Financial Statements

31 December 2006

Old Mutual Life Assurance Company (South Africa) Limited

OLD MUTUAL

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Corporate governance report

Introduction

The Company has a balanced unitary board comprising a majority of independent and non-executive directors. The Chairman of the Board, Mr J H Sutcliffe, is the Chief Executive of the ultimate holding company.

The Old Mutual Group in South Africa is committed to the objective of achieving high standards of corporate governance and internal control. The Board of Directors endorses the code of corporate practice and conduct recommended in the King Report on Corporate Governance for South Africa 2002. The code is applied to all operating Group entities of the nature and size recommended by the King Report. The Group endeavours to conduct its affairs in the best interests of all its stakeholders, in so far as may be applicable and relevant to a wholly-owned subsidiary whose ultimate holding company is required to comply with listing requirements of various stock exchanges.

The Board of Directors

Role

The Board has a Charter which defines its functions and responsibilities and separates these from the role of management.

Selection and succession planning

The selection and appointment of directors is effected through a formal and transparent process and is a matter for the Board as a whole, assisted by recommendations from the Corporate Governance and Nomination Committee. Emphasis is placed on achieving a balance of skills, experience and knowledge. A formal orientation programme exists to familiarise incoming directors with the Company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities.

Rotation and retirement

Newly appointed directors may hold office only until the next annual general meeting at which they retire and become available for re-election by the shareholders on the recommendations of the Corporate Governance and Nomination Committee and the Board. All directors are subject to retirement by rotation and re-election by the shareholders at least once every three years. Executive directors have no fixed term of appointment, but are subject to short-term notice periods. They retire from the Board at age 61, while non-executive directors retire at age 70.

Performance and assessment

The Board meets regularly, having met eight times during 2006 including sessions devoted to strategy and business planning. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted on an annual basis.

Access to company resources

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure its effective functioning and proper administration of Board proceedings. The Company Secretary ensures that the non-executive directors are kept informed on latest developments regarding the Company's business and industry-wide issues through a formal communication process.

Chairman and managing director

The roles of the Chairman and Managing Director are separate.

The executive management of the Company is the responsibility of the Managing Director, Mr P B Hanratty.

Corporate governance report

Board committees

Purpose

The Board has established a number of committees to assist it in discharging its responsibilities. All Board Committees have formally delegated terms of reference and report to the Board and to the respective Board committees of the ultimate holding company when relevant. The committees are chaired by independent or non-executive directors, supported by the Company Secretary, and are free to take independent professional advice as and when necessary.

Committee members' remuneration

All non-executive directors are remunerated for their services to the committees other than nominees of the ultimate holding company, including the Board Chairman.

Audit, Risk and Compliance Committee

Members: Dr D Konar (Chairman), Ms A A Maule, Mrs G T Serobe and Mr G S van Niekerk.

The committee, chaired by Dr Konar, comprises a majority of independent directors, meets four times during the year with senior management, which includes the Managing Director, certain senior executive management, the Statutory Actuary, the Finance Director, the Chief Internal Auditor, the Compliance Officer and the Chief Risk Officer. Representatives from Old Mutual plc management normally attend. The independent auditors and internal auditors attend these meetings and, to ensure that their independence is not impaired, have unrestricted access to the committee and to its chairman. Ad hoc meetings are held as required.

Principal functions

The committee serves in an advisory capacity to the Board and assists the directors to discharge their duties relating to the safeguarding of assets, the operation of adequate systems, risk management and controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place and that material corporate risks have been identified and are being effectively managed and monitored.

Remuneration Committee

Members: Mr J H Sutcliffe (Chairman), Prof G J Gerwel, Mr R M Head and Ms A A Maule.

The Remuneration Committee, chaired by Mr Sutcliffe, a non-executive director, comprises three other non-executive directors and one independent director and meets as often as necessary. It met three times during the year.

Principal functions

In 2006, the committee determined the remuneration, incentive arrangements, profit participation and benefits of the Deputy Managing Director and general management. It made recommendations on the remuneration of non-executive directors and on the grant of awards under the share incentive scheme. The Remuneration Committee of the ultimate holding company determines the remuneration of the Managing Director, based on the recommendation of this committee.

As of 1 January 2007 a new structure is in place in which the Remuneration Committee will meet only once a year and focuse on remuneration strategy, talent management and succession planning. The other functions of the Committee are split between the Old Mutual plc Remuneration Committee and the Old Mutual (South Africa) Remuneration Management Committee.

Corporate governance report

Board committees *(continued)*

Corporate Governance and Nomination Committee

Members: Prof A H van Wyk (Chairman), Dr D Konar and Mr J H Sutcliffe.

This committee, chaired by Prof van Wyk, an independent director, consists of a majority of independent directors and meets as often as necessary. It met four times during the year.

Principal functions

Its function is to regularly review the structure, size, diversity and mix of skills and experience of the Board and its committees and to make recommendations to the Board.

The committee identifies and nominates candidates to fill Board and committee vacancies, reviews the continuation in service of those directors who have reached the end of their term of office or retirement age and considers directors retiring by rotation for re-election. The committee also assists the Board in ensuring that an adequate and effective process of corporate governance is established and maintained.

Environment Committee

Members: Prof G J Gerwel (Chairman), Mr P G de Beyer, Mr P B Hanratty, Ms A A Maule and Prof A H van Wyk.

The committee is chaired by Prof Gerwel, a non-executive director, and includes executive and independent non-executive directors. It met three times during the year.

Principal functions

This committee provides input into the development of business strategy in respect of external stakeholders, in particular government relations and transformation issues. It plays an important role at the time of strategy and plan creation, and is expected to review and input into the consideration of the political and regulatory environment.

Committee for Customer Affairs

Members: Prof A H van Wyk (Chairman), Mr R M Head, Dr D Konar and Mr G S van Niekerk.

This committee, chaired by Prof van Wyk, an independent director, includes both non-executive and independent directors, meets as often as necessary and met three times during the year.

Principal functions

This committee was established in September 2006 to review, inter alia, the extent to which the Company is providing acceptable value for money to its customers, the extent to which customers are being treated fairly, and to review, approve and thereafter, monitor compliance with the Company's Principles and Practices of Financial Management once finalised, which, in accordance with the Financial Services Board Directive 147.A.i, sets out the nature of discretion retained by the Board and the parameters within which this discretion would be used in relation to discretionary participation products.

Corporate governance report

Internal control environment

The Board acknowledges its overall responsibility for the Company's system of internal control and for reviewing its effectiveness, whilst executive management is accountable to the Board for monitoring the system of internal control and for providing assurance to the Board that it has done so.

Executive management has implemented an internal control system designed to facilitate effective and efficient operation of the Company aimed at enabling management to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the Company's business objectives. These include protecting policyholders' interests, safeguarding shareholders' investments, safeguarding assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed, and addressing any social, environmental or ethical matters that are significant for the Company's business.

The system of internal control also helps to ensure the quality of internal and external reporting, compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.

The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve the Company's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Approach to risk management

Creating long-term shareholder and policyholder value is the Company's overriding business objective and the Company derives its approach to risk management and control from a shareholder value perspective. As a result the business manages a broad range of risk categories and specifically includes Strategic Risk and Enterprise Risk Management (ERM).

The Company's overall approach is to understand the diversity and full breadth of risk to its objectives, and to respond to it appropriately, with a strong emphasis on implementing controls that reduce residual risk to a level calculated to optimise the level of return on investment. However, risk management is not limited solely to risks that may adversely affect the Company's ability to achieve its objectives; it is also about identifying and seizing new opportunities while ensuring that the risks are understood, evaluated, appropriately taken and managed.

The Company operates a risk management framework, which is based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) ERM Framework. The current risk framework contains the following components: (i) a robust risk governance structure; (ii) risk appetites established at Company level; (iii) Company-wide risk policies; and (iv) methodologies that focus on risk identification, risk assessment, risk response, action control plans, monitoring and reporting.

Risk governance

A risk governance model based on three lines of defence complements the formal governance structures described earlier in this report. This model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance.

- **The first line of defence**. The Company's Executive Management Committee (Exco) sets its risk appetite, approves the strategy for managing risk and is responsible for the system of internal control. The Company's Managing Director, supported by the Exco, has overall responsibility for the management of risks facing the Company and is supported in the management of these risks by management. Management and staff within each business have the primary responsibility for managing risk. They must take ownership for the identification, assessment, and management, monitoring and reporting of risks arising within their areas of responsibility.
- **The second line of defence** is comprised of the specialist functions, namely the Chief Risk Officer (supported by the risk function), Legal, Finance, Human Resources, Tax, etc. These functions, together with their corresponding functions at the lower levels, provide technical support and advice to the management of the Company to assist them with the identification, assessment, management, monitoring and reporting of financial and non-financial risks. The Chief Risk Officer recommends the Company's Risk Policies for approval by the Audit, Risk and Compliance Committee, provides objective oversight and co-ordinates ERM activities in conjunction with other specialist risk related functions. The Chief Risk Officer is not accountable for the day-to-day management of financial and non-financial risks.

Corporate governance report

Internal control environment *(continued)*

Risk governance *(continued)*

- **The third line of defence** provides independent objective assurance on the effectiveness of the management of enterprise risks across the Company. This is provided by the Internal Audit function and the Audit, Risk and Compliance Committee.

Risk appetite

The fundamental purpose of the Company's risk appetite is to define how much risk the Company is willing to take. Risks falling outside the agreed risk appetite are identified for remedial action and subjected to executive management and Audit, Risk and Compliance Committee oversight.

The Company has set escalation criteria to establish a reporting process that will promote a sound risk culture and identify and escalate to appropriate levels of management significant risks, control breakdowns and materialised risks (collectively referred to as Risks and Issues).

Risk policies

Risk policies, for each major risk category to which the Company is exposed, have been established and approved by the Audit, Risk and Compliance Committee. These are designed to provide management with guiding principles within which to manage risks.

Risk methodologies

As stated earlier in this report, the Company operates a risk management framework, which is based on the COSO ERM Framework. The methodologies include the following:

Risk identification

Strategic objectives reflect management's choice as to how the Company will seek to create value for its stakeholders. Strategic objectives are translated into business unit objectives. Risks are then identified that would prevent the achievement of both the strategic and business objectives. For this reason, risk identification is part of the annual business planning process. Risks to the achievement of the Company's objectives are continuously identified throughout the year.

Risk assessment and response

Risks identified are inherently assessed based on both impact and likelihood criteria in accordance with the Company's escalation matrix. The executive management team of the Company then ensures appropriate risk responses for the prioritised risks.

Monitoring and reporting

Risks are recorded in a risk register, with details of existing controls and actions to mitigate the risks, any associated timeframe, details of who owns the actions or controls, and a measure of the residual risk. The risk register is reported on a quarterly basis to the Audit, Risk and Compliance Committee.

Other risk reporting includes:

- The executive directors, together with executive management, report to the Board on behalf of their respective businesses on major changes in the business and the external environment that affect the significant risks to the businesses. The Board receives monthly performance information in the form of a Business Review Pack, which includes key performance and risk indicators.
- Exposure reporting, risk concentrations and solvency and capital adequacy reports are submitted to the relevant credit and capital management committees in the normal course of business.

Corporate governance report

Internal control environment *(continued)*

Risk methodologies *(continued)*

Monitoring and reporting *(continued)*

- The Company's internal audit function carries out regular risk-focused reviews of the system of internal control. The internal audit function operates independently of executive management, reporting to the head of internal audit at the ultimate holding company, with unrestricted access to the Chairman of the Audit, Risk and Compliance Committee. An Internal Audit Charter, reviewed and approved by the Old Mutual plc Audit Committee and the Audit, Risk and Compliance Committee, governs internal audit activity within the Company. Progress against the plan is reported regularly to the Audit, Risk and Compliance Committee.
- As part of the Board's annual review process, each executive director is asked to complete a letter of assurance confirming compliance throughout the year and up to the date of approval of the Old Mutual plc Group Annual Report with the Old Mutual plc Group's Scheme of Delegated Authority and with the risk management and control policies. The results of these letters are reported to the Audit, Risk and Compliance Committee. These letters of assurance are supported by regularly updated risk profiles of each business unit, combined with a process of control self-assessment.

Whistle blowing

The Company has adopted a policy on fraud, theft, corruption and associated irregularities and has provided an employee reporting mechanism through an independent anonymous hotline to ensure that employees can remain anonymous when reporting any irregularities.

Employment policies

The Company's employment policies are designed and regularly reviewed and updated to promote a working environment that supports the recruitment and retention of highly effective employees, improves productivity and fosters relationships that build on the diversity of its workforce.

The following key human resource values and policies are promoted throughout the Company:

- the Company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and to the future of the Company;
- employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity, and the Company's practices are cognisant of this;
- the Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Company. Employee involvement and consultation is managed in a number of ways, including in-house publications, briefings, road shows and intranet. In many parts of the business employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them;
- the efforts of the individual in helping to create the success of the Company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals and the performance of the area of the business in which they work;
- the training and development of all employees remains a priority. The Old Mutual Business School was founded, because the process of developing business staff and leaders requires a holistic learning experience that is aligned with core competencies, business objectives and Company strategies, thereby ensuring that the growth and development of the organisation remains sustainable.

Corporate governance report

Life assurance

Underwriting risk is controlled by setting appropriate underwriting limits and procedures. These include testing policyholders for HIV and other illnesses above specified levels of cover. The impact of HIV/AIDS is mitigated by pricing to allow for the expected impact of AIDS, and wherever possible by designing products that allow for repricing on a regular basis.

Market risks are managed by producing investment mandates for each product that govern the ways assets backing each product may be invested. These mandates are based on and reflect the nature of the liabilities, particularly where guarantees are provided. Market risks on policies where the terms are guaranteed in advance and the investment risk is carried by the shareholders, principally reside in the South African immediate annuity portfolio, where interest bearing assets closely match liabilities by duration as far as is practically possible.

Equity price risk and interest rate risk (on the value of securities) are managed through the Company's risk based capital management process, which requires sufficient capital to be held by the Company to cover the shortfalls that could arise if extremely adverse movements in equity prices or interest rates were to occur. Credit risk is monitored by the Credit Committee covering life, shareholders and third party funds, which establishes appropriate exposure limits.

Governance of smoothed bonus policyholder funds

Smoothed bonus products constitute a significant proportion of the Company's business. Because of the nature of this business, specific steps are taken to ensure that policyholder funds in respect of smoothed bonus business are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The portfolio manager responsible for the policyholder funds has been clearly instructed that all investment decisions taken within the policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of specified investment mandates.
- Each product portfolio has an investment mandate, based on the nature of that product's liability, particularly the nature of any investment guarantees that are provided. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For products with fully guaranteed benefits (such as the level annuity portfolio) particular care is taken to ensure that assets match liabilities as closely as possible.
- In addition to the limitation specified in the Long-term Insurance Act Investment Regulations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group within each policyholder fund portfolio.
- Major investments in Old Mutual Group companies (such as in Nedbank Group and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominantly held in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- Potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders' interests, are disclosed to the Statutory Actuary, and if material are discussed by the Committee for Customer Affairs and are approved by the Board. Any such transactions are conducted on arms-length terms, and only when it is clearly demonstrated that such investments are in the best interests of policyholders.
- The portfolio manager produces a monthly report covering, amongst others, the structure of each portfolio relative to its mandate and investment performance relative to benchmarks.
- The method of allocation of profits and investment returns between policyholders and shareholders is clearly specified, and smoothed bonus policyholder funds are credited (via bonus stabilisation reserves) with the investment return earned on their funds, less applicable charges and tax.

Corporate governance report

Governance of smoothed bonus policyholder funds *(continued)*

- Any profit allocated to shareholder funds is only transferred from policyholder funds on the recommendation of the Statutory Actuary, following an actuarial valuation. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities as determined by the Statutory Actuary on the valuation date. These liabilities include provision for any guarantees that may apply.
- The Company pays particular attention to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the Company manages these products ensures that information is produced on the financial strength of its smoothed bonus funds and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. Investment returns credited to policyholder funds, after deducting applicable charges and tax, that are not declared as bonuses are retained in bonus stabilisation reserves, which are used to support subsequent bonus declarations.
- A new Board Committee was established in 2006, called the Committee for Customer Affairs, to review the value for money provided to customers and the fair treatment of customers. Furthermore, the FSB will require life offices to publish a Principles and Practices of Financial Management document which predominantly covers smoothed bonus business. Old Mutual is in the process of producing the document, which is scheduled for publication during 2007.

Going concern

The Board has satisfied itself that the Company has adequate resources to continue in operation for the foreseeable future. The Company's financial statements have accordingly been prepared on a going concern basis.

Corporate citizenship and non-financial reporting

The broader Old Mutual Group in South Africa publishes a separate annual corporate citizenship report on its social, transformation, ethical, safety, health and environmental policies and practices.

This report also covers the financial benefits delivered to customers, employees, government and shareholders. The Group subscribes to a code of ethics which is available to all staff.

Remuneration report

Directors' emoluments

	R' 000	R' 000
	2006	2005
Non-executive directors		
Fees	1 656	1 644
Executive directors	34 703	16 745
Salary	5 927	8 210
Bonus	8 734	6 162
Gains on share options exercised and related payments	19 255	1 383
Retirement and related benefits	787	990
Total directors' emoluments	36 359	18 389

Fees paid to non-executive directors were as follows:		
W A M Clewlow (resigned 10 May 2006)	150	371
G J Gerwel	206	184
D Konar	293	241
A A Maule	239	207
M Morobe	-	40
W A Mgoqi	-	16
P F Nhleko (resigned 22 June 2006)	51	95
W L Nkuhlu (resigned 31 October 2006)	151	145
G T Serobe	170	46
G S van Niekerk	188	145
A H van Wyk	208	154
	1 656	1 644

R' 000

2006	Salary	Bonus	Gains on share options and related payments	Retirement and other benefits	Total
Executive directors' total emoluments comprise:					
P B Hanratty *	2 523	5 377	3 643	437	11 980
P G de Beyer	2 119	1 328	7 283	191	10 921
R J A Sparks (resigned 2 July 2006)	1 285	2 029	8 329	159	11 802
	5 927	8 734	19 255	787	34 703

R' 000

2005	Salary	Bonus	Gains on share options and related payments	Retirement and other benefits	Total
Executive directors' total emoluments comprise:					
R J A Sparks	2 438	2 069	403	301	5 211
P G de Beyer	1 961	1 943	324	244	4 472
P B Hanratty	1 950	2 150	214	242	4 556
M P Moyo	1 861	-	442	203	2 506
	8 210	6 162	1 383	990	16 745

* the bonus of Mr PB Hanratty is made up of an award of restricted shares of 45%, share options of 15% and a cash component of 40%. The restricted shares awarded are retained until the third anniversary of the award date provided Mr PB Hanratty remains employed by the Company until the third anniversary of the award date. 100% of the options granted on the award date will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2007 and 31 December 2009. The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

Remuneration report

Directors' interests under Employee Share Plans

The following Share Option and Deferred Delivery Plan grants in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2006:

	R Offer price	Date of grant	Number of shares outstanding	Dates deliverable		R' 000 Gains on current year settlements
Executive directors						
P G de Beyer	13.20	14/03/00	-	14/03/2003 - 14/03/2006	1	405
	17.63	16/10/00	-	16/10/2003 - 16/10/2006	1	-
	15.15	04/03/02	-	04/03/2005 - 04/03/2008	2	1 327
	11.15	26/02/03	-	26/02/2006 - 26/02/2009	3	5 551
	11.77	03/03/04	299 899	03/03/2007 - 03/03/2010	4	-
	14.50	26/04/05	103 449	26/04/2008 - 26/04/2011	5	-
	21.65	29/03/06	118 317	30/03/2009 - 29/03/2012	6	-
P B Hanratty	13.20	14/03/00	-	14/03/2003 - 14/03/2006	1	200
	15.15	04/03/02	-	04/03/2005 - 04/03/2008	2	825
	11.15	26/02/03	-	26/02/2006 - 26/02/2009	3	2 618
	11.77	03/03/04	648 365	03/03/2007 - 03/03/2010	4	-
	14.50	26/04/05	159 484	26/04/2008 - 26/04/2011	5	-
	21.65	29/03/06	181 871	30/03/2009 - 29/03/2012	6	-
R J A Sparks	13.20	14/03/00	-	14/03/2003 - 14/03/2006	1	338
(Resigned 2 July 2006)	17.63	16/10/00	-	16/10/2003 - 16/10/2006	1	-
	15.15	04/03/02	-	04/03/2005 - 04/03/2008	2	1 555
	11.15	26/02/03	-	26/02/2006 - 26/02/2009	3	6 436
	11.77	03/03/04	569 627	03/03/2007 - 03/03/2010	4/7	-
	14.50	26/04/05	168 139	26/04/2008 - 26/04/2011	5/7	-
						19 255

Subject to the fulfilment of escalating offer prices/performance targets prescribed by the Remuneration Committee, under which:

1 the price at delivery for shares granted on 14 March and 16 October 2000, is the offer price escalated by 6.5% per annum, compounded monthly, until the date of delivery.

2 50% of the share entitlements granted on 4 March 2002 were deliverable as the Old Mutual plc Group's earnings per share increased by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2002 and 31 December 2004. The 50% portion of the allocation of share entitlements granted on 4 March 2002 which were deliverable if the Old Mutual plc Group's earnings per share expressed in SA Rands increased by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2002 and 31 December 2004, lapsed due to non-attainment of the targets. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

3 50% of the share entitlements granted on 26 February 2003 were deliverable as the Old Mutual plc Group's earnings per share increased by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2003 and 31 December 2005, and 50% of the allocation of the share entitlements granted on 26 February 2003 were deliverable as the Old Mutual plc Group's earnings per share expressed in SA Rands increased by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2003 and 31 December 2005. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

Remuneration report

Directors' interests under Employee Share Plans *(continued)*

4 50% of the share entitlements granted on 3 March 2004 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2004 and 31 December 2006, and 50% of the allocation of the share entitlements granted on 3 March 2004 will only be deliverable if the Old Mutual plc Group's earnings per share expressed in SA Rands increases by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2004 and 31 December 2006. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

5 50% of the share entitlements granted on 26 April 2005 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2005 and 31 December 2007, and 50% of the allocation of the share entitlements granted on 26 April 2005 will only be deliverable if the Old Mutual plc Group's earnings per share expressed in SA Rands increases by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2005 and 31 December 2007. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

6 100% of the share entitlements granted on 29 March 2006 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2006 and 31 December 2008.The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

7 grants to Mr R J A Sparks have vested and he has until 2 July 2007 to exercise these.

The following Restricted Share Plan awards in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2006.

R' 000

	Date of grant	Number of shares outstanding	Dates exercisable		Gains on current year settlements
Executive directors					
P G de Beyer	03/03/04	59 980	03/03/2007 - 03/03/2009	2	-
	26/04/05	42 151	26/04/2008 - 26/04/2010	4	-
	26/04/05	31 035	26/04/2008 - 26/04/2010	5	-
	29/03/06	35 890	29/03/2009	6	-
	29/03/06	35 496	29/03/2009	7	-
P B Hanratty	26/02/03	43 842	26/02/2006 - 26/02/2008	1	-
	03/03/04	64 837	03/03/2007 - 03/03/2009	2	-
	16/03/04	19 555	16/03/2007 - 16/03/2009	3	-
	26/04/05	43 678	26/04/2008 - 26/04/2010	4	-
	26/04/05	47 845	26/04/2008 - 26/04/2010	5	-
	29/03/06	39 717	29/03/2009	6	-
	29/03/06	54 562	29/03/2009	7	-
R J A Sparks	16/03/04	34 432	16/03/2007 - 16/03/2009	3	-
(Resigned 2 July 2006)	26/04/05	57 150	26/04/2008 - 26/04/2010	4/8	-
	26/04/05	50 442	26/04/2008 - 26/04/2010	5/8	-
Total					-

The above awards are subject to a three year waiting period, under which:

1 restricted shares awarded on 26 February 2003, as an alternative to grants under the Deferred Delivery Plan, would be delivered over the period between 26 February 2006 and 26 February 2008 and are entitled to dividends.

2 restricted shares awarded on 3 March 2004, as an alternative to grants under the Deferred Delivery Plan, would be delivered over the period between 3 March 2007 and 3 March 2009 and are entitled to dividends.

Remuneration report

Directors' interests under Employee Share Plans (continued)

3 restricted shares awarded on 16 March 2004, in terms of the Deferred Short Term Incentive, would be delivered over the period between 16 March 2007 and 16 March 2009 and are entitled to dividends.

4 restricted shares awarded on 26 April 2005, in terms of the Deferred Short Term Incentive, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.

5 restricted shares awarded on 26 April 2005, as an alternative to grants under the Share Option Plan, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.

6 restricted shares awarded on 29 March 2006, in terms of the Deferred Short Term Incentive, would be deliverable on 29 March 2009 and are entitled to dividends.

7 restricted shares awarded on 29 March 2006, as an alternative to share options under the Management Incentive Share Plan, would be deliverable on 29 March 2009 and are entitled to dividends.

8 restricted shares awarded to Mr R J A Sparks have vested and he has until 2 July 2007 to exercise these.

Statement of Directors' responsibilities

The Company's directors are responsible for monitoring the preparation and fair presentation of the annual financial statements and related information included in this annual report.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the Audit, Risk and Compliance Committee and various other risk monitoring committees.

Except for the fact that consolidated annual financial statements are not prepared for the reasons set out in the Directors' report, the annual financial statements are prepared in accordance with statements of International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act of South Africa. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Board has satisfied itself that the Company has adequate resources to continue as a going concern and has no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The annual financial statements for the year ended 31 December 2006 set out on pages 17 to 68 were approved by the Board of Directors on 29 March 2007 and are signed on its behalf by:

J H Sutcliffe
Chairman

P B Hanratty
Managing Director

Certificate by the Company Secretary

I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, for the year ended 31 December 2006.

R F Foster
Company Secretary
29 March 2007

Report of the Independent Auditors

To the members of Old Mutual Life Assurance Company (South Africa) Limited

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited set out on pages 17 to 68, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies, other explanatory notes and the Directors' report.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 judgment, 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.

Basis for Adverse Opinion on financial statements prepared in accordance with International Financial Reporting Standards and unqualified opinion on financial statements prepared in the manner required by the Companies Act of South Africa

The Companies Act of South Africa does not require consolidated financial statements as the Company is a wholly owned subsidiary of another company incorporated in South Africa. However, as a result of the issue by the Company of its listed subordinated debt instrument in October 2005, the Company is required by International Financial Reporting Standards to prepare consolidated financial statements. The directors have not prepared consolidated financial statements and the Directors' report sets out the reasons why consolidated financial statements have not been prepared. The financial statements are the Company's unconsolidated financial statements which have been prepared on the same basis as separate financial statements, which are financial statements permitted in terms of International Financial Reporting Standards when an entity also prepares consolidated financial statements. Separate financial statements are prepared on the basis that investments in subsidiaries and associates are accounted for at fair value and income is recognised when dividends from subsidiaries and associates are receivable.

Adverse opinion

In our opinion, because consolidated financial statements have not been prepared, the financial statements do not present fairly the financial position of the Group and Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Unqualified Opinion on financial statements prepared in the manner required by the Companies Act of South Africa

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2006, and its financial performance and cash flows for the year then ended, as if these were separate financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

KPMG Inc.

Registered Auditor

Per T H Bashall
Chartered Accountant (SA)
Registered Auditor
Director
29 March 2007

1 Mediterranean Street
Foreshore
Cape Town
8001

Statutory Actuary's report

I have conducted an actuarial review of the Company as at 31 December 2006, according to applicable guidelines issued by the Actuarial Society of South Africa. Contracts classified as insurance and investment contracts with discretionary participation features have been valued using the Financial Soundness Valuation (FSV) method. Contracts classified as investment contracts (without discretionary participation in profit) have been valued at fair value as per IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in note 3 to the annual financial statements, which can be found on pages 35 to 38.

Actuarial balance sheet	2006 Published (Rm)	2006 Statutory (Rm)	2005 Published (Rm)	2005 Statutory (Rm)
Total value of assets	**385 138**	**383 507**	328 553	327 143
Total value of liabilities	**(330 882)**	**(327 939)**	(283 732)	(281 330)
Actuarial value of policy liabilities	**(315 259)**	**(312 789)**	(269 743)	(267 698)
Unsecured subordinated callable bonds	**(3 000)**	**(3 000)**	(3 000)	(3 000)
Provisions and other liabilities	**(12 623)**	**(12 150)**	(10 989)	(10 632)
Excess of assets over liabilities	**54 256**	**55 568**	44 821	45 813
Less : Inadmissible for statutory solvency purposes		**272**		269
: Excess over Associate limits		**6 571**		7 523
: Limits on Group Undertakings		**12 113**		8 560
Add : Unsecured subordinated callable bonds		**3 000**		3 000
Excess assets (Statutory basis)		**39 612**		32 461
Statutory capital adequacy requirements (CAR)		**11 621**		11 500
Ratio of excess assets to CAR		**3.4**		2.8

Notes:

- Some of the 2006 figures for inadmissible assets and limits in respect of Associates and Group Undertakings and the resulting calculations are estimates.
- A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 3.1.

Certification of Statutory Financial Position

I hereby certify that:

- the valuation on the Statutory basis of the Company as at 31 December 2006, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes; and
- the Company was financially sound on the Statutory basis as at the valuation date, and in my opinion is likely to remain financially sound on the Statutory basis for the foreseeable future.

G S Palser
Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
29 March 2007

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the annual financial statements for the year ended 31 December 2006.

Business activities

The principal activity of the Company is the transaction of all classes of life assurance, savings and retirement funding business.

Results of operations

The operating results and financial position of the Company are set out in the income statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

Consolidated annual financial statements

Consolidated annual financial statements have not been prepared as the Company is a wholly owned subsidiary of another South African company. The Company is ultimately wholly owned by Old Mutual plc, which is itself registered in South Africa as an external company and produces consolidated financial statements which incorporate the results of the Company and its subsidiaries and which comply with International Financial Reporting Standards (IFRS). These consolidated financial statements can be obtained directly from Old Mutual plc, 5th floor, Old Mutual Place, 2 Lambeth Hill, London, EC4V 4GG, United Kingdom.

In terms of IFRS, the Company is required to produce consolidated financial statements as its subordinated debt instrument is traded in a public market. Consolidated financial statements have not, however, been prepared as the directors of the Company are of the opinion that the required information about the state of affairs, financial position and operating results of the Company and its subsidiaries is presented more effectively and meaningfully in the form of unconsolidated, separate financial statements. They are also of the opinion that the production of consolidated financial statements would entail expense and delay out of proportion to the value to the members of the Company.

The Company's investments in subsidiary and associate companies are accounted for as financial assets at fair value and dividends are recognised when receivable.

Details of the Company's interest in its principal subsidiaries and associates are set out in note 34.

Holding company

The Company is a wholly owned subsidiary of Old Mutual Life Holdings (South Africa) Limited. The ultimate holding company is Old Mutual plc, which is incorporated in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia, Stockholm and Zimbabwe stock exchanges.

Share capital

There was no change in the authorised or issued ordinary or preference share capital of the Company.

Dividends

Ordinary shares
Dividends on ordinary shares amounting to R2 700 million (2005 : R1 313 million) were declared during the year.

Preference shares
Dividends on preference shares amounting to R100 (2005 : R916 million) were declared during the year.

Directors' report *(continued)*

Post balance sheet events

No material facts or circumstances have arisen between the dates of the balance sheet and this report which affect the financial position of the Company as reflected in these financial statements.

Directors

On 10 May 2006 Mr W A M Clewlow resigned as Deputy Chairman and Director of the Company.
On 22 June 2006 Mr P F Nhleko resigned as a Director of the Company.
On 2 July 2006 Mr R J A Sparks resigned as Managing Director and as a Director of the Company.
On 3 July 2006 Mr P B Hanratty was appointed as Managing Director of the Company.
On 31 October 2006 Mr W L Nkuhlu resigned as a Director of the Company.

The directors currently holding office are:

Non-executive directors

J H Sutcliffe (British) (Chairman)*
G J Gerwel
R M Head (British)
G T Serobe

Executive directors

P B Hanratty (Managing Director) (Irish)
P G de Beyer

Independent directors

D Konar
A A Maule
G S van Niekerk
A H van Wyk

*Member of the Old Mutual plc Board of Directors

In terms of the Articles of Association, G J Gerwel, P B Hanratty, A A Maule and G S van Niekerk are due to retire at the Annual General Meeting, but being eligible, and having been recommended for re-election by the Board of Directors, offer themselves for re-election.

Company Secretary

Mr R F Foster is the Company Secretary.

Business address:	Mutualpark Jan Smuts Drive Pinelands 7405	Postal address:	PO Box 66 Cape Town 8000

Income statement

for the year ended 31 December 2006

	Notes	Rm 2006	Rm 2005
Revenue			
Gross earned premiums	4.1	**18 834**	17 914
Outward reinsurance	16	**(372)**	(314)
Net earned premium		**18 462**	17 600
Investment income (net of investment losses)	5	**65 265**	60 672
Fee and commission income	6	**2 462**	2 074
Other income	7	**107**	239
Total revenue		**86 296**	80 585
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(55 760)**	(53 859)
Reinsurance recoveries	16	**325**	296
Net claims incurred		**(55 435)**	(53 563)
Change in provision for investment contract liabilities	23	**(14 568)**	(13 102)
Finance costs		**(351)**	(104)
Commissions and other acquisition costs	8	**(1 806)**	(1 428)
Operating and administration expenses	9	**(5 396)**	(4 682)
Non - operating items	10	**(1 363)**	(608)
Total expenses		**(78 919)**	(73 487)
Profit before tax		**7 377**	7 098
Income tax expense	11	**(2 709)**	(2 672)
Profit for the financial year		**4 668**	4 426

Balance sheet

at 31 December 2006

	Notes	Rm 2006	Rm 2005
Assets			
Intangible assets	12	30	41
Investment property	13	10 400	8 811
Property and equipment	14	2 258	2 054
Deferred tax asset	15	810	669
Reinsurers' share of insurance contract liabilities	16	32	64
Deferred acquisition costs	17	1 055	956
Financial assets at fair value through profit or loss	18	302 923	260 348
Financial assets available-for-sale	18	59 075	47 368
Amounts due by group companies	19	2 585	3 267
Insurance and other receivables	20	4 061	3 417
Cash and cash equivalents	21	1 909	1 558
Total assets		385 138	328 553
Liabilities			
Insurance contract liabilities	22	147 969	129 800
Investment contract liabilities	23	170 271	142 520
Post employment benefits obligation	24	72	54
Share-based payment liabilities	25	529	394
Deferred tax liability	15	2 835	1 939
Borrowed funds	26	3 000	3 000
Provisions	27	1 866	692
Deferred revenue on investment contracts	28	257	279
Amounts due to group companies	19	109	67
Current tax payable		1 321	394
Insurance and other payables	29	2 653	4 593
Total liabilities		330 882	283 732
Net assets		54 256	44 821
Shareholders' equity			
Share capital and premium	30	6 254	6 254
Share-based payments reserve		481	481
Revaluation reserve		18 602	9 769
Retained earnings		28 919	28 317
Total equity		54 256	44 821

Statement of changes in equity

for the year ended 31 December 2006

Rm

2006	**Share capital and premium**	**Revaluation reserve**	**Retained earnings**	**Share-based payments reserve**	**Total**
Shareholders' equity at beginning of year	**6 254**	**9 769**	**28 317**	**481**	**44 821**
Change in classification of reserves		**1 366**	**(1 366)**		**-**
Changes in equity arising in the year:					
Gross fair value gains/(losses): financial assets available-for-sale		**9 358**			**9 358**
Revaluation of owner-occupied property		**206**			**206**
Shadow accounting		**(192)**			**(192)**
Fair value gains recycled to net profit on disposal or impairment		**(1 781)**			**(1 781)**
Aggregate tax effect of items taken directly to or transferred from equity		**(124)**			**(124)**
Net income recognised directly in equity		**8 833**	**(1 366)**		**7 467**
Profit for the financial year			**4 668**		**4 668**
Total recognised income and expense for the year		**8 833**	**3 302**		**12 135**
Dividends			**(2 700)**		**(2 700)**
Shareholders' equity at end of year	**6 254**	**18 602**	**28 919**	**481**	**54 256**

2005					Rm
Shareholders' equity at beginning of year	6 254	3 078	26 120		35 452
Gross fair value gains/(losses): financial assets available-for-sale		8 792			8 792
Revaluation of owner-occupied property		161			161
Shadow accounting		(133)			(133)
Fair value gains recycled to net profit on disposal or impairment		(1 823)			(1 823)
Aggregate tax effect of items taken directly to or transferred from equity		(306)			(306)
Net income recognised directly in equity		6 691			6 691
Profit for the financial year			4 426		4 426
Total recognised income and expense for the year		6 691	4 426		11 117
Fair value of equity settled share based payments				481	481
Dividends			(2 229)		(2 229)
Shareholders' equity at end of year	6 254	9 769	28 317	481	44 821

Cash flow statement

for the year ended 31 December 2006

	Notes	Rm 2006	Rm 2005
Cash flows from operating activities			
Profit before tax		**7 377**	7 098
Non-cash movements and adjustments to profit before tax	31.1	**(1 891)**	(13 676)
Changes in working capital	31.2	**(13 843)**	(3 451)
Interest received		**8 044**	6 736
Interest paid		**(351)**	(55)
Taxation paid	31.3	**(1 151)**	(2 172)
Net cash from operating activities		**(1 815)**	(5 520)
Cash flows from investing activities			
Net (acquisitions)/disposal of financial assets		**4 817**	4 570
Net disposal/(acquisition) of investment properties		**162**	316
Proceeds from disposal of investment property		**494**	377
Acquisition of investment property		**(332)**	(61)
Net (acquisition)/disposal of property and equipment		**(98)**	125
Acquisition of intangible assets		**(15)**	(10)
Net cash from investing activities		**4 866**	5 001
Cash flows from financing activities			
Proceeds from borrowings		**-**	3 000
Dividends paid to Company's shareholders	31.4	**(2 700)**	(2 469)
Net cash from financing activities		**(2 700)**	531
Net increase in cash and cash equivalents		**351**	12
Cash and cash equivalents at beginning of year		**1 558**	1 546
Cash and cash equivalents at end of year		**1 909**	1 558

Notes to the annual financial statements

for the year ended 31 December 2006

1 General information

Old Mutual Life Assurance Company (South Africa) Limited underwrites life insurance risks, such as those associated with death and disability. It also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs.

2 Accounting policies

2.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB), except as noted below, and in accordance with the requirements of the South African Companies Act, 1973.

2.2 Basis of preparation

In terms of IFRS, the Company is required to produce consolidated financial statements as its debt instruments are traded publicly. Except for the fact that consolidated annual financial statements are not prepared for the reasons set out in the Directors' report, the financial statements have been prepared based on and in compliance with IFRS.

The financial statements provide information about the financial position, results of operations and changes in financial position of the Company. They have been prepared under historical cost convention, as modified by the revaluation of owner-occupied property, investment property, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Company's functional and presentation currency is South African Rands.

The Company's investment in subsidiary and associate companies are accounted for in terms of IAS 39, Financial instruments: Recognition and Measurement, as available-for-sale financial assets.

2.3 Revenue

Revenue comprises premium income from insurance contracts (net of outward reinsurance premiums) and investment contracts with a discretionary participating feature, fee income from investment management contracts, commission income and investment income.

Revenue is accounted for in accordance with the particular accounting policies as set out below.

2.4 Insurance and investment contracts

2.4.1 Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, significant insurance risk exists even if the insured event is extremely unlikely or even if the expected present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.4 Insurance and investment contracts *(continued)*

2.4.1 Classification of contracts *(continued)*

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Company's discretion, represent a significant portion of the total contractual payments and are contractually based on (i) the performance of a specified pool of contracts or a specified type of contract or (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Company. All contracts with a discretionary participating feature are accounted for in the same manner as insurance contracts.

2.4.2 Premiums on contracts

Premiums and annuity considerations receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums in respect of insurance contracts and investment contracts with a discretionary participation feature are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature are recorded as deposits and added to investment contract liabilities.

2.4.3 Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue in the income statement as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over a period of 5 to 10 years.

2.4.4 Claims on contracts

Claims and benefits incurred in respect of insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, death and disability payments and are recognised in the income statement.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature are recorded as deductions from investment contract liabilities.

2.4.5 Insurance contract liabilities

Insurance contract liabilities are measured using the Financial Soundness Valuation (FSV) method as set out in the guidelines issued by the Actuarial Society of South Africa (ASSA) in Professional Guidance Note (PGN) 104 (version 6). Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also measured using the FSV method. Surplus allocated to policyholders but not yet distributed (i.e. bonus smoothing reserve) related to these contracts is included as a provision.

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The entire contract is measured as described above.

The Company performs liability adequacy testing on its insurance liabilities (including investment contracts with discretionary participating features) to ensure that the carrying amount of its liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount to the carrying value of the liability at discounted rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made.

Notes to the annual financial statements

for the year ended 31 December 2006

2 *Accounting policies* *(continued)*

2.4 Insurance and investment contracts *(continued)*

2.4.5 Insurance contract liabilities *(continued)*

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur. These are described in more detail in the notes to the Statutory Actuary's report on page 35 to 38 and in the note on insurance risk on page 64 to 68.

Whilst the directors consider that the gross insurance contract provisions and the related reinsurance recovery are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.

The Company applies shadow accounting in relation to certain insurance contract provisions, which are supported by owner-occupied properties, on which unrealised gains and losses are recognised within equity.

2.4.6 Investment contract liabilities

Liabilities for investment contracts without a discretionary participating feature are classified as financial liabilities at fair value through profit or loss and are recorded at fair value. For unit linked and market linked contracts, this is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the value of the assets in the underlying fund (adjusted for tax). For other investments, the fair value of the liability is determined by reference to the fair value of the underlying assets, and is in accordance with the FSV method, except that negative Rand reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability is subject to the “deposit floor” such that the liability established cannot be less than the amount repayable on demand.

2.4.7 Acquisition costs

Acquisition costs, disclosed as sales remuneration, comprise all direct and indirect costs arising from the sale of contracts.

The FSV method, used to value insurance contract provisions and provisions for investment contracts with a discretionary participating feature, makes implicit allowance for the deferral of acquisition costs, therefore no explicit deferred acquisition cost asset is recognised in the balance sheet for insurance contracts.

Costs that are directly attributable to securing an investment management contract are deferred if they can be identified separately and measured reliably and it is probable that they will be recovered. The deferred costs represent the contractual right to benefit from providing investment management services and are amortised over a period of 5 to 10 years.

2.4.8 Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset if they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs represent the contractual right to benefit from providing investment management services and is amortised as the related revenue is recognised.

2.5 Intangible assets

Intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period, residual values and the amortisation method is reviewed at least each financial year-end. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. The carrying value of capitalised development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.6 Investment property

Investment property is real estate held to earn rentals or for capital appreciation. It does not include owner-occupied property.

Investment properties are stated at fair value. Internal professional valuers perform valuations annually. For practical reasons, valuations are carried out on a cyclical basis over a twelve-month period due to the large number of properties involved. External valuations are obtained on such a basis as to ensure that substantially all properties are valued once every three years on a cyclical basis. In the event of a material change in market conditions between the valuation date and balance sheet date an internal valuation is performed and adjustments made to reflect any material changes in value.

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

Surpluses and deficits arising from changes in fair value are reflected in the income statement.

For properties reclassified during the year from property and equipment to investment properties any revaluation gain arising is initially recognised in the income statement to the extent of previously charged impairment losses. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in the income statement.

Investment properties that are reclassified to owner-occupied property are revalued at the date of transfer, with any difference being taken to the income statement.

2.7 Property and equipment

Owned assets

Owner-occupied property is stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Equipment, principally computer equipment, motor vehicles, fixtures and furniture, are stated at cost less accumulated depreciation and impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a separate component of an item of owner-occupied property or equipment is capitalised to the cost of the item and the component replaced is derecognised. All other expenditure is recognised in the income statement as an expense when incurred.

Revaluation of owner-occupied property

Owner-occupied property is stated at fair value. Internal professional valuers perform valuations annually. For practical reasons, valuations are carried out on a cyclical basis over a twelve-month period due to the large number of properties involved. In the event of a material change in market conditions between the valuation date and balance sheet date a valuation is performed and adjustments made to reflect any material changes in value.

When an individual owner-occupied property is revalued, any increase or decrease in its carrying amount (as a result of the revaluation) is taken to a revaluation reserve in equity, except to the extent it represents an increase that reverses a revaluation decrease previously recognised in the income statement, or a decrease that exceeds the revaluation surplus.

Upon revaluation any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

Derecognition

On derecognition of owner-occupied property or item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement in the period of derecognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.7 Property and equipment *(continued)*

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of owner-occupied property and equipment that are accounted for separately.

In the case of owner-occupied property, on revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned 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 transferred net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Land is not depreciated.

Owner-occupied property is depreciated over a period of 50 years using the straight line method. Equipment is depreciated over a period between 2 to 5 years using the straight line method. Residual values and useful lives are reassessed annually.

2.8 Taxation

Income tax charge for the year comprises current and deferred tax. Included within the tax charge are charges relating to normal income tax, taxes payable on behalf of policyholders, capital gains tax and secondary tax on companies. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax is not recognised on temporary differences that arise from:

- the initial recognition of goodwill;
- initial recognition of an asset or liability in a transaction that is not a business combination which, at the time of transaction, affects neither the accounting nor taxable profit or loss; and
- temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available, against which the unutilised tax losses and deductible temporary differences can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to the related dividend is recognised.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.9 Reinsurance

Reinsurance asset comprises contracts with reinsurers under which the Company is compensated for losses on one or more contracts which are classified as insurance contracts. Reinsurance on contracts that do not meet this classification are classified as financial assets.

Reinsurance asset principally includes the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the balance sheet on a gross basis.

Reinsurance assets are assessed for impairment at each balance sheet date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

2.10 Financial instruments

Recognition and de-recognition of financial instruments

Financial instruments are recognised when, and only when, the Company becomes a party to the contractual provisions of the particular instrument.

The Company de-recognises a financial asset when and only when:

- The contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the Company; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is de-recognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

All purchases and sales of financial assets carried at fair value through profit or loss that require delivery within the time frame established by regulation or market convention (‘regular way’ purchases and sales) are recognised at trade date, which is the date that the Company commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Interest income and expense

Interest income and expense is recognised in the income statement using the effective interest method taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest method.

Dividend income

Dividend income is recognised in full on the ex-dividend date.

Dividends from certain redeemable preference shares are recognised as income on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable such income will accrue to the Company.

Derivative instruments

Derivative instruments, including options, futures, forwards and swaps are used to hedge against market and currency movements in the values of assets and liabilities.

Derivative instruments are classified as financial assets at fair value through profit or loss. Listed derivatives are stated at quoted prices. Unlisted derivative instruments are valued using standard market valuation techniques.

Hedge accounting is not applied. All gains and losses, whether realised or unrealised, are recognised in the income statement.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.10 Financial instruments *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets classified as held for trading and those that the Company has elected to designate as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value excluding transaction costs directly attributable to their acquisition which are recognised immediately in the income statement. After initial recognition, financial assets at fair value through profit or loss are measured at fair value with resulting fair value gains or losses adjustment being recognised directly in the income statement.

Financial assets that the Company has elected to designate at fair value through profit or loss are those where this designation either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis and are managed, evaluated and reported on using a fair value basis. This election is in respect of financial assets held to support liabilities in respect of contracts with policyholders.

All related fair value gains and losses are included in investment income. Interest earned whilst holding financial assets at fair value through profit or loss is included in interest income. Dividends received are included in dividend income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any other categories.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership. Where available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

Fair value measurement considerations

The fair values of quoted financial assets are based on quoted prices. If the market for a financial asset is not active, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

To the extent that the fair values of unlisted equity instruments cannot be measured reliably, such instruments are carried at cost less impairments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Company at fair value through profit or loss or available-for-sale. Subsequent to initial measurement, loans and receivables including those made to fellow group undertakings, are measured at amortised cost according to the effective interest method less any impairment losses. Interest received is recognised as part of investment income. All loans and receivable are recognised when cash is advanced to borrowers.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and balances with banks but excluding cash and cash equivalent instruments held for investing purposes. It excludes cash balances held in policyholder investment portfolios.

Financial liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.10 Financial instruments *(continued)*

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are offset only to the extent that their related instruments have been offset in the balance sheet.

Lending of securities

Securities lent to counterparties are not derecognised in the financial statements and any interest earned is recognised in the income statement using the effective interest method.

2.11 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets, excluding financial assets at fair value through profit or loss, is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or receivables carried at amortised cost has been incurred, 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The impairment loss is recognised in net profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in net profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current value, less any impairment loss previously recognised in net profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in net profit or loss. Reversals of impairment losses on available-for-sale debt instruments are reversed through net profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in net profit or loss.

2.12 Foreign currency translation

Foreign currency transactions and balances other than in respect of foreign branches

Foreign currency transactions are measured using South African Rands, the Company's functional currency, on initial recognition by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies, whether monetary or non-monetary, are recognised in the income statement as part of investment income.

Foreign operations

The assets and liabilities held by foreign branches to support liabilities in respect of contracts with policyholders are translated using the year-end exchange rates, and their income and expenses using average rates. Foreign currency differences are recognised directly in equity. Since 1 January 2004, the Company's date of transition to IFRS, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in FCTR is transferred to profit or loss.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.13 Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

Defined contribution plan

Contributions in respect of defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Defined benefit plan

In respect of the Company's defined benefit retirement plan, the Projected Unit Credit Method is used to determine the present value of the defined benefit obligations and the related current service cost, and where applicable, past service cost.

The current service cost is recognised as an expense.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested, past service costs are recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains or losses not recognised reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is limited to the net total of any unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Other post retirement benefit plans

The Company makes provision for post retirement medical and housing benefits for eligible employees. Non-pension post-retirement benefits are accounted for according to their nature, either as defined contribution or defined benefit plans.

Actuarial gains and losses

Actuarial gains or losses are accounted for using the 'corridor' method. Actuarial gains and losses are recognised in the income statement to the extent that they exceed ten per cent of the greater of the gross assets or gross defined benefit obligations in the scheme. Such actuarial gains and losses are recognised over the expected average remaining working lives of the employees participating in the scheme. Cumulative actuarial gains and losses at 1 January 2004 were recognised in equity at that date.

Where the corridor calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

2.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under the Company's insurance arrangements, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Future operating costs or losses are not provided for.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.15 Share-based payments

Cash-settled share-based payment transactions with employees

The services received in cash-settled share-based payment transactions with employees and the liability to pay for those services, are recognised at fair value as the employee renders services. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the liability is measured at the fair value of the awards or options, by applying standard option pricing models, taking into account terms and conditions on which the share awards or options were granted, and the extent to which the employees have rendered services to date.

Equity-settled share-based payment transactions in respect of the Black Economic Empowerment transaction

The services received from Black Business Partners, unions and distributors in terms of the Old Mutual Black Economic Empowerment transaction entered into in 2005 are equity-settled and are measured at the fair value of the equity instruments granted. The fair value of those equity instruments was measured at grant date and is not subsequently re-measured.

The equity instruments vested immediately and are not subject to any service conditions before the participants become unconditionally entitled to those instruments. As a result, the goods received or BEE equity ownership credentials are recognised in full on grant date in profit or loss for the period, with a corresponding increase in equity.

2.16 Segmental reporting

Primary segment

Primary segmental reporting is based on the type of business and correlates with the activities of the main operating business. The Company operates long-term insurance business as the primary business.

Secondary segment

Geographical segmentation is determined by origin of the business transacted. Business transacted is mainly with South African residents, either locally or in terms of their personal offshore allowances through the Company's offshore investment vehicles. Business transacted with non-South African residents is minimal and not material.

2.17 Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made and rentals received under operating leases are recognised to the income statement on a straight-line basis over the period of the lease.

2.18 Impairment of other assets

The carrying amounts of the Company's other assets, other than financial assets and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and of the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss for the period. An impairment loss is reversed to profit or loss for the period if there has been a change in the estimates used to determine the recoverable amount.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.19 Dividends

Dividends payable to holders of equity instruments or preference shares are recognised in the period in which they are authorised or approved.

2.20 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.21 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are life insurance contract liabilities, determination of the fair value for financial assets and liabilities, provisions, impairment charges, deferred taxes and share-based payment liabilities.

Insurance contract accounting is discussed in more detail in note 2.4.5 above, and further detail of the key assumptions made in determining insurance contract liabilities is included in note 36. Accounting for deferred acquisition cost assets is also discussed in note 2.4.7.

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 2.4 and 2.10 above. They are valued on the basis of listed market prices in so far as this is possible. If prices are not readily determinable, fair value is based either on internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments including derivative instruments together with fair values of share-based payment liabilities are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, and volatility factors.

The nature and the key assumptions made in determining provisions are disclosed in note 27.

Assets are subject to regular impairment reviews as required. Impairments are measured as the difference between the cost (or amortised cost) of a particular asset and the current fair value or recoverable amount. Impairments are recorded in the income statement in the period in which they occur. The Company's policy in relation to investment securities and purchased loans and receivables is described in note 2.10 above. The accounting policy for deferred tax is detailed in note 2.8 above.

2.22 Share Capital

Ordinary and preference share capital are classified as equity if they are non-redeemable by the holder, and if dividends are discretionary. Coupon payments on preference share instruments are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder or if dividend payments are not discretionary. Coupon payments thereon are recognised in the income statement as an interest expense.

Notes to the annual financial statements

for the year ended 31 December 2006

2 Accounting policies *(continued)*

2.23 Forthcoming requirements

Previous pronouncements early adopted in the 2005 annual financial statements

The Company previously elected to early adopt the provisions of the amendment to IAS 39, 'The Fair Value Option', together with IFRIC 8, 'Scope of IFRS2', in its 2005 annual financial statements.

Amendments adopted in the 2006 annual financial statements

The following standards, amendments to standards, and interpretations, effective for the first time in the current accounting period, and which are relevant to the Company, have been adopted in these financial statements:

- IAS 19 amendment, 'Actuarial gains and losses', Company plans and disclosures (effective 1 January 2006). This amendment has resulted in increased disclosure in respect of the Company's post-retirement benefit schemes, details of which are shown in note 24. No changes were made to the Company's accounting policy in respect of the treatment of actuarial gains and losses: the Company continues to apply the 'corridor' approach;
- IFRS 4 amendment for financial guarantee contracts (effective 1 January 2006). This provides guidance to issuers of financial guarantee contracts. If the issuer of the contract normally accounts for such a contact as a financial instrument liability, but has previously asserted explicitly that it regards such contracts as insurance contracts and had accounted for them as such, then it may elect irrevocably to account for the contracts as financial instruments or insurance contracts. The adoption of this amendment had no material impact on the annual financial statements;
- IFRIC 4, 'Determining whether an Arrangement contains a Lease' (effective 1 January 2006). IFRIC 4 provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17, 'Leases'. The adoption of this amendment had no material impact on the annual financial statements.

Furthermore, IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions' (effective 1 March 2007) was issued during the financial year. IFRIC 11 clarifies the treatment required in group and subsidiary financial statements of certain share-based transactions entered into by holding companies or subsidiaries, principally in respect of accounting for entitlements to equity instruments of the holding company. The principles set out in the interpretation had already been anticipated and are enshrined in the Company's existing accounting policy on share-based payments.

Future amendments not early adopted in the 2006 annual financial statements

The following standards, amendments to standards, and interpretations, effective in future accounting periods, and which are relevant to the Company, have not been early adopted in these financial statements:

- IAS 1 amendment, 'Additional disclosures in relation to an entity's capital' (effective 1 January 2007);
- IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007). IFRS 7 will supersede IAS 30, 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'. In particular, IFRS 7 requires additional disclosure over and above that required by IAS 32 in respect of (i) The significance of financial instruments for an entity's financial position and performance, (ii) The nature and extent of risks arising from financial instruments; and (iii) Capital objectives and policies;
- IFRS 8 'Operating Segments' (effective 1 January 2009). IFRS 8 supersedes IAS 14 'Segment Reporting'. IFRS 8 requires segment disclosures to be presented on the basis of financial information that is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance;
- IFRIC 9 'Reassessment of Embedded Derivatives' (effective 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. It is not anticipated that the interpretation will have a material impact on the Company's financial statements.

The amendment to IAS 1 and the introduction of IFRS 7, which will be adopted in 2007, will predominantly require changes in disclosure, and are not expected to result in changes to the Company's recognition and measurement accounting policies. The Company is currently assessing the impacts of IFRS 8 in terms of its segment disclosures; no changes to the Company's recognition or measurement policies are anticipated. IFRIC 9 is not expected to have a significant impact on the Company's accounting policies.

2.24 Comparative figures

Where necessary comparative figures are reclassified in line with current year presentation.

Notes to the annual financial statements

for the year ended 31 December 2006

3 Notes to the Statutory Actuary's report

3.1 Analysis of change in excess assets on published reporting basis

	Rm 2006	Rm 2005
Excess assets at end of year	**54 256**	44 821
Excess assets at beginning of year	**44 821**	35 452
Change in excess assets on published reporting basis during the year	**9 435**	9 369
The change in the excess assets on the published reporting basis has arisen from the following main sources:		
Profit for the financial year per income statement	**4 668**	4 426
Investment income on excess assets	**2 967**	873
Dividend income	**2 685**	584
Interest income	**282**	289
Realised gains and losses on excess assets	**1 781**	1 823
Foreign exchange gains on excess assets	**295**	3
Operating profit before shareholder tax (excluding the effect of changes in the valuation basis)	**4 241**	4 970
Non - operating items	**(2 158)**	(608)
Policyholder tax	**(1 546)**	(1 435)
Changes in valuation basis	**251**	37
Taxation	**(1 163)**	(1 237)
Fair value gains and losses on excess assets	**7 591**	6 997
Deferred taxation - net capital gains	**(124)**	(306)
Dividends	**(2 700)**	(2 229)
Share-based payment in respect of Black Economic Empowerment transaction	**-**	481
Change in excess assets on published reporting basis during the year	**9 435**	9 369

3.2 Reconciliation of actuarial value of policy liabilities between published reporting basis and statutory basis

	2006	2005
Actuarial value of policy liabilities - published reporting basis	**(315 259)**	(269 743)
Actuarial value of policy liabilities - statutory basis	**(312 789)**	(267 698)
Difference	**(2 470)**	(2 045)
Comprising:		
Investment contracts	**(2 654)**	(2 078)
Reinsurance	**(32)**	(45)
Deferred tax adjustment on policyholder investment properties	**216**	78
	(2 470)	(2 045)

3.3 Reconciliation of excess assets between published reporting basis and statutory basis

	2006	2005
Excess assets - published reporting basis	**54 256**	44 821
Excess assets - statutory basis	**(55 568)**	(45 813)
Difference	**(1 312)**	(992)
Comprising:		
Investment contracts	**(2 654)**	(2 078)
Revenue recognition	**799**	676
Deferred tax impacts of above items	**543**	410
	(1 312)	(992)

The investment contract adjustments relate to the increase in investment contract liabilities to hold market-related policies at the account balance. The revenue recognition adjustments are in respect of investment management contracts and arise from the spreading of incremental expenses and initial fees in excess of recurring fees.

Notes to the annual financial statements

for the year ended 31 December 2006

3 Notes to the Statutory Actuary's report *(continued)*

3.4 Published valuation basis

The published valuation of insurance contracts and investment contracts with discretionary participation features is performed using the FSV method, in accordance with PGN 104 issued by the Actuarial Society of South Africa (ASSA). This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus compulsory margins for prudence and further discretionary margins. The result of the valuation method and assumptions is such that profits are released appropriately over the term of each policy, to avoid premature recognition of profits that may give rise to losses in later years. Liabilities under investment contracts without discretionary participation are valued at fair value in accordance with IAS 39.

3.4.1 Valuation of assets on the published basis

Investment properties and financial assets are valued on the bases set out in notes 2.6 and 2.10 respectively.

3.4.2 Valuation of liabilities on the published basis: insurance contracts and investment contracts with discretionary participation features

The major classes of business are valued as follows:

- For group savings policies, liabilities are based on account balances at the valuation date.
- For individual policies where a portion of the premium is allocated to an accumulation account, liabilities are based on the account balances at the valuation date, less the present value of future charges not required for risk benefits and renewal expenses.
    - For market-related policies, the account balance is based on the market value of assets attributable to these policies.
    - For smoothed bonus policies, the account balance includes vested and non-vested bonuses declared to date, and provision for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) are added to ensure consistency of the value of liabilities with the value of assets.
- For reversionary bonus with-profit policies, liabilities are determined by calculating the present value of projected future benefits and expenses less the present value of projected future premiums. Projected future benefits include bonuses accrued to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves are added.
- For with-profit annuities, liabilities are determined by calculating the present value of projected future benefits and expenses. Projected future benefits include bonuses declared to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves are added.
- For non-profit annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using current fixed-interest yields or swap curve yields.

Bonus stabilisation reserves are calculated by adding the investment return earned on assets backing smoothed bonus policies, less applicable charges and tax, and by deducting the cost of bonuses declared, including the cost of interim bonuses to the valuation date where applicable. The bonus stabilisation reserves for all classes of smoothed bonus business were better than -7.5% of corresponding liabilities at the valuation date.

Policyholder reasonable benefit expectations are provided for by assuming that future bonuses would be declared at levels supported by the future investment return assumed, adjusted for the balance in the bonus stabilisation reserves over the next three years.

The future gross investment return by major asset categories and expense inflation (excluding margins) assumed for South African assurance business are as follows:

	December 2006	December 2005
Fixed interest securities	8.0%	8.0%
Cash	6.0%	6.0%
Equities	11.5%	11.5%
Properties	9.5%	9.5%
Future expense inflation	5.0% *	5.0%*

** 7% (2005: 7%) for Retail business administered on old platforms and 6% (2005: 6%) for Group Schemes business.*

Notes to the annual financial statements

for the year ended 31 December 2006

3 Notes to the Statutory Actuary's report *(continued)*

3.4.2 Valuation of liabilities on the published basis: insurance contracts and investment contracts with discretionary participation features *(continued)*

In the calculation of liabilities, provision has been made for:

- The Company's best-estimate of future experience, as described below, and
- The compulsory margins as set out in PGN 104, and
- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy; and
- Other discretionary margins, mainly held to cover:
  - mortality and investment return margins for Group Schemes funeral policies, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,
  - mortality margins on Individual Business life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience,
  - margins on certain Individual Business non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds,
  - expense margins in the pricing basis for Employee Benefits with-profit annuities,
  - profit margins on Employee Benefits Platinum and non-profit annuities to ensure that profit is released appropriately over the life of the policies, and
  - interest margins on Employee Benefits PHI claims in payment due to the limited availability of CPI-linked bonds and long-dated bonds and the high rate of change in the portfolio (high volume of new claimants and terminations).

Liabilities include provisions to meet financial options and guarantees, and make due allowance for potential lapses and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with the Company's recent experience, or expected future experience if this would result in a higher liability. In particular, allowance has been made for the expected deterioration in assured lives experience due to AIDS, and for the expected improvement in annuitant mortality.

The provision for expenses (before allowing for margins) starts at a level consistent with the Company's recent experience and allows for an escalation thereafter.

The Company's recent experience has been analysed in the following main experience investigations:

Business unit	*Type of investigation*	*Period of investigation*
Individual business	Flexi business mortality	2003 to 2005
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2001 to 2004
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency	2004 to 2005
Group Schemes	Mortality	2005
	Persistency	2005
Employee Benefits	Annuitant Mortality	2000 to 2004
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

In addition to these detailed experience investigations, the analysis of profit provides a measure of the aggregate experience in 2006. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions.

Notes to the annual financial statements

for the year ended 31 December 2006

3 Notes to the Statutory Actuary's report *(continued)*

3.4.3 Valuation of liabilities on the published basis: investment contracts without discretionary participation features

- For both individual and group savings policies, liabilities for investment contracts without a discretionary participating feature are based on account balances at the valuation date. In respect of investment contracts that provide investment management services, for example market-related investment contracts, a deferred acquisition cost (DAC) asset is held, which defers incremental acquisition expenses over the expected term of the policy, and a deferred revenue liability (DRL) is held as a liability, which defers excess initial fees over the expected term of the policy.
- For structured products, liabilities are calculated based on the market value of matching assets, together with an allowance for future expenses and margins.
- For non-profit term certain annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using current fixed-interest yields.
- Liabilities include the cost of any investment guarantees classified as investment contracts.

3.5 Statutory capital adequacy requirements

The statutory capital adequacy requirements (CAR) have been calculated in accordance with PGN 104 issued by ASSA. These provide a buffer against future experience being worse than assumed in the FSV valuation, of which adverse investment conditions are the most significant.

The Board has approved the management actions that would be taken in adverse investment conditions. These include reducing surrender values in accordance with underlying asset values, reducing interim bonuses (if necessary to zero), declaring low or if necessary zero bonuses, and if the circumstances warrant it, removing part or all of previously declared non-vested bonuses. The nature and extent of the action that would be taken will depend on the severity of the decline in asset values and the circumstances at that time.

The investment resilience CAR is the single most significant component of the Company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions that would be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 20% decline in foreign currency denominated assets other than equities, a 15% decline in property values and a 25% relative increase or decrease in fixed-interest yields to maturity and in real yields to maturity on inflation-linked bonds. The management action that is assumed to be taken is the minimum that the Company would be willing to take under such conditions, and in assuming this action, the Company does not limit itself to only taking this action under such circumstances.

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. No management actions have been assumed in calculating the CAR as at 31 December 2006. This is because the bonus stabilisation reserve itself was sufficient to absorb the effects of the resilience scenario. As at 31 December 2005, the only management action assumed was to reduce future bonuses on all smoothed bonus products by 1% per year over the following three years.

I certify that the management actions assumed above have been approved by specific resolution by the Board of Directors.

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR*) to determine the ordinary capital adequacy requirements (OCAR*), it has been assumed that assets backing the capital adequacy requirements are invested 60% in local equities, 5% in international cash and 35% in local cash (December 2005: 60% local equities, 20% international cash and 20% local cash).

The ordinary capital adequacy requirements (OCAR*) exceeded the termination capital adequacy requirement (TCAR*), and thus the capital adequacy requirements have been based on the OCAR*.

(* As defined by PGN 104)

3.6 Changes to valuation assumptions (published basis)

Various assumption changes have been made which have resulted in a net reduction in the value of liabilities of R251 million on the Published basis. The most significant were a reduction in retail maintenance expenses and a reduction in the provision for conversion option mortality experience which reduced the value of liabilities by R150 million and R76 million respectively.

Notes to the annual financial statements

for the year ended 31 December 2006

4 Analysis of total gross premium and investment contract deposits

4.1 Gross premiums and investment contract deposits written

	South African operation	Rest of the World	**Total 2006 Rm**	2005 Rm
Individual	21 619	2 292	**23 911**	21 231
Single	9 462	2 292	**11 754**	9 716
Recurring	12 157	-	**12 157**	11 515
Group	15 411	-	**15 411**	11 090
Single	11 509	-	**11 509**	7 644
Recurring	3 902	-	**3 902**	3 446
Total gross premiums and investment contract deposits	37 030	2 292	**39 322**	32 321
Comprising:				
Insurance contracts *(refer note 22)*	13 808	-	**13 808**	12 780
Investment contracts with discretionary participation features *(refer note 23)*	5 026	-	**5 026**	5 134
Deposits received on investment contracts *(refer note 23)*	18 196	2 292	**20 488**	14 407
	37 030	2 292	**39 322**	32 321
Less: Deposits on investment contracts *(refer note 23)*	(18 196)	(2 292)	**(20 488)**	(14 407)
Total gross premiums	18 834	-	**18 834**	17 914

4.2 Gross new business premiums and investment contract deposits written

	South African operation	Rest of the World	**Total 2006 Rm**	2005 Rm
Individual	11 581	2 292	**13 873**	11 602
Single	9 462	2 292	**11 754**	9 716
Recurring	2 119	-	**2 119**	1 886
Group	11 704	-	**11 704**	7 848
Single	11 570	-	**11 570**	7 644
Recurring	134	-	**134**	204
Total new business gross premiums and investment contract deposits	23 285	2 292	**25 577**	19 450
Comprising:				
Insurance contracts	4 936	-	**4 936**	4 341
Investment contracts with discretionary participation features	1 872	-	**1 872**	2 185
Deposits received on investment contracts	16 477	2 292	**18 769**	12 924
	23 285	2 292	**25 577**	19 450
Less: Deposits received on investment contracts	(16 477)	(2 292)	**(18 769)**	(12 924)
Total gross new business premiums	6 808	-	**6 808**	6 526

Notes to the annual financial statements

for the year ended 31 December 2006

5 Investment income

	Rm 2006	Rm 2005
Dividend income		
Financial assets at fair value through profit or loss	3 980	3 654
Financial assets available-for-sale	2 685	584
	6 665	4 238
Interest income		
Loans and receivables	11	11
Cash and cash equivalents	68	64
Financial assets at fair value through profit or loss	7 880	6 717
Financial assets available-for-sale	214	226
	8 173	7 018
Net rental income		
Investment property	733	680
Realised gains and losses		
Financial assets available-for-sale	1 781	1 823
Foreign exchange gains and losses		
Financial assets available-for-sale	295	3
Fair value gains and losses		
Investment property	1 751	2 176
Financial assets at fair value through profit or loss*	45 867	44 734
Total investment returns included in income statement	65 265	60 672
Fair value gains and losses		
Financial assets available-for-sale	7 591	6 997
Total investment returns included in equity	7 591	6 997

* Included in gains are transaction costs amounting to R 150 million (2005: R 110 million)

6 Fee and commission income

	2006	2005
Investment contracts		
Investment management fees	1 312	1 194
Change in deferred revenue	24	25
Sundry fee and commission income	1 126	855
	2 462	2 074

7 Other income

	2006	2005
Profit on sale of equipment	-	2
Release of provision related to share incentive arrangements	-	100
Interest received	-	68
Surplus recognised in respect of the staff retirement fund	99	-
Other	8	69
	107	239

Notes to the annual financial statements

for the year ended 31 December 2006

		Rm	Rm
8	Commissions and other acquisition costs	2006	2005
	Commission expenses	1 288	1 075
	Other acquisition costs	617	498
	Changes in deferred acquisition costs	(99)	(145)
		1 806	1 428
9	Operating and administration expenses		
	Operating and administration expenses include:		
	Amortisation of deferred acquisition costs	191	147
	Amortisation of deferred revenue liabilities	(78)	(85)
	Amortisation of intangibles	26	29
	Asset management expenses	398	374
	Depreciation of property and equipment	105	81
	Operating lease rentals	42	68
	Technical and professional fees	481	469
	Auditors' remuneration		
	Statutory audit services	13	7
	- current year	9	7
	- prior year underprovision	4	-
	Other audit and assurance related services	-	1
	Other non-audit related services	1	2
		14	10
	Directors' emoluments (R'000s)	36 359	18 389
	- for services rendered	34 703	16 745
	- as Directors	1 656	1 644
	Staff costs (excluding directors' emoluments)		
	Wages and salaries	1 525	1 392
	Social security costs	10	9
	Retirement obligations	170	167
	- defined contribution plans	143	138
	- defined benefit plans	27	29
	Bonus and incentive remuneration	372	351
	Share based payments	362	205
	Termination benefits	1	-
	Other	101	116
		2 541	2 240
	Less: Staff costs included in other acquisition costs	(372)	(323)
		2 169	1 917

Notes to the annual financial statements

for the year ended 31 December 2006

10 Non - operating items

	Rm 2006	Rm 2005
Non - operating expenses items of:		
Provisions		
Donations to charitable organisations	**69**	21
Cost associated with the Black Economic Empowerment transaction		
Broad-based employee share scheme	**-**	86
Black Business Partners, unions and distributors' schemes	**-**	481
External transaction costs	**-**	20
Cost associated with the closure of the South African Unclaimed Shares Trust	**1 294**	-
	1 363	608

Broad-based employee scheme

On 20 October 2005 the Company granted R86 million to a trust in respect of the value of Old Mutual plc shares granted to eligible employees under the broad-based employee scheme. The grant represents a share-based payment transaction as defined in IFRS 2, Share-based payments. The cost of the grant was expensed immediately on the basis that there are no service or vesting conditions attached to the shares granted to the eligible employees.

Black Business Partners, unions and distributors' schemes

On 1 August 2005 Old Mutual plc issued 116 million new ordinary shares to various Black owned special purpose vehicles beneficially owned by unions, distributors and Black Business Partners as part of its Black Economic Empowerment transaction. The shares have been issued in return for services and Black Economic Empowerment credentials. As such they represent equity-settled share-based payment transactions as defined in IFRS 2. The charge above represents the value of services and credentials provided, calculated by reference to the fair value of the instruments issued on 1 August 2005. Fair value is determined using a Black-Scholes option pricing model. The share price implicit in the model takes into account the deferred acquisition price payable by the counterparties, and is calculated based on contractually agreed terms. Dividends received by the counterparties are applied to reduce the deferred acquisition price that is payable where appropriate. The share prices range between £1.60 and £2.10 per share. The contractual term is 10 years and the volatility assumed is 25.8 percent.

Closure of the Unclaimed Shares Trust

On 31 May 2006 Old Mutual announced that the Old Mutual South Africa Unclaimed Shares Trust (UST) together with similar trusts set up in Namibia, Zimbabwe, Malawi and Bermuda, would be closed at the end of August 2006. It has been determined that the gross proceeds from the sale of unclaimed shares by these trusts will be paid to Old Mutual plc. Under the terms of the deeds establishing the USTs, the trustees of the USTs were required, following their termination, to liquidate the residual assets of the USTs and to distribute them in accordance with the directions given by Old Mutual plc. Following discussions with the South African National Treasury, the Company announced on 30 January 2007 that it intended, subject to shareholders approval at the Company's Annual General meeting in May 2007, to use substantially all of the proceeds realised to discharge late claims in cash for a further period of three years (to 31 August 2009), to fund good causes in the jurisdictions of the trust concerned or to enhance benefits for certain specific small policyholders of the Group's South African and Namibian life businesses. As a consequence of this announcement, the Company has recognised anticipated costs of R1 294m, being the cost of discharging the Company's obligations under the proposed scheme. These obligations relate to the payment of future claims from as yet unidentified South African shareholders, enhancement of benefits on certain classes of polices written by the Company, payments to charitable trusts that will be set up to administer donations to good causes and a charge in respect of an indemnity in respect of a potential tax liability.

Notes to the annual financial statements

for the year ended 31 December 2006

11 Income tax expense

		Rm 2006	Rm 2005
South African taxation			
Normal income tax	- current year	**1 036**	1 006
	- prior years' adjustment	**35**	99
	- policyholders	**391**	710
	- secondary tax on companies (STC)	**21**	-
Capital gains tax	- current year	**230**	172
	- prior years' adjustment	**-**	(146)
	- policyholders	**365**	149
Deferred taxation	- (reversal)/origination of temporary differences	**(179)**	(103)
	- policyholders	**790**	725
	- prior years' adjustment	**20**	60
		2 709	2 672

Reconciliation of taxation rate on profit before tax	% 2006	% 2005
Standard rate of taxation	**29.0**	29.0
Adjusted for:		
Prior years' under provision	**0.7**	1.1
Exempt income	**(8.3)**	(3.5)
Disallowed expenses	**7.8**	0.2
Capital gains tax - rate difference	**(6.2)**	(2.9)
Share-based payments	**0.6**	0.2
Policyholders' tax	**15.2**	14.2
Other	**(1.4)**	(0.7)
Effective tax rate	**37.4**	37.6

The accumulated reserves that are available for distribution as a dividend (after taking into account minimum statutory capital adequacy requirements) amount to R41 606 million (2005: R33 321 million). If distributed as a dividend, STC liability amounting to R4 623 million (2005: R3 702 million) would arise.

Notes to the annual financial statements

for the year ended 31 December 2006

12 Intangible assets

	Rm 2006	Rm 2005
Development expenditure		
Carrying amount at beginning of year	**41**	60
Additions	**15**	10
Amortisation charge for the year	**(26)**	(29)
Carrying amount at end of year	**30**	41
Cost	**238**	223
Accumulated amortisation and impairment losses	**(208)**	(182)
Carrying amount at end of year	**30**	41

13 Investment property

	Rm 2006	Rm 2005
Carrying amount at beginning of year	**8 811**	6 951
Additions	**332**	61
Disposals	**(494)**	(377)
Net gain from fair value adjustments	**1 751**	2 176
Carrying amount at end of year	**10 400**	8 811
Comprising:		
Freehold property	**10 400**	8 811
Rental income from investment property	**1 014**	951
Direct operating expense arising from rented out investment property	**(281)**	(271)
	733	680

14 Property and equipment

	Owner occupied property	Office equipment	Rm Total 2006	Rm 2005
Carrying amount at beginning of year	1 918	136	**2 054**	2 099
Additions	13	190	**203**	71
Revaluation surplus	211	-	**211**	161
Disposals	(37)	(68)	**(105)**	(196)
Depreciation charge for the year	(31)	(74)	**(105)**	(81)
Carrying amount at end of year	2 074	184	**2 258**	2 054
Cost or valuation	2 074	697	**2 771**	2 530
Accumulated depreciation and impairment losses	-	(513)	**(513)**	(476)
Carrying amount at end of year	2 074	184	**2 258**	2 054

The Company engages Old Mutual Property Group (Pty) Ltd to determine the fair value of its owner occupied property. Fair value is determined by reference to market-based evidence. The valuations are carried out at intervals throughout the year.

The fair value of freehold property leased to third parties under operating leases is R268 million (2005: R296 million).

Notes to the annual financial statements

for the year ended 31 December 2006

15 Deferred tax

	At beginning 2006	Income statement charge/credit	Charged/credited to Equity	Rm At end 2006
Deferred tax asset				
Investment contracts	410	133	-	**543**
Income tax losses	15	(11)	-	**4**
STC credits	10	42	-	**52**
Other provisions	234	(23)	-	**211**
	669	141	-	**810**
Deferred tax liability				
Capital gains tax - Shareholders	(631)	18	(124)	**(737)**
Capital gains tax - Policyholders	(1 308)	(790)	-	**(2 098)**
	(1 939)	(772)	(124)	**(2 835)**

	At beginning 2005	Income statement charge/credit	Charged/credited to Equity	At end 2005
Deferred tax asset				
Investment contracts	349	61	-	410
Income tax losses	60	(45)	-	15
STC credits	53	(43)	-	10
Other provisions	164	70	-	234
	626	43	-	669
Deferred tax liability				
Capital gains tax - Shareholders	(325)	-	(306)	(631)
Capital gains tax - Policyholders	(583)	(725)	-	(1 308)
	(908)	(725)	(306)	(1 939)

16 Re-insurers' share of insurance contract provisions

	Rm 2006	Rm 2005
Balance at beginning of year	**64**	31
Inflows		
Outward reinsurance premiums	**372**	314
Foreign exchange translation	**3**	15
Outflows		
Reinsurance recoveries	**(325)**	(296)
Reduction in reinsurers' liabilities	**(82)**	-
Balance at end of year	**32**	64

Notes to the annual financial statements

for the year ended 31 December 2006

17 Deferred acquisition costs

	Rm 2006	Rm 2005
Balance at beginning of year	**956**	811
Acquisition cost deferred on inward business	**290**	292
Amortisation	**(191)**	(147)
Balance at end of year	**1 055**	956

18 Financial assets

18.1 Analysis of investments

	At fair value through profit or loss	Available-for-sale	Total 2006	2005
Investments in Group undertakings				
Equity holding in subsidiaries and associates	4 134	37 600	**41 734**	31 716
Listed	92	20 773	**20 865**	15 042
Unlisted	4 042	16 827	**20 869**	16 674
Capital advances to Group undertakings	3 761	5 385	**9 146**	7 062
Old Mutual plc	6 624	-	**6 624**	4 971
Nedgroup Life Assurance Company Ltd	-	20	**20**	20
Old Mutual Capital Partners (Pty) Ltd preference shares	-	1 000	**1 000**	1 000
	14 519	44 005	**58 524**	44 769
Other financial assets				
Equity securities - listed	124 539	8 101	**132 640**	120 246
- unlisted	5 625	1 720	**7 345**	6 100
- derivatives	(1 413)	-	**(1 413)**	(776)
Debt securities - listed	62 513	51	**62 564**	63 269
- unlisted	7 005	53	**7 058**	3 473
- derivatives	11	-	**11**	376
Pooled investments - listed	2 076	-	**2 076**	1 533
- unlisted	54 639	621	**55 260**	45 545
Reinsurance of investment contract liabilities	9 013	-	**9 013**	5 826
Other assets	3 429	-	**3 429**	4 982
Deposits and money market securities	20 967	4 524	**25 491**	12 373
	288 404	15 070	**303 474**	262 947
	302 923	59 075	**361 998**	307 716

The Old Mutual Capital Partners preference shares are unsecured and have no fixed terms of repayment. The dividend rate is 85% of the annual JIBAR interest rate and is reset at each anniversary date within the 5 year term.

Included in other assets are policy loans made to policyholders and an annuity policy with Nedgroup Life Assurance Company Ltd with market values of R1 217 million (2005: R1 834 million) and R2 206 million (2005: R3 146 million) respectively. Policy loans earn interest of 14.9% p.a and the annuity policy matures on 30 September 2008.

Deposits and money market instruments earned interest of 8.47% (2005: 7.00%) on average.

The Company conducts securities lending activities as lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amount to R15 269 million (2005: R9 626 million). As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

No financial assets have been pledged as collateral for the Company's obligations

Notes to the annual financial statements

for the year ended 31 December 2006

18 Financial assets *(continued)*

18.2 Analysis of capital advances to Group undertakings

	At fair value through profit or loss Rm	Available-for-sale Rm	Total 2006 Rm	2005 Rm
Just Now Investments (Pty) Ltd	114	-	**114**	186
Mutual & Federal Investments (Pty) Ltd	-	1 653	**1 653**	1 360
Old Mutual Finance (Pty) Ltd	-	450	**450**	450
Old Mutual Portfolio Holdings (Pty) Ltd	-	1 479	**1 479**	1 032
Old Mutual (South Africa) Ltd	-	1 081	**1 081**	1 081
Old Mutual (South Africa) Broad-based Share Trust	-	524	**524**	117
Old Mutual (South Africa) Management Incentive Trust	-	2 087	**2 087**	1 249
Old Mutual Technology Holdings Ltd	-	94	**94**	315
Rodina Investments (Pty) Ltd	3 647	(2 068)	**1 579**	765
Other	-	85	**85**	507
	3 761	5 385	**9 146**	7 062

Capital advances to Group undertakings are unsecured, interest free and have no fixed terms of repayment. The loan due by Rodina Investments (Pty) Ltd is interest free but has fixed terms of repayment. These terms require the loan to be repaid in tranches, the earliest being due in September 2008 and the final tranche in December 2010.

18.3 Spread of listed equity securities by sector

	At fair value through profit or loss	Available-for-sale	Total 2006	2005
Oil and gas	8 146	34	**8 180**	9 037
Chemicals	640	-	**640**	712
Basic resources	37 586	2 604	**40 190**	36 137
Industrial goods and resources	7 491	666	**8 157**	8 700
Construction and materials	2 013	95	**2 108**	1 531
Automobiles and parts	420	3	**423**	624
Food and beverages	6 048	194	**6 242**	5 999
Travel and leisure	1 066	-	**1 066**	1 160
Personal and household goods	8 286	161	**8 447**	4 261
Healthcare	541	-	**541**	143
Retail	5 782	713	**6 495**	7 768
Media	3 050	97	**3 147**	2 447
Telecommunications	9 924	971	**10 895**	10 665
Banks	15 542	1 499	**17 041**	17 111
Insurance	753	-	**753**	834
Financial services	15 602	1 008	**16 610**	12 012
Technology	1 649	56	**1 705**	1 105
	124 539	8 101	**132 640**	120 246

18.4 Spread of listed and unlisted debt securities by sector

	At fair value through profit or loss	Available-for-sale	Total 2006	2005
Government stock	34 973	-	**34 973**	37 827
Semi-government stock	10 192	-	**10 192**	11 544
Loans - Non-corporate	51	-	**51**	58
Public bills (excluding stock and loans)	456	-	**456**	509
Corporate - Non-convertible debentures	109	-	**109**	162
Corporate - Bonds (including zero coupon)	20 260	99	**20 359**	15 595
Corporate fixed interest - Other loans	3 477	5	**3 482**	1 047
	69 518	104	**69 622**	66 742

Notes to the annual financial statements

for the year ended 31 December 2006

19 Amounts due by or (to) Group companies

	Amounts due by Rm	Amounts due (to) Rm	Total 2006 Rm	2005 Rm
Barprop (Pty) Ltd	23	-	**23**	23
Global Edge technologies (Pty) Ltd	27	-	**27**	33
Old Mutual Investment Group (SA) (Pty) Ltd	-	(30)	**(30)**	(3)
Old Mutual Healthcare (Pty) Ltd	32	-	**32**	25
Old Mutual Investment Services (Pty) Ltd	107	-	**107**	32
Old Mutual International (Guernsey) Ltd	50	-	**50**	122
Old Mutual plc	7	-	**7**	16
Old Mutual (South Africa) Ltd	856	-	**856**	1 242
Old Mutual Specialised Finance (Pty) Ltd	197	-	**197**	837
Old Mutual (South Africa) Share Trust	817	-	**817**	817
Old Mutual (South Africa) Broad-based Share	-	-	**-**	117
Old Mutual (South Africa) Management Incentive Trust	-	-	**-**	1 249
Other	469		**469**	120
	2 585	(30)	**2 555**	4 630
Subordinated loans:				
Old Mutual plc The loan of £4.25 million (2005: £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.	-	(58)	**(58)**	(48)
Old Mutual International (Guernsey) Ltd The loan of £1.5 million (2005: £1.5 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.	-	(21)	**(21)**	(16)
Amounts reclassified to financial assets				
OM (South Africa) Broad-based Share Trust	-	-	**-**	(117)
OM (South Africa) Management Incentive Trust	-	-	**-**	(1 249)
	2 585	(109)	**2 476**	3 200

The amounts due by or to group companies above are unsecured, interest free and are not subject to fixed terms of repayment.

20 Insurance and other receivables

	2006 Rm	2005 Rm
Accrued interest and rent	**2 533**	1 953
Outstanding settlements	**1 499**	1 351
Other	**29**	113
	4 061	3 417

21 Cash and cash equivalents

Cash at bank and in hand	**838**	709
Short-term deposits	**1 071**	849
	1 909	1 558

Notes to the annual financial statements

for the year ended 31 December 2006

22 Insurance contract liabilities

	Rm 2006	Rm 2005
Outstanding claims	2 981	2 577
Future policyholders' benefits	144 988	127 223
	147 969	129 800

Future policyholders' benefits

Movement in provision for insurance contracts		
Balance at beginning of year	127 223	107 919
Inflows		
Premium income	13 808	12 780
Investment income	29 117	28 626
Outflows		
Claims and policy benefits	(17 927)	(14 997)
Operating expenses	(3 623)	(3 143)
Other charges and other transfers	(136)	(274)
Taxation		
Current tax	(537)	(554)
Deferred tax	(563)	(410)
Transfer to operating profit	(2 374)	(2 724)
Balance at end of year	144 988	127 223

The material assumptions used in determining the provisions for insurance contracts are detailed in note 3 above.

Disability benefit obligation

Included in policyholder liabilities is an amount of R101 million relating to disability benefit obligations in respect of employees. The amount of R101 million comprises a gross liability of R161 million less a reimbursive right of R60 million from Old Mutual Alternative Risk Transfer Limited, a fellow subsidiary.

23 Investment contract liabilities

	Rm 2006	Rm 2005
Composition of liabilities in respect of investment contracts		
Liabilities at fair value through profit or loss	94 944	76 687
Liabilities with discretionary participating features	75 327	65 833
	170 271	142 520

Movement in liabilities fair valued through profit or loss		
Balance at beginning of year	76 687	66 322
New contributions received	20 488	14 407
Withdrawals	(17 192)	(15 891)
Fair value movements	14 568	13 102
Foreign currency translation	1 705	(59)
Fees deducted	(1 312)	(1 194)
Balance at end of year	94 944	76 687

Notes to the annual financial statements

for the year ended 31 December 2006

23 Investment contract liabilities *(continued)*

Movement in liabilities with discretionary participation features	**Rm 2006**	Rm 2005
Balance at beginning of year	**65 833**	55 486
Inflows		
Premium income	**5 026**	5 134
Investment income	**17 167**	16 381
Outflows		
Claims and policy benefits	**(10 744)**	(9 448)
Operating expenses	**(712)**	(671)
Other charges and transfers	**(305)**	-
Taxation		
Current tax	**(59)**	(68)
Deferred tax	**(85)**	(51)
Transfer to operating profit	**(794)**	(930)
Balance at end of year	**75 327**	65 833

24 Post employment benefits obligation

The Company provides pension benefits to permanent employees and post-retirement benefits to qualifying employees. Pension benefits have been designed and are administered in accordance with the Pension Funds Act, 1956 as amended, and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a triannual basis. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the projected benefit obligations of the Company's defined benefit scheme vary according to the economic conditions.

	Rm 2006		Rm 2005	
Movement in projected defined benefit obligations	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Projected benefit obligation at beginning of year	**123**	**783**	109	741
Current service cost	**3**	**27**	3	29
Interest cost on benefit obligation	**11**	**60**	10	68
Actuarial (gains)/losses	**-**	**(23)**	3	(37)
Benefits paid	**-**	**(21)**	(2)	(18)
Projected benefit obligation at end of year	**137**	**826**	123	783
Movement in plan assets				
Plan assets at beginning of year	**171**	**820**	160	752
Actual return on plan assets	**14**	**129**	13	86
Contributions	**-**	**-**	-	-
Benefits paid	**-**	**(19)**	(2)	(18)
Plan assets at end of year	**185**	**930**	171	820

Notes to the annual financial statements

for the year ended 31 December 2006

24 Post employment benefits obligation *(continued)*

	Rm		Rm	
	2006		2005	
Net asset or (liability) recognised in balance sheet	**Defined pension benefits**	**Post-retirement benefits**	Defined pension benefits	Post-retirement benefits
Funded status of plans	**48**	**104**	48	37
Unrecognised actuarial gains	**48**	**176**	48	91
Net amount recognised in balance sheet	**-**	**72**	-	54

In terms of a surplus apportionment exercise carried out at 1 July 2002 and approved by the Financial Services Board on 7 July 2006, the surplus of R 48 million relating to the defined pension benefit is to be utilised to meet the minimum benefit requirements of former members. None of this surplus is thus available to the company for future use.

Expense recognised in income statement				
Current service costs	**3**	**27**	3	29
Interest cost	**11**	**60**	10	68
Expected return on plan assets	**(14)**	**(129)**	(13)	(86)
Net actuarial (gains)/losses recognised in year	**-**	**-**	-	-
Total (included in staff costs)	**-**	**(42)**	-	11
Actual return on plan assets	**14**	**129**	13	86
Principal actuarial assumptions				
Discount rate	**9%**	**9%**	9%	8%
Expected return on plan assets	**9%**	**9%**	9%	8%
Future salary increases	**6%**	**6%**	6%	6%
Price inflation	**6%**	**9%**	6%	8%
Plan asset allocation (at 31 December 2006)				
Equity securities	**59%**	**47%**	63%	47%
Debt securities	**29%**	**45%**	26%	47%
Real estate	**6%**	**6%**	6%	5%
Other investments	**6%**	**2%**	5%	1%
	100%	**100%**	100%	100%

The history of plan assets and liabilities in respect of the Company's defined pension benefits liability and post retirement benefits liability is set out below:

	Rm	Rm	Rm
Defined pension benefits	**2006**	2005	2004
Plan assets	**185**	171	160
Defined pension benefits liability	**(137)**	(123)	(109)
Surplus	**48**	48	51
Post retirement benefits			
Plan assets	**930**	820	752
Post retirement benefits liability	**(826)**	(783)	(741)
Surplus	**104**	37	11

Notes to the annual financial statements

for the year ended 31 December 2006

25 Share-based payment liabilities

Cash-settled share-based employee compensation plans

The Company has employee compensation plans for all eligible employees. The Old Mutual plc Group Share Incentive Scheme implemented during 1999 and various senior employees share schemes implemented as part of the Black Economic Empowerment transaction in 2005, offer eligible employees of the Company the right to acquire Old Mutual plc shares (OM plc shares) or a cash equivalent. The right to acquire OM plc shares or a cash equivalent vests depending on the type of plan under which the employee participates.

Composition of share-based payment liabilities	Rm **2006**	Rm *2005*
Share Option and Deferred Delivery entitlements	**230**	212
Restricted Share awards	**299**	182
	529	394

Movements relating to share entitlements and awards during the year are as follows:

Share Option and Deferred Delivery entitlements	**2006** Number of share options (Millions)	**2006** Weighted average exercise price	*2005* Number of share options (Millions)	*2005* Weighted average exercise price
Outstanding at beginning of year	**49**	**14.46**	57	14.34
Granted during year	**7**	**21.83**	10	14.59
Forfeited during year	**(1)**	**16.08**	(4)	14.02
Exercised during year	**(25)**	**14.81**	(3)	14.25
Expired during year	**(1)**	**22.16**	(11)	15.49
Outstanding at end of year	**29**	**15.63**	49	14.46
Exercisable at end of year	**4**	**15.25**	19	13.14

These share options and deferred delivery entitlements vest subject to the fulfilment of service conditions and escalating exercise prices or performance targets as prescribed by the Remuneration Committee of Old Mutual plc. The options outstanding at year end vest over periods between 3 and 6 years from the date of grant.

Restricted Share awards	**2006** Number of restricted share awards (Millions)	*2005* Number of restricted share awards (Millions)
Outstanding at beginning of year	**12**	9
Granted during year	**4**	5
Forfeited during year	**-**	(1)
Exercised during year	**(3)**	(1)
Outstanding at end of year	**13**	12
Exercisable at end of year	**1**	-

These share awards are offered as an alternative to share options under the Share Option and Deferred Delivery plan or to senior management in terms of the Deferred Short Term Incentive Plan. They vest subject to the fulfilment of a specified period of employment and have a zero exercise price. The share awards outstanding at year end vest after 3 years from the date of grant.

Notes to the annual financial statements

for the year ended 31 December 2006

25 Share-based payment liabilities *(continued)*

Share Option and Deferred Delivery entitlements

The fair value of services received in return for share options and deferred delivery entitlements is measured by reference to the fair value of share entitlements granted. Fair value is measured using the Black Scholes option pricing model.

Entitlements are granted conditional on service and non-market based performance criteria. These conditions are taken into account in determining the estimated value of the ultimate liability to the Company. There are no market conditions associated with the share entitlements.

The significant pricing inputs used in the valuation of the share-based payment liability are as follows:

	2006	2005
Number of options / entitlements granted during the year (millions)	7	10
Fair value per option / entitlement at measurement date (in Rands) - highest	14	8
Fair value per option / entitlement at measurement date (in Rands) - lowest	5	4
Share price (in Rands)	24	18
Exercise price (in Rands) - highest	25	25
Exercise price (in Rands) - lowest	11	11
Expected volatility	30%	32%
Expected life (in years)	5	5
Expected dividends	3%	4%
Risk free interest rate	8.0%	7.6%

The expected volatility is based on the annualised historic volatility of the share price over a period commensurate with the expected life of the grant.

The expected life assumption is based on the average length of time that similar grants have remained outstanding in the past and the behaviour patterns of the relevant employee groups.

Restricted Share awards

	2006	2005
Number granted during the year (millions)	4	5
Fair value (in Rands)	24	18

The share price at measurement date is used to determine the fair value of the restricted share. Expected dividends are not incorporated into the measurement of fair value as the holder of the restricted share is entitled to dividends throughout the vesting period of the share.

26 Borrowed funds

	Coupon rate	Rm 2006	Rm 2005
Unsecured Subordinated Callable Notes	8.92%	3 000	3 000

The subordinated notes rank behind the claims from policyholders and other unsecured unsubordinated creditors.

On 27 October 2005 the Company issued 8.92% Unsecured Subordinated Callable Notes at an aggregate nominal price of R3 billion which are listed on the Bond Exchange of South Africa (BESA). The final maturity date for the notes is 27 October 2020, however they may be redeemed earlier by the Company on 27 October 2015 or on each interest date thereafter. Interest is payable on 27 April and 27 October up to the call date, thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity date or date of early redemption, whichever is earlier. Interest is payable at 8.92% up to the date of early redemption and at 3-month JIBAR rate plus 159 basis points thereafter. Interest relating to the year under review amounted to R269 million (2005: R48 million).

The Company is authorised to issue notes up to a value of R4 billion.

Notes to the annual financial statements

for the year ended 31 December 2006

27 Provisions

Rm

	Other	Charitable donations	Restructuring and legal claims	Closure of Unclaimed Shares Trust	***Total 2006***
Balance at beginning of year	38	227	427	-	**692**
Amount utilised	(38)	-	(257)	-	**(295)**
Notional interest	-	18	-	-	**18**
Reversed	-	-	(7)	-	**(7)**
Charge	-	69	95	1 294	**1 458**
Balance at end of year	-	314	258	1 294	**1 866**

	Other	Charitable donations	Restructuring and legal claims	Closure of Unclaimed Shares Trust	*Total 2005*
Balance at beginning of year	154	190	211	-	555
Amount utilised	(41)	-	(26)	-	(67)
Notional interest	-	16	-	-	16
Reversed	(100)	-	(12)	-	(112)
Charge	25	21	254	-	300
Balance at end of year	38	227	427	-	692

Other

Other provisions relate mainly to provision in respect of employee benefits.

Charitable donations

The Company has recognised a provision amounting to R314 million (2005: R227 million) in relation to donations to be made to charitable organisations. The provision is determined as the amount expected to be paid to such organisations.

Restructure and claims

The provisions relate to restructuring costs and potential legal claims arising in the ordinary course of business. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within two years of the balance sheet date.

Closure of Unclaimed Shares Trust

Refer to note 10.

28 Deferred revenue on investment contracts

	Rm ***2006***	Rm *2005*
Balance at beginning of year	**279**	303
Fees and commission income deferred	**54**	60
Amortisation	**(78)**	(85)
Foreign exchange movements	**2**	1
Balance at end of year	**257**	279

Notes to the annual financial statements

for the year ended 31 December 2006

29 Insurance and other payables

	Rm 2006	Rm 2005
Amounts owed to policyholders	**1 464**	3 680
Amounts owed to intermediaries	**181**	179
Accruals	**549**	389
Other	**459**	345
	2 653	4 593

30 Share capital and premium

	2006	2005
Authorised share capital		
10 000 000 ordinary shares of R1 each	**10**	10
10 redeemable preference shares of R1 each	**-**	-
Issued share capital		
8 000 000 ordinary shares of R1 each	**8**	8
1 redeemable preference share of R1	**-**	-
Share premium	**6 246**	6 246
	6 254	6 254

Subject to the restrictions imposed by the Companies Act, 1973, as amended, the unissued shares are under the control of the directors, until the forthcoming annual general meeting.

The preference shares may be redeemed by the Company by giving 30 days written notice to the holder. The preference shareholder has the right to receive a dividend of R100 per share or an additional amount at the discretion of the Company's directors. The preference shareholder has full voting rights.

31 Notes to the cash flow statement

31.1 *Non-cash movements and adjustments to profit before tax consist of:*

	Rm 2006	Rm 2005
Depreciation and amortisation	**244**	172
Profit on sale of equipment	**-**	(2)
Net fair value gains for the year included in profit before tax	**(41 888)**	(48 081)
Charges to provisions and post employment benefits obligation	**1 191**	165
Share-based payments charge	**335**	686
Interest received	**(8 044)**	(6 736)
Interest paid	**351**	104
Movement in policyholder liabilities	**45 920**	40 016
	(1 891)	(13 676)

31.2 *Changes in working capital comprises:*

	2006	2005
Insurance, other receivables and amounts due by group companies	**(11 667)**	(3 604)
Insurance, other payables and amounts due to group companies	**(1 974)**	418
Reinsurer's share of insurance contract liabilities	**32**	(33)
Deferred acquisition costs	**(290)**	(292)
Deferred revenue on investment contracts	**56**	60
	(13 843)	(3 451)

Notes to the annual financial statements

for the year ended 31 December 2006

31 Notes to the cash flow statement *(continued)*

	Rm 2006	Rm 2005
31.3 *Taxation paid:*		
Taxation payable at beginning of year	**(394)**	(576)
Income tax charge for the year (excluding deferred tax)	**(2 078)**	(1 990)
Taxation payable at end of year	**1 321**	394
	(1 151)	(2 172)
31.4 *Dividends paid:*		
Dividends payable at beginning of year	**-**	(240)
Dividends declared during the year	**(2 700)**	(2 229)
Dividends payable at end of year	**-**	-
	(2 700)	(2 469)

32 Leases

The Company as lessor - operating lease arrangements

Total future minimum lease receivables under operating leases

	2006	2005
Not later than one year	**603**	572
Later than one year and not later than five years	**1 451**	1 396
Later than five years	**366**	328
	2 420	2 296

33 Related party disclosures

Holding company, subsidiaries and other Group companies

The Company's immediate holding company is Old Mutual Life Holdings (South Africa) Limited, incorporated in South Africa, which holds 100% of the Company's ordinary shares. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

All the Company's principal subsidiaries and associates together with loans due by or to them are listed in note 34.

Other Group companies consist of fellow subsidiaries and associates.

Transactions and balances with holding company, subsidiaries and other Group companies

	Rm 2006	Rm 2005
Holding company		
Old Mutual Life Holdings (SA) Ltd		
Nature of transactions		
Dividends paid	**(2 700)**	(1 313)
Fellow subsidiaries		
Old Mutual Investment Services (Pty) Ltd		
Nature of transactions		
Fees received	**344**	199

Notes to the annual financial statements

for the year ended 31 December 2006

33 Related party disclosures *(continued)*

Transactions and balances with holding company, subsidiaries and other Group companies (continued)

	Rm 2006	Rm 2005
Fellow subsidiaries		
Nedbank Group Ltd		
Nature of transactions		
Insurance contract premiums	**58**	64
Interest earned on cash balances	**122**	91
Interest earned on Nedbank bonds	**128**	120
Dividends received	**889**	258
Cash and short term securities	**4 515**	2 747
Nedbank bonds	**920**	969
Old Mutual Dividend Access Company (Pty) Ltd		
Nature of transactions		
Dividends paid	**(185)**	(916)
Old Mutual Property Group (Pty) Ltd		
Nature of transactions		
Fees paid	**(191)**	(144)
Old Mutual Investment Group (SA) (Pty) Ltd		
Nature of transactions		
Fees paid	**(305)**	(259)
Mutual & Federal Investments (Pty) Ltd		
Nature of transactions		
Dividends received	**2 058**	-
Old Mutual Specialised Finance (Pty) Ltd		
Nature of transactions:		
Scrip lending fees paid	**(13)**	(4)
Scrip lending fees received	**2**	6
Premium received on sale of dividend rights	**1**	3
Fees paid on dividend purchases	**(3)**	-
Other administration, management and secretarial fees received	**9**	7
Fees paid for the bond issue	**-**	(1)
Interest received on call advances	**175**	209
Net interest received on interest rate swaps	**3**	6
Realised (losses)/gains on interest rate swaps	**(7)**	(13)
Net unrealised losses on trading of financial assets	**(11)**	(3)
Fees paid for staff secondment	**(31)**	(7)

Old Mutual International (Guernsey) Ltd

The Company has reinsured substantially all the liabilities in respect of contracts with policyholders of its Guernsey branch with a fellow subsidiary, Old Mutual International (Guernsey) Ltd. The liabilities in respect of contracts with policyholders subject to the reinsurance agreement amounted to R 9 013 million (2005: R5 826 million).

Nedgroup Life Assurance Company Ltd

In July 2003 the Company took out a Term Certain Linked Annuity Policy with Nedgroup Life Assurance Company Ltd (Nedlife) in terms of which it is an annuitant and Nedlife is the insurer. The policy, which involved a lump sum payment of R5 billion, has been in operation since 23 July 2003 and terminates on 30 September 2008. In terms of the policy the Company receives annuity payments from 30 September 2003 up to 30 September 2008 based on the market value of the financial instruments underlying the policy. To date annuity payments amounting to R4.2 billion (2005: R3.0 billion) have been received.

Notes to the annual financial statements

for the year ended 31 December 2006

33 Related party disclosures *(continued)*

Transactions and balances with holding company, subsidiaries and other Group companies *(continued)*

Old Mutual Specialised Finance (Pty) Ltd

At 31 December 2006 government bonds with a fair value of R5 978 million (2005: R6 681 million) including interest had been lent to Old Mutual Specialised Finance (Pty) Ltd (OMSFIN). The nominal value of bonds lent was R4 371 million (2005: R5 016 million). The bonds lent had a weighted average coupon rate of 11.2% (2005: 10.9%). No securities have been pledged in 2006 and 2005 with regard to these security lending arrangements.

Old Mutual Group Achievements (Pty) Ltd

Old Mutual Group Achievements (Pty) Ltd (OMGA) had two sinking fund policies taken out with the Company on 1 October 1998 that were to mature on 1 October 2018. The Policies were taken out to cover share entitlements issued to eligible members of senior management by OMGA, before the Company demutualised. The value of the policies grew based on the Company's shareholders' fund growth. These policies were surrendered in December 2006 and the loan, raised by OMGA against these policies, repaid. At year end the combined value of the policies was Rnil million (2005: R195 million).

Loans due by or to subsidiaries and other group companies

Loans due by or to subsidiaries or other group companies are interest free and generally have no fixed terms of repayment.

Capital advances and amounts due by or to group companies are disclosed in note 18 and 19 respectively.

Key management personnel

Key management personnel and their close members of family and entities which they control, jointly control or over which they exercise significant influence are considered related parties to the Company. The Company's executive and non-executive directors as listed in the directors' report and members of the Executive Committee are considered to comprise key management personnel.

The Executive Committee comprised of NA Bicket, PG de Beyer, PB Hanratty, C Hood, PJ Golesworthy, SK Mthembu and RJA Sparks until 2 July 2006. With effect 3 July 2006 it comprised of PG de Beyer, T Dloti, J !Gawaxab, PJ Golesworthy, PB Hanratty, MJ Harper, RT Mupita, DJ Nyamane and BM Rapiya. With effect 1 November 2006, TJ Cumming and RA Keanly joined the Executive Committee.

	R' 000 2006	R' 000 2005
Key management personnel remuneration and other compensation		
Short-term employee benefits	**30 412**	21 432
Other long-term benefits	**1 736**	1 554
Share-based payment charge	**57 969**	16 920
	90 117	39 906

In addition to the remuneration to key management personnel as reflected in the table above, key management realised R 30.8 million (2005: R 2.9 million) as gains on share options exercised during the year.

Notes to the annual financial statements

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34 Interest in principal subsidiaries and associates

	Number of issued ordinary shares	% interest	Rm Carrying value of shares	Rm Loans due by/(to) subsidiaries
2006				
The Company's interest in its principal subsidiary and associate company is as follows:				
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	**156 076 566**	**35%**	**20 865**	**-**
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	**3 649 700**	**100%**	**5 816**	**1 653**
Barprop (Pty) Ltd	**46 599 200**	**100%**	**(1)**	**23**
Millstream Ltd o	**2 245 151**	**100%**	**269**	**-**
Old Mutual Fund Holdings (Bermuda) Ltd +	**12 000**	**100%**	**3 009**	**-**
Old Mutual Holdings (Bahamas) Ltd o	**864 212 412**	**100%**	**6 980**	**-**
Old Mutual Technology Holdings Ltd	**10 000**	**100%**	**(54)**	**94**
SYmmETRY Investment Trust		**100%**	**762**	**-**
Rodina Investments (Pty) Ltd	**100 000**	**100%**	**4 088**	**1 579**
Just Now Investments (Pty) Ltd	**20 000**	**100%**	**-**	**114**
			41 734	**3 463**
2005				
The Company's interest in its principal subsidiary and associate company is as follows:				
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	150 362 794	34%	15 042	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	6 567	1 360
Barprop (Pty) Ltd	46 599 200	100%	(8)	23
Millstream Ltd o	2 245 151	100%	176	-
Old Mutual Fund Holdings (Bermuda) Ltd +	12 000	100%	2 414	-
Old Mutual Holdings (Bahamas) Ltd o	502 783 750	100%	3 479	-
Old Mutual Technology Holdings Ltd	10 000	100%	(59)	315
SYmmETRY Investment Trust		100%	501	-
Rodina Investments (Pty) Ltd	100 000	100%	3 604	765
Just Now Investments (Pty) Ltd	20 000	100%	-	186
			31 716	2 649

**** Mutual & Federal Investments (Pty) Ltd holds 75% (2005: 77%) interest in Mutual & Federal Insurance Company Ltd***

o The country of incorporation is Bahamas

+ The country of incorporation is Bermuda

Notes to the annual financial statements

for the year ended 31 December 2006

34 Interest in principal subsidiaries and associates *(continued)*

The Company has a 35% (2005: 34%) interest in Nedbank Group Limited, which is a bank holding company that, through its principal banking subsidiary, Nedbank Limited, together with the other members of the Nedbank Group, operates as one of the four largest banking groups in South Africa.

Nedbank Group Limited is a public entity that is listed on the JSE Securities Exchange South Africa which, in the Company's financial statements, is measured at fair value. The following table contains summarised financial information of the Company's investment in Nedbank Group Limited and has been drawn from the most recently released publicly available information:

	Rm	Rm
Balance Sheet:	***As at 30 Sept 2006***	*As at 31 Dec 2005*
Total assets	**417 304**	352 258
Total liabilities	**(389 315)**	(325 949)
Net assets	**27 989**	26 309
Revenue and profits:	***For the nine months to 30 Sept 2006***	*For the year ended 31 Dec 2006*
Revenue	**13 659**	15 949
Profit for the period	**3 834**	4 297
	As at 31 Dec 2006	*As at 31 Dec 2005*
Fair value and carrying amount of the investment	**20 865**	15 042

35 Financial risk management

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts, customer deposits and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of financial risk are interest rate risk, liquidity risk, price risk, currency risk and credit risk.

These risks arise from open positions in interest rate (both fair value and cash flow interest rate risk), currency and equity products, all of which are exposed to general and specific market movements.

Financial risk management strategy and policy

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The insurance contracts retain substantial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets and/or policyholders enjoy options embedded in their contracts which are not matched by identical options in the underlying investments. These exposures include duration risk, credit risk and market risk. The notes below explain how financial risks are managed using the categories utilised in the ALM framework.

Notes to the annual financial statements

for the year ended 31 December 2006

35 Financial risk management *(continued)*

Capital Adequacy

The capital position of the Company on a statutory basis can be summarised as follows:

	Rm 2006	Rm 2005
Shareholder's equity	**55 568**	45 813
Adjustments to statutory basis:	**(15 956)**	(13 352)
Inadmissible assets	**(272)**	(269)
Other adjustments	**(15 684)**	(13 083)
Total available capital resources	**39 612**	32 461
Total capital requirements (Statutory Basis)	**(11 621)**	(11 500)
Overall excess	**27 991**	20 961
Capital position at beginning of year	**32 461**	28 874
Earnings for the financial year	**12 455**	11 311
Change in inadmissible assets and other adjustments	**(2 604)**	(5 976)
Dividends	**(2 700)**	(2 229)
Change in share-based payment reserve	**-**	481
Capital position at end of year	**39 612**	32 461

The calculations have been determined in accordance with the requirements of the South African Financial Services Board, with some estimates of the regulatory adjustments, as regulatory returns have yet to be completed. At 31 December 2006, the Company's excess assets were 3.4 times (2005: 2.8 times) the statutory capital adequacy requirement (CAR), after allowing for estimates of statutory limitations on the value of certain assets.

The shareholders' equity includes the Company's investment in Nedbank Group Ltd amounting to R20 773 million (2005: R14 996 million) and R5 816 million (2005: R6 567 million) in Mutual & Federal Investments (Pty) Ltd, a wholly owned subsidiary which holds 75% (2005: 77%) of Mutual & Federal Insurance Company Ltd. In addition, R6 914 million (2005: R4 971 million) is invested in Old Mutual plc's loan notes through Old Mutual Holdings (Bahamas) Ltd, a wholly owned subsidiary and R5 385 million (2005: R4 745 million) is held in intercompany advances. There are no formal intra-Group arrangements that exist to provide capital to other subsidiaries. All intercompany advances are immediately repayable and are subject to commercial terms and conditions, with the exception that interest is waived in all circumstances.

The amount of the surplus available to be distributed as dividends is subject to available distributable reserves within the shareholders' equity and maintaining the minimum statutory capital adequacy requirement. The quantum of dividends is also subject to further internal limits.

Notes to the annual financial statements

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35 Financial risk management *(continued)*

Capital Adequacy *(continued)*

Capital management policies

Capital is actively managed to ensure that the Company is properly capitalised and funded at all times, having regard to its regulatory needs, prudent management and the needs of all stakeholders.

The Company has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts, and the operations of the Capital Management Committee (CMC) that the Company's capital is managed.

The CMC is a managment committee, established to set an appropriate framework and guidelines to ensure the appropriate management of capital, to allocate capital to the various businesses, and to monitor return on allocated capital for each business relative to the agreed hurdle. The CMC comprises the Executive Directors together with certain executives, senior managers and a representative from Old Mutual plc management. Meetings are held as regularly as circumstances require and in any event not less than half-yearly and to approve requests for capital that are outside the business plans.

Specifically, the Company has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirements and such additional capital as management and the board believe is necessary to ensure that obligations to policyholders can be met on a timely basis.
- Maintenance of an appropriate level of liquidity at all times. The Company further ensures that it can meet its expected capital and financing needs at all times, having regard to the business plans, forecasts and any strategic initiatives.

Sensitivities

The Company has both qualitative and quantitative risk management procedures to monitor the key risks and sensitivities of the business. This is achieved through stress tests, scenario analyses and risk assessments. From an understanding of the principal risks, appropriate risk limits and controls are defined.

The key risks affecting the surplus capital of the Company are market risk, credit risk, underwriting risk and business risk.

For further details of the management of specific financial risks, refer to the relevant sections of this note.

Credit Risk

Credit risk is the risk that an asset, in the form of a monetary claim against a counterparty, may not result in a cash receipt (or equivalent) in accordance with the terms of a contract.

The Company does not use reinsurance to manage significant credit risk. The Company is exposed to credit risk through its investment holdings (i.e. debt securities) backing the policyholder liabilities and in shareholder funds. Credit risk is managed by placing limits on exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Credit risk is monitored with reference to established credit rating agencies (where available) with limits placed on exposure to below investment grade holdings.

The Company's credit risk exposure is disclosed in note 18.4.

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for the year ended 31 December 2006

35 Financial risk management *(continued)*

Market Risk

Market risk is the potential impact on earnings of unfavourable changes in foreign exchange rates, interest rates, prices, market volatilities and liquidity. Investment risk arises from changes in the fair value of investments and includes private equity, property and strategic investments.

The stock selection and investment analysis process is supported by a well-developed research function. For fixed annuities, market risks are managed by investing in fixed interest securities with a duration closely corresponding to those liabilities. Market risks on policies where the terms are guaranteed in advance and the investment risk is carried by the shareholders, principally reside in the South African guaranteed non-profit annuity book, which is predominantly matched with suitably dated interest bearing assets. Other non-profit policies are also suitably matched through appropriate investment mandates. Market risks on with-profit policies, where investment risk is shared, are minimised by appropriate bonus declaration practices.

Equity price risk and interest rate risk (on the value of the securities) are modelled by the Company's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow the Company to maintain significant equity exposures.

Currency Risk

The Company has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's operations policy is to hedge against certain currency exposures where assets and matching or associated liabilities are in different currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts, currency options and currency swap agreements. Investments in foreign assets are made on behalf of policyholders and shareholders for the purpose of seeking desirable international diversification of investments.

The Company operates in Hong Kong and Guernsey through branches which create an additional source of foreign currency risk which arises from the fact that the branches use UK Pounds as their functional currency, whereas the functional currency of the Company is Rands. However, this foreign currency translation risk is not considered material.

The table below summarises the Company’s exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Company's assets at carrying amounts, categorised by currency.

						Rm
At 31 December 2006	ZAR	GBP	USD	Euro	Other	**Total**
Investments in Group undertakings	41 911	6 624	9 989	-	-	**58 524**
Other financial assets	257 615	2 011	43 224	88	536	**303 474**
Cash and cash equivalents	1 826	29	52	2	-	**1 909**
Financial assets bearing currency risk	301 352	8 664	53 265	90	536	**363 907**
At 31 December 2005						
Investments in Group undertakings	33 905	4 971	5 893	-	-	44 769
Other financial assets	227 156	4 103	31 070	233	385	262 947
Cash and cash equivalents	1 510	18	27	1	2	1 558
Financial assets bearing currency risk	262 571	9 092	36 990	234	387	309 274

Notes to the annual financial statements

for the year ended 31 December 2006

35 Financial risk management *(continued)*

Interest rate Risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the Company's earnings and the value of its assets, liabilities and capital.

The life businesses have due regard to the nature of the liabilities and guarantees given to policyholders. The interest rate risk of such liabilities is managed by investing in assets of similar duration. Derivative instruments are not used to any material extent to manage the interest rate risk of these long term assets and liabilities.

The table below summarises the effective average interest rate by major currencies across all interest-bearing financial instruments:

Effective average interest rates

	ZAR	GBP	USD	Euro
At 31 December 2006	%	%	%	%
Other financial assets	**8.13%**	**1.07%**	**3.43%**	**1.00%**
Cash and cash equivalents	**8.00%**	-	-	-
Borrowed funds	**8.92%**	-	-	-
At 31 December 2005				
Other financial assets	7.37%	4.69%	3.95%	2.30%
Cash and cash equivalents	6.00%	4.87%	-	-
Borrowed funds	8.92%	-	-	-

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

Derivatives

Derivatives are used for hedging purposes to enhance the risk-return profile of policyholder funds. The notional values of derivative contracts by category are set out in the table below:

	Rm	**Rm**
Notional value of derivative contracts	**2006**	2005
Interest rate swaps	**15 380**	9 637
Forwards and futures	**(1 401)**	453
Options purchased	**4 081**	6 672
Options written	**(3 872)**	(5 382)
	14 188	11 380

36 Insurance risk management

The Company assumes insurance risk by issuing insurance contracts, under which the Company agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Company may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Company's approach to financial risk management has been described in note 35.

Notes to the annual financial statements

for the year ended 31 December 2006

36 Insurance risk management *(continued)*

Risk management objectives and policies for mitigating insurance risk

The Company effectively manages its insurance risks through the following mechanisms:

- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the Company seeks to reduce variability in loss experience.
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed.
- Actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities.

Terms and conditions of insurance contracts

The terms and conditions attaching to insurance contracts determine the level of insurance risk accepted by the Company. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred.

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Individual Life				
Flexi business with cover	Mortality/morbidity rates may be repriced	Mortality, morbidity	Some investment performance, cover and annuity guarantees	Yes, varies - see below
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity	Some investment performance and annuity guarantees	Yes, varies - see below
Greenlight	Charges fixed at inception and cannot be changed for a specified term	Mortality, morbidity, expense	Rates fixed for a specified number of years	None
Group schemes - funeral cover	Charges fixed at inception and cannot be changed for a specified number of years	Mortality including HIV/AIDS, expense	Rates fixed for a specified number of years	None
Employee Benefits - Group assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees except for PHI claims in payment for which benefit payment schedule is guaranteed	None
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
With-profit annuity	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes - see below

The extent of the Company's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non-vesting (in which latter case they can be removed).

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36 Insurance risk management *(continued)*

Terms and conditions of insurance contracts (continued)

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. Investment returns not distributed after deducting charges are credited to bonus stabilisation reserves, which are used to support subsequent bonus declarations.

In addition to the specified risks identified above, the Company is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

Management of insurance risks

The table below summarises the variety of risks to which the Company is exposed, and the methods by which it seeks to mitigate these risks.

Risks	Definition	Risk management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
HIV/AIDS	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS. Tests for AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates.
Medical developments	Possible increase in annuity costs due to policyholders living longer	For non-profit annuities, improvement to mortality is allowed for in pricing and valuation. Experience is closely monitored. For with-profit annuity business, the mortality risk is carried by policyholders and any mortality profit or loss is reflected in bonuses declared.
Changing financial market conditions	The move to a lower inflationary environment may cause more policyholder guarantees to be "in the money"	Value of guarantees, determined on a stochastic basis, included in current reserves. Fewer and lower guarantees are typically provided on new business.
Policyholder behaviour	Selection of more expensive options, or lapse and re-entry when premium rates are falling	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies	Catastrophe excess of loss re-insurance treaty covers claims from one incident occurring within a specified period between a range of specified limits.

Many of the above risks are concentrated by line of business (for example, medical developments). The Company, through diversification in the types of business it writes attempts to mitigate this concentration of risk.

Notes to the annual financial statements

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36 Insurance risk management *(continued)*

Sensitivity analysis

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with corresponding decreases or increases to profit. For with-profit annuity business the effect of a change in mortality assumption is mitigated by the offset to the bonus stabilisation reserve.

The increase or decrease to insurance contract liabilities recorded as of 31 December 2006 has been estimated as follows:

Assumption	Change %	Rm Increase/ (decrease) in liabilities *2006*	Rm Increase/ (decrease) in liabilities *2005*
Mortality and morbidity rates - assurance	**+10%**	**2 149**	1 977
Mortality rates – annuities	**-10%**	**459**	491
Discontinuance rates	**+10%**	**(53)**	(86)
Expenses (maintenance)	**+10%**	**638**	637

Insurance contract liabilities recorded are also to some extent impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to insurance contract liabilities, and decrease to profit, of R445 million (2005: R 378 million).

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The valuation interest rate sensitivity reflects a change in valuation interest rates without any corresponding change in investment returns or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

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36 Insurance risk management *(continued)*

Guarantees and options

Many of the insurance contracts issued by the Company contain guarantees and options, the ultimate liability for which will depend significantly on the number of policyholders exercising their options and on market and investment conditions applying at that time.

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa (ASSA). The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below. The required shock calculations have been performed as at 31 December 2006.

Product category	Description of options and guarantees	Required Shock to bring "out-of-the-money" policies "in-the-money"
Individual Business		
Death, disability, point and/or maturity guarantees	A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% pa for life and endowment business and 4.78% pa for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims.	An insignificant proportion of policies is currently in-the-money (current actual cumulative investment return lower than that guaranteed). On average a 53% (2005: 46%) fall in asset value is required before current out-of-the-money policies become in-the-money.
	A small block of smoothed bonus savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25% pa investment return.	None of these policies are currently in-the-money. On average a 49% (2005: 43%) fall in asset value is required before current out-of-the-money policies become in-the-money.
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.	A small proportion of policies is currently in-the-money (the current policy value lower than the threshold annuity consideration at which the guaranteed annuity option becomes in-the-money). On average a 190 basis point (2005: 190 basis point) reduction in yield is required to bring current out-of-the-money policies to become in-the-money.
Group Business		
Vested bonuses in respect of pre-retirement with-profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.	This business is currently out-of-the-money as the aggregate market value exceeds the vested reserve. On average a 40% (2005: 35%) fall in assets is required to cause the block of business to become in-the-money.