority of the company's income is exempt from taxation. Income taxation applicable to interest income less allowable expenses is Rnil (2009: R3 million).
2. CGT adjustments arise as a result of capital distributions received from Liberty Group Limited which are deemed to be a part disposal of the investment in Liberty Group Limited.
3. Remaining STC credits available are R44 million (2009: R44 million).

	2010 Rm	2009 Rm
14. Reconciliation of total earnings to cash generated from operations		
Total earnings	1 503	1 159
Adjustments for:		
Interest received	(11)	(13)
Dividends <i>in specie</i> and capital reduction receipts	(561)	(13)
Dividends received	(1 567)	(1 143)
Taxation	12	(8)
Increase in impairment of subsidiaries	21	
Share-based payment expenses	65	76
	(538)	58
Working capital changes:	(126)	52
Increase in prepayments, insurance and other receivables	(84)	(8)
Increase in employee benefits	8	
(Decrease)/increase in insurance and other payables	(50)	60
Cash (utilised for)/generated from operations	(664)	110
15. Distributions in lieu of dividends/dividends paid		
Dividends as per statement of changes in shareholders' funds	(2)	(2)
Capital reduction	(1 301)	(1 301)
Total distributions paid	(1 303)	(1 303)

Notes to the company financial statements (continued)

for the year ended 31 December 2010

	2010 Rm	2009 Rm
16. Taxation paid		
Taxation payable at the beginning of the year	12	(16)
Charged directly to profit or loss		3
Taxation prepaid at the end of the year		(12)
Total taxation refunded/(paid)	12	(25)
17. Directors' emoluments		
Chairman's and non-executive directors' fees	6 733	6 533
Executive directors	26 114	18 285
Basic salaries	8 168	7 292
Performance related payments	8 410	5 175
Expense allowances	174	277
Retirement and medical benefits	904	804
Other benefits	83	156
Long-term cash incentives	1 449	
Long-term share incentives	6 926	4 581
Total emoluments	32 847	24 818
Paid by Liberty Holdings Limited	1 263	6 533
Paid by subsidiaries	31 584	18 285

Full details of the directors' emoluments are contained in the section entitled remuneration of directors on pages 68 to 73.

18. Related party disclosure

A list of related parties, as defined, is contained in the related party disclosures note 39 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:

Share-based and SUR transactions

The value of certain Liberty Holdings Limited share options and SUR scheme granted to employees of the group's subsidiaries, are charged to the applicable subsidiary.

Summary of share option charges:

	2010 Rm	2009 Rm
Liberty Group Limited	51	54
Liberty Group Properties (Proprietary) Limited	3	2
STANLIB Limited	12	20
Total	66	76

19. Commitments

Business acquisitions⁽¹⁾

Under agreement with material conditions outstanding

Authorised by the directors but not contracted

137	354
125	324
12	30

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

⁽¹⁾ The board has approved an allocated amount towards possible business acquisitions related to its stated strategy of broadening the group's financial services offerings.

20. Additional notes

Please refer to the following notes on the group financial statements:

Note 41 – Black Economic Empowerment (BEE) transaction

Note 43 – Key judgements in applying assumptions on application of accounting policies.

Appendix A – Policyholder liabilities reconciliation for the year ended 31 December 2010

2010 Group	Insurance contracts	Investment contracts with DPF	Reinsurance assets	Investment contracts	Deferred acquisition costs	Deferred revenue liability	Total	Reclassification	Total	Insurance segment	Other segments	Per statement of comprehensive income
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at the beginning of the year	129 765	2 692	(788)	51 843	(337)	126	183 301		183 301			
Additions through business acquisition	3						3		3			
Goodwill impairment											(114)	(114)
Defined benefit pension fund employer surplus											11	11
Inflows	40 087	446	(688)	15 471					30 932			
Insurance premiums	22 628	184	(699)				22 113		22 113	22 113		22 113
Fund inflows				8 819			8 819		8 819			
Investment returns	17 415	262	11	6 652								
Unwinding of discount rate	1 305		(41)				1 264	(1 264)				
Fair value adjustment				6 257			6 257	(6 257)		(6 257)		(6 257)
Policyholder tax				50			50	(50)				
Property expenses				345			345	(345)				
Investment returns	16 110	262	52				16 424	7 916	24 340	24 340	2 547	26 887
Equity accounted earnings from joint ventures	44						44		44	44	1	45
Management fees on assets under management											1 487	1 487
Outflows	(29 394)	(484)	586	(10 807)								
Claims and policyholder benefits	(21 648)	(448)	558	(9 667)					(31 205)			
Insurance claims	(21 648)	(322)	558				(21 412)	(126)	(21 538)	(21 538)		(21 538)
Fund outflows				(9 793)			(9 793)		(9 793)			
Switches		(126)		126				126	126			
Acquisition costs	(2 499)	(6)	1	(175)			(2 679)	27	(2 652)	(2 652)	(254)	(2 906)
Net movement in acquisition costs								(27)	(27)			
General marketing and administration expenses	(3 366)	(23)	1	(861)			(4 249)		(4 249)	(4 249)	(1 682)	(5 931)
Finance costs	(21)			(7)			(28)		(28)	(28)	(237)	(265)
Profit share allocations	(497)						(497)		(497)	(497)	(7)	(504)
Taxation	(1 363)	(7)	26	(97)			(1 441)		(1 441)	(1 441)	(276)	(1 717)
Fair value adjustment on third party mutual fund interests											(549)	(549)
Net income from insurance operations	(1 585)	(20)	43	(136)	(27)	13	(1 712)		(1 712)			
Changes in estimates	84		(20)				64		64			
Service fee income				(881)		13	(868)			868		868
Expenses				698	(27)		671					
Planned margins and other variances	(2 460)	(27)	87				(2 400)					
New business	(32)						(32)					
Shareholder taxation on transfer of net income	823	7	(24)	47			853					
Change in policyholder liabilities										(8 991)		(8 991)
Foreign currency translation	(3)						(3)		(3)			
Balance at the end of the year	138 873	2 634	(847)	56 371	(364)	139	196 806	–	196 806	1 712	927	2 639

Appendix A – Policyholder liabilities reconciliation for the year ended 31 December 2010

2009 Restated	Insurance contracts	Investment contracts with DPF	Reinsurance assets	Investment contracts	Deferred acquisition costs	Deferred revenue liability	Total	Reclassification	Total	Insurance segment	Other segments	Per statement of comprehensive income
Group	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at the beginning of the year	122 624	2 648	(827)	47 533	(344)	114	171 748		171 748			
Defined benefit pension fund employer surplus Inflows	33 582	497	(672)	14 335					30 075		13	13
Insurance premiums	22 445	185	(632)				21 998		21 998	21 998		21 998
Fund inflows				8 077			8 077		8 077			
Investment returns	11 089	312	(40)	6 258								
Unwinding of discount rate	1 303		(37)				1 266	(1 266)				
Fair value adjustment				5 991			5 991	(5 991)		(5 991)		(5 991)
Policyholder tax				17			17	(17)				
Property expenses				250			250	(250)				
Investment returns	9 786	312	(3)				10 095	7 524	17 619	17 619	2 381	20 000
Equity accounted earnings from joint ventures	48						48		48	48	(1)	47
Management fees on assets under management											1 404	1 404
Outflows	(26 720)	(446)	602	(10 070)								
Claims and policyholder benefits	(20 085)	(403)	603	(8 923)					(28 808)			
Insurance claims	(20 085)	(178)	603				(19 660)	(225)	(19 885)	(19 885)		(19 885)
Fund outflows				(9 148)			(9 148)		(9 148)			
Switches		(225)		225				225	225			
Acquisition costs	(2 686)	(6)		(196)			(2 888)	(7)	(2 895)	(2 895)	(219)	(3 114)
Net movement in acquisition costs								7	7			
General marketing and administration expenses	(2 906)	(34)	1	(953)			(3 892)		(3 892)	(3 892)	(1 542)	(5 434)
Finance costs	(54)			(34)			(88)		(88)	(88)	(255)	(343)
Profit share allocations	(366)						(366)		(366)	(366)		(366)
Taxation	(623)	(3)	(2)	36			(592)		(592)	(592)	(265)	(857)
Fair value adjustment on third party mutual fund interests											(835)	(835)
Net income from insurance operations	279	(7)	109	45	7	12	445		445			
Changes in estimates	662		25				687					
Service fee income				(835)		12	(823)			823		823
Expenses				933	7		940					
Planned margins and other variances	(807)	(10)	85				(732)					
New business	136						136					
Shareholder taxation on transfer of net income	288	3	(1)	(53)			237					
Change in policyholder liabilities										(7 224)		(7 224)
Balance at the end of the year	129 765	2 692	(788)	51 843	(337)	126	183 301	–	183 301	(445)	681	236

Appendix B – Analysis of ordinary shareholders' funds invested for the year ended 31 December 2010

	Group funds invested		Contribution to earnings	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
South African insurance operations	10 310	9 138	2 478	(40)
Insurance operating earnings excluding VIF amortisation			1 826	(356)
Secondary tax on companies – bancassurance dividends			(42)	(35)
Value of in-force (VIF) business acquired	440	555	(115)	(126)
Investment portfolios backing capital	9 043	9 345	698	466
Fixed assets and working capital ⁽¹⁾	2 827	1 238	290	190
Callable capital bonds	(2 000)	(2 000)	(179)	(179)
Asset management operations	503	762	457	442
STANLIB	230	454	361	362
Liberty Properties	79	118	86	72
Fountainhead	194	190	10	8
Business development initiatives	518	548	(77)	(36)
Liberty Africa	152	133	9	28
Total Health Trust	21	30	1	1
Liberty Health	246	385	(43)	(65)
Frank Financial Services	99		(44)	
Shareholder expenses and sundry income			(334)	(269)
Secondary tax on companies				(53)
Preference share dividend			(2)	(2)
Liberty Holdings	385	67		
Headline earnings			2 522	42
Preference share dividend			2	2
Goodwill and intangible assets impairments			(96)	
Impairment of investment in joint venture			(14)	
FCTR recycled through profit or loss			(21)	
Liberty Holdings shareholders' funds/total earnings	11 716	10 515	2 393	44
BEE normalised:				
Liberty Holdings shareholders' funds/headline earnings	11 716	10 515	2 522	42
BEE preference shares	1 119	1 159	75	93
BEE normalised shareholders' funds/headline earnings	12 835	11 674	2 597	135

⁽¹⁾ With effect from 1 July 2005 Liberty Group Limited established a working capital funding loan between insurance operations and shareholder assets, subsequently supported by the callable capital bonds issue. Inter-divisional interest is charged at 8,77% nacm which is equivalent to the callable capital bond's interest rate.

Appendix C – Liberty’s product set

Various products have been developed by each of Liberty’s business units aimed at providing competitive and relevant benefits and services to their chosen markets. The summary below provides an overview of the current product sets by business unit.

Product name	Product description	Main target segment	Territory offered	
RETAIL SA				
Growth Investment Series – Investment Plans				
<i>Investment Plan (with income option)</i>	A single premium life insurance investment policy, with a minimum term of five years. This product allows investors to gain exposure to more than one investment portfolio on the same investment policy. The investor has the choice of splitting the total initial premium between various investment portfolios, ranging from money market portfolios to risk profiled portfolios as well as specialist portfolios investing in specific asset classes or geographic regions, amongst others. This product has optional benefit to provide a guaranteed income annuity.	Affluent and mature	South Africa	
<i>Multiple-Access Investment Plan</i>	The investor takes cession of an endowment policy that has been in force for at least five years. This enables immediate liquidity of the investment. The Multiple-Access Investment Plan will offer a choice of risk profiled and specialist portfolios, so that investors can tailor the investment to their unique needs.			
<i>Flexible Investment Plan</i>	Available either as an endowment or as a sinking fund. This makes it attractive to the investor who wants to nominate life assureds or to corporate investors, investments held by trusts and high net worth investors. This product is a single premium pure investment policy, with a minimum term of five years. The Flexible Investment Plan groups associated policies under one bundle offering cost savings and flexibility.			
<i>Offshore Investment Plan</i>	A single premium life insurance investment policy that allows investors to invest their money offshore in a variety of portfolios, using their R4 million personal offshore allowance. The investor has the choice of splitting the total initial premium between various investment portfolios.			
<i>Guaranteed Investment Plan (with income option)</i>	A single premium investment where the guaranteed benefit at the option date is determined at inception based on prevailing interest yields at that date. The product’s benefits payable at the fifth policy anniversary are fixed at the outset and hence it is not a unit-linked product. This product has optional benefit to provide a guaranteed income annuity.	Family mid market, affluent and mature		
Growth Investment Series – Pre-Retirement Investment Plans				
<i>Pension/Provident Fund Preserver</i>	An approved umbrella Pension or Provident Fund to which members of an existing employer’s Pension or Provident Fund can transfer their accumulated benefits on termination of service, in order to ensure the preservation as well as the continued growth of such benefits. The investor has the choice of splitting the total initial premium between various investment portfolios.	Mainly affluent and mature		
<i>Retirement Annuity Plan</i>	A non-life single premium pure investment retirement vehicle allowing a policyholder to provide retirement income and capital upon retirement at their selected retirement age. It allows additional premiums anytime during the term of the policy. The investor has the choice of splitting the total initial premium between various investment portfolios.	All segments		
Builder Investment Series				
<i>Investment Builder</i>	A pure investment vehicle that allows the policyholder to pay regular premiums with the ability to add additional single premiums to the policy. This product will also allow a client to invest a single premium without committing to regular premiums. The investor has the choice of splitting the premium between various investment portfolios.	All segments		
<i>Retirement Annuity Builder</i>	Allows the member to pay regular premiums to a non-life retirement annuity, with the option to make additional premiums at any time. The product will also allow a client to invest a single premium without committing to regular premiums. This is a pure investment retirement vehicle allowing a member to provide retirement income and capital upon retirement at the selected retirement age.			

Product name	Product description	Main target segment	Territory offered
RETAIL SA (continued)			
Builder Investment Series (continued)		Mid market family	South Africa
<i>Education Builder</i>	The product operates in the same way as the Investment Builder but with the focus on saving for the cost of a policyholder's child's education. The policyholder can also add the EduCator risk benefit in order to give the policyholder comprehensive cover to provide for his or her child's education in the event of the parent(s) death or disability.		
Business Investment Series		SME owners and businesses	
<i>Investment Linked Repayment Option</i>	A pure investment vehicle that allows the policyholder to pay regular premiums with the ability to add additional single premiums to the policy. This product will also allow a client to invest a single premium without committing to regular premiums. The product is part of a debt redemption structure which enables a qualifying company to finance their structured loan with a bank via an alternative repayment option.		
Income Series – Pre-Retirement Income		Retirees	
<i>Life Annuity (inflation protection optional)</i>	Life annuities provide certainty of future income as the payments are specified and guaranteed under the terms of the policy. Offers a guaranteed income for a certain period (if a guarantee term is selected) or for life that can be customised for specific needs. It allows the option to add an income escalation benefit, at inception of the annuity, to help protect against the effects of inflation. The income escalation must be a fixed percentage increase every year.		
<i>Guaranteed Income Annuity</i>	This will pay a fixed regular income to the policyholder for a term of between 5 and 20 years, which is selected upfront. The policyholder has the option of selecting the frequency of payment and whether the income increases each year at a fixed rate.		
Income Series – Retirement Income		Retirees	
<i>Living Annuity</i>	This is compulsory purchase annuity allowing the proceeds from a maturing retirement fund or retirement annuity to be invested in a selected range of investment portfolios. It is a flexible annuity providing an attractive alternative to traditional fixed interest annuities whether the income drawn is a portion of the investment value and thus depends on the underlying portfolios selected.		
Lifestyle Protector		All segments	
<i>Lifestyle Protector</i>	Includes risk products (life protection, loss of income protection, lifestyle protection risk) and unit-linked (policy protection).		
Entry Level Market product range		Entry level market	
<i>Life Cover Plan</i>	The Life Cover Plan is a policy that pays out an amount on the death or disability (if applicable) of the principal life assured. A total and permanent disability benefit is offered. This is an accelerated death benefit. The maximum sum assured offered on this policy is R250 000.		
<i>Funeral Plans</i>	Funeral Plans offered include: – Standard Funeral Plan – Comprehensive Funeral Plan (built in paid up option at age 65) – Parents Funeral Plan		
<i>Savings Plan</i>	A recurring premium savings policy with a minimum five year term. The product is aimed at the entry level market and offers a policy bonus every five years.		
Credit Life		All segments	
<i>Credit Life</i>	Credit Life is offered on credit cards, home loans, personal loans and funeral products		

Liberty's product set (continued)

Product name	Product description	Main target segment	Territory offered
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Liberty sells medical expense cover on behalf of the Liberty branded Liberty Medical Scheme. The scheme is an independent entity governed by elected trustees.

CORPORATE			
<i>Corporate Selection</i>	Allows employers to provide flexible risk and retirement benefits to their employees in a single integrated product. Provides a comprehensive range of benefits to meet the needs of both large and small corporate clients. The following options are available to employers: – Umbrella Provident and Pension Funds – 'Stand-alone' Provident and Pension Funds	SME	South Africa
<i>Corporate Selection Investment Portfolios/ Corporate Bond</i>	A comprehensive range of life-stage and risk-profiled portfolios, including Shar'iah and multi-manager solutions, are available. A stand-alone investment option (Corporate Bond), incorporating the full range of portfolios, is also available. A unique property portfolio offering named BRIC.K for large institutional investment was launched during 2010.	Niche – Large Schemes/ Large Business	
<i>Liberty Private Fund Administrators</i>	Administration services to large retirement funds and employers, with the independence of placing risk benefit and investments externally.	SME/Large Business	
<i>Asset Liability Modelling</i>	Designed to give employers and trustees of retirement funds a sound framework for decision-making. This modelling helps employers and trustees make better investment decisions, and reduce investment risk over time when deciding on the most appropriate asset allocation for their members.	Niche – Large Schemes	
Corporate Insured Series			
<i>Group Life Assurance</i>	Provides life cover and is payable as a lump sum, either as a multiple of salary or fixed rand amount, on the death of a member. Also available under this product is accidental death, spouse's death and dread disease cover.	SME/Large Schemes	South Africa – cover provided in over 100 international territories
<i>Capital Disability</i>	Provides employees with protection against both disability (Occupational Capital Disability) and impairment (Progressive Capital Disability). The claim amount may be either the full benefit amount or a percentage thereof depending on the benefit selected.		
<i>Family Benefit</i>	This benefit pays a cash lump sum to cover funeral expenses on the death of a member or a member of their immediate family. It provides cover for the member, one spouse and children up to the age of 21 years. Exceptions to this will be made where a child remained financially dependent on the member after the age of 21. Benefits include body repatriation, additional services and a 24 hour client and claims assistance service.		
<i>Income Protection Plan</i>	A monthly disability benefit will replace a member's income should they become disabled or impaired and unable to work. In addition, a premium and medical aid waiver, plus benefit, payback benefit and rehabilitation services are offered.		
<i>Educator Benefit</i>	Designed to cover the cost of education for a member's children in the event of a member's death or disability (depending on the option selected). The Educator benefit may be selected on any scheme that has group life cover and offers both a Foundation (public schooling only) and Progressive option.		
STANLIB RETAIL			
Discretionary Investments		Tied Distribution Independent Financial Advisers, Direct Client segments	South Africa
<i>Classic Investment Plan⁽¹⁾</i>	A linked investment vehicle that offers investors the flexibility to tailor their investment according to a personal need and risk profile. Enables investors to diversify their investments and minimise risk by blending collective investments, structured products and a call account in a single administrative platform. Investors can change their allocations into these products at anytime. The vehicle can accommodate for both single premiums and recurring investments, with no investment term.		

Liberty's product set (continued)

Product name	Product description	Main target segment	Territory offered
STANLIB RETAIL (continued)			
Compulsory Investments		Tied Distribution Independent Financial Advisers, Direct Client segments	South Africa
<i>Classic Retirement Annuity</i> ⁽¹⁾	A retirement saving vehicle that offers investors the opportunity to supplement their income at retirement. The vehicle can accommodate both single premiums and recurring investments, with no investment term.		
<i>Classic Preservation (Pension/ Provident) Plans</i> ⁽¹⁾	Preservation plans are retirement saving vehicles specifically aimed at preserving the retirement benefits of members in provident or pension funds. STANLIB offers two types of preservation plans, namely the Classic Preservation Pension Fund which allows for transfers from approved pensions funds or the Classic Preservation Provident Fund which allows for transfers from approved provident funds. Only capital from pension or provident funds can be invested into the plan.		
<i>Classic Linked Life Annuity</i> ⁽¹⁾	A retirement vehicle that provides a retired investor, with a regular income during retirement. The income payments are directly linked to performance of the underlying product. Annual payments of between 2.5% and 17.5% can be selected by the investor and changed anytime. Only capital from pension or provident funds can be invested into the plan.		
Discretionary Investments – General			
<i>Unit Trusts</i>	STANLIB offers a range of collective investment schemes, ranging from fixed interest, equity and money market funds. STANLIB has 53 single manager domestic funds, 25 offshore funds, 14 multi-manager funds, 17 Africa funds and 12 rand denominated asset swap funds. Investment into these funds can be made either directly, through the linked investment vehicle or retirement plans.		
⁽¹⁾ Enable investors to invest in a range of collective investment schemes and a call account on a single administration platform. Investors can change their allocations at anytime.			
STANLIB CORPORATE			
Cash Solutions		General Corporate, Public & Medical sectors, Pension & Retirement Funds	South Africa, Namibia, Lesotho and Swaziland
<i>Money Market Solutions</i>	Highly liquid, capital protection cash. Average duration of three months. Main products are the corporate and institutional money market propositions. Suitable for all corporates and retirement funds that have excess cash, want decent rates, but need liquidity. This proposition is also available as unit trusts and segregated portfolios.		
<i>Money Market Plus Solutions</i>	Semi-liquid, quasi-cash. Average duration of six months. Such portfolios are utilised as core structures for cash plus (fund) propositions. This proposition is also available as a unit trust, pooled assets and segregated portfolios.		
Non-Cash Solutions			
<i>Equity Solutions</i> ⁽²⁾	These are considered long-term solutions due to the volatility of the asset class. These solutions include value, growth and core equity propositions.		
<i>Fixed Interest</i> ⁽²⁾	These are considered the least risky of the non-cash options – medium to long-term investments. These solutions include bond, income and aggressive income propositions.		
<i>Multi Asset Solutions</i> ⁽²⁾	Diversified portfolio holdings, providing consistent returns. These solutions include absolute return and balanced propositions. They are available as domestic only or global propositions.		
<i>International Solutions</i> ⁽³⁾	These solutions include Africa and International property propositions. Origin Asset Management is used for offshore equity and Brandywine Global for offshore bond solutions.		
<i>Property Solutions</i> ⁽³⁾	Diversified investments into listed property. These solutions include institutional property proposition.		

Liberty's product set (continued)

Product name	Product description	Main target segment	Territory offered
STANLIB CORPORATE (continued)			
Non-Cash Solutions (continued)		General Corporate, Public & Medical sectors, Pension & Retirement Funds	South Africa
<i>Alternative Investments</i>	These are investments that apply quantitative, indexation and optimisation methodologies. Products in the group includes: – Exchange Traded Funds (ETFs): Top 40 and SWIX 40 – Quants Fund – Enhanced Equity Index – Index tracking: ALSI40 Tracker and ALSI Tracker		

⁽²⁾ They can also be offered in the following manner:

- Unit trust; using both single manager and multi-manager funds (minimum investment R10 million)
- Tailored segregated portfolios, with a specified mandate (minimum investment R100 million)
- Pooled portfolios (minimum investment R10 million)

⁽³⁾ They can also be offered in the following manner:

- Unit trust; using both single manager and multi-manager funds (minimum investment R10 million)
- Tailored segregated portfolios, with a specified mandate (minimum investment R100 million)

LIBERTY AFRICA RETAIL			
Credit Life			
<i>Vehicle Loan Protection</i>	This product is a recurring/single premium life insurance policy with a maximum term of five years. This policy pays for the outstanding balance on a vehicle loan following the death of the policyholder.	All segments	Namibia, Botswana, Swaziland and Uganda
<i>Home Loan Protection</i>	This product is a recurring/annual premium life insurance policy which pays the outstanding balance on a home loan following the death of the policyholder.		
<i>Personal Loan Protection</i>	This product is a recurring/single premium life insurance policy which pays the outstanding balance on a personal loan following the death of the policyholder.		
<i>Credit Card</i>	This product is a recurring premium life insurance policy which pays the outstanding balance on a personal credit card following the death of the policyholder.		
<i>Business Loan Protection</i>	This product is a recurring premium keyman life insurance policy which pays the outstanding balance on a business loan following the death or total permanent disability of the policyholder. Should more than one life be covered, the policy becomes paid up on payment of any benefit.	SME owners and businesses	Botswana
<i>Fully Guaranteed Loan Protection</i>	This product is a recurring premium life insurance policy which pays the outstanding balance on a loan following the death of the policyholder. This loan is secured by the policyholder's pension.	All segments	Namibia
Funeral and savings			
<i>Funeral Plan</i>	Funeral plans offered include: – Simple funeral plan – Standardised funeral cover option – Comprehensive funeral plan – Funeral plan that offers additional options on top of the standard cover	All segments	Namibia, Botswana, Swaziland and Uganda
<i>E-Plan and Pure save</i>	This product provides a funeral benefit to the bank account holder.		
<i>Pure Save</i>	This product pays a funeral benefit in the event of death of the main member.		
LIBERTY AFRICA CORPORATE			
<i>Endowment-Corporate</i>	This is a single premium investment policy with a minimum term of 5 years. This product offers the opportunity of adhoc premiums within legal limits allowed in the country of issue. After the five years have expired, the policyholder may withdraw all or part of the fund at any time.	Companies looking to invest assets	Namibia
<i>Endowment-Retirement Fund</i>	This is a single premium investment policy with the opportunity of adhoc premiums within the legal limits allowed in the country of issue. The policyholder may withdraw all or part of the fund at any time.	Retirement funds	

Liberty's product set (continued)

Product name	Product description	Main target segment	Territory offered
LIBERTY AFRICA CORPORATE (continued)			
<i>Funeral</i>	Pays out a lump sum in the event of the death of the member, spouse, children or extended family member whilst the member is employed. The purpose of this benefit is to provide cover to assist with funeral costs.	Companies providing corporate benefits	Namibia, Botswana, Swaziland and Uganda
<i>Group Life Assurance</i>	Provides life cover and is payable as a lump sum, either as a multiple of salary or fixed amount, on the death of a member.		
<i>Capital Disability Benefits</i>	In conjunction with Group Life Assurance the Capital Disability Benefits provide employees with protection against both disability (Occupational Capital Disability) and impairment (Progressive Capital Disability). The claim amount may be either the full benefit amount or a percentage thereof, depending on the benefit selected.		
<i>Dread Disease</i>	In conjunction with Group Life Assurance this will provide a lump sum payment on the diagnosis of a stated dread disease. This benefit can be offered on a basic or comprehensive basis, and as an accelerated or non-accelerated version of the death benefit.		
<i>Income Replacement Benefit</i>	Pays a monthly benefit to an employee who becomes disabled until the member recovers, dies or up to normal retirement age, regardless of whether the condition is temporary or permanent.		
HEALTH			
<i>Liberty Blue</i>	A healthcare programme, whereby corporate employees are offered standardised healthcare benefits.	Multinational corporate employees	Angola, Kenya, Malawi, Mauritius, Moçambique, Namibia, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe
FRANK FINANCIAL SERVICES			
Primary Risk		Psycho-graphic – people content to buy direct/online	South Africa
<i>Life Cover ⁽⁴⁾</i>	The product is whole of life. It has a five year premium guarantee with 6% automatic premium increases. Cover provided up to a maximum of R10 million through an automated underwriting process.		
<i>Salary Protection ⁽⁴⁾</i>	This is a term product to age 65. It has a five year premium guarantee with 6% automatic premium increases. Cover provided up to 75% of gross monthly salary to a maximum of R75 000 through an automated underwriting process. The product provides for salary protection against disability, serious illness and retrenchment.		
<i>Disability Cover ⁽⁴⁾</i>	A five year premium guarantee with 6% automatic premium increases. Lump sum cover provided up to a maximum of R5 million through an automated underwriting process for own or suited occupation.		
<i>Serious Illness Cover ⁽⁴⁾</i>	A five year premium guarantee with 6% automatic premium increases. Lump sum cover provided up to a maximum of R2 million through an automated underwriting process for four major conditions / illnesses.		
Secondary Risk		Psycho-graphic – people content to buy direct/online	South Africa
<i>Life (Injury Only)</i>	Accidental version of various covers which can be offered to clients that do not fulfil the suspensive condition of returning a non reactive HIV test within 90 days of commencement, or who are declined life cover for specific medical or lifestyle reasons and who are approved for the accidental version.		
<i>Salary Protection (Injury Only)</i>			
<i>Disability (Injury Only)</i>			
<i>Cancer</i>			

⁽⁴⁾Cover provided subject to the suspensive condition of a non reactive HIV test within 90 days from commencement. These products have no surrender value.

Abbreviations and definitions

Abbreviations

ALM	Asset liability matching
ASISA	Association for Savings and Investment SA
BESA	Bond Exchange of South Africa
Board	Liberty Holdings Limited board of directors
BU	Business unit
CAR	Capital adequacy requirement
CE	Chief executive
CFO	Chief financial officer
CRO	Chief risk officer
DAC	Deferred acquisition costs
DRL	Deferred revenue liability
DPF	Discretionary participation features
DTI	Department of Trade and Industry
EV	Embedded value
EVRM	Enterprise-wide value and risk management
Exco	Group executive committee
FAIS	Financial Advisory and Intermediary Services
FCC	Fund control committee
FD	Financial director
FinCom	Group finance committee
FSV	Financial soundness valuation
FSB	Financial Services Board
GAAC	Group audit and actuarial committee
GAO	Guaranteed annuity options
GBSMC	Group balance sheet management committee
GIAS	Group internal audit services
GIC	Group investment committee
GRC	Group risk committee
GROC	Group risk oversight committee
GRPOC	Group risk policy and oversight committee
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
IRC	Internal review committee
ISDA	International Swaps and Derivatives Association
JSE	Johannesburg Stock Exchange
LGL	Liberty Group Limited
Liberty	Liberty Holdings Limited and its subsidiaries
MCAR	Minimum capital adequacy requirement
NACC	Nominal annual compounded continuously
NACM	Nominal annual compounded monthly
NAV	Net asset value
OCAR	Ordinary capital adequacy requirement
OR & CF	Operational Risk and Compliance Framework
OTC	Over the counter
PGN	Professional guidance notes
PPFM	Principles and Practices of Financial Management
PVIF	Present value of acquired in-force
ROEV	Return on embedded value
RPO	Risk policy and oversight
SAM	Solvency Assessment and Management
TCAR	Termination capital adequacy requirement
TCF	Treating Customers Fairly

Definitions

Annuity	A financial contract between an insurer and a customer under which the insurer promises to make a series of periodic benefit payments to an agreed beneficiary in exchange for the payment of a premium or series of premiums to the insurer.
Asset liability matching	The process whereby an insurer invests in assets expected to generate inward cash-flows of the same amounts and at the same times as the outward cash-flows that are expected in order to meet benefit payments.
Association for Savings and Investment SA	<p>An organisation created to help facilitate an environment that provides a culture of savings and investments in South Africa by unifying some of the key industries active in this space.</p> <p>ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies.</p>
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, embedded 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.
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	The minimum amount by which the Financial Services Board (FSB) requires an insurer's assets to exceed its liabilities. The assets, liabilities and capital adequacy requirement must all be calculated using a method which meets the Financial Services Board's requirements. This amount is required to be held to protect the ongoing solvency of the insurer against experience worse than that assumed.
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	The direct and indirect costs incurred during the financial period arising from the writing or renewing of investment contracts without DPF, which are deferred to the extent that these costs are recoverable out of future charges.
Deferred revenue liability	Initial and other up-front fees received for the rendering of future investment management services on investment contracts without DPF, which are deferred and recognised as revenue when the related services are rendered.
Discretionary participation features	<p>A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> o performance of a specified pool of contracts or a specified type of contract, o realised and or unrealised investment returns on a specified pool of assets held by the issuer, or o profit or loss of the company, fund or other entity that issues the contract.

Abbreviations and definitions (continued)

Embedded value	The net worth of an insurer plus the value of in-force business less the cost of required capital.
Financial Services Board	The FSB is an independent government endorsed institution which oversees the South African non-banking financial services industry in the public interest.
Financial soundness	The valuation methodology used to value insurance contracts and investment valuation contracts with DPF as described in PGN 104 issued by the Actuarial Society of South Africa.
Guaranteed annuity options	An option provided to the holder of a contract to convert the maturity proceeds into an annuity at a predefined minimum rate.
Guaranteed element	The portion of the policyholder's benefit on a DPF policy that is guaranteed and cannot be removed at the discretion of the insurer.
Incurred but not reported	Claims expected to be made by policyholders in respect of events that have already occurred at the insurer's reporting date but which at that date have not yet been reported.
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.
Life licence	Licence to write business regulated in terms of the Long-term Insurance Act (1998).
New business index	An accepted measure which is calculated as the sum of new business annualised recurring premiums plus 10% of new single premiums for the year.
New business margin	The value of new business expressed as a percentage of the present value of future expected premiums at the point of sale.
Nominal annual compounded continuously	The rate at which interest accrues on the initial principal and the accumulated interest on the principal if compounded on a continuous basis.
Nominal annual compounded monthly	The rate at which interest accrues on the initial principal where accumulated interest on the principal if compounded on a monthly basis
Outstanding claims	Valid claims from policyholders which have been reported to the insurance company but have not yet been paid.
Persistency	Persistency measures the proportion of policies that are not surrendered, transferred or lapsed. It is an important measure of a insurer's retention of its business.
Policyholder liabilities	Measured liabilities on contracts that are in-force.
Professional guidance notes	These are standards for the conduct of South African actuaries and the valuation of insurance assets and liabilities. These PGNs are available on www.actuarialsociety.org.za .
Reinsurance	Insurance or investment risk that is ceded to another insurer in return for premiums. The obligation to the policyholder remains with the entity which issued the original insurance contract.
Required capital	The level of capital that is restricted from distribution to shareholders. This comprises the statutory CAR calculated in accordance with PGN 104 plus any additional capital considered appropriate by the board given the risks in the business.

Return on embedded value	This is the ratio of embedded value profits to the embedded value at the beginning of the year.
Reversionary bonus policy	A policy with DPF where the benefit at a point in time is defined as the sum assured plus past bonus additions, to which variable annual bonuses are added. A final terminal bonus may also be added.
Statutory Actuary	An actuary appointed by the insurer and approved by the Financial Services Board. This actuary is responsible for monitoring the financial soundness of the insurer to ensure that it is able to meet its policyholders' reasonable benefit expectations.
Surrender value	The surrender value of a policy is the cash value, if any, which is payable in respect of that policy upon cancellation before the end of the policy's term.
Unit-linked policy	A policy where benefits are dependent on the investment return on a portfolio of assets.
Value of in-force covered business	The present value of the projected stream of after tax profits for all business in-force at the reporting date. The present value is calculated using a risk adjusted discount rate.
Value of new business	The present value, at point of sale, of the projected stream of after tax profits for new business issued, net of the cost of required capital. The present value is calculated using a risk adjusted discount rate.

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