OLD MUTUAL

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Old Mutual Life Assurance Company (South Africa) Limited

Registration no. 1999/004643/06

Annual Financial Statements

2001

Annual financial statements

for the year ended 31 December 2001

Contents

Corporate governance

The Board of Directors endorses the code of corporate practice and conduct recommended in the King Report on corporate governance and has satisfied itself that the Company has observed and applied the code consistently during the year under review.

The Board of Directors

Role and composition

The Company has a unitary board of 18 directors, the majority of whom are independent of management. The Board currently comprises 12 non-executive directors, three directors who are executive directors of the ultimate holding company and three executive directors. Full details are set out in the directors' report.

The selection and appointment of directors is a matter for the Board as a whole, assisted by recommendations from the Nomination Committee. Emphasis is placed on achieving a balance of skills, experience and knowledge. New directors may hold office only until the next annual general meeting at which they retire and become available for re-election by shareholders.

A formal orientation programme exists to familiarise incoming directors with the Company's operations, senior management and its business environment.

All directors, other than the executive directors, are subject to retirement by rotation and re-election by shareholders at least once every three years. Proposals for re-election to the Board are considered by the Nomination Committee and are not automatic.

Directors have no fixed term of appointment, but executive directors are subject to short-term notice periods. Executive directors are required to retire from the Board at age 61, whilst non-executive directors retire at age 71.

The Board meets regularly, having met eight times in 2001 including sessions devoted to strategy and business planning, and has matters reserved to it for decision. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

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

Chairman and Managing Director

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

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

Corporate governance *(continued)*

The Board of Directors *(continued)*

Board Committees

All Board committees have formally delegated terms of reference and report to the Board and to the respective board committees of the ultimate holding company as required. The committees are chaired by non-executive directors, supported by the Company Secretary, and are free to take independent professional advice as and when necessary.

Audit Committee

The Audit Committee, chaired by Dr Konar, meets at least four times a year with senior management, which includes the Managing Directors, senior executive management, the Chief Actuary, the Chief Internal Auditor, the Compliance Officer and the Risk Manager. The independent auditors and internal auditors attend these meetings and have unrestricted access to the committee and to its chairman.

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

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

Remuneration Committee

The Remuneration Committee, chaired by Mr Clewlow, meets as often as necessary, but at least three times each year. The committee assists the Board by guiding and directing the remuneration strategy and structure and monitoring and controlling the remuneration and benefits structure and cost.

The committee determines the remuneration, incentive arrangements, profit participation and benefits of the executive directors and executive management. It makes recommendations on the remuneration of non-executive directors and on the grant of awards under the share incentive scheme. It approves adjustments to the overall level and structure of remuneration packages of employees.

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

Nomination Committee

The Nomination Committee, chaired by Prof. van Wyk, meets as often as necessary but at least twice each year. Its function is to regularly review the structure, size and composition of the Board and its committees and make recommendations to the Board.

The committee identifies and nominates candidates to fill board and committee vacancies, reviews the continuation in service of any director who has reached retirement age and considers directors retiring by rotation for re-election.

Corporate governance *(continued)*

Board committees *(continued)*

Internal controls

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

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

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

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

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

Actuarial Review Committee

The Actuarial Review Committee consists of non-executive directors, senior actuaries and executives and provides guidance to the Audit Committee of the Company. The independent auditors attend meetings of the committee. The purpose of the committee is to review, with the Chief Actuary of the Company, the suitability of the actuarial valuation basis and the accuracy of the published financial results.

Credit Committee

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

Corporate governance *(continued)*

Internal controls *(continued)*

Business planning

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

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

During the first part of the year the Company launched a new strategic business initiative named "Siyakhula", a Xhosa term, which means "We are growing". The purpose of Siyakhula is to ensure that the Company continues to be an adaptable, flexible and leading organisation by providing world class growth to the Company's customers, shareholders and employees. The initiative also seeks to strengthen and embed the values of integrity, commitment, growth and passion within the Company and its employees.

Management structures

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

Employment policies

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

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

Corporate governance *(continued)*

Employment policies *(continued)*

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

- the Company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and to the future of the Company;

- employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity, and the Company's practices are cognisant of this;

- the Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Company. Employee involvement and consultation are managed in a number of ways, including in-house-publications, briefings road shows and intranet. In many parts of the business employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them;

- the efforts of the individual in helping to create the success of the Company should be appropriately recognised. Pay systems are structured to recognise both the contribution of individuals and the performance of the sector of the business in which they work;

- training and development of all employees including the directors remains a priority. The Old Mutual Business School was founded, because the process of developing business staff and leaders requires a holistic learning experience that is aligned with core competencies, business objectives and company strategies, thereby ensuring that the growth and development of the organisation remains sustainable.

Risk management

Executive management is responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal and external sources. The Risk Management Committee of Old Mutual (South Africa) Limited has an independent role operating as an overseer and advisor to management on meeting risk management and corporate governance requirements. Management retains the responsibility for managing risk appropriately. The committee is responsible for overseeing the application of the Company's risk management profile and changes to it and providing the risk management function with direction.

The Risk Management Committee reports to the Audit Committee and to the Old Mutual plc Group Compliance and Risk Management Committee on significant risks to the achievement of the Company's business objectives. The Risk Management Committee comprises the Managing Director and senior management and is chaired by the Executive General Manager Finance. It is supported by a Risk Function that co-ordinates monthly reporting from the lines of business and subsidiaries, whose terms of reference are aligned with those approved by the Board for the Risk Management Committee.

Corporate governance *(continued)*

Monitoring of controls

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

The executive directors, together with executive management report to the Board on behalf of their respective businesses on major changes in the business and the external environment that affect the significant risks of their respective businesses. The Board receives monthly performance information, which includes key performance and risk indicators.

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

The Company's internal audit function operates on a group level and carries out regular risk-focused reviews of the system of internal control. The internal audit function operates independently of executive management, reporting, for day-to-day operational purposes only, to the Executive General Manager Finance, with unrestricted access to the Chairman of the Audit Committee. An Internal Audit Charter, reviewed and approved by the Old Mutual plc Audit Committee, governs internal audit activity within the Company and Group. Progress against the plan is reported regularly to the Audit Committee.

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

Directors' responsibility for the annual financial statements

The directors are responsible for monitoring the preparation and integrity of the annual financial statements and related information included in this annual report.

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

The annual financial statements are prepared in accordance with statements of South African Generally Accepted Accounting Practice and incorporate disclosure in line with the accounting and corporate governance philosophy of the Company. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

The annual financial statements for the year ended 31 December 2001 set out on pages 10 to 39 were approved by the Board of Directors on 14 February 2002 and are signed on its behalf by:

M J Levett
Chairman

R J A Sparks
Managing Director

Report by the Company Secretary

I, JULIAN LAWRENCE COWBURN, in my capacity as Company Secretary of Old Mutual Life Assurance Company (South Africa) Limited, hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, and that all such returns are true, correct and up to date.

J L Cowburn
Company Secretary
14 February 2002

Report of the independent auditors

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

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited set out on pages 10 to 39 for the year ended 31 December 2001. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2001 and the results of its operations and cash flows for the year then ended in accordance with South African statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

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

T H Bashall
Partner
14 February 2002

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the annual financial statements for the year ended 31 December 2001.

Business activities

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

Results of operations

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

Consolidated annual financial statements

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

These consolidated financial statements can be obtained directly from Old Mutual plc, registered office, 3rd floor, Lansdowne House, Berkeley Square, London, WIX 5DH, United Kingdom.

Holding company

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

Subsidiaries

Details of the Company's interest in its principal subsidiaries are set out in note 22.

Share capital

During the year the Company authorised 10 and issued one redeemable R1 preference share at par.

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

Dividends

Ordinary shares
Dividends on ordinary shares amounting to R1 525 million (2000 : R2 796 million) were declared during the year. The income statement charge for the prior year of R2 761 million includes an over provision in 1999 of R35 million.

Preference shares
Dividends on preference shares amounting to R2 404 million (2000 : Rnil) were declared during the year.

Directors' report *(continued)*

Directors

During the year the Board increased the maximum number of directors contained in the Company's Articles of Association from 18 to 20.

Mrs A A Maule and Mr P F Nhleko were appointed directors from 1 January 2002.

The directors currently holding office are :

Non-executive directors

M J Levett (Chairman) * ♦
W A M Clewlow (Deputy Chairman) * ✧♦❄
G J Gerwel
P G Joubert * ✧♦
D Konar ✧❄
C F Liebenberg * ✧♦
R C M Laubscher *
A A Maule
W A Mgoqi
M Morobe ❄
P F Nhleko
G S van Niekerk ✧
J V F Roberts (British) * ✧
J H Sutcliffe (British) * ✧♦
A H van Wyk ❄

Executive directors

R J A Sparks (Managing Director)
P G de Beyer (Deputy Managing Director)
M P Moyo (Deputy Managing Director) (Zimbabwean)

✧Members of the Audit Committee
♦Members of the Remuneration Committee
❄Members of the Nomination Committee
* Members of the Old Mutual plc Board of Directors

In terms of the Company's Articles of Association Mrs A A Maule, Prof. A H van Wyk and Messrs P G Joubert, M J Levett, P F Nhleko and G S van Niekerk retire at the forthcoming Annual General Meeting but, being eligible, and recommended by the Board, offer themselves for re-election.

Company Secretary

Mr J L Cowburn is the Company Secretary.

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

Report of the Chief Actuary

I have conducted an actuarial review of the Company as at 31 December 2001, according to applicable guidelines issued by the Actuarial Society of South Africa. In particular, the valuation was performed using the Financial Soundness Valuation method, assets and liabilities have been valued on bases that are consistent with each other and policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in note 2 to the annual financial statements, which can be found on pages 21 and 22.

Actuarial balance sheet

R million	2001	2000
Total assets per balance sheet	**265 289**	234 961
Provisions and current liabilities	**(7 929)**	(8 247)
Change in accounting policy	**-**	119
Total assets net of provisions and current liabilities	**257 360**	226 833
Actuarial value of policy liabilities	**(223 223)**	(192 245)
Excess of assets over liabilities	**34 137**	34 588
The excess assets are represented by:		
Share capital and share premium	**6 254**	6 254
Non-distributable reserve	**7 300**	8 173
Distributable reserve	**20 583**	20 161
Total excess assets	**34 137**	34 588
Statutory capital adequacy requirements (included in excess of assets over liabilities)	**12 697**	11 378
The increase in the excess assets has arisen from the following main sources:		
Investment income on excess assets	**2 063**	1 771
Realised and unrealised gains/losses on excess assets	**(184)**	1 983
Operating profit before tax	**3 074**	2 669
Change in accounting policy	**-**	50
Changes in valuation basis	**(3)**	(115)
Taxation	**(943)**	(542)
Deferred taxation - net capital gains	**(515)**	-
Foreign currency translation reserve	**(14)**	-
Dividends	**(3 929)**	(2 761)
Total (decrease)/increase in excess assets	**(451)**	3 055

In my opinion, the Company is financially sound, and the actuarial balance sheet set out above, read together with the annual financial statements, fairly presents the financial position of the Company as at the valuation date.

G S PALSER
Chief Actuary
BBusSc (Hons), FIA, FASSA

Cape Town
14 February 2002

Income statement

for the year ended 31 December 2001

R million	Notes	2001	2000
Net premium income	12.7.2	**31 875**	31 659
Operating profit	3, 4	**3 071**	2 604
Investment income	5	**2 223**	2 513
Profit on ordinary activities before taxation		**5 294**	5 117
Taxation	6	**(943)**	(542)
Profit on ordinary activities for the year		**4 351**	4 575
Dividends		**(3 929)**	(2 761)
Retained profit for the year		**422**	1 814

Balance sheet

at 31 December 2001

R million

Assets	Notes	2001	2000
Investments	8	**258 069**	227 981
Equity investments		**169 423**	154 411
Property investments		**11 559**	10 456
Interest bearing instruments		**60 550**	47 628
Deposits and money market securities		**16 537**	15 486
Fixed assets	9	**280**	291
Deferred taxation	10	**286**	910
Current assets		**6 654**	5 779
Net outstanding premiums, accrued investment income and other debtors		**5 508**	4 876
Amounts due by group companies		**93**	299
Cash and cash equivalents		**1 053**	604
Total assets		**265 289**	234 961

Equity and liabilities

Equity shareholder's fund		**34 137**	34 588
Share capital and premium	11	**6 254**	6 254
Non-distributable reserve		**7 300**	8 173
Distributable reserve		**20 583**	20 161
Policy liabilities	12	**223 223**	192 245
Provisions	13	**1 050**	1 042
Current liabilities		**6 879**	7 086
Outstanding claims, policyholders' benefits and other creditors		**4 791**	4 247
Taxation		**1 104**	1 639
Shareholder for dividend		**984**	1 200
Total equity and liabilities		**265 289**	234 961

Statement of changes in equity shareholder's fund

for the year ended 31 December 2001

R million

2001	Share capital and premium	Non Distributable reserve	Distributable reserve	Total
Equity shareholder's fund at beginning of year	**6 254**	**8 173**	**20 161**	**34 588**
Unrealised revaluation reserve		**(344)**		**(344)**
Foreign currency translation reserve		**(14)**		**(14)**
Deferred taxation - net capital gains		**(515)**		**(515)**
Profit on ordinary activities for the year			**4 351**	**4 351**
Dividends			**(3 929)**	**(3 929)**
Equity shareholder's fund at end of year	**6 254**	**7 300**	**20 583**	**34 137**

2000				
Equity shareholder's fund at beginning of year	6 254	6 932	18 347	31 533
Unrealised revaluation reserve		1 241		1 241
Profit on ordinary activities for the year			4 575	4 575
Dividends			(2 761)	(2 761)
Equity shareholder's fund at end of year	6 254	8 173	20 161	34 588

Cash flow statement

for the year ended 31 December 2001

R million	Notes	2001	2000
Net cash inflow from operating activities		**2 409**	647
Cash generated by operations	14	**8 242**	4 220
Taxation paid		**(1 688)**	(1 066)
Dividends paid	15	**(4 145)**	(2 507)
Net cash outflow from investing activities		**(1 960)**	(1 377)
Equity investments		**6 180**	3 713
Property investments		**(662)**	(611)
Interest bearing stocks, debentures and other loans		**(8 510)**	(10 369)
Deposit and money market securities		**1 032**	5 890
Net increase/(decrease) in cash and cash equivalents		**449**	(730)
Cash and cash equivalents at beginning of year		**604**	1 334
Cash and cash equivalents at end of year		**1 053**	604

Notes to the annual financial statements

for the year ended 31 December 2001

1 Accounting policies

The financial statements incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year, except as referred to in note 7.

1.1 Statement of compliance

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

1.2 Basis of preparation

The annual financial statements incorporate the assets, liabilities and the results of the Company. Investment subsidiaries and associate undertakings are treated as investment assets in the balance sheet. For the purpose of the analysis of equity investments, investments held by these companies are classified into the applicable categories.

1.3 Premium income and benefits paid

Premiums are recognised as income when they are receivable.

Benefits paid reflect the cost of all claims arising during the year. Death claims and surrenders represent those notified up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment.

Premiums and benefits are shown net of reinsurance.

1.4 Investment income

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

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

1.5.1 Employee benefits - Retirement benefit costs

Contributions to the Company's defined contribution schemes are charged against income as incurred. 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.

Actuarial gains or losses in respect of defined benefit schemes are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

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

1 Accounting policies *(continued)*

1.5.2 Off-set

Assets and liabilities from separate plans are off-set when there is a legally enforceable right to use a surplus in the one plan to settle obligations under the other plan or when there is an intention to settle the obligations on a net basis or to realise the surplus and settle the obligation simultaneously.

1.5.3 Post retirement benefits other than pensions

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

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

1.6 Financial instruments
Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as below.

1.6.1 Investments

Investments are valued on the bases set out below. Market value is determined by the directors using, where appropriate, quoted prices or market related rates of return. Resulting gains and losses attributable to policyholders' interests together with any related taxation impact, are included in policyholders' funds. Realised investment gains and losses attributable to the shareholder's interests are included in the income statement. Unrealised gains or losses are included in non-distributable reserves.

Listed investments, including those held by wholly-owned investment subsidiaries, investments in unit trusts and unlisted investments are stated at market value, repurchase price and directors' valuation respectively. Shares in other investment subsidiaries are stated at market value.

Land and buildings are treated as investment properties and valued at a market valuation primarily by internal professional valuers. No depreciation is provided on the properties as the directors consider that these properties are held for investment and to depreciate them would not result in fair presentation.

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

1.6.2 Cash and cash equivalents

Cash and cash equivalents are measured at fair value and margin deposits are included in current assets.

1.6.3 Derivative instruments

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

Derivative instruments are valued at fair market value. Listed derivative instruments are stated at quoted prices, unlisted derivative instruments are valued using standard market valuation methodologies.

1 Accounting policies *(Financial instruments)* *(continued)*

Gains and losses from measuring fair value hedging instruments, including fair value hedges for foreign currency denominated transactions, are recognised immediately in the income statement or policyholders' funds.

Gains and losses from remeasuring cash flow hedging instruments, including cash flow hedges for forecasted foreign currency denominated transactions and for interest rate swaps, are initially recognised directly in equity or policyholders' funds. If the hedged firm commitment or forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognised the associated gains or losses that were recognised directly in equity is included in net profit or loss in the same period or periods during which the hedged firm commitment or forecasted transaction affects net profit or loss.

Financial futures and option contracts in respect of listed shares are valued daily at fair value and capital gains and losses resulting from these valuations are accounted for in the policyholders' funds to which they relate.

1.6.4 Off-set

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

1.7 Scrip lending

The company engages in scrip lending for which it obtains collateral security. The investments on loan are reflected in the balance sheet at year end.

1.8 Fixed assets

Fixed assets are stated at cost less depreciation which is calculated to write-off the assets over their estimated useful lives.

1.9 Policy liabilities

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

1.10 Foreign currency

Foreign currency transactions

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

Foreign investments

Income statement items of foreign branches are translated at the appropriate weighted average exchange rates for the year. Balance sheet items are translated at the ruling exchange rates at the balance sheet dates. Translation gains and losses are disclosed as part of unrealised gains and losses on investments and included in policyholders' funds or non-distributable reserves.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

1 Accounting policies *(continued)*

1.11 Deferred taxation

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

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

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

Deferred tax on unrealised capital gains or losses is provided in full and charged or credited to non-distributable reserves. Deferred tax arising on capital gains or losses on policyholder investments, is included in the policy liabilities.

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 effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.13 Comparative figures

Comparative figures have been restated in respect of the change in accounting policy described in note 7. Furthermore, where necessary comparative figures are reclassified in line with current year presentation.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

2 Notes to the report of the Chief Actuary

2.1 Valuation basis

The valuation was performed using the "Financial Soundness Valuation" method, in keeping with the applicable guidance notes issued by the Actuarial Society of South Africa (ASSA). This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus prescribed margins for prudence and further 'second-tier' margins to ensure that profits are released appropriately over the term of each policy. The assets and liabilities have been valued on bases that are consistent with each other.

2.1.1 Valuation of assets

- Investments have been valued on the bases set out in note 1.6

2.1.2 Valuation of liabilities

The major classes of business have been valued as follows:

- For group investment policies, liabilities were based on account balances at the valuation date.
- For individual unbundled policies (i.e. those where a portion of the premium is allocated to an accumulation account), liabilities were based on accumulation 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/accumulation account was based on the market value of assets attributable to these policies.
- For smoothed bonus policies, the account balance/accumulation account includes vested and non-vested bonuses declared to date, and provisions for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) were added to ensure consistency of the value of liabilities with the value of assets.
- For conventional with-profit policies and with-profit annuities, liabilities were determined by calculating the present value of projected future benefits and expenses and, for conventional with-profit policies, deducting the present value of projected future premiums. Projected future benefits include future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves were added.
- For non-profit annuities, liabilities were determined by valuing expected future benefits and expenses at interest rates based on the bond yield curve at the valuation date.

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

- Our best-estimate of future experience, as described below, plus
- All the margins prescribed by the Actuarial Society of South Africa guidelines, plus
- Second-tier margins reflecting mainly the excess of capital charges over the prescribed investment margin of 0,25% for policies that are valued prospectively. These 'second-tier' margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy.

Where currently relevant, liabilities include provisions to meet maturity and mortality guarantees, and make due allowance for potential lapses and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with Old Mutual's recent experience, or expected future experience if this would result in a higher liability. In particular, allowance has been made for the expected deterioration in experience due to AIDS.

Provision for expenses starts at a level consistent with the Company's recent experience and allows for a 11% escalation per annum thereafter.

The future gross investment return assumed for South African assurance business is 14% per annum.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

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

2.2 Statutory capital adequacy requirements

The statutory capital adequacy requirements have been calculated in accordance with guidelines issued by the Actuarial Society of South Africa, and provide a buffer against future experience substantially worse than assumed in the Financial Soundness Valuation. These requirements take account of management actions which, it is assumed, will be taken if the adverse experience occurs. These actions include the reduction in non-vested bonuses if investment markets fall substantially and do not recover within a reasonable period. The relevant actions have been discussed with and approved by the directors.

2.3 Changes to valuation assumptions

There were a few refinements to valuation assumptions and methodology, and allowance was made for CGT, but these offset each other resulting in a net increase in the value of liabilities of only R3 million.

2.4 Reconciliation of operating profit

The operating profit before tax in the report of the Chief Actuary (page 12) is reconciled with the profit on ordinary activities for the year in the income statement (page 13) as follows:

R million	2001	2000
Items in the Chief Actuary's Report		
Operating profit before tax	**3 074**	2 669
Change in accounting policy	**-**	50
Changes in valuation basis	**(3)**	(115)
Operating profit before tax and investment income	**3 071**	2 604

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

3 Operating profit

	2001	2000
is arrived at after taking into account:		
Auditors' remuneration	14	11
Audit fees	6	4
Other services	8	7
Depreciation	120	105
Directors' emoluments	11	10
Directors' fees	1	1
Other services	10	9
Interest paid	121	136
Staff costs	1 016	914
(Surplus)/Loss on sale of fixed assets	(1)	14
Technical and professional fees	580	550
Monthly average number of employees	11 645	10 892

In addition to the amounts for directors' emoluments shown above are gains on the settlement and delivery of share grants totalling R17 million (2000 : Rnil) in terms of a separate share incentive scheme.

4 Analysis of operating profit

	2001	2000
Transfer of operating profit from policyholders (note 12.1)	3 033	2 719
Transfer of foreign currency translation loss to non-distributable reserve	14	-
Other shareholder income / (charges)	24	(115)
	3 071	2 604
Comprising:		
Individual business	2 178	1 728
Group business	903	888
	3 081	2 616
Shareholder services	(10)	(12)
	3 071	2 604

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

5 Investment income - equity shareholder's fund

	2001	2000
Dividends	1 823	1 667
- listed investments	654	1 028
- unlisted investments	1 169	639
Interest received	240	104
- listed investments	149	63
- unlisted investments	91	41
Net realised gains	160	742
- derivative instruments	-	58
- other	160	684
Included in income statement	2 223	2 513
Net unrealised gains/(losses)		
- derivative instruments	-	6
- other	(344)	1 235
Included in non-distributable reserve	(344)	1 241

Investment income from subsidiaries (included in equity shareholder's fund)

	2001	2000
Dividends received	1 236	1 277
- listed investments	69	299
- unlisted investments	1 167	978
Realised gains/(losses)	87	(6)
Unrealised (losses)/gains	(6 865)	2 274
	(5 542)	3 545

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

6 Taxation - equity shareholder's fund

		2001	2000
South African taxation			
Normal income tax	- current year	**858**	1 378
	- prior year (over)/underprovision	**(33)**	697
Deferred taxation	- current year	**(13)**	(1 187)
	- prior year under/(over)provision	**125**	(346)
		937	542
Capital gains tax	- current year	**2**	-
Foreign tax	- current year	**4**	-
		943	542

The current year's normal income and capital gains tax charge is net of tax recovered from policyholders.

The Company has Secondary Tax on Companies (STC) credits which have arisen as a result of dividends received being in excess of dividends paid in the amount of R105 million (2000 : R336 million). Dividends to the value of this amount may be distributed without attracting STC.

Reconciliation of taxation rate on profit on ordinary activities

	%	%
Standard rate of taxation	**30.0**	30.0
Adjusted for:		
Prior year under provision	**1.7**	6.9
Exempt income	**(7.0)**	(14.3)
Disallowed expenses	**2.9**	7.6
Deferred tax credits not utilised	**(9.5)**	(11.3)
Capital gains tax	**-**	-
Other	**(0.3)**	(8.2)
Effective tax rate	**17.8**	10.7

7 Change in accounting policy

During the year, the Company changed its accounting policy with respect to the treatment of employee benefits in order to conform with the revised statement of Generally Accepted Accounting Practice on employee benefits. The effect of this change is as follows:

R million	Year	Gross	Taxation	Net
Increase in net profit due to reversal of current year provision no longer required	2000	50	-	**50**
	2001	56	-	**56**
Restatement of opening retained profit in respect of prior year adjustment	2000	(69)	-	**(69)**
	2001	(119)	-	**(119)**

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

8 Investments

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

8.1 *Analysis of investments*

	Shareholder's fund	Policyholders' fund	Total	2000
South African	22 491	150 151	**172 642**	172 088
Equity investments	20 085	80 916	**101 001**	111 384
Nedcor	9 683	450	**10 133**	15 630
Mutual & Federal Insurance Company	1 955	6	**1 961**	1 896
Other - listed	7 661	67 474	**75 135**	82 784
- unlisted	786	12 986	**13 772**	11 074
Property investments	-	11 559	**11 559**	10 456
Interest bearing instruments	1 372	48 031	**49 403**	38 477
Deposits and money market securities	1 034	9 645	**10 679**	11 771
International	12 674	72 753	**85 427**	55 893
Equity investments	5 704	62 718	**68 422**	43 027
Interest bearing instruments	-	4 915	**4 915**	5 212
Old Mutual plc Medium Term Notes	5 992	240	**6 232**	3 939
Deposits and money market securities	978	4 880	**5 858**	3 715
	35 165	222 904	**258 069**	227 981
Total investments				
Equity investments	25 789	143 634	**169 423**	154 411
Property investments	-	11 559	**11 559**	10 456
Interest bearing instruments	7 364	53 186	**60 550**	47 628
Deposits and money market securities	2 012	14 525	**16 537**	15 486
	35 165	222 904	**258 069**	227 981

8.2 *Spread of investments in equities by sector*

	Shareholder's fund	Policyholders' fund	Total	2000
Mining producers and mining financial	2 559	21 504	**24 063**	15 231
Non-mining resources	1 129	6 688	**7 817**	3 761
Banks, insurers and financial services	13 226	22 950	**36 176**	45 978
Industrial	7 105	43 988	**51 093**	53 095
Units, shares and participation in equity based trusts	1 770	40 580	**42 350**	35 172
Other investments	-	7 550	**7 550**	2 010
Property	-	374	**374**	254
Preference share finance	-	-	**-**	(1 090)
	25 789	143 634	**169 423**	154 411

The Company's interest in its wholly-owned investment subsidiaries has been apportioned across the above sectors according to the nature of the underlying assets and is disclosed gross of preference share finance.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

9 Fixed assets

	2001	2000
Cost	**797**	808
Accumulated depreciation	**(517)**	(517)
Carrying amount	**280**	291
Carrying amount at beginning of year	**291**	370
Additions	**228**	40
Disposals	**(119)**	(14)
Depreciation	**(120)**	(105)
Carrying amount at end of year	**280**	291

10 Deferred taxation

	2001	2000
Deferred taxation asset/(liability) at beginning of year	**910**	(623)
Current (charge)/release	**(499)**	1 187
- utilisation of tax loss	**(10)**	34
- provisions	**(16)**	120
- foreign exchange gains	**39**	(49)
- unrealised capital gains	**(512)**	-
- transitional tax	**-**	1 082
Prior year overprovision	**(125)**	346
Deferred taxation asset at end of year	**286**	910
Comprising:		
- tax losses	**505**	575
- provisions	**293**	384
- capital gains tax	**(512)**	-
- foreign exchange gains	**-**	(49)
	286	910

11 Share capital and premium

	2001	2000
Authorised share capital		
10 000 000 ordinary shares of R1 each	**10**	10
10 (2000 : Nil) redeemable preference shares of R1 each	**-**	-
Issued share capital		
8 000 000 ordinary shares of R1 each	**8**	8
1 (2000 : Nil) redeemable preference share of R1	**-**	-
Share premium	**6 246**	6 246
	6 254	6 254

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

The preference shares are not redeemable within three years after issue. The preference shareholder has full voting rights.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

12 Policy liabilities

12.1 Movements in policy liabilities

R million	2001	2000
Balance at beginning of year	**192 245**	187 294
Income	**69 942**	46 108
Net premium income (note 12.7.2)	**31 875**	31 659
Investment income (note 12.2)	**37 883**	14 339
Other income	**184**	110
Outgo	**(37 589)**	(38 403)
Claims and policy benefits (note 12.3)	**(33 635)**	(34 596)
Sales remuneration	**(1 150)**	(1 163)
Selling and marketing expenses	**(698)**	(586)
Administration expenses	**(2 106)**	(2 058)
Other charges and transfers	**(252)**	(475)
Taxation (note 12.4)	**(675)**	(285)
Currency adjustment	**2 585**	725
Transfer of operating profits to income statement	**(3 033)**	(2 719)
Balance at end of year (note 12.5)	**223 223**	192 245

Included in policy liabilities is a reserve for deferred taxation on unrealised capital gains or losses of R527 million. R520 million of the reserve resulted in a decrease in policyholder investment income and the balance of R7 million reduced operating profits.

12.2 Investment income

R million	2001	2000
Dividends	**2 747**	2 728
- listed investments	**2 606**	2 677
- unlisted investments	**141**	51
Interest received	**6 368**	6 104
- listed investments	**4 929**	3 985
- unlisted investments	**1 439**	2 119
Net rental income	**457**	517
Net realised gains	**14 466**	5 437
- derivative instruments	**459**	(184)
- other	**14 007**	5 621
Unrealised gains/(losses)	**13 845**	(447)
- derivative instruments	**216**	708
- other	**13 629**	(1 155)
	37 883	14 339

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

12 Policy liabilities *(continued)*

Investment income from subsidiaries (included in policy liabilities)	2001	2000
Dividends received	142	51
- listed investments	1	-
- unlisted investments	141	51
Realised gains/(losses)	593	(141)
Unrealised gains	4 158	1 524
	4 893	1 434

12.3 *Claims and policy benefits*

Individual business	20 737	20 293
Death and disability benefits	2 191	2 017
Maturity benefits	9 141	8 378
Annuities	3 309	3 405
Surrenders	6 096	6 493
Group business	12 898	14 303
Death and disability benefits	1 110	1 002
Pension commutations, maturity and withdrawal benefits	1 457	2 050
Annuities	1 899	1 792
Surrenders	8 432	9 459
	33 635	34 596

12.4 *Taxation*

South African taxation	673	285
Normal income tax	357	26
Capital gains tax	(3)	-
Retirement fund tax	319	259
Foreign taxation	2	-
	675	285

12.5 *Composition of policy liabilities*

Market related liabilities	65 682	53 550
Individual	49 898	40 192
Group	15 784	13 358
Non-market related liabilities	157 541	138 695
Individual	78 436	71 361
Group	79 105	67 334
	223 223	192 245

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

12 Policy liabilities *(continued)*

12.6 *Capital adequacy and ratios*

	2001	2000
Statutory capital adequacy requirements (SCAR)	**12 697**	11 378
Shareholder's funds	**34 137**	34 588
Times SCAR covered by shareholder's funds	**2.7**	3.0
Shareholder's fund as a percentage of:		
Policy liabilities	**15%**	18%
Non-market related liabilities	**22%**	25%

12.7 *Segmental analysis*

	South African operations	* Overseas operations	**Total 2001**	2000
12.7.1 Long term - new business premium income				
Life business - direct				
Individual business	11 299	1 070	**12 369**	12 840
Single	9 813	1 070	**10 883**	11 447
Recurring	1 486	-	**1 486**	1 393
Group business	4 574	-	**4 574**	4 397
Single	4 332	-	**4 332**	3 895
Recurring	242	-	**242**	502
Total life business - direct	15 873	1 070	**16 943**	17 237
Other life licence business - single				
Individual business	771	-	**771**	1 142
Group business	2 707	-	**2 707**	1 982
Total life licence business	3 478	-	**3 478**	3 124
Other premiums	370	-	**370**	747
Total new business premium income	19 721	1 070	**20 791**	21 108
Indexation premiums	485	-	**485**	502
Total new business premium income including indexation premiums	20 206	1 070	**21 276**	21 610

The single individual new business premiums include flexi and conventional maturity transfers of R1 923 million (2000 : R1 577 million) and guaranteed capital fund transfers of R761 million (2000 : R1 473 million) to Investment Frontiers not previously reported in new business premium income.

Other life licence business comprises premiums received in respect of business sold by fellow subsidiaries of the Company using the life licence of the Company. The items included investment only business sold by Old Mutual Asset Managers (SA) (Pty) Ltd and retirement annuity business sold by Galaxy Portfolio Services (Pty) Ltd and Old Mutual Unit Trust Managers Ltd.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

12 Policy liabilities *(continued)*

12.7.2 Long term - premium income

	South African operations	* Overseas operations	**Total 2001**	2000
Individual business	19 904	1 130	**21 034**	21 977
Single	10 584	1 070	**11 654**	12 589
Recurring	9 320	60	**9 380**	9 388
Group business	10 841	-	**10 841**	9 682
Single	7 409	-	**7 409**	6 624
Recurring	3 432	-	**3 432**	3 058
Total premium income	30 745	1 130	**31 875**	31 659

12.7.3 Balance sheet (extracts)

	South African operations	* Overseas operations	**Total 2001**	2000
Investments	250 771	7 298	**258 069**	227 981
Equity investments	162 303	7 120	**169 423**	154 411
Property investments	11 559	-	**11 559**	10 456
Interest bearing instruments	60 550	-	**60 550**	47 628
Deposits and money market securities	16 359	178	**16 537**	15 486
Fixed assets	279	1	**280**	291
Deferred tax	286	-	**286**	910
Current assets	6 509	145	**6 654**	5 779
Total assets	257 845	7 444	**265 289**	234 961
Equity shareholder's fund	34 182	(45)	**34 137**	34 588
Policy liabilities	216 150	7 073	**223 223**	192 245
Provisions	1 050	-	**1 050**	1 042
Current liabilities	6 464	415	**6 879**	7 086
Total equity and liabilities	257 846	7 443	**265 289**	234 961

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

13 Provisions	Restructuring and claims	Post retirement benefits	Other	Total
Balance at 1 January 2001	232	669	141	**1 042**
Amount utilised	(66)	(16)	(7)	**(89)**
Notional interest		77		**77**
Charge	55	(10)	(25)	**20**
Balance at 31 December 2001	221	720	109	**1 050**

Restructuring and claims

The company has recognised provisions totalling R221 million in relation to restructuring costs and potential claims arising in the ordinary course of business.

Post retirement benefits

The provision for post-retirement benefits represents the present value of accrued costs relating to the employer's medical aid contributions and mortgage bond subsidy in respect of current pensioners. Refer to note 16.

Other provisions

Other provisions relate mainly to expenditure in connection with the discharge of responsibilities arising from undertakings made at the time of demutualisation in May 1999.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

R million

14 Cash generated by operations

	2001	2000
Earnings attributable to equity shareholder's fund per income statement	**422**	1 814
Transfer to policyholder's funds	**17 133**	5 398
Adjustments for:		
Depreciation	**120**	105
Foreign currency translation loss	**(14)**	-
(Profit)/Loss on sale of fixed assets	**(1)**	14
Realised gains attributable to shareholder	**(160)**	(742)
Realised gains attributable to policyholders	**(14 466)**	(5 437)
Taxation	**1 261**	958
Dividends	**3 929**	2 761
	8 224	4 871
Working capital changes:	**18**	(651)
Net outstanding premiums and other debtors	**(426)**	1 248
Outstanding claims, policyholders' benefits and other creditors	**552**	(1 859)
Fixed assets	**(108)**	(40)
Cash generated by operations	**8 242**	4 220

15 Dividends paid

	2001	2000
Dividends payable at beginning of year	**(1 200)**	(946)
Dividends as per income statement	**(3 929)**	(2 761)
Dividends payable at end of year	**984**	1 200
	(4 145)	(2 507)

16 Employee benefits

Defined benefit and defined contribution plans registered in terms, of the relevant retirement fund legislation, provide retirement benefits for the Company's permanent employees. In terms of the Pension Funds Act, 1956 as amended, the defined benefit fund is actuarially valued every three years. The most recent valuation done in July 2000 confirmed that the fund was in a sound financial position.

16.1 Post-retirements benefits other than pensions

The company subsidises medical aid contributions and provides mortgage bond benefits to qualifying employees beyond the date of retirement. A liability has been raised for the expected cost of these benefits in accordance with the advice of qualified actuaries and has been charged to the income statement accordingly.

R million

16.2 Retirement benefit obligations	**2001** Defined benefit pension plan	**2001** Defined contribution pension plan	2000 Defined benefit pension plan	2000 Defined contribution pension plan
Present value of obligations	**(86)**	**(3 629)**	(71)	(3 090)
Fair value of plan assets	**148**	**4 499**	130	3 942
Net asset not recognised in the balance sheet	**62**	**870**	59	852

The employer surplus on the defined benefit and contribution schemes, has not been recognised on the balance sheet of the Company due to new pension fund legislation that came into effect in December 2001. The effect of the new legislation is that the Company will only be able to recognise the asset once the apportionment of surplus to the Company has been approved by the Registrar of Pension Funds.

16.3 Post-retirement benefit obligations	**Medical aid benefits**	**Mortgage bond subsidy**	Medical aid benefits	Mortgage bond subsidy
Present value of obligations	**701**	**19**	651	18
Unrecognised actuarial losses	**-**	**-**	-	-
Unrecognised past service cost	**-**	**-**	-	-
Net liability in balance sheet	**701**	**19**	651	18

16.4 Principal actuarial assumptions at the balance sheet date

Retirement benefit obligations	**Defined benefit pension plan**	**Defined contribution pension plan**	Defined benefit pension plan	Defined contribution pension plan
Discount rate	**12.0%**	**12.0%**	14.0%	14.0%
Expected rate of return on plan assets	**14.0%**	**14.0%**	15.0%	15.0%
Expected rate of salary increases	**8.6%**	**8.6%**	14.0%	14.0%

R million

16 Employee benefits *(continued)*

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

Post-retirement benefit obligations	**Medical aid benefits**	**Mortgage bond subsidy**	Medical aid benefits	Mortgage bond subsidy
Discount rate	**12.0%**	**12.0%**	12.0%	12.0%
Expected rate of salary increases	**8.6%**		9.2%	
Annual increase in healthcare costs	**13.0%**	**13.0%**	13.0%	13.0%

16.5 *Amounts recognised in the income statement*

	2001		2000	
Retirement benefit obligations	**Defined benefit pension plan**	**Defined contribution pension plan**	Defined benefit pension plan	Defined contribution pension plan
Current service cost	**4**	**158**	4	136
Interest cost	**9**	**-**	10	-
Expected return on plan assets	**(16)**	**-**	(20)	-
Net actuarial gain recognised in year	**-**	**-**	4	-
Contribution holiday	**3**	**(158)**	2	(136)
	-	**-**	-	-

Post retirement benefits	**Medical aid benefits**	**Mortgage bond subsidy**	Medical aid benefits	Mortgage bond subsidy
Current service cost	**40**	**-**	29	-
Interest cost	**76**	**1**	44	5
Net actuarial (gain)/loss recognised in year	**(52)**	**2**	(27)	(31)
	64	**3**	46	(26)

17 Financial instruments and risk management

Effective risk management is integral to the Company's objective of consistently adding value to the business. The focus of risk management is on identifying, assessing, managing and monitoring risk. Exposure to market risk and credit risk arises in the normal course of the Company's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. The Company also uses derivatives in its portfolio management to hedge against market movements in the values of investment assets and as a means of effecting a change in the asset mix of its portfolios.

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

17 Financial instruments and risk management *(continued)*

17.1 Currency risk management

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

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

17.2 Interest rate risk management

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

17.3 Nominal value of derivative contracts

Non-trading contracts	*Behavioural analysis*				
R million	0 - 3 years	3 - 7 years	Over 7 years	Total notional amounts	Total fair value of amounts
2001					
Equity products					
Over the counter options	18 231	8 043	-	26 274	14 609
Over the counter options written	(17 600)	(6 533)	-	(24 133)	(9 160)
Futures	(163)	-	-	(163)	-
Listed options	3	-	-	3	1
	471	1 510	-	1 981	5 450
2000					
Equity products					
Over the counter options	6 592	11 447	-	18 039	11 408
Over the counter options written	(5 085)	(9 047)	-	(14 132)	(6 228)
Futures	(628)	-	-	(628)	-
Options on futures	(26)	-	-	(26)	-
International futures	(1 992)	-	-	(1 992)	-
Warrants	3	-	-	3	1
	(1 136)	2 400	-	1 264	5 181

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

17 Financial instruments and risk management *(continued)*

17.4 *Counterparty analysis*

	2001	2000
Notional principal of over-the-counter derivatives		
Financial institutions	2 141	3 907
Safex	(160)	(2 643)
	1 981	1 264

17.5 *Maturity profile of financial instruments*

The maturity profile of the financial instruments is summarised as follows:

R million	0 - 3 years	3 - 7 years	Over 7 years	**Total**
2001				
Financial assets				
Cash and cash equivalents	2 012	-	-	**2 012**
Investments	6 801	-	26 352	**33 153**
Trade and other receivables	2 071	-	-	**2 071**
Financial liabilities				
Trade and other payables	(3 227)	-	-	**(3 227)**
2000				
Financial assets				
Cash and cash equivalents	2 603	-	-	2 603
Investments	3 814	-	29 437	33 251
Trade and other receivables	3 327			3 327
Financial liabilities				
Trade and other payables	(4 713)	-	-	(4 713)

17.6 *Credit risk*

Credit risk represents the risk that any counterparty may not be able to pay its obligations to the Company when due. Credit risk is monitored by credit committees covering life and third party funds through a process of establishing limits for exposure and monitoring that exposure.

17.7 *Liquidity risk*

The Company has significant liquid resources and, through its subsidiary companies, has access to financing facilities.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2001

17 Financial instruments and risk management *(continued)*

17.8 Capital adequacy risk

Statutory capital adequacy requirements were covered approximately three times (2000 - three times).

17.9 Equity risk

Equity investments are made on behalf of policyholders and shareholders. Equities are reflected at market values, which are susceptible to fluctuations in value. The stock selection and investment analysis process is supported by a well-developed research function.

18 Scrip lending

The Company conducts scrip lending activities in respect of listed equities and bonds.

At 31 December 2001, 2% (2000 : 1%) of the market value of listed equities held and 8% (2000 : 0.3%) of the value of bonds held had been lent to third parties. Collateral security in the form of cash and bonds as well as guarantees had been received from third parties.

19 Related parties

Holding Company

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

Subsidiaries

The principal subsidiaries of the Company are identified in note 22.

Directors

The directors are listed in the Directors' report.

Transactions

All transactions are conducted at arms length and are not considered to have a material effect on the financial position or results of the Company.

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

20 Contingent liabilities

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

21 Share incentive scheme

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

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

22 Interest in principal subsidiaries

	Number of issued ordinary shares	% interest	Carrying value of shares	Due by/(to) subsidiaries
2001			R million	R million
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Ltd	242 236 124	51%	1 961	(3)
Unlisted				
Ashtree Investments Ltd	1 343 831	100%	451	(451)
Barprop Ltd	46 599 200	100%	466	(219)
Capital Securities Ltd	3 943 158	100%	1 373	(1 373)
Millstream Ltd	115 000 000	100%	1 247	-
Old Mutual Fund Holdings (Bermuda) Ltd	12 000	100%	10 796	-
Old Mutual Holdings (Bahamas) Ltd	502 783 750	100%	6 098	-
Old Mutual Technology Holdings Ltd	10 000	100%	(135)	356
Old Mutual Bermuda Holdings (SA) Ltd	486 130	100%	68	(68)
Rodina Investments Ltd	100 000	100%	2 492	(402)
2000				
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Ltd	241 040 924	49%	1 896	(5)
Unlisted				
Ashtree Investments Ltd	1 500 000	100%	6 805	99
Barprop Ltd	46 599 200	100%	466	-
Capital Securities Ltd	4 500 000	100%	5 667	2 166
Millstream Ltd	115 000 000	100%	822	-
Old Mutual Technology Holdings Ltd	10 000	100%	76	(42)
Old Mutual Bermuda Holdings (SA) Ltd	500 000	100%	9 318	256
Rodina Investments Ltd	100 000	100%	1 542	(11)