Annual Financial Statements

2003

Old Mutual Life Assurance Company (South Africa) Limited

OLD MUTUAL

PROUDLY SOUTH AFRICAN
FOUNDER SPONSOR

Annual financial statements

for the year ended 31 December 2003

Contents

Registration no. 1999/004643/06

Corporate governance

The Group 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 and endeavours to conduct its affairs in the best interests of all its stakeholders, in so far as it 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 and composition

The Company has a unitary board of 17 directors, the majority of whom are independent of management. The Board currently comprises 13 non-executive directors, two of whom are executive directors of the ultimate holding company, and four executive directors. Full details are set out in the directors' report.

The selection and appointment of directors is a matter for the Board as a whole, assisted by recommendations from the Corporate Governance and Nomination Committee. Emphasis is placed on achieving a balance of skills, experience and knowledge. A formal orientation programme exists to familiarise incoming directors with the Company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities. New directors may hold office only until the next annual general meeting at which they retire and become available for re-election by shareholders on the recommendation of the Corporate Governance and Nomination Committee and of the Board. All directors are subject to retirement by rotation and re-election by 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.

The Board meets regularly, having met six times in 2003 including sessions devoted to strategy and business planning. Self-evaluation reviews are conducted at appropriate intervals. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure its effective functioning and proper administration of board proceedings.

Chairman and Managing Director

The roles of the Chairman and Managing Director are separate. The Board is led by the Chairman, Mr Levett, a non-executive director, and Mr Clewlow, also a non-executive director, as Deputy Chairman.

The executive management of the Company is the responsibility of the Managing Director, Mr Sparks, and his Deputy Managing Directors, Messrs de Beyer, Hanratty and Moyo.

Board Committees

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 as required. 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.

Audit, Risk and Compliance Committee

This committee, chaired by Dr Konar, an independent director, and comprising only non-executive directors, met four times during the year with senior management, which included the Managing Directors, senior executive management, the Statutory Actuary, the Chief Internal Auditor, the Compliance Officer and the Risk Manager. The independent auditors and internal auditors attend these meetings and have unrestricted access to the committee and to its chairman.

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

Corporate governance *(continued)*

The Board of Directors *(continued)*

Board Committees *(continued)*

Remuneration Committee

The Remuneration Committee, chaired by Mr Clewlow, a non-executive director, and comprising only non-executive directors, meets as often as necessary, and met three times during the year.

The committee determines the remuneration, incentive arrangements, profit participation and benefits of the Deputy Managing Directors and executive management. It makes recommendations on the remuneration of non-executive directors and on the grant of awards under the share incentive scheme. The remuneration of the Managing Director is determined by the Remuneration Committee of Old Mutual plc.

Specific emphasis is placed on incentive payments and longer-term remuneration structures. In order to promote an identity of interests with shareholders, share incentives are considered to be an integral and vital element of remuneration structures. At all times attention is paid to the retention of key executives.

Corporate Governance and Nomination Committee

This committee, chaired by Prof van Wyk, an independent non-executive director, meets as often as necessary and met twice during the year. Its function is to regularly review the structure, size, composition 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 any director who has 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

This committee provides input into the development of business strategy in respect of external stakeholders, in particular government relations and transformation issues. It plays an important role at the time of strategy and plan creation, and is expected to review and input into the consideration of the customer, government and regulatory environment. It is chaired by Prof Gerwel, an independent non-executive director, and includes executive and non-executive directors. It met four times during the past year.

Strategic Projects Management Committee

This committee, chaired by Mr van Niekerk, a non-executive director, provides input on strategic initiatives, reviews their progress, provides input at the time of strategy and business plan creation and acts as a sounding board for management's ideas. The committee includes executive directors and meets on an ad hoc basis as the requirements of the projects within its scope require, and met four times during 2003.

Other Committees

The board has in the past appointed ad hoc committees to deal with specific matters as the need has arisen. Such a committee was established during 2003 to consider a matter involving policyholders' interests. It was chaired by Prof van Wyk, an independent non-executive director, and comprised only non-executive directors. It met three times and was then disbanded.

Corporate governance *(continued)*

The Board of Directors *(continued)*

Directors' emoluments

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Directors' emoluments	**2003**	2002
Non-executive directors		
Fees	**1 851**	1 566
Executive directors	**9 231**	8 487
Basic salaries	**5 531**	5 875
Bonuses and performance related payments	**2 956**	1 887
Retirement, medical and other benefits	**744**	725
Total directors' emoluments	**11 082**	10 053

Fees paid to non-executive directors were as follows:		
W A M Clewlow	**418**	418
G J Gerwel	**160**	80
P G Joubert	**90**	154
D Konar	**194**	194
R C M Laubscher	**-**	-
M J Levett	**-**	-
C F Liebenberg	**179**	154
A A Maule	**130**	80
M Morobe	**119**	94
W A Mgoqi	**105**	80
P F Nhleko	**124**	80
J V F Roberts	**-**	-
J H Sutcliffe	**-**	-
G S van Niekerk	**174**	124
A H van Wyk	**158**	108
	1 851	1 566

2003	Basic salaries	Bonuses and performance related payments	Retirement, medical and other benefits	Total emoluments
Executive directors' total emoluments comprise:				
R J A Sparks	2 300	877	284	**3 461**
P G de Beyer	1 381	833	230	**2 444**
M P Moyo	1 850	1 246	230	**3 326**
	5 531	2 956	744	**9 231**

Corporate governance *(continued)*

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Directors' emoluments *(continued)*

2002	Basic salaries	Bonuses and performance related payments	Retirement, medical and other benefits	Total emoluments
R J A Sparks	2 300	787	283	**3 370**
P G de Beyer	1 850	644	228	**2 722**
M P Moyo	1 725	456	214	**2 395**
	5 875	1 887	725	**8 487**

Directors' interests under Employee Share Plans

Details of the interests under Employee Share Plans of non-executive directors of the Company who are also directors of Old Mutual plc are dealt with in the Annual Report of Old Mutual plc.

Details of the executive directors' share interests arising from the OMGA Share Incentive Scheme and outstanding at 31 December 2003 are set out below:

	Offer price	Number of shares outstanding	Date of grant	Gains on current year settlements
Executive directors				
R J A Sparks	9.90	-	02/01/1997	38
	10.69	-	01/06/1997	94
	9.70	257 800	01/10/1998	-
	9.80	284 300	01/10/1998	-
	9.70	618 600	08/04/1999	-
P G de Beyer	11.34	-	20/08/1997	248
	9.80	87 600	01/10/1998	-
	9.70	270 700	01/10/1998	-
	9.80	39 100	01/10/1998	-
M P Moyo	11.64	-	20/10/1997	195
	12.71	69 300	25/08/1998	-
	9.70	123 100	01/10/1998	204
	9.95	85 500	26/10/1998	-
		1 836 000		779

Rights under the Old Mutual Group Achievements Share Incentive Scheme (OMGA) were awarded based on grade level and annual pensionable earnings, but are not linked to future performance criteria. The major assets of OMGA are two endowment policies with the Company and listed shares in Old Mutual plc.

Delivery or disposal of the shares is only permitted at the earliest, as to one third at the end of each of three, four and five years from, and must in any event take place within six years from, the date of grant.

Corporate governance *(continued)*

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

The following share entitlements in Old Mutual plc were outstanding in favour of executive directors of the Company under the Company's participation in the Old Mutual plc Group's Share Option and Deferred Delivery Plan at 31 December 2003:

	Offer price	Number of shares outstanding	Dates deliverable	Gains on current year settlements
Executive directors				
R J A Sparks	13.20	188 600	14/03/2003 - 14/03/2006	-
	17.63	113 500	16/10/2003 - 16/10/2006	-
	18.62	371 400	08/03/2004 - 08/03/2007	-
	15.15	536 700	04/03/2005 - 04/03/2008	-
	11.15	721 975	26/02/2006 - 26/02/2009	-
P G de Beyer	13.20	226 300	14/03/2003 - 14/03/2006	-
	17.63	96 500	16/10/2003 - 16/10/2006	-
	18.62	315 700	08/03/2004 - 08/03/2007	-
	15.15	431 700	04/03/2005 - 04/03/2008	-
	11.15	580 718	26/02/2006 - 26/02/2009	-
M P Moyo	13.20	207 500	14/03/2003 - 14/03/2006	-
	17.63	170 200	16/10/2003 - 16/10/2006	-
	18.62	278 600	08/03/2004 - 08/03/2007	-
	15.15	402 500	04/03/2005 - 04/03/2008	-
	11.15	418 117	26/02/2006 - 26/02/2009	-
		5 060 010		-

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

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

2 share entitlements granted on 8 March 2001 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 2001 and 31 December 2003. 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.

3 50% of the share entitlements granted on 4 March 2002 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 2002 and 31 December 2004, and 50% of the allocation of the share entitlements granted on 4 March 2002 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 2002 and 31 December 2004. 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.

4 50% of the share entitlements granted on 26 February 2003 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 2003 and 31 December 2005, and 50% of the allocation of the share entitlements granted on 26 February 2003 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 2003 and 31 December 2005. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

Corporate governance *(continued)*

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

The following share awards in Old Mutual plc were outstanding in favour of executive directors of the Company under the Company's participation in the Old Mutual plc Group's Restricted Share Plan at 31 December 2003:

	Number of shares outstanding	Dates exercisable	Gains on current year settlements
Executive directors			
M P Moyo	48 781	26/02/2006 - 26/02/2008	-
Total	48 781		-

In 2003, executives were entitled to elect to receive contingent awards of shares, subject to a three year waiting period, as an alternative to grants under the Deferred Delivery Plan.

Internal controls

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

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

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

The Company has an internal audit function. It has a specific mandate from the Audit, Risk and Compliance Committee and independently appraises the Company's internal controls and accounting records, reporting its findings to management as well as to the Audit, Risk and Compliance Committee. As part of the system of internal control, the Company's internal audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the independent auditors.

The key components of the Company's overall system of internal control currently in operation and the process of review by the directors are set out below:

Actuarial Review Committee

The Actuarial Review Committee has been constituted as a sub-committee of the Old Mutual plc Audit Committee, and consists of non-executive and executive directors of Old Mutual plc. The Statutory Actuary also attends its meetings. It reviews the suitability of the actuarial valuation basis and the accuracy of the published financial results. A separate report on the actuarial bases and results is submitted to and reviewed by this committee, and by the Audit, Risk and Compliance Committee.

Credit Committee

The Company has established policies, procedures and standards to limit the concentration of credit risk to any counterparty and to ensure that overall credit risk is maintained at an acceptable level. Credit exposures are continuously monitored and are subject to a formal quarterly review by a Credit Committee, which comprises senior management from asset management, legal, banking and corporate operations of the Old Mutual (South Africa) Limited Group of companies.

Corporate governance *(continued)*

Internal controls *(continued)*

Management structures

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring its business operations in order to achieve the strategic business objectives approved by the Board. The management of the Company is delegated to the executive directors in accordance with the articles of association of the Company, which also governs the conduct of executive managers of the underlying operations of the Company. The executive managers are accountable for the control, conduct and performance of their businesses within the agreed business strategy.

Business planning

The Board regularly reviews the Company's strategic direction and the executive directors consider the strategy for the individual lines of business with executive management on a planned basis. Annual budgets and three-year strategic plans are prepared, with performance targets for each line of business set by the executive directors in conjunction with executive managers. The overall business plan for the Company is then reviewed by the Board and the Board of Old Mutual plc in light of the Company and the Old Mutual plc Group's objectives.

Performance against plan is regularly monitored at Board level. Forecasts are done on a regular basis to combine the business plan and actual figures to give the Board a better reflection of the Company's financial position, and what can be expected for the remaining portion of the year. This will also give the Board a clear indication of what needs to be done in order to meet the Company's objectives.

Monitoring of controls

The Board has reviewed the effectiveness of the system of internal control during the year. The key processes supporting the Board's regular and annual review processes are summarised below.

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 their respective businesses. The Board receives monthly performance information, which includes key performance and risk indicators.

As part of the Board's annual review process, each executive director is asked to complete a letter of assurance confirming compliance throughout the year and up to the date of approval of the Old Mutual plc Group Annual Report with the Old Mutual plc Group's Scheme of Delegated Authority and with the risk management and control policies. The results of these letters are reported to the Audit, Risk and Compliance Committee. These letters of assurance are supported by regularly updated risk profiles of each business unit, combined with a process of control self-assessment. Management teams in each business unit have applied the Criteria of Control Model (CoCo) developed by the Canadian Institute of Chartered Accountants, and have produced a control integrity profile for each business unit. This process is co-ordinated and facilitated by the Risk Function.

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, for day-to-day operational purposes only, to the Executive General Manager Finance, 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, governs internal audit activity within the Company and the Group. Progress against the plan is reported regularly to the Audit, Risk and Compliance Committee.

Control failures are reported in terms of an escalation protocol to the appropriate level of risk and audit committee, where rectification procedures and progress are closely monitored. Planned corrective actions are independently monitored for timely completion by internal audit and, as appropriate, by the Audit, Risk and Compliance Committee and Board.

Employment policies

The internal controls are based on established policies and procedures, are applied by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the Company. All employees are required to maintain the highest ethical standards in ensuring that the Company's business practices are conducted in a manner which in all reasonable circumstances is above reproach.

The Company's employment policies take the above-mentioned into consideration and are regularly reviewed and updated to ensure their appropriateness. They are further designed to promote a working environment which supports the recruitment and retention of highly effective employees with a high ethical and moral standard.

Corporate governance *(continued)*

Employment policies *(continued)*

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 are 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 sector of the business in which they work;
- the training and development of all employees, including the directors, 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.

Risk management and compliance

Executive management is responsible for the identification, evaluation and management of the risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal and external sources.

Executive Management reports to the Audit, Risk and Compliance Committee and to the Old Mutual plc Group Compliance and Risk Management Committee on significant risks to the achievement of the Company's business objectives and instances of significant control failures.

Life assurance

Underwriting risk is controlled by underwriting principles governing product repricing procedures and authority limits. The underwriting process takes into account actual and prospective mortality, morbidity and expense experience. The 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. The Company also conducts HIV and other tests for lives insured above certain values and offers reduced premiums for those willing to undergo regular testing.

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 closely matched with gilts and semi-gilts. Other non-profit policies are also suitably matched through comprehensive investment guidelines. Market risks on with-profit policies, where investment risk is shared, are minimised by appropriate bonus declaration practices.

Equity price risk and interest rate risk (on value of securities) are modelled by the Company's risk based capital practices, which require sufficient capital to be held by the Company in excess of the statutory minimum to allow the Company to manage significant equity exposures. Credit risk is monitored by Credit Committee covering life and third party funds, which have established 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.

Corporate governance *(continued)*

Governance of Smoothed Bonus policyholder funds *(continued)*

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The portfolio manager responsible for the policyholder funds has been clearly instructed that all investment decisions taken within the policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of specified investment mandates.
- Each product portfolio has an investment mandate, that sets out the mandate for that product portfolio, based on the nature of that product's liability, particularly the nature of any investment guarantees that are provided. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For products with fully guaranteed benefits (such as the level annuity portfolio) particular care is taken to ensure that assets match liabilities as closely as possible.
- In addition to the limitation specified in the Long-term Insurance Act Investment Regulations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group within each policyholder portfolio.
- Major investments in Old Mutual Group companies (such as in Nedcor and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominantly held in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- All potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders' interest, are disclosed to the Statutory Actuary, and if material are approved by the Board. Any such transactions are conducted on arms-length terms, and only when it is clearly demonstrated that such investments are in the interests of policyholders.
- The portfolio manager produces a monthly report covering amongst others the structure of each portfolio relative to its mandate, investment performance relative to benchmarks, purchases and sales, any special investment opportunities that arose and how these were equitably allocated between portfolios, any potential conflicts of interest that arose and how these were dealt with, and any investment activity in associated companies.
- The method of allocation of profits and investment returns between policyholders and shareholders is clearly specified, and smoothed bonus policyholder funds are credited (via bonus stabilisation reserves) with the full investment return earned on their funds, less specified charges.
- Any profit allocated to shareholder funds is only transferred from policyholder funds on the recommendation of the Statutory Actuary, following an actuarial valuation. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities as determined by the Statutory Actuary on the valuation date. These liabilities include provision for any guarantees that may apply.
- With each actuarial valuation, a detailed analysis of profit is done, which confirms that there are no material errors or inconsistencies in the valuation, and that valuation assumptions are appropriate.
- 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. All investment returns credited to policyholder funds that are not declared as bonuses are retained in bonus stabilisation reserves, which may only be used to support subsequent bonus declarations.

Going concern

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

Corporate citizenship and non-financial reporting

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

This report also covers the financial benefits delivered to customers, employees, government and shareholders. The Group subscribes to a code of ethics which is included in the corporate citizenship report.

Directors' responsibility for the annual financial statements

The directors are responsible for monitoring the preparation and integrity 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.

The annual financial statements are prepared in accordance with statements of South African Generally Accepted Accounting Practice and incorporate disclosure in line with the accounting and corporate governance philosophy of the Company. 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 in operation for the foreseeable future. The Company's annual financial statements have accordingly been prepared on a going concern basis.

The annual financial statements for the year ended 31 December 2003 set out on pages 13 to 47 were approved by the Board of Directors on 13 February 2004 and are signed on its behalf by:

M J Levett
Chairman

R J A Sparks
Managing Director

Report 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 2003 and that all such returns are true, correct and up to date.

J L Cowburn
Company Secretary
13 February 2004

Report of the independent auditors

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

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited set out on pages 13 to 47 for the year ended 31 December 2003. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

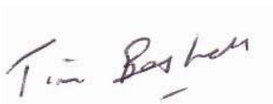
- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2003 and the results of its operations and cash flows for the year then ended in accordance with South African statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)
Cape Town



T H Bashall
Director
13 February 2004

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 2003.

Business activities

The principal activity of the Company is the transaction of all classes of life assurance 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 shareholders' fund, cash flow statement and accompanying notes.

Consolidated annual financial statements

Consolidated annual financial statements have not been prepared as the Company is a wholly-owned subsidiary of another South African company. The Company is ultimately wholly-owned by Old Mutual plc, which is itself registered in South Africa as an external company and produces consolidated financial statements which incorporate the results of the Company and its subsidiaries.

These consolidated financial statements can be obtained directly from Old Mutual plc, registered office, 5th floor, Old Mutual Place, 2 Lambeth Hill, London, EC4V 4GG, United Kingdom.

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, Malawi, Namibia and Zimbabwe stock exchanges and on the JSE Securities Exchange South Africa.

Subsidiaries

Details of the Company's interest in its principal subsidiaries are set out in note 25.

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 R1 035 million (2002 : R900 million) were declared during the year.

Preference shares
Dividends on preference shares amounting to R959 million (2002 : R100) were declared during the year.

Post balance sheet event

Details relating to a post balance sheet event which occurred on 20 January 2004 are set out in note 24.

Directors' report *(continued)*

Directors

Mr Joubert retired as a director on 24 July 2003, on 8 December 2003, Mr Laubscher resigned as a director. Mr Hanratty was appointed Deputy Managing Director from 1 January 2004.

The directors currently holding office are:

Non-executive directors

M J Levett (Chairman) * ❄
W A M Clewlow (Deputy Chairman) * ✧♦❄
C F Liebenberg * ✧♦❖
J V F Roberts (British) * ✧
J H Sutcliffe (British) * ♦❄
G S van Niekerk ✧⌘

Executive directors

R J A Sparks (Managing Director) ❖⌘
P G de Beyer (Deputy Managing Director) ❖⌘
P B Hanratty (Deputy Managing Director) (Irish)
M P Moyo (Deputy Managing Director) ❖⌘

Independent non-executive directors

G J Gerwel ♦❖
D Konar ✧❄
A A Maule ❖⌘
W A Mgoqi ❖
M Morobe ❄❖
P F Nhleko ✧
A H van Wyk ❄❖⌘

✧ Member of the Audit, Risk and Compliance Committee
♦ Member of the Remuneration Committee
❄ Member of the Corporate Governance and Nomination Committee
❖ Member of the Environment Committee
⌘ Member of the Strategic Projects Management Committee
* Director of Old Mutual plc

In terms of the Company's Articles of Association, Prof Gerwel and Messrs Clewlow, Hanratty, Levett, Morobe, Roberts and Sparks retire at the forthcoming Annual General Meeting but, being eligible, and recommended by the Board, offer themselves for re-election.

Company Secretary

Mr J L Cowburn is the Company Secretary.

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

Report of the Statutory Actuary

I have conducted an actuarial review of the Company as at 31 December 2003, according to applicable guidelines issued by the Actuarial Society of South Africa. In particular, the valuation was performed using the Financial Soundness Valuation method, assets and liabilities have been valued on bases that are consistent with each other and 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 2 to the annual financial statements, which can be found on pages 25 to 28.

Actuarial balance sheet

R million	**2003**	2002
Total assets per balance sheet	**249 564**	238 798
Total value of liabilities	**(220 502)**	(207 136)
Actuarial value of policy liabilities	**(214 706)**	(201 255)
Provisions and current liabilities	**(5 796)**	(5 881)
Excess of assets over liabilities	**29 062**	31 662
Statutory capital adequacy requirements	**12 136**	13 937
Ratio of excess assets to statutory capital adequacy requirements	**2.4**	2.3
The change in the excess assets has arisen from the following main sources:		
Investment income on excess assets	**1 235**	1 304
Realised and unrealised gains and losses on excess assets	**(3 959)**	(5 620)
Operating profit before tax (excl. the effect of changes in the valuation basis)	**3 516**	3 349
Changes in valuation basis	**(116)**	67
Taxation	**(1 070)**	(1 299)
Deferred taxation - net capital (losses)/gains	**(212)**	624
Total earnings	**(606)**	(1 575)
Dividends	**(1 994)**	(900)
Total decrease in excess assets	**(2 600)**	(2 475)

Certification of financial position

I hereby certify that:

- the valuation of the Company as at 31 December 2003, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Note 104 and related Addendum;
- the valuation of liabilities includes a reserve for Minimum Investment Return Guarantees in accordance with the Actuarial Society of South Africa's Professional Guidance Note 110;
- this Statutory Actuary's Report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note 103;
- this Statutory Actuary's report, read together with the annual financial statements, fairly presents the financial position of the Company as at the valuation date; and
- the Company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

G S Palser
Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
13 February 2004

Income statement

for the year ended 31 December 2003

R million	Notes	2003	2002
Revenue	13.2	**18 519**	21 375
Operating profit	3	**3 243**	3 251
Other shareholder income		**157**	165
Operating income before taxation and investment income	4	**3 400**	3 416
Investment income	5	**385**	1 546
Profit on ordinary activities before taxation		**3 785**	4 962
Taxation	6	**(1 070)**	(1 299)
Profit for the year		**2 715**	3 663

Balance sheet

at 31 December 2003

R million

Assets	Notes	2003	2002
Non-current assets			
Investments	7	**237 721**	227 753
Investments in group undertakings		**14 283**	20 312
Other financial investment assets		**214 728**	198 608
Investment property		**8 710**	8 833
Property, plant and equipment	8	**364**	374
Intangible assets	9	**39**	90
Reinsurer's share of liabilities in respect of contracts with policyholders	13.1	**4 447**	4 628
Deferred taxation asset	10	**6**	125
Current assets		**6 987**	5 828
Net outstanding premiums, accrued investment income and other debtors		**2 943**	2 975
Amounts due by group companies	11	**1 893**	1 556
Cash and cash equivalents		**2 151**	1 297
Total assets		**249 564**	238 798

Equity and liabilities	Notes	2003	2002
Equity shareholders' fund		**29 062**	31 662
Share capital and premium	12	**6 254**	6 254
Revaluation reserve		**(1 245)**	2 076
Distributable reserve		**24 053**	23 332
Non-current liabilities			
Liabilities in respect of contracts with policyholders	13	**214 706**	201 255
Insurance contracts		**143 027**	134 241
Investment contracts		**71 679**	67 014
Provisions	14	**386**	1 037
Current liabilities		**5 410**	4 844
Outstanding claims, policyholders' benefits and other creditors		**4 818**	4 283
Amounts due to group companies	15	**69**	179
Taxation		**523**	382
Total equity and liabilities		**249 564**	238 798

Statement of changes in equity shareholders' fund

for the year ended 31 December 2003

R million

2003	Share capital and premium	Revaluation reserve	Distributable reserve	Total
Equity shareholders' fund at beginning of year	**6 254**	**2 076**	**23 332**	**31 662**
Unrealised revaluation reserve		**(3 109)**		**(3 109)**
Deferred taxation - net capital losses		**(212)**		**(212)**
Profit for the year			**2 715**	**2 715**
Dividends			**(1 994)**	**(1 994)**
Equity shareholders' fund at end of year	**6 254**	**(1 245)**	**24 053**	**29 062**

2002				
Equity shareholders' fund at beginning of year	6 254	7 314	20 569	34 137
Unrealised revaluation reserve		(5 862)		(5 862)
Deferred taxation - net capital gains		624		624
Profit for the year			3 663	3 663
Dividends			(900)	(900)
Equity shareholders' fund at end of year	6 254	2 076	23 332	31 662

Cash flow statement

for the year ended 31 December 2003

R million	Notes	2003	2002
Net cash outflow from operating activities		**(1 146)**	(3 875)
Cash generated by operations	16	**2 305**	86
Taxation paid	17	**(1 457)**	(2 077)
Dividends paid	18	**(1 994)**	(1 884)
Net cash inflow from investing activities		**2 000**	4 119
Investments in group undertakings		**817**	(5 857)
Other financial investment assets		**820**	9 781
Investment properties		**363**	195
Net increase in cash and cash equivalents		**854**	244
Cash and cash equivalents at beginning of year		**1 297**	1 053
Cash and cash equivalents at end of year		**2 151**	1 297

Notes to the annual financial statements

for the year ended 31 December 2003

1 Accounting policies

The financial statements incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year, other than in respect of the introduction of AC133, as described below.

1.1 Statement of compliance

The financial statements are prepared in accordance with South African statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act, 1973.

The financial statements have been restated to reflect the introduction of Statement of Generally Accepted Accounting Practice AC133 Financial Instruments: Recognition and Measurement, which is applicable for all accounting periods ending on or after 1 July 2002.

With regard to the recognition and measurement of financial assets and non-insurance financial liabilities, the Company had previously adopted the principles in AC133 in prior year financial statements and therefore the impact of implementation was limited to presentational issues only.

With regard to the recognition of liabilities arising under contracts with policyholders, certain of the Company's insurance contracts have been reclassified as investment contracts, in accordance with the guidance issued by the South African Institute of Chartered Accountants on the application of AC133 to liabilities arising from long-term insurance contracts, together with the Addendum to PGN104 issued by the Actuarial Society of South Africa.

With regard to the measurement of liabilities under contracts with policyholders the following valuation approach has been adopted:

- With respect to insurance contracts and investment contracts with discretionary participating contracts, these continue to be valued using the 'Financial Soundness Valuation' method, in accordance with PGN104 issued by the Actuarial Society of South Africa;
- With respect to other investment contracts, these are valued at fair value, as set out in AC133 and the Addendum to PGN104.

A draft international financial reporting standard on insurance contracts (ED5) was issued by the International Accounting Standards Board in July 2003. ED5 proposes limited improvements to insurance companies' existing accounting practices for insurance contracts for the time-being in the absence of a full international recognition and measurement standard. ED5 contains guidance on the definition of insurance contracts in IAS32 and 39, and the application of IAS39 to those contracts which are classified as investment contracts. The guidance issued by the South African Institute of Chartered Accountants and the Actuarial Society of South Africa was prepared taking account of the guidance that was anticipated to be contained within ED5, but with reference to the fact that the exposure draft would not be expected to be issued in final form until 2004 and could be subject to significant change. The Company's future financial statements could therefore be significantly impacted as a result.

1.2 Basis of preparation

The annual financial statements incorporate the assets, liabilities and results of the Company. No consolidated financial statements are presented on the basis that the Company is a wholly owned subsidiary.

Shares in subsidiaries and associates are treated as financial instruments and accounted for in accordance with the policy for financial instruments set out below. For the purpose of the analysis of financial assets, investments in the shares of subsidiaries are re-classified according to the underlying assets held by those subsidiaries.

1.3 Revenue

Revenue comprises amounts receivable in respect of insurance contracts.

1.4 Premium income and benefits paid

The presentation of amounts received and paid in respect of contracts with policyholders has changed from prior years.

1 Accounting policies *(continued)*

1.4 Premium income and benefits paid (continued)

Premiums in respect of insurance contracts are recognised as revenue when they are receivable. Those that are classified as investment contracts are treated as deposits.

Benefits paid on insurance contracts, and withdrawals on investment contracts, reflect the cost of all claims arising in the year. Death claims and surrenders represent those notified up to the balance sheet date, and maturities and annuities are recognised as they fall due for payment.

Premiums and benefits are shown net of reinsurance.

1.5 Investment income

Dividends receivable are recognised as income on the ex-dividend date. Interest is recorded on the effective yield basis and net rental income from property investments is recorded on an accrual basis.

Shares received in terms of capitalisation share awards, including those where there is an option to receive a cash dividend, are accounted for as dividend income.

1.6 Employee benefits

1.6.1 Retirement benefit costs

Contributions to the Company's defined contribution scheme are recognised as an expense as they are incurred.

In respect of the Company's defined benefit scheme, 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.

1.6.2 Post retirement benefits other than pensions

The expected cost of post-retirement benefits other than pensions is charged against income so as to spread the cost of the benefits over the services lives of employees entitled to those benefits. Costs are assessed in accordance with the advice of qualified actuaries.

Liabilities for employee benefits, which are not expected to be settled within 12 months, are discounted using market yields, at the balance sheet date, based on high quality bonds with terms that closely match the terms of the maturity of the related benefits.

1.6.3 Actuarial gains and losses

Actuarial gains and losses arising in respect of the defined benefit scheme and post-retirement benefit arrangements are included in the income statement in the year in which they arise.

1.7 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.

Financial assets are de-recognised when, and only when, the company loses control of the contractual rights that comprise the asset, for instance where those rights are realised, expire or are surrendered.

Financial liabilities are de-recognised when, and only when, the obligations under the contract are discharged, cancelled or expire.

All financial instruments are recognised and de-recognised using trade date accounting.

1 Accounting policies *(continued)*

1.7 Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are valued on the bases set out below:

1.7.1 Securities

Marketable securities, including government, municipal and utility stocks, debentures, listed shares including shares in listed subsidiaries, unit trusts and derivatives are reflected at market value. Market value is determined by the Directors using, where appropriate, quoted ruling prices or market related rates of return.

Other securities, such as shares in unlisted subsidiaries and other companies, are recorded at Directors' valuation.

Interest bearing securities are valued by discounting expected future cash flows at appropriate market interest rates.

Cash and cash equivalents are recorded at fair value.

Securities that form part of the shareholders' fund are classified as 'available for sale' financial assets. Gains and losses on the realisation of available for sale assets, calculated as the difference between the net proceeds on realisation and the amount recorded on initial recognition, are included in the income statement. Unrealised gains and losses on available for sale assets are recognised in a revaluation reserve in equity, through the statement of changes in equity, until such time as the asset is sold or otherwise disposed of, or if the asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Securities that are held to support liabilities in respect of contracts with policyholders are designated as 'held for trading' financial assets. All gains and losses on those securities, whether realised or unrealised, are recorded in policyholders funds in the year in which they arise.

1.7.2 Derivative instruments

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

Derivative instruments are recorded at market value. Listed derivatives are stated at quoted prices, unlisted derivative instruments are valued using standard market valuation techniques.

All derivatives are held to support liabilities in respect of contracts with policyholders. All gains and losses, whether realised or unrealised, are recorded in policyholders' funds in the year in which they arise.

1.7.3 Loans originated by the Company

Loans originated by the Company, including those to policyholders and similar items, are measured at cost.

1.7.4 Investment contracts

Investment contracts, which are contracts of insurance in legal form but which do not transfer significant insurance risk, are recorded a fair value. Fair value is determined by reference to the Addendum to PGN104 issued by the Actuarial Society of South Africa.

Investment contracts are treated as designated as held for trading financial liabilities. All gains and losses on those liabilities, whether realised or unrealised, are recorded in operating profit in the year in which they arise.

1.7.5 Other financial assets and liabilities

Other financial assets and liabilities, namely trade and other receivables and payables are measured at cost.

1 Accounting policies *(continued)*

1.7.6 Off-set of financial assets and liabilities

Where a legally enforceable right of off-set exists for recognised financial assets and liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

1.7.7 Scrip lending

The Company engages in scrip lending of its securities for which it obtains collateral security where deemed appropriate. As a consequence the relevant securities are not de-recognised and are reflected in the balance sheet at the year-end.

1.8 Investment property

Land and buildings, including that occupied by the Company, which is held to support liabilities in respect of contracts with policyholders, are accounted for as investment property and valued at a market valuation using the discounted cash flow method of valuation, primarily by internal professional valuers. All land and buildings are valued by external valuers on a five-year cyclical basis. All gains and losses on investment property, whether realised or unrealised, are recorded in policyholders' funds in the year in which they arise.

1.9 Owner-occupied property, plant and equipment

Plant and equipment is stated at cost less depreciation, which is calculated so as to write off the assets over their estimated useful lives.

Owner-occupied property held in equity shareholders' funds is stated at depreciated fair value and depreciated over its estimated useful life on a straight-line basis. Any fair value changes arising on the revaluation of other owner-occupied property are credited to a revaluation reserve in equity.

1.10 Intangible assets

Intangible assets, which comprise capitalised internally generated software development costs, are stated at cost less accumulated amortisation and impairment losses. The assets are amortised over their expected useful lives, not exceeding five years, on a straight line basis through the income statement, and are carried in the balance sheet at cost less accumulated amortisation and impairment losses.

1.11 Reinsurance

The Company cedes insurance in the normal course of business. 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.

1.12 Foreign currency

Foreign currency transactions and balances

Transactions in foreign currencies are converted to South African Rand at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into South African Rand at rates of exchange ruling at the balance sheet date. Exchange gains and losses on the translation of foreign currency assets and liabilities are disclosed as unrealised gains or losses and included in policyholders' funds or the revaluation reserve.

1 Accounting policies *(continued)*

1.12 Foreign currency (continued)

Foreign operations

The income statement and revenue account items of foreign branches are translated at the appropriate weighted average exchange rates for the year. Balance sheet items are translated at the ruling exchange rates at the balance sheet dates. Translation gains and losses are disclosed as part of unrealised gains and losses on investments and recognised in the income statement or policyholders' funds.

1.13 Liabilities in respect of insurance contracts

The valuation of liabilities in respect of insurance contracts are determined by the Company's valuator according to prevailing legislation and generally accepted actuarial practices. Further details are provided in note 2.

1.14 Taxation

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except for the initial recognition of assets or liabilities which affect neither accounting nor taxable profit or loss.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

Deferred taxation is calculated using taxation rates that have been enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax on unrealised capital gains or losses is provided in full and charged or credited to the revaluation reserve. Deferred tax arising on capital gains or losses on policyholder investments is included in the policy liabilities.

Current taxation is provided on the amount expected to be paid to or (recovered from) taxation authorities on the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

1.15 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 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.

1.16 Comparative figures

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

2 Notes to the report of the Statutory Actuary

2.1 Valuation basis

The valuation of insurance contracts was performed using the 'Financial Soundness Valuation' method, in accordance with PGN 104 issued by the Actuarial Society of South Africa (ASSA). This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus prescribed margins for prudence and further 'second-tier' margins. The result of the valuation method and assumptions is 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 have been valued at fair value, in accordance with the Addendum to PGN104. The assets and liabilities have been valued on methods and assumptions that are consistent with each other.

2.1.1 Valuation of assets

Securities and investment properties have been valued on the bases set out in note 1.7 and 1.8.

2.1.2 Valuation of liabilities

The major classes of business have been valued as follows:

- For group investment policies, liabilities were based on account balances at the valuation date.
- For individual policies where a portion of the premium is allocated to an accumulation account, liabilities were 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 was 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 provisions for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) were added to ensure consistency of the value of liabilities with the value of assets.
- For reversionary bonus with-profit policies, liabilities were 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 were added.
- For with-profit annuities, liabilities were 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 were added.
- For non-profit annuities, liabilities were determined by calculating the present value of projected future benefits and expenses. Expected future benefits were valued at interest rates based on the bond yield curve at the valuation date.
- For structured products, liabilities were derived from the market value of matching assets, plus an allowance for future expenses and margins.

Bonus stabilisation reserves have been calculated by adding the actual net investment return earned on assets backing smoothed bonus policies, 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 were 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 assumed for South African assurance business is 11% per annum (December 2002: 14%).

2 Notes to the report of the Statutory Actuary *(continued)*

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

- Our best-estimate of future experience, as described below, plus
- All the margins prescribed by the Actuarial Society of South Africa guidelines, plus
- Second-tier margins reflecting mainly the excess of capital charges over the prescribed investment margin of 0.25% for policies that are valued prospectively. These 'second-tier' 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.
- Other second tier margins, mainly held to cover:
    - mortality and investment return margins for Group Schemes funeral policies, because of the additional risk associated with this business,
    - expense margins in the pricing basis for Employee Benefits with-profit annuities,
    - margins on Individual Business accidental death and disability supplementary benefits, because of uncertainty about future experience, and
    - interest margins on Individual Business non-profit annuities, because of the inability to fully match assets to liabilities due to the limited availability of long dated bonds.

Liabilities include provisions to meet maturity and mortality guarantees, and make due allowance for potential lapses and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with Old Mutual'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 8% per annum escalation thereafter in South Africa (December 2002: 11%).

Old Mutual’s recent experience has been analysed in the following main experience investigations:

Business unit	*Type of investigation*	*Period of investigation*
Individual business	Flexi business mortality	2000
	Conventional business mortality	1999 to 2000
	Annuitant mortality	1999 to 2000
	Dread Disease	1998 to 2000
	Disability	1995 to 1999
	Persistency	2002
Group Schemes	Mortality	2002
	Persistency	2003
Employee Benefits	Annuitant Mortality	July 1996 to June 2000
	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 2003. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions.

2 Notes to the report of the Statutory Actuary *(continued)*

2.2 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 financial soundness valuation, of which adverse investment conditions are the most significant.

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

The investment resilience CAR is the single most significant component of the Company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions that would be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 15% decline in property values and a 3% increase in fixed-interest yields. 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. More extensive action is assumed under more adverse circumstances. In calculating the CAR as at 31 December 2003 it has been assumed that:

- an average of at least 56% of accrued non-vested bonuses as at the valuation date would have been removed (December 2002: 75%); and

- for fully vested products (with no non-vested bonuses), future bonuses would have been reduced by at least an average of 2.5% per year over the following 3 years (December 2002: 4%),

if asset values had declined as specified as at 31 December 2003, and had not subsequently recovered.

I certify that the off-setting management actions assumed above have been approved by specific resolution by the Board of directors, and that I am satisfied that actions of at least this extent would have been taken if the asset values had declined to the extent assumed at the valuation date and not subsequently recovered. The management actions assumed would have reduced liabilities as at 31 December 2003 by R15bn (December 2002: R21bn). This in turn reduced the capital requirement by R20bn (December 2002: R30bn).

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 80% in equities and 20% cash (December 2002: 100% equities). This change reflects the change in the allocation of assets backing the CAR which was implemented in 2003.

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)

2 Notes to the report of the Statutory Actuary *(continued)*

2.3 Changes to valuation assumptions

There were various changes and refinements to valuation assumptions and methodology. These largely offset each other resulting in a net increase in the value of liabilities of R116 million.

The main changes were as follows:

- Reduction in FSV economic assumptions reflecting the general reduction in inflation and interest rates in South Africa. The future gross investment return was reduced from 14% to 11% per annum and the expense escalation assumption was reduced from 11% to 8% per annum.
- Certain Individual Life mortality assumptions have been revised, reflecting on-going favourable experience.
- Some expense assumptions have been revised, reflecting recent actual experience and the effect of the proposed surplus apportionment scheme for the staff retirement fund.
- Other refinements to the valuation methodology.

2.4 Reconciliation of operating profit

The operating profit before tax in the report of the Statutory Actuary (page 15) is reconciled with the profit on ordinary activities for the year in the income statement (page 16) as follows:

R million	2003	2002
Items in the Statutory Actuary's Report		
Operating profit before tax	**3 516**	3 349
Changes in valuation basis	**(116)**	67
Operating profit before tax and investment income shown in the income statement and in note 4.	**3 400**	3 416

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

3	Operating profit	2003	2002
	is arrived at after taking into account:		
	Amortisation of capitalised software	**23**	19
	Auditors' remuneration	**8**	9
	Audit fees	**5**	6
	Other audit related services	**1**	1
	Secondments of staff	**1**	1
	Other non-audit related services	**1**	1
	Depreciation	**108**	79
	Interest paid	**76**	83
	Impairments	**72**	-
	Operating lease charges - equipment	**83**	63
	Staff costs	**1 643**	1 521
	Surplus/(loss) on sale of property, plant and equipment	**1**	(14)
	Technical and professional fees	**279**	338
	Monthly average number of employees	**11 347**	11 414

4	Analysis of operating profit	2003	2002
	Individual business	**2 430**	2 455
	Group business	**988**	962
		3 418	3 417
	Shareholder services	**(18)**	(1)
		3 400	3 416

R million

5 Investment income - equity shareholders' fund

	2003	2002
Dividends	**1 068**	1 137
- listed investments	**987**	1 124
- unlisted investments	**81**	13
Interest received	**164**	167
- unlisted investments	**164**	167
Net rental income	**3**	-
Net realised (losses)/gains	**(850)**	242
Market value fluctuation	**(613)**	111
- equities	**(613)**	103
- interest bearing instruments	**-**	8
Forex (losses)/gains	**(237)**	131
- equities	**207**	41
- interest bearing instruments	**(444)**	90
Included in income statement	**385**	1 546
Net unrealised losses		
Market value fluctuation	**(2 011)**	(3 131)
- equities	**(2 011)**	(3 130)
- interest bearing instruments	**-**	(1)
Forex (losses)/gains	**(1 098)**	(2 731)
- equities	**(1 235)**	(2 356)
- interest bearing instruments	**137**	(375)
Included in the revaluation reserve	**(3 109)**	(5 862)

Investment income from subsidiaries (included in equity shareholders' fund)

Dividends received	**338**	442
Realised (losses)/gains	**-**	(4)
Unrealised losses	**(733)**	(2 579)
	(395)	(2 141)

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

6	Taxation - equity shareholders' fund		2003	2002
	South African taxation			
	Normal income tax	- current year	**1 229**	513
		- prior year over provision	**(54)**	(39)
	Deferred taxation	- current year	**(164)**	418
		- prior year under provision	**71**	366
			1 082	1 258
	Capital gains tax	- current year	**7**	38
		- prior year (over)/under provision	**(19)**	3
			1 070	1 299

The Company has Secondary Tax on Companies (STC) credits which have arisen as a result of dividends received being in excess of dividends paid in the amount of R8 million (2002 : R595 million). Dividends to the value of this amount may be distributed without attracting STC.

Reconciliation of taxation rate on profit on ordinary activities

	%	%
Standard rate of taxation	**30.0**	30.0
Adjusted for:		
Prior year under provision	**2.8**	6.7
Exempt income	**(8.5)**	(11.4)
Disallowed expenses	**(0.2)**	0.2
Other	**4.1**	0.7
Effective tax rate	**28.2**	26.2

R million

7 Investments

Registers recording details of all investments, including property investments, are available for inspection at the Company's registered office.

7.1 *Analysis of investments*

	Available for sale	Designated as held for trading	Total	2002
South African	20 363	183 408	**203 771**	188 095
Investments in group undertakings	7 163	3 918	**11 081**	15 830
Nedcor Ltd	5 383	317	**5 700**	10 354
Mutual & Federal Insurance Company Ltd	2 103	9	**2 112**	1 898
Old Mutual plc	-	3 343	**3 343**	3 618
Other investments in group undertakings	(323)	249	**(74)**	(40)
Other financial investment assets	13 195	170 785	**183 980**	163 432
Equity investments - listed	11 036	83 899	**94 935**	86 013
- unlisted	1 193	12 027	**13 220**	12 952
Interest bearing instruments	71	67 651	**67 722**	54 074
Deposits and money market securities	895	7 208	**8 103**	10 393
Investment property	5	8 705	**8 710**	8 833
International	5 835	28 115	**33 950**	39 658
Investments in group undertakings	3 347	(145)	**3 202**	4 482
Old Mutual plc Medium Term Notes	3 347	134	**3 481**	4 461
Other investments in group undertakings	-	(279)	**(279)**	21
Other financial investment assets	2 488	28 260	**30 748**	35 176
Equity investments - listed	68	19 797	**19 865**	18 249
- unlisted	2 149	2 928	**5 077**	3 960
Interest bearing instruments	-	3 506	**3 506**	7 223
Deposits and money market securities	271	2 029	**2 300**	5 744
	26 198	211 523	**237 721**	227 753
Total investments				
Investments in group undertakings	10 510	3 773	**14 283**	20 312
Other financial investment assets	15 683	199 045	**214 728**	198 608
Investment property	5	8 705	**8 710**	8 833
	26 198	211 523	**237 721**	227 753

Included in other financial investment assets designated as held for trading are funds amounting to R6 918 million (2002 : R6 776 million) placed with group undertakings.

7.2 *Spread of investments in equities by sector*

	Available for sale	Designated as held for trading	Total	2002
Resources	3 709	30 649	**34 358**	29 365
Basic and general industrials	1 882	8 704	**10 586**	10 057
Cyclical and non-cyclical consumer goods	1 029	8 303	**9 332**	11 226
Cyclical and non-cyclical services	2 122	14 018	**16 140**	11 532
Financials	9 750	26 085	**35 835**	40 884
Information technology	30	652	**682**	1 244
Unlisted investments	1 184	4 089	**5 273**	6 202
Unit trusts	2 226	29 820	**32 046**	26 534
	21 932	122 320	**144 252**	137 044

R million

7 Investments *(continued)*

7.3 *Investment properties*

	2003	2002
Carrying amount at beginning of year	8 833	10 076
Additions	195	274
Disposals	(552)	(475)
Net gains/(losses) from fair value adjustments	234	(1 042)
Carrying amount at end of year	8 710	8 833

8 Property, plant and equipment

	2003	2002
Office equipment and other tangible assets		
Cost	738	732
Accumulated depreciation	(481)	(453)
Carrying amount	257	279
Carrying amount at beginning of year	279	254
Additions	199	228
Disposals	(115)	(125)
Depreciation	(106)	(78)
Carrying amount at end of year	257	279
Owner-occupied property		
Cost	109	96
Accumulated depreciation	(2)	(1)
Carrying amount	107	95
Carrying amount at beginning of year	95	-
Additions	5	96
Net gains from fair value adjustments	9	-
Depreciation	(2)	(1)
Carrying amount at end of year	107	95
Total property, plant and equipment	364	374

Included in the cost of owner-occupied property is land valued at R26 million (2002 : R26 million), which is not depreciated.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

9	Intangible assets	2003	2002
	Capitalised software		
	Cost	**161**	117
	Accumulated amortisation	**(122)**	(27)
	Carrying amount	**39**	90
	Carrying amount at beginning of year	**90**	49
	Additions	**44**	60
	Amortisation	**(23)**	(19)
	Impairments	**(72)**	-
	Carrying amount at end of year	**39**	90

10 Deferred taxation asset

		2003	2002
	Deferred taxation asset at beginning of year	**125**	286
	Current year release	**59**	153
	- utilisation of tax loss	**(34)**	(382)
	- provisions	**(54)**	(51)
	- CFC deferred income	**5**	(5)
	- unrealised income taxable gains	**247**	(33)
	- unrealised capital losses	**(105)**	624
	Prior year overprovision	**(178)**	(314)
	Deferred taxation asset at end of year	**6**	125
	Comprising:		
	- tax losses	**-**	88
	- provisions	**178**	249
	- unrealised capital gains	**(72)**	(324)
	- capital (gains)/losses	**(100)**	112
		6	125

11 Amounts due by group companies

		2003	2002
	Old Mutual South Africa Share Trust	**811**	812
	Old Mutual Group Achievements Limited	**365**	346
	Global Edge technologies (Proprietary) Limited	**24**	24
	Old Mutual Healthcare (Proprietary) Limited	**38**	18
	Old Mutual South Africa Limited	**185**	176
	Old Mutual Portfolio Holdings Limited	**101**	8
	Old Mutual Properties (Proprietary) Limited	**22**	-
	Old Mutual Life Assurance Company (Namibia) Limited	**9**	15
	Old Mutual plc	**57**	11
	Old Mutual Finance (Proprietary) Limited	**250**	109
	Other	**31**	37
		1 893	1 556

The Company has subordinated its loan to the Old Mutual South Africa Share Trust for the benefit of the creditors of the trust until such time as the assets of the trust, fairly valued, exceed its liabilities.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million	2003	2002
12 Share capital and premium	**2003**	2002
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 are not redeemable by the holder before 12 April 2004, but 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.

13 Liabilities in respect of contracts with policyholders

13.1 Composition of liabilities in respect of contracts with policyholders

	2003	2002
Insurance contracts	**143 027**	134 241
Individual	**70 504**	66 665
Group	**72 523**	67 576
Investment contracts	**71 679**	67 014
Individual	**50 353**	47 762
Group	**21 326**	19 252
Liabilities in respect of contracts with policyholders per balance sheet	**214 706**	201 255
Reinsurer's share of liabilities in respect of contracts with policyholders	**(4 447)**	(4 628)
Net liabilities in respect of contracts with policyholders	**210 259**	196 627

R million

13 Liabilities in respect of contracts with policyholders

13.2 Movement in net liabilities in respect of contracts with policyholders

	Note	2003	2002
Balance at beginning of year		**196 627**	223 223
Adjustment in respect of prior years		**(935)**	
Inflows		**56 119**	26 411
Premium income	*13.3*	**18 519**	21 375
Amounts received on investment contracts	*13.3*	**10 467**	12 012
Investment income	*13.5*	**26 836**	(7 317)
Other income		**297**	341
Outgo		**(41 552)**	(53 007)
Claims and policy benefits	*13.6*	**(32 771)**	(37 540)
Operating expenses	*13.7*	**(4 689)**	(4 402)
Currency translation loss		**(51)**	(91)
Other charges and transfers	*13.8*	**(363)**	(6 882)
Taxation	*13.9*	**(435)**	(841)
Transfer to operating profit		**(3 243)**	(3 251)
Balance at end of year		**210 259**	196 627

Included in liabilities in respect of contracts with policyholders is a deferred tax liability in respect of capital gains tax on unrealised capital gains and losses of R475 million (2002 : asset of R189 million).

The adjustment of R935 million in respect of prior years represents a correction to the manner in which the Company accounts for life business sold by its fellow subsidiaries. The correction has no impact on the operating profit or net assets of the Company nor does it impact on headline premiums reported at an Old Mutual plc level.

13.3 Premium income and amounts received on investment contracts

	South African operations	* Overseas operations	**Total 2003**	2002
Individual business	16 530	52	**16 582**	19 409
Single	6 558	18	**6 576**	9 786
Recurring	9 972	34	**10 006**	9 623
Group business	12 404	-	**12 404**	13 978
Single	8 825	-	**8 825**	10 215
Recurring	3 579	-	**3 579**	3 763
Total net premium income and amounts received on investment contracts	28 934	52	**28 986**	33 387

*** Comprises operations of Guernsey and Hong Kong branches.**

R million

13 Liabilities in respect of contracts with policyholders'

	South African operations	* Overseas operations	Total 2003	2002
13.4 New business on insurance and investment contracts				
Life business - direct				
Individual business	7 486	25	**7 511**	10 643
Single	5 588	18	**5 606**	8 785
Recurring	1 898	7	**1 905**	1 858
Group business	6 026	-	**6 026**	7 679
Single	5 799	-	**5 799**	7 384
Recurring	227	-	**227**	295
Total life business - direct	13 512	25	**13 537**	18 322
Other life licence business - single				
Individual business	970	-	**970**	1 001
Group business	3 026	-	**3 026**	2 832
Total life licence business	3 996	-	**3 996**	3 833
Total new business	17 508	25	**17 533**	22 155

Other life licence business comprises premiums and deposits received in respect of business sold by fellow subsidiaries of the Company using the life licence of the Company. The items included investment only business sold by Old Mutual Asset Managers (SA) (Proprietary) Limited and retirement annuity business sold by Fairbairn Capital (Proprietary) Limited and Old Mutual Unit Trust Managers Limited.

13.5 *Investment income (included in policyholders' funds)*

	2003	2002
Dividends	**2 818**	3 167
- listed investments	**2 586**	2 854
- unlisted investments	**232**	313
Interest received	**7 493**	7 131
- listed investments	**4 665**	4 501
- unlisted investments	**2 828**	2 630
Net rental income	**598**	559
Net realised gains/(losses)	**7 052**	10 489
- derivative instruments	**739**	(1 225)
- other	**6 313**	11 714
Unrealised gains/(losses)	**8 875**	(28 663)
- derivative instruments	**(918)**	(508)
- other	**9 793**	(28 155)
	26 836	(7 317)

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

13.5 *Investment income from subsidiaries (included in policyholders' funds)*

	2003	2002
Dividends received	**149**	171
Interest received	**18**	-
Realised gains	**-**	1
Unrealised gains/(losses)	**1 124**	(6 957)
	1 291	(6 785)

13.6 *Claims and policy benefits on insurance and investment contracts*

	2003	2002
Individual business	**17 581**	19 581
Death and disability benefits	**1 917**	2 202
Maturity benefits	**7 270**	8 769
Annuities	**3 284**	3 252
Surrenders	**5 110**	5 358
Group business	**15 190**	17 959
Death and disability benefits	**1 371**	1 251
Pension commutations, maturity and withdrawal benefits	**1 745**	1 551
Annuities	**2 428**	2 135
Surrenders	**9 646**	13 022
	32 771	37 540

13.7 *Operating expenses*

	2003	2002
Sales remuneration	**1 490**	1 358
Selling and marketing expenses	**599**	601
Administration expenses	**2 600**	2 443
	4 689	4 402

13.8 *Other charges and transfers*

	2003	2002
Assets transferred in respect of reinsurance agreement	**-**	6 702
Other	**363**	180
	363	6 882

13.9 *Taxation*

	2003	2002
South African taxation		
Current	**434**	843
Normal income tax	**188**	281
Capital gains tax	**(103)**	177
Retirement fund tax	**349**	385
Foreign taxation	**1**	(2)
	435	841

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

		2003	2002
13.10	*Capital adequacy and ratios*		
	Statutory capital adequacy requirements (SCAR)	**12 136**	13 937
	Shareholders' funds	**29 062**	31 662
	Times SCAR covered by shareholders' funds	**2.4**	2.3
	Shareholders' fund as a percentage of:		
	Liabilities in respect of contracts with policyholders	**14%**	16%
	Insurance contracts	**20%**	24%

		South African operations	* Overseas operations	**Total 2003**	2002
13.11	*Balance sheet (extracts)*				
	Investments	237 310	411	**237 721**	227 753
	Property, plant and equipment	364	-	**364**	374
	Intangible assets	39	-	**39**	90
	Reinsurer's share of liabilities in respect of contracts with policyholders	-	4 447	**4 447**	4 628
	Deferred taxation asset	6	-	**6**	125
	Current assets	6 926	61	**6 987**	5 828
	Total assets	244 645	4 919	**249 564**	238 798
	Equity shareholders' fund	29 059	3	**29 062**	31 662
	Liabilities in respect of contracts with policyholders	209 911	4 795	**214 706**	201 255
	Provisions	386	-	**386**	1 037
	Current liabilities	5 289	121	**5 410**	4 844
	Total equity and liabilities	244 645	4 919	**249 564**	238 798

*** Comprises operations of Guernsey and Hong Kong branches.**

R million

14 Provisions

	Restructuring and claims	Post retirement benefits	Other	**Total**
Balance at beginning of year	204	762	71	**1 037**
Amount utilised	(31)	(18)	(25)	**(74)**
Notional interest		68	12	**80**
Released		(149)	(13)	**(162)**
Charge	51	28	100	**179**
Establishment of plan asset		(674)		**(674)**
Balance at end of year	224	17	145	**386**

Restructuring and claims

The Company has recognised provisions totalling R224 million (2002 : R204 million) in relation to restructuring costs and potential claims arising in the ordinary course of business.

Post retirement benefits

The provision for post-retirement benefits represents the present value of accrued costs relating to the employer's medical aid contributions and mortgage bond subsidy in respect of pensioners and qualifying staff members, less the fair value of applicable plan assets. The release in the current year is attributable to a change in the rate of medical inflation used in the calculation of the liability. Refer to note 19.

Other provisions

Other provisions relate mainly to expenditure in connection with the discharge of responsibilities arising from undertakings made at the time of demutualisation in May 1999, and an anticipated loss relating to the matching of assets and liabilities associated with the Company's share incentive schemes.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2003

R million

15 Amounts due to group companies

	2003	2002
Old Mutual Specialised Finance (Proprietary) Limited	-	96
Other	-	3
The loans due to group companies above are unsecured, interest free and are not subject to fixed terms of repayment.		
Subordinated loans		
Old Mutual plc	**51**	59
The loan of £4.25 million (2002 : £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 Group (UK) Limited	**18**	21
The loan of £1.5 million (2002 : £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.		
	69	179

16 Cash generated by operations

	2003	2002
Earnings attributable to equity shareholders' fund per income statement	**2 715**	3 663
Transfer to policyholder's funds	**4 757**	2 768
Adjustments for:		
Depreciation and amortisation	**203**	98
Loss on sale of property, plant and equipment	**1**	14
Realised gains attributable to policyholders	**(6 202)**	(10 724)
Releases from provisions	**(651)**	(13)
Current taxation	**1 598**	1 355
Deferred taxation	**(93)**	786
	2 328	(2 053)
Working capital changes:	**(23)**	2 139
Net outstanding premiums and other debtors	**(305)**	3 044
Outstanding claims, policyholders' benefits and other creditors	**425**	(632)
Property, plant and equipment	**(98)**	(19)
Intangible assets	**(45)**	(254)
Cash generated by operations	**2 305**	86

17 Taxation paid

	2003	2002
Taxation payable at beginning of year	**(382)**	(1 104)
Taxation as per income statement and movement in policy liabilities	**(1 598)**	(1 355)
Taxation payable at end of year	**523**	382
	(1 457)	(2 077)

18 Dividends paid

	2003	2002
Dividends payable at beginning of year	**-**	(984)
Dividends as per income statement	**(1 994)**	(900)
Dividends payable at end of year	**-**	-
	(1 994)	(1 884)

19 Employee benefits

19.1 Pension benefits

Defined benefit and defined contribution plans registered in terms, of the relevant retirement fund legislation, provide retirement benefits for the Company's permanent employees. In terms of the Pension Funds Act, 1956 as amended, the defined benefit fund is actuarially valued every three years. The most recent valuation done in July 2003 confirmed that the fund was in a sound financial position.

19.2 Post-retirements benefits other than pensions

The Company subsidises medical aid contributions and provides mortgage bond benefits to qualifying employees beyond the date of retirement.

R million

19.3 Retirement benefit obligations - defined benefit pension plan

	2003	2002
Present value of obligations	**(110)**	(102)
Fair value of plan assets	**151**	165
Net asset not recognised in the balance sheet	**41**	63

The employer surplus on the defined benefit scheme has not been recognised on the balance sheet of the Company due to uncertainty regarding the final outcome of a Surplus Apportionment Exercise which is being carried out in terms of the Pension Fund Amendment Act of 2001.

19.4 Post-retirement benefit obligations

	2003		2002	
	Medical aid benefits	**Mortgage bond subsidy**	Medical aid benefits	Mortgage bond subsidy
Present value of obligations	**(671)**	**(20)**	(753)	(18)
Unrecognised actuarial losses	**-**	**-**	9	-
	(671)	**(20)**	(744)	(18)
Fair value of plan assets	**674**	**-**	-	-
Net asset/(liability) in balance sheet	**3**	**(20)**	(744)	(18)

19.5 Principal actuarial assumptions at the balance sheet date

Retirement benefit obligations - defined benefit pension plan

	2003	2002
Discount rate	**9.0%**	11.0%
Expected rate of return on plan assets	**10.0%**	12.0%
Expected rate of salary increases	**5.5%**	7.5%

R million

19 Employee benefits *(continued)*

19.5 Principal actuarial assumptions at the balance sheet date *(continued)*

Post-retirement benefit obligations	2003 Medical aid benefits	2003 Mortgage bond subsidy	2002 Medical aid benefits	2002 Mortgage bond subsidy
Discount rate	**9.0%**	**9.0%**	11.0%	11.0%
Expected rate of salary increases	**5.5%**	**N/A**	7.5%	N/A
Expected rate of return on plan assets	**9.0%**	**10.0%**	12.0%	12.0%
Expected rate of medical inflation	**9.0%**	**N/A**	12.0%	N/A

19.6 Amounts recognised in the income statement

Retirement benefit obligations - defined benefit pension plan	2003	2002
Current service cost	**6**	5
Interest cost	**10**	10
Expected return on plan assets	**(14)**	(16)
Net actuarial loss recognised in year	**(2)**	4
Additional contribution	**84**	-
	84	3

The additional contribution of R84 million represents the effect of the proposed Surplus Apportionment Exercise of the Old Mutual Pension, Spouses' and Provident Funds which was carried out in terms of the Pension Fund Amendment Act of 2001, and has recently been submitted to the Financial Services Board for approval.

Post-retirement benefits	2003 Medical aid benefits	2003 Mortgage bond subsidy	2002 Medical aid benefits	2002 Mortgage bond subsidy
Current service cost	**28**	**-**	37	-
Interest cost	**67**	**2**	77	2
Net actuarial (gain)/loss recognised in year	**(152)**	**3**	(57)	-
	(57)	**5**	57	2

20 Financial instruments and risk management

Effective risk management is integral to the Company's objective of consistently adding value to shareholders and policyholders. The focus of risk management is on identifying, assessing, managing and monitoring risk. Exposure to market risk and credit risk arises in the normal course of the Company's business.

20.1 Currency risk

The Company's 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.

Details of foreign currency contracts entered into are not separately disclosed, as the value of these contracts is not considered to be material.

20 Financial instruments and risk management *(continued)*

20.2 Interest rate risk

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

The following shareholders and policyholders investments, which are held at fair value, will be directly impacted by changes in market interest rates:

R million	2003	2002
Shareholders		
Government, municipal, corporate and utility stocks	3 417	4 311
Deposits and money market securities including interest bearing unit trusts	3 249	1 484
	6 666	5 795
Policyholders		
Government, municipal, corporate and utility stocks	61 128	55 823
Debentures	332	172
Loans	6 527	5 705
Deposits and money market securities including interest bearing unit trusts	16 843	14 837
	84 830	76 537

20.3 Derivatives

Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. The Company also uses derivatives in its portfolio management to hedge against market movements in the values of investment assets and as a means of effecting a change in the asset mix of its portfolios.

Derivative financial instruments used include futures contracts, options, swaps and forward exchange contracts. Derivative instruments are purchased only from counterparties which have been approved by the Company's Credit Committee.

The nominal value of derivative contracts

Non-trading contracts	*Behavioural analysis*				
R million	Under one year	One to five years	Over five years	Total notional amounts	Total fair value of amounts
2003					
Equity products					
Over the counter options purchased	2 416	(1 261)	-	1 155	3 455
Over the counter options written	(2 647)	(1 576)	-	(4 223)	(1 365)
Futures	(656)	-	-	(656)	(7)
	(887)	(2 837)	-	(3 724)	2 083

R million

20 Financial instruments and risk management *(continued)*

21.3 *Derivatives (continued)*

The nominal value of derivative contracts

Non-trading contracts	*Behavioural analysis*				
	Under one year	One to five years	Over five years	Total notional amounts	Total fair value of amounts
2002					
Equity products					
Over the counter options purchased	2 579	9 114	(26)	11 667	9 270
Over the counter options written	(2 629)	(11 273)	(24)	(13 926)	(4 361)
Futures	(285)	-	-	(285)	-
	(335)	(2 159)	(50)	(2 544)	4 909

20.4 *Counterparty analysis*

	2003	2002
Notional principal of derivatives		
Financial institutions	(3 068)	(2 259)
Safex	(656)	(285)
	(3 724)	(2 544)

20.5 *Credit risk*

Credit risk represents the risk that any counterparty may not be able to pay its obligations to the Company when due. Credit risk is managed through a process of establishing limits for exposure and monitoring that exposure.

The Company conducts scrip lending activities in respect of listed local equities and interest bearing instruments.

At 31 December 2003, 3.9% (2002 : 3.8%) of the market value of listed local equities held and 8.3% (2002 : 3.4%) of the value of interest bearing investments held had been lent to third parties and group undertakings.

20.6 *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow is tightly managed in order to control the liquidity risk to which the Company is exposed.

20.7 *Capital adequacy risk*

Statutory capital adequacy requirements were covered approximately 2.4 times (2002 - 2.3 times).

20.8 *Market risk*

The stock selection and investment analysis process is supported by a well-developed research function. Shareholders and policyholders investments in all listed shares and unit trusts are valued at market value and are therefore susceptible to market fluctuations. Shareholders operating profit is also impacted by the effect of equity market movements on changes to policyholders. Investments subject to market risk are analysed in note 7.

21 Related parties

Transactions

All transactions with group companies are conducted at arms length.

There were no material transactions with directors or their families during the current or previous financial year.

Holding company

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.

Subsidiaries

The principal subsidiaries of the Company are identified in note 25.

Fellow subsidiaries

The Company has reinsured substantially all of the liabilities in respect of contracts with policyholders of its Guernsey branch with a fellow subsidiary, Old Mutual International Guernsey Limited. The liabilities in respect of contracts with policyholders subject to the reinsurance agreement amounted to R4 447 million (2002 : R4 628 million).

The Company transacts with Old Mutual Specialised Finance (Proprietary) Limited (OMSFIN) in the normal course of its investing activities subject to an approved credit limit which takes into account the nature of OMSFIN's activities. The total exposure of the Company to OMSFIN at 31 December 2003 amounts to R11 billion (2002 : R7.8 billion).

Directors

The directors are listed in the Directors' report.

22 Contingent liabilities

The Company has no contingent liabilities other than those arising out of insurance contracts and other agreements entered into in the normal course of business and in respect of related litigation.

23 Share incentive schemes

In terms of a share incentive scheme which has been closed to new participants, options on shares in Old Mutual Group Achievements Ltd (OMGA) were granted to senior management where considered appropriate. The major assets of OMGA are two endowment policies with the Company and listed shares in Old Mutual plc. The return on the policies is related to the growth in the Company's shareholder's fund.

The Old Mutual plc Group Share Incentive Scheme implemented during 1999 offers key employees of the Company the right to acquire Old Mutual plc shares.

24 Post balance sheet event

On 20 January 2004, Old Mutual (South Africa) Limited (OMSA), on behalf of itself or its nominee, indicated a firm intention to make an offer to acquire all of the Mutual & Federal Insurance Company Limited (M&F) shares not already owned by the OMSA Group. Agreement has been reached with Royal & Sun Alliance to purchase its current 37% holding of M&F shares. In addition, an offer of R17.50 a share will be made to acquire the remaining shares from other minority shareholders. The Company presently holds 50.26% of M&F's issued ordinary shares through its subsidiary M&F Investments Limited. It is anticipated that OMSA will nominate M&F Investments Limited to make the offer. The total consideration will be approximately R2 billion.

25 Interest in principal subsidiaries

	Number of issued ordinary shares	% interest	Carrying value of shares	Due by/(to) subsidiaries
2003			R million	R million
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	245 180 824	50%	2 112	-
Unlisted				
Barprop Limited	465 992	100%	(22)	-
Millstream Limited	115 000 000	100%	155	-
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	10 578	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	3 520	-
Old Mutual Technology Holdings Limited	10 000	100%	(138)	338
Omibon (No. 13) (Proprietary) Limited	100	100%	-	113
Rodina Investments Limited	100 000	100%	2 110	(467)
Just Now Investments (Proprietary) Limited	20 000	100%	-	208

2002				
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	243 340 520	51%	1 814	-
Unlisted				
Barprop Limited	465 992	100%	470	(219)
Millstream Limited	115 000 000	100%	707	-
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	9 455	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	4 452	-
Old Mutual Technology Holdings Limited	10 000	100%	(144)	348
Omibon (No. 13) (Proprietary) Limited	100	100%	-	103
Rodina Investments Limited	100 000	100%	2 206	(310)