OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LTD

ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2013

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Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2013

Contacts

Public officer	J Baepi
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditors 1 Mediterranean Street Foreshore Cape Town 8001 South Africa
Postal address	PO Box 66 Cape Town 8000 South Africa
Registered office	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Company secretary	E M Kirsten
Company registration number	1999/004643/06
Preparation supervised by	K Murray CA Finance Director

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2013

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The reports and statements set out below comprise the company's annual financial statements:

The company's consolidated financial statements are contained in a separate document.

Statement of directors' responsibilities

Directors responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, comprising the statement of financial position at 31 December 2013, and the income statement, 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, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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

Approval of annual financial statements

The annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited, as identified in the first paragraph, were approved by the board of directors on 2 April 2014 and signed by:

P G de Beyer
Chairman

B M Rapiya
Chief Executive Officer

Certificate by the Company Secretary

I declare that, to the best of my knowledge, the company has lodged all such returns and notices as are required of it in terms section 88(2)(e) of the Companies Act of South Africa 71 of 2008, for the year ended 31 December 2013 and that all such returns are true, correct and up to date.

E M Kirsten
Company Secretary
2 April 2014

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Ltd have pleasure in submitting their report on the company's annual financial statements for the year ended 31 December 2013.

1. Review of 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.

As a result of changes in regulations governing how financial services groups in general and insurance groups in particular should be governed, a change in the legal structures of Old Mutual South Africa has been effected. As a result, the company has transferred certain investments and subsidiaries and has acquired certain subsidiaries from Old Mutual Emerging Markets Ltd to align ownership and management structures.

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.

Profit before tax was R 8 557 million (2012: R 14 740 million), and R 4 592 million (2012: R 12 747 million) after tax.

2. Consolidated annual financial statements

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 prepared and presented in accordance with IFRS are expected to be issued in April 2014.

In these company-only financial statements the company's investments in its subsidiary, joint ventures 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, joint ventures and associates are set out in note 20.

3. Holding company

The company's holding company is Old Mutual Emerging Markets Ltd incorporated in South Africa.

4. Ultimate holding company

The company's ultimate holding company is Old Mutual plc incorporated in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia and Zimbabwe stock exchanges.

5. Share capital

There were no changes in the authorised ordinary share capital or the authorised or issued preference share capital of the company. The company issued 1 ordinary share to its holding company, Old Mutual Emerging Markets Ltd, in exchange for investment in subsidiaries acquired at a value of R169 million.

6. Dividends

Ordinary shares

Dividends on ordinary shares amounting to R 24 797 million (2012: R 1 355 million) were declared during the year. The 2013 total includes dividends in specie of R 23 273 million.

Preference shares

Dividends on preference shares amounting to R 2 354 million (2012: R 8 424 million) were declared during the year.

7. Public interest score

The company's public interest score, as determined in accordance with the relevant provisions of the Companies Act, 71 of 2008, is 619 877.

Directors' report

8. Directors

The directors of the company during the year were as follows:

Name	Nationality	Changes
P C Baloyi	South African	Resigned 2 May 2013
P G de Beyer	South African	
I A Goldin	South African	Resigned 2 May 2013
P B Hanratty	Irish	Resigned 2 May 2013
C J Hood	British	Resigned 2 May 2013
A A Maule	South African	Resigned 2 May 2013
N T Moholi	South African	Resigned 2 May 2013 and appointed 17 February 2014
C W N Molope	South African	
C E Maynard	South African	Resigned 2 May 2013
R T Mupita	South African	
K Murray	British	
B M Rapiya	South African	
J V F Roberts	British	Resigned 2 May 2013
F Robertson	South African	Resigned 2 May 2013
G T Serobe	South African	Resigned 2 May 2013
A H Trikamjee	South African	Resigned 2 May 2013
P G M Truyens	Dutch	
G S van Niekerk	South African	Resigned 17 February 2014

The directors currently holding office are:

Executive directors

R T Mupita
K Murray f
B M Rapiya (Chief Executive Officer)

Independent directors

P G de Beyer ca
C W N Molope ar
P G M Truyens ar, ca
G S van Niekerk ar, ca*
N T Moholi ar, ca*

ar Member of the Audit, Risk and Compliance Committee
ca Member of the Customer Affairs Committee
f Member of the Financial Assistance Committee

In terms of the articles of association, Ms K Murray, Mr B M Rapiya and Mr P G M Truyens are due to retire at the annual general meeting. Ms N T Moholi, having been appointed during the year, is also due to retire at the annual general meeting. All remaining 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.

* Mr G S van Niekerk resigned as a director on 17 February 2014 and Ms N T Moholi was appointed as a director on 17 February 2014.

Directors' report

9. Company secretary

Ms E M Kirsten is the company secretary.

Registered office	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Postal address	PO Box 66 Cape Town 8000

10. Auditors

KPMG Inc. will continue in office in accordance with section 90 of the Companies Act.

11. Events after the end of financial year

As part of a restructuring of the group's interests, Old Mutual South Africa Ltd's shareholding in Old Mutual Unit Trust Managers Ltd was purchased by Old Mutual Wealth (Pty) Ltd, conditional on approval by the Financial Services Board ("FSB"). The FSB approved the sale on the 6th January 2014.

12. 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.

13. Corporate citizenship and non-financial reporting

The Old Mutual Group publishes a separate responsible business report which covers operational activities of its business with respect to its material sustainability issues.

Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2013, 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 IFRS 9, Financial Instruments. 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 notes 41 and 44 to the annual financial statements. Sample derivative contract prices derived from the calculation of market-consistent investment guarantee reserves are provided in note 40.

Actuarial balance sheet

		R m		R m
	2013 Published	**2013 Statutory**	**2012 Restated Published**	**2012 Restated Statutory**
Total value of assets	541 194	521 644	500 356	487 004
Actuarial value of policy liabilities	(457 855)	(435 700)	(403 827)	(388 170)
Unsecured subordinated callable notes	(3 000)	(3 000)	(3 000)	(3 000)
Provisions and other liabilities	(40 928)	(40 834)	(31 962)	(31 849)
	(501 783)	(479 534)	(438 789)	(423 019)
Excess of assets over liabilities	39 411	42 110	61 567	63 985
Less: Inadmissible for statutory solvency purposes		(475)		(479)
Less: Limits on group undertakings		(1 012)		(16 387)
Add: Unsecured subordinated callable notes		3 000		3 000
Excess assets (statutory basis)		43 623		50 119
Statutory capital adequacy requirement (CAR)		**13 770**		**12 675**
Ratio of excess assets to CAR		3.2		4.0

Notes:

1 Certain of the 2013 figures for inadmissible assets and limits in respect of group undertakings and the resulting calculations are estimates.
2 A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 41.1.
3 The composition of the assets backing the CAR is 12.5% in local equities and 87.5% in local cash (2012: 12.5% local equities and 87.5% local cash).
4 19% of Nedbank and 100% of Mutual and Federal were transferred to other group companies during 2013 which reduced excess admissible assets.
5 2012 figures have been restated to reflect changes to the accounting standards (refer to note 1.1).

Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2013, 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 as prescribed by the Long Term Insurance Act.

G W Voss
Statutory Actuary
BSc, FIA, FASSA
Cape Town
2 April 2014

Audit, Risk and Compliance Committee report

The Audit, Risk and Compliance Committee is a committee of the board of directors, and serves in an advisory capacity to the Board in discharging its 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.

Terms of reference

The Audit, Risk and Compliance Committee has adopted 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 these terms of reference.

Composition and meeting process

The current members are Ms C W N Molope (Chairman), Mr P G M Truyens and Ms N T Moholi.

The committee comprises exclusively independent directors, and met four times during the year with senior management, including the chief executive officer, the statutory actuary, the finance director, the group audit director, the chief risk officer and certain other executive management. Representatives from Old Mutual plc also usually attend. 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.

Statutory duties

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

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit, Risk and Compliance 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 Companies 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 or such services that the auditor may not provide to the company or related 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, Risk and Compliance 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 2013, we are of the opinion that, in all material respects, they comply with the relevant provisions of IFRS and the Companies Act 71 of 2008 and that they fairly present the financial position at 31 December 2013 of the company and the results of operations and cash flows for the year then ended.

C W N Molope
Chairman of the Audit, Risk and Compliance Committee
2 April 2014

Independent auditors' report

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

We have audited the financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, which comprise the statement of financial position at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 81.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards (IFRS), and the requirements of 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.

Auditors' 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 about 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 auditors' 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 audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Old Mutual Life Assurance Company (South Africa) Ltd at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2013, we have read the Directors' Report, the Audit, Risk and Compliance Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor
Per: G Dixon
Chartered Accountant (SA)
11 April 2014

1 Mediterranean Street
Foreshore
Cape Town
8000

Income statement

	Notes	2013 R m	2012 R m
Revenue			
Gross earned premiums	3	34 594	30 627
Outward reinsurance premiums	16	(900)	(811)
Net earned premiums		**33 694**	**29 816**
Investment income (net of investment losses)	5	71 010	72 051
Fee and commission income	6	4 030	2 890
Other income		200	142
Total revenue		**108 934**	**104 899**
Expenses			
Claims and benefits (including change in insurance contract provisions)		(61 280)	(58 282)
Reinsurance recoveries		1 052	1 047
Net claims and benefits incurred		**(60 228)**	**(57 235)**
Change in investment contract liabilities		(26 744)	(20 930)
Interest expense	7	(974)	(842)
Commission and other acquisition costs	8	(3 171)	(2 912)
Operating and administration expenses	9 &10	(9 260)	(8 240)
Total expenses		**(100 377)**	**(90 159)**
Profit before tax		**8 557**	**14 740**
Income tax expense	11	(3 965)	(1 993)
Profit after tax for the financial year		**4 592**	**12 747**

Statement of comprehensive income

	2013 R m	2012 Restated R m
Profit after tax for the financial year	**4 592**	**12 747**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Property revaluation	132	1
Actuarial gains on defined benefit plans	149	200
Items that may be reclassified subsequently to profit and loss		
Policyholder property revaluation transferred to income statement	(107)	(1)
Currency translation differences	60	-
Other comprehensive income for the year net of taxation	**234**	**200**
Total comprehensive income	**4 826**	**12 947**

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2013

Statement of financial position

	Notes	2013 R m	2012 Restated R m	2011 Restated R m
Assets				
Intangible assets	12	255	79	79
Investment property	13	6 985	14 775	13 969
Property and equipment	14	3 303	3 334	3 410
Deferred tax assets	15	1 337	974	847
Reinsurance contracts	16	766	889	509
Post employment benefits	27	396	223	-
Deferred acquisition costs	17	1 145	1 064	1 105
Loans and advances	18	259	292	332
Investments and securities	19	491 623	441 951	403 316
Derivative assets	21	6 142	8 331	4 057
Amounts due by group companies	22	7 952	6 291	5 952
Other assets	23	7 690	7 575	6 786
Cash and cash equivalents	24	13 341	14 578	10 124
Total assets		**541 194**	**500 356**	**450 486**
Liabilities				
Insurance contract liabilities	25	156 089	151 304	138 806
Investment contract liabilities	25	303 755	254 514	223 933
Borrowed funds	26	3 000	3 000	3 000
Post employment benefits	27	-	-	18
Share-based payment liabilities	29	998	815	904
Deferred revenue on investment contracts	31	94	112	135
Deferred tax liabilities	15	3 708	1 067	1 367
Derivative liabilities	21	8 269	5 260	2 730
Amounts due to group companies	22	1 390	897	5 800
Provisions	30	1 687	1 095	1 037
Current tax payable		2 011	2 576	1 438
Other liabilities	32	20 782	18 149	12 919
Total liabilities		**501 783**	**438 789**	**392 087**
Net assets		**39 411**	**61 567**	**58 399**
Shareholders' equity				
Share capital and premium	33	6 423	6 254	6 254
Other reserves	33	184	99	99
Share-based payment reserve		481	481	481
Retained earnings		32 323	54 733	51 565
Total equity		**39 411**	**61 567**	**58 399**

Statement of changes in equity

	Share capital	Share premium	Other reserves	Share-based payment reserve	Total reserves	Retained earnings	Total equity
	R m	R m	R m	R m	R m	R m	R m
Restated balance at 1 January 2012	**8**	**6 246**	**99**	**481**	**580**	**51 565**	**58 399**
Profit after tax	-	-	-	-	-	12 747	12 747
Other comprehensive income	-	-	-	-	-	200	200
Dividends	-	-	-	-	-	(9 779)	(9 779)
Total changes	-	-	-	-	-	3 168	3 168
Restated balance at 31 December 2012	**8**	**6 246**	**99**	**481**	**580**	**54 733**	**61 567**
Profit after tax	-	-	-	-	-	4 592	4 592
Other comprehensive income	-	-	85	-	85	149	234
Issue of share capital	-	169	-	-	-	-	169
Dividends	-	-	-	-	-	(27 151)	(27 151)
Total changes	-	169	85	-	85	(22 410)	(22 156)
Balance at 31 December 2013	**8**	**6 415**	**184**	**481**	**665**	**32 323**	**39 411**

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2013

Statement of cash flows

	Notes	2013 R m	2012 R m
Cash flows from operating activities			
Cash used in operations	34	(4 456)	(12 827)
Interest received		13 217	10 807
Dividends received		5 077	10 951
Interest expense		(974)	(842)
Tax paid	35	(2 291)	(1 360)
Net cash from / (utilised in) operating activities		**10 573**	**6 279**
Cash flows from investing activities			
Acquisition of property and equipment	14	(166)	(175)
Proceeds from disposal of property and equipment	14	66	22
Acquisition of investment property	13	(460)	(673)
Proceeds from disposal of investment property	13	8 728	674
Acquisition of intangible assets	12	(198)	(28)
Net (acquisition) / disposal of financial instruments		(15 902)	7 684
Net cash (utilised in) / from investing activities		**(7 932)**	**7 504**
Cash flows from financing activities			
Dividends paid to company's shareholders	36	(3 878)	(9 779)
Net cash from financing activities		**(3 878)**	**(9 779)**
Net (decrease) / increase in cash and cash equivalents		**(1 237)**	**4 454**
Cash and cash equivalents at the beginning of the year		14 578	10 124
Total cash and cash equivalents at end of the year	24	**13 341**	**14 578**

Accounting policies

1. Statement of compliance

The company's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the Companies Act of South Africa.

1.1 Basis of preparation

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. Except as described below, the accounting policies have been consistently applied to all periods presented.

The company's consolidated financial statements are presented separately from these company-only financial statements.

The financial statements are presented in South African Rands.

The financial statements have been amended to reflect the introduction of IFRS 13 Fair Value Measurement, IAS 1 Presentation of items of other comprehensive income and IAS 19 Employee benefits (Revised 2011), which are mandatory for accounting periods commencing on or after 1 January 2013.

IFRS13 Fair Value Measurement

IFRS 13 replaces existing guidance on fair value measurement in different IFRS standards with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. The company has applied fair value measurements on a consistent basis across all reporting periods and, as a result, the implementation of IFRS 13 did not materially impact the fair value measurements carried out by the company.

The standard also replaces and expands the disclosure requirements about fair value measurements. The company has included additional disclosures in this regard. Refer notes 4 and 13.

In accordance with the transitional provision of IFRS 13, the company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

IAS 1 Presentation of items of other Comprehensive Income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future, from those that will never be reclassified to profit or loss. The amendment affected presentation only and had no impact on the shareholders' equity or profit.

IAS 19 Employee Benefits (Revised 2011)

The company has adopted the requirements of IAS 19 Employee Benefits (Revised 2011).

The key amendments are:

- The corridor method has been removed and all actuarial gains and losses are required to be recognised in other comprehensive income rather than profit or loss. Expected returns on plan assets are no longer recognised in profit or loss. Instead, interest is recognised on the net defined benefit liability or asset in profit or loss, calculated using the discount rate used to measure the defined benefit.
- Past service costs arising from plan amendments or curtailment obligationare now recognised in the profit and loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. The option to amortise such cost over future years has also been eliminated.
- Administration costs, other than costs of managing plan assets are recognised in profit or loss when service is provided.

The change in accounting policy has been applied retrospectively and as a result, the comparative information for the year ended 31 December 2012 has been restated accordingly.

Accounting policies

1.1. Basis of preparation (continued)

A summary of the IAS 19 amendments on the 2012 statement of comprehensive income and statement of financial position is set out in the following table.

	Reported R m	Adjustment R m	Restated R m
Statement of comprehensive income			
Actuarial gains on defined benefit plans, net of tax	-	200	200
Statement of financial position			
Post employment benefits liability/(asset)	162	(385)	(223)
Retained earnings	54 457	276	54 733
Deferred tax liability	958	109	1 067

The accounting policies for employee benefits have been amended to reflect the above change.

1.2 Revenue

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

Revenue is accounted for in accordance with the following accounting policies.

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.

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.

Commission income

Commission income is accounted for on an earned basis.

1.3 Insurance and investment contracts

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.

Accounting policies

1.3 Insurance and investment contracts (continued)

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. Those contracts that have insurance risk are classified as insurance contracts. Those that do not have insurance risk 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.

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.

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 (SAP) 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 APN 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 notes 40 and 41.

Accounting policies

1.3 Insurance and investment contracts (continued)

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.

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.

Acquisition costs

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

Acquisition costs in respect of insurance contracts and investment contracts with a discretionary participating feature are expensed as incurred. The FSV method, used to value these contracts, makes allowance in the valuation for the charges to policyholders in respect of such acquisition costs, therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

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 are amortised over periods of between 5 and 10 years.

1.4 Intangible assets

Intangible assets, which represent 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 over their 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 each reporting date. 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.

An intangible asset arising from development expenditure on an individual project is recognised only when the company meets the following recognition criteria: demonstration of 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 available for 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.

Research costs are expensed as incurred.

Accounting policies

1.5 Investment property

Real estate held to earn rentals or for capital appreciation or both, is 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.

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.

1.6 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 other comprehensive income and presented in a revaluation reserve in equity, except to the extent it represents an increase that reverses a revaluation decrease previously recognised in the income statement, or a decrease that exceeds the revaluation surplus, then recognised in income statement.

1.6 Property and equipment (continued)

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.

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, from the revaluation reserve to 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.

1.7 Tax

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 and capital gains tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

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 reporting 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 or equity. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

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

1.8 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.

1.9 Financial instruments

Recognition and de-recognition of financial instruments

Financial instruments comprise investments and securities, loans and advances, including amounts due by/to group companies, derivative instruments, cash and cash equivalents and investment contract liabilities, other than those with discretionary participating features.

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

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

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

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

All purchases and sales of financial assets are recognised at trade date, which is the date that the company commits to purchase or sell the asset.

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 and financial assets and financial liabilities at amortised cost. An analysis of the company's statement of financial position, showing the categorisation of financial instruments is set out in note 4.

1.9 Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise those financial assets where the company's business model is to manage the assets on a fair value basis in accordance with a documented risk management and/or investment strategy and those that the company has elected to designate as at fair value through profit or loss in order to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis. This measurement election is typically utilised in respect of financial assets held to support liabilities in respect of contracts with policyholders.

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 gain or loss adjustments being recognised directly in the income statement.

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 investment income. Dividends received are included in investment income.

Financial assets at amortised cost

Financial assets at amortised cost are initially recognised at fair value. Subsequent to initial measurement, such assets are measured using the effective interest method less any impairment losses. Interest received is recognised as part of investment income. All financial assets at amortised cost 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.

Listed derivatives are stated at quoted prices. Unlisted derivative instruments are valued using standard market valuation techniques.

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

Financial liabilities (other than investment contracts) are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, financial liabilities 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.

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.

Dividend income

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

1.9 Financial instruments (continued)

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 under securities lending arrangements, and not the collateral security, are reflected in the statement of financial position of the company. Scrip lending fees received are included under fee income. The company continues to recognise the related income on the equities and bonds on loan.

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.

1.10 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 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 and 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.

1.11 Employee benefits

Short-term employee benefits

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

Defined contribution plan

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

Defined benefit plan

In respect of the company’s defined benefit retirement plan, the projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost, and where applicable, past service cost.

The current service cost is recognised as an expense.

Past service costs arising from plan amendments or curtailment are recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation 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 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.

1.11 Employee benefits (continued)

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately in the statement of comprehensive income.

Other post-retirement benefit plan

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.

1.12 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.

1.13 Share-based payment

Cash-settled share-based payment transactions

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

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

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

1.14 Segment reporting

The company's segmental results are presented for two reporting segments, Retail and Corporate with the balance of the company's financial results reflected as attributable to 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 individual customers. They constitute a combination of Old Mutual's life and savings, 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.

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 3 reflects the measures of profit or 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.

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.

1.15 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.

1.16 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 the income statement. An impairment loss is reversed 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.

1.17 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.

1.18 Borrowing costs

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

1.19 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, share-based payment liabilities and tax provisions.

Insurance contract accounting is discussed in note 1.3 above, and further detail of the methodology used in determining insurance contract liabilities is included in note 41. Accounting for deferred acquisition cost assets is discussed in note 1.3.

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 1.9 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 30. The assumptions applied in valuing share-based payment liabilities are disclosed in note 29.

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 1.9 above.

The company in the ordinary course of business enters into transactions that expose the group to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities.

Historically, a number of group companies entered into structured transactions with third parties using their tax bases. This may expose the company to tax risk.

1.20 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.

2. New standards and interpretations

The following new standards and interpretations will have a significant impact on these financial statements in future reporting periods.

Standards and interpretations not early adopted in these annual financial statements

- Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 (effective 1 January 2014) - The amendments to IAS 36 restrict the requirements to disclose the recoverable amount of an asset or cash generating unit (CGU) to periods in which an impairment loss has been recognised or reversed. The standard also expands and clarifies the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

  The adoption of the new amendments will increase the level of disclosure provided for IFRS 13 Fair Value Measurement in the event where an impairment is recognised or reversed and the recoverable amount is based on fair value less cost of disposal.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective from 1 January 2014) - The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

  The standard is not expected to have a material impact on the financial statements.

3. Segment information

Income statement	Retail	Corporate	2013 R m Total
Segment revenue			
Gross earned premiums	19 087	15 507	34 594
Outward reinsurance	(815)	(85)	(900)
Net earned premiums	**18 272**	**15 422**	**33 694**
Investment income (net of investment losses)	38 679	27 260	65 939
Fee and commission income	3 655	375	4 030
Other income	154	-	154
Segment expenses			
Claims and benefits (including change in insurance contract provisions)	(26 818)	(34 462)	(61 280)
Reinsurance recoveries	918	134	1 052
Net claims and benefits incurred	**(25 900)**	**(34 328)**	**(60 228)**
Change in investment contract liabilities	(21 116)	(5 628)	(26 744)
Commission and other acquisition costs	(3 125)	(46)	(3 171)
Operating and administration expenses	(6 713)	(1 701)	(8 414)
Segment result	**3 906**	**1 354**	**5 260**
Shareholder income			
Investment income			5 071
Other income			46
Shareholder expenses			
Finance costs			(974)
Operating and administration expenses			(846)
Profit before tax			**8 557**
Income tax expense			(3 965)
Profit after tax for the financial year			**4 592**

Statement of financial position	Retail	Corporate	Total
Segment assets	283 127	190 504	473 631
Shareholder assets			67 563
Total assets			**541 194**
Insurance contract liabilities	(100 306)	(55 783)	(156 089)
Investment contracts with discretionary participation features	(19 560)	(93 967)	(113 527)
Investment contracts	(151 134)	(39 094)	(190 228)
Other liabilities	(12 127)	(1 660)	(13 787)
Segment liabilities	(283 127)	(190 504)	(473 631)
Shareholder liabilities			(28 152)
Total liabilities			**(501 783)**

Notes to the financial statements

3. Segment information (continued)

Income statement	2012 Restated R m Retail	Corporate	Total
Segment revenue			
Gross earned premiums	17 562	13 065	30 627
Outward reinsurance	(735)	(76)	(811)
Net earned premiums	**16 827**	**12 989**	**29 816**
Investment income (net of investment losses)	34 153	25 773	59 926
Fee and commission income	2 595	295	2 890
Other income	67	-	67
Segment expenses			
Claims and benefits (including change in insurance contract provisions)	(27 259)	(31 023)	(58 282)
Reinsurance recoveries	620	427	1 047
Net claims and benefits incurred	**(26 639)**	**(30 596)**	**(57 235)**
Change in investment contract liabilities	(15 405)	(5 525)	(20 930)
Commission and other acquisition costs	(2 860)	(52)	(2 912)
Operating and administration expenses	(5 593)	(1 611)	(7 204)
Segment result	**3 145**	**1 273**	**4 418**
Shareholder income			
Investment income			12 125
Other income			75
Shareholder expenses			
Finance costs			(842)
Operating and administration expenses			(1 036)
Profit before tax			**14 740**
Income tax expense			(1 993)
Profit after tax for the financial year			**12 747**

Statement of financial position	Retail	Corporate	Total
Segment assets	241 868	167 252	409 120
Shareholder assets			91 236
Total assets			**500 356**
Insurance contract liabilities	(98 056)	(53 248)	(151 304)
Investment contracts with discretionary participation features	(16 170)	(79 236)	(95 406)
Investment contract liabilities	(126 390)	(32 718)	(159 108)
Other liabilities	(1 252)	(2 050)	(3 302)
Segment liabilities	(241 868)	(167 252)	(409 120)
Shareholder liabilities			(29 669)
Total liabilities			**(438 789)**

4. Financial assets and liabilities

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.

Categories of financial instruments

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

				2013 R m
	Fair value through profit or loss	**Amortised cost**	**Other assets**	**Total**
Assets				
Intangible assets	-	-	255	255
Investment property	-	-	6 985	6 985
Property and equipment	-	-	3 303	3 303
Deferred tax assets	-	-	1 337	1 337
Reinsurance contracts	-	-	766	766
Post employment benefits	-	-	396	396
Deferred acquisition costs	-	-	1 145	1 145
Loans and advances	-	259	-	259
Investments and securities	491 182	441	-	491 623
Derivative assets	6 142	-	-	6 142
Amounts due by group companies	-	7 952	-	7 952
Other assets	-	7 690	-	7 690
Cash and cash equivalents	-	13 341	-	13 341
	497 324	**29 683**	**14 187**	**541 194**

4. Financial assets and liabilities (continued)

	2012 Restated R m			
	Fair value through profit or loss	Amortised cost	Other assets	Total
Assets				
Intangible assets	-	-	79	79
Investment property	-	-	14 775	14 775
Property and equipment	-	-	3 334	3 334
Deferred tax assets	-	-	974	974
Reinsurance contracts	-	-	889	889
Post employment benefits	-	-	223	223
Deferred acquisition costs	-	-	1 064	1 064
Loans and advances	-	292	-	292
Investments and securities	441 480	471	-	441 951
Derivative assets	8 331	-	-	8 331
Amounts due by group companies	-	6 291	-	6 291
Other assets	-	7 575	-	7 575
Cash and cash equivalents	-	14 578	-	14 578
	449 811	**29 207**	**21 338**	**500 356**

Notes to the financial statements

4. Financial assets and liabilities (continued)

				2013 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	156 089	156 089
Investment contract liabilities	190 228	-	113 527	303 755
Borrowed funds	-	3 000	-	3 000
Share-based payment liabilities	-	-	998	998
Deferred revenue	-	-	94	94
Deferred tax liabilities	-	-	3 708	3 708
Derivative liabilities	8 269	-	-	8 269
Amounts due to group companies	-	1 390	-	1 390
Provisions	-	-	1 687	1 687
Current tax payable	-	-	2 011	2 011
Other liabilities	-	19 812	970	20 782
	198 497	**24 202**	**279 084**	**501 783**

				2012 Restated R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	151 304	151 304
Investment contract liabilities	159 108	-	95 406	254 514
Borrowed funds	-	3 000	-	3 000
Share-based payment liabilities	-	-	815	815
Deferred revenue	-	-	112	112
Deferred tax liabilities	-	-	1 067	1 067
Derivative liabilities	5 260	-	-	5 260
Amounts due to group companies	-	897	-	897
Provisions	-	-	1 095	1 095
Current tax payable	-	-	2 576	2 576
Other liabilities	-	17 116	1 033	18 149
	164 368	**21 013**	**253 408**	**438 789**

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.

4. Financial assets and liabilities (continued)

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on mid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services. 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.

Investments and securities

The fair values of listed investments and securities are based on mid 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 carrying value of borrowed funds is based on amortised cost. Where the fair value of amounts included in borrowed funds are also disclosed these are based on quoted market prices at the reporting 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.

4. Financial assets and liabilities (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

				2013 R m
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Derivative assets	-	6 142	-	6 142
Investment and securities	251 651	226 246	13 285	491 182
	251 651	**232 388**	**13 285**	**497 324**

				2012 R m
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Derivative assets	-	8 331	-	8 331
Investment and securities	199 001	229 398	13 081	441 480
	199 001	**237 729**	**13 081**	**449 811**

			2013 R m
	Level 1	Level 2	Total
Financial liabilities at fair value			
Derivative liabilities	-	8 269	8 269
Investment contracts	-	190 228	190 228
	-	**198 497**	**198 497**

			2012 R m
	Level 1	Level 2	Total
Financial liabilities at fair value			
Derivative liabilities	-	5 260	5 260
Investment contracts	-	159 108	159 108
	-	**164 368**	**164 368**

4. Financial assets and liabilities (continued)

Movement in level 3 assets

	2013 Rm	2012 Rm
At beginning of the year	13 081	10 310
Gains recognised in income statement	2 451	1 870
Purchases and issues	2 921	1 247
Sales and settlements	(6 240)	(346)
Transfers into level 3 from other categories	1 072	-
At end of the year	**13 285**	**13 081**

For designated level 3 assets held at the end of the year, net gains of R 2 415 million were recognised in the income statement (2012: net gains of R 1 779 million).

Effect of changes in assumptions

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 parameters 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.

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 - level 3 assets

	2013 R m		2012 R m	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Investments and securities	2 334	(2 071)	1 352	(1 357)

Key inputs and assumptions used in the valuation models 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%).

4. Financial assets and liabilities (continued)

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 3:

Valuation technique	Significant unobservable input	Range of unobservable inputs
Discounted cash flow	Risk adjusted discount rate: -Equity risk premium -Liquidity risk premium -Nominal risk free rate	 5% - 8.5% 10% - 25% 7% - 8%
Price earnings (PE) model/multiple/embedded value	PE ratio/multiple: discounts applied, eg.marketability	15% - 30%
Sum of parts	PE ratio Option inputs: -Continuous interest rates -Volatility - Dividend yield	15% - 30% 5% - 6% 30% -31% 4% - 5%
Net Asset Value (NAV adjustments)	Risk adjusted discount rate: -Beta -Risk free rate Option inputs: -Continuous interest rate -volatility -dividend yielded	 0.5 - 1 7% - 9% 5% - 6% 22% - 47% 0% - 4%

The following table presents the fair value hierarchy for assets and liabilities for which fair values is disclosed, but which are not recognised at fair value. Fair value is not the value ascribed to a financial asset or liability by management but it is representative of what the market would be willing to pay for an asset or to settle or transfer the liability.

					2013 R m
	Level 1	**Level 2**	**Level 3**	**Total Fair values**	**Total Carrying amount**
Assets					
Loans and advances	-	-	259	259	259
Other assets	-	-	7 690	7 690	7 690
Cash and cash equivalents	13 341	-	-	13 341	13 341
	13 341	**-**	**7 949**	**21 290**	**21 290**
Liabilities					
Borrowed funds	3 128	-	-	3 128	3 000
Other liabilities	-	-	17 204	17 204	17 204
	3 128	**-**	**17 204**	**20 332**	**20 204**

Financial instruments that are subject to master netting agreements

The company offsets financial assets and liabilities in the statement of financial position when it has a legal enforceable right to do so and intends to settle on a net basis or at a simultaneous time. Certain master netting agreements do not provide the company with the current legally enforceable right to offset the insruments. The majority of these transactions are governed by the princples of ISDA or similar type of agreements. These agreements aim to protect the parties in the case of default.

Notes to the financial statements

4. Financial assets and liabilities (continued)

The potential effect of netting offset arrangements after taking into consideration these types of agreements is:

- Derivative financial instruments – assets: Gross amounts of recognised financial instruments in the statement of financial position amounted to R6 142 million (2012: R8 331 million).
- Derivative financial instruments – liabilities: Gross amounts of recognised financial instruments in the statement of financial position amounted to R8 269 million (2012: R5 260 million).
- Cash and bond collateral amounts not offset against derivative assets and liabilities in the statement of financial position are R1 869 million (2012: R1 942 million).

5. Investment income

	2013 R m	2012 R m
Interest and similar income		
Loans and advances		
Policyholder loans	10	25
Investment and securities		
Government and government-guaranteed securities	3 574	3 445
Other debt securities, preference shares and debentures	3 934	4 253
Pooled investments	1 893	485
Short-term funds and securities treated as investments	1 454	887
Other	708	491
Cash and cash equivalents	969	690
Collateral held	675	531
	13 217	**10 807**
Dividend income		
Investment and securities		
Equity securities	4 335	9 441
Pooled investments	742	1 510
	5 077	**10 951**
Rental income from investment property	**841**	**1 533**
Fair value gains/(losses)		
Investment property	355	741
Investments and securities *	56 247	46 922
Derivative instruments	(4 715)	1 132
	51 887	**48 795**
Foreign currency losses	**(12)**	**(35)**
Total investment income recognised in profit or loss	**71 010**	**72 051**

* Included in gains recognised in income are transaction costs amounting to R 106 million (2012: R 82 million).

Notes to the financial statements

6. Fee and commission income

	2013 R m	2012 R m
Investment contracts		
Investment management fees	2 738	2 010
Change in deferred revenue	18	23
Commission income	1 274	857
	4 030	**2 890**

7. Interest expense

	2013 R m	2012 R m
Borrowed funds		
Subordinated debt	268	270
Collateral held	675	531
Other interest expense	31	41
	974	**842**

8. Commissions and other acquisition costs

	2013 R m	2012 R m
Commission and fee expenses	2 317	2 138
Other acquisition costs	935	733
Change in deferred acquisition costs	(81)	41
	3 171	**2 912**

9. Operating and administration expenses

	2013 R m	2012 R m
Staff costs (excluding directors' emoluments)		
Wages and salaries	3 211	2 821
Social security costs	18	16
Retirement obligations		
Defined contribution plans	283	258
Defined benefit plans	5	34
Bonus and incentives	940	764
Share-based payments	391	556
Other	172	182
Less: Staff costs included in other acquisition costs	(382)	(298)
	4 638	**4 333**
Amortisation on intangible assets	22	20
Asset management expenses	725	810
Depreciation of property and equipment	137	163
Technical and professional fees	635	988

Notes to the financial statements

10. Auditors' remuneration

	2013 R m	2012 R m
Statutory audit services - current year	22	19
Statutory audit services - prior year underprovision	1	1
Other non-audit related services	2	-
	25	**20**

11. Income tax expense

Major components of the tax expense

	2013 R m	2012 R m
Current tax		
Income tax		
Current year	1 320	1 240
Prior year adjustments	(123)	(88)
Capital gains tax	409	1 280
Secondary tax on companies (STC)	-	66
Dividends withholdings tax	120	-
	1 726	**2 498**
Deferred tax		
Originating and reversing temporary differences	2 239	(580)
Changes in tax rates	-	75
	2 239	**(505)**
Total current tax	1 726	2 498
Total deferred tax	2 239	(505)
Total tax expense	**3 965**	**1 993**

Reconciliation of tax rate on profit before tax

	2013 %	2012 %
Standard rate of tax	28.0	28.0
Prior year adjustments	(1.6)	(0.5)
Exempt income	(4.4)	(23.4)
Disallowed expenses	2.8	0.9
Capital gains tax - rates	16.3	0.9
Change in CGT tax rates	-	0.5
Policyholder tax	5.3	4.1
Other	(0.1)	3.0
Effective tax rate	**46.3**	**13.5**

Notes to the financial statements

11. Income tax expense (continued)

	2013 R m	2012 R m
Shareholder taxation	3 336	1 132
Policyholder taxation	629	861
Total tax expense	**3 965**	**1 993**

12. Intangible assets

Development expenditure

	2013 R m	2012 R m
Carrying amount at beginning of the year	79	79
Additions	198	28
Amortisation	(22)	(20)
Impairments	-	(8)
Carrying amount at end of the year	**255**	**79**
Cost	644	446
Accumulated amortisation and impairment losses	(389)	(367)
Carrying amount at end of the year	**255**	**79**

13. Investment property

	2013 R m	2012 R m
Carrying amount at beginning of the year	14 775	13 969
Additions	460	673
Disposals	(8 728)	(674)
Revaluation	355	741
Transfers from property and equipment	123	66
Carrying amount at end of the year	**6 985**	**14 775**

The entire carrying value relates to freehold property.

	2013 R m	2012 Restated R m
Rental income from investment property	841	1 533
Direct operating expenses	(186)	(321)
	655	**1 212**

Subject to certain terms and conditions being met, certain pre-emptive rights have been granted by the company to a third party, whereby the third party has a right of first refusal over the sale of certain of the company's properties to the value of R14 033 million. Properties to the value of R8 410 million were sold to a subsidiary of the company during the year. The subsidiary company has signed a deed of adherence in respect of the pre-emptive rights in favour of the third party, however the pre-emptive rights agreement with regards to these properties was initially contracted between the company and the third party.

Notes to the financial statements

13. Investment property (continued)

The fair value of the company's properties are categorised into level 3 of the fair value hierarchy. The valuation techniques used in the determination of the fair values for investment and owner-occupied properties, as well as the unobservable inputs used in the valuation models are as follows:

- Income generating assets - commercial, retail and industrial properties: valued using the internationally and locally recognised Discounted Cash Flow method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions. Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers assumptions and information they have based on similar valuations they have done our sourced from external brokers.

- Land holdings or land: As a general rule, these will be valued according to the prevailing town planning scheme and current zoning at the date of valuation. The land is valued according to its current condition and zoning. Should the valuer consider that the site has potential for a different zoning, the valuer is permitted to report a value subject to receipt of zoning and advise accordingly. Land is to be valued by the direct comparison method by reference to recent sales of comparable properties in the neighbourhood or similar localities on a land per square metre, bulk per square metre or unit basis.

- Investment property under construction: Valued in a similar manner to income producing properties (less outstanding development costs), except where the fair value of the investment property is not reliably determinable. In certain exceptional cases the cost model approach of land value plus developmet costs to date can be adopted to value developments in progress.

14. Property and equipment

			2013 R m
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 139	195	3 334
Additions	-	166	166
Revaluation	129	-	129
Disposals	-	(66)	(66)
Depreciation	(50)	(87)	(137)
Transfer to investment property	(123)	-	(123)
Carrying amount at end of the year	**3 095**	**208**	**3 303**
Cost or valuation	3 095	539	3 634
Accumulated depreciation	-	(331)	(331)
Carrying amount at end of the year	**3 095**	**208**	**3 303**

14. Property, plant and equipment (continued)

	2012 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 208	202	3 410
Additions	-	175	175
Disposals	(3)	(19)	(22)
Depreciation	-	(163)	(163)
Transfer to investment property	(66)	-	(66)
Carrying amount at end of the year	**3 139**	**195**	**3 334**
Cost or valuation	3 139	726	3 865
Accumulated depreciation	-	(531)	(531)
Carrying amount at end of the year	**3 139**	**195**	**3 334**

The company engages Old Mutual Property (Pty) Ltd to determine the carrying 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.

Refer note 13 for information regarding valuation techniques used in the determination of fair values for owner occupied property.

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R2 568 million (2012: restated R2 568 million).

15. Deferred tax

Deferred tax asset

	2013 R m	2012 Restated R m
Investment contracts	1 152	940
Income tax losses	27	34
Other	158	-
	1 337	**974**
Deferred tax liability		
Other	(192)	(151)
Captial gains tax - shareholders	(2 188)	(237)
Capital gains tax - policyholders	(1 328)	(679)
	(3 708)	**(1 067)**

15. Deferred tax (continued)

Reconciliation of net deferred tax asset/(liability)

	2013 R m	2012 Restated Rm
At beginning of the year	(92)	(520)
Income statement (credit)/charge	(2 239)	505
Charged to other comprehensive income	(40)	(77)
At end of the year	**(2 371)**	**(92)**

16. Reinsurance contracts

	2013 R m	2012 R m
Insurance contracts	465	601
Outstanding claims	301	288
	766	**889**
Insurance contracts		
At beginning of the year	601	238
Outward reinsurance premiums	900	811
Reinsurance recoveries	(793)	(683)
(Decrease)/increase in reinsurers' share of policyholder liabilities	(243)	235
At end of the year	**465**	**601**

17. Deferred acquisition costs

	2013 R m	2012 R m
At beginning of the year	1 064	1 105
Acquisition cost deferred on inward business	316	188
Amortisation	(235)	(229)
At end of the year	**1 145**	**1 064**

18. Loans and advances

	2013 R m	2012 R m
Policyholder loans	**259**	**292**

Policyholder loans earn interest of 10.5% (2012: 11% p.a. at the beginning of the year to 10.5% at the end of the year). There were no impairments and no overdue amounts.

The fair value of policyholder loans approximates their carrying value.

Notes to the financial statements

19. Investments and securities

Analysis of investments

	2013 R m	2012 R m
Investments in group undertakings		
Nedbank Group Ltd	16 773	33 270
Subsidiaries and joint ventures	11 724	10 606
Capital advances to group undertakings	11 718	10 334
Old Mutual plc	3 618	3 634
	43 833	**57 844**
Other financial assets		
Government securities	52 184	50 124
Equity securities	97 440	85 597
Other debt securities	60 398	53 801
Pooled investments	192 882	156 910
Reinsurance of investment contract liabilities	16 882	10 748
Short-term funds	28 004	26 927
	447 790	**384 107**
	491 623	**441 951**

The company conducts securities lending activities as a lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amounts to R15 903 million (2012: R14 061 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.

Other debt securities include credit linked notes of R 3 976 million (2012: R 4 757 million). Credit linked notes are made up of a deposit and a credit default swap. A credit default swap is a derivative instrument and this has not been seperated out from the host contract as the entire contract is carried at fair value. The credit default swap component of the overall balance is insignificant.

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

Analysis of capital advances to group undertakings

	2013 R m	2012 R m
Old Mutual Portfolio Holdings (Pty) Ltd	2 028	1 949
Old Mutual (South Africa) Ltd	1 081	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	33	115
Old Mutual (South Africa) Management Incentive Trust	408	356
Old Mutual Capital Holding (Pty) Ltd	8 168	6 833
	11 718	**10 334**

20. Interest in principal subsidiaries, joint ventures and associates

	Number of issued ordinary shares	% interest	2013 R m Carrying value	2013 R m Loans to/(from) subsidiaries
Unlisted - joint venture				
Old Mutual Goudian Life Insurance Company Ltd	-	50 %	812	-
Unlisted - subsidiaries				
Old Mutual Technology Holdings Ltd	11 000	100 %	-	-
Rodina Investments (Pty) Ltd	100 000	100 %	634	(4)
Community Property Holdings (Pty) Ltd*	1 108 417 261	100 %	3 839	-
MS Life Assurance Company Ltd	45 000 001	100 %	138	-
Old Mutual Health Insurance Ltd	15 000 000	100 %	93	1
Agility Broker Services (Pty) Ltd	50 000	100 %	14	-
Old Mutual Alternative Risk Transfer Ltd	100	100 %	26	4
South Africa Celestis Brokers Services (Pty) Ltd	100	100 %	-	21
Old Mutual Wealth (Pty) Ltd	120	100 %	1 154	-
K201250042 (Pty) Ltd*	120	100 %	5 014	155
			11 724	**177**

	Number of issued ordinary shares	% interest	2012 R m Carrying value	2012 R m Loans to/(from) subsidiaries
Listed - associate				
Nedbank Group Ltd	176 969 899	34 %	33 270	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd	3 649 800	100 %	6 068	(31)
Barprop (Pty) Ltd	46 599 200	100 %	14	31
Millstream Ltd	2 245 151	100 %	288	-
Old Mutual Technology Holdings Ltd	11 000	100 %	-	-
Symmetry Investment Trust	-	100 %	-	-
Rodina Investments (Pty) Ltd	100 000	100 %	490	11
Just Now Investments (Pty) Ltd	20 000	100 %	-	-
Community Property Holdings (Pty) Ltd*	1 108 417 261	100 %	3 746	-
			43 876	**11**

All the company's subsidiaries and joint ventures at year end are South African entities except Old Mutual Goudian Life Insurance Company Ltd which is incorporated in China.

* Community Property Holdings (Pty) Ltd and K201250042 (Pty) Ltd are property loan stock companies. The company invests in its linked units comprising of part share and part debenture.

21. Derivative assets and liabilities

The company utlises derivative instruments to enhance the risk-return profile of policyholder and shareholder funds.

Interest rate, equity and exchange traded 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 risk is monitored continuously with reference to the current fair value, 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 following table provides detail of the fair values of the company's derivative financial instruments outstanding at the end of the year. 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. The company 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.

		2013 R m		2012 R m
Fair value	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	6 046	8 215	8 210	5 164
Other derivatives	96	54	121	96
	6 142	**8 269**	**8 331**	**5 260**

Notes to the financial statements

22. Amounts due (to)/from group companies

Subsidiaries

	2013 R m	2012 R m
Barprop (Pty) Ltd	-	31
Rodina Investments (Pty) Ltd	(4)	11
Mutual & Federal Investments (Pty) Ltd	-	(31)
Old Mutual Health Insurance Ltd	1	-
Old Mutual Alternative Risk Transfer Ltd	4	-
South Africa Celestis Brokers Services (Pty) Ltd	21	-
K201250042 (Pty) Ltd	155	-
	177	**11**

Holding companies

	2013 R m	2012 R m
Old Mutual Emerging Markets Ltd	(310)	(1)
Old Mutual (South Africa) Ltd	6 739	4 831
Old Mutual plc	(182)	(198)
	6 247	4 632
Old Mutual plc - subordinated loan	(74)	(59)
	6 173	**4 573**

The Old Mutual plc subordinated loan of £ 4.25 million (2012: £ 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.

Fellow subsidiaries

	2013 R m	2012 R m
Old Mutual Property (Pty) Ltd	30	38
Old Mutual (South Africa) Foundation	106	66
Old Mutual (Africa) Holdings (Pty) Ltd	69	26
Old Mutual Capital Holding (Pty) Ltd	337	343
Old Mutual International (Guernsey) Ltd	84	65
Old Mutual Investment Group (Pty) Ltd	(10)	29
Old Mutual Investment Services (Pty) Ltd	365	283
Skandia International	(21)	53
Old Mutual Unit Trust Managers Ltd	29	5
Old Mutual (South Africa) Share Trust	(91)	(121)
Old Mutual (South Africa) Dividend Access Trust	(456)	(435)
Old Mutual Investment Administrators (Pty) Ltd	(36)	18
Old Mutual Specialised Finance (Pty) Ltd	(234)	435
Other	67	84
	239	831
Old Mutual International (Guernsey) Ltd - subordinated loan	(26)	(21)
	213	**810**

The subordinated loan from Old Mutual International (Guernsey) Ltd 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.

Notes to the financial statements

22. Amounts due (to)/from group companies (continued)

All other 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.

	2013 R m	2012 R m
Loans due by group companies	7 952	6 291
Loans due to group companies	(1 390)	(897)
	6 562	**5 394**

23. Other assets

	2013 R m	2012 R m
Accrued interest on cash collateral	1 992	1 505
Other accrued interest and rent	2 404	2 575
Outstanding settlements	2 395	2 269
Other	899	1 226
	7 690	**7 575**

The carrying value of other assets approximates fair value.

24. Cash and cash equivalents

	2013 R m	2012 R m
Bank balances	4 429	4 136
Collateral held	8 912	10 442
	13 341	**14 578**

The carrying value of cash and cash equivalents approximates fair value.

The effective interest rate on short-term bank deposits ranged from 1% to 3.4% (2012: 1% to 3.4%) and the deposits had an average maturity of between 32 and 90 days (2012: 32 and 90 days).

25. Policyholder liabilities

	2013 R m	2012 R m
Insurance contracts		
Outstanding claims	1 988	1 990
Future policyholders' benefits	154 101	149 314
	156 089	**151 304**

Notes to the financial statements

25. Policyholder liabilities (continued)

	2013 R m	2012 R m
Investment contracts		
Liabilities at fair value through profit or loss	190 228	159 108
Liabilities with a discretionary participating feature	113 527	95 406
	303 755	**254 514**
	459 844	**405 818**

Movement in future policyholders' benefits

	2013 R m	2012 R m
Balance at beginning of the year	149 314	136 600
Inflows		
Premium income	22 112	19 891
Investment income (net of investment losses)	19 945	24 757
Outflows		
Claims and policy benefits	(26 030)	(22 629)
Operating expenses	(6 414)	(5 925)
Other charges and other transfers	(834)	37
Tax	(110)	(250)
Transfer to operating profit	(3 882)	(3 167)
Balance at end of the year	**154 101**	**149 314**

The material assumptions used in determining the provisions for insurance contracts are detailed in note 41.

Liabilities at fair value through profit or loss

	2013 R m	2012 R m
Balance at beginning of the year	159 108	139 726
Additions	536	-
New contributions received	30 228	24 137
Withdrawals	(27 055)	(24 647)
Fair value movements, net of tax	26 744	20 930
Foreign currency translation	3 404	972
Fees deducted	(2 737)	(2 010)
Balance at end of the year	**190 228**	**159 108**

25. Policyholder liabilities (continued)

Liabilities with a discretionary participation feature

	2013 R m	2012 R m
Balance at beginning of the year	95 406	84 207
Inflows		
Premium income	12 483	10 736
Investment income (net of investment losses)	21 451	15 862
Outflows		
Claims and policy benefits	(12 342)	(11 740)
Operating expenses	(2 118)	(2 101)
Other charges and other transfers	(21)	(331)
Tax	(156)	(166)
Transfer to operating profit	(1 176)	(1 061)
Balance at end of the year	**113 527**	**95 406**

26. Borrowed funds

	2013 R m	2012 R m
8.92% Unsecured subordinated callable notes	**3 000**	**3 000**

The fair value of the unsecured subordinated callable notes is R3 128 million (2012: R3 202 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 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 there after.

Interest relating to the year under review amounted to R268 million (2012: R269 million).

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

27. Post employment benefits

Defined benefit plan

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 a qualified 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.

Notes to the financial statements

27. Post employment benefits (continued)

Obligations	2013 R m Defined pension benefits	2013 R m Post-retirement benefits	2012 R m Defined pension benefits	2012 R m Post-retirement benefits
At beginning of the year	187	1 134	194	1 303
Current service cost	3	23	3	29
Interest cost on benefit obligation	16	87	17	115
Actuarial gains	(16)	(104)	(25)	(273)
Benefits paid	(2)	(42)	(2)	(40)
At end of the year	**188**	**1 098**	**187**	**1 134**

Plan assets	2013 R m Defined pension benefits	2013 R m Post-retirement benefits	2012 R m Defined pension benefits	2012 R m Post-retirement benefits
At beginning of the year	187	1 357	194	1 285
Expected return on plan assets	(3)	104	18	109
Benefits paid	(2)	(41)	(2)	(39)
Net actuarial gains/(losses)	6	74	(23)	2
At end of the year	**188**	**1 494**	**187**	**1 357**

Net asset	2013 R m Defined pension benefits	2013 R m Post-retirement benefits	2012 Restated R m Defined pension benefits	2012 Restated R m Post-retirement benefits
Funded status of plans	**-**	**396**	**-**	**223**

Expense recognised in income statement	2013 R m Defined pension benefits	2013 R m Post-retirement benefits	2012 R m Defined pension benefits	2012 R m Post-retirement benefits
Current service cost	3	23	3	29
Interest cost	16	87	17	115
Expected return on plan assets	(19)	(105)	(20)	(110)
Total (included in staff costs)	**-**	**5**	**-**	**34**

Notes to the financial statements

27. Post employment benefits (continued)

Principal actuarial assumptions	2013 Defined pension benefits	2013 Post-retirement benefits	2012 Defined pension benefits	2012 Post-retirement benefits
Discount rates used	9 %	9 %	8 %	8 %
Expected return on plan assets	9 %	9 %	8 %	8 %
Future salary increases	8 %	8 %	6 %	7 %
Price inflation	8 %	8 %	6 %	7 %

Plan asset allocation	2013 Defined pension benefits	2013 Post-retirement benefits	2012 Defined pension benefits	2012 Post-retirement benefits
Equity securities	58 %	54 %	59 %	59 %
Debt securities	25 %	33 %	24 %	30 %
Real estate	8 %	7 %	9 %	7 %
Other investments	9 %	6 %	8 %	4 %

The history of plan assets and liabilities in respect of the company's defined pension scheme and post-retirement scheme is set out below.

Defined pension benefits	2013	Restated 2012	2011	2010	R m 2009
Plan assets	188	187	268	248	228
Liability	(188)	(187)	(194)	(194)	(194)
	-	**-**	**74**	**54**	**34**

Post-retirement benefits	2013	Restated 2012	2011	2010	R m 2009
Plan assets	1 494	1 357	1 285	1 232	1 136
Liability	(1 098)	(1 134)	(1 303)	(1 204)	(1 158)
	396	**223**	**(18)**	**28**	**(22)**

Sensitivities

Assumption	Change in assumption	Impact on scheme liabilities	2013 R m	2012 R m
Inflation rate	Decrease by 1.0%	Decrease	145	184
	Increase by 1.0%	Increase	175	170

Notes to the financial statements

28. Other employment benefits

The company provides disability benefits to permanent employees. The disability benefit scheme is administered by Old Mutual Alternative Risk Transfer Ltd, a 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.

Benefit obligation

	2013 R m	2012 R m
At beginning of the year	219	207
Current service cost	29	30
Net actuarial losses	19	3
Benefits paid	(22)	(21)
At end of the year	**245**	**219**

Assets

	2013 R m	2012 R m
At beginning of year	219	207
Contributions	29	30
Investment returns	(3)	(18)
At end of the year	**245**	**219**

Expense recognised in income statement

	2013 R m	2012 R m
Current service cost	29	30
Net actuarial losses	19	3
Total (included in staff costs)	**48**	**33**

Principal actuarial assumptions

	2013	2012
Discount rate	8 %	6 %
Expected return on assets	8 %	6 %
Future salary increases	8 %	6 %
Price inflation	8 %	6 %

Net benefit obligation

	2013 R m	2012 R m
Assets	245	219
Benefit obligation	(245)	(219)
	-	**-**

Notes to the financial statements

28. Other employment benefits (continued)

The benefit obligation of R245 million at the end of the year (2012: R219 million) is supported by non-segregated managed assets amounting to R132 million (2012: R121 million) as part of the pool of policyholder funds. The company also has a reimbursive right of R112 million (2012: R98 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

29. Share-based payment liabilities

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 (plc shares) or a cash equivalent. The right to acquire plc shares or a cash equivalent vests depending on the type of plan under which the employee participates.

Composition of share-based payment liabilities

	2013 R m	2012 R m
Share options	254	249
Restricted share awards	744	566
	998	**815**

	2013		2012	
Share options	Number of share options (Millions)	Weighted average exercise price (Rand)	Number of share options (Millions)	Weighted average exercise price (Rand)
Outstanding at beginning of the year	25	13.92	46	11.63
Transfers to other group companies	-	-	(1)	-
Forfeited during the year	(1)	14.86	(2)	12.71
Exercised during the year	(10)	13.16	(17)	8.14
Share consolidation during year	-	-	(1)	-
Outstanding at end of the year	**14**	**14.49**	**25**	**13.92**
Exercisable at end of the year	4	11.12	4	8.41

Share options 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 the end of the year vest over periods between 3 to 6 years from the date of grant.

Restricted share awards	Number of awards (Millions)	Restated Number of awards (Millions)
Outstanding at beginning of the year	37	55
Transfer to other group companies	-	(3)
Granted during the year	12	14
Forfeited during the year	(2)	(2)
Exercised during the year	(11)	(20)
Share consolidation during the year	-	(7)
Outstanding at end of the year	**36**	**37**

29. Share-based payment liabilities (continued)

Restricted 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. Restricted share awards are also offered to eligible senior management in terms of the Senior Black Management Plan. They vest subject to the fulfillment of a specified period of employment and have a zero exercise price. The restricted share awards outstanding at the end of the year vest after 3 years from the date of the grant in terms of the Deferred Short Term Incentive Plan. Restricted share awards granted in terms of the Senior Black Management Plan vest in three equal tranches 4; 5 and 6 years from grant date.

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

Options 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:

	2013	2012
Fair value per option at measurement date (in Rands) - highest	24.47	16.18
Fair value per option at measurement date (in Rands) - lowest	17.58	10.94
Share price (in Rands)	32.79	24.49
Exercise price (in Rands) - highest	15.80	15.80
Exercise price (in Rands) - lowest	7.45	7.45
Expected volatility	44 %	45 %
Expected life (in years)	3	3
Expected dividend yield	3.50 %	3.50 %
Risk free interest rate	6.74 %	5.60 %

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

	2013	Restated 2012
Number granted (millions)	12	14
Value of restricted shares awards (Rand millions)	329	255
Fair value per share (in Rands)	32.79	24.49

The share price at measurement date is used to determine the fair value of the restricted share.

Notes to the financial statements

30. Provisions

2013 R m	Opening balance	Utilised during the year	Investment return and repayments	Charge	Total
Administration and legal claims	248	(54)	-	18	212
Charitable donations and other	847	(80)	208	-	975
Provision for enhanced benefits	-	-	-	500	500
	1 095	**(134)**	**208**	**518**	**1 687**

2012 R m	Opening balance	Utilised during the year	Investment return	Charge	Total
Administration and legal claims	286	(86)	-	48	248
Charitable donations and other	751	(64)	160	-	847
	1 037	**(150)**	**160**	**48**	**1 095**

Administration and legal claims

The provisions relate to costs arising from administration related and legal claims. 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.

Charitable donations and other

This provision relates to obligations of the company in connection with the closure of the Old Mutual South Africa Unclaimed Shares 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.

Provision for enhanced benefits

This provision is held in respect of obligations which have arisen as a result of changes in legislation and updated interpretations of existing legislation impacting the life insurance industry.

Notes to the financial statements

31. Deferred revenue on investment contracts

	2013 R m	2012 R m
Balance at beginning of the year	112	135
Fees and commission income deferred	18	20
Amortisation	(36)	(43)
At end of the year	**94**	**112**

32. Other liabilities

	2013 R m	2012 R m
Collateral owing	14 482	11 947
Amounts owed to policyholders	3 751	3 384
Amounts owed to intermediaries	266	506
Accruals	1 049	1 033
Outstanding settlements	927	707
Other	307	572
	20 782	**18 149**

The carrying value of other liabilities approximates fair value.

33. Share capital and premium

	2013 R m	2012 R m
Authorised share capital		
10 000 000 ordinary shares of R1 each	10	10
10 redeemable preference shares of R1 each	-	-
	10	**10**
Issued share capital		
8 000 001 ordinary shares of R1 each	8	8
10 redeemable preference share of R1	-	-
Share premium	6 415	6 246
	6 423	**6 254**

During the year under review, the company issued 1 ordinary share to its holding company, Old Mutual Emerging Markets Ltd, in exchange for the investment in subsidiaries acquired at a value of R169 million.

Subject to the restrictions imposed by the Companies Act, 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.

Notes to the financial statements

33. Share capital and premium (continued)

Other reserves comprise:	2013 R m	2012 R m
Property revaluation reserve	124	99
Currency translation reserve	60	-
	184	**99**

34. Cash used in operations

	2013 R m	2012 R m
Profit before taxation	8 557	14 740
Adjustments for non-cash movements included in profit		
Depreciation and amortisation	159	183
Dividend income	(5 077)	(10 951)
Interest income	(13 217)	(10 807)
Interest expense	974	842
Net fair value gains	(51 887)	(48 795)
Movements in policyholder liabilities	54 026	43 079
Movement in share-based payment liability	183	(90)
Changes to provisions and post employment benefits obilgation	419	95
Changes in working capital		
Deferred acquisition costs	(81)	41
Deferred revenue on investment contracts	(18)	(23)
Loans and advances	33	40
Other assets	(115)	(789)
Other liabilities	2 633	5 230
Reinsurance contracts	123	(380)
Net movement in loans to/from group companies	(1 168)	(5 242)
	(4 456)	**(12 827)**

35. Tax paid

	2013 R m	2012 R m
Balance at beginning of the year	(2 576)	(1 438)
Current tax expense	(1 726)	(2 498)
Balance at end of the year	2 011	2 576
	(2 291)	**(1 360)**

36. Dividends paid

	2013 R m	2012 R m
Dividends paid excluding dividends in specie	**(3 878)**	**(9 779)**

Notes to the financial statements

37. Operating lease receivables

	2013 R m	2012 R m
Total future minimum lease receivables under operating leases		
Within one year	372	824
In second to fifth year inclusive	925	2 378
Later than five years	514	730
	1 811	**3 932**

38. Related party disclosures

The company's immediate holding company is Old Mutual Emerging Markets Ltd, 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.

The company's principal subsidiaries, joint ventures and associates, together with amounts due by or to them, are listed in notes 19 and 20.

Other group companies consist of fellow subsidiaries and associates.

2013 R m	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income/(expense)	-	692	-	-
Dividend income/(expense)	(27 151)	-	23	1 040
Fair value gains/(losses)	-	334	-	-
Fee income/(expense)	-	79	-	-
Insurance contract premiums income/(expense)	-	11	-	87
Reinsurance contract premiums income/(expense)	-	25	-	-
Claims and policyholder benefits income/(expense)	-	22	-	-
Statement of financial position				
Cash and short-term securities	-	3 271	-	-
Zero coupon bonds held	-	5 008	-	-
Credit linked notes including interest	-	3 986	-	-
Call loans including interest	-	(55)	-	-
Bonds including interest	-	366	-	-
Reinsurance of investment contract liabilities	-	16 882	-	-

2012 R m	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income/(expense)	-	440	-	69
Dividend income/(expense)	(9 779)	-	4 316	1 196
Fair value gains/(losses)	-	(40)	-	-
Fee income/(expense)	-	45	-	-
Insurance contract premiums income/(expense)	-	(30)	219	77
Reinsurance contract premiums income/(expense)	-	14	-	-
Claims and policyholder benefits income/(expense)	-	21	-	-
Statement of financial position				
Cash and short-term securities	-	-	-	4 136
Zero coupon bonds held	-	3 784	-	-
Credit linked notes including interest	-	4 768	-	-
Call loans including interest	-	1 316	-	-
Bonds including interest	-	-	-	486
Reinsurance of investment contract liabilities	-	10 748	-	-

38. Related party disclosures (continued)

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

At 31 December 2013 government and corporate bonds with a fair value of R4 262 million (2012: R 484 million) including interest had been lent to Old Mutual Specialised Finance (Pty) Ltd. R3 538 million (2012: R nil million) of these securities borrowed had been sold under repurchase agreements, R 443 million (2012: R 387 million) sold short and R 283 million (2012: R 97 million) was used as collateral against scrip lending positions. The nominal value of bonds borrowed was R4 204 million (2012: R474 million). The bonds lent had a weighted average coupon rate of 8.06% (2012: 7.8%).

At 31 December 2013 equities with a fair value of R2 449 million (2012: R2 048 million) had been lent to Old Mutual Specialised Finance (Pty) Ltd.

Included in note 32 is R 6 964 million (2012: R2 755 million) collateral owing to Old Mutual Specialised Finance (Pty) Ltd.

Notes to the financial statements

38. Related party disclosures (continued)

Directors' emoluments

R'000

2013	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
R T Mupita	-	3 552	5 311	13 754	425	23 042
K Murray	-	2 501	2 457	3 122	304	8 384
B M Rapiya	-	2 782	2 875	6 385	325	12 367
P C Baloyi	467	-	-	-	-	467
P G de Beyer	1 068	-	-	-	-	1 068
I A Goldin	190	-	-	-	-	190
A A Maule	896	-	-	-	-	896
N T Moholi	436	-	-	-	-	436
C W N Molope	861	-	-	-	-	861
C E Maynard	639	-	-	-	-	639
F Robertson	276	-	-	-	-	276
G T Serobe	255	-	-	-	-	255
A H Trikamjee	145	-	-	-	-	145
P G M Truyens	1 554	-	-	-	-	1 554
G S van Niekerk	855	-	-	-	-	855
	7 642	**8 835**	**10 643**	**23 261**	**1 054**	**51 435**

R'000

2012	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
K D Dlamini	-	433	-	7 237	10 167	17 837
R T Mupita	-	3 351	4 975	9 774	401	18 501
K Murray	-	2 356	2 607	1 451	287	6 701
B M Rapiya	113	2 583	2 851	6 322	306	12 175
P C Baloyi	470	-	-	-	-	470
P G de Beyer	523	-	-	-	-	523
I A Goldin	482	-	-	-	-	482
A A Maule	915	-	-	-	-	915
N T Moholi	55	-	-	-	-	55
C W N Molope	55	-	-	-	-	55
C E Maynard	569	-	-	-	-	569
M N C Nyembezi-Heita	49	-	-	-	-	49
F Robertson	260	-	-	-	-	260
G T Serobe	241	-	-	-	-	241
I B Skosana	211	-	-	-	-	211
A H Trikamjee	398	-	-	-	-	398
P G M Truyens	1 031	-	-	-	-	1 031
G S van Niekerk	539	-	-	-	-	539
	5 911	**8 723**	**10 433**	**24 784**	**11 161**	**61 012**

38. Related party disclosures (continued)

The variable pay for Ms K Murray, Mr R T Mupita and Mr B M Rapiya for 2013 is made up of an award of restricted shares of 50% and a cash component of 50%.

The bonus disclosed is the cash component of the variable pay. The restricted share awards granted as part of the incentive arrangements, 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.

39. 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, market 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 framework 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 40 explains in more detail how insurance risk is managed.

Capital adequacy

The Financial Services Board imposes certain capital requirements on the company. The company has met all these requirements at all times during the year. The capital position of the company is set out in the Statutory actuary's report on page 7.

The company has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirement.
- The business has been managed on an internal CAR basis which is higher than the statutory CAR.
- An economic capital at risk (ECaR) approach is also used by management and the board to ensure that obligations to policyholders can be met in adverse circumstances. ECaR is calculated using an internal capital model applying shocks that should only be exceeded once in 200 years. However, as the total of the current statutory reserves and internal CAR is more onerous than the total of technical provisions calculated on the economic basis and ECaR (calculated as per approach above) the company will continue to hold capital on the more onerous internal CAR basis.
- Maintenance of an appropriate level of liquidity at all times. The company further ensures that it can meet its expected capital and financing needs at all times, having regard to business plans, forecasts and any strategic initiatives.

Notes to the financial statements

39. Financial risk management (continued)

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 company's embedded value to changes in key assumptions. Embedded value is a measure of the value of shareholders' interests in the covered business of the company 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 cashflows 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.

At 31 December 2013	R m Embedded value
Embedded value	**68 001**
Effect of:	
Required capital equal to the minimum statutory requirement	705
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(726)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	552
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	3 412
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(3 428)
50 bps contraction on corporate bond spreads	213
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1 185)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(210)
Voluntary discontinuance rates decreasing by 10 per cent	949
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 663
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 502
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(57)
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	(131)

39. Financial risk management (continued)

At 31 December 2012	R m Embedded value
Embedded value	**86 896**
Effect of:	
Required capital equal to the minimum statutory requirement	662
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(909)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	804
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	5 310
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(5 226)
50 bps contraction on corporate bond spreads	196
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(552)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(106)
Voluntary discontinuance rates decreasing by 10 per cent	774
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 839
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 512
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(90)
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	(129)

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

Credit risk

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.

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 financial statements

39. Financial risk management (continued)

Overall credit risk

	2013 R m	2012 R m
Reinsurance contracts	766	889
Loans and advances	259	292
Investment and securities		
Government and non-government-guaranteed securities	52 184	50 124
Other debt securities, preference shares and debentures	60 398	53 801
Short-term funds and securities treated as investments	28 004	26 927
Reinsurance	16 882	10 748
Other assets	7 690	7 575
Derivative assets	6 142	8 331
Amounts due by group companies	7 952	6 291
Cash and cash equivalents	13 341	14 578
	193 618	**179 556**

Debt instruments and similar securities

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

2013 R m	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	52 184	41 135	27 199	120 518
Not rated	-	19 136	805	19 941
Sub-investment grade	-	127	-	127
	52 184	**60 398**	**28 004**	**140 586**

2012 R m	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	50 124	34 848	11 823	96 795
Not rated	-	18 639	15 104	33 743
Sub-investment grade	-	314	-	314
	50 124	**53 801**	**26 927**	**130 852**

Reinsurance assets

The company's reinsurance assets are investment grade (AAA to BBB) rated. None are past due or impaired.

39. Financial risk management (continued)

Collateral obtained

	2013 Rm	2012 Rm
Bonds	300	2 218
Cash	15 603	11 843
Total collateral	**15 903**	**14 061**

Further detail on the company's security lending activities is contained in note 19.

Market risk

Market risk is the potential impact of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities on its financial position, financial performance and cash flows. Market risk arises from changes in the fair value of 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, financial performance and cash flows.

The company's operations policy is to economically hedge against certain currency exposures where assets and 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. At the end of the year, the company had foreign currency investment assets of R 91 215 million (2012: R 73 247 million). Of these, R 91 174 million (2012: R 73 222 million) were held in portfolios where the currency risk was borne by the company's policyholders, with minimal residual currency risk accruing to the company's shareholders. The balance of the other foreign currency assets amounted to R 154 million (2012: R 379 million).

The company operates in Hong Kong, Guernsey and Isle of Man through branches which create an additional source of foreign currency risk which arises from the fact that the branches use GBP as their functional currency, whereas the functional currency of the company is Rands. However, this foreign currency translation risk is not considered material. At the end of the year the value of the Hong Kong, Guernsey and Isle of Man policyholder liabilities amounted to R 17 154 million (2012: R10 936 million), which was fully matched by foreign investment assets.

Notes to the financial statements

39. Financial risk management (continued)

Interest rate risk

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

The company has due regard to the nature of the liabilities and guarantees given to policyholders. The interest rate risk of such liabilities is managed by investing in assets of similar duration. For products that have a durational mismatch between premium inflows and benefit and expense outflows, mainly pure risk products, matching of assets and liabilities is complex and earnings are exposed to interest rate movements. Hedging strategies and a discretionary margin are now in place to partially hedge this exposure to interest rate movements.

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates as well as the implied volatility of interest rates, with a reduction in interest rates or an increase in implied interest rate volatility increasing the reserves held. Hedging is largely in place to mitigate the impact of interest rate movements. A discretionary margin is also held for the potential ineffectiveness of such hedging strategies and for the movements in implied volatilities which are not currently hedged.

Liquidity risk

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

The company's executive committee is responsible for the effective management of liquidity risk by putting the appropriate structure and processes in place. The Risk Committee of the board 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.

				2013 R m
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**
Insurance contracts	4 130	15 839	88 534	282 754
Investment contracts				
Unit-linked investment contracts and similar contracts	190 228	-	-	-
Investment contracts with discretionary participating features	113 527	-	-	-
Other investment contracts	113	297	645	113
Outstanding claims	1 918	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	(310)	(789)	1 482	23 140
Amounts due to group companies	1 390	-	-	-
	310 996	**15 347**	**90 661**	**309 007**

Notes to the financial statements

39. Financial risk management (continued)

				2012 R m
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**
Insurance contracts	3 586	14 859	82 111	257 549
Investment contracts				
Unit-linked investment contracts and similar contracts	159 108	-	-	-
Investment contracts with discretionary participating features	95 406	-	-	-
Other investment contracts	138	349	894	116
Outstanding claims	1 990	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	326	1 004	3 204	687
Amounts due to group companies	897	-	-	-
	261 451	**16 212**	**86 209**	**261 352**

Notes to the financial statements

39. Financial risk management (continued)

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

			2013 R m
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	255	255
Investment property	-	6 985	6 985
Property and equipment	-	3 303	3 303
Deferred tax assets	-	1 337	1 337
Reinsurance contracts	301	465	766
Post employment benefits	-	396	396
Deferred acquisition costs	235	910	1 145
Loans and advances	-	259	259
Investments and securities	47 612	444 011	491 623
Derivative assets	125	6 017	6 142
Amounts due by group companies	7 952	-	7 952
Other assets	7 690	-	7 690
Cash and cash equivalents	13 341	-	13 341
Total assets	**77 256**	**463 938**	**541 194**

			2013 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	1 988	154 101	156 089
Investment contracts	-	303 755	303 755
Borrowed funds	-	3 000	3 000
Share-based payment liabilities	574	424	998
Deferred revenue on investment contracts	36	58	94
Deferred tax liabilities	-	3 708	3 708
Derivative liabilities	75	8 194	8 269
Amounts due to group companies	1 390	-	1 390
Provisions	-	1 687	1 687
Current tax payable	1 770	241	2 011
Other liabilities	20 782	-	20 782
Total liabilities	**26 615**	**475 168**	**501 783**

Notes to the financial statements

39. Financial risk management (continued)

At 31 December 2012	Current assets	Non-current assets	2012 Restated R m Total
Assets			
Intangible assets	-	79	79
Investment property	-	14 775	14 775
Property and equipment	-	3 334	3 334
Deferred tax assets	-	974	974
Reinsurance contracts	288	601	889
Deferred acquisition costs	230	834	1 064
Loans and advances	-	292	292
Investments and securities	45 349	396 602	441 951
Derivative financial instruments - assets	188	8 143	8 331
Amounts due by group companies	6 291	-	6 291
Other assets	7 575	-	7 575
Cash and cash equivalents	14 578	-	14 578
Post employment benefits	-	223	223
	74 499	**425 857**	**500 356**

	Current liabilities	Non-current liabilities	2012 Restated R m Total
Liabilities			
Insurance contracts	1 990	149 314	151 304
Investment contracts	-	254 514	254 514
Borrowed funds	-	3 000	3 000
Share-based payment liabilities	389	426	815
Deferred revenue on investment contracts	42	70	112
Deferred tax liabilities	-	1 067	1 067
Derivative liabilities	121	5 139	5 260
Amounts due to group companies	897	-	897
Provisions	-	1 095	1 095
Current tax payable	2 018	558	2 576
Other liabilities	18 149	-	18 149
	23 606	**415 183**	**438 789**

Designated financial assets

The maximum exposure to credit risk for designated financial assets that would have otherwise been categorised as loans and receivables amounted to R 59 262 million (2012: R 51 852 million). The changes in fair value of these assets relating to any change in credit risk was insignificant.

40. 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 liability (mortality, morbidity and longevity) risk and business (expense and lapse) 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 39.

Risk management objectives and policies for mitigating insurance risk

The company manages insurance risk through the following mechanisms:

- 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 loss experience.
- The maintenance and use of 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.
- Reinsurance, which is used to limit the company's exposure to large single claims and catastrophes. When selecting a reinsurer, consideration is given to those companies that provide high security using rating information from both public and private sources.
- 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. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

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.

Notes to the financial statements

40. Insurance risk management (continued)

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, investment	Some investment performance, cover and annuity guarantees	Yes, varies - see below
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity, investment	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
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Longevity, investment	Benefit payment schedule is guaranteed	None
Mass Foundation Cluster				
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
Corporate Segment				
Group Assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees except for permanent health insurance claims in payment for which 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
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Longevity, investment	Benefit payment schedule is guaranteed	None

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 future 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.

40. Insurance risk management (continued)

Risk type	Nature of risk	Risk management
Liability - Mortality	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.
Liability - Mortality	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS. Tests for AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates.
Liability - Longevity	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.
Market	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. Hedging is largely in place for most products. Fewer and lower guarantees are typically provided on new business.
Business	Policyholder behaviour: selection of more expensive options, or lapse and re-entry when premium rates are falling or termination of policy, which may cause the sale of assets at inopportune times	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Liability - Mortality 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, longevity). 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, as at 31 December has been estimated as follows:

Sensitivity analysis

Assumption	Change %	R m Increase/ (decrease) in liabilities 2013	R m Increase/ (decrease) in liabilities 2012
Mortality and morbidity rates - assurance	10%	4 235	4 136
Mortality rates - annuities	-10%	721	702
Discontinuance rates	10%	(102)	(205)
Expenses (maintenance)	10%	828	816

40. Insurance risk management (continued)

The insurance contract liabilities recorded for South African business are also impacted by the valuation discount rates assumed. Lowering this rate by 1% (with a corresponding reduction in the valuation inflation rate) would result in a net increase to insurance contract liabilities, and decrease to profit, of R 83 million (2012: R 464 million). The 2013 impact is lower than the 2012 impact due to further management actions taken to reduce the impact of changing interest rates on operating profit. This impact is also calculated with no change to the charges paid by policyholders.

It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business) or where the impact of a lower valuation discount rate is hedged or partially hedged, the net effect has been shown since the assets movement fully or partially offsets the liability movement.

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, APN 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	
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 Mass Foundation Cluster 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.
Corporate	
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.
Guaranteed annuity payments in respect of with-profit annuity business	There is a significant with-profit annuity portfolio. The underlying pricing interest rate is guaranteed and as such the current level of annuity payments (including past declared bonuses) cannot be reduced. If, however, a scheme terminates, the lower of the liability value on the Financial Soundness Valuation basis and the underlying asset market value is paid out.

The following disclosures are provided in terms of APN 110 issued by the Actuarial Society.

Investment guarantee reserves have been calculated using an internal economic scenario generator (ESG) model that generates product specific economic scenarios. These scenarios comprise interest rates, inflation and fund returns and are generated using a Hull-White model for interest rates and inflation, and a Merton jump diffusion model for fund returns. The model is calibrated to South African derivative market data (where available and reliable), according to the company's specific calibration requirements. The calibration has been performed as at 31 December 2013.

40. Insurance risk management (continued)

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

Term (years)	Annualised zero-coupon yield
1	5.7%
2	6.3%
3	6.9%
4	7.3%
5	7.7%
10	8.8%
15	9.6%
20	9.7%
25	9.6%
30	9.5%

The following derivative contract prices have been calculated using 4096 simulations of the internal ESG model at the calibration date.

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	7.3%	22.4%
1	0.8 times spot	1.8%	25.7%
1	Forward	8.1%	20.9%
5	Spot	11.0%	27.4%
5	1.04^5 times spot	19.0%	27.4%
5	Forward	21.0%	27.5%
20	Spot	3.1%	31.0%
20	1.04^20 times spot	12.8%	31.9%
20	Forward	32.0%	34.6%

APN 110 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.	11.00%
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	0.44%

* 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 financial statements

41. Notes to the Statutory actuary's report

41.1. Change in excess assets on published basis

	2013 R m	2012 Restated R m
At end of the year	39 411	61 567
At beginning of the year	61 567	58 399
Change in excess assets	**(22 156)**	**3 168**

Analysis of change	2013 R m	2012 Restated R m
Operating profit before shareholder tax (excluding changes in the valuation basis)	4 608	4 231
Dividend income	1 186	5 621
Interest income	701	646
Investment income on excess assets	1 887	6 267
Gains and losses on excess assets	2 362	4 855
Changes in valuation basis	(32)	(343)
Non-operating items (finance cost on subordinated debt)	(268)	(270)
Shareholder tax	(3 336)	(1 132)
Policyholders' tax	(629)	(861)
Profit for the financial year	**4 592**	**12 747**
Other comprehensive income and equity		
Actuarial gains on defined benefit plans	149	200
Revaluation of owner - occupied property	25	-
Currency translation differences	60	-
Issue of share capital	169	-
Dividends	(27 151)	(9 779)
Change in excess assets	**(22 156)**	**3 168**

41.2. Reconciliation of policy liabilities from published to statutory basis

	2013 R m	2012 R m
Published	(457 855)	(403 827)
Statutory	435 700	388 170
	(22 155)	**(15 657)**

Comprising:	2013 R m	2012 R m
Investment contracts	(4 788)	(4 290)
Reinsurance	(17 367)	(11 367)
	(22 155)	**(15 657)**

Notes to the financial statements

41.3. Reconciliation of excess assets from published to statutory basis

	2013 R m	2012 Restated R m
Published	39 411	61 568
Statutory	(42 110)	(63 985)
Difference	**(2 699)**	**(2 417)**

Comprising	**2013 R m**	**2012 R m**
Investment contracts	(4 788)	(4 290)
Revenue recognition	1 051	952
Deferred tax impacts of above items	1 038	921
	(2 699)	**(2 417)**

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.

41.4. 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 SAP 104. 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 IFRS 9.

Assets

Investment property and financial assets are valued on the bases set out in notes 1.5 and 1.9 respectively.

Liabilities: Insurance contracts and investment contracts with a discretionary participation feature

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:

	2013	**2012**
Fixed interest securities	8.1%	6.9%
Cash	6.1%	4.9%
Equities	11.8%	10.6%
Properties	9.6%	8.4%
Future expense inflation	5.1%*	3.9%*

* 7.1 % (2012: 5.9%) for Retail Affluent business administered on old platforms and 6.1% (2012: 4.9%) for Mass Foundation Cluster.

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 SAP 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 Mass Foundation Cluster 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 old generation life policies and accidental death and disability supplementary benefits, to ensure that profit is released appropriately over the term of the policies,
  - interest rate margin on certain Retail Affluent life policies to allow for the uncertainty associated with volatile interest rates,
  - 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,
  - investment and expense margins in the pricing basis for Corporate Segment annuities, to defer the recognition of these margins,
  - 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),

- termination margins on Corporate Segment PHI claims in payment due to uncertainty about future termination experience, and
- margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market- consistent basis to implied volatilities in particular.

- Some investment contracts are valued at units times price for statutory purposes, i.e an implicit discretionary margin is held equal to the value of the negative rand reserve.

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 in respect of products open to new business has been analysed in the following main experience investigations:

Business unit	Type of investigation	Period of investigation
Retail Affluent	Annuitant mortality	2008 to 2012
	Greenlight mortality	2007 to 2012
	Greenlight morbidity	2003 to 2012
	Greenlight persistency	2003 to 2012
Mass Foundation	Mortality	2012
	Persistency	2012
Corporate Segment	Annuitant Mortality	2008 to 2012
	PHI claims termination	2007 to 2011
	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, valuation assumptions for all material products are actively reviewed. The 2013 analysis of profit provides a measure of the aggregate experience in 2013. During this valuation period, actual experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure.

Liabilities: 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, 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 40.

Notes to the financial statements

41.5. Changes to valuation assumptions (published basis)

Various actuarial assumption changes have been made which resulted in a net increase in the value of liabilities of R32 million (2012: R343 million increase in liabilities). This is mainly the result of of the negative impact of persistency assumption changes and management actions, mostly offset by the positive impact of the expense, mortality and economic assumption changes. The assumption changes exclude the impact on new business sold in 2013, as this is valued on the new basis.

42. Events after the reporting period

As part of a restructuring of the group's interests, Old Mutual South Africa's shareholding in Old Mutual Unit Trust Managers Ltd was purchased by Old Mutual Wealth (Pty) Ltd, a company subsidiary, conditional on approval by the Financial Services Board ("FSB"). The FSB approved the sale on the 6th January 2014.

43. General company information

43.1 Review of 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.

43.2 Holding company

The company's holding company is Old Mutual Emerging Markets Ltd incorporated in South Africa.

43.3 Ultimate holding company

The company's ultimate holding company is Old Mutual plc incorporated in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia and Zimbabwe stock exchanges.

43.4 Company secretary

Ms E M Kirsten is the company secretary.

Registered office	
	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Postal address	
	PO Box 66 Cape Town 8000

44. Statutory capital adequacy requirements

The CAR has been calculated in accordance with SAP 104 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 SAP 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 2013, if asset values had declined as specified as at 31 December 2013, and had not subsequently recovered:

- Future bonus rates would have been reduced by 2.8% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 2.8% per year in each of the following three years for Mass Foundation Cluster products and Retail Affluent smoothed bonus products.
- Future bonus rates would have been reduced by 0.7% 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 0.4% per year in each of the following three years for with-profit annuities (excluding Platinum 1999 and Platinum 2003)
- Future bonus rates would have been reduced by 0.6% per year in each of the following three years for Platinum 1999 with-profit annuities.
- Future bonus rates would have been reduced by 2.2% per year in each of the following three years for Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 2.0% per year in each of the following three years for all other Corporate Segment smoothed bonus products.

In respect of 2012 the following management actions were assumed :

- Future bonus rates would have been reduced by 4% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 3.8% per year in each of the following three years for Mass Foundation Cluster products.
- Future bonus rates would have been reduced by 1.5% 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 Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 1.5% per year in each of the following three years for all other with-profit annuities.
- Future bonus rates would have been reduced by 3.8% per year in each of the following three years for all other smoothed bonus products.

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 2012: 12.5% local equities and 87.5% local cash).

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

(* As defined by SAP 104).

Employment equity report

Employment equity report

The table below sets out the staff profile of the Old Mutual Group in South Africa, excluding Nedbank and Mutual and Federal, across the different race groups (African, Coloured, Indian, and White) as at 31 August 2013. The employment equity data formed part of the annual declaration to the Department of Labour and in compliance with Section 21 of the Employment Equity Act 55 of 1998.

	Male				Female				Foreign national		
Occupational levels	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**M**	**F**	**Total**
Top management	2	-	-	1	-	-	1	2	1	1	8
Senior management	65	62	34	150	68	78	54	385	5	29	930
Professionally qualified and experienced specialists and mid-management	241	294	113	487	298	294	134	584	17	30	2 492
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 868	1 481	324	1 172	2 297	1 169	343	1 109	39	47	10 849
Semi-skilled and discretionary decision making	707	588	71	154	252	330	23	24	1	3	2 153
Unskilled and defined decision making	74	30	3	17	26	22	3	41	2	2	220
Total permanent	**3 957**	**2 455**	**545**	**1 981**	**2 941**	**1 893**	**558**	**2 145**	**65**	**112**	**16 652**
Temporary employees	58	56	2	27	29	42	2	11	1	1	229
Grand total	**4 015**	**2 511**	**547**	**2 008**	**2 970**	**1 935**	**560**	**2 156**	**66**	**113**	**16 881**

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

	Male				Female				Foreign national		
Occupational levels	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**M**	**F**	**Total**
Top management	-	-	-	-	-	-	-	-	-	-	-
Senior management	1	3	-	1	-	4	-	4	-	2	15
Professionally qualified and experienced specialists and mid-management	7	12	1	10	7	5	2	18	-	-	62
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	36	54	12	43	14	38	5	28	-	1	231
Semi-skilled and discretionary decision making	21	29	2	10	9	24	1	3	-	-	99
Unskilled and defined decision making	23	10	3	17	11	19	3	41	2	2	131
Total permanent	**88**	**108**	**18**	**81**	**41**	**90**	**11**	**94**	**2**	**5**	**538**
Temporary employees	2	1	-	-	1	-	-	-	-	-	4
Grand total	**90**	**109**	**18**	**81**	**42**	**90**	**11**	**94**	**2**	**5**	**542**

Note: Racial categories: A - African; C - Coloureds; I - Indians; W - Whites; Gender categories: M - Male; F - Females

Further details, together with the 2013 report, can be found in the Old Mutual Sustainability report.