

Financial Statements

31 December 2007

Old Mutual Life Assurance Company (South Africa)
Limited



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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 diversity, 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 six times during 2007, including sessions specifically devoted to strategy and business planning as well as people and customer issues. 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 the 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.

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, Mr M Mittal, Mr I B Skosana and Mr G S van Niekerk.

The committee, chaired by Dr Konar, an independent director, comprises a majority of independent directors, met four times during the year with senior management, which included the Managing Director, certain senior executive management, the Statutory Actuary, the Finance Director (or currently interim Finance Director), the Chief Internal Auditor, the Compliance Officer and the Chief Risk Officer. Representatives from Old Mutual plc management normally attend meetings of this committee. 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 internal 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 of two other non-executive directors and one independent director and meets as often as necessary. It met formally once during the year. Where necessary, certain decisions were passed by written resolution.

Principal functions

The committee determines the remuneration, incentive arrangements, profit participation and benefits of the members of the Old Mutual South Africa Executive Committee. It makes 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 Remuneration Committee. The focus of the committee is on remuneration strategy, talent management and succession planning.

Corporate governance report

Board committees (continued)

Corporate Governance and Nomination Committee

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

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

Principal functions

The committee's 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, Mr J Naidoo and Prof A H van Wyk.

The committee is chaired by Prof Gerwel, a non-executive director, and includes executive, non-executive and independent 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 excluding customers, in particular government relations and transformation issues. It is expected to review and provide 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 six 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 and the extent to which customers are being treated fairly. The committee also reviews, approves and monitors compliance with the Company's Principles and Practices of Financial Management, which was finalised in November 2007 and which, in accordance with the Financial Services Board (FSB) 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, ensuring that liabilities are identified and managed, and addressing any social, environmental or ethical matters that are significant to 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 that 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 above. 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 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), Compliance, Legal, Finance, Human Resources, Tax, etc. These functions, together with their corresponding functions at the lower levels within the business units, 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 of the Board of the Company.

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 Exco 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 business. The Board receives monthly performance information in the form of a Business Review Pack called Insights, 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 Exco member 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.
- Employees are annually required to sign and accept the "Hlonipha ikhaya" Code of Conduct introduced by the Company in 2007. "Hlonipha ikhaya" means "respect this house". By doing so, employees agree to adhere to the key Company staff policies that are published on the Company intranet, GroupNet.

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 where appropriate by designing products that allow for repricing.

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 asset managers responsible for the policyholder funds are 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 portfolio'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 portfolios 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 applicable statutory limitations, 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 Limited and Mutual & Federal Insurance Company Limited) and loans to other companies in the Group (such as to Old Mutual plc) are held mainly 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 have an interest must be disclosed to the Statutory Actuary, who will report on these to the Board's Committee for Customer Affairs. If the potential conflict of interest is material, approval by the Board is also required. Any such transactions are conducted on arm's-length terms, and only when the asset manager is satisfied that such investments are in the interest of policyholders.
- The asset 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 surplus 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 surplus attributable to shareholders is only transferred from policyholder funds to shareholder funds on the recommendation of the Statutory Actuary following the production of interim and year-end results. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities. 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.
- Old Mutual published a Principles and Practices of Financial Management (PPFM) document for the first time towards the end of 2007. This document is a requirement of the FSB (in terms of Directive 147.A.i), and covers smoothed bonus and other discretionary participation business. The purpose of the document is to define the principles and practices of financial management that are currently applied in the management of Old Mutual's discretionary participation business, and to disclose the nature and extent of discretion used and the parameters within which it will be used. The Board's Committee for Customer Affairs considers the interests of discretionary participation policyholders, reviews key decisions and recommendations affecting the interests of these policyholders, and provides the Board with an independent assessment of compliance with the PPFM on an annual basis. The Board, in turn, reports on the extent of compliance with the PPFM in the company's annual statutory return to the FSB.

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 Old Mutual Group subscribes to a code of ethics which is available to all staff.

Remuneration report

Directors' emoluments

	R' 000	R' 000
	2007	2006
<i>Non-executive directors</i>		
Fees	1 519	1 656
<i>Executive directors</i>		
Salary	4 881	5 927
Bonus	4 538	4 142
Gains on share options and restricted shares exercised	11 618	19 255
Retirement and related benefits	688	787
Total directors' emoluments	23 244	31 767
<i>Fees paid to non-executive directors were as follows:</i>		
W A M Clewlow	-	150
G J Gerwel	206	206
D Konar	317	293
A A Maule	239	239
J Naidoo (appointed 18 April 2007)	96	-
P F Nhleko	-	51
W L Nkuhlu	-	151
R N Ntshingila (appointed 18 September 2007)	31	-
G T Serobe	141	170
I B Skosana (appointed 20 November 2007)	19	-
G S van Niekerk	212	188
A H van Wyk	258	208
	1 519	1 656

R' 000

	Gains on share options and restricted shares exercised				Retirement and related benefits	Total
2007	Salary	Bonus	exercised	benefits	Total	
<i>Executive directors' total emoluments comprise:</i>						
P B Hanratty *	2 729	2 087	6 258	392	11 466	
P G de Beyer	2 152	2 451	5 360	296	10 259	
	4 881	4 538	11 618	688	21 725	

R' 000

	Gains on share options and restricted shares exercised				Retirement and related benefits	Total
2006	Salary	Bonus	exercised	benefits	Total	
<i>Executive directors' total emoluments comprise:</i>						
P B Hanratty	2 523	2 151	3 643	437	8 754	
P G de Beyer	2 119	1 328	7 283	191	10 921	
R J A Sparks (resigned 2 July 2006)	1 285	663	8 329	159	10 436	
	5 927	4 142	19 255	787	30 111	

* the bonus of Mr PB Hanratty is made up of an award of restricted shares of 60% (2006: 45%), share options of 20% (2006: 15%) and a cash component of 20% (2006: 40%). The restricted shares awarded are retained until the third anniversary of the award date provided Mr P B 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 2008 and 31 December 2010 (2006: 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 2007:

	R	Date of	Number of	Dates deliverable		R' 000
	Offer price	grant	shares			Gains on
			outstanding			current year
						settlements
<i>Executive directors</i>						
P B Hanratty	11.77	03/03/04	212 596	03/03/2007 - 03/03/2010	1	5 251
	14.50	26/04/05	159 484	26/04/2008 - 26/04/2011	2	-
	21.65	29/03/06	181 871	30/03/2009 - 29/03/2012	3	-
	23.40	30/03/07	114 895	31/03/2010 - 30/03/2013	4	-
P G de Beyer	11.77	03/03/04	-	03/03/2007 - 03/03/2010	1	3 878
	14.50	26/04/05	103 449	26/04/2008 - 26/04/2011	2	-
	21.65	29/03/06	118 317	30/03/2009 - 29/03/2012	3	-
	23.40	30/03/07	69 718	31/03/2010 - 30/03/2013	4	-
						9 129

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

- 50% of the share entitlements granted on 3 March 2004 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 2004 and 31 December 2006, and 50% of the allocation of the share entitlements granted on 3 March 2004 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 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.
- 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.
- 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.
- 100% of the share entitlements granted on 30 March 2007 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 (continued)

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 2007:

R' 000

	Date of grant	Number of shares outstanding	Dates exercisable		Gains on current year settlements
<i>Executive directors</i>					
P B Hanratty	26/02/03	-	26/02/2006 - 26/02/2008	1	1 007
	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	-
	30/03/07	164 619	30/03/2010	8	-
P G de Beyer	03/03/04	-	03/03/2007 - 03/03/2009	2	1 482
	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	-
	30/03/07	20 916	30/03/2010	8	-
	30/03/07	22 705	30/03/2010	9	-
	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, which were deliverable over the period between 26 February 2006 and 26 February 2008 and were entitled to dividends, were settled in the current year.
- 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.
- 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 on 30 March 2007, as an alternative to share options under the Management Incentive Share Plan, would be deliverable on 30 March 2010 and are entitled to dividends.
- 9 restricted shares awarded on 30 March 2007, in terms of the Deferred Short Term Incentive, would be deliverable on 30 March 2010 and are entitled to dividends.

Statement of Directors' responsibilities

The Company's directors are responsible for 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 judgements 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 2007 set out on pages 16 to 81 were approved by the Board of Directors on 27 February 2008 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 2007.



R F Foster
Company Secretary
27 February 2008

Independent Auditor's Report

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 16 to 81, which comprise the balance sheet at 31 December 2007, and the income statement, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our respective adverse audit opinions and unqualified audit opinion below.

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 does not require the preparation of 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, 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 on financial statements prepared in accordance with International Financial Reporting Standards

In our opinion, because consolidated financial statements have not been prepared, the financial statements do not present fairly the financial position of the Company at 31 December 2007, and of its financial performance and 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 2007, and its financial performance and cash flows for the year then ended, 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
27 February 2008

1 Mediterranean Street
Foreshore
Cape Town
8001

Statutory Actuary's Report

I have conducted an actuarial review of the Company as at 31 December 2007, 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 34 to 38. Prices used in the calculation of market-consistent investment guarantee reserves are provided in note 42 on page 81.

	Rm		Rm	
	2007 Published	2007 Statutory	2006 Published	2006 Statutory
Actuarial balance sheet				
Total value of assets	415 605	413 963	386 648	383 507
Total value of liabilities	(362 513)	(359 425)	(332 392)	(327 939)
Actuarial value of policy liabilities	(340 855)	(338 011)	(315 259)	(312 789)
Unsecured subordinated callable notes	(3 000)	(3 000)	(3 000)	(3 000)
Provisions and other liabilities	(18 658)	(18 414)	(14 133)	(12 150)
Excess of assets over liabilities	53 092	54 538	54 256	55 568
Less : Inadmissible for statutory solvency purposes		298		272
: Excess over Associate limits		3 895		6 489
: Limits on Group Undertakings		11 940		12 113
Add : Unsecured subordinated callable notes		3 000		3 000
Excess assets (Statutory basis)		41 405		39 694
Statutory capital adequacy requirements (CAR)		11 739		11 621
Ratio of excess assets to CAR		3.5		3.4

Notes:

- Certain of the 2007 figures for inadmissible assets and limits in respect of Associates and Group Undertakings and the resulting calculations are estimates. 2006 numbers have been restated with the actual calculation of the limits for that year.
- 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 2007, 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

27 February 2008

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 2007.

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, statement of cash flows and accompanying notes.

Consolidated annual financial statements

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 40.

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 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 R 8 294 million (2006: R 2 700 million) were declared during the year.

Preference shares

Dividends on preference shares amounting to R 100 (2006: R 100) were declared during the year.

Directors' Report *(continued)*

Post balance sheet events

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

Directors

On 18 April 2007 Mr M Mittal was appointed as a non-executive director of the Company.

On 18 April 2007 Mr J Naidoo was appointed as an independent director of the Company.

On 18 September 2007 Ms R N Ntshingila was appointed as an independent director of the Company.

On 20 November 2007 Mr I B Skosana was appointed as an independent director of the Company.

On 14 February 2008 Mr T Dloti was appointed as an executive director of the Company.

On 14 February 2008 Mr I A Goldin was appointed as an independent 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

M Mittal (British)

Executive directors

P B Hanratty (Managing Director) (Irish)

P G de Beyer

T Dloti

Independent directors

D Konar

A A Maule

J Naidoo

R N Ntshingila

I B Skosana

G S van Niekerk

A H van Wyk

I A Goldin

*Member of the Old Mutual plc Board of Directors

In terms of the Articles of Association, R M Head, D Konar, G T Serobe, J H Sutcliffe and A H van Wyk are due to retire at the Annual General Meeting. M Mittal, J Naidoo, R N Ntshingila and I B Skosana, having been appointed during the year, also resign at the Annual General Meeting. All 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 2007

	Notes	Rm 2007	Rm 2006
Revenue			
Gross earned premiums	4.2	20 022	18 834
Outward reinsurance	18	(503)	(372)
<i>Net earned premium</i>		19 519	18 462
Investment income (net of investment losses)	6	44 497	65 265
Fee and commission income	7	2 694	2 462
Other income	8	41	107
Total revenue		66 751	86 296
Expenses			
Claims and benefits (including change in insurance contract provisions)		(38 999)	(55 760)
Reinsurance recoveries	18	436	325
<i>Net claims incurred</i>		(38 563)	(55 435)
Change in provision for investment contract liabilities	28	(11 191)	(14 568)
Finance costs	9	(347)	(351)
Commissions and other acquisition costs	10	(1 950)	(1 806)
Operating and administration expenses	11	(5 815)	(5 396)
Total expenses		(57 866)	(77 556)
Non - operating items	12	287	(1 363)
Profit before tax		9 172	7 377
Income tax expense	13	(2 774)	(2 709)
Profit for the financial year		6 398	4 668

Balance sheet

at 31 December 2007

	Notes	Rm 2007	Rm 2006
Assets			
Intangible assets	14	43	30
Investment property	15	14 740	10 400
Property and equipment	16	3 208	2 258
Deferred tax asset	17	696	810
Reinsurance contracts	18	292	200
Deferred acquisition costs	19	1 167	1 055
Loans and advances	20	938	1 217
Investments and securities	21	384 309	362 183
Other assets	23	5 031	3 893
Derivative financial instruments - assets	24	105	108
Amounts due by group companies	22	928	2 585
Cash and cash equivalents	25	4 148	1 909
Total assets		415 605	386 648
Liabilities			
Insurance contract liabilities	27	154 064	147 969
Investment contract liabilities	28	190 903	170 271
Borrowed funds	32	3 000	3 000
Post employment benefits obligation	29	77	72
Share-based payment liabilities	31	468	529
Provisions	33	1 514	1 866
Deferred revenue on investment contracts	34	244	257
Deferred tax liability	17	3 445	2 835
Current tax payable		1 505	1 321
Other liabilities	35	3 807	2 653
Derivative financial instruments - liabilities	24	1 703	1 510
Amounts due to group companies	22	1 783	109
Total liabilities		362 513	332 392
Net assets		53 092	54 256
Shareholders' equity			
Share capital and premium	36	6 254	6 254
Share-based payments reserve		481	481
Other reserves		19 334	18 602
Retained earnings		27 023	28 919
Total equity		53 092	54 256

Statement of changes in equity

for the year ended 31 December 2007

Rm

	Share capital and premium	Other reserves	Retained earnings	Share-based payments reserve	Total
2007					
Shareholders' equity at beginning of year	6 254	18 602	28 919	481	54 256
Changes in equity arising in the year:					
Gross fair value gains: financial assets available-for-sale		4 702			4 702
Revaluation of owner-occupied property		968			968
Shadow accounting		(928)			(928)
Fair value gains recycled to profit on disposal or impairment		(3 565)			(3 565)
Aggregate tax effect of items taken directly to or transferred from equity		(445)			(445)
Net income recognised directly in equity		732	-		732
Profit for the financial year			6 398		6 398
Total recognised income and expense for the year		732	6 398		7 130
Dividends			(8 294)		(8 294)
Shareholders' equity at end of year	6 254	19 334	27 023	481	53 092

Rm

Other reserves comprise:	2007
Available-for-sale revaluation reserve	19 273
Property revaluation reserve	61
Attributable to equity holders of the Company at end of the year	19 334

2006

Rm

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: 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 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

Rm

Other reserves comprise:	2006
Available for sale reserve	18 564
Property revaluation reserve	38
Attributable to equity holders of the Company at end of the year	18 602

Statement of cash flows

for the year ended 31 December 2007

		Rm	Rm
	<i>Notes</i>	2007	2006
Cash flows from operating activities			
Profit before tax		9 172	7 377
Non-cash movements and adjustments to profit before tax	37.1	(17 023)	(8 556)
Changes in working capital	37.2	3 729	(13 843)
Dividends received		4 597	6 665
Interest received		12 678	8 044
Interest paid		(347)	(351)
Taxation paid	37.3	(2 311)	(1 151)
Net cash from/(used in) operating activities		10 495	(1 815)
Cash flows from investing activities			
Net disposal of financial assets		952	4 817
Net (acquisition)/disposal of investment property		(763)	162
Proceeds from disposal of investment property		166	494
Acquisition of investment property		(929)	(332)
Net acquisition of property and equipment		(111)	(98)
Acquisition of intangible assets		(40)	(15)
Net cash from investing activities		38	4 866
Cash flows from financing activities			
Dividends paid to Company's shareholders	37.4	(8 294)	(2 700)
Net cash used in financing activities		(8 294)	(2 700)
Net increase in cash and cash equivalents		2 239	351
Cash and cash equivalents at beginning of year		1 909	1 558
Cash and cash equivalents at end of year		4 148	1 909

Notes to the annual financial statements

for the year ended 31 December 2007

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 (IFRS) 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 instrument is 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 the 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, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and insurance liabilities. The accounting policies have been consistently applied to all periods presented.

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

The Company's investments in subsidiary and associate companies held in the shareholders portfolio are accounted for in terms of IAS 39, Financial Instruments: Recognition and Measurement, as available-for-sale financial assets and the investment in the joint venture is carried at cost.

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 service 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 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.

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 2007

2 Accounting policies (continued)

2.4 Insurance and investment contracts (continued)

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 periods between 5 and 10 years.

2.4.4 Claims paid 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 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 stabilisation reserves) related to these contracts is included in the carrying value of liabilities.

Investment options and guarantees embedded in insurance contracts have been calculated on a market-consistent basis, with additional margins added as permitted by PGN 110.

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 2007

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 pages 34 to 38 and in the note on insurance risk management on pages 77 to 81.

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 contracts, 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 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 periods of between 5 and 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 are 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 accumulated impairment losses.

Intangible assets are amortised over their current useful life of 3 years on a straight-line basis 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 are 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 meets the criteria listed above.

Notes to the annual financial statements

for the year ended 31 December 2007

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 externally 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. Property developments are valued in a similar manner to income generating assets except where information about future net income cannot be determined with sufficient confidence, in which case fair value will be estimated with reference to the value of the land, and the cost of construction to date.

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 property 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 accumulated 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. External valuations are obtained on such a basis as to ensure that substantially all properties are externally 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 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 an 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 2007

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 currently depreciated over a period of 50 years using the straight-line method. Equipment is currently depreciated over a period between 2 to 5 years using the straight-line method. Residual values and useful lives are reassessed at each financial year-end.

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 in 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, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled by the Company 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 pay the related dividend and are included in the tax charge.

Notes to the annual financial statements

for the year ended 31 December 2007

2 Accounting policies (continued)

2.9 Reinsurance contracts

Reinsurance assets comprise 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 assets principally include 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 includes 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.

Interest earned on financial assets carried at fair value through profit or loss is presented as part of interest income.

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 financial 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 or financial liabilities at fair value through profit or loss - held for trading. 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.

Financial assets

Financial assets are recorded as held for trading, designated as fair value through profit or loss, loans and receivables or available-for-sale. An analysis of the Company's balance sheet, showing the categorisation of financial assets, together with financial liabilities is set out in note 5.

Notes to the annual financial statements

for the year ended 31 December 2007

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 (including derivative instruments that are not used as hedging instruments) 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 or those that are managed, evaluated and reported on using a fair value basis in accordance with a documented risk management and/or investment strategy. 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 financial asset 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 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 bid 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 designated by the Company as 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 using the effective interest method less any impairment losses. Interest received is recognised as part of investment income. All loans and receivables 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 fair value 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 profit or loss when the liabilities are derecognised as well as through the amortisation process, i.e. interest expense.

Notes to the annual financial statements

for the year ended 31 December 2007

2 Accounting policies (continued)

2.10 Financial instruments (continued)

Offsetting

Financial assets and financial 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 on the related advance 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 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 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

A financial asset is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is objective evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. 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 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 profit or loss but rather as a fair value movement in equity. Reversals of impairment losses on available-for-sale debt instruments are reversed through 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 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 which approximates the exchange rate at the transaction date. 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 2007

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 as an expense.

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, disability 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 (i.e. the date of transition to IFRS) 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 2007

2 Accounting policies (continued)

2.15 Share-based payments

Cash-settled share-based payment transactions

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 including 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 Segment 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 not material.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the company's revenue that can be allocated on a reasonable basis. Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to a segment. Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from operating activities of a segment.

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 in the income statement on a straight-line basis over the period of the lease.

2.18 Impairment of non-financial assets

The carrying amounts of the Company's 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. The increased carrying amount of an asset attributable to a reversal of an impairment loss will not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

An impairment of goodwill is not reversed.

Notes to the annual financial statements

for the year ended 31 December 2007

2 Accounting policies (continued)

2.19 Dividend distribution

Dividend distributions to the Company's shareholder are recognised in the period in which the dividend distribution is authorised and approved by the Company's shareholder.

2.20 Borrowing costs

Borrowing costs are recognised as an expense under finance costs 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 41. 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 33. The assumptions applied in valuing share based payment liabilities are disclosed in note 31.

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 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 equity 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 2007

2 Accounting policies (continued)

2.23 Forthcoming requirements

Amendments adopted in the 2007 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 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 superseded 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) read with the amendment to IAS 1 capital objectives and policies.
- 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. This has not impacted the Company's financial statements.
- IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions' (effective 1 March 2007). 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 no impact on the Company's existing accounting policy on share-based payments and minimal impact in the Parent Company's financial statements.

Future amendments not early adopted in the 2007 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 'Presentation of Financial Statements' (effective 1 January 2009). The changes include a comprehensive revision of primary statements, and include a requirement to introduce a statement of comprehensive income. There will be some limited presentational changes as a result of the introduction of this standard but no changes in measurement or recognition.
- 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. 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 14 (effective 1 January 2008) Clarifies the limits placed on a Defined Benefit Asset, the Minimum Funding Requirements and their interaction between those concepts.

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 2007

3 Notes to the Statutory Actuary's Report

3.1 Analysis of change in excess assets on published reporting basis

	Rm	Rm
	2007	2006
Excess assets at end of year	53 092	54 256
Excess assets at beginning of year	54 256	44 821
Change in excess assets on published reporting basis during the year	(1 164)	9 435
<i>The change in the excess assets on the published reporting basis has arisen from the following main sources:</i>		
Profit for the financial year per income statement	6 398	4 668
Investment income on excess assets	1 735	2 967
Dividend income	1 344	2 685
Interest income	391	282
Realised gains and losses on excess assets	3 565	1 781
Foreign exchange gains on excess assets	1	295
Operating profit before shareholder tax (excluding the effect of changes in the valuation basis)	4 123	4 241
Non - operating items	63	(2 158)
Policyholders' tax	(919)	(1 546)
Changes in valuation basis	(315)	251
Taxation	(1 855)	(1 163)
Fair value gains and losses on excess assets	1 177	7 591
Deferred taxation - net capital gains	(445)	(124)
Dividends	(8 294)	(2 700)
Change in excess assets on published reporting basis during the year	(1 164)	9 435

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

Actuarial value of policy liabilities - published reporting basis	(340 855)	(315 259)
Actuarial value of policy liabilities - statutory basis	(338 011)	(312 789)
Difference	(2 844)	(2 470)
Comprising:		
Investment contracts	(2 943)	(2 654)
Reinsurance	(38)	(32)
Deferred tax adjustment on policyholder investment properties	137	216
	(2 844)	(2 470)

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

Excess assets - published reporting basis	53 092	54 256
Excess assets - statutory basis	(54 538)	(55 568)
Difference	(1 446)	(1 312)
Comprising:		
Investment contracts	(2 943)	(2 654)
Revenue recognition	924	799
Deferred tax impacts on owner-occupied property	(19)	-
Deferred tax impacts of above items	592	543
	(1 446)	(1 312)

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 initial expenses and initial fees in excess of recurring fees.

Notes to the annual financial statements

for the year ended 31 December 2007

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 participating features is performed using the FSV method, in accordance with PGN 104 issued by the Actuarial Society of South Africa. 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 property 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:

	<i>December 2007</i>	<i>December 2006</i>
Fixed interest securities	8.5%	8.0%
Cash	6.5%	6.0%
Equities	12.0%	11.5%
Properties	10.0%	9.5%
Future expense inflation	5.5% *	5.0%*

* 7.5% (2006: 7%) for Retail business administered on old platforms and 6.5% (2006: 6%) for Group Schemes business.

Notes to the annual financial statements

for the year ended 31 December 2007

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,
- The compulsory margins as set out in PGN 104,
- 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 annuities,
 - profit margins on Employee Benefits non-profit annuities to ensure that profit is released appropriately over the life of the policies,
 - interest margins on Employee Benefits PHI claims in payment due to the inability to fully match assets to liabilities as a result of the high rate of change in the portfolio (high volume of new claimants and terminations), and
 - margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market-consistent basis to market interest rates in particular.

Liabilities include provisions to meet financial options and guarantees on a market-consistent basis, and make due allowance for potential lapses, paid-ups 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:

<i>Business unit</i>	<i>Type of investigation</i>	<i>Period of investigation</i>
Individual Business	Flexi business mortality	2003 to 2006
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2001 to 2004
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency	2006
Group Schemes	Mortality	2006
	Persistency	2007
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 2007. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure of a one-off nature.

Notes to the annual financial statements

for the year ended 31 December 2007

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. These have been calculated on a market-consistent basis and a discretionary margin has been added to the calculated reserve. Sample derivative contract prices derived from the calculation are provided in note 42 on page 81.

3.5 Statutory capital adequacy requirements

The statutory capital adequacy requirements (CAR) have been calculated in accordance with PGN 104 issued by the Actuarial Society of South Africa. These provide a buffer against future experience being worse than assumed in the FSV method, 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 assumed to 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. For all smoothed bonus products (with the exception of with-profit annuities), the assumption is that future bonus rates would have been reduced by 2.5% in the first year, if asset values had declined as specified as at 31 December 2007, and had not subsequently recovered. For with-profit annuities, no reduction in future bonuses has been assumed, because the bonus stabilisation reserves and the matching for these products were able to sufficiently absorb the effects of the specified investment scenario, given that such products have less exposure to equities and have a matching bond portfolio. (2006: no explicit management actions were assumed because the bonus stabilisation reserves were higher and were able to absorb the full effects of the resilience scenario.)

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 43% in local equities, 6% in international cash and 51% in local cash (December 2006: 60% local equities, 5% international cash and 35% 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)

Notes to the annual financial statements

for the year ended 31 December 2007

3 Notes to the Statutory Actuary's Report (continued)

3.6. Changes to valuation assumptions (published basis)

Various assumption changes have been made which have resulted in a net increase in the value of liabilities of R315 million (2006: R251 million reduction) on the Published basis. The most significant item was a R847m increase (including a discretionary margin) in the reserve for investment guarantees which has been calculated on a market-consistent basis for the first time. The basis for terminations and alterations was strengthened by R146m leading to an increase in liabilities. Lower assured lives mortality and a reduction in retail maintenance expenses reduced the value of liabilities by R299m and R150m respectively. Various methodology and other changes reduced the value of liabilities by R229m.

Notes to the annual financial statements

for the year ended 31 December 2007

4 Segment information

4.1 Business segment

<i>Income statement</i>	Rm			Rm		
	Individual	Group	Total 2007	Individual	Group	Total 2006
Segment revenue						
Gross earned premiums	12 812	7 210	20 022	12 110	6 724	18 834
Outward reinsurance	(458)	(45)	(503)	(341)	(31)	(372)
<i>Net earned premium</i>	12 354	7 165	19 519	11 769	6 693	18 462
Investment income (net of investment losses)	21 128	17 897	39 025	32 811	28 564	61 375
Fee and commission income	2 561	133	2 694	2 440	22	2 462
Segment expenses						
Claims and benefits (including change in insurance contract provisions)	(20 064)	(18 935)	(38 999)	(41 643)	(14 117)	(55 760)
Reinsurance recoveries	408	28	436	333	(8)	325
<i>Net claims incurred</i>	(19 656)	(18 907)	(38 563)	(41 310)	(14 125)	(55 435)
Change in provision for investment contract liabilities	(7 035)	(4 156)	(11 191)	(10 159)	(4 409)	(14 568)
Commissions and other acquisition costs	(1 925)	(25)	(1 950)	(1 793)	(13)	(1 806)
Operating and administration expenses	(4 927)	(763)	(5 690)	(4 719)	(677)	(5 396)
Segment result	2 500	1 344	3 844	(10 961)	16 055	5 094
Shareholder income						
Investment income			5 472			3 890
Other income			41			107
Shareholder expenses						
Finance costs			(347)			(351)
Operating and administration expenses			(125)			-
Non-operating items			287			(1 363)
Profit before tax						
Income tax expense			(2 774)			(2 709)
Profit for the financial year			6 398			4 668
<i>Balance sheet</i>						
Segment assets						
Segment assets	190 602	136 444	327 046	189 834	134 444	324 278
Shareholder assets			88 559			62 370
Total assets			415 605			386 648
Segment liabilities						
Insurance contracts liabilities	110 306	43 758	154 064	105 330	42 639	147 969
Investment contract liabilities with discretionary participation features	9 272	74 993	84 265	7 575	67 752	75 327
Investment contract liabilities	78 558	28 080	106 638	70 172	24 772	94 944
Other liabilities	2 809	325	3 134	4 026	33	4 059
Segmental liabilities	200 945	147 156	348 101	187 103	135 196	322 299
Shareholder liabilities			14 412			10 093
Total liabilities			362 513			332 392

Notes to the annual financial statements

for the year ended 31 December 2007

4 Segment information (continued)

4.2 Geographical segment

	Rm			Rm
4.2.1 Gross premiums and investment contract deposits written	South African operation	Rest of the World	Total 2007	2006
Individual	22 820	3 143	25 963	23 911
Single	9 939	3 111	13 050	9 462
Recurring	12 881	32	12 913	14 449
Group	15 432	-	15 432	15 411
Single	11 106	-	11 106	11 509
Recurring	4 326	-	4 326	3 902
Total gross premiums and investment contract deposits	38 252	3 143	41 395	39 322
Comprising:				
Insurance contracts (refer note 27)	13 492	-	13 492	13 808
Investment contracts with discretionary participation features (refer note 28)	6 530	-	6 530	5 026
Deposits received on investment contracts (refer note 28)	18 230	3 143	21 373	20 488
	38 252	3 143	41 395	39 322
Less: Deposits on investment contracts (refer note 28)	(18 230)	(3 143)	(21 373)	(20 488)
Total gross premiums	20 022	-	20 022	18 834

	Rm			Rm
4.2.2 Gross new business premiums and investment contract deposits written	South African operation	Rest of the World	Total 2007	2006
Individual	12 343	3 143	15 486	13 873
Single	9 939	3 111	13 050	9 462
Recurring	2 404	32	2 436	4 411
Group	11 315	-	11 315	11 704
Single	11 106	-	11 106	11 570
Recurring	209	-	209	134
Total new business gross premiums and investment contract deposits	23 658	3 143	26 801	25 577
Comprising:				
Insurance contracts	5 504	-	5 504	4 936
Investment contracts with discretionary participation features	2 900	-	2 900	1 872
Deposits received on investment contracts	15 254	3 143	18 397	18 769
	23 658	3 143	26 801	25 577
Less: Deposits received on investment contracts	(15 254)	(3 143)	(18 397)	(18 769)
Total gross new business premiums	8 404	-	8 404	6 808

Notes to the annual financial statements

for the year ended 31 December 2007

5 Company balance sheet - assets and liabilities framework

The following tables reconcile the balance sheet to the categories of financial instruments:

	At fair value through profit or loss						Rm Total
	Held for trading	Designated	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities	
At 31 December 2007							
Assets							
Intangible assets						43	43
Investment property						14 740	14 740
Property and equipment						3 208	3 208
Deferred tax asset						696	696
Reinsurance contracts						292	292
Deferred acquisition costs						1 167	1 167
Loan and advances		938					938
Investment and securities		326 048	58 241			20	384 309
Other assets				5 031			5 031
Derivative financial instruments - assets	105						105
Amounts due by group companies				928			928
Cash and cash equivalents				4 148			4 148
	105	326 986	58 241	10 107	-	20 166	415 605
Liabilities							
Insurance contract liabilities		4 112				149 952	154 064
Investment contract liabilities		190 903					190 903
Borrowed funds					3 000		3 000
Post employment benefits obligation						77	77
Share-based payment liabilities						468	468
Provisions						1 514	1 514
Deferred revenue on investment contracts						244	244
Deferred tax liability						3 445	3 445
Current tax payable						1 505	1 505
Other liabilities					3 494	313	3 807
Derivative financial instruments - liabilities	1 703						1 703
Amounts due to group companies				1 783			1 783
	1 703	195 015	-	1 783	6 493	157 518	362 513

Notes to the annual financial statements

for the year ended 31 December 2007

5 Company balance sheet - assets and liabilities (continued)

	At fair value through profit or loss		Available for-sale financial assets	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities	Rm Total
	Held for trading	Designated					
At 31 December 2006							
Assets							
Intangible assets						30	30
Investment property						10 400	10 400
Property and equipment						2 258	2 258
Deferred tax asset						810	810
Reinsurance contracts						200	200
Deferred acquisition costs						1 055	1 055
Loan and advances		1 217					1 217
Investment and securities		303 108	59 055			20	362 183
Other assets				3 864		29	3 893
Derivative financial instruments - assets	108						108
Amounts due by group companies				2 585			2 585
Cash and cash equivalents				1 909			1 909
	108	304 325	59 055	8 358	-	14 802	386 648
Liabilities							
Insurance contract liabilities		2 981				144 988	147 969
Investment contract liabilities		170 271					170 271
Borrowed funds					3 000		3 000
Post employment benefits obligation						72	72
Share-based payment liabilities						529	529
Provisions						1 866	1 866
Deferred revenue on investment contracts						257	257
Deferred tax liability						2 835	2 835
Current tax payable						1 321	1 321
Other liabilities					2 633	20	2 653
Derivative financial instruments - liabilities	1 510						1 510
Amounts due to group companies				109			109
	1 510	173 252	-	109	5 633	151 888	332 392

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
6 Investment Income	2007	2006
Interest and similar income		
Loans and advances		
Policyholder loans	144	132
Investments and securities		
Government and government-guaranteed securities	3 810	3 887
Other debt securities, preference shares and debentures	2 662	2 235
Pooled investments	758	273
Short-term funds and securities treated as investments	2 813	1 567
Other	2 297	11
	12 340	7 973
Cash and cash equivalents	194	68
Total interest and similar income	12 678	8 173
Dividend income		
Investment and securities		
Equity securities		
- Listed	3 934	5 443
- Unlisted	227	1 175
Pooled investments		
- Listed	4	22
- Unlisted	432	25
Total dividend income	4 597	6 665
Rental income from investment property	760	733
Fair value gains and losses		
Investments and securities	23 359	49 419
Asset related derivative instruments (No hedge accounting applied)	(475)	(1 771)
Investment property	3 577	1 751
Total asset related fair value gains and losses recognised in income	26 461	49 399
Asset related foreign currency gains and losses	1	295
Total investment income recognised in profit or loss (net of investment losses)	44 497	65 265
The fair value gains and losses shown above are analysed category as follows:		
Held for trading (including derivatives)	(475)	(1 771)
Designated at fair value through profit or loss	19 794	47 638
Available-for-sale financial assets	3 565	1 781
Investment property	3 577	1 751
	26 461	49 399
Total interest income included above for assets not at fair value through profit or loss	194	68

No impairment losses have been recognised in the current or prior year on any of the financial asset categories.

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
6	2007	2006
Investment Income (continued)		
Fair value gains and losses recognised in equity were as follows:		
Financial assets available-for-sale	1 177	7 591
Total investment income recognised in equity	1 177	7 591
* Included in gains recognised in income are transaction costs amounting to R 228 million (2006: R 150 million)		
7		
Fee and commission income		
Investment contracts		
Investment management fees	1 634	1 312
Change in deferred revenue	13	24
Sundry fee and commission income	1 047	1 126
	2 694	2 462
8		
Other income		
Profit on disposal of equipment	2	-
Surplus recognised in respect of the staff retirement fund	-	99
Other	39	8
	41	107
9		
Finance costs		
Borrowed funds		
Subordinated debt	262	269
Other	85	82
	347	351
The finance costs shown above are analysed according to their IAS 39 category as follows:		
Total interest expense included for financial liabilities not at fair value through profit or loss	347	351
10		
Commissions and other acquisition costs		
Commission expenses	1 520	1 288
Other acquisition costs	542	617
Change in deferred acquisition costs	(112)	(99)
	1 950	1 806

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
	2007	2006
11 Operating and administration expenses		
Operating and administration expenses include:		
Amortisation of deferred acquisition costs	198	191
Amortisation of deferred revenue liabilities	(73)	(78)
Amortisation of intangible assets	27	26
Asset management expenses	494	398
Depreciation of property and equipment	118	105
Impairment losses - equipment	11	-
Impairment losses - other assets	65	72
Operating lease rentals	27	42
Technical and professional fees	475	481
Auditors' remuneration		
Statutory audit services	12	13
- current year	10	9
- prior year underprovision	2	4
Other non-audit related services	3	1
	15	14
Directors' emoluments (R'000s)	23 244	31 767
- for services rendered	21 725	30 111
- as non-executive directors	1 519	1 656
Staff costs (excluding directors' emoluments)		
Wages and salaries	1 739	1 525
Social security costs	11	10
Retirement obligations	198	170
- defined contribution plans	170	143
- defined benefit plans	28	27
Bonus and incentive remuneration	616	372
Share-based payment	118	362
Termination benefits	30	1
Other	172	101
	2 884	2 541
Less: Staff costs included in other acquisition costs	(283)	(372)
	2 601	2 169

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
	2007	2006
12 Non - operating items		
Non - operating expenses items consist of:		
Provisions		
Donations to charitable organisations	-	69
Costs associated with the closure of the South African Unclaimed Shares Trust	(181)	1 294
Income arising on liabilities now recognised in OMLAC (Namibia)	(106)	
	(287)	1 363

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 was subsequently determined that the gross proceeds from the sale of unclaimed shares by these trusts would 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, Old Mutual plc announced on 30 January 2007 that it intended, subject to shareholders approval at its 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 the Company recognised anticipated costs of R1 294m in 2006, being the cost of discharging the Company's obligations. These obligations relate to the payment of future claims from as yet unidentified South African shareholders, enhancement of benefits on certain classes of policies written by the Company, payments to charitable institutions that would be set up to administer donations to good causes and a charge in respect of an indemnity in respect of a potential tax liability.

The provision will be utilised to fund donations to various charitable organisations.

Policy liabilities recognised in Old Mutual Life Assurance Company (Namibia) Limited ("OMLAC (Namibia)")

Policyholder liabilities of R106 million which were previously recognised by the Company have now been recognised in the OMLAC (Namibia) Company, in terms of section 73 of the Namibian Long Term Insurance Act. This has resulted in a release of reserves of R106 million in the Company.

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
13 Income tax expense	2007	2006
South African taxation		
Normal income tax - current year	1 265	1 036
- prior years' under-provision	49	35
- policyholders	203	391
- secondary tax on companies (STC)	-	21
Capital gains tax - current year	442	230
- prior years' over-provision	(5)	-
- policyholders	541	365
Deferred taxation - origination/(reversal) of temporary differences	152	(179)
- policyholders	175	790
- prior years' adjustment	(48)	20
	2 774	2 709
	%	%
Reconciliation of taxation rate on profit before tax	2007	2006
Standard rate of taxation	29.0	29.0
Adjusted for:		
Prior years' adjustment	(0.1)	0.7
Exempt income	0.2	(8.8)
Disallowed expenses	(0.9)	7.7
Capital gains tax - rate difference	(9.3)	(6.0)
Share-based payments	(2.9)	0.6
Policyholders' tax	9.8	14.9
Other	4.4	(1.4)
Effective tax rate	30.2	36.7

The accumulated reserves that are available for distribution as a dividend (after taking into account minimum statutory capital adequacy requirements) amount to R33 032 million (2006: R41 606 million). If distributed as a dividend, STC liability amounting to R 3 003 million (2006: R4 623 million) would arise.

Notes to the annual financial statements

for the year ended 31 December 2007

	Rm	Rm
	2007	2006
14 Intangible assets		
<i>Development expenditure</i>		
Carrying amount at beginning of year	30	41
Additions	40	15
Amortisation charge for the year	(27)	(26)
Carrying amount at end of year	43	30
Cost	278	238
Accumulated amortisation and impairment losses	(235)	(208)
Carrying amount at end of year	43	30

15 Investment property		
Carrying amount at beginning of year	10 400	8 811
Additions	929	332
Disposals	(166)	(494)
Net gain from fair value adjustments	3 577	1 751
Carrying amount at end of year	14 740	10 400
Comprising:		
Freehold property	14 740	10 400
Rental income from investment property	1 106	1 014
Direct operating expense arising from investment property rented out	(346)	(281)
	760	733

The fair value of freehold property leased to third parties under operating leases is R392 million (2006: R268 million).

	Rm		
	Owner-occupied property	Equipment	Total 2007
16 Property and equipment			
Carrying amount at beginning of year	2 074	184	2 258
Additions	52	234	286
Revaluation surplus	968	-	968
Disposals	(63)	(112)	(175)
Impairments	-	(11)	(11)
Depreciation charge for the year	(34)	(84)	(118)
Carrying amount at end of year	2 997	211	3 208
Cost or valuation	2 997	819	3 816
Accumulated depreciation and impairment losses	-	(608)	(608)
Carrying amount at end of year	2 997	211	3 208
	Owner-occupied property	Equipment	Total 2006
Carrying amount at beginning of year	1 918	136	2 054
Additions	13	190	203
Revaluation surplus	211	-	211
Disposals	(37)	(68)	(105)
Depreciation charge for the year	(31)	(74)	(105)
Carrying amount at end of year	2 074	184	2 258
Cost or valuation	2 074	697	2 771
Accumulated depreciation and impairment losses	-	(513)	(513)
Carrying amount at end of year	2 074	184	2 258

The Company engages Old Mutual Investment Group Property Investments (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 by internal valuers and every three years by external valuers.

The carrying value that would have been recognised had owner occupied property been carried under the cost model would be R1 511 million (2006: R1 523 million).

Notes to the annual financial statements

for the year ended 31 December 2007

				Rm			
17	Deferred tax	At beginning 2007	Income statement	(Charged)/credited to Equity	At end 2007		
Deferred tax asset							
	Investment contracts	543	49	-	592		
	Income tax losses	4	(4)	-	-		
	STC credits	52	(38)	-	14		
	Other provisions	211	(111)	(10)	90		
		810	(104)	(10)	696		
Deferred tax liability							
	Capital gains tax - Shareholders	(737)	-	(435)	(1 172)		
	Capital gains tax - Policyholders	(2 098)	(175)	-	(2 273)		
		(2 835)	(175)	(435)	(3 445)		
<hr/>							
				At beginning 2006	Income statement	(Charged)/credited to Equity	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)		

		Rm	Rm
		2007	2006
18	Reinsurance contracts		
	Insurance contracts	38	32
	Outstanding claims	254	168
		292	200
<hr/>			
	Insurance contracts		
	Balance at beginning of year	32	64
	Inflows		
	Outward reinsurance premiums	503	372
	Foreign exchange translation	-	3
	Outflows		
	Reinsurance recoveries	(436)	(325)
	Reduction in reinsurers' liabilities	(61)	(82)
	Balance at end of year	38	32

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for the year ended 31 December 2007

	Rm	Rm
	2007	2006
19 Deferred acquisition costs		
Balance at beginning of year	1 055	956
Acquisition cost deferred on inward business	310	290
Amortisation	(198)	(191)
Balance at end of year	1 167	1 055

	Rm	Rm
	2007	2006
20 Loans and advances		
Policyholder loans	938	1 217

The Company has recognised no impairment loss (2006: nil) on loans and advances during the year ended 31 December 2007. As of 31 December 2007 and 2006, there were no overdue loans and advances and no impairment provision made against any amounts. Policyholder loans earn interest of 16.0% p.a. (2006: 14.9% p.a.).

The fair value of loans and advances are as follows:

Policyholder loans	938	1 217
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	At fair value through profit or loss	Available-for- sale	Total 2007	Total 2006
21 Investments and securities				
21.1 Analysis of investments				
Investments in Group undertakings				
Equity holding in subsidiaries and associates	1 924	39 170	41 094	41 734
Listed	805	22 209	23 014	20 865
Unlisted	1 119	16 961	18 080	20 869
Capital advances to Group undertakings	3 509	3 909	7 418	9 146
Old Mutual plc	5 161	-	5 161	6 624
Old Mutual Capital Partners (Pty) Ltd preference shares	-	1 000	1 000	1 000
	10 594	44 079	54 673	58 504
Other financial assets				
Nedgroup Life Assurance Company Ltd - held at cost			20	20
Government and non-government guaranteed securities	42 363	-	42 363	45 165
Equity securities				
- listed	118 363	6 380	124 743	132 640
- unlisted	7 879	3 038	10 917	7 345
Other debt securities				
- listed	24 305	1 286	25 591	17 399
- unlisted	10 582	2 754	13 336	7 058
Pooled investments				
- listed	2 557	-	2 557	2 076
- unlisted	62 218	484	62 702	55 260
Reinsurance of investment contract liabilities	10 922	-	10 922	9 013
Other assets	1 379	42	1 421	2 212
Short-term funds and securities treated as investments	34 886	178	35 064	25 491
	315 454	14 162	329 636	303 679
	326 048	58 241	384 309	362 183

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.

Deposits and money market instruments earned interest of 8% (2006: 8.47%) 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 R26 713 million (2006: R15 269 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. The split of investments and securities between current and non-current is shown in note 41.

Included in other assets is an annuity policy with Nedgroup Life Assurance Company Limited with a market value of R1 152 million (2006 : R2 206 million).

A register of investments is available for inspection at the Company's registered office

Notes to the annual financial statements

for the year ended 31 December 2007

21 Investments and securities (continued)

21.2 Analysis of capital advances to Group undertakings	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2007	Total 2006
Just Now Investments (Pty) Ltd	25	-	25	114
Mutual & Federal Investments (Pty) Ltd	-	1 267	1 267	1 653
Old Mutual Finance (Pty) Ltd	-	459	459	450
OM Portfolio Holdings (Pty) Ltd	-	1 629	1 629	1 479
Old Mutual (South Africa) Ltd	-	1 081	1 081	1 081
Old Mutual (South Africa) Broad-based Share Trust	-	491	491	524
Old Mutual (South Africa) Management Incentive Trust	-	2 037	2 037	2 087
Old Mutual Technology Holdings Ltd	-	54	54	94
Rodina Investments (Pty) Ltd	3 484	(3 109)	375	1 579
Other	-	-	-	85
	3 509	3 909	7 418	9 146

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.

21.3 Spread of listed equity securities by sector	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2007	Total 2006
Oil and gas	7 914	-	7 914	8 180
Chemicals	910	-	910	640
Basic resources	27 175	3 262	30 437	40 190
Industrial goods and resources	7 823	231	8 054	8 157
Construction and materials	4 610	105	4 715	2 108
Automobiles and parts	317	4	321	423
Food and beverages	4 586	-	4 586	6 242
Travel and leisure	1 215	-	1 215	1 066
Personal and household goods	5 665	105	5 770	8 447
Healthcare	946	-	946	541
Retail	6 135	291	6 426	6 495
Media	3 061	154	3 215	3 147
Telecommunications	10 242	744	10 986	10 895
Banks	15 309	814	16 123	17 041
Insurance	2 339	-	2 339	753
Financial services	18 066	634	18 700	16 610
Technology	2 050	36	2 086	1 705
	118 363	6 380	124 743	132 640

21.4 Spread of listed and unlisted debt securities by sector	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2007	Total 2006
Government stock	33 495	-	33 495	34 973
Semi-government stock	8 868	-	8 868	10 192
Loans - Non-corporate	45	-	45	51
Public bills (excluding stock and loans)	71	65	136	456
Corporate - Non-convertible debentures	1 056	38	1 094	109
Corporate - Bonds (including zero coupon)	24 075	145	24 220	20 359
Corporate fixed interest - Other loans	9 640	3 792	13 432	3 482
	77 250	4 040	81 290	69 622

The fair value of investments and securities equals their carrying values.

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for the year ended 31 December 2007

	Rm			Rm
	Amounts due by	Amounts due (to)	Total 2007	Total 2006
22 Amounts due by or (to) Group companies				
Barprop (Pty) Ltd	26	-	26	23
Global Edge Technologies (Pty) Ltd	22	-	22	27
Old Mutual Investment Group (SA) (Pty) Ltd	-	(21)	(21)	(30)
Old Mutual Healthcare (Pty) Ltd	31	-	31	32
Old Mutual Investment Services (Pty) Ltd	196	-	196	107
Old Mutual International (Guernsey) Ltd	24	-	24	50
Old Mutual plc	14	-	14	7
Old Mutual (South Africa) Ltd	-	(1 410)	(1 410)	856
Old Mutual Specialised Finance (Pty) Ltd	63	-	63	197
Old Mutual (South Africa) Share Trust	-	(89)	(89)	817
Old Mutual Life Holdings (Pty) Ltd	-	(171)	(171)	-
Spice Financial Holdings (Pty) Ltd	169	-	169	-
Other	383	(13)	370	469
	928	(1 704)	(776)	2 555
Subordinated loans:				
Old Mutual plc		(58)	(58)	(58)
The loan of £4.25 million (2006: £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.				
Old Mutual International (Guernsey) Ltd		(21)	(21)	(21)
The loan of £1.5 million (2006: £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.				
	928	(1 783)	(855)	2 476

The amounts due by or to Group companies above are unsecured, interest free and are not subject to fixed terms of repayment. The carrying values of the amounts due by or to Group companies approximate their fair values.

	Rm	Rm
	2007	2006
23 Other assets		
Accrued interest and rent	2 962	2 533
Outstanding settlements	1 725	1 331
Other	344	29
	5 031	3 893

The fair values of other assets equals their carrying amount as the impact of discounting is not significant.

	Rm	Rm
	2007	2006
Analysis of movements on the specific impairment account netted off against other assets.		
Balance at beginning of the year	107	40
Income statement charge	65	72
Recoveries of amounts previously written off against the impairment account	-	(5)
Balance at end of the year	172	107

Notes to the annual financial statements

for the year ended 31 December 2007

24 Derivative financial instruments - assets and liabilities

The Company utilises derivative instruments to enhance the risk-return profile of policyholder and shareholder funds. The types of instruments that it utilises are set out below.

Interest rate, equity and exchange derivatives are contractual obligations to receive or pay a net amount based on changes in underlying interest rates, equity prices or indices or a financial instrument price on a future date at a specified price established in an organised financial market (an Exchange). Since futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the Exchange, the credit risk is low.

Forward rate agreements are individually negotiated interest rate contracts that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (i.e. cross-currency interest rate swaps). The Company's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. The risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Company assesses counterparties using the same techniques as for its lending activities.

Equity options or equity index options, are contractual agreements under which the writer grants the holder the right but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument or amount of assets determined by reference to an index at a predetermined price. In consideration for the assumption of interest rate or asset price risk, the seller receives a premium from the purchaser. Options may be either exchange traded or negotiated between the Company and a customer (over-the-counter). The Company is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become in-the-money or out-of-the-money as a result of fluctuations in market interest rates, foreign exchange rates or asset prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand can fluctuate significantly from time to time and provide an indicator of the size of positions taken on contracts entered into at the balance sheet date.

The following tables provide a detailed breakdown of the contractual or notional amounts and the fair values of the Company's derivative financial instruments outstanding at year-end. These instruments allow the Company and its customers to transfer, modify or reduce their credit, equity market, foreign exchange and interest rate risks.

The Company undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with which it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Company.

	Notional principal		Fair Values	
	Rm	Rm	Rm	Rm
	Positive Values	Negative Values	Assets	Liabilities
At 31 December 2007				
Equity derivatives				
Options purchased	4 663	(3 044)	15	1 257
Other futures	2 166	(323)	21	-
Interest rate contracts				
Swaps	23 805	-	-	446
Forward rate agreements	-	(147)	69	-
	30 634	(3 514)	105	1 703

	Notional principal		Fair Values	
	Rm	Rm	Rm	Rm
	Positive Values	Negative Values	Assets	Liabilities
At 31 December 2006				
Equity derivatives				
Options purchased	4 081	3 872	28	1 510
Other futures	3 275	1 751	74	-
Interest rate contracts				
Swaps	14 519	-	6	-
	21 875	5 623	108	1 510

25 Cash and cash equivalents

	Rm	Rm
	2007	2006
Cash at bank and in hand	2 793	838
Short-term deposits	1 355	1 071
	4 148	1 909

The fair value of cash and cash equivalents equals their carrying amount, as the impact of discounting is not significant.

The effective interest rate on short-term bank deposits ranged from 6.75% to 9.3% (2006: 4.75% to 7.3%) and has an average maturity of between 32 and 90 days (2006: 32 and 90 days).

Notes to the annual financial statements

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26 Financial instruments designated at fair value through profit or loss

The Company has satisfied the criteria for designation of financial instruments at fair value through profit or loss in terms of the accounting policy adopted in the annual financial statements.

Securities that the Company has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis (for instance with respect to financial assets supporting insurance contract provisions).

	Rm	Rm	Rm
	Change in fair value due to change in credit risk		
	maximum exposure to credit risk	Current financial year	Cumulative
At 31 December 2007			
Financial assets designated at fair value through profit or loss			
Loans and advances	938	-	-
Investments and securities	48 400	35	(5)
	49 338	35	(5)
	Change in fair value due to change in credit risk		
	Maximum exposure to credit risk	Current financial year	Cumulative
At 31 December 2006			
Financial assets designated at fair value through profit or loss			
Loans and advances	1 217	-	-
Investments and securities	32 549	-	(6)
	33 766	-	(6)

The Company has estimated the change in credit risk in accordance with the guidance contained with the 'Amendments to IAS 39: Recognition and Measurement: The Fair Value Option' as the amount of the change in fair value of the financial instrument that is not attributable to changes in market conditions that give rise to market risk. For loans and receivables that have been designated at fair value through profit and loss, individual credit spreads are determined at inception as the difference between the benchmark interest rate and the interest rates charged to the client. Subsequent changes in the benchmark interest rate and the credit spread give rise to changes in fair value in the financial instrument. Loans and receivables are reviewed for observable changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated at fair value through profit or loss.

The change in fair value due to credit risk has been determined as the difference between fair values determined using a liability curve (adjusted for credit) and a risk-free liability curve.

The curves were constructed using a standard bootstrapping process to derive a zero-coupon yield curve. The credit-adjusted curve was based on offer rates of negotiable certificates of deposit (NCDs) and promissory notes (PNs) out to five years, and thereafter the offer rates of bonds.

	Rm	Rm	Rm	Rm
	Change in fair value due to change in credit risk			
	Fair Value	Current Financial year	Cumulative	Contractual maturity amount
At 31 December 2007				
Unit-linked investment contracts and similar contracts	105 488	-	-	112 152
Other investment contracts	1 150	-	-	2 337
	106 638	-	-	114 489
	Change in fair value due to change in credit risk			
	Fair Value	Current Financial year	Cumulative	Contractual maturity amount
At 31 December 2006				
Unit-linked investment contracts and similar contracts	93 848	-	-	93 848
Other investment contracts	1 096	-	-	2 058
	94 944	-	-	95 906

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for the year ended 31 December 2007

	Rm	Rm
	2007	2006
27 Insurance contract liabilities		
Outstanding claims	4 112	2 981
Future policyholders' benefits	149 952	144 988
	154 064	147 969

Future policyholders' benefits

Movement in provision for insurance contracts

Balance at beginning of year	144 988	127 223
Inflows		
Premium income	13 492	13 808
Investment income	17 714	29 117
Outflows		
Claims and policy benefits	(19 548)	(17 927)
Operating expenses	(3 817)	(3 623)
Other charges and other transfers	(422)	(136)
Taxation		
Current tax	(506)	(537)
Deferred tax	91	(563)
Transfer to operating profit	(2 040)	(2 374)
Balance at end of year	149 952	144 988

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

Disability benefit obligation

Included in policyholder liabilities is an amount of R124 million (2006: R101 million) relating to disability benefit obligations in respect of employees. The amount of R124 million (2006: R101 million) comprises a gross liability of R191 million (2006: R161 million) less a reimbursive right of R67 million (2006: R60 million) from Old Mutual Alternative Risk Transfer Limited, a fellow subsidiary. Further detail is provided in note 30.

	Rm	Rm
	2007	2006
28 Investment contract liabilities		
Composition of liabilities in respect of investment contracts		
Liabilities at fair value through profit or loss	106 638	94 944
Liabilities with discretionary participating features	84 265	75 327
	190 903	170 271

Notes to the annual financial statements

for the year ended 31 December 2007

28 Investment contract liabilities (continued)

	Rm	Rm
	2007	2006
Movement in liabilities at fair value through profit or loss		
Balance at beginning of year	94 944	76 687
New contributions received	21 373	20 488
Withdrawals	(19 114)	(17 192)
Fair value movements	11 191	14 568
Foreign currency translation	(122)	1 705
Fees deducted	(1 634)	(1 312)
Balance at end of year	106 638	94 944
Movement in liabilities with discretionary participation features		
Balance at beginning of year	75 327	65 833
Inflows		
Premium income	6 530	5 026
Investment income	11 427	17 167
Outflows		
Claims and policy benefits	(6 971)	(10 744)
Operating expenses	(915)	(712)
Other charges and transfers	(340)	(305)
Taxation		
Current tax	(107)	(59)
Deferred tax	18	(85)
Transfer to operating profit	(704)	(794)
Balance at end of year	84 265	75 327

29 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 tri-annual basis. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the defined benefit obligations of the Company's defined benefit scheme vary according to the economic conditions.

	Rm		Rm	
	2007		2006	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Movement in defined benefit obligations				
Defined benefit obligation at beginning of year	137	826	123	783
Current service cost	3	28	3	27
Interest cost on benefit obligation	12	76	11	60
Actuarial (gains)/losses	3	23	-	(23)
Benefits paid	(2)	(22)	-	(21)
Defined benefit obligation at end of year	153	931	137	826

Notes to the annual financial statements

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29 Post employment benefits obligation (continued)

	Rm		Rm	
	2007		2006	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Movement in plan assets</i>				
Plan assets at beginning of year	185	930	171	820
Actual return on plan assets	11	136	14	129
Benefits paid	(2)	(22)	-	(19)
Plan assets at end of year	194	1 044	185	930

	Rm		Rm	
	2007		2006	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Net asset or (liability) recognised in balance sheet</i>				
Funded status of plans	41	113	48	104
Unrecognised actuarial gains	41	190	48	176
Net amount recognised in balance sheet	-	77	-	72

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 R48 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.

	Rm		Rm	
	2007		2006	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Expense recognised in income statement</i>				
Current service costs	3	28	3	27
Interest cost	12	76	11	60
Expected return on plan assets	(15)	(83)	(14)	(129)
Total (included in staff costs)	-	21	-	(42)
Actual return on plan assets	11	13	14	129

	2007		2006	
	<i>Principal actuarial assumptions</i>			
Discount rate	9%	9%	9%	9%
Expected return on plan assets	9%	9%	9%	9%
Future salary increases	6%	9%	6%	6%
Price inflation	6%	9%	6%	9%

	2007		2006	
	<i>Plan asset allocation</i>			
Equity securities	55%	54%	59%	47%
Debt securities	31%	36%	29%	45%
Real estate	7%	8%	6%	6%
Other investments	7%	2%	6%	2%
	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	Rm
	2007	2006	2005	2004
<i>Defined pension benefits</i>				
Plan assets	194	185	171	160
Defined pension benefits liability	(153)	(137)	(123)	(109)
Surplus	41	48	48	51

	2007	2006	2005	2004
	<i>Post retirement benefits</i>			
Plan assets	1 044	930	820	752
Post retirement benefits liability	(931)	(826)	(783)	(741)
Surplus	113	104	37	11

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for the year ended 31 December 2007

30 Other employment benefits

The Company provides disability benefits to permanent employees (refer to note 27). The disability benefit scheme is administered by Old Mutual Alternative Risk Transfer Ltd, a fellow subsidiary. The costs and contributions relating to the scheme are assessed in accordance with the advice of qualified actuaries. The scheme is reviewed at least on an annual basis. The actuarial assumptions used to calculate the benefit obligations of the scheme vary according to the economic conditions.

<i>Movement in benefit obligation</i>	Rm	Rm
	2007	2006
Benefit obligation at beginning of year	161	-
Past service cost	-	133
Current service cost	14	12
Net actuarial losses recognised	34	20
Benefits paid	(18)	(4)
Benefit obligation at end of year	191	161

<i>Movement in assets supporting benefit obligation</i>	Rm	Rm
Assets at beginning of year	161	-
Contributions	14	145
Investment returns	16	16
Assets at end of year	191	161

<i>Expense recognised in income</i>	Rm	Rm
Current service costs	14	12
Net actuarial losses recognised	34	20
Total (included in staff costs)	48	32

<i>Principal actuarial assumptions</i>		
Discount rate	9%	9%
Expected return on plan assets	9%	9%
Future salary increases	6%	6%
Price inflation	6%	6%

<i>Net benefit obligation</i>	Rm	Rm
Assets supporting benefit obligation	191	161
Benefit obligation	(191)	(161)
	-	-

The benefit obligation of R191 million at year end (2006: R161 million) is supported by non-segregated managed assets amounting to R124 million (2006: R101 million) as part of the pool of policyholder funds. The Company also has a reimbursive right of R67 million (2006: R60 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

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31 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 Old Mutual 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.

	Rm	Rm
<i>Composition of share-based payment liabilities</i>	2007	2006
Share Option and Deferred Delivery entitlements	153	230
Restricted Share awards	315	299
	468	529

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

	2007		2006	
	Number of share options (Millions)	Weighted average exercise price (Rand)	Number of share options (Millions)	Weighted average exercise price (Rand)
<i>Share Option and Deferred Delivery entitlements</i>				
Outstanding at beginning of year	29	15.63	49	14.46
Granted during year	5	23.27	7	21.83
Forfeited during year	(1)	19.09	(1)	16.08
Exercised during year	(9)	12.69	(25)	14.81
Expired during year	-	-	(1)	22.16
Outstanding at end of year	24	17.80	29	15.63
Exercisable at end of year	5	13.04	4	15.25

These share options and deferred delivery entitlements vest subject to the fulfillment 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 to 6 years from the date of grant.

	2007	2006
<i>Restricted Share awards</i>	Number of restricted share awards (Millions)	Number of restricted share awards (Millions)
Outstanding at beginning of year	13	12
Granted during year	4	4
Forfeited during year	(1)	(1)
Exercised during year	(3)	(2)
Outstanding at end of year	13	13
Exercisable at end of year	2	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 fulfillment 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.

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31 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:

	2007	2006
Number of options / entitlements granted (millions)	5	7
Value of options granted (in Rands)	123	160
Fair value per option / entitlement at measurement date (in Rands) - highest	12.60	13.43
Fair value per option / entitlement at measurement date (in Rands) - lowest	3.44	4.50
Share price (in Rands)	22.91	23.90
Exercise price (in Rands) - highest	25.20	25.20
Exercise price (in Rands) - lowest	10.80	10.80
Expected volatility	28%	30%
Expected life (in years)	4	5
Expected dividend yield	3%	3%
Risk free interest rate	9.0%	8.0%

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

	2007	2006
Number granted (millions)	4	4
Value of restricted shares awards (Rands)	91	90
Fair value (in Rands)	22.91	23.90

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.

32 Borrowed funds

	Coupon rate	Rm	Rm
		2007	2006
Unsecured Subordinated Callable Notes	8.92%	3 000	3 000

The fair value of the unsecured subordinated callable notes is R2 920 million (2006: R3 045 million)

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 R262 million (2006: R269 million).

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

Notes to the annual financial statements

for the year ended 31 December 2007

33	Provisions	Rm				
		Other	Charitable donations	Restructuring and legal claims	Closure of Unclaimed Shares Trust	Total 2007
	Balance at beginning of year	-	314	258	1 294	1 866
	Amount utilised	-	-	(86)	(323)	(409)
	Investment return	-	47	-	28	75
	Reversed	-	-	(13)	(181)	(194)
	Charge	-	-	176	-	176
	Balance at end of year	-	361	335	818	1 514
		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)
	Investment return	-	18	-	-	18
	Reversed	-	-	(7)	-	(7)
	Charge	-	69	95	1 294	1 458
	Balance at end of year	-	314	258	1 294	1 866

Charitable donations

The Company has recognised a provision amounting to R361 million (2006: R314 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.

Restructuring and claims

The provisions relate to restructuring costs and potential legal. 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

This provision relates to the various obligations taken on by the Company in consideration with the closure of the Old Mutual South Africa Unclaimed Share Trust in 2006. Refer to note 12.

34	Deferred revenue on investment contracts	Rm	Rm
		2007	2006
	Balance at beginning of year	257	279
	Fees and commission income deferred	60	54
	Amortisation	(73)	(78)
	Foreign exchange movements	-	2
	Balance at end of year	244	257

35	Other liabilities	Rm	Rm
		2007	2006
	Amounts owed to policyholders	1 566	1 464
	Amounts owed to intermediaries	213	181
	Accruals	780	549
	Outstanding settlements	407	244
	Other	841	215
		3 807	2 653

The fair value of other liabilities equals their carrying amount, as the impact of discounting is not significant.

Notes to the annual financial statements

for the year ended 31 December 2007

36 Share capital and premium	Rm	Rm
	2007	2006
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.

37 Notes to the statement of cash flows	Rm	Rm
	2007	2006
37.1 Non-cash movements and adjustments to profit before tax consist of:		
Depreciation and amortisation	281	244
Dividends income	(4 597)	(6 665)
Net fair value gains for the year included in profit before tax	(26 695)	(41 888)
Charges to provisions and post employment benefits obligation	(347)	1 191
Share-based payment charge	(61)	335
Interest income	(12 678)	(8 044)
Finance costs	347	351
Movement in policyholder liabilities	26 727	45 920
	(17 023)	(8 556)
37.2 Changes in working capital comprises:		
Insurance, other assets and amounts due by group companies	712	(11 667)
Insurance, other liabilities and amounts due to group companies	3 273	(1 974)
Reinsurer's share of insurance contract liabilities	(6)	32
Deferred acquisition costs	(310)	(290)
Deferred revenue on investment contracts	60	56
	3 729	(13 843)
37.3 Taxation paid:		
Taxation payable at beginning of year	(1 321)	(394)
Income tax charge for the year (excluding deferred tax)	(2 495)	(2 078)
Taxation payable at end of year	1 505	1 321
	(2 311)	(1 151)
37.4 Dividends paid:		
Dividends payable at beginning of year	-	-
Dividends declared during the year	(8 294)	(2 700)
Dividends payable at end of year	-	-
	(8 294)	(2 700)

38 Commitments		
<i>The Company as lessor - operating lease arrangements</i>		
Total future minimum lease receivables under operating leases		
Not later than one year	662	603
Later than one year and not later than five years	1 678	1 451
Later than five years	481	366
	2 821	2 420

Notes to the annual financial statements

for the year ended 31 December 2007

39 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 40.

Other Group companies consist of fellow subsidiaries and associates.

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

	Rm	Rm
	2007	2006
<i>Holding company</i>		
Old Mutual Life Holdings (SA) Ltd		
<i>Nature of transactions</i>		
Dividends paid	(8 294)	(2 700)
<i>Fellow subsidiaries</i>		
Old Mutual Investment Services (Pty) Ltd		
<i>Nature of transactions</i>		
Fees received	440	344
Fees paid	(10)	(4)
Nedbank Group Ltd		
<i>Nature of transactions</i>		
Insurance contract premiums	59	58
Interest earned on cash balances	128	122
Interest earned on Nedbank bonds	741	128
Dividends received	956	889
<i>Outstanding balances</i>		
Cash and short-term securities	4 148	4 515
Nedbank bonds	793	920
Old Mutual Investment Group Property Investments (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(184)	(191)
Old Mutual Investment Group (SA) (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(340)	(302)
Fees received	74	39
Mutual & Federal Investments (Pty) Ltd		
<i>Nature of transactions</i>		
Dividends received	-	1 710
Old Mutual Specialised Finance (Pty) Ltd		
<i>Nature of transactions:</i>		
Scrip lending fees paid	(16)	(13)
Scrip lending fees received	7	2
Premium received on sale of dividend rights	2	1
Fees paid on dividend purchases	(13)	(3)
Other administration, management and secretarial fees received	9	9
Interest received on credit linked notes - on unlisted call loans to corporate reference entities	179	-
Interest received on credit linked notes - on unlisted term loans to corporate reference entities	11	-
Interest received on call advances	206	175
Net interest received on interest rate swaps	3	3
Realised losses on contract for difference in curve spread	(4)	-
Unrealised losses on contract for difference in curve spread	(1)	-
Unrealised losses on forward sale agreement	(8)	-
Unrealised losses on interest rate swaps	(18)	(7)
Realised losses on sale of financial assets	(15)	(11)
Interest paid on collateral cash	(2)	-
Fees paid for staff secondment	(47)	(31)

Notes to the annual financial statements

for the year ended 31 December 2007

39 Related party disclosures (continued)

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

Fellow subsidiaries (continued)

	Rm	Rm
	2007	2006
Old Mutual Alternative Risk Transfer Ltd		
<i>Nature of transactions</i>		
Insurance contract premiums	(14)	(145)
Claims and policy benefits	18	4
Reinsurance contract premiums	28	97
Reinsurance recoveries	(22)	(6)
Fees received	1	1

Old Mutual Alternative Risk Transfer Ltd

The scheme under which the Company provides disability benefits to employees, is administered by Old Mutual Alternative Risk Transfer Ltd as disclosed in note 30.

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 10 922 million (2006: R 9 013 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 R5.4 billion (2006: R 4.2 billion) have been received.

Old Mutual Specialised Finance (Pty) Ltd

At 31 December 2007 government bonds with a fair value of R7 172 million (2006: R6 545 million) including interest had been lent to Old Mutual Specialised Finance (Pty) Ltd (OMSFIN). The nominal value of bonds lent was R 6 124 million (2006: R5 060million). The bonds lent had a weighted average coupon rate of 11.5% (2006: 11.3%). Collateral off R365 million (2006: nil) has been pledged with regard to these security lending arrangements.

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 notes 21 and 22 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 PG de Beyer, TJ Cumming, T Dloti, J Gawaxab, PJ Golesworthy, PB Hanratty, MJ Harper, RA Keanly, RT Mupita, DJ Nyamane and BM Rapiya until 31 July 2007. With effect 1 August 2007, AS Birrell joined the Executive Committee. With effect 31 August 2007, PJ Golesworthy resigned from the Executive Committee. With effect 1 September 2007, JC Brophy and AE Williams joined the Executive Committee.

	R' 000	R' 000
	2007	2006
Key management personnel remuneration and other compensation		
Short-term employee benefits	48 693	25 819
Other long-term benefits	2 538	1 736
Share-based payment charge	15 486	57 969
	66 717	85 524

In addition to the remuneration to key management personnel as reflected in the table above, key management realised R nil (2006: R 30.8 million) as gains on share options exercised during the year.

Notes to the annual financial statements

for the year ended 31 December 2007

40 Interest in principal subsidiaries and associates

The Company's interest in its principal subsidiary and associate companies is as follows:

2007	Number of issued ordinary shares	% interest	Rm	Rm
			Carrying value of shares	Loans due by/(to) subsidiaries
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	168 873 482	37%	23 014	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	5 475	1 267
Barprop (Pty) Ltd	46 599 200	100%	(2)	26
Millstream Ltd °	2 245 151	100%	313	-
Old Mutual Holdings (Bahamas) Ltd °	864 212 412	100%	7 209	-
Old Mutual Technology Holdings Ltd	10 000	100%	(54)	54
SYmmENTRY Investment Trust		100%	808	-
Rodina Investments (Pty) Ltd	100 000	100%	4 331	375
Just Now Investments (Pty) Ltd	20 000	100%	-	25
			41 094	1 747
<hr/>				
2006	Number of issued ordinary shares	% interest	Rm	Rm
			Carrying value of shares	Loans due by/(to) subsidiaries
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 °	2 245 151	100%	269	-
Old Mutual Fund Holdings (Bermuda) Ltd +	12 000	100%	3 009	-
Old Mutual Holdings (Bahamas) Ltd °	864 212 412	100%	6 980	-
Old Mutual Technology Holdings Ltd	10 000	100%	(54)	94
SYmmENTRY 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

* Mutual & Federal Investments (Pty) Ltd holds 74 % (2006: 75%) interest in Mutual & Federal Insurance Company Ltd

+ The country of incorporation is Bermuda

o The country of incorporation is Bahamas

In November 2007 Old Mutual plc announced that it was in discussions with Royal Bafokeng Holdings, about the possible sale of the majority of its shares in Mutual & Federal Insurance Company Ltd, which are held by Mutual & Federal Investments (Pty) Ltd a subsidiary of the Company.

Notes to the annual financial statements

for the year ended 31 December 2007

40 Interest in principal subsidiaries and associates (continued)

The Company has a 37% (2006: 35%) 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
	<i>As at 31 Dec 2007</i>	<i>As at 31 Dec 2006</i>
Balance Sheet:		
Total assets	488 856	424 912
Total liabilities	(453 731)	(395 524)
Net assets	35 125	29 388
	<i>For the year ended 31 Dec 2007</i>	<i>For the year ended 31 Dec 2006</i>
Revenue and profits:		
Revenue	22 428	18 948
Profit for the period	6 641	5 061
	<i>As at 31 Dec 2007</i>	<i>As at 31 Dec 2006</i>
Fair value and carrying amount of the investment	23 014	20 865

Notes to the annual financial statements

for the year ended 31 December 2007

41 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. Note 42 explains in more detail how insurance risk is managed.

Capital Adequacy

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

	Rm	Rm
	2007	2006
Shareholder's equity	54 538	55 568
Adjustments to statutory basis:	(13 133)	(15 874)
Inadmissible assets	(298)	(272)
Other adjustments	(12 835)	(15 602)
Total available capital resources	41 405	39 694
Total capital requirements (Statutory Basis)	(11 739)	(11 621)
Overall excess	29 666	28 073
Capital position at beginning of year	39 694	32 461
Earnings for the financial year	7 264	12 455
Change in inadmissible assets and other adjustments	2 741	(2 522)
Dividends	(8 294)	(2 700)
Capital position at end of year	41 405	39 694

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 2007, the Company's excess assets were 3.5 times (2006: 3.4 times) the statutory capital adequacy requirement (CAR), after allowing for estimates of statutory limitations on the value of certain assets. The Company has complied with its CAR requirements throughout the year.

The shareholders' equity includes the Company's investment in Nedbank Group Ltd amounting to R22 209 million (2006: R20 773 million) and R5 475 million (2006: R5 816 million) in Mutual & Federal Investments (Pty) Ltd, a wholly-owned subsidiary which holds 74% (2006: 75%) of Mutual & Federal Insurance Company Ltd. In addition, R7 023 million (2006: R6 914 million) is invested in Old Mutual plc's loan notes through Old Mutual Holdings (Bahamas) Ltd, a wholly-owned subsidiary and R3 909 million (2006: R 5 385 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

for the year ended 31 December 2007

41 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 management 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 in adverse circumstances.
- 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, liquidity risk, underwriting risk and business risk.

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

Sensitivity tests

The table below shows the sensitivity of the embedded value and value of in-force business to changes in key assumptions. All calculations include the impact on the time-value reserves necessary for policyholder financial options and guarantees. For each sensitivity illustrated, all other assumptions have been left unchanged.

The sensitivity showing the impact of one per cent increase in the yield on equities/property (as a change in the equity/property risk premium) is not given below as a bottom-up market consistent approach has been adopted for calibrating discount rates.

	Rm	
	<i>Embedded value</i>	<i>Value of in-force business</i>
At 31 December 2007		
Central assumptions	70 395	15 357
Effect of:		
Central discount rate increasing by 1 per cent	68 364	13 326
Required capital equal to the minimum statutory requirement	70 935	15 897
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	70 112	15 074
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	70 536	15 498
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	74 712	16 087
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	66 059	14 608
Voluntary discontinuance rates decreasing by 10 per cent	70 828	15 790
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	71 487	16 449
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	71 058	16 020
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges**	70 253	15 215
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	55 038	-

* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2007.

** No impact on with-profit annuities as the mortality risk is borne by policyholders.

Notes to the annual financial statements

for the year ended 31 December 2007

41 Financial risk management (continued)

Sensitivity tests (continued)

At 31 December 2006	Rm	
	Embedded value	Value of in-force business
Central assumptions		
Effect of:		
Central discount rate increasing by 1 per cent	68 591	12 644
Required capital equal to the minimum statutory requirement	71 419	15 472
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	69 962	14 015
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	71 757	15 810
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	75 428	15 514
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	66 236	14 256
Voluntary discontinuance rates decreasing by 10 per cent	71 286	15 339
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	71 630	15 683
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	71 497	15 550
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges**	70 695	14 748
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	55 947	-

* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2006.

** No impact on with-profit annuities as the mortality risk is borne by policyholders.

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.

Overall credit risk

	Rm	Rm
	2007	2006
Loans and advances	938	1 217
Investments and securities		
Government and non-government-guaranteed securities	42 363	45 167
Other debt securities, preference shares and debentures	38 927	25 455
Short-term funds and securities treated as investments	35 064	34 637
Other	12 343	11 225
Other assets	5 031	3 864
Derivative financial instruments-assets	105	108
Cash and cash equivalents	4 148	1 909
	138 919	123 582

The Company holds cash, Government bonds and promissory notes as security in respect of government, non-government-guaranteed, other debts securities and securities treated as investments. Further detail is shown on page 71 of note 41.

Notes to the annual financial statements

for the year ended 31 December 2007

41 Financial risk management (continued)

Loans and advances

The table below shows the gross balance sheet values of loans and advances.

	Rm	Rm
	2007	2006
Neither past due nor impaired	938	1 217
Total of gross loans and advances	938	1 217
Policyholder loans not subject to credit rating system	938	1 217

Debt instruments and similar securities

The table below analyses the balance sheet values of debt and similar securities according to their credit rating (Standard and Poors or equivalent) by investment grade.

				Rm
	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
At 31 December 2007				
Investment grade (AAA to BBB)	42 363	27 837	30 986	101 186
Sub-investment grade (BB and lower)	-	9	-	9
Not rated	-	11 081	4 078	15 159
	42 363	38 927	35 064	116 354

				Rm
	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
At 31 December 2006				
Investment grade (AAA to BBB)	45 167	22 335	24 943	92 445
Sub-investment grade (BB and lower)	-	-	221	221
Not rated	-	2 120	327	2 447
	45 167	24 455	25 491	95 113

	Rm	Rm
	2007	2006
Neither past due nor impaired	116 354	153 637
Total debt instruments and similar securities	116 354	153 637

Reinsurance assets

The tables below provide the gross balance sheet exposure to re-insurers according to the individual reinsurers credit rating (Standard and Poors or equivalent).

	Rm	Rm
	2007	2006
Investment grade (AAA to BBB)	292	200
	292	200
Neither past due nor impaired	292	200
Total	292	200

Notes to the annual financial statements

for the year ended 31 December 2007

41 Financial risk management (continued)

Collateral and other credit enhancements obtained

Below is an analysis of collateral taken as security by the Company:

	Rm	Rm
	2007	2006
Nature and carrying amount of assets held		
Other collateral or credit enhancements		
Bonds	2 688	4 995
Cash	24 025	10 274
Total	26 713	15 269

Market risk

Market risk is the potential impact on earnings of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities. 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 and by having suitable mandates for asset allocation that reflect the level of guarantees.

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.

At 31 December 2007						Rm
	ZAR	GBP	USD	Euro	Other	Total
Assets						
Intangible assets	43					43
Investment property	14 740					14 740
Property and equipment	3 208					3 208
Deferred tax asset	696					696
Reinsurance contracts	292					292
Deferred acquisition costs	1 161	6				1 167
Loans and advances	938					938
Investments and securities	331 307	12 328	38 763	76	1 835	384 309
Other assets	5 031					5 031
Derivative financial instruments - assets	105					105
Amounts due by group companies	908		20			928
Cash and cash equivalents	4 063	52	31		2	4 148
Total assets	362 492	12 386	38 814	76	1 837	415 605

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for the year ended 31 December 2007

41 Financial risk management (continued)

Currency risk (continued)

						Rm
At 31 December 2007	ZAR	GBP	USD	Euro	Other	Total
Liabilities						
Insurance contract liabilities	142 866	10 975	223			154 064
Investment contract liabilities	190 903					190 903
Borrowed funds	3 000					3 000
Post employment benefits obligation	77					77
Share-based payment liabilities	468					468
Provisions	1 514					1 514
Deferred revenue on investment	228	16				244
Deferred tax liability	3 445					3 445
Current tax payable	1 505					1 505
Other liabilities	3 701	98	8			3 807
Derivative financial instruments - liabilities	1 703					1 703
Amounts due to group companies	1 704	79				1 783
Total liabilities	351 114	11 168	231	-	-	362 513

						Rm
At 31 December 2006	ZAR	GBP	USD	Euro	Other	Total
Assets						
Intangible assets	30					30
Investment property	10 400					10 400
Property and equipment	2 258					2 258
Deferred tax asset	810					810
Reinsurance contracts	200					200
Deferred acquisition costs	1 055					1 055
Loans and advances	1 217					1 217
Investments and securities	299 692	8 653	53 213	88	537	362 183
Other assets	3 893					3 893
Derivative financial instruments - assets	86	22				108
Amounts due by group companies	2 585					2 585
Cash and cash equivalents	1 826	29	52	2		1 909
Total assets	324 052	8 704	53 265	90	537	386 648

						Rm
At 31 December 2006	ZAR	GBP	USD	Euro	Other	Total
Liabilities						
Insurance contract liabilities	138 956	9 013				147 969
Investment contract liabilities	170 271					170 271
Borrowed funds	3 000					3 000
Share-based payment liabilities	72					72
Post employment benefits obligation	529					529
Provisions	1 866					1 866
Deferred revenue on investment contracts	238	19				257
Deferred tax liability	2 835					2 835
Current tax payable	1 321					1 321
Other liabilities	2 634	19				2 653
Derivative financial instruments - liabilities	1 468	42				1 510
Amounts due to group companies	30	79				109
Total liabilities	323 220	9 172	-	-	-	332 392

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41 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 Company has 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.

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates, with a reduction in interest rates increasing the reserves held.

Liquidity risk

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

A policy statement that governs liquidity risk has been adopted by the Group. High level principles, roles and responsibilities and reporting requirements are set out in the policy statement document of Old Mutual (South Africa) Limited ("OMLACSA").

The liquidity principles as documented in the policy statement for liquidity risk apply to shareholders funds. Group Principles and OMSA Policy Statement for Life Business Guarantees and for Investment Risk govern liquidity principles for policyholder funds.

Key Principles:

The key principles that OMSA assumes liquidity risk under include a liquidity strategy at a Business Unit (BU) level for the day-to-day management and execution of liquidity risk, liquidity limits set by each BU and the monitoring of net funding requirements by BUs. OMSA is responsible for confirming that the BUs are compliant with the Liquidity Policy. OMSA monitors the liquidity situation at least quarterly on which it reports to the Group Treasurer. In addition to this, contingency plans are in place that addresses the strategy for handling liquidity crises and systems of internal control are in place over the liquidity risk.

Roles & Responsibilities

The OMSA Exco is responsible for the effective management of liquidity risk, by putting the appropriate structure and processes in place. The Audit, Risk and Compliance Committee is responsible for reviewing the adequacy and effectiveness.

The table below is a maturity analysis of liability cashflows based on contractual maturity dates for investment contract liabilities and discretionary participating financial instruments, and expected maturity dates for insurance contracts. For other items the amounts included in the maturity table are the gross, undiscounted cash flows.

At 31 December 2007	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities					
Long-term business policyholder liabilities					
Insurance contracts	6 237	14 380	84 755	250 995	356 367
Investment contracts					
Unit-linked investment contracts and similar contracts	111 929	16	55	151	112 151
Discretionary participating investment contracts	73 778				73 778
Other investment contracts	44	131	645	1 517	2 337
Outstanding claims	4 112				4 112
Borrowed funds				3 000	3 000
Derivative financial instruments - liabilities	1 372	2 481	8 158	18 008	30 019
Amounts due to group companies	1 783				1 783
	199 255	17 008	93 613	273 671	583 547

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41 Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2006	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities					
Long-term business policyholder					
Insurance contracts	5 627	12 970	75 673	247 870	342 140
Investment contracts					
Unit-linked investment contracts and similar contracts	92 047	19	53	136	92 255
Discretionary participating investment contracts	60 939				60 939
Other investment contracts	36	107	570	1 343	2 056
Outstanding Claims	2 981				2 981
Borrowed funds				3 000	3 000
Derivative financial instruments - liabilities	1 850	935	4 323	9 413	16 521
Amounts due to group companies	109				109
	163 589	14 031	80 619	261 762	520 001

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41 Financial risk management (continued)

Liquidity risk (continued)

The table below analyses assets and liabilities into current and non-current categories based on the remaining period at balance sheet date to settlement date, or if not subject to fixed terms of repayment, the intention as regards settlement period at the balance sheet date.

At 31 December 2007	Rm		
	Current assets	Non-current assets	Total
Assets			
Intangible assets		43	43
Investment property		14 740	14 740
Property and equipment		3 208	3 208
Deferred tax asset		696	696
Reinsurance contracts	254	38	292
Deferred acquisition costs	198	969	1 167
Loans and advances		938	938
Investments and securities	52 229	332 080	384 309
Other assets	5 031		5 031
Derivative financial instruments - assets	36	69	105
Amounts due by group companies	928		928
Cash and cash equivalents	4 148		4 148
Total assets	62 824	352 781	415 605

At 31 December 2007	Rm		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Long-term business policyholder liabilities			
Insurance contracts		149 952	149 952
Investment contracts			
Unit-linked investment contracts and similar contracts		105 488	105 488
Discretionary participating investment contracts		84 265	84 265
Other investment contracts		1 150	1 150
Outstanding claims	4 112		4 112
Borrowed funds		3 000	3 000
Post employment benefits obligation		77	77
Share-based payment liabilities		468	468
Provisions	361	1 153	1 514
Deferred revenue on investment contracts	73	171	244
Deferred tax liability		3 445	3 445
Current tax payable	1 505		1 505
Other liabilities	3 807		3 807
Derivative financial instruments - liabilities	1 703		1 703
Amounts due to group companies	1 783		1 783
Total liabilities	13 344	349 169	362 513

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41 Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2006	Rm		
	Current assets	Non-current assets	Total
Assets			
Intangible assets		30	30
Investment property		10 400	10 400
Property and equipment		2 258	2 258
Deferred tax asset		810	810
Deferred acquisition costs	191	864	1 055
Reinsurance contracts	168	32	200
Loans and advances		1 217	1 217
Investments and securities	88 573	273 610	362 183
Other assets	3 893		3 893
Derivative financial instruments - assets	108		108
Amounts due by group companies	2 585		2 585
Cash and cash equivalents	1 909		1 909
Total assets	97 427	289 221	386 648

At 31 December 2006	Rm		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Long-term business policyholder liabilities			
Insurance contracts		144 988	144 988
Investment contracts			
Unit-linked investment contracts and similar contracts		93 848	93 848
Discretionary participating investment contracts		75 327	75 327
Other investment contracts		1 096	1 096
Outstanding claims	2 981		2 981
Borrowed funds		3 000	3 000
Post employment benefits obligation		72	72
Share-based payment liabilities		529	529
Provisions	1 466	400	1 866
Deferred revenue on investment contracts	78	179	257
Deferred tax liability		2 835	2 835
Current tax payable	1 321		1 321
Other liabilities	2 653		2 653
Derivative financial instruments - liabilities	1 510		1 510
Amounts due to group companies	109		109
Total liabilities	10 118	322 274	332 392

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42 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 41.

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 claims 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 in adverse circumstances).

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.

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42 Insurance risk management (continued)

Terms and conditions of insurance contracts (continued)

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 insurance 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 market consistent stochastic basis (including a discretionary margin), 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.

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42 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, and hence the impact on profit and loss and equity, recorded as of 31 December 2007 has been estimated as follows:

Assumption	Change %	Rm	Rm
		Increase/ (decrease) in liabilities 2007	Increase/ (decrease) in liabilities 2006
Mortality and morbidity rates - assurance	+10%	2 160	2 149
Mortality rates – annuities	-10%	432	459
Discontinuance rates	+10%	(110)	(53)
Expenses (maintenance)	+10%	648	638

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 R578 million (2006: R 445 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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42 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 market-consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa, PGN 110 in particular. 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 2007.

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	<p>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.</p> <p>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.</p>	<p>An insignificant proportion of policies is currently in-the-money (current actual cumulative investment return lower than that guaranteed). On average a 54% (2006: 53%) fall in asset value is required before current out-of-the-money policies become in-the-money.</p> <p>None of these policies are currently in-the-money. On average a 53% (2006: 49%) fall in asset value is required before current out-of-the-money policies become in-the-money.</p>
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 250 basis point (2006: 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 34% (2006: 40%) fall in assets is required to cause the block of business to become in-the-money.

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42 Insurance risk management (continued)

Guarantees and options (continued)

The following disclosures are provided in terms of PGN 110 issued by the Actuarial Society:

Investment guarantee reserves have been calculated using the Barrie and Hibbert Risk Neutral Asset Model. The model has been calibrated to South African derivative market data (where available and reliable), according to Old Mutual specific calibration requirements. The calibration has been performed as at 31 December 2007.

The risk-free zero coupon yield curve has been derived from mid swap rates at the calibration date:

Term (years)	Annualised zero-coupon bond yield
1	11.5%
2	11.1%
3	10.7%
4	10.4%
5	10.1%
10	9.1%
15	8.5%
20	8.1%
25	7.8%
30	7.6%

The following derivative contract prices have been calculated using 1000 simulations of the Barrie and Hibbert Asset Model at the calibration date (the simulations have been generated using the antithetic variables technique):

Description of derivative contract*	Calculated price (% of spot price)
6-month at-the-money (spot) put on the FTSE/JSE TOP40 index	4.9%
6-month at-the-money (spot) call on the FTSE/JSE TOP40 index	8.9%
5-year put on the FTSE/JSE TOP40 index, with a strike price equal to $(1.04)^5$ of spot	12.3%
5-year put with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place 6-monthly	4.9%
20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option (stripped from the zero coupon yield curve), which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike	0.3%
20-year at-the-money (spot) put on the FTSE/JSE TOP40 index	4.5%

* Note that the FTSE/JSE TOP40 referred to in this section is a capital return index, whereas the ALBI is a total return index