

Financial Statements

31 December 2008



Old Mutual Life Assurance Company

(South Africa) Limited



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1999/004643/06

Corporate governance report

Introduction

The Company has a balanced unitary board comprising a majority of independent and non-executive directors. The independent non-executive Chairman of the Board, is Prof A H van Wyk.

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

The Board of Directors

Role

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

Selection and succession planning

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

Rotation and retirement

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

Performance and assessment

The Board meets regularly, having met for five scheduled meetings during 2008, including sessions specifically devoted to strategy and business planning as well as people and customer issues. It may also meet, and did meet, as and when required to deal with specific matters that may arise between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted on an annual basis.

Access to company resources

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

Chairman and Managing Director

The roles of the Chairman and Managing Director are separate.

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

Corporate governance report

Board committees

Purpose

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

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

Audit, Risk and Compliance Committee

Members: Mr I B Skosana (Chairman), Dr D Konar, Ms A A Maule, and Mr G S van Niekerk.

The committee, chaired by Mr Skosana, an independent director, comprises a majority of independent directors, who met four times during the year with senior management, which included the Managing Director, certain senior executive management, the Statutory Actuary, the Finance Director, the Chief Internal Auditor, the Group Compliance Officer and the Chief Risk Officer. Representatives from Old Mutual plc management also normally attend meetings of this committee. The committee was formerly chaired by Dr Konar, who, in line with good governance practices with respect to the principle of rotation, was substituted by Mr I B Skosana, also an independent director. The external and internal auditors attend these meetings and have unrestricted access to the committee and to its chairman. Ad hoc meetings are held as required.

Principal functions

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

Remuneration Committee

Members: Ms A A Maule (Chairperson) and Prof G J Gerwel.

The Remuneration Committee comprises of one non-executive director and one independent director and meets as often as necessary. It met formally twice during the year. Where necessary, certain decisions were passed by written resolution.

Principal functions

A structure is in place in which the Remuneration Committee meets only once a year and focuses on remuneration strategy, talent management and succession planning. The other functions of the Committee are split between the Old Mutual plc Remuneration Committee and Old Mutual (South Africa) Remuneration Management Committee. The Remuneration Management Committee will deal with remuneration issues governing all Old Mutual (South Africa) Ltd Group staff, excluding the Managing Director, whose remuneration is determined by the Remuneration Committee of Old Mutual plc.

Corporate governance report

Board committees (continued)

Corporate Governance and Nomination Committee

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

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

Principal functions

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

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

Environment Committee

Members: Prof G J Gerwel (Chairman), Mr P B Hanratty, Ms A A Maule, Mr J Naidoo, Ms R N Ntshingila and Prof A H van Wyk.

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

Principal functions

This committee provides input to the development of business strategy in respect of external stakeholders excluding customers, in particular government relations and transformation issues. It is expected to review and to provide input to the consideration of the political and regulatory environment.

Committee for Customer Affairs

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

This committee, chaired by Prof van Wyk, an independent director, and comprising only independent directors, meets as often as necessary and met five times during the year.

Principal functions

This committee was established in September 2006 to review, inter alia, the extent to which the Company is providing acceptable value for money to its customers and the extent to which customers are being treated fairly. The committee also reviews, approves and monitors compliance with the Company's Principles and Practices of Financial Management, which was finalised in November 2007 and which, in accordance with the Financial Services Board (FSB) Directive 147.A.i, sets out the nature of discretion retained by the Board and the parameters within which this discretion would be used in relation to discretionary participation products.

Corporate governance report

Internal control environment

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

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

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

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

Approach to risk management

Creating long-term shareholder and policyholder value is the Company's overriding business objective and the Company derives its approach to risk management and control from a shareholder value perspective.

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

The Company operates a risk management framework, which contains the following components: (i) a robust risk governance structure; (ii) methodologies that focus on risk identification, risk assessment, risk response, action control plans; (iii) company-wide risk categorization model (iv) monitoring and reporting and (v) whistle-blowing.

Risk governance

A risk governance model based on a strategy of "three lines of defence", complements the formal governance structures described above. This model distinguishes between functions owning and managing risks, functions overseeing the risks, management frameworks, reporting processes and functions providing independent assurance.

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

Corporate governance report

Internal control environment (continued)

Risk governance (continued)

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

Risk appetite

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

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

Risk policies

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

Risk methodologies

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

Risk identification

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

Risk assessment and response

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

Monitoring and reporting

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

Other risk reporting includes:

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

Corporate governance report

Internal control environment (continued)

Risk methodologies (continued)

Monitoring and reporting (continued)

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

Whistle blowing

Old Mutual aims to create a climate where workplace concerns and irregularities can be reported safely and without fear of retribution and victimisation. This culture has already been adopted with the establishment of Old Mutual's core values, a Code of Ethics and other policies such as the anti-Fraud, Whistle-Blowing, Conflicts of Interest, Gifts and anti-Money Laundering Policies. The Company has provided an employee reporting mechanism through an independent anonymous hotline to ensure that employees can remain anonymous when reporting irregularities, and has a dedicated team to investigate and follow up on reports received.

Employment policies

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

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

- The Company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and to the future of the Company.
- Employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity, and the Company's practices are cognisant of this.
- The Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Company. Employee involvement and consultation is managed in a number of ways, including in-house publications, briefings, road shows and intranet. In many parts of the business, employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them.
- The efforts of the individual in helping to create the success of the Company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals and the performance of the area of the business in which they work.
- The training and development of all employees remains a priority. The Old Mutual Business School was founded because the process of developing business staff and leaders requires a holistic learning experience that is aligned with core competencies, business objectives and Company strategies, thereby ensuring that the growth and development of the organisation remains sustainable.
- Employees are annually required to sign and accept the "Hlonipha ikhaya" Code of Conduct introduced by the Company in 2007. "Hlonipha ikhaya" means "respect this house". By doing so, employees agree to adhere to the key Company staff policies that are published on the Company intranet, GroupNet.

Corporate governance report

Life assurance

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

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

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

Governance of smoothed bonus policyholder funds

Smoothed bonus products constitute a significant proportion of the Company's business. The Board's Committee for Customer Affairs considers amongst others the interests of discretionary participation policyholders and reviews key decisions and recommendations affecting the interests of these policyholders.

Old Mutual published a Principles and Practices of Financial Management (PPFM) document for the first time towards the end of 2007. This document is a requirement of the FSB (in terms of Directive 147.A.i), and covers smoothed bonus and other discretionary participation business. The purpose of the document is to define the principles and practices of financial management that are currently applied in the management of Old Mutual's discretionary participation business, and to disclose the nature and extent of discretion used and the parameters within which it will be used. The Committee for Customer Affairs provides the Board with an independent assessment of compliance with the PPFM on an annual basis. The Board, in turn, reports on the extent of compliance with the PPFM in the Company's annual statutory return to the FSB.

Specific steps are taken to ensure that policyholder funds in respect of smoothed bonus business are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

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

Corporate governance report

Governance of smoothed bonus policyholder funds (continued)

- Any surplus attributable to shareholders is only transferred from policyholder funds to shareholder funds on the recommendation of the Statutory Actuary, with the final amounts of the transfer being confirmed following the production of interim and year-end results. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities. These liabilities include provision for any guarantees that may apply.
- The Company pays particular attention to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the Company manages these products ensures that information is produced on the financial strength of its smoothed bonus funds and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. Investment returns credited to policyholder funds, after deducting applicable charges and tax, that are not declared as bonuses are retained in bonus stabilisation reserves, which are used to support subsequent bonus declarations.

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 which covers operational activities of the OMSA business on its social, transformation, ethical, health and safety and environmental policies and practices.

This report also covers concerted efforts to offer financial services delivered to customers, employees, government and shareholders. The Old Mutual Group subscribes to a code of ethics which is available to all staff.

Remuneration report

Directors' emoluments

	R' 000	R' 000
	2008	2007
<i>Non-executive directors</i>		
Fees	2 401	1 519
<i>Executive directors</i>		
Salary	9 196	4 881
Bonus	12 084	4 538
Gains on share options and restricted shares exercised	3 631	11 618
Retirement and related benefits	3 901	688
Total directors' emoluments	31 213	23 244
<i>Fees paid to non-executive directors were as follows:</i>		
G J Gerwel	230	206
I A Goldin (appointed 14 February 2008)	171	-
D Konar	360	317
A A Maule	275	239
J Naidoo	175	96
R N Ntshingila	163	31
G T Serobe	160	141
I B Skosana	267	19
G S van Niekerk	275	212
A H van Wyk (Chairman)	325	258
	2 401	1 519

R' 000

2008	Gains on share options and restricted shares exercised				Retirement and related benefits	Total
	Salary	Bonus				
<i>Executive directors' total emoluments comprise:</i>						
P B Hanratty *	2 889	4 281	600	337	337	8 107
P G de Beyer (retired 30 September 2008)	1 835	2 977	3 031	3 071	3 071	10 914
T Dloti (appointed 14 February 2008)	1 972	1 761	-	245	245	3 978
D C Radley (appointed 1 March 2008)	2 500	3 065	-	248	248	5 813
	9 196	12 084	3 631	3 901	3 901	28 812

R' 000

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

* the bonus of Mr P B Hanratty is made up of an award of restricted shares of 45% (2007: 60%), share options of 15% (2007: 20%) and a cash component of 40% (2007: 20%). The restricted shares awarded are retained until the third anniversary of the award date provided Mr P B Hanratty remains employed by the Company until the third anniversary of the award date. 100% of the options granted on the award date will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2008 and 31 December 2010 (2007: 1 January 2007 and 31 December 2009). The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

Remuneration report

Directors' interests under Employee Share Plans

The following Share Option and Deferred Delivery Plan grants in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2008:

	R	Date of	Number of	Dates deliverable		R' 000
	Offer price	grant	shares			Gains on
			outstanding			current year
						settlements
<i>Executive directors</i>						
P B Hanratty	11.77	03/03/04	212 596	03/03/2007 - 03/03/2010	1	-
	14.50	26/04/05	159 484	26/04/2008 - 26/04/2011	2	-
	21.65	29/03/06	181 871	30/03/2009 - 29/03/2012	3	-
	23.40	30/03/07	114 895	31/03/2010 - 30/03/2013	4	-
	19.10	03/04/08	359 599	04/03/2011 - 03/04/2014	5	-
P G de Beyer (retired 30 September 2008)	14.50	26/04/05	103 449	26/04/2008 - 26/04/2011	2/6	-
	21.65	29/03/06	118 317	30/03/2009 - 29/03/2012	3/6	-
	23.40	30/03/07	69 718	31/03/2010 - 30/03/2013	4/6	-
	19.10	03/04/08	140 005	04/03/2011 - 03/04/2014	5/6	-
T Dloti	11.77	03/03/04	82 037	03/03/2007 - 03/03/2010	1	-
	14.50	26/04/05	150 518	26/04/2008 - 26/04/2011	2	-
	21.65	29/03/06	157 044	30/03/2009 - 29/03/2012	3	-
	23.40	30/03/07	115 385	31/03/2010 - 30/03/2013	4	-
	19.10	03/04/08	221 638	04/03/2011 - 03/04/2014	5	-
	13.80	28/08/08	163 587	29/08/2011 - 28/08/2014	5	-
D C Radley	19.10	03/04/08	251 309	04/03/2011 - 03/04/2014	5	-
Total						-

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

- 50% of the share entitlements granted on 3 March 2004 were deliverable as the Old Mutual plc Group's earnings per share increased by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2004 and 31 December 2006, and 50% of the allocation of the share entitlements granted on 3 March 2004 were deliverable as the Old Mutual plc Group's earnings per share expressed in SA Rands increased by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2004 and 31 December 2006. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.
- 50% of the share entitlements granted on 26 April 2005 were deliverable as the Old Mutual plc Group's earnings per share increased by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2005 and 31 December 2007, and 50% of the allocation of the share entitlements granted on 26 April 2005 were deliverable as the Old Mutual plc Group's earnings per share expressed in SA Rands increased by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2005 and 31 December 2007. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.
- 100% of the share entitlements granted on 29 March 2006 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2006 and 31 December 2008. The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.
- 100% of the share entitlements granted on 30 March 2007 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2007 and 31 December 2009. The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.
- 100% of the share entitlements granted on 03 April 2008 and 28 August 2008 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2008 and 31 December 2010. 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.
- grants to Mr P G de Beyer have vested and he has until 31 October 2009 to exercise these.

Remuneration report

Directors' interests under Employee Share Plans (continued)

The following Restricted Share Plan awards in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2008:

	Date of grant	Number of shares outstanding	Dates exercisable		R' 000 Gains on current year settlements	
<i>Executive directors</i>						
P B Hanratty	03/03/04	41 260	03/03/2007 - 03/03/2009	1	328	
	16/03/04	-	16/03/2007 - 16/03/2009	2	272	
	26/04/05	43 678	26/04/2008 - 26/04/2010	3	-	
	26/04/05	47 845	26/04/2008 - 26/04/2010	4	-	
	29/03/06	39 717	29/03/2009	6	-	
	29/03/06	54 562	29/03/2009	7	-	
	30/03/07	164 619	30/03/2010	9	-	
	03/04/08	323 639	03/04/2011	10	-	
	P G de Beyer (retired 30 September 2008)	26/04/05	-	26/04/2008 - 26/04/2010	3	601
		26/04/05	-	26/04/2008 - 26/04/2010	4	443
29/03/06		-	29/03/2009	6/ 12	314	
29/03/06		-	29/03/2009	7/ 12	311	
30/03/07		-	30/03/2010	8/ 12	183	
30/03/07		-	30/03/2010	9/ 12	199	
03/04/08		-	03/04/2011	10/ 12	980	
T Dloti	03/03/04	73 833	03/03/2007 - 03/03/2009	1	-	
	16/03/04	14 744	16/03/2007 - 16/03/2009	2	-	
	26/04/05	8 540	26/04/2008 - 26/04/2010	3	-	
	26/04/05	45 156	26/04/2008 - 26/04/2010	4	-	
	19/10/05	510 370	19/10/2009 - 19/10/2011	5	-	
	29/03/06	47 114	29/03/2009	7	-	
	30/03/07	34 616	30/03/2010	9	-	
	03/04/08	107 012	03/04/2011	10	-	
	28/08/08	163 587	28/08/2013	11	-	
	D C Radley	03/04/08	150 786	03/04/2011	10	-
Total					3 631	

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

- restricted shares awarded on 3 March 2004, as an alternative to grants under the Deferred Delivery Plan, would be delivered over the period between 3 March 2007 and 3 March 2009 and are entitled to dividends.
- restricted shares awarded on 16 March 2004, in terms of the Deferred Short Term Incentive, would be delivered over the period between 16 March 2007 and 16 March 2009 and are entitled to dividends.
- restricted shares awarded on 26 April 2005, in terms of the Deferred Short Term Incentive, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.
- restricted shares awarded on 26 April 2005, as an alternative to grants under the Share Option Plan, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.
- restricted shares awarded on 19 October 2005, in terms of the Senior Black Management Share Plan, would be deliverable in 3 equal instalments on 18 October 2009; 18 October 2010 and 18 October 2011 and are entitled to dividends.
- restricted shares awarded on 29 March 2006, in terms of the Deferred Short Term Incentive, would be deliverable on 29 March 2009 and are entitled to dividends.
- restricted shares awarded on 29 March 2006, as an alternative to share options under the Management Incentive Share Plan, would be deliverable on 29 March 2009 and are entitled to dividends.
- restricted shares awarded on 30 March 2007, in terms of the Deferred Short Term Incentive, would be deliverable on 30 March 2010 and are entitled to dividends.
- restricted shares awarded on 30 March 2007, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 30 March 2010 and are entitled to dividends.
- restricted shares awarded on 3 April 2008, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 3 April 2011 and are entitled to dividends.
- restricted shares awarded on 28 August 2008, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 28 August 2013 and are entitled to dividends.
- restricted shares are delivered from the effective date of retirement on 31 October 2008.

Statement of Directors' responsibilities

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

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

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

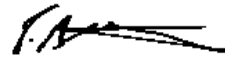
The Board has satisfied itself that the Company has adequate resources to continue as a going concern and has no reason to believe the business will not be a going concern in the year ahead.

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

The annual financial statements for the year ended 31 December 2008 set out on pages 16 to 79 were approved by the Board of Directors on 2 March 2009 and are signed on its behalf by:



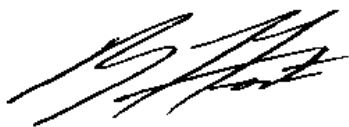
A H van Wyk
Chairman



P B Hanratty
Managing Director

Certificate by the Company Secretary

I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, for the year ended 31 December 2008.



R F Foster
Company Secretary
2 March 2009

Independent Auditor's Report

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

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited set out on pages 16 to 79, which comprise the balance sheet at 31 December 2008, and the income statement, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' Report.

Directors' responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

Adverse opinion on financial statements prepared in accordance with International Financial Reporting Standards

In our opinion, because consolidated financial statements have not been prepared, the financial statements do not present fairly the financial position of the Company at 31 December 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2008, and its financial performance and cash flows for the year then ended, in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor



Per GM Pickering
Chartered Accountant (SA)
Registered Auditor
Director
2 March 2009

1 Mediterranean Street
Foreshore
Cape Town
8001

Statutory Actuary's Report

I have conducted an actuarial review of the Company as at 31 December 2008, according to applicable guidelines issued by the Actuarial Society of South Africa. Contracts classified as insurance and investment contracts with discretionary participation features have been valued using the Financial Soundness Valuation (FSV) method. Contracts classified as investment contracts (without discretionary participation in profit) have been valued at fair value as per IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in note 3 to the annual financial statements, which can be found on pages 34 to 38. Prices used in the calculation of market-consistent investment guarantee reserves are provided in note 42 on page 79.

	Rm		Rm	
	2008 Published	2008 Statutory	2007 Published	2007 Statutory
Actuarial balance sheet				
Total value of assets	378 973	377 153	415 605	413 963
Total value of liabilities	(332 582)	(329 266)	(362 513)	(359 425)
Actuarial value of policy liabilities	(317 129)	(314 044)	(340 855)	(338 011)
Unsecured subordinated callable notes	(3 000)	(3 000)	(3 000)	(3 000)
Provisions and other liabilities	(12 453)	(12 222)	(18 658)	(18 414)
Excess of assets over liabilities	46 391	47 887	53 092	54 538
Less : Inadmissible for statutory solvency purposes		206		299
: Limits on Group Undertakings		8 079		12 200
Add : Unsecured subordinated callable notes		3 000		3 000
Excess assets (Statutory basis)		42 602		45 039
Statutory capital adequacy requirements (CAR)		11 176		11 739
Ratio of excess assets to CAR		3.8		3.8

Notes:

- Certain of the 2008 figures for inadmissible assets and limits in respect of Group Undertakings and the resulting calculations are estimates. 2007 numbers have been restated with the actual calculation of the limits for that year. Furthermore, the inadmissible assets for 2007 have been restated to exclude 'excess over associate limits', in line with the FSB's main definition for calculating statutory cover. The Company previously included it to show the combined effect of two separate solvency tests. The FSB requests a separate impairment to be calculated, to the extent that individual asset classes backing non-linked liabilities exceed specified percentages.
- A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 3.1.
- The composition of the assets backing the CAR is 31% in local equities and 69% in local cash (2007: 43% local equities, 6% international cash and 51% local cash).

Certification of statutory financial position

I hereby certify that:

- the valuation on the Statutory basis of the Company as at 31 December 2008, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's Report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes; and
- the Company was financially sound on the Statutory basis as at the valuation date, and in my opinion is likely to remain financially sound on the Statutory basis for the foreseeable future.



G S Palser

Statutory Actuary

BBusSc (Hons), FIA, FASSA

Cape Town

2 March 2009

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 2008.

Business activities

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

Results of operations

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

Consolidated annual financial statements

The Company is a wholly-owned subsidiary of another South African company. The Company is ultimately wholly-owned by Old Mutual plc, which is itself registered in South Africa as an external company and produces consolidated financial statements which incorporate the results of the Company and its subsidiaries and which comply with International Financial Reporting Standards (IFRS). These consolidated financial statements can be obtained directly from Old Mutual plc, 5th floor, Old Mutual Place, 2 Lambeth Hill, London, EC4V 4GG, United Kingdom.

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

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

Details of the Company's interest in its principal subsidiaries and associates are set out in note 40.

Holding company

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

Share capital

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

Dividends

Ordinary shares

Dividends on ordinary shares amounting to R 2 021 million (2007: R 8 294 million) were declared during the year.

Preference shares

Dividends on preference shares amounting to R 902 million (2007: R 100) were declared during the year.

Directors' Report *(continued)*

Post balance sheet events

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

Directors

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

On 14 February 2008 Mr I A Goldin was appointed as an independent director of the Company. ⁶

On 1 March 2008 Ms D C Radley was appointed as an executive director of the Company.

On 9 September 2008 Mr J H Sutcliffe resigned as Chairman and as a non-executive director of the Company. ^{□○}

On 30 September 2008 Mr P G de Beyer resigned as an executive director of the Company. ^Δ

On 4 November 2008 Mr M Mittal resigned as a non-executive director of the Company. [†]

On 18 November 2008 Mr R M Head resigned as a non-executive director of the Company. ⁶

On 19 November 2008 Mr A S Birrell was appointed as a non-executive director of the Company.

On 1 January 2009 Mr J V F Roberts was appointed as a non-executive director of the Company. ^{□○}

The directors currently holding office are:

Non-executive directors

A S Birrell

G J Gerwel ^{□Δ}

G T Serobe [○]

J V F Roberts*

Executive directors

P B Hanratty (Managing Director) (Irish) ^Δ

T Dloti

D C Radley

Independent directors

A H van Wyk (Chairman) ^{○Δ6}

D Konar ^{†○6}

A A Maule ^{†□Δ}

J Naidoo ^Δ

R N Ntshingila ^Δ

I B Skosana [†]

G S van Niekerk ^{†6}

I A Goldin ⁶

- † Member of the Audit, Risk and Compliance Committee
- Member of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee
- Δ Member of the Environment Committee
- 6 Member of the Customer Affairs Committee

*Member of the Old Mutual plc Board of Directors

In terms of the Articles of Association, G S van Niekerk, G J Gerwel, A A Maule, G T Serobe and P B Hanratty are due to retire at the Annual General Meeting. A S Birrell, T Dloti, I A Goldin and D C Radley, J V F Roberts having been appointed during the year, also resign at the Annual General Meeting. All being eligible, and having been recommended for re-election by the Board of Directors, offer themselves for re-election.

Company Secretary

Mr R F Foster is the Company Secretary.

Business address: Mutualpark
Jan Smuts Drive
Pinelands
7405

Postal address: PO Box 66
Cape Town
8000

Income statement

for the year ended 31 December 2008

	Notes	Rm 2008	Rm 2007
Revenue			
Gross earned premiums	4.2	23 248	20 022
Outward reinsurance premiums	18	(602)	(503)
<i>Net earned premium</i>		22 646	19 519
Investment income (net of investment losses)	6	(2 534)	44 497
Fee and commission income	7	2 917	2 694
Other income	8	297	41
Total revenue		23 326	66 751
Expenses			
Claims and benefits (including change in insurance contract provisions)		(10 003)	(38 999)
Reinsurance recoveries	18	468	436
<i>Net claims incurred</i>		(9 535)	(38 563)
Change in provision for investment contract liabilities	28	3 697	(11 191)
Finance costs	9	(285)	(347)
Commissions and other acquisition costs	10	(2 110)	(1 950)
Operating and administration expenses	11	(5 717)	(5 815)
Total expenses		(13 950)	(57 866)
Non-operating items	12	-	287
Profit before tax		9 376	9 172
Income tax expense	13	(994)	(2 774)
Profit for the financial year		8 382	6 398

Balance sheet

at 31 December 2008

	Notes	Rm 2008	Rm 2007
Assets			
Intangible assets	14	25	43
Investment property	15	17 407	14 740
Property and equipment	16	3 425	3 208
Deferred tax asset	17	685	696
Reinsurance contracts	18	341	292
Deferred acquisition costs	19	1 267	1 167
Loans and advances	20	637	938
Investments and securities	21	338 933	384 309
Other assets	23	6 726	5 031
Derivative financial instruments - assets	24	1 592	105
Amounts due by group companies	22	4 497	928
Cash and cash equivalents	25	3 438	4 148
Total assets		378 973	415 605
Liabilities			
Insurance contract liabilities	27	143 062	154 064
Investment contract liabilities	28	176 769	190 903
Borrowed funds	32	3 000	3 000
Post employment benefits obligation	29	82	77
Share-based payment liabilities	31	149	468
Provisions	33	1 010	1 514
Deferred revenue on investment contracts	34	231	244
Deferred tax liability	17	2 136	3 445
Current tax payable		1 269	1 505
Other liabilities	35	4 293	3 807
Derivative financial instruments - liabilities	24	125	1 703
Amounts due to group companies	22	456	1 783
Total liabilities		332 582	362 513
Net assets		46 391	53 092
Shareholders' equity			
Share capital and premium	36	6 254	6 254
Share-based payment reserve		481	481
Other reserves		7 174	19 334
Retained earnings		32 482	27 023
Total equity		46 391	53 092

Statement of changes in equity

for the year ended 31 December 2008

Rm

	Share capital and premium	Other reserves	Retained earnings	Share-based payment reserve	Total
2008					
Shareholders' equity at beginning of year	6 254	19 334	27 023	481	53 092
Changes in equity arising in the year:					
Gross fair value losses: financial assets available-for-sale		(8 351)			(8 351)
Revaluation of owner-occupied property		153			153
Shadow accounting		(138)			(138)
Fair value gains recycled to profit on disposal or impairment		(4 085)			(4 085)
Aggregate tax effect of items taken directly to or transferred from equity		261			261
Net income recognised directly in equity		(12 160)	-		(12 160)
Profit for the financial year			8 382		8 382
Total recognised income and expense for the year		(12 160)	8 382		(3 778)
Dividends			(2 923)		(2 923)
Shareholders' equity at end of year	6 254	7 174	32 482	481	46 391

Rm

Other reserves comprise:	2008
Available-for-sale revaluation reserve	7 102
Property revaluation reserve	72
Attributable to equity holders of the Company at end of the year	7 174

2007

Rm

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

Rm

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

Statement of cash flows

for the year ended 31 December 2008

		Rm	Rm
	Notes	2008	2007
Cash flows from operating activities			
Profit before tax		9 376	9 172
Non-cash movements and adjustments to profit before tax	37.1	(21 753)	(17 023)
Changes in working capital	37.2	(6 380)	3 729
Dividends received		6 580	4 597
Interest received		14 554	12 678
Interest paid		(285)	(347)
Taxation paid	37.3	(2 267)	(2 311)
Net cash (used in)/from operating activities		(175)	10 495
Cash flows from investing activities			
Proceeds from disposal of financial assets		163 861	40 437
Acquisition of financial assets		(159 037)	(39 485)
Net (acquisition)/disposal of investment property		(2 196)	(763)
Proceeds from disposal of investment property		4	166
Acquisition of investment property		(2 200)	(929)
Proceeds from disposal of property and equipment		82	172
Acquisition of property and equipment		(268)	(283)
Acquisition of intangible assets		(54)	(40)
Net cash from investing activities		2 388	38
Cash flows from financing activities			
Dividends paid to Company's shareholders	37.4	(2 923)	(8 294)
Net cash used in financing activities		(2 923)	(8 294)
Net (decrease)/increase in cash and cash equivalents		(710)	2 239
Cash and cash equivalents at beginning of year		4 148	1 909
Cash and cash equivalents at end of year		3 438	4 148

Notes to the annual financial statements

for the year ended 31 December 2008

1 General information

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

2 Accounting policies

2.1 Statement of compliance

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

2.2 Basis of preparation

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

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

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

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

2.3 Revenue

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

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

2.4 Insurance and investment contracts

2.4.1 Classification of contracts

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

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

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments.

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

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Premiums on contracts

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

Outward reinsurance premiums are recognised when due for payment.

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

2.4.3 Revenue on investment management service contracts

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

2.4.4 Claims paid on contracts

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

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

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

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

2.4.5 Insurance contract liabilities

Insurance contract liabilities are measured using the Financial Soundness Valuation (FSV) method as set out in the guidelines issued by the Actuarial Society of South Africa in Professional Guidance Note (PGN) 104 (version 7). Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also measured using the FSV method. Surplus allocated to policyholders but not yet distributed (i.e. bonus stabilisation reserves) related to these contracts is included in the carrying value of liabilities.

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

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

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.4 Insurance and investment contracts (continued)

2.4.5 Insurance contract liabilities (continued)

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur. These are described in more detail in the notes to the Statutory Actuary's Report on page 34 to 38 and in the note on insurance risk management on pages 76 to 79.

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

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

2.4.6 Investment contract liabilities

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

2.4.7 Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the sale of contracts.

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

2.4.8 Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset if they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs represent the contractual right to benefit from providing investment management services and are amortised as the related revenue is recognised over periods of between 5 and 10 years.

2.5 Intangible assets

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

Intangible assets are amortised over their current useful life of 3 years on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period, residual values and the amortisation method are reviewed at least each financial year-end. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

Subsequent expenditure on capitalised intangible assets is capitalised only when it meets the criteria listed above.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.6 Investment property

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

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

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition. Property developments are valued in a similar manner to income generating assets except where information about future net income cannot be determined with sufficient confidence, in which case fair value will be estimated with reference to the value of the land, and the cost of construction to date.

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

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

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

2.7 Property and equipment

Owned assets

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

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

Subsequent expenditure

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

Revaluation of owner-occupied property

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

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

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

Derecognition

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

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.7 Property and equipment (continued)

Depreciation

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

In the case of owner-occupied property, on revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Land is not depreciated.

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

2.8 Taxation

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

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

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

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

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

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend and are included in the tax charge.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.9 Reinsurance contracts

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

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

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

2.10 Financial instruments

Recognition and de-recognition of financial instruments

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

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

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

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

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

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

Interest income and expense

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

Interest earned on financial assets is presented as part of investment income.

Dividend income

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

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

Derivative financial instruments

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

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

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

Financial assets

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

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.10 Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets classified as held for trading (including derivative instruments that are not used as hedging instruments) and those that the Company has elected to designate as at fair value through profit or loss.

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

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

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

Available-for-sale financial assets

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

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

Fair value measurement considerations

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

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

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

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

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

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process, i.e. interest expense.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.10 Financial instruments (continued)

Offsetting

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

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

Lending of securities

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

2.11 Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The impairment loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

A financial asset is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is objective evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss but rather as a fair value movement in equity. Reversals of impairment losses on available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.12 Foreign currency translation

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently translated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in the income statement. Exchange differences for non-monetary items are recognised in equity when the changes in the fair value of the non-monetary item are recognised in equity, and in the income statement if the changes in fair value of the non-monetary item are recognised in the income statement.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.12 Foreign currency translation (continued)

Foreign operations

The assets and liabilities held by foreign branches to support liabilities in respect of contracts with policyholders are translated using the year-end exchange rates, and their income and expenses using average rates which approximates the exchange rate at the transaction date. Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

2.13 Employee benefits

Short-term employee benefits

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

Defined contribution plan

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

Defined benefit plan

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

The current service cost is recognised as an expense.

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

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

Other post-retirement benefit plans

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

Actuarial gains and losses

Actuarial gains and losses are accounted for using the 'corridor' method. Actuarial gains and losses are recognised in the income statement to the extent that the cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceed ten per cent of the greater of the gross assets or gross defined benefit obligations in the scheme at that date. Such actuarial gains and losses are recognised over the expected average remaining working lives of the employees participating in the scheme.

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

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

2.14 Provisions

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

Future operating costs or losses are not provided for.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.15 Share-based payment

Cash-settled share-based payment transactions

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

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

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

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

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

2.16 Segment reporting

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

Primary segment

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

Secondary segment

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

2.17 Leases

Operating leases

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

2.18 Impairment of non-financial assets

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

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

An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss for the period. An impairment loss is reversed to profit or loss for the period if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss will not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

An impairment of goodwill is not reversed.

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.19 Dividend distribution

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

2.20 Borrowing costs

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

2.21 Critical accounting estimates and judgements

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

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

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

Insurance contract accounting is discussed in more detail in note 2.4.5 above, and further detail of the methodology used in determining insurance contract liabilities is included in note 3.4.2. Accounting for deferred acquisition cost assets is also discussed in note 2.4.7.

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

The nature and the key assumptions made in determining provisions are disclosed in note 33. The assumptions applied in valuing share based payment liabilities are disclosed in note 31.

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

2.22 Share capital

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

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

Notes to the annual financial statements

for the year ended 31 December 2008

2 Accounting policies (continued)

2.23 Forthcoming requirements

Amendments adopted in the 2008 annual financial statements

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

- The amendments to IAS 39 'Financial Instruments: Recognition and Measurement', issued in October 2008, in respect of the reclassification of financial instruments have been adopted in these financial statements. The amendments extend the ability of preparers to make reclassifications of financial instruments between IAS 39 categories in restricted circumstances. Under the revised reclassification rules an entity has the ability to reclassify financial instruments from the held-for-trading and available-for-sale financial instrument categories in certain specified rare circumstances.
- The amendments to IFRS 7 'Financial Instruments: Disclosures', issued in October 2008, in conjunction with the changes to IAS 39, in respect of the reclassification of financial instruments, have also been adopted in these financial statements. The amendments require additional disclosures where reclassifications have been made in respect of the extended reclassifications provisions in IAS 39.
- IFRS 2 'Share-based Payment' (effective 1 January 2008). Amendment relating to vesting conditions and cancellations. The amendments clarify that vesting conditions are performance conditions and service conditions only. Other features of a share based transaction are not vesting conditions. There were no material impacts arising from the implementation of this amendment.
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective 1 January 2008) clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. There was no material impact on the Company's financial statements from the implementation of this amendment.

Standards and interpretations that have previously been early adopted in the Company's annual financial statements

The following standards and interpretations have been previously early adopted in the Company's financial statements

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions' (effective 1 March 2007) was adopted in the 2007 financial statements. IFRIC 11 clarifies the treatment required in group and subsidiary financial statements of certain share-based transactions entered into by holding companies or subsidiaries, principally in respect of accounting for entitlements to equity instruments of the holding company. The principles set out in the interpretation had no impact on the Company's accounting policies on share-based payments and limited impact in the Group's financial statements.

Future amendments not early adopted in the 2008 annual financial statements

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

- IAS 1 'Presentation of Financial Statements' (effective 1 January 2009). The changes include a comprehensive revision of primary statements, and include a requirement to introduce a statement of comprehensive income. There will be some presentational changes as a result of the introduction of this standard but no changes in measurement or recognition. There have also been additional amendments to this standard during 2008 as a consequence of the amendments made to IAS 32 relating to the disclosure of puttable instruments and obligations arising on liquidation (please see below for the amendments made to IAS 32 'Financial Instruments: Presentation').
- IFRS 8 'Operating Segments' (effective 1 January 2009). IFRS 8 supersedes IAS 14 'Segment Reporting'. IFRS 8 requires segment disclosures to be presented on the basis of financial information that is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company is currently assessing the impacts of IFRS 8 in terms of its segment disclosures; no changes to the Company's recognition or measurement policies are anticipated.
- IAS 32 'Financial Instruments: Presentation' (effective 1 January 2009). Amendments have been made relating to the balance sheet classification of puttable instruments and obligations arising only on liquidation. As a result of the amendments some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of an entity. The amendments are not expected to have an impact on the Company's financial statements.

2.24 Comparative figures

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

Notes to the annual financial statements

for the year ended 31 December 2008

3 Notes to the Statutory Actuary's Report

3.1 Analysis of change in excess assets on published reporting basis

	Rm	Rm
	2008	2007
Excess assets at end of year	46 391	53 092
Excess assets at beginning of year	53 092	54 256
Change in excess assets on published reporting basis during the year	(6 701)	(1 164)
<i>The change in the excess assets on the published reporting basis has arisen from the following main sources:</i>		
Profit for the financial year per income statement	8 382	6 398
Investment income on excess assets	2 774	1 735
Dividend income	1 836	1 344
Interest income	938	391
Realised gains and losses on excess assets	4 085	3 565
Foreign exchange gains on excess assets	13	1
Operating profit before shareholder tax (excluding the effect of changes in the valuation basis)	3 413	4 123
Non - operating items	(750)	63
Policyholders' tax	114	(919)
Changes in valuation basis	(159)	(315)
Taxation	(1 108)	(1 855)
Fair value gains and losses on excess assets	(12 421)	1 177
Deferred taxation - net capital gains	261	(445)
Dividends	(2 923)	(8 294)
Change in excess assets on published reporting basis during the year	(6 701)	(1 164)

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

Actuarial value of policy liabilities - published reporting basis	(317 129)	(340 855)
Actuarial value of policy liabilities - statutory basis	(314 044)	(338 011)
Difference	(3 085)	(2 844)
Comprising:		
Investment contracts	(3 095)	(2 943)
Reinsurance	(81)	(38)
Deferred tax adjustment on policyholder investment properties	91	137
	(3 085)	(2 844)

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

Excess assets - published reporting basis	46 391	53 092
Excess assets - statutory basis	47 887	54 538
Difference	(1 496)	(1 446)
Comprising:		
Investment contracts	(3 095)	(2 943)
Revenue recognition	1 037	924
Deferred tax impacts on owner-occupied property	(19)	(19)
Deferred tax impacts of above items	581	592
	(1 496)	(1 446)

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

Notes to the annual financial statements

for the year ended 31 December 2008

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

3.4 Published valuation basis

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

3.4.1 Valuation of assets on the published basis

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

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

The major classes of business are valued as follows:

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

Bonus stabilisation reserves are calculated by adding the investment return earned on assets backing smoothed bonus policies, less applicable charges and tax, and by deducting the cost of bonuses declared, including the cost of interim bonuses to the valuation date where applicable. The bonus stabilisation reserve of Absolute Growth Portfolio was in the range -10% to -15% of liabilities as at 31 December 2008. The bonus stabilisation reserves for all other classes of smoothed bonus business were better than -7.5% of corresponding liabilities at the valuation date.

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

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

	December 2008	December 2007
Fixed interest securities	7.5%	8.5%
Cash	5.5%	6.5%
Equities	11.0%	12.0%
Properties	9.0%	10.0%
Future expense inflation	4.5% *	5.5% *

* 6.5 % (2007: 7.5%) for Retail business administered on old platforms and 5.5 % (2007: 6.5%) for Group Schemes business.

Notes to the annual financial statements

for the year ended 31 December 2008

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

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

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

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

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

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

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

<i>Business unit</i>	<i>Type of investigation</i>	<i>Period of investigation</i>
Individual Business	Flexi business mortality	2003 to 2006
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2005 to 2007
	Greenlight mortality	2001 to 2007
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency - Flexi and Conventional	2006
	Persistency - Greenlight	2001 to 2007
Group Schemes	Mortality	2006
	Persistency	2006 to 2007
Employee Benefits	Annuitant Mortality	2000 to 2004
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

In addition to these detailed experience investigations, the analysis of profit provides a measure of the aggregate experience in 2008. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure of a one-off nature.

Notes to the annual financial statements

for the year ended 31 December 2008

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

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

- For both individual and group savings policies, liabilities for investment contracts without a discretionary participating feature are based on account balances at the valuation date. In respect of investment contracts that provide investment management services, for example market-related investment contracts, a deferred acquisition cost (DAC) asset is held, which defers incremental acquisition expenses over the expected term of the policy, and a deferred revenue liability (DRL) is held as a liability, which defers excess initial fees over the expected term of the policy.
- For structured products, liabilities are calculated based on the market value of matching assets, together with an allowance for future expenses and margins.
- For non-profit term certain annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using current fixed-interest yields.
- Liabilities include the cost of any investment guarantees classified as investment contracts. These have been calculated on a market-consistent basis and a discretionary margin has been added to the calculated reserve. Sample derivative contract prices derived from the calculation are provided in note 42 on page 79.

3.5 Statutory capital adequacy requirements

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

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

The investment resilience CAR is the single most significant component of the Company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions assumed to be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 26% decline in equity values, a 20% decline in foreign currency denominated assets other than equities, a 15% decline in property values and a 25% relative increase or decrease in fixed-interest yields to maturity and in real yields to maturity on inflation-linked bonds. The management action that is assumed to be taken is the minimum that the Company would be willing to take under such conditions, and in assuming this action, the Company does not limit itself to only taking this action under such circumstances.

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. The following management actions have been assumed in calculating the CAR as at 31 December 2008, if asset values had declined as specified as at 31 December 2008, and had not subsequently recovered:

- 50% of non-vested balances (or 25% of total) would have been removed from the Absolute Smoothed Growth product.
- 100% of non-vested balances (or 20% of total) would have been removed from the Absolute Stable Growth product.
- 16% of total balances (44% of non-vested) would have been removed from all other smoothed bonus products with a non-vested component.
- Future bonus rates would have been reduced by 3% per year in each of the following three years for all fully vested smoothed bonus products, with the exception of with-profit annuities.
- Future bonus rates would have been reduced by 1.5% per year in each of the following three years for with-profit annuities. Such products have less exposure to equities and have a matching bond portfolio.

In respect of 2007 the only management action assumed was that future bonus rates would have been reduced by 2.5% in the first year, except for with-profit annuities where no reduction was assumed.

Notes to the annual financial statements

for the year ended 31 December 2008

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

3.5 Statutory capital adequacy requirements (continued)

The management actions assumed above have been approved by specific resolution by the Board of Directors.

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR*) to determine the ordinary capital adequacy requirements (OCAR*), it has been assumed that assets backing the capital adequacy requirements are invested 31% in local equities, and 69% in local cash (December 2007: 43% local equities, 6% international cash and 51% local cash).

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

(* As defined by PGN 104)

3.6. Changes to valuation assumptions (published basis)

Various actuarial assumption changes have been made which have resulted in a net increase in the value of liabilities of R159 million (2007: R315 million increase) on the Published basis. The reserve for investment guarantees which has been calculated on a market-consistent basis was increased by R409 million (including a discretionary margin), as a result of the reduction in swap yields and increases in volatilities. Lower economic assumptions also led to an increase in underlying policy liabilities of R118 million. The basis for terminations and alterations was strengthened leading to an increase in liabilities of R534 million. Lower expense and higher annuitant mortality assumptions reduced liabilities by R596 million and R200 million respectively. Methodology changes and error corrections reduced liabilities by R106 million.

Notes to the annual financial statements

for the year ended 31 December 2008

4 Segment information

4.1 Business segments

<i>Income statement</i>	Rm			Rm		
	Individual	Group	Total 2008	Individual	Group	Total 2007
Segment revenue						
Gross earned premiums	13 826	9 422	23 248	12 812	7 210	20 022
Outward reinsurance	(530)	(72)	(602)	(458)	(45)	(503)
<i>Net earned premium</i>	13 296	9 350	22 646	12 354	7 165	19 519
Investment income (net of investment losses)	(6 360)	(3 285)	(9 645)	21 128	17 897	39 025
Fee and commission income	2 797	120	2 917	2 561	133	2 694
Other income	-	148	148	-	-	-
Segment expenses						
Claims and benefits (including change in insurance contract provisions)	(5 446)	(4 557)	(10 003)	(20 064)	(18 935)	(38 999)
Reinsurance recoveries	454	14	468	408	28	436
<i>Net claims incurred</i>	(4 992)	(4 543)	(9 535)	(19 656)	(18 907)	(38 563)
Change in provision for investment contract liabilities	3 050	647	3 697	(7 035)	(4 156)	(11 191)
Commissions and other acquisition costs	(2 095)	(15)	(2 110)	(1 925)	(25)	(1 950)
Operating and administration expenses	(5 423)	(627)	(6 050)	(4 927)	(763)	(5 690)
Segment result	273	1 795	2 068	2 500	1 344	3 844
Shareholder income						
Investment income			7 111			5 472
Other income			149			41
Shareholder expenses						
Finance costs			(285)			(347)
Operating and administration expenses			333			(125)
Non-operating items			-			287
Profit before tax			9 376			9 172
Income tax expense			(994)			(2 774)
Profit for the financial year			8 382			6 398
<i>Balance sheet</i>						
Segment assets						
Segment assets	184 175	137 166	321 341	211 657	136 444	348 101
Shareholder assets			57 632			67 504
Total assets			378 973			415 605
Segment liabilities						
Insurance contracts liabilities	98 452	44 610	143 062	110 306	43 758	154 064
Investment contract liabilities with discretionary participation features	8 752	65 721	74 473	9 272	74 993	84 265
Investment contract liabilities	77 156	25 140	102 296	78 558	28 080	106 638
Other liabilities	1 041	469	1 510	2 809	325	3 134
Segmental liabilities	185 401	135 940	321 341	200 945	147 156	348 101
Shareholder liabilities			11 241			14 412
Total liabilities			332 582			362 513

Prior year segment assets have been restated to correctly reflect the allocation of assets and liabilities between shareholder and policyholder.

Notes to the annual financial statements

for the year ended 31 December 2008

4 Segment information (continued)

4.2 Geographical segments

4.2.1 Gross premiums and investment contract deposits written	Rm			Rm
	South African operation	Rest of the World	Total 2008	2007
Individual	24 874	3 155	28 029	25 963
Single	11 086	3 121	14 207	13 050
Recurring	13 788	34	13 822	12 913
Group	18 878	-	18 878	15 432
Single	14 654	-	14 654	11 106
Recurring	4 224	-	4 224	4 326
Total gross premiums and investment contract deposits	43 752	3 155	46 907	41 395
Comprising:				
Insurance contracts (refer note 27)	15 961	-	15 961	13 492
Investment contracts with discretionary participation features (refer note 28)	7 287	-	7 287	6 530
Deposits received on investment contracts (refer note 28)	20 504	3 155	23 659	21 373
	43 752	3 155	46 907	41 395
Less: Deposits on investment contracts (refer note 28)	(20 504)	(3 155)	(23 659)	(21 373)
Total gross premiums	23 248	-	23 248	20 022

4.2.2 Gross new business premiums and investment contract deposits written	Rm			Rm
	South African operation	Rest of the World	Total 2008	2007
Individual	13 720	3 155	16 875	15 486
Single	11 086	3 121	14 207	13 050
Recurring	2 634	34	2 668	2 436
Group	14 844	-	14 844	11 315
Single	14 654	-	14 654	11 106
Recurring	190	-	190	209
Total new business gross premiums and investment contract deposits	28 564	3 155	31 719	26 801
Comprising:				
Insurance contracts	8 345	-	8 345	5 504
Investment contracts with discretionary participation features	3 652	-	3 652	2 900
Deposits received on investment contracts	16 567	3 155	19 722	18 397
	28 564	3 155	31 719	26 801
Less: Deposits received on investment contracts	(16 567)	(3 155)	(19 722)	(18 397)
Total gross new business premiums	11 997	-	11 997	8 404

Notes to the annual financial statements

for the year ended 31 December 2008

5 Company balance sheet - assets and liabilities framework

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

	At fair value through profit or loss						Rm Total
	Held for trading	Designated	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	
At 31 December 2008							
Assets							
Intangible assets						25	25
Investment property						17 407	17 407
Property and equipment						3 425	3 425
Deferred tax asset						685	685
Reinsurance contracts						341	341
Deferred acquisition costs						1 267	1 267
Loan and advances		637					637
Investment and securities		283 893	51 188	3 852			338 933
Other assets				6 726			6 726
Derivative financial instruments - assets	1 592						1 592
Amounts due by group companies				4 497			4 497
Cash and cash equivalents				3 438			3 438
	1 592	284 530	51 188	18 513	-	23 150	378 973
Liabilities							
Insurance contract liabilities		2 702				140 360	143 062
Investment contract liabilities		176 769					176 769
Borrowed funds					3 000		3 000
Post employment benefits obligation						82	82
Share-based payment liabilities						149	149
Provisions						1 010	1 010
Deferred revenue on investment contracts						231	231
Deferred tax liability						2 136	2 136
Current tax payable						1 269	1 269
Other liabilities					3 044	1 249	4 293
Derivative financial instruments - liabilities	125						125
Amounts due to group companies					456		456
	125	179 471	-	-	6 500	146 486	332 582

Notes to the annual financial statements

for the year ended 31 December 2008

5 Company balance sheet - assets and liabilities (continued)

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

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
6		
<i>Investment Income (continued)</i>	2008	2007
Fair value gains and losses recognised in equity were as follows:		
Financial assets available-for-sale	(12 421)	1 177
Total investment income recognised in equity	(12 421)	1 177

* Included in gains recognised in income are transaction costs amounting to R 159 million (2007: R 228 million)

7		
<i>Fee and commission income</i>		
Investment contracts		
Investment management fees	1 758	1 634
Change in deferred revenue	13	13
Sundry fee and commission income	1 146	1 047
	2 917	2 694

8		
<i>Other income</i>		
Profit on disposal of equipment	1	2
Interest on tax refund	64	-
Insurance claim	38	-
Other	84	39
	187	41
Release of retirement fund tax provision	110	-
	297	41

9		
<i>Finance costs</i>		
Borrowed funds		
Subordinated debt	268	262
Other	17	85
	285	347

The total interest expense relates to financial liabilities carried at amortised cost.

10		
<i>Commissions and other acquisition costs</i>		
Commission expenses	1 640	1 520
Other acquisition costs	570	542
Change in deferred acquisition costs	(100)	(112)
	2 110	1 950

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
	<u>2008</u>	<u>2007</u>
11 Operating and administration expenses		
Operating and administration expenses include:		
Amortisation of deferred acquisition costs	220	198
Amortisation of deferred revenue investment contracts	(67)	(73)
Amortisation of intangible assets	25	27
Asset management expenses *	676	664
Depreciation of property and equipment	123	118
Impairment losses - software development cost	47	-
Impairment losses - equipment	-	11
Impairment losses - other assets	134	65
Operating lease rentals	14	27
Technical and professional fees	498	475
* Property asset management fees were previously included in the balance of other operating and administration expenses. These fees have been reclassified to be reflected in asset management expenses. Prior year asset management expenses have been restated to reflect this reclassification.		
Auditors' remuneration		
Statutory audit services	15	12
- current year	12	10
- prior year underprovision	3	2
Other non-audit related services	1	3
	<u>16</u>	<u>15</u>
Staff costs (excluding directors' emoluments)		
Wages and salaries	1 811	1 739
Social security costs	12	11
Retirement obligations	194	198
- defined contribution plans	173	170
- defined benefit plans	21	28
Bonus and incentive remuneration	153	616
Bonus and incentive other	400	498
Share-based payment	(247)	118
Termination benefits	-	30
Other	209	172
	<u>2 379</u>	<u>2 766</u>
Less: Staff costs included in other acquisition costs	(243)	(283)
	<u>2 136</u>	<u>2 483</u>
Directors' emoluments	R'000	R'000
- for services rendered	28 812	21 725
- as non-executive directors	2 401	1 519
	<u>31 213</u>	<u>23 244</u>
- paid for by subsidiary company	(3 978)	-
	<u>27 235</u>	<u>23 244</u>
	Rm	Rm
12 Non-operating items	<u>2008</u>	<u>2007</u>
Non-operating expenses items consist of:		
Costs associated with the closure of the South African Unclaimed Shares Trust	-	(181)
Income arising on liabilities now recognised in OMLAC (Namibia)	-	(106)
	<u>-</u>	<u>(287)</u>

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
13 Income tax expense	2008	2007
South African taxation		
Normal income tax - current year	805	1 265
- prior years' (over)/under-provision	(2)	49
- policyholders	410	203
Capital gains tax - current year	418	442
- prior years' over-provision	-	(5)
- policyholders	400	541
Deferred taxation - (reversal)/origination of temporary differences	(116)	152
- policyholders	(924)	175
- prior years' adjustment	3	(48)
	994	2 774
	%	%
Reconciliation of taxation rate on profit before tax	2008	2007
Standard rate of taxation	28.0	29.0
Adjusted for:		
Prior years' adjustment	(0.4)	(0.1)
Exempt income	(20.0)	0.2
Disallowed expenses	(0.7)	(0.9)
Capital gains tax - rate difference	0.2	(9.3)
Share-based payment	-	(2.9)
Policyholders' tax	1.2	9.8
Other	2.3	4.4
Effective tax rate	10.6	30.2

The accumulated reserves that are available for distribution as a dividend (after taking into account minimum statutory capital adequacy requirements) amount to R35 216 million (2007: R33 032 million). If distributed as a dividend, STC liability amounting to R3 201million (2007: R3 003 million) would arise.

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
	2008	2007
14 Intangible assets		
<i>Development expenditure</i>		
Carrying amount at beginning of year	43	30
Additions	54	40
Impairments	(47)	-
Amortisation charge for the year	(25)	(27)
Carrying amount at end of year	25	43
Cost	332	278
Accumulated amortisation and impairment losses	(307)	(235)
Carrying amount at end of year	25	43

15 Investment property		
Carrying amount at beginning of year	14 740	10 400
Additions	2 200	929
Disposals	(4)	(166)
Net gain from fair value adjustments	471	3 577
Carrying amount at end of year	17 407	14 740
Comprising:		
Freehold property	17 407	14 740
Rental income from investment property	1 478	1 106
Direct operating expense arising from investment property rented out	(457)	(346)
	1 021	760

The fair value of freehold property leased to third parties under operating leases is R492 million (2007: R392 million).

	Rm		
	Owner-occupied property	Equipment	Total 2008
16 Property and equipment			
Carrying amount at beginning of year	2 997	211	3 208
Additions	100	168	268
Revaluation surplus	153	-	153
Disposals	(2)	(79)	(81)
Depreciation charge for the year	(54)	(69)	(123)
Carrying amount at end of year	3 194	231	3 425
Cost or valuation	3 194	902	4 096
Accumulated depreciation and impairment losses	-	(671)	(671)
Carrying amount at end of year	3 194	231	3 425
	Owner-occupied property	Equipment	Total 2007
Carrying amount at beginning of year	2 074	184	2 258
Additions	52	234	286
Revaluation surplus	968	-	968
Disposals	(63)	(112)	(175)
Impairments	-	(11)	(11)
Depreciation charge for the year	(34)	(84)	(118)
Carrying amount at end of year	2 997	211	3 208
Cost or valuation	2 997	819	3 816
Accumulated depreciation and impairment losses	-	(608)	(608)
Carrying amount at end of year	2 997	211	3 208

The Company engages Old Mutual Investment Group Property Investments (Pty) Ltd to determine the fair value of its owner-occupied property. Fair value is determined by reference to market-based evidence. The valuations are carried out at intervals throughout the year by internal valuers and every three years by external valuers. A fixed asset register is available for inspection at the Company's registered office.

The carrying value that would have been recognised had owner occupied property been carried under the cost model would be R1 905 million (2007: R1 511 million).

Notes to the annual financial statements

for the year ended 31 December 2008

				Rm	
17	Deferred tax	At beginning 2008	Income statement	(Charged)/credited to Equity	At end 2008
Deferred tax asset					
	Investment contracts	592	(11)	-	581
	STC credits	14	89	-	103
	Other provisions	90	(84)	(5)	1
		696	(6)	(5)	685
Deferred tax liability					
	Capital gains tax - Shareholders	(1 172)	119	266	(787)
	Capital gains tax - Policyholders	(2 273)	924	-	(1 349)
		(3 445)	1 043	266	(2 136)
<hr/>					
				Rm	
	Deferred tax	At beginning 2007	Income statement	(Charged)/credited to Equity	At end 2007
Deferred tax asset					
	Investment contracts	543	49	-	592
	Income tax losses	4	(4)	-	-
	STC credits	52	(38)	-	14
	Other provisions	211	(111)	(10)	90
		810	(104)	(10)	696
Deferred tax liability					
	Capital gains tax - Shareholders	(737)	-	(435)	(1 172)
	Capital gains tax - Policyholders	(2 098)	(175)	-	(2 273)
		(2 835)	(175)	(435)	(3 445)

		Rm	Rm
		2008	2007
18	Reinsurance contracts		
	Insurance contracts	81	38
	Outstanding claims	260	254
		341	292
<hr/>			
	Insurance contracts		
	Balance at beginning of year	38	32
	Inflows		
	Outward reinsurance premiums	602	503
	Outflows		
	Reinsurance recoveries	(468)	(436)
	Reduction in reinsurers' liabilities	(91)	(61)
	Balance at end of year	81	38

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
	2008	2007
19 Deferred acquisition costs		
Balance at beginning of year	1 167	1 055
Acquisition cost deferred on inward business	320	310
Amortisation	(220)	(198)
Balance at end of year	1 267	1 167

	Rm	Rm
	2008	2007
20 Loans and advances		
Policyholder loans	637	938

The Company has recognised no impairment loss (2007: nil) on loans and advances during the year ended 31 December 2008. As of 31 December 2008 and 2007, there were no overdue loans and advances and no impairment provision made against any amounts. Policyholder loans earn interest of 17.5% p.a. (2007: 16.0% p.a.).

The fair value of loans and advances are as follows:

Policyholder loans	637	938
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	At fair value through profit or loss	Available-for- sale	Total 2008	Total 2007
21 Investments and securities				
21.1 Analysis of investments				
Investments in Group undertakings				
Equity holding in subsidiaries and associates	1 685	34 708	36 393	41 094
Listed	683	16 123	16 806	23 014
Unlisted	1 002	18 585	19 587	18 080
Capital advances to Group undertakings	3 378	2 903	6 281	7 418
Old Mutual plc	1 714	-	1 714	5 161
Old Mutual Capital Partners (Pty) Ltd preference shares	-	1 000	1 000	1 000
	6 777	38 611	45 388	54 673
Other financial assets				
Nedgroup Life Assurance Company Ltd - held at cost	-	20	20	20
Government and non-government guaranteed securities	44 532	-	44 532	42 363
Equity securities				
- listed	85 838	4 066	89 904	124 743
- unlisted	12 005	2 549	14 554	10 917
Other debt securities				
- listed	23 491	512	24 003	25 591
- unlisted	18 216	2 777	20 993	13 336
Pooled investments				
- listed	2 295	-	2 295	2 557
- unlisted	58 342	221	58 563	62 702
Reinsurance of investment contract liabilities	11 183	-	11 183	10 922
Other assets	83	151	234	1 421
Short-term funds and securities treated as investments	24 983	2 281	27 264	35 064
	280 968	12 577	293 545	329 636
	287 745	51 188	338 933	384 309

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

Deposits and money market instruments earned interest of 9.5% (2007: 8%) on average.

The Company conducts securities lending activities as lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amount to R13 060 million (2007: R26 713 million). As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

No financial assets have been pledged as collateral for the Company's obligations. The split of investments and securities between current and non-current is shown in note 41.

The annuity policy with Nedgroup Life Assurance Company Limited matured on 30 September 2008 with a market value of R1 274 million (2007 : R1 152 million).

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

Impairment losses of R854 million (2007: nil) on available-for-sale financial assets have been recognised in profit or loss.

Notes to the annual financial statements

for the year ended 31 December 2008

21 Investments and securities (continued)

21.2 Analysis of capital advances to Group undertakings	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2008	Total 2007
Just Now Investments (Pty) Ltd	-	-	-	25
Mutual & Federal Investments (Pty) Ltd	-	2 139	2 139	1 267
Old Mutual Finance (Pty) Ltd	-	452	452	459
OM Portfolio Holdings (Pty) Ltd	-	1 905	1 905	1 629
Old Mutual (South Africa) Ltd	-	-	-	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	-	361	361	491
Old Mutual (South Africa) Management Incentive Trust	-	1 165	1 165	2 037
Old Mutual Technology Holdings Ltd	-	54	54	54
Rodina Investments (Pty) Ltd	3 378	(3 173)	205	375
	3 378	2 903	6 281	7 418

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

21.3 Spread of listed equity securities by sector	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2008	Total 2007
Oil and gas	4 718	-	4 718	7 914
Chemicals	651	-	651	910
Basic resources	20 332	1 484	21 816	30 437
Industrial goods and resources	5 532	159	5 691	8 054
Construction and materials	2 418	47	2 465	4 715
Automobiles and parts	58	1	59	321
Food and beverages	3 287	-	3 287	4 586
Travel and leisure	702	-	702	1 215
Personal and household goods	1 923	311	2 234	5 770
Healthcare	1 217	-	1 217	946
Retail	6 485	314	6 799	6 426
Media	2 710	174	2 884	3 215
Telecommunications	8 638	762	9 400	10 986
Banks	10 883	535	11 418	16 123
Insurance	1 668	-	1 668	2 339
Financial services	13 192	239	13 431	18 700
Technology	1 424	40	1 464	2 086
	85 838	4 066	89 904	124 743

21.4 Spread of listed and unlisted debt securities by sector	Rm			Rm
	At fair value through profit or loss	Available-for-sale	Total 2008	Total 2007
Government stock	32 275	-	32 275	33 495
Semi-government stock	12 230	-	12 230	8 868
Loans - Non-corporate	10	-	10	45
Public bills (excluding stock and loans)	-	-	-	136
Corporate - Non-convertible debentures	2 844	140	2 984	1 094
Corporate - Bonds (including zero coupon)	25 278	125	25 403	24 220
Corporate fixed interest - Other loans	13 602	3 024	16 626	13 432
	86 239	3 289	89 528	81 290

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

Notes to the annual financial statements

for the year ended 31 December 2008

		Rm			Rm
22	Amounts due by or (to) Group companies	Amounts due by	Amounts due (to)	Total 2008	Total 2007
	Barprop (Pty) Ltd	29	-	29	26
	Global Edge Technologies (Pty) Ltd	9	-	9	22
	Old Mutual Investment Group (SA) (Pty) Ltd	-	(26)	(26)	(21)
	Old Mutual Healthcare (Pty) Ltd	32	-	32	31
	Old Mutual Investment Services (Pty) Ltd	323	-	323	196
	Old Mutual International (Guernsey) Ltd	70	-	70	24
	Old Mutual plc	14	-	14	14
	Old Mutual (South Africa) Ltd	3 493	-	3 493	(1 410)
	Old Mutual Specialised Finance (Pty) Ltd	-	-	-	63
	Old Mutual (South Africa) Share Trust	-	(36)	(36)	(89)
	Old Mutual Life Holdings (Pty) Ltd	-	(1)	(1)	(171)
	Spice Financial Holdings (Pty) Ltd	-	-	-	169
	Other	527	(314)	213	370
		4 497	(377)	4 120	(776)
	Subordinated loans:				
	Old Mutual plc		(58)	(58)	(58)
	The loan of £4.25 million (2007: £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.				
	Old Mutual International (Guernsey) Ltd		(21)	(21)	(21)
	The loan of £1.5 million (2007: £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.				
		4 497	(456)	4 041	(855)

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

		Rm	Rm
23	Other assets	2008	2007
	Accrued interest and rent	3 262	2 962
	Outstanding settlements	3 155	1 725
	Other	309	344
		6 726	5 031

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

		Rm	Rm
Analysis of movements on the specific impairment account netted off against other assets.		2008	2007
	Balance at beginning of the year	172	107
	Income statement charge	134	65
	Recoveries of amounts previously written off against the impairment account	(3)	-
	Balance at end of the year	303	172

Notes to the annual financial statements

for the year ended 31 December 2008

24 Derivative financial instruments - assets and liabilities

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

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

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

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

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

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

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

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

	Notional principal		Fair values	
	Rm	Rm	Rm	Rm
	Positive Values	Negative Values	Assets	Liabilities
At 31 December 2008				
Equity derivatives				
Options purchased	172	(13)	45	11
Interest rate contracts				
Credit default swaps	455	-	-	-
Options purchased	17 571	(17 179)	83	111
Exchange traded futures	11 525	(1 917)	4	3
Swaps	42 490	-	1 152	-
Forward rate agreements	935	-	308	-
	73 148	(19 109)	1 592	125
	Notional principal		Fair values	
	Rm	Rm	Rm	Rm
	Positive Values	Negative Values	Assets	Liabilities
At 31 December 2007				
Equity derivatives				
Options purchased	4 663	(3 044)	15	1 257
Other futures	2 166	(323)	21	-
Interest rate contracts				
Swaps	23 805	-	-	446
Forward rate agreements	-	(147)	69	-
	30 634	(3 514)	105	1 703

25 Cash and cash equivalents

	Rm	Rm
	2008	2007
Cash at bank and in hand	2 392	2 793
Short-term deposits	1 046	1 355
	3 438	4 148

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

The effective interest rate on short-term bank deposits ranged from 7.25% to 9.8% (2007: 6.75% to 9.3%) and has an average maturity of between 32 and 90 days (2007: 32 and 90 days).

Notes to the annual financial statements

for the year ended 31 December 2008

26 Financial instruments designated at fair value through profit or loss

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

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

	Rm	Rm	Rm
	Change in fair value due to change in credit risk		
	Max exposure to credit risk	Current financial year	Cumulative
At 31 December 2008			
Financial assets designated at fair value through profit or loss			
Loans and advances	637	-	-
Investments and securities	48 257	(15)	(37)
	48 894	(15)	(37)
	Change in fair value due to change in credit risk		
	Maximum exposure to credit risk	Current financial year	Cumulative
At 31 December 2007			
Financial assets designated at fair value through profit or loss			
Loans and advances	938	-	-
Investments and securities	48 400	35	(5)
	49 338	35	(5)

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

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

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

	Rm	Rm	Rm	Rm
	Change in fair value due to change in credit risk			
	Fair Value	Current Financial year	Cumulative	Contractual maturity amount
At 31 December 2008				
Unit-linked investment contracts and similar contracts	100 862	-	-	106 968
Other investment contracts	1 434	-	-	3 262
	102 296	-	-	110 230
	Change in fair value due to change in credit risk			
	Fair Value	Current Financial year	Cumulative	Contractual maturity amount
At 31 December 2007				
Unit-linked investment contracts and similar contracts	105 488	-	-	112 152
Other investment contracts	1 150	-	-	2 337
	106 638	-	-	114 489

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm	Rm
	2008	2007
27 Insurance contract liabilities		
Outstanding claims	2 702	4 112
Future policyholders' benefits	140 360	149 952
	143 062	154 064

Future policyholders' benefits

Movement in provision for insurance contracts

Balance at beginning of year	149 952	144 988
Inflows		
Premium income	15 961	13 492
Investment income (net of investment losses)	(117)	17 714
Outflows		
Claims and policy benefits	(19 541)	(19 548)
Operating expenses	(3 838)	(3 817)
Other charges and other transfers	319	(422)
Taxation		
Current tax	(300)	(506)
Deferred tax	492	91
Transfer to operating profit	(2 568)	(2 040)
Balance at end of year	140 360	149 952

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

Disability benefit obligation

Included in policyholder liabilities is an amount of R128 million (2007: R124 million) relating to disability benefit obligations in respect of employees. The amount of R128 million (2007: R124 million) comprises a gross liability of R196 million (2007: R191 million) less a reimbursive right of R68 million (2007: R67 million) from Old Mutual Alternative Risk Transfer Limited, a fellow subsidiary. Further detail is provided in note 30.

	Rm	Rm
	2008	2007
28 Investment contract liabilities		
Composition of liabilities in respect of investment contracts		
Liabilities at fair value through profit or loss	102 296	106 638
Liabilities with discretionary participating features	74 473	84 265
	176 769	190 903

Notes to the annual financial statements

for the year ended 31 December 2008

28 Investment contract liabilities (continued)

	Rm	Rm
	2008	2007
Movement in liabilities at fair value through profit or loss		
Balance at beginning of year	106 638	94 944
New contributions received	23 659	21 373
Withdrawals	(22 630)	(19 114)
Fair value movements	(3 697)	11 191
Foreign currency translation	84	(122)
Fees deducted	(1 758)	(1 634)
Balance at end of year	102 296	106 638
Movement in liabilities with discretionary participation features		
Balance at beginning of year	84 265	75 327
Inflows		
Premium income	7 287	6 530
Investment income (net of investment losses)	(5 305)	11 427
Outflows		
Claims and policy benefits	(9 265)	(6 971)
Operating expenses	(896)	(915)
Other charges and transfers	(700)	(340)
Taxation		
Current tax	(75)	(107)
Deferred tax	103	18
Transfer to operating profit	(941)	(704)
Balance at end of year	74 473	84 265

29 Post employment benefits obligation

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

	Rm		Rm	
	2008		2007	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Defined benefit obligation at beginning of year	153	931	137	826
Current service cost	3	29	3	28
Interest cost on benefit obligation	14	80	12	76
Actuarial losses/(gains)	4	(39)	3	23
Benefits paid	(2)	(25)	(2)	(22)
Defined benefit obligation at end of year	172	976	153	931

Notes to the annual financial statements

for the year ended 31 December 2008

	Rm		Rm	
	2008	2007	2008	2007
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Movement in plan assets</i>				
Plan assets at beginning of year	194	1 044	185	930
Actual return on plan assets	17	96	11	136
Benefits paid	(2)	(23)	(2)	(22)
Plan assets at end of year	209	1 117	194	1 044

	Rm		Rm	
	2008	2007	2008	2007
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Net asset or (liability) recognised in balance sheet</i>				
Funded status of plans	37	141	41	113
Unrecognised actuarial gains	37	223	41	190
Net amount recognised in balance sheet	-	82	-	77

In terms of a surplus apportionment exercise carried out at 1 July 2002 and approved by the Financial Services Board on 7 July 2006, the surplus of R37 million relating to the defined pension benefit is to be utilised to meet the minimum benefit requirements of former members. None of this surplus is thus available to the Company for future use.

	Rm		Rm	
	2008	2007	2008	2007
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Expense recognised in income statement</i>				
Current service costs	3	29	3	28
Interest cost	14	80	12	76
Expected return on plan assets	(17)	(88)	(15)	(83)
Total (included in staff costs)	-	21	-	21
Actual return on plan assets	17	96	11	136

	2008		2007	
<i>Principal actuarial assumptions</i>				
Discount rate	9%	9%	9%	9%
Expected return on plan assets	9%	9%	9%	9%
Future salary increases	6%	9%	6%	9%
Price inflation	6%	9%	6%	9%

	2008		2007	
<i>Plan asset allocation</i>				
Equity securities	54%	55%	55%	54%
Debt securities	26%	32%	31%	36%
Real estate	10%	10%	7%	8%
Other investments	10%	3%	7%	2%
	100%	100%	100%	100%

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

	Rm	Rm	Rm	Rm
	2008	2007	2006	2005
<i>Defined pension benefits</i>				
Plan assets	209	194	185	171
Defined pension benefits liability	(172)	(153)	(137)	(123)
Surplus	37	41	48	48
<i>Post retirement benefits</i>				
Plan assets	1 117	1 044	930	820
Post retirement benefits liability	(976)	(931)	(826)	(783)
Surplus	141	113	104	37

Notes to the annual financial statements

for the year ended 31 December 2008

30 Other employment benefits

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

<i>Movement in benefit obligation</i>	Rm	Rm
	2008	2007
Benefit obligation at beginning of year	191	161
Current service cost	17	14
Net actuarial losses recognised	9	34
Benefits paid	(21)	(18)
Benefit obligation at end of year	196	191

<i>Movement in assets supporting benefit obligation</i>	Rm	Rm
Assets at beginning of year	191	161
Contributions	17	14
Investment returns	(12)	16
Assets at end of year	196	191

<i>Expense recognised in income</i>	Rm	Rm
Current service costs	17	14
Net actuarial losses recognised	9	34
Total (included in staff costs)	26	48

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

<i>Net benefit obligation</i>	Rm	Rm
Assets supporting benefit obligation	196	191
Benefit obligation	(196)	(191)
	-	-

The benefit obligation of R196 million at year end (2007: R191 million) is supported by non-segregated managed assets amounting to R128 million (2007: R124 million) as part of the pool of policyholder funds. The Company also has a reimbursive right of R68 million (2007: R67 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

Notes to the annual financial statements

for the year ended 31 December 2008

31 Share-based payment liabilities

Cash-settled share-based employee compensation plans

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

	Rm	Rm
	2008	2007
Share Option and Deferred Delivery entitlements	17	153
Restricted Share awards	132	315
	149	468

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

	2008		2007	
	Number of share options (Millions)	Weighted average exercise price (Rand)	Number of share options (Millions)	Weighted average exercise price (Rand)
<i>Share Option and Deferred Delivery entitlements</i>				
Outstanding at beginning of year	24	17.80	29	15.63
Transfers to other group companies	(2)	-	-	-
Granted during year	11	18.41	5	23.27
Forfeited during year	(2)	19.58	(1)	19.09
Exercised during year	(2)	13.91	(9)	12.69
Expired during year	-	-	-	-
Outstanding at end of year	29	18.49	24	17.80
Exercisable at end of year	10	14.62	5	13.04

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

	2008	2007
	Number of restricted share awards (Millions)	Number of restricted share awards (Millions)
<i>Restricted Share awards</i>		
Outstanding at beginning of year	13	13
Transfer to other group companies	(1)	-
Granted during year	9	4
Forfeited during year	(1)	(1)
Exercised during year	(3)	(3)
Outstanding at end of year	17	13
Exercisable at end of year	3	2

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

Notes to the annual financial statements

for the year ended 31 December 2008

31 Share-based payment liabilities (continued)

Share Option and Deferred Delivery entitlements

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

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

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

	2008	2007
Number of options / entitlements granted (millions)	11	5
Value of options granted (Rand millions)	196	123
Fair value per option / entitlement at measurement date (in Rands) - highest	2.32	12.60
Fair value per option / entitlement at measurement date (in Rands) - lowest	0.05	3.44
Share price (in Rands)	7.60	22.91
Exercise price (in Rands) - highest	25.20	25.20
Exercise price (in Rands) - lowest	7.60	10.80
Expected volatility	43%	28%
Expected life (in years)	3	4
Expected dividend yield	5%	3%
Risk free interest rate	7.4%	9.0%

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

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

Restricted Share awards

	2008	2007
Number granted (millions)	9	4
Value of restricted shares awards (Rand millions)	162	91
Fair value per share (in Rands)	7.60	22.91

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

	Coupon rate	Rm	Rm
		2008	2007
32 Borrowed funds	8.92%	3 000	3 000
Unsecured Subordinated Callable Notes			

The fair value of the unsecured subordinated callable notes is R2 927 million (2007: R2 920 million).

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

On 27 October 2005 the Company issued 8.92% Unsecured Subordinated Callable Notes at an aggregate nominal price of R3 billion which are listed on the Bond Exchange of South Africa (BESA). The final maturity date for the notes is 27 October 2020, however they may be redeemed earlier by the Company on 27 October 2015 or on each interest date thereafter. Interest is payable on 27 April and 27 October up to the call date, thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity date or date of early redemption, whichever is earlier. Interest is payable at 8.92% up to the date of early redemption and at 3-month JIBAR rate plus 159 basis points thereafter. Interest relating to the year under review amounted to R268 million (2007: R262 million).

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

Notes to the annual financial statements

for the year ended 31 December 2008

		Rm				
		Other	Charitable donations	Restructuring and legal claims	Closure of Unclaimed Shares Trust	Total 2008
33	Provisions					
	Balance at beginning of year	-	361	335	818	1 514
	Amount utilised		(296)	(37)	(200)	(533)
	Investment return		18		(1)	17
	Reversed			(81)		(81)
	Charge	11		82		93
	Balance at end of year	11	83	299	617	1 010
<hr/>						
		Other	Charitable donations	Restructuring and legal claims	Closure of Unclaimed Shares Trust	Total 2007
	Balance at beginning of year	-	314	258	1 294	1 866
	Amount utilised	-	-	(86)	(323)	(409)
	Investment return	-	47	-	28	75
	Reversed	-	-	(13)	(181)	(194)
	Charge	-	-	176	-	176
	Balance at end of year	-	361	335	818	1 514

Other

Other provisions relates to onerous contracts entered into during the year.

Charitable donations

The Company has recognised a provision amounting to R83 million (2007: R361 million) in relation to donations to be made to charitable organisations. The provision is determined as the amount expected to be paid to such organisations.

Restructuring and claims

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

Closure of Unclaimed Shares Trust

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

		Rm	Rm
		2008	2007
34	Deferred revenue on investment contracts		
	Balance at beginning of year	244	257
	Fees and commission income deferred	54	60
	Amortisation	(67)	(73)
	Balance at end of year	231	244

		Rm	Rm
35	Other liabilities		
	Amounts owed to policyholders	1 730	1 566
	Amounts owed to intermediaries	229	213
	Accruals	1 249	780
	Outstanding settlements	66	407
	Other	1 019	841
		4 293	3 807

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

Notes to the annual financial statements

for the year ended 31 December 2008

36 Share capital and premium	Rm	Rm
	2008	2007
Authorised share capital		
10 000 000 ordinary shares of R1 each	10	10
10 redeemable preference shares of R1 each	-	-
Issued share capital		
8 000 000 ordinary shares of R1 each	8	8
1 redeemable preference share of R1	-	-
Share premium	6 246	6 246
	6 254	6 254

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

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

37 Notes to the statement of cash flows	Rm	Rm
	2008	2007
37.1 Non-cash movements and adjustments to profit before tax consist of:		
Depreciation and amortisation	348	281
Dividend income	(6 580)	(4 597)
Net fair value losses / (gains) for the year included in profit before tax	24 702	(26 695)
Charges to provisions and post employment benefits obligation	(499)	(347)
Share-based payment charge	(319)	(61)
Interest income	(14 554)	(12 678)
Finance costs	285	347
Movement in policyholder liabilities	(25 136)	26 727
	(21 753)	(17 023)
37.2 Changes in working capital comprises:		
Insurance, other assets and amounts due by group companies	(4 969)	712
Insurance, other liabilities and amounts due to group companies	(1 102)	3 273
Reinsurer's share of insurance contract liabilities	(43)	(6)
Deferred acquisition costs	(320)	(310)
Deferred revenue on investment contracts	54	60
	(6 380)	3 729
37.3 Taxation paid:		
Taxation payable at beginning of year	(1 505)	(1 321)
Income tax charge for the year (excluding deferred tax)	(2 031)	(2 495)
Taxation payable at end of year	1 269	1 505
	(2 267)	(2 311)
37.4 Dividends paid:		
Dividends payable at beginning of year	-	-
Dividends declared during the year	(2 923)	(8 294)
Dividends payable at end of year	-	-
	(2 923)	(8 294)

38 Commitments		
<i>The Company as lessor - operating lease arrangements</i>		
Total future minimum lease receivables under operating leases		
Not later than one year	755	662
Later than one year and not later than five years	1 784	1 678
Later than five years	366	481
	2 905	2 821

Notes to the annual financial statements

for the year ended 31 December 2008

39 Related party disclosures

Holding company, subsidiaries and other Group companies

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

All the Company's principal subsidiaries and associates together with loans due by or to them are listed in note 40.

Other Group companies consist of fellow subsidiaries and associates.

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

	Rm	Rm
	2008	2007
<i>Holding company</i>		
Old Mutual Life Holdings (SA) Ltd		
<i>Nature of transactions</i>		
Dividends paid	(2 021)	(8 294)
Old Mutual Dividends Access Company (Pty) Ltd		
<i>Nature of transactions</i>		
Preference dividends paid	(902)	-
<i>Fellow subsidiaries</i>		
Old Mutual Investment Services (Pty) Ltd		
<i>Nature of transactions</i>		
Fees received	481	440
Fees paid	(193)	(10)
Nedbank Group Ltd		
<i>Nature of transactions</i>		
Insurance contract premiums	61	59
Interest earned on cash balances	215	128
Interest earned on Nedbank bonds	938	741
Dividends received	1 095	956
<i>Outstanding balances</i>		
Cash and short-term securities	3 438	4 148
Nedbank bonds	870	793
Old Mutual Investment Group (SA) (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(368)	(340)
Fees received	67	74
Old Mutual Specialised Finance (Pty) Ltd		
<i>Nature of transactions:</i>		
Government bonds lent including interest	5 269	7 172
Credit linked notes including investment returns	4 862	3 300
Call loans including interest	2 891	3 457
<i>Services provided by related party</i>		
Scrip lending fees paid	(20)	(16)
Scrip lending fees received	5	7
Premium received on sale of dividend rights	2	2
Fees paid on dividend purchases	(14)	(13)
Other administration, management and secretarial fees received	7	9
Interest received on credit linked notes - on unlisted call loans to corporate reference entities	181	179
Interest received on credit linked notes - on unlisted term loans to corporate reference entities	473	11
Interest received on call advances	68	206
Net interest received on interest rate swaps	-	3
Net interest received on credit default swaps	1	-
Realised gain/(loss) on contract for difference in curve spread	5	(4)
Unrealised gain/(loss) on contract for difference in curve spread	1	(1)
Fair value loss on forward sale agreement	(32)	(8)
Unrealised gain/(loss) on interest rate swaps	11	(18)
Realised losses on sale of financial assets	(6)	(15)
Interest paid on collateral cash	(2)	(2)
Fees paid for staff secondment	(28)	(47)

Notes to the annual financial statements

for the year ended 31 December 2008

39 Related party disclosures (continued)

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

Fellow subsidiaries (continued)

	Rm	Rm
	2008	2007
Old Mutual Alternative Risk Transfer Ltd		
<i>Nature of transactions</i>		
Insurance contract premiums	(17)	(14)
Claims and policy benefits	21	18
Reinsurance contract premiums	29	28
Reinsurance recoveries	(28)	(22)
Fees received	2	1
Old Mutual Investment Group Property Investments (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(221)	(184)
Commission paid	(81)	(69)
Fees received	23	8
Old Mutual Foundation		
<i>Nature of transactions</i>		
Donation	325	-

Old Mutual Alternative Risk Transfer Ltd

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

Old Mutual International (Guernsey) Ltd

The Company has reinsured substantially all the liabilities in respect of contracts with policyholders of its Guernsey branch with a fellow subsidiary, Old Mutual International (Guernsey) Ltd. The liabilities in respect of contracts with policyholders subject to the reinsurance agreement amounted to R11 183 million (2007: R 10 922 million).

Nedgroup Life Assurance Company Ltd

In July 2003 the Company took out a Term Certain Linked Annuity Policy with Nedgroup Life Assurance Company Ltd (Nedlife) in terms of which it is an annuitant and Nedlife is the insurer. The policy, which involved a lump sum payment of R5 billion, has been in operation since 23 July 2003 and terminated on 30 September 2008. In terms of the policy the Company received annuity payments from 30 September 2003 up to 30 September 2008 based on the market value of the financial instruments underlying the policy. Annuity payments amounting to R6.6 billion (2007: R 5.4 billion) were received.

Old Mutual Specialised Finance (Pty) Ltd

The nominal value of bonds lent was R4 494 million (2007: R6 124 million). The bonds lent had a weighted average coupon rate of 9.6% (2007: 11.5%). Collateral of R nil (2007: R365 million) has been pledged with regard to these security lending arrangements.

Loans due by or to subsidiaries and other Group companies

Loans due by or to subsidiaries or other Group companies are interest free and generally have no fixed terms of repayment. Capital advances and amounts due by or to Group companies are disclosed in notes 21 and 22 respectively.

Key management personnel

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

The Executive Committee comprised of PG de Beyer, AS Birrell, JC Brophy, TJ Cumming, T Dloti, J Gawaxab, PB Hanratty, MJ Harper, RA Keanly, RT Mupita, DJ Nyamane, BM Rapiya and AE Williams until 28 February 2008. With effect 29 February 2008, JC Brophy resigned from the Executive Committee. With effect 29 February 2008, DC Radley joined the Executive Committee. With effect 31 August 2008, AS Birrell resigned from the Executive Committee. With effect 30 September 2008, PG de Beyer resigned from the Executive Committee. With effect 31 October 2008, TJ Cumming, DJ Nyamane, RT Mupita and AE Williams resigned from the Executive Committee. With effect 1 November 2008, CF Sonn joined the Executive Committee.

	R' 000	R' 000
	2008	2007
Key management personnel remuneration and other compensation		
Short-term employee benefits	51 088	48 693
Other long-term benefits	2 524	2 538
Share-based payment charge	(37 269)	15 486
	16 343	66 717

In addition to the remuneration to key management personnel as reflected in the table above, key management realised R 7,4 million (2007: R 26 million) as gains on restricted shares and share options exercised during the year.

Notes to the annual financial statements

for the year ended 31 December 2008

40 Interest in principal subsidiaries and associates

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

2008	Number of issued ordinary shares	% interest	Rm	Rm
			Carrying value of shares	Loans due by subsidiaries
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	175 699 263	37%	16 806	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	2 041	2 139
Barprop (Pty) Ltd	46 599 200	100%	(2)	29
Millstream Ltd °	2 245 151	100%	278	-
Old Mutual Holdings (Bahamas) Ltd °	1 116 296 936	100%	12 457	-
Old Mutual Technology Holdings Ltd	10 000	100%	(54)	54
SYmmENTRY Investment Trust		100%	719	-
Rodina Investments (Pty) Ltd	100 000	100%	4 148	205
Just Now Investments (Pty) Ltd	20 000	100%	-	-
			36 393	2 427
<hr/>				
2007	Number of issued ordinary shares	% interest	Rm	Rm
			Carrying value of shares	Loans due by subsidiaries
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	168 873 482	37%	23 014	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	5 475	1 267
Barprop (Pty) Ltd	46 599 200	100%	(2)	26
Millstream Ltd °	2 245 151	100%	313	-
Old Mutual Holdings (Bahamas) Ltd °	864 212 412	100%	7 209	-
Old Mutual Technology Holdings Ltd	10 000	100%	(54)	54
SYmmENTRY Investment Trust		100%	808	-
Rodina Investments (Pty) Ltd	100 000	100%	4 331	375
Just Now Investments (Pty) Ltd	20 000	100%	-	25
			41 094	1 747

* Mutual & Federal Investments (Pty) Ltd holds 74 % (2007: 74%) interest in Mutual & Federal Insurance Company Ltd

+ The country of incorporation is Bermuda

o The country of incorporation is Bahamas

Notes to the annual financial statements

for the year ended 31 December 2008

40 Interest in principal subsidiaries and associates (continued)

The Company has a 37% (2007: 37%) interest in Nedbank Group Limited, which is a bank holding company that, through its principal banking subsidiary, Nedbank Limited, together with the other members of the Nedbank Group, operates as one of the four largest banking groups in South Africa.

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

	Rm	Rm
	<i>As at 31 Dec 2008</i>	<i>As at 31 Dec 2007</i>
Balance sheet:		
Total assets	567 023	488 856
Total liabilities	(526 950)	(453 731)
Net assets	40 073	35 125
	<i>For the year ended 31 Dec 2008</i>	<i>For the year ended 31 Dec 2007</i>
Revenue and profits:		
Revenue	22 077	22 428
Profit for the period	7 004	6 641
	<i>As at 31 Dec 2008</i>	<i>As at 31 Dec 2007</i>
Fair value and carrying amount of the investment	16 806	23 014

Notes to the annual financial statements

for the year ended 31 December 2008

41 Financial risk management

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

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

Financial risk management strategy and policy

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

The insurance contracts retain substantial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets and/or policyholders enjoy options embedded in their contracts which are not matched by identical options in the underlying investments. These exposures include duration risk, credit risk and market risk. The notes below explain how financial risks are managed using the categories utilised in the ALM framework. Note 42 explains in more detail how insurance risk is managed.

Capital Adequacy

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

	Rm	Rm
	2008	2007
Shareholder's equity	47 887	54 538
Adjustments to statutory basis:		
Inadmissible assets	(206)	(299)
Other adjustments	(5 079)	(9 200)
Total available capital resources	42 602	45 039
Total capital requirements (Statutory Basis)	(11 176)	(11 739)
Overall excess	31 426	33 300
Capital position at beginning of year	45 039	46 183
Earnings for the financial year	(3 728)	7 264
Change in inadmissible assets and other adjustments	4 214	(114)
Dividends	(2 923)	(8 294)
Capital position at end of year	42 602	45 039

The calculations have been determined in accordance with the requirements of the South African Financial Services Board, with some estimates of the regulatory adjustments, as regulatory returns have yet to be completed. At 31 December 2008, the Company's excess assets were 3.8 times (2007: 3.8 times) the statutory capital adequacy requirement (CAR), after allowing for estimates of statutory limitations on the value of certain assets. The Company has complied with its CAR requirements throughout the year.

The shareholders' equity includes the Company's investment in Nedbank Group Ltd amounting to R16 123 million (2007: R22 209 million) and R2 034 million (2007: R5 475 million) in Mutual & Federal Investments (Pty) Ltd, a wholly-owned subsidiary which holds 74% (2007: 74%) of Mutual & Federal Insurance Company Ltd. In addition, R12 407 million (2007: R7 023 million) is invested in Old Mutual plc's loan notes through Old Mutual Holdings (Bahamas) Ltd, a wholly-owned subsidiary and R12 647 million (2007: R3 909 million) is held in intercompany advances. There are no formal intra-Group arrangements that exist to provide capital to other subsidiaries. All intercompany advances are immediately repayable and are subject to commercial terms and conditions, with the exception that interest is waived in all circumstances.

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

Notes to the annual financial statements

for the year ended 31 December 2008

41 Financial risk management (continued)

Capital Adequacy (continued)

Capital management policies

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

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

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

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

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

Sensitivities

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

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

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

Sensitivity tests

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

The 31 December 2007 figures have been restated from a European Embedded Value approach to an MCEV approach.

At 31 December 2008	Rm	
	Embedded value	Value of in-force
Central assumptions	64 122	13 926
Effect of:		
Required capital equal to the minimum statutory requirement	64 440	14 243
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	63 790	13 565
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	64 408	14 241
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	67 456	14 663
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	60 842	13 242
10 bps contraction on corporate bond spreads	64 166	13 926
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	63 777	13 581
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	63 770	13 573
Voluntary discontinuance rates decreasing by 10 per cent	64 498	14 302
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	65 132	14 936
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	64 947	14 751
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges**	63 944	13 747
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	64 034	13 838

* CNHR is Cost of Non-Hedgeable Risks

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

Notes to the annual financial statements

for the year ended 31 December 2008

41 Financial risk management (continued)

Sensitivity tests (continued)

At 31 December 2007	Rm	
	Embedded value	Value of in-force business
Central assumptions	70 435	15 419
Effect of:		
Required Capital equal to the minimum statutory requirement	70 817	15 801
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	70 120	15 069
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	70 717	15 738
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	75 084	16 181
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	65 777	14 647
10 bps contraction on corporate bond spreads	70 479	15 419
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	70 165	15 149
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	70 345	15 329
Voluntary discontinuance rates decreasing by 10 per cent	70 838	15 822
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	71 500	16 484
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	71 134	16 118
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges**	70 310	15 294
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	70 371	15 355

* CNHR is Cost of Non-Hedgeable Risks

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

Credit risk

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

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

Overall credit risk

	Rm	Rm
	2008	2007
Reinsurance contracts	341	292
Loans and advances	637	938
Investments and securities		
Government and non-government-guaranteed securities	44 532	42 363
Other debt securities, preference shares and debentures	44 996	38 927
Short-term funds and securities treated as investments	27 264	35 064
Other	11 417	12 343
Other assets	6 726	5 031
Derivative financial instruments assets	1 592	105
Amounts due by group companies	4 497	928
Cash and cash equivalents	3 438	4 148
	145 440	140 139

The Company holds cash, Government bonds and promissory notes as security in respect of government, non-government-guaranteed, other debt securities and securities treated as investments. Further detail is shown on page 70.

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41 Financial risk management (continued)

Loans and advances

	Rm	Rm
	2008	2007
The table below shows the gross balance sheet values of loans and advances.		
Neither past due nor impaired	637	938
Total of gross loans and advances	637	938
Policyholder loans not subject to credit rating system	637	938

Debt instruments and similar securities

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

				Rm
	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
At 31 December 2008				
Investment grade (AAA to BBB)	44 532	27 111	16 030	87 673
Not rated	-	17 885	11 234	29 119
	44 532	44 996	27 264	116 792

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

	Rm	Rm
	2008	2007
Neither past due nor impaired	116 792	116 354
Total debt instruments and similar securities	116 792	116 354

Reinsurance assets

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

	Rm	Rm
	2008	2007
Not rated	341	292
	341	292
Neither past due nor impaired	341	292
Total	341	292

Notes to the annual financial statements

for the year ended 31 December 2008

41 Financial risk management (continued)

Collateral and other credit enhancements obtained

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

Nature and carrying amount of assets held	Rm	Rm
	2008	2007
Other collateral or credit enhancements		
Bonds	679	2 688
Cash	12 381	24 025
Total	13 060	26 713

Market risk

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

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

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

Currency risk

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

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

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

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

At 31 December 2008	Rm					Total
	ZAR	GBP	USD	Euro	Other	
Assets						
Intangible assets	25					25
Investment property	17 407					17 407
Property and equipment	3 425					3 425
Deferred tax asset	685					685
Reinsurance contracts	341					341
Deferred acquisition costs	1 262	5				1 267
Loans and advances	637					637
Investments and securities	275 984	5 393	54 035	2 188	1 333	338 933
Other assets	6 634		89		3	6 726
Derivative financial instruments - assets	1 592					1 592
Amounts due by group companies	4 409	51	37			4 497
Cash and cash equivalents	2 703	52	639	35	9	3 438
Total assets	315 104	5 501	54 800	2 223	1 345	378 973

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for the year ended 31 December 2008

41 Financial risk management (continued)

Currency risk (continued)

						Rm
At 31 December 2008	ZAR	GBP	USD	Euro	Other	Total
Liabilities						
Insurance contract liabilities	131 879	3 961	5 419	1 601	202	143 062
Investment contract liabilities	176 564	205				176 769
Borrowed funds	3 000					3 000
Post employment benefits obligation	82					82
Share-based payment liabilities	149					149
Provisions	1 010					1 010
Deferred revenue on investment	218	13				231
Deferred tax liability	2 136					2 136
Current tax payable	1 269					1 269
Other liabilities	4 164	119	10			4 293
Derivative financial instruments - liabilities	125					125
Amounts due to group companies	377	79				456
Total liabilities	320 973	4 377	5 429	1 601	202	332 582

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

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

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for the year ended 31 December 2008

41 Financial risk management (continued)

Interest rate risk

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

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

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates, with a reduction in interest rates increasing the reserves held. A partial hedge has been put in place to mitigate the impact.

Liquidity risk

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

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

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

Key Principles:

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

Roles & Responsibilities

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

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

At 31 December 2008	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Financial liabilities					
Long-term business policyholder liabilities					
Insurance contracts	6 099	14 078	79 456	218 334	317 967
Investment contracts					
Unit-linked investment contracts and similar contracts	106 968	-	-	-	106 968
Discretionary participating investment contracts	78 307				78 307
Other investment contracts	70	196	952	2 045	3 263
Outstanding claims	2 702				2 702
Borrowed funds				3 000	3 000
Derivative financial instruments - liabilities	1 486	3 694	14 459	21 472	41 111
Amounts due to group companies	456				456
	196 088	17 968	94 867	244 851	553 774

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41 Financial risk management (continued)

Liquidity risk (continued)

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

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41 Financial risk management (continued)

Liquidity risk (continued)

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

	Rm		
At 31 December 2008	Current assets	Non-current assets	Total
Assets			
Intangible assets		25	25
Investment property		17 407	17 407
Property and equipment		3 425	3 425
Deferred tax asset		685	685
Reinsurance contracts	260	81	341
Deferred acquisition costs	220	1 047	1 267
Loans and advances		637	637
Investments and securities	27 264	311 669	338 933
Other assets	6 726		6 726
Derivative financial instruments - assets	99	1 493	1 592
Amounts due by group companies	4 497		4 497
Cash and cash equivalents	3 438		3 438
Total assets	42 504	336 469	378 973
			Rm
At 31 December 2008	Current liabilities	Non-current liabilities	Total
Liabilities			
Long-term business policyholder liabilities			
Insurance contracts		140 360	140 360
Investment contracts			
Unit-linked investment contracts and similar contracts		100 862	100 862
Discretionary participating investment contracts		74 473	74 473
Other investment contracts		1 434	1 434
Outstanding claims	2 702		2 702
Borrowed funds		3 000	3 000
Post employment benefits obligation		82	82
Share-based payment liabilities		149	149
Provisions	94	916	1 010
Deferred revenue on investment contracts	67	164	231
Deferred tax liability		2 136	2 136
Current tax payable	1 269		1 269
Other liabilities	4 293		4 293
Derivative financial instruments - liabilities	125		125
Amounts due to group companies	456		456
Total liabilities	9 006	323 576	332 582

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41 Financial risk management (continued)

Liquidity risk (continued)

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

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

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42 Insurance risk management

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

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Company may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Company's approach to financial risk management has been described in note 41.

Risk management objectives and policies for mitigating insurance risk

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

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

Terms and conditions of insurance contracts

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

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

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

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

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42 Insurance risk management (continued)

Terms and conditions of insurance contracts (continued)

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

Management of insurance risks

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

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

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

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42 Insurance risk management (continued)

Sensitivity analysis

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

The increase or decrease to insurance contract liabilities, and hence the impact on profit and loss and equity, recorded as of 31 December 2008 has been estimated as follows:

Assumption	Change %	Rm	Rm
		Increase/ (decrease) in liabilities 2008	Increase/ (decrease) in liabilities 2007
Mortality and morbidity rates - assurance	+10%	2 546	2 160
Mortality rates – annuities	-10%	561	432
Discontinuance rates	+10%	(137)	(110)
Expenses (maintenance)	+10%	675	648

Insurance contract liabilities recorded are also to some extent impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to insurance contract liabilities, and decrease to profit, of R890 million (2007: R 578 million).

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

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

Guarantees and options

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

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a market-consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa, PGN 110 in particular. The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below.

Product category	Description of options and guarantees
Individual Business	
Death, disability, point and/or maturity guarantees	A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% pa for life and endowment business and 4.78% pa for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims. A small block of smoothed bonus savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25% pa investment return.
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.
Group Business	
Vested bonuses in respect of pre-retirement with-profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.

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42 Insurance risk management (continued)

Guarantees and options (continued)

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

Investment guarantee reserves have been calculated using the Barrie and Hibbert Risk Neutral Asset Model. The model has been calibrated to South African derivative market data (where available and reliable), according to Old Mutual specific calibration requirements. The calibration has been performed as at 31 December 2008.

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

Term (years)	Annualised zero-coupon bond yield
1	9.3%
2	8.4%
3	8.2%
4	8.1%
5	8.0%
10	7.8%
15	7.2%
20	6.7%
25	6.4%
30	6.1%

The following derivative contract prices have been calculated using 2000 simulations of the Barrie and Hibbert Asset Model at the calibration date (the simulations have been generated using the antithetic variables technique).

The table below provides the prices and implied volatilities of put options on the FTSE/JSE TOP40 index:

Maturity (years)	Strike	Price	Implied volatility
1	Spot	11.5%	37.8%
1	0.8 times spot	4.1%	37.7%
1	Forward	14.5%	37.7%
5	Spot	13.4%	31.7%
5	1.04 ⁵ times spot	21.7%	31.7%
5	Forward	23.9%	31.8%
20	Spot	7.4%	27.1%
20	1.04 ²⁰ times spot	29.4%	28.3%
20	Forward	26.1%	28.1%

PGN110 also requires the disclosure of the following option prices:

Description of derivative contract*	Calculated price (% of spot price)
5-year put with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place yearly.	12.2%
20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option (stripped from the zero coupon yield curve), which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike	0.5%

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