Old Mutual Life Assurance Company
(South Africa) Limited

Annual Financial Statements
31 December 2010

do great things

OLD MUTUAL

Contents

Contacts

Public Officer:
K J Gleeson

Auditors:
KPMG Inc.
1 Mediterranean St
Foreshore
Cape Town
8001

Postal address:
PO Box 66
Cape Town
8000
South Africa

Registered office:
Mutualpark
Jan Smuts Drive
Pinelands
7405
South Africa

Registration no.:
1999/004643/06

Corporate governance report

Introduction

The Company has a balanced unitary board comprising a majority of independent and non-executive directors. The non-executive Chairman of the Board is Mr P B Hanratty, Head of Old Mutual plc Long Term Savings. In accordance with good governance principles, the Board had appointed a Lead Independent Director (LID). Prof A H van Wyk was the duly appointed LID until his retirement on 22 October 2010, and on 23 October 2010 Mr G S van Niekerk was appointed in his stead.

The Old Mutual Group (the Group) has an overarching governance structure (Group Operating Model), incorporating principles of governance to facilitate effective and dynamic management and oversight of a Group containing several regulated entities, in different jurisdictions. These overarching governance structures are set out in the Group Operating Manual (the Manual) which contains the internal operating framework and governance structure for the Group. The Company has entered into a Relationship Agreement with Old Mutual plc and resolved to adhere to the Manual, noting that it is a governance framework for the promotion of efficiency and mitigation of risks, both in the interests of the Company and the Group, whilst maintaining the primacy of the fiduciary duties of the Board. The Board is satisfied that the Company has made every practical effort to comply with all material aspects of King II during the review period, insofar as it was applicable to wholly owned subsidiaries, and has noted the new recommendations contained in King III, which came into force on 1 March 2010, and will ensure that the appropriate principles and guidelines are applied.

The Board of Directors

Role

The Board has a Charter which defines its functions, responsibilities and relationship with Old Mutual plc and separates such 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, relevant business 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 point 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, giving due consideration to good governance guidelines in this regard. 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 2010, 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 arose between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted on an annual basis. All independent and non-executive directors, other than nominees of the ultimate holding company are remunerated for their services to the Board and Committees.

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 independent and 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 Chief Executive Officer are separate.

The executive management of the Company is the responsibility of the Chief Executive Officer, Mr K D Dlamini.

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 non-executive directors, supported by the Company Secretary or his delegate, and are free to take independent professional advice as and when necessary.

Audit Committee

Members: Mr I B Skosana (Chairman), Ms A A Maule, Ms C E Maynard, Mr P G M Truyens and Mr G S van Niekerk. On 16 February 2010, Dr D Konar resigned as a member of the committee, and on 17 February 2010 Ms C E Maynard was appointed as a member of the committee.

On 23 October 2010, to align with the requirements of the Group Operating Manual, as well as corporate governance best practice, the Audit, Risk and Compliance Committee was split into separate Audit and Risk Committees and their respective duties and purpose were aligned as required. The required statutory audit committee report can be found on page 16 of the annual financial statements and the composition and purpose of the Risk Committee is set out below.

Risk Committee

Members: Mr P G M Truyens (Chairman), Mr P C Baloyi, Mr A S Birrell, Ms K Murray, Mr I B Skosana and Mr A H Trikamjee. On 31 December 2010, Ms D C Radley resigned from the committee and on 1 January 2011, Ms K Murray was appointed as a member of the committee.

The committee is chaired by Mr P G M Truyens, an independent director and comprises of independent, non-executive and executive directors.

Principal functions

The committee's function is to review management's recommendations on risk management, in particular in relation to the structure and implementation of the risk strategy, model, framework and methodologies, the quality and effectiveness of related internal processes, controls and reporting, risk appetite limits and exposure, and the overall risk profile of the business.

Remuneration Committee

Members: Ms A A Maule (Chairman), Mr A S Birrell, Mr K D Dlamini, Mr P B Hanratty and Ms C E Maynard. On 16 February 2010, Prof G J Gerwel resigned as a member of the committee, and Mr P B Hanratty stepped down as Chairman. On 17 February 2010, Ms A A Maule was elected as Chairman of the committee and Ms C E Maynard was appointed as a member of the committee.

The committee is chaired by Ms A A Maule, an independent director and comprises of executive, non-executive and independent directors and meets as often as necessary, but at least five times a year. During 2010, it formally met nine times.

Principal functions

The committee assists the Board in discharging its governance duties by guiding and directing the implementation of remuneration strategy, policies, principles, related proposals and structures. The committee also, on behalf of the Board, monitors and controls remuneration and benefit structures and provides input into talent management and succession planning.

Corporate Governance and Nomination Committee

Members: Mr G S van Niekerk (Chairman), Mr P B Hanratty, Mrs G T Serobe, Mr I B Skosana and Mr A H Trikamjee. On 16 February 2010, Mr J V F Roberts and Dr D Konar resigned as members of the committee and on 17 February 2010, Mr P B Hanratty and Mr I B Skosana were appointed as members of the committee. On 23 October 2010, Mr G S van Niekerk and Mr A H Trikamjee were appointed as members of the committee, and Mr G S van Niekerk was appointed as Chairman of the committee, to replace Prof A H van Wyk, who resigned as Chairman and member of the committee on 22 October 2010.

This committee, chaired by Mr G S van Niekerk, an independent director, includes both non-executive and independent directors, meets as often as necessary and met five times during the year.

Corporate governance report

Board committees (continued)

Corporate Governance and Nomination Committee (continued)

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: Dr I A Goldin (Chairman), Mr K D Dlamini, Ms N M C Nyembezi-Heita, Mr F Robertson and Mr A H Trikamjee. On 16 February 2010, Mr P B Hanratty and Prof G J Gerwel resigned from the committee and on 17 February 2010, Mr K D Dlamini, Dr I A Goldin and Ms C E Maynard were appointed as members of the committee. Dr I A Goldin was elected Chairman of the committee on 17 February 2010. On 22 October 2010, Prof A H van Wyk resigned and Ms C E Maynard and Ms A A Maule stepped down as members of the committee, and on 23 October 2010 Ms N M C Nyembezi-Heita, Mr F Robertson and Mr A H Trikamjee were appointed as members of the committee.

The committee is chaired by Dr I A Goldin, an independent 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: Mr P G M Truyens (Chairman), Mr P C Baloyi, Dr I A Goldin, Ms C E Maynard and Mr G S van Niekerk. Dr D Konar resigned from the committee on 16 February 2010. On 22 October 2010, Prof A H van Wyk resigned as Chairman and member of the committee, and on 23 October 2010 Ms C E Maynard and Mr P C Baloyi were appointed as members of the committee and Mr P G M Truyens was appointed Chairman.

This committee, chaired by Mr P G M Truyens, an independent director, and comprising only independent directors, meets as often as necessary and met four 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.

Strategic Investment Committee

Members: Ms C E Maynard (Chairman), Mr P C Baloyi, Dr I A Goldin and Mr P B Hanratty.

This committee has been formed with effect from 1 January 2011.

The committee, chaired by Ms C E Maynard, an independent director, includes independent and non-executive directors and, it is envisaged, will initially meet at least twice a year, or as often as required. The principal functions and scope of the committee in respect of its participation in the Group's strategic investment activities are still being finalised.

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 mitigate, 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 categorisation model (iv) monitoring and reporting and (v) whistle-blowing.

(i) 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 and reporting processes, and functions providing independent assurance.

(a) Three lines of defence model

- **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 Chief Executive Officer, 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 Risk Management (ERM) function), Risk Oversight and Reporting, Compliance, Legal, Finance, Corporate Secretarial, Human Resources, Tax and other supporting functions. These functions, together with their corresponding functions at the lower levels within the business units, develop risk policies, standards and risk methodologies, 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 and Risk Management Framework for approval to the Risk 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.
- **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 Committee of the Board of the Company.

Corporate governance report

Internal control environment *(continued)*

Approach to risk management *(continued)*

(i) Risk governance *(continued)*

(b) Risk appetite

The fundamental purpose of the Company's risk appetite is to define how much risk the Company is willing to take, both in aggregate as well as for each risk type in the pursuit of its objectives. Risks falling outside the agreed risk appetite are identified for remedial action and subjected to executive management and Risk 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).

(c) 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. In future, risk policies will be approved by the Risk Committee. These are designed to provide management with guiding principles within which to manage risks.

(ii) Risk methodologies

As stated earlier in this report, the Company operates a risk management framework, which is based on the Committee of Sponsoring Organisations (COSO) ERM Framework and aligned with the requirements of Solvency II. The methodologies include the following:

(a) 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.

(b) 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.

(iii) Risk categorisation model

The risk categorisation model is designed to provide a common framework within which to collate, aggregate and report on risks both quantitatively and qualitatively at various levels within the organisation. The main risk types to which the Company is exposed are:

Asset liability management (ALM) risk is the risk of loss as a result of the mismatching of assets and liabilities - considered to be a policyholder specific risk.

ALM risks are managed by setting investment mandates for each type of product that govern the ways assets backing each type of product may be invested. These mandates are based on and reflect the nature of the liabilities, particularly where guarantees are provided. The ALM risks associated with investment guarantee reserves are also managed through the use of hedges and the retention of a discretionary margin. For products where terms are guaranteed in advance (such as immediate annuities and fixed bonds), money is invested in interest bearing assets that match liabilities by duration as closely as practically possible.

Market risk is the risk of loss as a result of adverse changes in the market value of assets - considered to be a shareholder risk.

Equity market risks in shareholders' funds are managed by limiting the proportion of shareholder funds invested in equities, and from time to time by the use of hedges.

Credit risk is the risk of loss as a result of an asset against a counterparty not being repaid at the due and stipulated time.

Credit risks are managed through setting limits on the exposure to such assets for each counterparty and are monitored by a Credit Committee.

Corporate governance report

Internal control environment (continued)

Approach to risk management (continued)

(iii) Risk categorisation model (continued)

Liability risk is the risk of loss caused by events that result in provisions for a pre-determined exposure being exceeded.

Liability risk is managed by setting appropriate underwriting limits and procedures. These include testing policyholders for HIV and other illnesses above specified levels of cover. The impact of illnesses is mitigated by pricing to allow for the expected impact of it through death and disability claims and, where appropriate, for the design of products that allow for re-pricing. Life liability risk is also limited through the use of reinsurance, including catastrophe reinsurance cover.

Business risk is the risk that business performance will be below expectations as a result of negative variances in new business volumes, margin, lapse experience and expenses.

Business risk is managed through rigorous planning and business performance forecasting processes and monthly variance analysis and reporting on business performance. Key assumptions used in business planning are validated and tested against experience.

Operational risk is the risk of loss as a result of employee fraud, failed processes and systems and/or external events and includes strategy execution, human resources, compliance, tax and IT risks.

Operational risk is managed through business units that perform risk assessments of their business environments and the development of controls to mitigate and minimise their exposure to operational risk. Regular reporting takes place on the status and progress of management actions designed to mitigate or reduce risk exposure to acceptable levels.

(iv) 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 key risks are reported on a quarterly basis to the Risk 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.
- 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 Committee. An Internal Audit Charter, reviewed and approved by the Old Mutual plc Audit Committee, governs internal audit activity within the Company. Progress against the plan is reported regularly to the Audit 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 Operating Manual and with the risk management and control policies. The results of these letters are reported to the Audit Committee and the Risk Committee. These letters of assurance are supported by regularly updated risk profiles of each business unit, combined with a process of control self-assessment.

(v) 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.

Corporate governance report

Employment policies

The Company's employment policies are designed, 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 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.

Employment equity report

The table below outlines the staff profile of the Companies forming part of the Old Mutual Group in South Africa, excluding Nedbank Group Limited and Mutual and Federal Insurance Company Limited, across the different race groups (African, Coloured, Indian, and White) as at 31 August 2010. The employment equity data formed part of the Old Mutual Group in South Africa's annual declaration to the Department of Labour and in compliance with Section 21 of the Employment Equity Act 55 of 1998.

Occupational levels	Male				Female				Foreign National		Total
	A	C	I	W	A	C	I	W	M	F	
Top management	2	1	-	2	-	-	1	2	-	-	8
Senior management	69	59	49	391	35	35	22	152	32	11	855
Professionally qualified and experienced specialists and mid-management	221	244	105	595	125	228	89	493	32	17	2 149
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	1 882	992	338	1 088	2 072	1 345	307	1 238	64	38	9 364
Semi-skilled and discretionary decision making	232	311	20	22	620	570	81	200	1	7	2 064
Unskilled and defined decision making	48	21	4	19	89	42	5	46	1	2	277
Total permanent	**2 454**	**1 628**	**516**	**2 117**	**2 941**	**2 220**	**505**	**2 131**	**130**	**75**	**14 717**
Temporary employees	13	58	4	21	53	82	4	32	3	1	271
Grand Total	**2 467**	**1 686**	**520**	**2 138**	**2 994**	**2 302**	**509**	**2 163**	**133**	**76**	**14 988**

Corporate governance report

Employment equity report *(continued)*

The following table indicates the total number of employees with disabilities only, at the various occupational levels:

Occupational levels	Male				Female				Foreign National		Total
	A	C	I	W	A	C	I	W	M	F	
Top management	-	-	-	-	-	-	-	-	-	-	-
Senior management	-	1	-	3	-	1	-	-	1	-	6
Professionally qualified and experienced specialists and mid-management	2	1	1	11	-	4	-	9	-	-	28
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	10	14	3	21	5	11	3	30	1	-	98
Semi-skilled and discretionary decision making	5	13	1	1	6	9	-	7	-	-	42
Unskilled and defined decision making	23	12	4	19	9	17	5	46	1	2	138
Total permanent	**40**	**41**	**9**	**55**	**20**	**42**	**8**	**92**	**3**	**2**	**312**
Temporary employees	-	-	-	-	1	1	1	-	-	-	3
Grand Total	**40**	**41**	**9**	**55**	**21**	**43**	**9**	**92**	**3**	**2**	**315**

Note: Racial categories: A - African; C - Coloured; I - Indian; W - White
Gender categories: M - Male; F - Female

Further details on the Group's employment equity progress and 2010 report can be found in the Old Mutual Sustainability report.

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.

The Company 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 Financial Services Board (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 the Company'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.

Corporate governance report

Governance of smoothed bonus policyholder funds *(continued)*

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 shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The asset managers responsible for policyholder funds are clearly instructed that all investment decisions taken within 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 immediate annuity portfolio), particular care is taken to ensure that assets appropriately match liabilities.
- 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. Smoothed bonus policyholder funds are credited (via bonus stabilisation reserves) with the investment return earned on their funds, less applicable charges and tax.
- 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 Old Mutual Group in South Africa publishes a separate annual sustainability report which covers operational activities of the Company's 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 2010	R' 000 2009
Non-executive directors		
Fees	3 325	2 785
Fees paid for other services	257	2 350
Executive directors	14 428	20 154
Salary	7 675	7 042
Bonus	5 889	5 550
Gains on share options and restricted shares exercised	-	5 839
Retirement and related benefits	864	1 723
Total directors' emoluments	18 010	25 289
Fees to non-executive directors were as follows:		
P C Baloyi (appointed on 22 October 2010)	65	-
G J Gerwel (resigned on 16 February 2010)	37	244
I A Goldin	314	209
D Konar (resigned on 16 February 2010)	46	309
A A Maule	361	289
C E Maynard (appointed on 17 February 2010)	302	-
J Naidoo (resigned on 26 October 2009)	-	128
R N Ntshingila (resigned on 28 May 2009)	-	79
N M C Nyembezi-Heita (appointed on 7 May 2010)	125	-
F Robertson (appointed on 7 May 2010)	125	-
G T Serobe	203	174
I B Skosana	441	346
A H Trikamjee (appointed on 7 May 2010)	147	-
P G M Truyens	392	238
G S van Niekerk	359	289
A H van Wyk (resigned on 22 October 2010)	408	480
	3 325	2 785
Fees for other services paid to non-executive directors were as follows:		
P G M Truyens	257	2 350
	257	2 350

R' 000

2010	Salary	Bonus	Gains on share options and restricted shares exercised	Retirement and related benefits	Total
Executive directors' total emoluments comprise:					
K D Dlamini *	4 520	2 046	-	481	7 047
D C Radley (resigned on 31 December 2010) *	3 155	3 843	-	383	7 381
	7 675	5 889	-	864	14 428

R' 000

2009	Salary	Bonus	Gains on share options and restricted shares exercised	Retirement and related benefits	Total
Executive directors' total emoluments comprise:					
P B Hanratty (resigned on 31 August 2009 as executive director)	464	-	2 300	997	3 761
K D Dlamini (appointed on 1 September 2009)	1 507	1 377	-	160	3 044
T Dloti (resigned on 9 December 2009)	2 110	-	3 539	250	5 899
D C Radley	2 961	4 173	-	316	7 450
	7 042	5 550	5 839	1 723	20 154

* The variable pay for Mr K D Dlamini is made up of an award of restricted shares of 45%, share options of 15% and a cash component of 40%. The variable pay for Ms D C Radley is made up of an award of restricted shares of 40%, share options of 15% and a cash component of 45%. The bonus disclosed is the cash component of the variable pay. The shares awarded are retained until the third anniversary of the award date provided the directors remain employed by the Company until the third anniversary of the award date. There are no corporate performance targets applicable to these restricted shares and share options.

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 2010:

R' 000

	R Offer price	Date of grant	Number of shares outstanding	Dates deliverable		Gains on current year settlements
Executive directors						
K D Dlamini	11.49	08/09/09	1 122 716	08/09/2012 - 08/09/2015	4	-
	13.80	16/04/10	124 729	16/04/2013 - 03/04/2016	5	-
D C Radley (resigned on 31 December 2010)	19.10	03/04/08	251 309	04/03/2011 - 03/04/2014	1	-
	7.45	08/04/09	457 166	08/04/2012 - 08/04/2015	2	-
	7.45	08/04/09	89 814	08/04/2012 - 08/04/2015	3	-
	13.80	16/04/10	335 995	16/04/2013 - 03/04/2016	5	-

The above awards are subject to the following:

1 100% of the share entitlements granted on 3 April 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.

2 The share entitlements granted on 8 April 2009 as part of the Deferred Short Term Incentive (DSTI) are not subject to any Corporate Performance Targets.

3 Share entitlements awarded on 8 April 2009 as special once-off top up grants under the Management Incentive Share Plan. The options are deliverable subject to the Old Mutual (South Africa) Group attaining an average return on equity of at least 22.5% per annum over the three year period from 1 January 2009 to 31 December 2011.

4 100% of the share entitlements granted on 8 September 2009 will be delivered if the Old Mutual plc earnings per share and return on average equity achieve the prescribed targets. EPS targets are set in a range of percentage growth in IFRS adjusted Operating Profit Earnings per Share, compared to the base year of 2008, above UK inflation, as measured by the Retail price Index (RPI). The prescribed target for the RoAE is between a range of 11 to 12%.

5 The share entitlements granted on 16 April 2010 as part of the Deferred Short Term Incentive (DSTI) are not subject to any Corporate Performance Targets.

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 2010:

R' 000

	Date of grant	Number of shares outstanding	Dates exercisable		Gains on current year settlements
Executive directors					
K D Dlamini	08/09/09	974 761	08/09/2013 - 08/09/2015	4	-
	16/04/10	112 256	16/04/2013	5	-
D C Radley (resigned on 31 December 2010)	03/04/08	150 786	03/04/2011	1	-
	08/04/09	365 733	08/04/2012	2	-
	08/04/09	80 833	08/04/2012	3	-
	16/04/10	268 796	16/04/2013	5	-

The above awards are subject to the following:

1 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.

2 restricted shares awarded on 8 April 2009, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 8 April 2012 and are entitled to dividends.

3 restricted shares awarded on 8 April 2009, as special once-off top up grants under the Management Incentive Share Plan would be deliverable on 8 April 2012 and are entitled to dividends. These restricted shares are deliverable subject to the Old Mutual (South Africa) Group attaining an average return on equity of at least 22.5% per annum over the three year period from 1 January 2009 to 31 December 2011.

4 restricted shares awarded on 8 September 2009, in terms of the Senior Black Management Share Plan, would be deliverable in 3 equal instalments on 8 September 2013; 8 September 2014 and 8 September 2015 and are entitled to dividends.

5 restricted shares awarded on 16 April 2010, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 16 April 2013 and are entitled to dividends.

Statement of Directors' responsibilities

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

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the Audit Committee and Risk 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 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 in the foreseeable future 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 2010 set out on pages 17 to 84 were approved by the Board of Directors on 18 April 2011 and are signed on its behalf by:

K Murray
Finance Director

K D Dlamini
Chief Executive Officer

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 2010 and that all such returns are true, correct and up to date.

R F Foster
Company Secretary
18 April 2011

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 17 to 84, which comprise the statement of financial position at 31 December 2010, and the income statement and statements of comprehensive income, changes in equity and 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2010, 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 2010, 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 G M Pickering
Chartered Accountant (SA)
Registered Auditor
Director
18 April 2011

1 Mediterranean Street
Foreshore
Cape Town
8001

Statutory Actuary's Report

I have conducted an actuarial review of the Company as at 31 December 2010, 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 39 to the annual financial statements, which can be found on pages 80 to 84. Sample derivative contract prices derived from the calculation of market-consistent investment guarantee reserves are provided in note 38 on page 79.

		Rm		Rm
Actuarial balance sheet	***2010*** **Published**	***2010*** **Statutory**	*2009* Published	*2009* Statutory
Total value of assets	**443 141**	**441 443**	408 332	406 887
Total value of liabilities	**(389 025)**	**(385 508)**	(356 456)	(353 445)
Actuarial value of policy liabilities	**(354 662)**	**(351 306)**	(332 830)	(330 011)
Unsecured subordinated callable notes	**(3 000)**	**(3 000)**	(3 000)	(3 000)
Provisions and other liabilities	**(31 363)**	**(31 202)**	(20 626)	(20 434)
Excess of assets over liabilities	**54 116**	**55 935**	51 876	53 442
Less : Inadmissible for statutory solvency purposes		**316**		224
: Limits on Group Undertakings		**12 263**		10 434
Add : Unsecured subordinated callable notes		**3 000**		3 000
Excess assets (Statutory basis)		**46 356**		45 784
Statutory capital adequacy requirements (CAR)		**11 824**		11 055
Ratio of excess assets to CAR		**3.9**		4.1

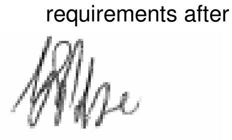
Notes:

- Certain of the 2010 figures for inadmissible assets and limits in respect of Group Undertakings and the resulting calculations are estimates.
- A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 39.1.
- The composition of the assets backing the CAR is 12.5% in local equities and 87.5% in local cash (2009: 12.5% local equities and 87.5% local cash).

Certification of statutory financial position

I hereby certify that:

- the valuation on the Statutory basis of the Company as at 31 December 2010, 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 Board Notice 14 of 2010;
- 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; and
- the Company also had sufficient non-linked assets to more than cover non-linked liabilities and capital adequacy requirements after allowing for the asset spreading requirements.



G S Palser
Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
18 April 2011

Audit Committee Report

In addition to having its own statutory responsibilities, the Audit Committee is a committee of the Board of Directors, and in this regard, 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. The committee will work closely with the Risk Committee, which reviews risk management and compliance initiatives and monitors the effectiveness of the risk, compliance and control infrastructure of the Group.

Terms of reference

The Audit Committee has adopted a formal terms of reference that has been updated and approved by the Board of Directors, and has executed its duties during the past financial year in compliance with same. It should be noted that the Committee's terms of reference was updated during the year as a result of the constitution of a separate Risk Committee to, inter alia, provide for the change in scope of duties and to ensure suitable alignment with the functions of that committee.

Composition and meeting process

The current members of the committee are Mr I B Skosana (Chairman), Ms A A Maule, Ms C E Maynard, Mr P G M Truyens and Mr G S van Niekerk. Dr D Konar, who served on the committee during 2009, resigned on 16 February 2010, and was replaced by Ms C E Maynard with effect from 17 February 2010.

The committee, chaired by Mr I B Skosana, an independent director, comprises exclusively of independent directors, who met four times during the year with senior management, which included the Chief Executive Officer, 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 the committee. 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.

Duties

In execution of its statutory duties, as required in terms of the Corporate Laws Amendment Act and the Insurance Laws Amendment Act, during the past financial year the Audit Committee has:

- Ensured the appointment as external auditor of the Company of a registered auditor who, in the opinion of the Audit Committee, was independent of the Company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the Corporate Laws Amendment Act and any other legislation relating to the appointment of such auditors.
- Determined the nature and extent of any non-audit services which the auditor may provide to the Company.
- Pre-approved any proposed contract with the auditor for the provision of non-audit services to the Company.
- Considered the independence of the external auditors and has concluded that the external auditor has been independent of the Company throughout the year taking into account all other non-audit services performed and circumstances known to the committee.
- Received and dealt appropriately with any complaints relating to the accounting practices and internal audit of the Company, the content or auditing of its annual financial statements, the internal financial controls of the Company, or to any related matter.
- Made submissions to the Board on any matter concerning the Company's accounting policies, financial control, records and reporting.

Legal requirements

The Audit Committee has complied with all applicable legal, regulatory and other responsibilities for the period under review.

Annual financial statements

Following our review of the annual financial statements for the year ended 31 December 2010, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and International Financial Reporting Standards, other than the requirement for consolidated financial statements as detailed in the Directors' Report, and that they fairly present the financial position at 31 December 2010 for Old Mutual Life Assurance Company (South Africa) Limited and the results of operations and cash flows for the year then ended.

Skosana

I B Skosana
Chairman of the Audit Committee
18 April 2011

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 2010.

Business activities

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

Results of operations

The operating results and financial position of the Company are set out in the income statement, statement of comprehensive income, statement of financial position, 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 stakeholders 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 36.

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 677 million (2009: R 3 607 million) were declared during the year.

Preference shares
Dividends on preference shares amounting to R 100 (2009: 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 16 February 2010, Prof G J Gerwel resigned as a non-executive director of the Company.
On 16 February 2010, Dr D Konar resigned as an independent director of the Company.
On 17 February 2010, Ms C E Maynard was appointed as an independent director of the Company.†□б
On 7 May 2010, Ms N M C Nyembezi-Heita was appointed as an independent director of the Company.∆
On 7 May 2010, Mr F Robertson was appointed as a non-executive director of the Company.∆
On 7 May 2010, Mr A H Trikamjee was appointed as an independent director of the Company.∆O&
On 22 October 2010, Prof A H van Wyk resigned as an independent director of the Company.
On 22 October 2010, Mr P C Baloyi was appointed as an independent director of the Company.б&@
On 31 December 2010, Ms D C Radley resigned as executive director of the Company.
On 1 January 2011, Ms K Murray was appointed as executive director of the Company.&
On 1 April 2011, Mr R T Mupita was appointed as executive director of the Company.
On 1 April 2011, Mr B M Rapiya was appointed as executive director of the Company.

The directors currently holding office are:

Non-executive directors

A S Birrell □&
P B Hanratty (Chairman) (Irish) □ O @
G T Serobe O
J V F Roberts (British)*
F Robertson∆

Executive directors

K D Dlamini (Chief Executive Officer) □ ∆
K Murray (British) &
R T Mupita
B M Rapiya

Independent directors

P C Baloyi б & @
I A Goldin б ∆ @
A A Maule † □
C E Maynard †□ б @
N M C Nyembezi-Heita ∆
I B Skosana O†&
A H Trikamjee O ∆ &
P M G Truyens (Dutch) † б &
G S van Niekerk † б O

† Member of the Audit Committee
□ Member of the Remuneration Committee
O Member of the Corporate Governance and Nomination Committee
∆ Member of the Environment Committee
б Member of the Committee for Customer Affairs
& Member of the Risk Committee
@ Member of the Strategic Investment Committee

*Member of the Old Mutual plc Board of Directors

In terms of the Articles of Association, A S Birrell, I A Goldin, P B Hanratty, A A Maule, J V F Roberts and G T Serobe are due to retire at the Annual General Meeting. C E Maynard, K Murray, N M C Nyembezi-Heita, F Robertson, A H Trikamjee and P C Baloyi having been appointed during the year, also retire at the Annual General Meeting. All directors have indicated that they would seek re-election at the Annual General Meeting, and 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 2010

	Notes	Rm 2010	Rm 2009
Revenue			
Gross earned premiums	*2.2.1*	**25 095**	23 721
Outward reinsurance premiums	*15*	**(694)**	(630)
Net earned premiums		**24 401**	23 091
Investment income (net of investment losses)	*4*	**43 752**	35 033
Fee and commission income	*5*	**3 174**	3 008
Other income	*6*	**31**	67
Total revenue		**71 358**	61 199
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(43 054)**	(31 352)
Reinsurance recoveries	*15*	**826**	543
Net claims and benefits incurred		**(42 228)**	(30 809)
Change in investment contract liabilities (excluding FIDP contracts)	*24*	**(14 706)**	(13 190)
Finance costs	*7*	**(630)**	(557)
Commissions and other acquisition costs	*8*	**(2 196)**	(2 096)
Operating and administration expenses	*9*	**(7 772)**	(7 415)
Total expenses		**(67 532)**	(54 067)
Profit before tax		**3 826**	7 132
Income tax expense	*10*	**(1 288)**	(1 752)
Profit after tax for the financial year		**2 538**	5 380

Statement of comprehensive income

for the year ended 31 December 2010

	Notes	Rm 2010	Rm 2009
Profit after tax for the financial year		**2 538**	5 380
Other comprehensive income			
Fair value gains/(losses) :			
Property revaluation		**73**	(230)
Available-for-sale investments:			
Fair value gains		**350**	5 211
Fair value gains/(losses) recycled to income statement		**18**	(1 502)
Shadow accounting		**(66)**	116
Income tax relating to components of other comprehensive income	10.1	**4**	117
Total comprehensive income		**2 917**	9 092

Statement of financial position

at 31 December 2010

	Notes	Rm 2010	Rm 2009
Assets			
Intangible assets	11	**97**	52
Investment property	12	**13 998**	15 787
Property and equipment	13	**3 635**	3 678
Deferred tax asset	14	**741**	639
Reinsurance contracts	15	**391**	333
Deferred acquisition costs	16	**1 162**	1 227
Loans and advances	17	**438**	518
Investments and securities	18	**388 817**	365 487
Other assets	20	**6 728**	5 579
Derivative financial instruments - assets	21	**4 504**	2 540
Amounts due by group companies	19	**7 390**	5 656
Cash and cash equivalents	22	**15 240**	6 836
Total assets	3.1	**443 141**	408 332
Liabilities			
Insurance contract liabilities	23	**142 741**	139 685
Investment contract liabilities	24	**214 013**	196 584
Borrowed funds	28	**3 000**	3 000
Post employment benefits obligation	25	**100**	79
Share-based payment liabilities	27	**553**	425
Provisions	29	**982**	971
Deferred revenue on investment contracts	30	**161**	192
Deferred tax liability	14	**2 105**	2 167
Current tax payable		**964**	768
Other liabilities	31	**17 048**	8 914
Derivative financial instruments - liabilities	21	**1 953**	1 316
Amounts due to group companies	19	**5 405**	2 355
Total liabilities	3.1	**389 025**	356 456
Net assets		**54 116**	51 876
Shareholders' equity			
Share capital and premium	32	**6 254**	6 254
Share-based payment reserve		**481**	481
Other reserves		**11 265**	10 886
Retained earnings		**36 116**	34 255
Total equity		**54 116**	51 876

Statement of changes in equity

for the year ended 31 December 2010

2010	Millions Number of shares issued and fully paid up	Rm Attributable to shareholders	Rm Total equity
Shareholders' equity at beginning of year	8	51 876	51 876
Profit after tax for the financial year	-	2 538	2 538
Other comprehensive income			
Fair value gains:			
Property valuation	-	73	73
Available-for-sale-investments			
Fair value gains	-	350	350
Fair value losses recycled to profit on disposal or impairment	-	18	18
Shadow accounting	-	(66)	(66)
Income tax relating to components of other comprehensive income	-	4	4
Total comprehensive income	-	2 917	2 917
Dividends for the year	-	(677)	(677)
Transactions with shareholders	-	(677)	(677)
Shareholders' equity at end of the year	8	54 116	54 116

Rm

2010	Share capital and premium	Other reserves	Retained earnings	Share-based payment reserve	Total
Shareholders' equity at beginning of year	6 254	10 886	34 255	481	51 876
Profit after tax for the financial year			2 538		2 538
Other comprehensive income					
Fair value gains:					
Property valuation	-	73	-		73
Available-for-sale-investments					
Fair value gains	-	350	-		350
Fair value losses recycled to profit on disposal or impairment	-	18	-		18
Shadow accounting	-	(66)	-		(66)
Income tax relating to components of other comprehensive income	-	4	-		4
Total comprehensive income	-	379	2 538	-	2 917
Dividends for the year	-	-	(677)	-	(677)
Transactions with shareholders	-	-	(677)	-	(677)
Shareholders' equity at end of the year	6 254	11 265	36 116	481	54 116

Other reserves comprise:	Rm 2010
Available-for-sale revaluation reserve	11 299
Property revaluation reserve	(34)
Attributable to equity holders of the Company at end of the year	11 265

Statement of changes in equity

for the year ended 31 December 2009

2009	Millions Number of shares issued and fully paid up	Rm Attributable to shareholders	Rm Total equity
Shareholders' equity at beginning of year	8	46 391	46 391
Profit after tax for the financial year	-	5 380	5 380
Other comprehensive income			
Fair value gains/(losses) :			
Property valuation	-	(230)	(230)
Available-for-sale-investments			
Fair value gains	-	5 211	5 211
Fair value gains recycled to profit on disposal or impairment	-	(1 502)	(1 502)
Shadow accounting	-	116	116
Income tax relating to components of other comprehensive income	-	117	117
Total comprehensive income	-	9 092	9 092
Dividends for the year	-	(3 607)	(3 607)
Transactions with shareholders	-	(3 607)	(3 607)
Shareholders' equity at end of the year	8	51 876	51 876

Rm

2009	Share capital and premium	Other reserves	Retained earnings	Share-based payment reserve	Total
Shareholders' equity at beginning of year	6 254	7 174	32 482	481	46 391
Profit after tax for the financial year			5 380		5 380
Other comprehensive income					
Fair value gains/(losses) :					
Property valuation		(230)			(230)
Available-for-sale-investments					
Fair value gains		5 211			5 211
Fair value gains recycled to profit on disposal or impairment		(1 502)			(1 502)
Shadow accounting		116			116
Income tax relating to components of other comprehensive income		117			117
Total comprehensive income	-	3 712	5 380	-	9 092
Dividends for the year	-	-	(3 607)	-	(3 607)
Transactions with shareholders	-	-	(3 607)	-	(3 607)
Shareholders' equity at end of the year	6 254	10 886	34 255	481	51 876

	Rm 2009
Other reserves comprise:	
Available-for-sale revaluation reserve	10 928
Property revaluation reserve	(42)
Attributable to equity holders of the Company at end of the year	10 886

Statement of cash flows

for the year ended 31 December 2010

	Notes	Rm 2010	Rm 2009
Cash flows from operating activities			
Profit before tax		3 826	7 132
Non-cash movements and adjustments to profit before tax	33.1	(20 985)	(15 862)
Changes in working capital	33.2	8 159	1 858
Dividends received		3 707	6 140
Interest received		12 756	12 895
Interest paid		(630)	(557)
Taxation paid	33.3	(1 252)	(2 060)
Net cash from operating activities		5 581	9 546
Cash flows from investing activities			
Net proceeds/(acquisition) from disposal of financial assets		1 428	(6 904)
Net acquisition of investment property		2 208	(197)
Proceeds from disposal of investment property		3 088	875
Acquisition of investment property		(880)	(1 072)
Proceeds from disposal of property and equipment		5	82
Acquisition of property and equipment		(96)	(168)
Acquisition of intangible assets		(45)	(27)
Net cash from/(used in) investing activities		3 500	(7 214)
Cash flows from financing activities			
Dividends paid to Company's shareholders	33.4	(677)	(3 607)
Net cash used in financing activities		(677)	(3 607)
Net increase/(decrease) in cash and cash equivalents		8 404	(1 275)
Cash and cash equivalents at beginning of year		6 836	8 111
Cash and cash equivalents at end of year	22	15 240	6 836

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies

1.1 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.

1.2 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 accounting policies below. 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 as available-for-sale financial assets.

1.3 Insurance and investment contracts

1.3.1 Classification of contracts

Insurance 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

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These contracts are classified as investment contracts.

Investment contracts

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

1.3.2 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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.3 Insurance and investment contracts *(continued)*

1.3.3 Measurement of insurance and investment contract liabilities

Insurance contract and investment contracts with a discretionary participating feature

Insurance contract liabilities and liabilities for investment contracts with a discretionary participating feature 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.

Surplus allocated to policyholders under investment contracts liabilities with a discretionary participating feature but not yet distributed (i.e. bonus stabilisation reserves) 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 liabilities under insurance contracts (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.

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 80 to 84 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 where the measurement of the liability depends directly on the value of owner occupied property and the unrealised gains and losses on such property are recognised in other comprehensive income, which are supported by owner-occupied properties on which unrealised gains and losses are recognised within other comprehensive income.

Investment contracts (other than with discretionary participating feature)

Liabilities under investment contracts without a discretionary participating feature, are classified as financial liabilities at fair value through profit or loss.

For unit linked and market linked contracts, this is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the value of the assets in the underlying fund (adjusted for tax). For other contracts, the fair value of the liability is determined by reference to the fair value of the underlying assets, and is in accordance with the FSV method, except that negative rand reserves arising from the capitalisation of future margins are not permitted.

The fair value of the liability is subject to the “deposit floor” such that the liability established cannot be less than the amount repayable on demand.

1.3.4 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.

1.3.5 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 to the extent 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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.4 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.

1.4.1 Premiums on insurance contracts and investment contracts with a discretionary participating feature

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

Outward reinsurance premiums are recognised when due for payment.

1.4.2 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.

1.5 Intangible assets

Intangible assets, which represents developed software, 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 once in use 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 meets the recognition criteria i.e. 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.

1.6 Investment property

Real estate held to earn rentals or for capital appreciation or both, are classified as investment property. 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 reporting 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. 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.

Land is valued according to the existing zoning and town planning scheme at the date of valuation, with exceptions made by the valuer for reasonable potential of a successful rezoning.

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

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.6 Investment property *(continued)*

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 recognised in the income statement.

1.7 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 reporting 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 other comprehensive income, 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.

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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.8 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 other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting 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 other comprehensive income. 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 other comprehensive income.

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.

1.9 Reinsurance contracts

Reinsurance contracts 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 statement of financial position on a gross basis.

Reinsurance assets are assessed for impairment at each reporting 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.

1.10 Financial instruments

Financial instruments comprise investments and securities, loans and advances, including amounts due by/to group companies, derivative instruments, cash and cash equivalents.

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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.10 Financial instruments *(continued)*

Recognition and de-recognition of financial instruments (continued)

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.

Fair value measurement considerations

The fair values of quoted financial assets are based on quoted prices. If the market for a financial asset is not active, the Company establishes fair value using valuation techniques that refer as far as possible to observable market data. 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. These impairments are not subsequently reversed.

Categories of financial instruments

Financial instruments are categorised as financial assets and financial liabilities at fair value through profit or loss, loans and receivables or available-for-sale financial assets. An analysis of the Company's statement of financial position, showing the categorisation of financial instruments is set out in note 3.

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 in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative loss previously reported in other comprehensive income 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 as investment income.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.10 Financial instruments *(continued)*

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. Loans and receivables are initially recognised at fair value. 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.

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 as investment income.

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. Cash balances include cash collateral held.

Financial liabilities

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

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

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process, i.e. finance costs.

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 as investment income.

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.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 statement of financial position.

Lending of securities

The equities or bonds on loan, and not the collateral security, are reflected in the statement of financial position of the Company at year-end. Scrip lending fees received are included under fee income. The Company continues to recognise the related income on the equities and bonds on loan.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.11 Impairment of financial assets

The Company assesses at each reporting 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 that 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 other comprehensive income to the income statement.

Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in income statement but rather as a fair value movement in other comprehensive income. 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.

1.12 Reclassifications of financial assets

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was required to be categorised as held-for-trading (on the basis that it was held for the purpose of selling or repurchasing in the near term) may be reclassified out of the fair value through income statement category if the Company intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

Other non-derivative financial assets that were required to be categorised as held-for-trading at initial recognition may be reclassified out of the fair value through income statement category in rare circumstances. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. Measurement of the asset after reclassification depends on the subsequent categorisation.

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was designated as available-for-sale may be reclassified out of the available-for-sale category to the loans and receivables category if it meets the loans and receivables definition at the date of reclassification and if the Company intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.12 Reclassifications of financial assets *(continued)*

In the case of a financial asset with a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is amortised to profit or loss over the remaining life using the effective interest method together with any difference between the new amortised cost and the maturity amount. In the case of a financial asset that does not have a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is recognised in profit or loss when the financial asset is sold or otherwise disposed of.

Details of reclassifications of financial assets in accordance with the above accounting policies are shown in note 3.

1.13 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 reporting 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 other comprehensive income when the changes in the fair value of the non-monetary item are recognised in other comprehensive income, and in the income statement if the changes in fair value of the non-monetary item are recognised in the income statement. Exchange gains/losses on monetary available for sale instruments are recognised in the income statement.

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 other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

1.14 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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.14 Employee benefits *(continued)*

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.

1.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the 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.

1.16 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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.16 Share-based payment

Equity-settled share-based payment transactions in respect of the Black Economic Empowerment (BEE) 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.

1.17 Segment reporting

The Company's results are analysed across three reporting segments which are Retail, Corporate and Shareholders. This is consistent with the way that management and the Board of Directors considers information when making decisions and is the basis on which resources are allocated and performance assessed by management and the Board of Directors. The reporting segments are described as follows:

- The retail segment offers a wide range of wealth creation and protection products to customers in the middle to high net worth bracket. They constitute a combination of Old Mutual's GREENLIGHT, MAX Investments, Investment Frontiers, Galaxy, Unit Trusts, Healthcare and Group Schemes products.
- The corporate segment serves the corporate market comprising groups of individuals such as companies, medical aid and retirement funds, unions and public sector bodies. The segment provides clients with a set of investment, savings, risk management and administration products, and services.
- The shareholders segment houses all the Company's shareholder assets and liabilities. It provides certain back office administrative and technical support services to the segments of the Company. The shareholder segment distributes any surplus available as a dividend to the ultimate parent, subject to available distributable reserves within the shareholder's funds, maintaining the minimum statutory capital adequacy requirements and foreign exchange controls, as determined by the South African Reserve Bank.

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.

The information reflected in note 2 reflects the measures of profit and loss, assets and liabilities for each segment as regularly provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary financial statements and that reported for the segments. 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.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Company accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

Reclassifications of comparative segment information have been made to align segment reporting information to the Company's management reporting structure described above. There was no impact on net profit or net assets.

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.

1.18 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.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.19 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 reporting 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 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.

1.20 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.

1.21 Borrowing costs

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

1.22 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 1.3.3 above, and further detail of the methodology used in determining insurance contract liabilities is included in note 39.4.2. Accounting for deferred acquisition cost assets is also discussed in note 1.3.4.

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 1.3 and 1.10 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 29. The assumptions applied in valuing share-based payment liabilities are disclosed in note 27.

Assets are subject to regular impairment reviews as required. Impairments are measured as the difference between the cost (or amortised cost) of a particular asset and the current fair value or recoverable amount. Impairments are recorded in the income statement in the period in which they occur. The Company’s policy in relation to investment securities and loans and receivables is described in note 1.10 above. The accounting policy for deferred tax is detailed in note 1.8 above.

Notes to the annual financial statements

for the year ended 31 December 2010

1 Accounting policies *(continued)*

1.23 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 a finance cost.

1.24 Forthcoming requirements

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:

- IFRS 2 'Share-based payment' (amendments effective 1 January 2010). The Company has previously early-adopted the amendments to IFRS 2 'Share-based Payment', Group Cash-settled Share-based Payment Transactions' issued in June 2009. These amendments introduce guidance on the treatment of group cash-settled share-based payment arrangements and consolidate the previous requirements set out in IFRIC 8, 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'. There were no material impacts arising from the implementation of this amendment.

Future amendments not early adopted in the 2010 annual financial statements

At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the Company, have been issued by the International Accounting Standards Board:

- IFRS 9 Financial Instruments (effective for years commencing on or after 1 January 2013) - this standard addresses the initial measurement and classification of financial assets as either measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows. All other financial assets are measured at fair value with changes recognised in profit or loss. For an investment in an equity instrument that is not held for trading, an entity may on initial recognition elect to present all fair value changes from the investment in other comprehensive income.

  IFRS 9 retains the classification and measurement requirements in IAS 39 for financial liabilities. The standard however requires for financial liabilities designated under the fair value option (other than loan commitments and financial guarantee contracts), that the amount of change in fair value attributable to changes in the credit risk of the liability be presented in other comprehensive income. The remaining amount of the total gain or loss is included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss.

  IFRS 9 will be adopted for the first time for the year ending 31 December 2013 and will be applied retrospectively, subject to certain transitional provisions. The impact on the financial statements has not yet been estimated.

- Revised IAS 24 Related Party Disclosures (effective for years commencing on or after 1 January 2011) - this standard addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party where new related party relationships have been identified (or where existing relationships will no longer be within the scope of the standard). This standard will be adopted retrospectively for the first time for the year ending 31 December 2011, although is not expected to have a significant impact on the disclosure in the financial statements.

1.25 Comparative figures

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

In order to provide more transparent disclosure, the following reclassifications have been made. The prior year figures have also been reclassified.

Commission and sundry income

In the prior year, commission income and sundry fees were combined. These figures have been separately disclosed in the current year (refer note 5).

Other assets

Included in the outstanding settlements figure in the prior year were amounts owed to policyholders and intermediaries, and other sundry debtors. The other sundry debtors have been reclassified and have been included in the "other" category within the other assets balance (refer note 20).

Notes to the annual financial statements

for the year ended 31 December 2010

2 Segment information

2.1 Business segments

Income statement	Retail	Corporate	Rm **Total 2010**	Retail	Corporate	Rm Total 2009
Segment revenue						
Gross earned premiums	15 210	9 885	**25 095**	14 330	9 391	23 721
Outward reinsurance premiums	(623)	(71)	**(694)**	(588)	(42)	(630)
Net earned premiums	14 587	9 814	**24 401**	13 742	9 349	23 091
Investment income (net of investment losses)	23 174	18 340	**41 514**	16 754	12 930	29 684
Fee and commission income	2 873	301	**3 174**	2 665	343	3 008
Other income	-	9	**9**	-	8	8
Segment expenses						
Claims and benefits (including change in insurance contract provisions)	(21 664)	(21 390)	**(43 054)**	(16 197)	(15 155)	(31 352)
Reinsurance recoveries	669	157	**826**	525	18	543
Net claims and benefits incurred	(20 995)	(21 233)	**(42 228)**	(15 672)	(15 137)	(30 809)
Change in provision for investment contract liabilities	(9 453)	(5 253)	**(14 706)**	(7 655)	(5 535)	(13 190)
Commissions and other acquisition costs	(2 079)	(117)	**(2 196)**	(2 091)	(5)	(2 096)
Operating and administration expenses	(6 756)	(816)	**(7 572)**	(6 453)	(487)	(6 940)
Segment result	1 351	1 045	**2 396**	1 290	1 466	2 756
Shareholder income						
Investment income			**2 238**			5 349
Other income			**22**			59
Shareholder expenses						
Finance costs			**(630)**			(557)
Operating and administration expenses			**(200)**			(475)
Profit before tax			**3 826**			7 132
Income tax expense			**(1 288)**			(1 752)
Profit after tax for the financial year			**2 538**			5 380

Statement of financial position	Retail	Corporate	**Total 2010**	Retail	Corporate	Total 2009
Segment assets						
Segment assets	215 228	154 226	**369 454**	197 467	146 324	343 791
Shareholder assets			**73 687**			64 541
Total assets			**443 141**			408 332
Segment liabilities						
Insurance contracts liabilities	96 725	46 016	**142 741**	96 384	43 301	139 685
Investment contract liabilities with discretionary participation features	12 755	68 895	**81 650**	10 772	65 230	76 002
Investment contract liabilities	95 084	37 279	**132 363**	84 402	36 180	120 582
Other liabilities	10 664	2 036	**12 700**	5 909	1 613	7 522
Segmental liabilities	215 228	154 226	**369 454**	197 467	146 324	343 791
Shareholder liabilities			**19 571**			12 665
Total liabilities			**389 025**			356 456

Notes to the annual financial statements

for the year ended 31 December 2010

2 Segment information *(continued)*

2.2 Geographical information

2.2.1 Gross premiums and investment contract deposits written

	South African operation	Rest of the World	Rm Total 2010	Rm 2009
Retail	27 585	2 057	**29 642**	26 399
Single	11 961	2 040	**14 001**	11 881
Recurring	15 624	17	**15 641**	14 518
Corporate	17 963	-	**17 963**	28 129
Single	11 989	-	**11 989**	22 975
Recurring	5 974	-	**5 974**	5 154
Total gross premiums and investment contract deposits	45 548	2 057	**47 605**	54 528
Comprising:				
Insurance contracts *(refer note 23)*	16 008	-	**16 008**	15 640
Investment contracts with discretionary participation features *(refer note 24)*	9 087	-	**9 087**	8 081
Deposits received on investment contracts *(refer note 24)*	20 453	2 057	**22 510**	30 807
	45 548	2 057	**47 605**	54 528
Less: Deposits on investment contracts *(refer note 24)*	(20 453)	(2 057)	**(22 510)**	(30 807)
Total gross premiums	25 095	-	**25 095**	23 721

2.2.2 Gross new business premiums and investment contract deposits written

	South African operation	Rest of the World	Rm Total 2010	Rm 2009
Retail	13 330	2 057	**15 387**	14 571
Single	11 961	2 040	**14 001**	11 881
Recurring	1 369	17	**1 386**	2 690
Corporate	12 186	-	**12 186**	23 335
Single	11 989	-	**11 989**	22 975
Recurring	197	-	**197**	360
Total new business gross premiums and investment contract deposits	25 516	2 057	**27 573**	37 906
Comprising:				
Insurance contracts	3 990	-	**3 990**	7 503
Investment contracts with discretionary participation features	3 286	-	**3 286**	3 495
Deposits received on investment contracts	18 240	2 057	**20 297**	26 908
	25 516	2 057	**27 573**	37 906
Less: Deposits received on investment contracts	(18 240)	(2 057)	**(20 297)**	(26 908)
Total gross new business premiums	7 276	-	**7 276**	10 998

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position

The Company is exposed to financial risk through its financial assets (investments and loans), financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. The key focus of financial risk management for the Company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance operations. The most important components of financial risk are credit risk, market risk (arising from changes in equity, and bond prices, interest and foreign exchange rates), and liquidity risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and/or conditions.

3.1 Categories of financial instruments

The analysis of assets and liabilities into their categories is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities are reflected in the non-financial assets and liabilities category.

	At fair value through profit or loss						
At 31 December 2010	Held for trading	Designated	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Rm Total
Assets							
Intangible assets						97	**97**
Investment property						13 998	**13 998**
Property and equipment						3 635	**3 635**
Deferred tax asset						741	**741**
Reinsurance contracts						391	**391**
Deferred acquisition costs						1 162	**1 162**
Loan and advances				438			**438**
Investment and securities		322 856	61 842	4 119			**388 817**
Other assets				6 728			**6 728**
Derivative financial instruments - assets	4 504						**4 504**
Amounts due by group companies				7 390			**7 390**
Cash and cash equivalents				15 240			**15 240**
	4 504	322 856	61 842	33 915		20 024	**443 141**
Liabilities							
Insurance contract liabilities						142 741	**142 741**
Investment contract liabilities		132 363				81 650	**214 013**
Borrowed funds					3 000		**3 000**
Post employment benefits obligation						100	**100**
Share-based payment liabilities						553	**553**
Provisions						982	**982**
Deferred revenue on investment contracts						161	**161**
Deferred tax liability						2 105	**2 105**
Current tax payable						964	**964**
Other liabilities					16 161	887	**17 048**
Derivative financial instruments - liabilities	1 953						**1 953**
Amounts due to group companies					5 405		**5 405**
	1 953	132 363			24 566	230 143	**389 025**

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.1 Categories of financial instruments *(continued)*

At 31 December 2009	At fair value through profit or loss – Held for trading	At fair value through profit or loss – Designated	Available for-sale financial assets	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Rm Total
Assets							
Intangible assets						52	52
Investment property						15 787	15 787
Property and equipment						3 678	3 678
Deferred tax asset						639	639
Reinsurance contracts						333	333
Deferred acquisition costs						1 227	1 227
Loan and advances				518			518
Investment and securities		301 754	59 860	3 873			365 487
Other assets				5 579			5 579
Derivative financial instruments - assets	2 540						2 540
Amounts due by group companies				5 656			5 656
Cash and cash equivalents				6 836			6 836
	2 540	301 754	59 860	22 462	-	21 716	408 332
Liabilities							
Insurance contract liabilities						139 685	139 685
Investment contract liabilities		120 582				76 002	196 584
Borrowed funds					3 000		3 000
Post employment benefits obligation						79	79
Share-based payment liabilities						425	425
Provisions						971	971
Deferred revenue on investment contracts						192	192
Deferred tax liability						2 167	2 167
Current tax payable						768	768
Other liabilities					8 118	796	8 914
Derivative financial instruments - liabilities	1 316						1 316
Amounts due to group companies					2 355		2 355
	1 316	120 582	-	-	13 473	221 085	356 456

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.2 Fair values of financial assets and liabilities

Determination of fair value

All financial instruments are initially recorded at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only observable data.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities. When quoted prices are not available, fair values are determined by using valuation techniques that refer as far as possible to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. A number of factors such as bid–offer spread, credit profile, servicing costs and model uncertainty are taken into account, as appropriate, when values are calculated using a valuation technique. Changes in the assumptions used in such valuations could impact the reported value of such instruments.

The fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. This amount is determined using quotations from independent third parties or by using standard valuation techniques. For certain derivative instruments, fair values may be determined in whole or in part using techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

In general, other than in respect of those securities that have been reclassified from designated to loans and receivables, none of the carrying amounts of financial assets and liabilities carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets and liabilities are primarily comprised of variable–rate financial assets and liabilities that reprice as interest rates change, short-term deposits or current assets.

Investment and securities

The fair values of listed investments and securities are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data (see above).

Investment contracts

The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Borrowed funds

The fair values of amounts included in borrowed funds are based on quoted market prices at the statement of financial position date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.

Fair value hierarchy

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.2 Fair values of financial assets and liabilities *(continued)*

Fair value hierarchy *(continued)*

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction is likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs.

Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

Additional information on the impact of unobservable inputs is provided in the section headed 'Effect of changes in significant unobservable assumptions to reasonably possible alternatives'.

Fair value hierarchy

At 31 December 2010	Level 1	Level 2	Level 3	Rm Total
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)				
Derivative financial instruments - assets	1	4 503	-	**4 504**
Designated (fair value through profit or loss)				
Investment and securities	171 878	142 685	8 294	**322 857**
Available-for-sale financial assets				
Investment and securities	25 598	29 879	6 364	**61 841**
Total financial assets measured at fair value	197 477	177 067	14 658	**389 202**
Financial liabilities				
Held-for-trading (fair value through profit or loss)				
Derivative financial instruments - liabilities	-	1 953	-	**1 953**
Designated (fair value through profit or loss)				
Life assurance policyholder liabilities (Investment contracts)	-	132 363	-	**132 363**
Total financial liabilities measured at fair value	-	134 316	-	**134 316**

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.2 Fair values of financial assets and liabilities *(continued)*

Fair value hierarchy *(continued)*

At 31 December 2009	Level 1	Level 2	Level 3	Rm Total
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)				
Derivative financial instruments - assets	-	2 540	-	2 540
Designated (fair value through profit or loss)				
Investment and securities	160 677	130 901	10 176	301 754
Available-for-sale financial assets				
Investment and securities	24 100	34 994	766	59 860
Total financial assets measured at fair value	184 777	168 435	10 942	364 154
Financial liabilities				
Held-for-trading (fair value through profit or loss)				
Derivative financial instruments - liabilities	-	1 316	-	1 316
Designated (fair value through profit or loss)				
Life assurance policyholder liabilities (Investment contracts)	-	120 582	-	120 582
Total financial liabilities measured at fair value	-	121 898	-	121 898

The movement in level 3 instruments for the year can be analysed as follows:

	At 1 January 2010	Gains recognised in income statement	Losses recognised in other comprehensive income	Purchases and issues	Sales and settlements	Transfers into level 3 from other levels	Transfers out of level 3 to other levels	At 31 December 2010
Financial assets measured at fair value								
Designated (fair value through profit or loss)								
Investment and securities	10 176	1 486	-	1 069	(1 771)	-	(2 666)	**8 294**
Available-for-sale financial assets								
Investment and securities	766	-	(599)	1 896	(55)	4 356	-	**6 364**
Total financial assets measured at fair value	10 942	1 486	(599)	2 965	(1 826)	4 356	(2 666)	**14 658**

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.2 Fair values of financial assets and liabilities *(continued)*

Fair value hierarchy *(continued)*

Rm

	At 1 January 2009	Gains recognised in income statement	Losses recognised in other comprehensive income	Purchases and issues	Sales and settlements	Transfers into level 3 from other levels	Transfers out of level 3 to other levels	At 31 December 2009
Financial assets measured at fair value								
Designated (fair value through profit or loss)								
Investment and securities	8 416	1 018	-	1 616	(874)	-	-	10 176
Available-for-sale financial assets								
Investment and securities	1 012	-	(194)	38	(90)	-	-	766
Total financial assets measured at fair value	9 428	1 018	(194)	1 654	(964)	-	-	10 942

	For level 3 assets and liabilities held at 31 December 2010	
	Gains recognised in the income statement	**Losses recognised in comprehensive income**
Financial assets measured at fair value		
Designated (fair value through profit or loss)		
Investment and securities	1 486	-
Available-for-sale financial assets		
Investment and securities	-	(599)
Total financial assets measured at fair value	**1 486**	**(599)**

	For level 3 assets and liabilities held at 31 December 2009	
	Gains recognised in the income statement	Losses recognised in comprehensive income
Financial assets measured at fair value		
Designated (fair value through profit or loss)		
Investment and securities	1 018	-
Available-for-sale financial assets		
Investment and securities	-	(194)
Total financial assets measured at fair value	1 018	(194)

Notes to the annual financial statements

for the year ended 31 December 2010

3 Company statement of financial position *(continued)*

3.2 Fair values of financial assets and liabilities *(continued)*

Fair value hierarchy *(continued)*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameter using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental. When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually. In respect of private equity investments, the valuations are assessed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts to marketability.

Gains and losses recognised in the income statement principally are taken through investment income.

For asset-backed securities whose prices are unobservable, models are used to generate the expected value of the asset, incorporating benchmark information on factors such as prepayment patterns, default rates, loss severities and the historical performance of the underlying assets. The models used are calibrated by using securities for which external market information is available.

For structured notes and other derivatives, principle assumptions concern the future volatility of asset values and the future correlation between asset values. These principle assumptions include credit volatilities and correlations used in the valuation of the structured credit derivatives. For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or correlation from comparable assets for which market data is more readily available, and examination of historical levels.

Analysis of reasonably possible alternative assumptions

	Reflected in income statement		**Reflected in comprehensive income**	
At 31 December 2010	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Designated (fair value through profit or loss)				
Investment and securities	1 346	(1 248)	-	-
Available-for-sale financial assets				
Investment and securities	-	-	609	(609)
Total level 3 financial assets	**1 346**	**(1 248)**	**609**	**(609)**

	Reflected in income statement		Reflected in comprehensive income	
At 31 December 2009	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Designated (fair value through profit or loss)				
Investment and securities	1 119	(1 162)	-	-
Available-for-sale financial assets				
Investment and securities	-	-	98	(98)
Total level 3 financial assets	1 119	(1 162)	98	(98)

Key inputs and assumptions used in the valuation models at 31 December 2010 include discount rates (with the reasonably possible alternative assumptions calculated by increasing/decreasing the discount rate by 10%) and price earnings ratio (with the reasonably possible alternative assumptions calculated by increasing/decreasing the price earnings ratio by 10%).

Notes to the annual financial statements

for the year ended 31 December 2010

		Rm	Rm
4	***Investment income***	***2010***	*2009*
	Interest and similar income		
	Loans and advances		
	Policyholder loans	**39**	63
	Investments and securities		
	Government and government-guaranteed securities	**3 760**	3 709
	Other debt securities, preference shares and debentures	**3 381**	4 107
	Pooled investments	**2 946**	964
	Short-term funds and securities treated as investments	**1 323**	2 744
	Other	**236**	501
		11 646	12 025
	Cash and cash equivalents	**717**	523
	Collateral held	**354**	284
	Total interest and similar income	**12 756**	12 895
	Dividend income		
	Investment and securities		
	Equity securities - Listed	**2 059**	3 292
	- Unlisted	**1 098**	2 131
	Pooled investments - Listed	**7**	3
	- Unlisted	**543**	714
	Total dividend income	**3 707**	6 140
	Net rental income from investment property	**1 481**	1 607
	Fair value gains/(losses)		
	Investments and securities ^	**24 548**	17 953
	Impairment of available-for-sale financial assets - Unlisted	**(207)**	-
	Asset related derivative instruments (no hedge accounting applied)	**1 127**	(2 164)
	Investment property	**340**	(1 389)
	Total asset related fair value gains recognised in income	**25 808**	14 400
	Asset related foreign currency losses	**-**	(9)
	Total investment income recognised in profit or loss (net of investment losses)	**43 752**	35 033
	The fair value gains/(losses) shown above are analysed by category as follows:		
	Held-for-trading (including derivatives)	**1 127**	(2 164)
	Designated at fair value through profit or loss	**24 323**	16 451
	Available-for-sale financial assets	**18**	1 502
	Investment property	**340**	(1 389)
		25 808	14 400
	Total interest income included above for assets not at fair value through profit or loss *	**1 110**	870

* Prior year restated to include cash collateral and policyholder loan interest.

Notes to the annual financial statements

for the year ended 31 December 2010

		Rm	Rm
4	***Investment income*** *(continued)*	***2010***	*2009*
	Fair value gains recognised in other comprehensive income were as follows:		
	Other reserves	**375**	3 595
	Total investment income recognised in other comprehensive income	**375**	3 595

^ Included in gains recognised in income are transaction costs amounting to R104 million (2009: R134 million)

5	***Fee and commission income***		
	Investment contracts		
	Investment management fees	**1 761**	1 787
	Change in deferred revenue	**31**	39
	Commission income	**984**	952
	Sundry fee	**398**	230
		3 174	3 008

6	***Other income***		
	Profit on disposal of equipment	**2**	2
	Interest on tax refund	**-**	33
	Other	**29**	32
		31	67

7	***Finance costs***		
	Borrowed funds		
	Subordinated debt	**268**	268
	Collateral held	**354**	284
	Other	**8**	5
		630	557

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

8	***Commissions and other acquisition costs***		
	Commission expenses	**1 515**	1 434
	Other acquisition costs	**616**	622
	Change in deferred acquisition costs	**65**	40
		2 196	2 096

Notes to the annual financial statements

for the year ended 31 December 2010

9 *Operating and administration expenses*

	Rm	Rm
	2010	*2009*
Operating and administration expenses include:		
Amortisation of deferred acquisition costs	**251**	246
Amortisation of deferred revenue investment contracts	**(53)**	(63)
Asset management expenses	**799**	691
Depreciation of property and equipment	**163**	161
Impairment losses - other assets	**-**	35
Operating lease rentals	**10**	8
Technical and professional fees	**624**	548
Auditors' remuneration		
Statutory audit services	**17**	14
- current year	**15**	13
- prior year underprovision	**2**	1
Other non-audit related services	**2**	2
	19	16
Staff costs (excluding directors' emoluments)		
Wages and salaries	**2 211**	2 029
Social security costs	**14**	13
Retirement obligations	**239**	185
- defined contribution plans	**206**	188
- defined benefit plans	**33**	(3)
Bonus and incentive remuneration	**917**	965
Bonus and incentive other	**659**	548
Share-based payment	**258**	417
Other	**191**	173
	3 572	3 365
Less: staff costs included in other acquisition costs	**(253)**	(241)
	3 319	3 124
Directors' emoluments	**R'000**	R'000
- for services as directors		
- executive directors	**14 428**	20 154
- non-executive directors	**3 325**	2 785
- for other services as directors		
- non-executive directors	**257**	2 350
	18 010	25 289
- paid for by subsidiary company	**-**	(5 899)
	18 010	19 390

Notes to the annual financial statements

for the year ended 31 December 2010

10 Income tax expense

		Rm 2010	Rm 2009
South African taxation			
Normal income tax	- current year	**1 115**	881
	- prior years' under-provision	**8**	35
	- policyholders	**16**	248
Capital gains tax	- current year	**48**	251
	- prior years' over-provision	**(1)**	(13)
	- policyholders	**262**	157
Deferred taxation	- (reversal)/origination of temporary differences	**(179)**	106
	- policyholders	**19**	87
		1 288	1 752

Reconciliation of taxation rate on profit before tax

	% 2010	% 2009
Standard rate of taxation	**28.0**	28.0
Adjusted for:		
Prior years' adjustment	**0.2**	0.4
Exempt income	**(6.2)**	(11.6)
Disallowed expenses	**1.3**	3.4
Capital gains tax - rate difference	**(6.1)**	(3.6)
Policyholders' tax	**7.7**	7.0
Other	**8.8**	1.0
Effective tax rate	**33.7**	24.6

The accumulated reserves that are available for distribution as a dividend (after taking into account minimum statutory capital adequacy requirements) amount to R42 292 million (2009: R40 821 million). If distributed as a dividend, STC liability amounting to R3 845 million (2009: R3 711 million) would arise.

	Rm 2010	Rm 2009
Shareholder taxation	**991**	1 260
Policyholder taxation	**297**	492
	1 288	1 752

10.1 Income tax relating to components of other comprehensive income

Fair value gains	**4**	117
Income tax relating to components of other comprehensive income	**4**	117

Notes to the annual financial statements

for the year ended 31 December 2010

11 Intangible assets

	Rm 2010	Rm 2009
Development expenditure		
Carrying amount at beginning of year	**52**	25
Additions	**45**	27
Carrying amount at end of year	**97**	52
Cost	**404**	359
Accumulated amortisation and impairment losses	**(307)**	(307)
Carrying amount at end of year	**97**	52

12 Investment property

	Rm 2010	Rm 2009
Carrying amount at beginning of year	**15 787**	17 407
Additions	**880**	1 072
Disposals	**(3 057)**	(745)
Net gain/(loss) from fair value adjustments	**340**	(1 389)
Transfer from/(to) property and equipment	**48**	(558)
Carrying amount at end of year	**13 998**	15 787
Comprising:		
Freehold property	**13 998**	15 787
Rental income from investment property	**1 675**	1 835
Direct operating expenses arising from investment property rented out	**(194)**	(228)
	1 481	1 607

The fair value of freehold property leased to third parties under operating leases is R1 342 million (2009: R991 million).

13 Property and equipment

Rm	Owner-occupied property	Equipment	Total 2010
Carrying amount at beginning of year	3 464	214	**3 678**
Additions	1	95	**96**
Revaluation gain	77	-	**77**
Disposals	-	(5)	**(5)**
Depreciation charge for the year	(69)	(94)	**(163)**
Transfer to investment property	(48)	-	**(48)**
Carrying amount at end of year	3 425	210	**3 635**
Cost or valuation	3 425	976	**4 401**
Accumulated depreciation and impairment losses	-	(766)	**(766)**
Carrying amount at end of year	3 425	210	**3 635**

Notes to the annual financial statements

for the year ended 31 December 2010

13 Property and equipment *(continued)*

Rm

	Owner-occupied property	Equipment	Total 2009
Carrying amount at beginning of year	3 194	231	3 425
Additions	1	167	168
Revaluation loss	(230)	-	(230)
Disposals	-	(82)	(82)
Transfer from investment property	558	-	558
Depreciation charge for the year	(59)	(102)	(161)
Carrying amount at end of year	3 464	214	3 678
Cost or valuation	3 464	951	4 415
Accumulated depreciation and impairment losses	-	(737)	(737)
Carrying amount at end of year	3 464	214	3 678

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 890 million (2009: R2 405 million).

14 Deferred tax

	At beginning 2010	Income statement charge/(credit)	(Charged)/credited to other comprehensive income or equity	***At end 2010***
Deferred tax asset				
Investment contracts	610	96	-	**706**
Income tax losses	21	3	-	**24**
STC credits	8	3	-	**11**
	639	102	-	**741**
Deferred tax liability				
Other provisions	(65)	39	(2)	**(28)**
Capital gains tax - Shareholders	(666)	38	6	**(622)**
Capital gains tax - Policyholders	(1 436)	(19)	-	**(1 455)**
	(2 167)	58	4	**(2 105)**

	At beginning 2009	Income statement charge/(credit)	(Charged)/credited to other comprehensive income or equity	*At end 2009*
Deferred tax asset				
Investment contracts	581	29	-	610
Income tax losses	-	21	-	21
STC credits	103	(95)	-	8
Other provisions	1	(1)	-	-
	685	(46)	-	639
Deferred tax liability				
Other provisions	-	(61)	(4)	(65)
Capital gains tax - Shareholders	(787)	-	121	(666)
Capital gains tax - Policyholders	(1 349)	(87)	-	(1 436)
	(2 136)	(148)	117	(2 167)

Notes to the annual financial statements

for the year ended 31 December 2010

15 Reinsurance contracts

	Rm 2010	Rm 2009
Insurance contracts	**115**	79
Outstanding claims	**276**	254
	391	333
Insurance contracts		
Balance at beginning of year	**79**	81
Inflows		
Outward reinsurance premiums	**694**	630
Foreign exchange translation	**-**	(4)
Outflows		
Reinsurance recoveries	**(826)**	(543)
Increase/(decrease) in reinsurers' liabilities	**168**	(85)
Balance at end of year	**115**	79

16 Deferred acquisition costs

	2010	2009
Balance at beginning of year	**1 227**	1 267
Acquisition cost deferred on inward business	**186**	206
Amortisation	**(251)**	(246)
Balance at end of year	**1 162**	1 227

17 Loans and advances

	2010	2009
Policyholder loans	**438**	518

The Company has recognised no impairment loss (2009: nil) on loans and advances during the year ended 31 December 2010. As of 31 December 2010 and 2009, there were no overdue loans and advances and no impairment provision made against any amounts. Interest earned on policyholder loans ranged from 12.5% p.a. at beginning of the year to 11%p.a. at end of the year (2009: 12.5% p.a.).

The fair value of loans and advances is as follows:

	2010	2009
Policyholder loans	**438**	518

18 Investments and securities

18.1 Analysis of investments

		At fair value through profit or loss	Available-for-sale	*Total 2010*	*Total 2009*
Investments in Group undertakings					
Equity holding in subsidiaries and associates		4 856	38 407	**43 263**	42 958
Listed		597	22 516	**23 113**	21 648
Unlisted		4 259	15 891	**20 150**	21 310
Capital advances to Group undertakings		2 430	6 617	**9 047**	7 814
Old Mutual plc		2 444	-	**2 444**	2 508
Old Mutual Capital Partners (Pty) Ltd preference shares		-	1 000	**1 000**	1 000
		9 730	46 024	**55 754**	54 280
Other financial assets					
Government and government guaranteed securities *		44 692	103	**44 795**	39 882
Equity securities	- listed	102 044	2 944	**104 988**	102 609
	- unlisted	16 143	1 641	**17 784**	16 155
Other debt securities	- listed	22 977	34	**23 011**	21 526
	- unlisted	23 017	7 053	**30 070**	23 348
Pooled investments	- listed	4 465	52	**4 517**	3 440
	- unlisted	75 945	140	**76 085**	65 773
Reinsurance of investment contract liabilities		9 426	-	**9 426**	10 261
Other assets		-	-	**-**	329
Short-term funds and securities treated as investments		18 536	3 851	**22 387**	27 884
		317 245	15 818	**333 063**	311 207
		326 975	61 842	**388 817**	365 487

Notes to the annual financial statements

for the year ended 31 December 2010

18 Investments and securities *(continued)*

18.1 Analysis of investments *(continued)*

Comparatives for 2009 in respect of investments in group undertakings and other financial assets at fair value through profit and loss were R7 860 million and R297 767 million respectively.

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 6.4% (2009: 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 R12 762 million (2009: R10 202 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 37.

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

Impairment losses of R207 million (2009: nil) on available-for sale financial assets have been recognised in profit and loss.

* Included in government and government guaranteed securities is an amount of R4 119 million (2009 : R3 873 million) classified as loans and receivables in note 3.1.

18.2 Analysis of capital advances to Group undertakings

	At fair value through profit or loss	Available-for-sale	Total 2010 Rm	Total 2009 Rm
Mutual & Federal Investments (Pty) Ltd	-	2 057	**2 057**	2 139
Old Mutual Portfolio Holdings (Pty) Ltd	-	1 905	**1 905**	1 904
Old Mutual (South Africa) Ltd	-	1 081	**1 081**	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	-	12	**12**	409
Old Mutual (South Africa) Management Incentive Trust	-	1 058	**1 058**	1 144
Old Mutual Technology Holdings Ltd	-	54	**54**	54
Old Mutual Capital Holding (Pty) Ltd	2 430	450	**2 880**	1 083
	2 430	6 617	**9 047**	7 814

Capital advances to Group undertakings are unsecured, interest free and have no fixed terms of repayment.

18.3 Spread of listed equity securities by sector

	At fair value through profit or loss	Available-for-sale	Total 2010	Total 2009
Oil and gas	6 315	-	**6 315**	4 795
Chemicals	1 071	-	**1 071**	726
Basic resources	24 783	974	**25 757**	25 652
Industrial goods and resources	8 471	240	**8 711**	8 635
Construction and materials	2 381	90	**2 471**	2 502
Automobiles and parts	37	-	**37**	34
Food and beverages	5 130	69	**5 199**	4 859
Travel and leisure	641	-	**641**	613
Personal and household goods	4 592	211	**4 803**	4 632
Healthcare	2 669	67	**2 736**	1 756
Retail	5 087	202	**5 289**	4 444
Media	4 152	143	**4 295**	4 051
Telecommunications	10 494	408	**10 902**	10 148
Banks	13 619	363	**13 982**	13 725
Insurance	2 731	31	**2 762**	2 294
Financial services	4 521	38	**4 559**	6 331
Real estate	4 344	51	**4 395**	6 338
Technology	1 006	57	**1 063**	1 074
	102 044	2 944	**104 988**	102 609

Notes to the annual financial statements

for the year ended 31 December 2010

18 Investments and securities *(continued)*

18.4 Spread of listed and unlisted debt securities by sector

	At fair value through profit or loss Rm	Available-for-sale Rm	**Total 2010 Rm**	Total 2009 Rm
Government stock	26 583	96	**26 679**	24 934
Semi-government stock	17 646	7	**17 653**	14 839
Loans - Non-corporate	12	-	**12**	22
Public bills (excluding stock and loans)	463	-	**463**	109
Corporate - Non-convertible debentures	3 706	4 150	**7 856**	3 342
Corporate - Bonds (including zero coupon)	30 154	112	**30 266**	27 511
Corporate fixed interest - Other loans	12 123	2 825	**14 948**	13 997
	90 687	7 190	**97 877**	84 754

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

19 Amounts due by or (to) Group companies

	Amounts due by	Amounts due (to)	**Total 2010**	Total 2009
Barprop (Pty) Ltd	33	-	**33**	30
Global Edge Technologies (Pty) Ltd	-	(3)	**(3)**	(12)
Old Mutual Investment Group (SA) (Pty) Ltd	-	(41)	**(41)**	(42)
Old Mutual Investment Services (Pty) Ltd	198	-	**198**	306
Old Mutual International (Guernsey) Ltd	78	-	**78**	99
Old Mutual plc	24	-	**24**	27
Old Mutual (South Africa) Ltd	4 991	-	**4 991**	4 434
Rodina Investments (Pty) Ltd	1 309	(5 014)	**(3 705)**	(1 913)
Old Mutual (South Africa) Share Trust	75	-	**75**	99
Old Mutual Life Holdings (Pty) Ltd	-	(1)	**(1)**	(1)
Old Mutual Capital Holding (Pty) Ltd	348	-	**348**	391
Other	334	(287)	**47**	(48)
	7 390	(5 346)	**2 044**	3 370
Subordinated loans:				
Old Mutual plc	-	(44)	**(44)**	(51)
The loan of £4.25 million (2009: £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	-	(15)	**(15)**	(18)
The loan of £1.5 million (2009: £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.				
	7 390	(5 405)	**1 985**	3 301

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.

20 Other assets

	2010	2009
Accrued interest on cash collateral	**809**	-
Other accrued interest and rent	**2 762**	2 979
Outstanding settlements	**1 683**	906
Other	**1 474**	1 694
	6 728	5 579

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

Notes to the annual financial statements

for the year ended 31 December 2010

21 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. 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 statement of financial position, 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 indication of the size of positions taken on contracts entered into at the reporting 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**
At 31 December 2010	Positive values	Negative values	Assets	Liabilities
Equity derivatives				
Options purchased	**1 543**	**-**	**2 390**	**-**
Options written	**-**	**(92)**	**-**	**842**
Other futures	**60**	**(11)**	**-**	**-**
Interest rate contracts				
Credit default swaps	**-**	**(256)**	**-**	**-**
Swaps	**23 935**	**(20 510)**	**2 114**	**1 083**
Forward rate agreements	**-**	**(76)**	**-**	**27**
Bond index futures	**-**	**(661)**	**-**	**1**
	25 538	**(21 606)**	**4 504**	**1 953**

	Notional principal		Fair values	
	Rm	**Rm**	Rm	Rm
At 31 December 2009	Positive values	Negative values	Assets	Liabilities
Equity derivatives				
Options purchased	3 202	(461)	1 478	149
Other futures	2 234	(24)	13	-
Interest rate contracts				
Credit default swaps *	-	(332)	-	-
Options purchased	14 157	(13 857)	6	12
Swaps	25 198	(26 744)	1 043	1 108
Forward rate agreements	-	(96)	-	47
Other futures	25	(6 466)	-	-
	44 816	(47 980)	2 540	1 316

* Notional principal re-classified correctly as negative instead of positive value.

Notes to the annual financial statements

for the year ended 31 December 2010

22 Cash and cash equivalents

	Rm 2010	Rm 2009
Cash at bank and in hand	2 707	1 516
Short-term deposits	1 499	1 624
Collateral held	11 034	3 696
	15 240	6 836

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 1.35% to 3.9% (2009: 2.75% to 5.4%) and has an average maturity of between 32 and 90 days (2009: 32 and 90 days).

23 Insurance contract liabilities

	2010	2009
Outstanding claims	2 092	3 439
Future policyholders' benefits	140 649	136 246
	142 741	139 685

Future policyholders' benefits

	2010	2009
Movement in provision for insurance contracts		
Balance at beginning of year	136 246	140 360
Inflows		
Premium income	16 008	15 640
Investment income (net of investment losses)	18 718	9 183
Outflows		
Claims and policy benefits	(22 318)	(20 936)
Operating expenses	(5 069)	(4 389)
Other charges and other transfers	131	91
Taxation		
Current tax	29	(208)
Deferred tax	(13)	(41)
Transfer to operating profit	(3 083)	(3 454)
Balance at end of year	140 649	136 246

The material assumptions used in determining the provisions for insurance contracts are detailed in note 39.

Disability benefit obligation

Included in policyholder liabilities is an amount of R113 million (2009: R132 million) relating to disability benefit obligations in respect of employees. The amount of R113 million (2009: R132 million) comprises a gross liability of R200 million (2009: R212 million) less a reimbursive right of R87 million (2009: R80 million) from Old Mutual Alternative Risk Transfer Limited, a fellow subsidiary. Further detail is provided in note 26.

24 Investment contract liabilities

	2010	2009
Composition of liabilities in respect of investment contracts		
Liabilities at fair value through profit or loss	132 363	120 582
Liabilities with discretionary participating features	81 650	76 002
	214 013	196 584

Movement in liabilities at fair value through profit or loss	2010	2009
Balance at beginning of year	120 582	102 296
Prior year adjustment	-	(23)
New contributions received	22 510	30 807
Withdrawals	(22 173)	(23 129)
Fair value movements and transfers	14 706	13 190
Foreign currency translation	(1 501)	(772)
Fees deducted	(1 761)	(1 787)
Balance at end of year	132 363	120 582

Notes to the annual financial statements

for the year ended 31 December 2010

24 Investment contract liabilities *(continued)*

Movement in liabilities with discretionary participation features	**Rm 2010**	Rm 2009
Balance at beginning of year	**76 002**	74 473
Inflows		
Premium income	**9 087**	8 081
Investment income (net of investment losses)	**9 713**	9 743
Outflows		
Claims and policy benefits	**(10 751)**	(12 992)
Operating expenses	**(867)**	(848)
Other charges and transfers	**(691)**	(1 881)
Taxation		
Current tax	**(57)**	(53)
Deferred tax	**(21)**	4
Transfer to operating profit	**(765)**	(525)
Balance at end of year	**81 650**	76 002

25 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
		2010		*2009*
Movement in defined benefit obligations	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Defined benefit obligation at beginning of year	**194**	**1 158**	172	976
Current service cost	**5**	**28**	5	27
Interest cost on benefit obligation	**17**	**109**	16	89
Actuarial (gains)/losses	**(20)**	**(60)**	3	93
Benefits paid	**(2)**	**(31)**	(2)	(27)
Defined benefit obligation at end of year	**194**	**1 204**	194	1 158

		2010		*2009*
Movement in plan assets	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Plan assets at beginning of year	**228**	**1 136**	209	1 117
Actual return on plan assets	**22**	**127**	21	45
Benefits paid	**(2)**	**(31)**	(2)	(26)
Plan assets at end of year	**248**	**1 232**	228	1 136

		2010		*2009*
Net (asset) or liability recognised in statement of financial position	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Funded status of plans	**(54)**	**(28)**	(34)	22
Unrecognised actuarial gains	**54**	**128**	34	57
Net liability recognised in statement of financial position	**-**	**100**	-	79

Notes to the annual financial statements

for the year ended 31 December 2010

25 Post employment benefits obligation *(continued)*

Expense recognised in income statement	Rm 2010 Defined pension benefits	Rm 2010 Post-retirement benefits	Rm 2009 Defined pension benefits	Rm 2009 Post-retirement benefits
Current service costs	5	28	5	27
Interest cost	17	109	16	89
Expected return on plan assets	(22)	(104)	(21)	(99)
Total (included in staff costs)	-	33	-	17
Actual return on plan assets	22	127	21	45

Principal actuarial assumptions	2010		2009	
Discount rate	9%	8%	9%	9%
Expected return on plan assets	9%	8%	9%	9%
Future salary increases	6%	8%	6%	9%
Price inflation	6%	8%	6%	9%

Plan asset allocation	2010		2009	
Equity securities	58%	59%	58%	59%
Debt securities	22%	31%	22%	31%
Real estate	10%	8%	10%	8%
Other investments	10%	2%	10%	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:

Defined pension benefits	Rm 2010	Rm 2009	Rm 2008	Rm 2007
Plan assets	248	228	209	194
Defined pension benefits liability	(194)	(194)	(172)	(153)
Surplus	54	34	37	41

Post retirement benefits	2010	2009	2008	2007
Plan assets	1 232	1 136	1 117	1 044
Post retirement benefits liability	(1 204)	(1 158)	(976)	(931)
Surplus/(deficit)	28	(22)	141	113

Sensitivity of the financial position of Group pension plans

Assumption	***Change in assumption***	***Impact on scheme liabilities***	Rm 2010	Rm 2009
Inflation rate	Decrease by 1.0%	Decrease in scheme liabilities	179	226
	Increase by 1.0%	Increase in scheme liabilities	226	177

26 Other employment benefits

The Company provides disability benefits to permanent employees (refer to note 23). 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.

Movement in benefit obligation	2010	2009
Benefit obligation at beginning of year	212	*196*
Current service cost	22	19
Net actuarial (gains)/losses recognised	(12)	18
Benefits paid	(22)	(21)
Benefit obligation at end of year	200	212

Notes to the annual financial statements

for the year ended 31 December 2010

26 Other employment benefits *(continued)*

	Rm 2010	Rm 2009
Movement in assets supporting benefit obligation		
Assets at beginning of year	**212**	196
Contributions	**22**	19
Investment returns	**(34)**	(3)
Assets at end of year	**200**	212
Expense recognised in income statement		
Current service costs	**22**	19
Net actuarial (gains)/losses recognised	**(12)**	18
Total (included in staff costs)	**10**	37
Principal actuarial assumptions		
Discount rate	**7%**	7%
Expected return on plan assets	**7%**	7%
Future salary increases	**6%**	6%
Price inflation	**6%**	6%
Net benefit obligation		
Assets supporting benefit obligation	**200**	212
Benefit obligation	**(200)**	(212)
	-	-

The benefit obligation of R200 million at year end (2009: R212 million) is supported by non-segregated managed assets amounting to R113 million (2009: R132 million) as part of the pool of policyholder funds. The Company also has a reimbursive right of R87 million (2009: R80 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

27 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.

Composition of share-based payment liabilities	***2010***	*2009*
Share Option and Deferred Delivery entitlements	**159**	131
Restricted Share awards and senior black management plan	**394**	294
	553	425

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

	2010		*2009*	
Share Option and Deferred Delivery entitlements	Number of share options (millions)	Weighted average exercise price (Rand)	Number of share options (millions)	Weighted average exercise price (Rand)
Outstanding at beginning of year	**45**	**12.38**	29	18.49
Transfers to other group companies	**(1)**	**-**	(1)	-
Granted during year	**13**	**13.87**	25	7.88
Forfeited during year	**(6)**	**19.56**	(7)	20.44
Exercised during year	**(1)**	**12.26**	(1)	11.60
Expired during year	**-**	**-**	(1)	12.61
Outstanding at end of year	**50**	**11.89**	45	12.38
Exercisable at end of year	**5**	**14.56**	7	14.12

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

Notes to the annual financial statements

for the year ended 31 December 2010

27 Share-based payment liabilities *(continued)*

Restricted Share awards	2010 Number of restricted share awards (millions)	2009 Number of restricted share awards (millions)
Outstanding at beginning of year	**35**	17
Transfer to other group companies	**(1)**	-
Granted during year	**10**	24
Forfeited during year	**(1)**	(1)
Exercised during year	**(5)**	(5)
Outstanding at end of year	**38**	35
Exercisable at end of year	**-**	1

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

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:

	2010	2009
Number of options / entitlements granted (millions)	**13**	25
Value of options granted (Rand millions)	**183**	200
Fair value per option / entitlement at measurement date (in Rands) - highest	**6.68**	7.23
Fair value per option / entitlement at measurement date (in Rands) - lowest	**0.28**	2.08
Share price (in Rands)	**12.99**	13.18
Exercise price (in Rands) - highest	**19.10**	23.40
Exercise price (in Rands) - lowest	**7.45**	7.45
Expected volatility	**45%**	47%
Expected life (in years)	**4**	3
Expected dividend yield	**4%**	3%
Risk free interest rate	**7.5%**	8.6%

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

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

Restricted Share awards

	2010	2009
Number granted (millions)	**10**	24
Value of restricted shares awards (Rand millions)	**140**	179
Fair value per share (in Rands)	**12.99**	13.18

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

Notes to the annual financial statements

for the year ended 31 December 2010

28 Borrowed funds

	Coupon rate	Rm 2010	Rm 2009
Unsecured Subordinated Callable Notes	8.92%	3 000	3 000

The fair value of the unsecured subordinated callable notes is R3 018 million (2009: R2 803 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. The notes 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 (2009: R268 million).

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

29 Provisions

Rm	Other	Charitable donations	Administration & legal claims	Closure of Unclaimed Shares Trust	Total 2010
Balance at beginning of year	-	78	259	634	971
Amount utilised	-	-	(33)	(66)	(99)
Investment return	-	-	-	76	76
Charge	-	-	34	-	34
Balance at end of year	-	78	260	644	982

	Other	Charitable donations	Administration and legal claims	Closure of Unclaimed Shares Trust	Total 2009
Balance at beginning of year	11	83	299	617	1 010
Amount utilised	(11)	(5)	(46)	(58)	(120)
Investment return	-	-	-	75	75
Charge	-	-	6	-	6
Balance at end of year	-	78	259	634	971

Charitable donations

The Company has recognised a provision amounting to R78 million (2009: R78 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.

Administration and legal claims

The provisions relate to costs arising from administration related and legal claims, and included restructuring claims in prior periods. The timing of resolution of these claims is uncertain and it is expected that most of this provision will be utilised over a number of years from the reporting date.

Closure of Unclaimed Shares Trust

This provision relates to various obligations undertaken by the Company in connection with the closure of the Old Mutual South Africa Unclaimed Share Trust in 2006. An agreement was entered into in 2006 in terms of which the Company will provide donations to the Masisizane Fund, which has been set up as a charitable organisation for the enhancement of good causes. Funds will be advanced by the Company to the Masisizane Fund as projects are entered into.

Notes to the annual financial statements

for the year ended 31 December 2010

30 Deferred revenue on investment contracts

	Rm 2010	Rm 2009
Balance at beginning of year	192	231
Fees and commission income deferred	22	24
Amortisation	(53)	(63)
Balance at end of year	161	192

31 Other liabilities

	2010	2009
Collateral owing	11 842	3 696
Amounts owed to policyholders	2 837	2 075
Amounts owed to intermediaries	398	377
Accruals	887	796
Outstanding settlements	534	128
Other	550	1 842
	17 048	8 914

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

32 Share capital and premium

	2010	2009
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.

33 Notes to the statement of cash flows

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

	2010	2009
Depreciation and amortisation	361	344
Dividend income	(3 707)	(6 140)
Net fair value gains for the year included in profit before tax	(26 158)	(14 400)
Charges to provisions and post employment benefits obligation	32	(42)
Share-based payment charge	128	276
Interest income	(12 756)	(12 895)
Finance costs	630	557
Movement in policyholder liabilities	20 485	16 438
	(20 985)	(15 862)

33.2 *Changes in working capital comprises:*

	2010	2009
Insurance, other assets and amounts due by group companies	(2 803)	108
Insurance, other liabilities and amounts due to group companies	11 184	1 924
Reinsurer's share of insurance contract liabilities	(58)	8
Deferred acquisition costs	(186)	(206)
Deferred revenue on investment contracts	22	24
	8 159	1 858

Notes to the annual financial statements

for the year ended 31 December 2010

33 Notes to the statement of cash flows *(continued)*

	Rm 2010	Rm 2009
33.3 Taxation paid:		
Taxation payable at beginning of year	**(768)**	(1 269)
Income tax charge for the year (excluding deferred tax)	**(1 448)**	(1 559)
Taxation payable at end of year	**964**	768
	(1 252)	(2 060)
33.4 Dividends paid:		
Dividends payable at beginning of year	**-**	-
Dividends declared during the year	**(677)**	(3 607)
Dividends payable at end of year	**-**	-
	(677)	(3 607)

34 Commitments

The Company as lessor - operating lease arrangements

Total future minimum lease receivables under operating leases

	2010	2009
Not later than one year	**595**	781
Later than one year and not later than five years	**1 479**	1 876
Later than five years	**777**	383
	2 851	3 040

35 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 36.

Other Group companies consist of fellow subsidiaries and associates.

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

	2010	2009
Holding company		
Old Mutual Life Holdings (SA) Ltd		
Nature of transaction		
Dividends paid	**(677)**	(3 607)
Fellow subsidiaries		
Old Mutual Investment Services (Pty) Ltd		
Nature of transactions		
Fees received	**493**	461
Fees paid	**(324)**	(236)
Nedbank Group Ltd		
Nature of transactions		
Insurance contract premiums	**71**	68
Interest earned on cash balances	**187**	401
Interest earned on Nedbank bonds	**83**	84
Dividends received	**780**	916
Outstanding balances		
Cash and short-term securities	**4 206**	3 140
Nedbank bonds	**859**	798
Old Mutual Investment Group (SA) (Pty) Ltd		
Nature of transactions		
Fees paid	**(430)**	(376)
Fees received	**61**	57
Old Mutual Specialised Finance (Pty) Ltd		
Nature of transactions:		
Zero coupon bonds	**1 776**	320
Government bonds lent including interest	**968**	623
Credit linked notes including investment returns	**5 401**	1 819
Call loans including interest	**3 590**	6 131

Notes to the annual financial statements

for the year ended 31 December 2010

35 Related party disclosures *(continued)*

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

Fellow subsidiaries (continued)

	Rm 2010	Rm 2009
Old Mutual Specialised Finance (Pty) Ltd (continued)		
Services provided by related party		
Scrip lending fees paid	(11)	(9)
Scrip lending fees received	1	3
Premium received on sale of dividend rights	1	2
Fees paid on dividend purchases	(8)	(10)
Other administration, management and secretarial fees received	2	4
Interest received on call advances	258	238
Interest received on credit linked notes - on unlisted call loans to corporate reference entities	164	204
Interest received on credit linked notes - on unlisted term loans to corporate reference entities	98	70
Interest received on floating rate notes	6	6
Interest received as a result of a tax refund	-	7
Net interest paid on interest rate swaps	(45)	(6)
Net interest received on credit default swaps	1	2
Realised gain on contract for difference in curve spread	9	1
Unrealised loss on contract for difference in curve spread	(6)	(5)
Fair value gain/(loss) on forward sale and purchase agreement	72	(249)
Interest received on forward sale and purchase agreement	62	81
Unrealised loss on interest rate swaps	(49)	(13)
Realised losses on sale of financial assets	(4)	(12)
Interest paid on collateral cash	-	-
Unrealised losses on sale of financial assets	(8)	(12)
Fees paid for staff secondment	(47)	(33)
Interest on asset swaps	(1)	-
Old Mutual Alternative Risk Transfer Ltd		
Nature of transactions		
Insurance contract premiums	(22)	(19)
Claims and policy benefits	22	21
Reinsurance contract premiums	17	18
Reinsurance recoveries	(21)	(29)
Fees received	3	3
Old Mutual Investment Group Property Investments (Pty) Ltd		
Nature of transactions		
Fees paid	(167)	(182)
Commission paid	(98)	(58)
Fees received	22	22

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 26.

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 R9 426 million (2009: R 10 261 million).

Old Mutual Specialised Finance (Pty) Ltd

The nominal value of bonds lent was R960 million (2009: R647 million). The bonds lent had a weighted average coupon rate of 7.7% (2009: 8.2%). Collateral of R968 million (2009: R nil) has been pledged with regard to these security lending arrangements.

Loans due by or to subsidiaries and other Group companies

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

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

Notes to the annual financial statements

for the year ended 31 December 2010

35 Related party disclosures *(continued)*

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 KD Dlamini (CEO), A Archary, TJ Cumming, R Galdon, J Gawaxab, MJ Harper, RA Keanly, DC Radley, BM Rapiya and CF Sonn until 1 July 2010, when RT Mupita joined the Executive Committee. With effect 1 October 2010, GS Palser joined the Executive Committee. With effect 31 December 2010, TJ Cumming resigned from the Executive Committee.

	R' 000	R' 000
Key management personnel remuneration and other compensation	***2010***	*2009*
Short-term employee benefits	**61 813**	38 635
Other long-term benefits	**2 858**	2 112
Share-based payment charge	**31 174**	48 981
	95 845	89 728

In addition to the remuneration to key management personnel as reflected in the table above, key management realised R7,8 million (2009: R13,7 million) as gains on restricted shares and share options exercised during the year.

36 Interest in principal subsidiaries and associates

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

2010	Number of issued ordinary shares	% interest	Rm Carrying value of shares	Rm Loans due by subsidiaries
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	**177 318 352**	**34%**	**23 113**	**-**
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	**4 649 700**	**100%**	**5 546**	**2 057**
Barprop (Pty) Ltd	**46 599 200**	**100%**	**1**	**33**
Millstream Ltd °	**2 245 151**	**100%**	**216**	**-**
Old Mutual Holdings (Bahamas) Ltd °	**762 383 611**	**100%**	**5 474**	**-**
Old Mutual Technology Holdings Ltd	**10 000**	**100%**	**(54)**	**54**
SYmmETRY Investment Trust		**100%**	**558**	**-**
Rodina Investments (Pty) Ltd	**100 000**	**100%**	**4 924**	**(3 705)**
Just Now Investments (Pty) Ltd	**20 000**	**100%**	**-**	**-**
Community Property Holdings	**1 018 976 377**	**100%**	**3 485**	**-**
			43 263	**(1 561)**

2009	Number of issued ordinary shares	% interest	Carrying value of shares	Loans due by subsidiaries
South Africa unless otherwise stated:				
Listed - associate				
Nedbank Group Ltd	174 600 000	35%	21 648	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	4 357	2 139
Barprop (Pty) Ltd	46 599 200	100%	(3)	30
Millstream Ltd °	2 245 151	100%	248	-
Old Mutual Holdings (Bahamas) Ltd °	1 046 296 936	100%	8 250	-
Old Mutual Technology Holdings Ltd	10 000	100%	(54)	54
SYmmETRY Investment Trust		100%	605	-
Rodina Investments (Pty) Ltd	100 000	100%	4 719	(1 913)
Just Now Investments (Pty) Ltd	20 000	100%	-	-
Community Property Holdings ^	949 870 796	100%	3 189	-
			42 959	310

**** Mutual & Federal Investments (Pty) Ltd holds 100% (2009: 73%) interest in Mutual & Federal Insurance Company Ltd***

o The country of incorporation is Bahamas

^ The number of issued shares held in Community Property Holdings have been restated in 2009 to reflect the actual shares held by the Company.

Notes to the annual financial statements

for the year ended 31 December 2010

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

The Company has a 34% (2009: 35%) interest in Nedbank Group Limited, which is a bank holding company that, through its principal banking subsidiary, Nedbank Limited, together with the other members of the Nedbank Group, operates as one of the four largest banking groups in South Africa.

Nedbank Group Limited is listed on the JSE Securities Exchange. In terms of the Company's accounting policies, the investment in Nedbank Group Limited is carried at fair value. The following table contains summarised financial information relating to Nedbank Group Limited and has been drawn from the most recently released publicly available information:

	Rm	Rm
Statement of financial position:	***As at 31 Dec 2010***	*As at 31 Dec 2009*
Total assets	**608 718**	570 703
Total liabilities	**(560 904)**	(525 719)
Net assets	**47 814**	44 984
Revenue and profits:	***For the year ended 31 Dec 2010***	*For the year ended 31 Dec 2009*
Revenue	**29 823**	28 212
Operating income	**23 635**	21 578
Profit for the period	**5 136**	5 412
	As at 31 Dec 2010	*As at 31 Dec 2009*
Fair value and carrying amount of the investment	**23 113**	21 648

37 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 credit risk, currency risk, market risk, interest rate risk and liquidity 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 38 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
	2010	*2009*
Shareholder's equity	**55 935**	53 442
Adjustments to statutory basis:	**(9 579)**	(7 658)
Inadmissible assets	**(316)**	(224)
Other adjustments	**(9 263)**	(7 434)
Total available capital resources	**46 356**	45 784
Total capital requirements (Statutory Basis)	**(11 824)**	(11 055)
Overall excess	**34 532**	34 729
Capital position at beginning of year	**45 784**	42 520
Earnings for the financial year	**3 170**	9 162
Change in inadmissible assets and other adjustments	**(1 921)**	(2 291)
Dividends	**(677)**	(3 607)
Capital position at end of year	**46 356**	45 784

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Capital adequacy (continued)

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 2010, the Company's excess assets were 3.9 times (2009: 4.1 times) the statutory capital adequacy requirement (CAR), after allowing for estimates of statutory limitations on the value of certain assets. The Company had sufficient excess assets to cover its CAR requirements throughout the year.

The shareholders' equity includes the Company's investment in Nedbank Group Ltd amounting to R22 539 million (2009: R20 972 million) and R5 546 million (2009: R4 357 million) in Mutual & Federal Investments (Pty) Ltd, a wholly-owned subsidiary which holds 100% (2009: 73%) of Mutual & Federal Insurance Company Ltd. In addition, R5 448 million (2009: R8 225 million) is invested in Old Mutual plc's loan notes through Old Mutual Holdings (Bahamas) Ltd, a wholly-owned subsidiary. 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.

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) and the Shareholder Fund Investment Committee 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.
- A more conservative approach to determining which assets count towards internal CAR that is higher than the statutory CAR.
- 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 risk types affecting the surplus capital of the Company are market risk, credit risk, liquidity risk, underwriting risk, business risk and operational 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 approach (MCEV)) to changes in key assumptions. MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business, after sufficient allowance has been made for the aggregate risks in the covered business. It is measured in a way that is consistent with the value that would normally be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. 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.

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Sensitivity tests *(continued)*

At 31 December 2010	Rm Embedded value	Value of in-force
Central assumptions	**72 431**	**14 214**
Effect of:		
Required capital equal to the minimum statutory requirement	**72 900**	**14 682**
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	**72 111**	**13 872**
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	**72 735**	**14 541**
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	**76 671**	**15 050**
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	**68 160**	**13 346**
50 bps contraction on corporate bond spreads	**72 648**	**14 214**
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	**72 226**	**14 009**
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	**72 356**	**14 139**
Voluntary discontinuance rates decreasing by 10 per cent	**72 948**	**14 731**
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	**73 701**	**15 484**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	**73 389**	**15 171**
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	**72 211**	**13 993**
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	**72 348**	**14 131**

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

At 31 December 2009	Embedded value	Value of in-force business
Central assumptions	**68 634**	**12 767**
Effect of:		
Required Capital equal to the minimum statutory requirement	69 058	13 191
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	68 261	12 376
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	68 872	13 026
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	72 503	13 543
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	64 751	11 977
50 bps contraction on corporate bond spreads	68 811	12 767
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	68 380	12 513
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	68 553	12 686
Voluntary discontinuance rates decreasing by 10 per cent	69 116	13 249
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	69 767	13 900
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	69 444	13 577
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	68 483	12 616
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	68 536	12 669

** 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.

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Credit risk *(continued)*

Overall credit risk

	Rm 2010	Rm 2009
Reinsurance contracts	391	333
Loans and advances	438	518
Investments and securities		
Government and government-guaranteed securities	44 795	39 882
Other debt securities, preference shares and debentures	53 081	44 874
Short-term funds and securities treated as investments	22 387	27 884
Other	9 426	10 590
Other assets	6 728	5 579
Derivative financial instruments assets	4 504	2 540
Amounts due by group companies	7 390	5 656
Cash and cash equivalents	15 240	6 836
	164 380	144 692

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 in note 18.

Loans and advances

The table below shows the gross statement of financial position values of loans and advances.	2010	2009
Neither past due nor impaired	438	518
Total of gross loans and advances	438	518
Policyholder loans not subject to credit rating system	438	518

Debt instruments and similar securities

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

Rm

At 31 December 2010	Government and government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	44 294	28 697	6 957	79 948
Not rated	501	24 384	15 430	40 315
	44 795	53 081	22 387	120 263

At 31 December 2009	Government and government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	39 438	37 084	13 552	90 074
Not rated	444	7 790	14 332	22 566
	39 882	44 874	27 884	112 640

	Rm 2010	Rm 2009
Neither past due nor impaired	120 263	112 640
Total debt instruments and similar securities	120 263	112 640

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Reinsurance assets

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

	Rm 2010	Rm 2009
Not rated	391	333
	391	333

Neither past due nor impaired	391	333
Total	391	333

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	2010	2009
Other collateral or credit enhancements		
Bonds	165	880
Cash	12 597	9 322
Total	12 762	10 202

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.

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 2010	ZAR	GBP	USD	Euro	Other	Rm Total
Assets						
Intangible assets	97					97
Investment property	13 998					13 998
Property and equipment	3 635					3 635
Deferred tax asset	741					741
Reinsurance contracts	391					391
Deferred acquisition costs	1 159	3				1 162
Loans and advances	438					438
Investments and securities	323 379	15 552	47 239	1 637	1 010	388 817
Other assets	6 489	239				6 728
Derivative financial instruments - assets	4 504					4 504
Amounts due by group companies	7 215	145			30	7 390
Cash and cash equivalents	15 209	31				15 240
Total assets	377 255	15 970	47 239	1 637	1 040	443 141

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Currency risk (continued)

At 31 December 2010	ZAR	GBP	USD	Euro	Other	Rm Total
Liabilities						
Insurance contract liabilities	**142 741**					**142 741**
Investment contract liabilities	**204 499**	**3 210**	**5 234**	**1 070**		**214 013**
Borrowed funds	**3 000**					**3 000**
Post employment benefits obligation	**100**					**100**
Share-based payment liabilities	**553**					**553**
Provisions	**982**					**982**
Deferred revenue on investment contracts	**154**	**7**				**161**
Deferred tax liability	**2 105**					**2 105**
Current tax payable	**964**					**964**
Other liabilities	**17 009**	**39**				**17 048**
Derivative financial instruments - liabilities	**1 953**					**1 953**
Amounts due to group companies	**5 345**	**59**			**1**	**5 405**
Total liabilities	**379 405**	**3 315**	**5 234**	**1 070**	**1**	**389 025**

At 31 December 2009	ZAR	GBP	USD	Euro	Other	Rm Total
Assets						
Intangible assets	52					52
Investment property	15 787					15 787
Property and equipment	3 678					3 678
Deferred tax asset	639					639
Reinsurance contracts	332	1				333
Deferred acquisition costs	1 224	3				1 227
Loans and advances	518					518
Investments and securities	326 692	802	36 577	412	1 004	365 487
Other assets	5 574	1	4			5 579
Derivative financial instruments - assets	2 540					2 540
Amounts due by group companies	5 365	291				5 656
Cash and cash equivalents	6 769	61	6			6 836
Total assets	369 170	1 159	36 587	412	1 004	408 332

At 31 December 2009	ZAR	GBP	USD	Euro	Other	Rm Total
Liabilities						
Insurance contract liabilities	139 685					139 685
Investment contract liabilities	186 222	3 648	5 266	1 448		196 584
Borrowed funds	3 000					3 000
Share-based payment liabilities	425					425
Post employment benefits obligation	79					79
Provisions	971					971
Deferred revenue on investment contracts	182	10				192
Deferred tax liability	2 167					2 167
Current tax payable	768					768
Other liabilities	8 869	45				8 914
Derivative financial instruments - liabilities	1 316					1 316
Amounts due to group companies	2 261	94				2 355
Total liabilities	345 945	3 797	5 266	1 448	-	356 456

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. A discretionary margin is also held for this purpose.

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

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 Company. High level principles, roles and responsibilities and reporting requirements are set out in the policy statement document of Old Mutual (South Africa) Limited ("OMSA").

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 under which OMSA assumes liquidity risk 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 address the strategy for handling liquidity crises and systems of internal control are in place for liquidity risk.

Roles and responsibilities

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

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.

Rm

At 31 December 2010	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	**3 577**	**14 485**	**78 565**	**235 589**	**332 216**
Investment contracts					
Unit-linked investment contracts and similar contracts	**131 510**	**886**	**-**	**-**	**132 396**
Discretionary participating investment	**76 219**	**-**	**-**	**-**	**76 219**
Other investment contracts	**70**	**201**	**899**	**1 732**	**2 902**
Outstanding claims	**3 873**	**-**	**-**	**-**	**3 873**
Borrowed funds	**-**	**-**	**-**	**3 000**	**3 000**
Derivative financial instruments - liabilities	**42**	**63**	**398**	**835**	**1 338**
Amounts due to group companies	**5 405**	**-**	**-**	**-**	**5 405**
	220 696	**15 635**	**79 862**	**241 156**	**557 349**

At 31 December 2009	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	6 133	14 371	81 985	244 097	346 586
Investment contracts					
Unit-linked investment contracts and similar contracts	122 128	-	-	-	122 128
Discretionary participating investment	73 302	-	-	-	73 302
Other investment contracts	74	215	1 022	2 043	3 354
Outstanding claims	3 340	-	-	-	3 340
Borrowed funds	-	-	-	3 000	3 000
Derivative financial instruments - liabilities	39	340	1 441	551	2 371
Amounts due to group companies	2 355	-	-	-	2 355
	207 371	14 926	84 448	249 691	556 436

Notes to the annual financial statements

for the year ended 31 December 2010

37 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 statement of financial position date to settlement date, or if not subject to fixed terms of repayment, the intention as regards settlement period at the statement of financial position date.

Rm

At 31 December 2010	Current assets	Non-current assets	**Total**
Assets			
Intangible assets		97	**97**
Investment property		13 998	**13 998**
Property and equipment		3 635	**3 635**
Deferred tax asset		741	**741**
Reinsurance contracts	276	115	**391**
Deferred acquisition costs	251	911	**1 162**
Loans and advances		438	**438**
Investments and securities	22 387	366 430	**388 817**
Other assets	6 728		**6 728**
Derivative financial instruments - assets	440	4 064	**4 504**
Amounts due by group companies	7 390		**7 390**
Cash and cash equivalents	15 240		**15 240**
Total assets	52 712	390 429	**443 141**

At 31 December 2010	Current liabilities	Non-current liabilities	**Total**
Liabilities			
Long-term business policyholder liabilities			
Insurance contracts		140 649	**140 649**
Investment contracts			
Unit-linked investment contracts and similar contracts		130 959	**130 959**
Discretionary participating investment contracts		81 650	**81 650**
Other investment contracts		1 404	**1 404**
Outstanding claims	2 092		**2 092**
Borrowed funds		3 000	**3 000**
Post employment benefits obligation		100	**100**
Share-based payment liabilities		553	**553**
Provisions	78	904	**982**
Deferred revenue on investment contracts	53	108	**161**
Deferred tax liability		2 105	**2 105**
Current tax payable	964		**964**
Other liabilities	17 048		**17 048**
Derivative financial instruments - liabilities	106	1 847	**1 953**
Amounts due to group companies	5 405		**5 405**
Total liabilities	25 746	363 279	**389 025**

At 31 December 2009	Current assets	Non-current assets	Total
Assets			
Intangible assets		52	52
Investment property		15 787	15 787
Property and equipment		3 678	3 678
Deferred tax asset		639	639
Deferred acquisition costs	246	981	1 227
Reinsurance contracts	254	79	333
Loans and advances		518	518
Investments and securities	27 884	337 603	365 487
Other assets	5 579		5 579
Derivative financial instruments - assets	272	2 268	2 540
Amounts due by group companies	5 656		5 656
Cash and cash equivalents	6 836		6 836
Total assets	46 727	361 605	408 332

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Liquidity risk (continued)

At 31 December 2009	Current liabilities	Non-current liabilities	Total
			Rm
Liabilities			
Long-term business policyholder liabilities			
Insurance contracts		136 246	136 246
Investment contracts			
Unit-linked investment contracts and similar contracts		119 213	119 213
Discretionary participating investment contracts		76 002	76 002
Other investment contracts		1 369	1 369
Outstanding claims	3 439		3 439
Borrowed funds		3 000	3 000
Post employment benefits obligation		79	79
Share-based payment liabilities		425	425
Provisions	78	893	971
Deferred revenue on investment contracts	63	129	192
Deferred tax liability		2 167	2 167
Current tax payable	768		768
Other liabilities	8 914		8 914
Derivative financial instruments - liabilities	228	1 088	1 544
Amounts due to group companies	2 355		1 316
Total liabilities	15 845	340 611	356 456

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 at fair value through profit or loss 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 liabilities).

			Rm
		Change in fair value due to change in credit risk	
At 31 December 2010	**Max exposure to credit risk**	**Current financial year**	**Cumulative**
Financial assets designated at fair value through profit or loss			
Investments and securities	**52 457**	**-**	**-**
	52 457	**-**	**-**

		Change in fair value due to change in credit risk	
At 31 December 2009	Maximum exposure to credit risk	Current financial year	Cumulative
Financial assets designated at fair value through profit or loss			
Investments and securities	51 232	82	164
	51 232	82	164

The Company has estimated the change in credit risk 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. 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
		Change in fair value due to change in credit risk		
At 31 December 2010	**Fair value**	**Current financial year**	**Cumulative**	**Contractual maturity amount**
Unit-linked investment contracts and similar contracts	**130 959**	**-**	**-**	**132 396**
Other investment contracts	**1 404**	**-**	**-**	**2 902**
	132 363	**-**	**-**	**135 298**

Notes to the annual financial statements

for the year ended 31 December 2010

37 Financial risk management *(continued)*

Financial instruments designated at fair value through profit or loss (continued)

		Change in fair value due to change in credit risk		
At 31 December 2009	Fair value	Current financial year	Cumulative	Contractual maturity amount
Unit-linked investment contracts and similar contracts	119 213	-	-	122 128
Other investment contracts	1 369	-	-	3 354
	120 582	-	-	125 482

38 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 37.

Risk management objectives and policies for mitigating insurance risk

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

- Having an agreed risk preference for all risk types, including those relating to insurance.
- 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 and the quantification of such risks.
- Actuarial models, which use the above information to calculate premiums and monitor decrements and 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
Retail Affluent				
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
Retail Mass - 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

Notes to the annual financial statements

for the year ended 31 December 2010

38 Insurance risk management *(continued)*

Terms and conditions of insurance contracts (continued)

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.

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 are priced to allow for the expected effects of AIDS and in some cases are repriced on a regular basis. 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.

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 2010 has been estimated as follows:

Assumption	Change %	**Rm** Increase/ (decrease) in liabilities *2010*	Rm Increase/ (decrease) in liabilities *2009*
Mortality and morbidity rates - assurance	**+10%**	**2 924**	2 495
Mortality rates – annuities	**-10%**	**625**	538
Discontinuance rates	**+10%**	**(118)**	(7)
Expenses (maintenance)	**+10%**	**694**	728

Notes to the annual financial statements

for the year ended 31 December 2010

38 Insurance risk management *(continued)*

Sensitivity analysis

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 R937 million (2009: R693 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
Retail 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 Retail Mass 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, subject to certain restrictions.
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.

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 2010.

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	5.6%
2	6.1%
3	6.6%
4	7.1%
5	7.4%
10	8.2%
15	8.3%
20	8.1%
25	7.8%
30	7.6%

Notes to the annual financial statements

for the year ended 31 December 2010

38 Insurance risk management *(continued)*

Guarantees and options *(continued)*

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	8.0%	24.4%
1	0.8 times spot	2.7%	29.5%
1	Forward	9.1%	23.4%
5	Spot	11.5%	27.9%
5	1.04^{5} times spot	18.2%	26.0%
5	Forward	19.9%	25.6%
20	Spot	5.4%	30.7%
20	1.04^{20} times spot	18.8%	28.6%
20	Forward	28.5%	27.9%

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.	10.3%
20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option (stripped from the zero coupon yield curve), which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike	0.3%

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

Notes to the annual financial statements

for the year ended 31 December 2010

39 Notes to the Statutory Actuary's Report

39.1 Analysis of change in excess assets on published reporting basis

	Rm 2010	Rm 2009
Excess assets at end of year	54 116	51 876
Excess assets at beginning of year	51 876	46 391
Change in excess assets on published reporting basis during the year	2 240	5 485
The change in the excess assets on the published reporting basis has arisen from the following main sources:		
Operating profit before shareholder tax (excluding the effect of changes in the valuation basis)	2 583	2 298
Investment income on excess assets	1 542	2 879
Dividend income	1 320	2 749
Interest income	222	130
Realised (losses)/gains on excess assets	(18)	1 502
Foreign exchange losses on excess assets	-	(9)
Changes in valuation basis	(13)	730
Non-operating items (finance cost on subordinated debt considered part of capital structure - refer note 7)	(268)	(268)
Profit before tax for the financial year per income statement	3 826	7 132
Taxation	(1 288)	(1 752)
Shareholder tax	(991)	(1 260)
Policyholders' tax	(297)	(492)
Profit after tax for the financial year per income statement	2 538	5 380
Movement through other comprehensive income and equity		
Fair value gains on excess assets per statement of comprehensive income	375	3 595
Income tax relating to components of other comprehensive income	4	117
Dividends per statement of changes in equity	(677)	(3 607)
Change in excess assets on published reporting basis during the year	2 240	5 485

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

	2010	2009
Actuarial value of policy liabilities - published reporting basis	(354 662)	(332 830)
Actuarial value of policy liabilities - statutory basis	(351 306)	(330 011)
Difference	(3 356)	(2 819)
Comprising:		
Investment contracts	(3 505)	(3 191)
Reinsurance	(115)	(79)
Deferred tax adjustment on policyholder investment properties	264	451
	(3 356)	(2 819)

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

	2010	2009
Excess assets - published reporting basis	54 116	51 876
Excess assets - statutory basis	55 935	53 442
Difference	(1 819)	(1 566)
Comprising:		
Investment contracts	(3 505)	(3 191)
Revenue recognition	1 001	1 035
Deferred tax impacts on owner-occupied property	(21)	(20)
Deferred tax impacts of above items	706	610
	(1 819)	(1 566)

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 2010

39 Notes to the Statutory Actuary's Report *(continued)*

39.4 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.

39.4.1 Valuation of assets on the published basis

Investment property and financial assets are valued on the bases set out in notes 1.6 and 1.10 respectively.

39.4.2 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 retail 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 where applicable 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 applicable yield curves.

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

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

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

	December 2010	*December 2009*
Fixed interest securities	**8.5%**	9.5%
Cash	**6.5%**	7.5%
Equities	**12.0%**	13.0%
Properties	**10.0%**	11.0%
Future expense inflation	**5.5% ***	6.5% *

** 7.5 % (2009: 8.5%) for Retail Affluent business administered on old platforms and 6.5 % (2009: 7.5%) for Retail Mass business.*

Notes to the annual financial statements

for the year ended 31 December 2010

39 Notes to the Statutory Actuary's Report *(continued)*

39.4.2 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 and Board Notice 14 of 2010;
- 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, lapse and investment return margins for Retail Mass 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 Retail Affluent life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience,
  - margins on certain Retail Affluent non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk,
  - expense margins in the pricing basis for Corporate Segment annuities,
  - interest margins on Corporate Segment 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 swap yield curves 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:

Business unit	*Type of investigation*	*Period of investigation*
Retail Affluent	Flexi business mortality	2003 to 2006
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2005 to 2006
	Greenlight mortality	2001 to 2009
	Dread disease	2000 to 2002
	Disability	2000 to 2002
	Persistency - Flexi and Conventional	2008
	Persistency - Greenlight	2003 to 2009
Retail Mass	Mortality	2009
	Persistency	2009 to 2010
Corporate Segment	Annuitant mortality	2004 to 2009
	PHI claims termination	2006 to 2009
	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 2010 analysis of profit provides a measure of the aggregate experience in 2010. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure.

Notes to the annual financial statements

for the year ended 31 December 2010

39 Notes to the Statutory Actuary's Report *(continued)*

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

- For both retail 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 applicable yield curves.
- Liabilities include the cost of any investment guarantees for products that are 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 38 on pages 78 and 79.

39.5. 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 and Board Notice 14 of 2010 issued by the FSB. 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 non-vested balances. The nature and extent of the action that would be taken will depend on the severity of the decline in asset values and the circumstances at that time.

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

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. The following management actions have been assumed in calculating the CAR as at 31 December 2010, if asset values had declined as specified as at 31 December 2010, and had not subsequently recovered:

- Future bonus rates would have been reduced by 5% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products (excluding the versions of these products launched in 2009).
- Future bonus rates would have been reduced by 4% per year in each of the following three years for Absolute Smoothed Growth 2009, Absolute Stable Growth 2009 and Retail Mass products.
- Future bonus rates would have been reduced by 2.5% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 2% per year in each of the following three years for with-profit annuities.
- Future bonus rates would have been reduced by 4.2% per year in each of the following three years for all other smoothed bonus products.

In respect of 2009 the following management actions were assumed :

- Non-vested balances equivalent to 10% of total balances would have been removed from the Absolute Smoothed Growth and Absolute Stable Growth products.
- Non-vested balances equivalent to 6.5% of total balances 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 smoothed bonus products.

Notes to the annual financial statements

for the year ended 31 December 2010

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

39.5. 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 12.5% in local equities, and 87.5% in local cash (December 2009: 12.5% local equities and 87.5% 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)

39.6. Changes to valuation assumptions (published basis)

Various actuarial assumption changes have been made which largely offset each other. These led to a net increase in the value of liabilities of R13 million (2009: R730 million net decrease in liabilities). The significant assumption changes in 2010 were:

- Higher retail annuitant mortality assumptions which reduced liabilities by R249 million; and
- Lower economic assumptions which increased liabilities by R200 million.