Old Mutual Life Assurance Company (South Africa) Limited

Annual Financial Statements

31 December 2012

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Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2012

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	R F Foster
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 2012

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

Statement of directors' responsibilities

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

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

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act of South Africa. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

The annual financial statements for the year ended 31 December 2012 set out on pages 4 to 81 were approved by the board of directors on 20 February 2013 and are signed on its behalf by:

P B Hanratty
Chairman

R T Mupita
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 2012 and that all such returns are true, correct and up to date.

R F Foster
Company Secretary
20 February 2013

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the company's annual financial statements for the year ended 31 December 2012.

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.

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 14 740 million (2011: R 6 808 million restated), and R 12 747 million (2011: R 5 923 million restated) after tax.

2. Consolidated annual financial statements

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

In terms of IFRS, the company is required to produce consolidated financial statements as its subordinated debt instrument is traded in a public market. Consolidated financial statements prepared and presented in accordance with IFRS are expected to be issued in February 2013.

In these company-only financial statements the company's investments in its subsidiary and associate companies are accounted for as financial assets at fair value and dividends are recognised when receivable.

Details of the company's interest in its principal subsidiaries and associates are set out in note 20.

3. Holding company

The company's holding company is Old Mutual Life Holdings (South Africa) 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 or issued ordinary or preference share capital of the company.

6. Dividends

Ordinary shares

Dividends on ordinary shares amounting to R 1 355 million (2011: R 1 495 million) were declared during the year.

Preference shares

Dividends on preference shares amounting to R 8 424 million (2011: R nil) 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 557 974.

8. Directors

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

Name	Nationality	Changes
P C Baloyi	South African	
A S Birrell	South African	Resigned 29 February 2012
P G de Beyer	South African	Appointed 1 March 2012
K D Dlamini	South African	Resigned 31 January 2012
P W Feeny	British	Appointed 4 May 2012 and resigned 31 July 2012
I A Goldin	South African	
P B Hanratty	Irish	
C J Hood	British	Appointed 1 August 2012
A A Maule	South African	
N T Moholi	South African	Appointed 31 October 2012
C W N Molope	South African	Appointed 31 October 2012
C E Maynard	South African	
R T Mupita	South African	
K Murray	British	
N M C Nyembezi-Heita	South African	Resigned 9 March 2012
B M Rapiya	South African	
J V F Roberts	British	
F Robertson	South African	
G T Serobe	South African	
I B Skosana	South African	Resigned 4 May 2012
A H Trikamjee	South African	
P M G Truyens	Dutch	
G S van Niekerk	South African	

The directors currently holding office are:

Non-executive directors

P B Hanratty (Chairman) r, s
C J Hood s, rc
J V F Roberts o
F Robertson e
G T Serobe c

Executive directors

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

Independent directors

P C Baloyi c, ca, rc, s
P G de Beyer a, ca, r
I A Goldin ca, e, s, r
A A Maule a, r
C E Maynard a, r, ca, s
N T Moholi c, r
C W N Molope a
A H Trikamjee c, e, rc
P M G Truyens a, ca, rc
G S van Niekerk a, c, ca

Directors' report

a Member of the Audit Committee
r Member of the Remuneration Committee
c Member of the Corporate Governance and Nomination Committee
e Member of the Social, Ethics and Environment Committee
ca Member of the Customer Affairs Committee
rc Member of the Risk Committee
s Member of the Strategic Investment Committee
o Member of the Old Mutual plc board of directors
f Member of the Financial Assistance Committee

In terms of the articles of association, I A Goldin, C E Maynard, J V F Roberts, F Robertson, A H Trikamjee and G T Serobe are due to retire at the annual general meeting. C J Hood, C W N Molope, N T Moholi and P G de Beyer having been appointed during the year, also retire at the annual general meeting. All directors have indicated that they would seek re-election at the annual general meeting, and all being eligible, and having been recommended for re-election by the board of directors, offer themselves for re-election.

9. Company secretary

Mr R F Foster is the company secretary.

Business address

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

Subsequent to the end of the financial year the Company initiated a process to transfer around R12 billion of the company's directly held investment property into a newly established special purpose vehicle. Transfers are expected to be completed during 2013.

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 Emerging Markets Group publishes a separate annual sustainability report which covers operational activities of its business with respect to its material sustainability issues.

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

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2012

Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2012, 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 note 41 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
	2012 Published	**2012 Statutory**	**2011 Restated Published**	**2011 Restated Statutory**
Total value of assets	500 133	486 781	450 486	438 098
Actuarial value of policy liabilities	(403 827)	(388 170)	(360 533)	(346 315)
Unsecured subordinated callable notes	(3 000)	(3 000)	(3 000)	(3 000)
Provisions and other liabilities	(32 015)	(31 903)	(28 630)	(28 497)
	(438 842)	(423 073)	(392 163)	(377 812)
Excess of assets over liabilities	61 291	63 708	58 323	60 286
Less: Inadmissible for statutory solvency purposes		(479)		(466)
Less: Limits on group undertakings		(16 387)		(12 863)
Add: Unsecured subordinated callable notes		3 000		3 000
Excess assets (statutory basis)		49 842		49 957
Statutory capital adequacy requirement (CAR)		**12 675**		**12 651**
Ratio of excess assets to CAR		3.9		3.9

Notes:

1 Certain of the 2012 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 (2011: 12.5% local equities and 87.5% local cash).

4 2011 figures have been restated to reflect changes to the accounting standards (refer to note 1.1), and to reflect all statutory liabilities net of reinsurance.

Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2012, 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
20 February 2013

Independent auditors' report

To the shareholders 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, which comprise the statement of financial position at 31 December 2012, 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 80.

Directors' Responsibility for the Annual 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) Limited at 31 December 2012, 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 2012, we have read the Directors' Report, the Audit 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 Auditors
Per: Gerdus Dixon
Chartered Accountant (SA)
Registered Auditor
23 April 2013

1 Mediterranean Street
Foreshore
Cape Town
8000

Audit committee report

The Audit 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. The committee works closely with the Risk Committee.

Terms of reference

The Audit 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 Mr P G de Beyer (Chairman), Ms A A Maule, Ms C E Maynard, Ms C W N Molope, Mr P G M Truyens and Mr G S van Niekerk.

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 Committee has:

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit Committee, was independent of the company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the 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 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 2012, 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 2012 of the company and the results of operations and cash flows for the year then ended.

P G de Beyer
Chairman of the Audit Committee
20 February 2013

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2012

Income statement

	Notes	2012 R m	2011 Restated R m
Revenue			
Gross earned premiums	3	30 627	26 367
Outward reinsurance premiums	16	(811)	(819)
Net earned premiums		**29 816**	**25 548**
Investment income (net of investment losses)	5	72 051	29 146
Fee and commission income	6	2 890	2 586
Other income		142	60
Total revenue		**104 899**	**57 340**
Expenses			
Claims and benefits (including change in insurance contract provisions)		(58 282)	(30 547)
Reinsurance recoveries		1 047	754
Net claims and benefits incurred		**(57 235)**	**(29 793)**
Change in investment contract liabilities		(20 930)	(9 777)
Interest expense	7	(842)	(900)
Commission and other acquisition costs	8	(2 912)	(2 162)
Operating and administration expenses	9 &10	(8 240)	(7 900)
Total expenses		**(90 159)**	**(50 532)**
Profit before tax		**14 740**	**6 808**
Income tax expense	11	(1 993)	(885)
Profit after tax for the financial year		**12 747**	**5 923**

Statement of comprehensive income

	Notes	2012 R m	2011 Restated R m
Profit after tax for the financial year		**12 747**	**5 923**
Other comprehensive income			
Property revaluation		1	69
Shadow accounting		(1)	(68)
Other comprehensive income for the year net of taxation		**-**	**1**
Total comprehensive income		**12 747**	**5 924**

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2012

Statement of financial position

	Notes	2012 R m	2011 Restated R m	2010 Restated R m
Assets				
Intangible assets	12	79	79	97
Investment property	13	14 775	13 969	13 998
Property and equipment	14	3 334	3 410	3 635
Deferred tax assets	15	974	847	741
Reinsurance contracts	16	889	509	391
Deferred acquisition costs	17	1 064	1 105	1 162
Loans and advances	18	292	332	438
Investments and securities	19	441 951	403 316	388 595
Derivative assets	21	8 331	4 057	4 504
Amounts due by group companies	22	6 291	5 952	7 390
Other assets	23	7 575	6 786	6 728
Cash and cash equivalents	24	14 578	10 124	15 240
Total assets		**500 133**	**450 486**	**442 919**
Liabilities				
Insurance contract liabilities	25	151 304	138 806	142 887
Investment contract liabilities	25	254 514	223 933	214 131
Borrowed funds	26	3 000	3 000	3 000
Post employment benefits	27	162	125	100
Share-based payment liabilities	29	815	904	553
Deferred revenue on investment contracts	31	112	135	161
Deferred tax liabilities	15	958	1 336	1 841
Derivative liabilities	21	5 260	2 730	1 953
Amounts due to group companies	22	897	5 800	5 405
Provisions	30	1 095	1 037	982
Current tax payable		2 576	1 438	964
Other liabilities	32	18 149	12 919	17 048
Total liabilities		**438 842**	**392 163**	**389 025**
Net assets		**61 291**	**58 323**	**53 894**
Shareholders' equity				
Share capital and premium	33	6 254	6 254	6 254
Property revaluation reserve		99	99	98
Share-based payment reserve		481	481	481
Retained earnings		54 457	51 489	47 061
Total equity		**61 291**	**58 323**	**53 894**

Statement of changes in equity

	Share capital	Share capital and premium	Property revaluation reserve	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 2011	**8**	**6 254**	**98**	**481**	**579**	**47 061**	**53 894**
Profit after tax	-	-	-	-	-	5 923	5 923
Other comprehensive income	-	-	1	-	1	-	1
Dividends	-	-	-	-	-	(1 495)	(1 495)
Total changes	-	-	1	-	1	4 428	4 429
Restated balance at 31 December 2011	**8**	**6 254**	**99**	**481**	**580**	**51 489**	**58 323**
Profit after tax	-	-	-	-	-	12 747	12 747
Other comprehensive income	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(9 779)	(9 779)
Total changes	-	-	-	-	-	2 968	2 968
Balance at 31 December 2012	**8**	**6 254**	**99**	**481**	**580**	**54 457**	**61 291**

Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2012

Statement of cash flows

	Notes	2012 R m	2011 Restated R m
Cash flows from operating activities			
Cash used in operations	34	(12 827)	(15 915)
Interest received		10 807	11 695
Dividends received		10 951	5 197
Interest expense		(842)	(900)
Tax paid	35	(1 360)	(1 022)
Net cash from / (utilised in) operating activities		**6 729**	**(945)**
Cash flows from investing activities			
Acquisition of property and equipment	14	(175)	(110)
Proceeds from disposal of property and equipment	14	22	39
Acquisition of investment property	13	(673)	(566)
Proceeds from disposal of investment property	13	674	34
Acquisition of intangible assets	12	(28)	(14)
Net disposal / (acquisition) of financial instruments		7 684	(2 059)
Net cash from investing activities		**7 504**	**(2 676)**
Cash flows from financing activities			
Dividends paid to company's shareholders	36	(9 779)	(1 495)
Net cash from financing activities		**(9 779)**	**(1 495)**
Net increase / (decrease) in cash and cash equivalents		**4 454**	**(5 116)**
Cash and cash equivalents at the beginning of the year		10 124	15 240
Total cash and cash equivalents at end of the year	24	**14 578**	**10 124**

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 9 (2010) Financial Instruments, which has been adopted earlier than the mandatory application date, and the amendment to IAS12 Income Taxes in respect of the tax rate applied in determination of taxes accrued in respect of investment property, which is mandatory for accounting periods commencing on or after 1 January 2012.

IFRS 9 Financial Instruments

The company has chosen to adopt the provisions of IFRS 9 in these financial statements. As a result, the categorisation of certain financial assets has been changed. Those assets previously categorised as available-for-sale under IAS 39, as well as a particular asset previously categorised as loans and receivables, have been categorised as at fair value through profit or loss. As a result, the available-for-sale reserve in equity has been reclassified to retained earnings and the effects of the changes in fair values and other items previously affecting other comprehensive income have been reclassified to the income statement. Additionally, certain loans to group entities, previously categorised as at fair value through profit or loss, have been re-categorised as loans and receivables. Accordingly previously accounted for fair valuation adjustments have been reversed. To the extent necessary, any tax effects on the changes to other comprehensive income have also been amended.

IAS 12 Deferred tax: Recovery of Underlying Assets

The company has adopted the requirements of the amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets. The deferred tax liability on investment property has been restated to reflect the rate of tax applicable based on sale rather than recovery through income, leading to a reduction in the value of the liability. The reduction resulted in an equal and opposite increase in the value of insurance and investment contract liabilities. The change necessitated a reclassification of certain 2011 income statement line items and associated notes. There were no impacts on the net assets of the company as a result of the introduction of the amendment.

Accounting policies

1.1. Basis of preparation (continued)

A summary of the above reclassifications on the 2011 income statement and statement of financial position is set out in the following table.

	Reported R m	Adjustment R m	Restated R m
Income statement and statement of comprehensive income			
Statement of comprehensive income (available-for-sale investments)	2 723	(2 723)	-
Income statement (investment income)	26 899	2 247	29 146
Statement of comprehensive income (taxation effects)	390	(390)	-
Income statement (income tax expense)	(1 372)	487	(885)
Income statement (claims and benefits)	(30 597)	50	(30 547)
Income statement (change in investment contract liabilities)	(9 630)	(147)	(9 777)
Statement of financial position			
Available-for-sale reserve	14 280	(14 280)	-
Retained earnings	37 907	13 582	51 489
Deferred tax liability	1 697	(361)	1 336
Insurance contract liabilities	138 712	94	138 806
Investment contract liabilities	223 666	267	223 933
Investment and securities	403 902	(586)	403 316
Other assets	6 898	(112)	6 786

The accounting policies for financial instruments 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.

Accounting policies

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.

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.

1.3 Insurance and investment contracts (continued)

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 the notes 40 and 41.

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 annually. 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.

Accounting policies

1.4 Intangible assets (continued)

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 yet in use or more frequently when an indication of impairment arises during the reporting year.

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

Research costs are expensed as incurred.

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.

Accounting policies

1.6 Property and equipment (continued)

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.

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

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

Deferred taxation is provided using the balance sheet method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the 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. 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.

1.7 Tax (continued)

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.

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.

1.9 Financial instruments (continued)

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.

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 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 interest income. Dividends received are included in dividend income.

Financial assets that the company has elected to designate at fair value through profit or loss are those where this designation either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis or those that are managed, evaluated and reported on using a fair value basis in accordance with a documented risk management and/or investment strategy.

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.

1.9 Financial instruments (continued)

Interest income and expense

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

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

Dividend income

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

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

Offsetting

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

Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

Lending of securities

The equities or bonds on loan 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.

Accounting policies

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

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

Accounting policies

1.11 Employee benefits (continued)

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.

Actuarial gains and losses

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

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

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

1.12 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.

1.13 Share-based payment (continued)

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 customers in the middle to high net worth bracket. 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 and loss, assets and liabilities for each segment as regularly provided to management and the board of directors. There are no differences between the measurement of the assets and liabilities reflected in the primary financial statements and that reported for the segments.

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.

1.16 Impairment of non-financial assets (continued)

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 and share-based payment liabilities.

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.

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.

Notes to the annual financial statements

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

- IFRS 12 Disclosure of Interests in Other Entities (effective from 1 January 2013) - this standard combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

  The adoption of the new standard will increase the level of disclosure provided for the company's interests in subsidiaries, joint arrangements, associates and structured entities.

- IFRS 13 Fair value Measurement (effective January 2013) - this standard introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value as an exit price, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements.

  IFRS 13 will be adopted for the first time for the year ending 31 December 2013. The impact on the financial statements has not yet been estimated.

- IAS 19 Employee Benefits (effective 1 January 2013) - the amendment requires that actuarial gains and losses are recognised immediately in other comprehensive income. This change will remove the 'corridor' method for the recognition of actuarial gains and losses as currently allowed under IAS 19. The return on plan assets recognised in profit or loss will in future be calculated based on the rate used to discount the defined benefit obligation.

  IAS 19 will be adopted for the first time for the year ending 31 December 2013 and will be applied retrospectively. The 2012 Statement of financial position includes unrecognised actuarial gains of R497 million.

Notes to the annual financial statements

3. Segment information

Income statement	Retail	Corporate	2012 R m 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			91 013
Total assets			**500 133**
Insurance contract liabilities	(98 056)	(53 248)	(151 304)
Investment contracts with discretionary participation features	(16 170)	(79 236)	(95 406)
Investment contracts	(126 390)	(32 718)	(159 108)
Other liabilities	(1 252)	(2 050)	(3 302)
Segment liabilities	(241 868)	(167 252)	(409 120)
Shareholder liabilities			(29 722)
Total liabilities			**438 842**

Notes to the annual financial statements

3. Segment information (continued)

Income statement	2011 Restated R m Retail	Corporate	Total
Segment revenue			
Gross earned premiums	16 216	10 151	26 367
Outward reinsurance	(678)	(141)	(819)
Net earned premiums	**15 538**	**10 010**	**25 548**
Investment income (net of investment losses)	11 854	12 122	23 976
Fee and commission income	2 206	380	2 586
Segment expenses			
Claims and benefits (including change in insurance contract provisions)	(14 556)	(15 991)	(30 547)
Reinsurance recoveries	543	211	754
Net claims and benefits incurred	**(14 013)**	**(15 780)**	**(29 793)**
Change in investment contract liabilities	(5 577)	(4 200)	(9 777)
Commission and other acquisition costs	(2 118)	(44)	(2 162)
Operating and administration expenses	(5 296)	(1 755)	(7 051)
Segment result	**2 594**	**733**	**3 327**
Shareholder income			
Investment income			5 170
Other income			60
Shareholder expenses			
Finance costs			(900)
Operating and administration expenses			(849)
Profit before tax			**6 808**
Income tax expense			(885)
Profit after tax for the financial year			**5 923**

Statement of financial position	Retail	Corporate	Total
Segment assets	214 074	156 679	370 753
Shareholder assets			79 733
Total assets			**450 486**
Insurance contract liabilities	(92 608)	(46 198)	(138 806)
Investment contracts with discretionary participation features	(13 711)	(70 496)	(84 207)
Investment contract liabilities	(101 548)	(38 178)	(139 726)
Other liabilities	(6 207)	(1 807)	(8 014)
Segment liabilities	(214 074)	(156 679)	(370 753)
Shareholder liabilities			(21 410)
Total liabilities			**(392 163)**

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 non-financial assets and liabilities category.

				2012 R m
	Fair value through profit or loss	**Amortised cost**	**Non-financial assets**	**Total**
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
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**	**21 115**	**500 133**

				2011 Restated R m
	Fair value through profit or loss	**Amortised cost**	**Non-financial assets**	**Total**
Intangible assets	-	-	79	79
Investment property	-	-	13 969	13 969
Property and equipment	-	-	3 410	3 410
Deferred tax assets	-	-	847	847
Reinsurance contracts	-	-	509	509
Deferred acquisition costs	-	-	1 105	1 105
Loans and advances	-	332	-	332
Investments and securities	402 434	882	-	403 316
Derivative assets	4 057	-	-	4 057
Amounts due by group companies	-	5 952	-	5 952
Other assets	-	6 786	-	6 786
Cash and cash equivalents	-	10 124	-	10 124
	406 491	**24 076**	**19 919**	**450 486**

4. Financial assets and liabilities (continued)

2012 R m

	Fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Insurance contract liabilities	-	-	151 304	151 304
Investment contract liabilities	159 108	-	95 406	254 514
Borrowed funds	-	3 000	-	3 000
Post employment benefits	-	-	162	162
Share-based payment liabilities	-	-	815	815
Deferred revenue	-	-	112	112
Deferred tax liabilities	-	-	958	958
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**	**253 461**	**438 842**

2011 Restated R m

	Fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Insurance contract liabilities	-	-	138 806	138 806
Investment contract liabilities	139 726	-	84 207	223 933
Borrowed funds	-	3 000	-	3 000
Post employment benefits	-	-	125	125
Share-based payment liabilities	-	-	904	904
Deferred revenue	-	-	135	135
Deferred tax liabilities	-	-	1 336	1 336
Derivative liabilities	2 730	-	-	2 730
Amounts due to group companies	-	5 800	-	5 800
Provisions	-	-	1 037	1 037
Current tax payable	-	-	1 438	1 438
Other liabilities	-	12 046	873	12 919
	142 456	**20 846**	**228 861**	**392 163**

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.

Notes to the annual financial statements

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

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

Investments and securities

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

Investment contracts

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

Borrowed funds

The 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.

Notes to the annual financial statements

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

				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**

				2011 Restated R m
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Derivative assets	-	4 057	-	4 057
Investment and securities	176 034	216 090	10 310	402 434
	176 034	**220 147**	**10 310**	**406 491**

			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**	**164 367**

			2011 Restated R m
	Level 1	**Level 2**	**Total**
Financial liabilities at fair value			
Derivative liabilities	67	2 663	2 730
Investment contracts	-	139 726	139 726
	67	**142 389**	**142 456**

Notes to the annual financial statements

4. Financial assets and liabilities (continued)

Movement in level 3 assets

	2012 Rm	2011 Rm
At beginning of the year	10 310	14 658
Gains/ losses recognised in income statement	1 870	153
Purchases and issues	1 247	390
Sales and settlements	(346)	(4 529)
Transfers out of level 3 to other categories	-	(362)
At end of the year	**13 081**	**10 310**

For designated level 3 assets held at the end of the year, net gains of R 1 779 million were recognised in the income statement (2011: net losses 544 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

	2012 R m		2011 Restated R m	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Level 3 financial assets				
Investments and securities	1 352	(1 357)	1 731	(1 324)

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%).

Notes to the annual financial statements

5. Investment income

	2012 R m	2011 Restated R m
Interest and similar income		
Loans and advances		
Policyholder loans	25	32
Investment and securities		
Government and government-guaranteed securities	3 445	3 472
Other debt securities, preference shares and debentures	4 253	3 721
Pooled investments	485	1 427
Short-term funds and securities treated as investments	887	1 208
Other	491	624
Cash and cash equivalents	690	591
Collateral held	531	620
	10 807	**11 695**
Dividend income		
Investment and securities		
Equity securities	9 441	4 223
Pooled investments	1 510	974
	10 951	**5 197**
Net rental income from investment property	**1 533**	**1 530**
Fair value gains/(losses)		
Investment property	741	(778)
Investments and securities *	46 922	11 749
Derivative instruments	1 132	(247)
	48 795	**10 724**
Foreign currency losses	(35)	-
Total investment income recognised in profit and loss	**72 051**	**29 146**

* Included in gains recognised in income are transaction costs amounting to R 82 million (2011: R 106 million).

6. Fee and commission income

	2012 R m	2011 R m
Investment contracts		
Investment management fees	2 010	1 847
Change in deferred revenue	23	29
Commission income	857	710
	2 890	**2 586**

Notes to the annual financial statements

7. Interest expense

	2012 R m	2011 R m
Borrowed funds		
Subordinated debt	270	268
Collateral held	531	620
Other interest expense	41	12
	842	**900**

8. Commissions and other acquisition costs

	2012 R m	2011 R m
Commission expenses	2 138	1 421
Other acquisition costs	733	684
Change in deferred acquisition costs	41	57
	2 912	**2 162**

9. Operating and administration expenses

	2012 R m	2011 R m
Staff costs (excluding directors' emoluments)		
Wages and salaries	2 821	2 506
Social security costs	16	15
Retirement obligations		
Defined contribution plans	258	230
Defined benefit plans	34	29
Bonus and incentives	764	627
Share-based payments	556	534
Other	182	200
Less: Staff costs included in other acquisition costs	(298)	(334)
	4 333	**3 807**
Amortisation on intangible assets	20	32
Asset management expenses	810	751
Depreciation of property and equipment	163	144
Technical and professional fees	988	547

10. Auditors' remuneration

	2012 R m	2011 R m
Statutory audit services - current year	19	19
Statutory audit services - prior year underprovision	1	3
Other non-audit related services	-	2
	20	**24**

11. Income tax expense

Major components of the tax expense

	2012 R m	2011 Restated R m
Current tax		
Income tax	1 240	1 103
Capital gains tax	1 280	529
Secondary tax on companies (STC)	66	-
Prior year adjustments	(88)	(136)
	2 498	**1 496**
Deferred tax		
Originating and reversing temporary differences	(580)	(221)
Changes in tax rates	75	-
Arising from prior period adjustments	-	(390)
	(505)	**(611)**
Total current tax	2 498	1 496
Total deferred tax	(505)	(611)
Total tax expense	**1 993**	**885**

Reconciliation of tax rate on profit before tax

	2012 %	2011 Restated %
Standard rate of tax	28.0	28.0
Prior year adjustments	(0.5)	(2.5)
Exempt income	(23.4)	(7.9)
Disallowed expenses	0.9	1.0
Capital gains tax - rates	0.9	(0.3)
Change in CGT tax rates	0.5	-
Policyholder tax	4.1	6.8
Other	3.0	(12.1)
Effective tax rate	**13.5**	**13.0**

	2012 R m	2011 Restated R m
Shareholder taxation	1 132	530
Policyholder taxation	861	355
Total tax expense	**1 993**	**885**

Notes to the annual financial statements

12. Intangible assets

Development expenditure

	2012 R m	2011 R m
Carrying amount at beginning of the year	79	97
Additions	28	14
Amortisation	(20)	(32)
Impairments	(8)	-
Carrying amount at end of the year	**79**	**79**
Cost	446	418
Accumulated amortisation and impairment losses	(367)	(339)
Carrying amount at end of the year	**79**	**79**

13. Investment property

	2012 R m	2011 R m
Carrying amount at beginning of the year	13 969	13 998
Additions	673	566
Disposals	(674)	(34)
Revaluation	741	(778)
Transfers from property and equipment	66	217
Carrying amount at end of the year	**14 775**	**13 969**

The entire carrying value relates to freehold property.

	2012 R m	2011 R m
Rental income from investment property	1 690	1 692
Direct operating expenses	(157)	(162)
	1 533	**1 530**

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 a value of R 13 214 million.

Notes to the annual financial statements

14. Property and equipment

	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**

	2011 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 425	210	3 635
Additions	-	110	110
Revaluation	65	-	65
Disposals	-	(39)	(39)
Depreciation	(65)	(79)	(144)
Transfer to investment property	(217)	-	(217)
Carrying amount at end of the year	**3 208**	**202**	**3 410**
Cost or valuation	3 208	1 055	4 263
Accumulated depreciation	-	(853)	(853)
Carrying amount at end of the year	**3 208**	**202**	**3 410**

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

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R1 861 million (2011: R1 870 million).

15. Deferred tax

Deferred tax asset

	2012 R m	2011 Restated R m
Investment contracts	940	762
Income tax losses	34	41
STC credits	-	44
	974	**847**

Deferred tax liability

	2012 R m	2011 Restated R m
Other	(43)	(55)
Captial gains tax - shareholders	(237)	(227)
Capital gains tax - policyholders	(679)	(1 054)
	(959)	**(1 336)**

Reconciliation of net deferred tax asset/(liability)

	2012 R m	2011 Restated R m
At beginning of the year	(489)	(1 100)
Income statement charge	505	611
At end of the year	**16**	**(489)**

16. Reinsurance contracts

	2012 R m	2011 R m
Insurance contracts	601	238
Outstanding claims	288	271
	889	**509**
Insurance contracts		
At beginning of the year	238	115
Outward reinsurance premiums	811	819
Reinsurance recoveries	(683)	(627)
Transfer to operating profit	235	(69)
At end of the year	**601**	**238**

17. Deferred acquisition costs

	2012 R m	2011 R m
At beginning of the year	1 105	1 162
Acquisition cost deferred on inward business	188	180
Amortisation	(229)	(237)
At end of the year	**1 064**	**1 105**

Notes to the annual financial statements

18. Loans and advances

	2012 R m	2011 R m
Policyholder loans	292	332

Policyholder loans earn interest of 11% at beginning of the year to 10.5% p.a. at the end of year (2011: 11% p.a. for the year). There were no impairments and no overdue amounts.

The fair value of policyholder loans is equal to their carrying value.

19. Investments and securities

Analysis of investment

	2012 R m	2011 Restated R m
Investments in group undertakings		
Nedbank Group Limited	33 270	25 153
Other subsidiaries and associates	10 606	20 405
Capital advances to group undertakings	10 334	10 055
Old Mutual plc	3 634	3 160
	57 844	**58 773**
Other financial assets		
Government securities	50 124	41 880
Equity securities	85 597	84 061
Other debt securities	53 801	56 939
Pooled investments	156 910	128 687
Reinsurance of investment contract liabilities	10 748	10 304
Short-term funds	26 927	22 672
	384 107	**344 543**
	441 951	**403 316**

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 R14 061 million (2011: R10 832 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.

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

Notes to the annual financial statements

19. Investments and securities (continued)

Analysis of capital advances to group undertakings

	2012 R m	2011 R m
Mutual & Federal Investments (Pty) Ltd	-	1 288
Old Mutual Portfolio Holdings (Pty) Ltd	1 949	1 905
Old Mutual (South Africa) Ltd	1 081	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	115	173
Old Mutual (South Africa) Management Incentive Trust	356	709
Old Mutual Technology Holdings Ltd	-	54
Old Mutual Capital Holding (Pty) Ltd	6 833	4 845
	10 334	**10 055**

20. Interest in principal subsidiaries and associates

	Number of issued ordinary shares	% interest	2012 R m Carrying value of shares	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 o	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	1 108 417 261	100 %	3 746	-
			43 876	**11**

	Restated number of issued ordinary shares	% interest	2011 R m Carrying value of shares	2011 R m Loans to/(from) subsidiaries
Listed - associate				
Nedbank Group Ltd +	176 148 520	34 %	25 153	-
Unlisted - subsidiaries				
Mutual & Federal Investments (Pty) Ltd *	3 649 800	100 %	4 931	1 288
Barprop (Pty) Ltd	46 599 200	100 %	4	38
Millstream Ltd o	2 245 151	100 %	266	-
Old Mutual Holdings (Bahamas) Ltd o	762 383 611	100 %	6 758	-
Old Mutual Technology Holdings Ltd	10 000	100 %	(54)	54
Symmetry Investment Trust	-	100 %	241	-
Rodina Investments (Pty) Ltd	100 000	100 %	4 585	(5 171)
Community Property Holdings	1 108 417 261	100 %	3 674	-
			45 558	**(3 791)**

+ Nedbank Group Limited holds a 100% (2011:100%) interest in Nedbank Limited.

* Mutual & Federal Investments (Pty) Ltd holds 100% (2011: 100%) interest in Mutual & Federal Insurance Company Ltd

o All the company's subsidiaries and associates are South African except Millstream Limited and Old Mutual (Bahamas) Limited, which is incorporated in Bahamas.

Old Mutual Holdings (Bahamas) Ltd was sold in the year to Old Mutual plc for a consideration of R 6 355 million.

In March 2012 the company's ultimate holding company, Old Mutual plc completed the sale of its Nordic subsidiary, Skandia AB. As part of the agreement of sale, Skandia AB agreed to transfer its interest in Old Mutual Guodian, the group's Chinese joint venture interest, to Old Mutual Life Assurance Company (South Africa) Limited for a consideration of GBP 44 million. At the date of these financial statements, all the conditions of the transfer have not yet been met, particularly regulatory approval by the relevant authorities.

Notes to the annual financial statements

20. Interest in principal subsidiaries and associates (continued)

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

Statement of financial position	2012 R m	2011 R m
Total assets	682 979	648 127
Total liabilities	(625 249)	(595 442)
Net assets	**57 730**	**52 685**
Revenue and profits		
Revenue	37 004	33 446
Operating income	31 805	28 115
Profit for the year	7 812	6 503

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 company's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. The risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the company assesses counterparties using the same techniques as for its lending activities.

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

The 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.

Notes to the annual financial statements

21. Derivative assets and liabilities (continued)

	2012 R m		2011 R m	
Fair value	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	8 210	5 164	3 976	2 639
Other derivatives	121	96	81	91
	8 331	**5 260**	**4 057**	**2 730**

22. Amounts due (to)/from group companies

Subsidiaries

	2012 R m	2011 R m
Barprop (Pty) Limited	31	38
Rodina Investments (Pty) Limited	11	(5 171)
Mutual & Federal Insurance Company Limited	(31)	-
	11	**(5 133)**

Holding companies

	2012 R m	2011 R m
Old Mutual Life Holdings (South Africa) (Pty) Limited	(1)	(1)
Old Mutual (South Africa) Limited	4 831	4 907
Old Mutual plc	(198)	(142)
	4 632	4 764
Old Mutual plc - subordinated loan	(59)	(53)
	4 573	**4 711**

The subordinated loan from Old Mutual plc 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.

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

Fellow subsidiaries

	2012 R m	2011 R m
Old Mutual Property (Pty) Limited	38	56
Old Mutual (South Africa) Foundation	66	99
Old Mutual (Africa) Holdings (Pty) Limited	26	25
Old Mutual Capital Holding (Pty) Limited	343	338
Old Mutual International (Guernsey) Limited	65	65
Old Mutual Investment Group (SA) (Pty) Limited	(29)	(24)
Old Mutual Investment Services (Pty) Limited	283	214
Skandia International	53	52
Old Mutual Unit Trust Managers Limited	5	9
Old Mutual (South Africa) Share Trust	(121)	(40)
Old Mutual (South Africa) Dividend Access Trust	(435)	(299)
Old Mutual Investment Administrators (Pty) Limited	18	14
Old Mutual Specialised Finance (Pty) Limited	435	-
Other	95	82
	842	591
Old Mutual International (Guernsey) Limited - subordinated loan	(21)	(19)
	821	**572**

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

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.

	2012 R m	2011 R m
Loans due by group companies	6 291	5 952
Loans due to group companies	(897)	(5 800)
	5 394	**152**

23. Other assets

	2012 R m	2011 Restated R m
Accrued interest on cash collateral	1 505	1 282
Other accrued interest and rent	2 575	2 704
Outstanding settlements	2 269	1 566
Other	1 226	1 234
	7 575	**6 786**

The carrying value of other assets approximates fair value.

Notes to the annual financial statements

24. Cash and cash equivalents

	2012 R m	2011 R m
Bank balances	4 136	3 690
Collateral held	10 442	6 434
	14 578	**10 124**

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% (2011: 1.35% to 3.9%) and the deposits had an average maturity of between 32 and 90 days (2011: 32 and 90 days).

25. Policyholder liabilities

	2012 R m	2011 Restated R m
Insurance contracts		
Outstanding claims	1 990	2 206
Future policyholders' benefits	149 314	136 600
	151 304	**138 806**
Investment contracts		
Liabilities at fair value through profit or loss	159 108	139 726
Liabilities with a discretionary participating feature	95 406	84 207
	254 514	**223 933**
	405 818	**362 739**

Movement in provision for insurance contracts

	2012 R m	2011 Restated R m
Balance at beginning of the year	136 600	140 795
Inflows		
Premium income	19 891	16 639
Investment income (net of investment losses)	24 757	10 288
Outflows		
Claims and policy benefits	(22 629)	(21 939)
Operating expenses	(5 925)	(5 688)
Other charges and other transfers	37	112
Current tax	(5)	(20)
Deferred tax	(245)	27
Transfer to operating profit	(3 167)	(3 614)
Balance at end of the year	**149 314**	**136 600**

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

Notes to the annual financial statements

25. Policyholder liabilities (continued)

Liabilities at fair value through profit or loss

	2012 R m	2011 Restated R m
Balance at beginning of the year	139 726	132 473
New contributions received	24 137	23 032
Withdrawals	(24 647)	(25 749)
Fair value movements	20 930	9 777
Foreign currency translation	972	2 040
Fees deducted	(2 010)	(1 847)
Balance at end of the year	**159 108**	**139 726**

Liabilities with a discretionary participation feature

	2012 R m	2011 Restated R m
Balance at beginning of the year	84 207	81 657
Inflows		
Premium income	10 736	9 728
Investment income (net of investment losses)	15 862	5 248
Outflows		
Claims and policy benefits	(11 740)	(10 337)
Operating expenses	(2 101)	(864)
Other charges and other transfers	(331)	(516)
Current tax	(79)	(71)
Deferred tax	(87)	-
Transfer to operating profit	(1 061)	(638)
Balance at end of the year	**95 406**	**84 207**

26. Borrowed funds

	2012 R m	2011 R m
8.92% Unsecured subordinated callable notes	3 000	3 000

The fair value of the unsecured subordinated callable notes is R3 202 million (2011: R3 131 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 R269 million (2011: R268 million).

26. Borrowed funds (continued)

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.

		2012 R m		2011 R m
Obligations	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
At beginning of the year	194	1 303	194	1 204
Current service cost	3	29	5	27
Interest cost on benefit obligation	17	115	17	100
Actuarial (gains)/losses	(18)	(273)	(20)	6
Benefits paid	(2)	(40)	(2)	(34)
At end of the year	**194**	**1 134**	**194**	**1 303**

		2012 R m		2011 R m
Plan assets	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
At beginning of the year	268	1 285	248	1 232
Actual return on plan assets	18	133	22	86
Benefits paid	(2)	(39)	(2)	(33)
At end of the year	**284**	**1 379**	**268**	**1 285**

		2012 R m		2011 R m
Net (asset)/liability	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Funded status of plans	(90)	(245)	(34)	18
Unrecognised actuarial gains	90	407	34	107
	-	**162**	**-**	**125**

Notes to the annual financial statements

27. Post employment benefits (continued)

	2012 R m		2011 R m	
Expense recognised in income statement	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Current service cost	3	29	5	27
Interest cost	17	115	17	100
Expected return on plan assets	(20)	(110)	(22)	(98)
Total (included in staff costs)	**-**	**34**	**-**	**29**
Actual return on plan assets	18	133	22	86

	2012		2011	
Principal actuarial assumptions	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Discount rates used	8 %	8 %	9 %	9 %
Expected return on plan assets	8 %	8 %	9 %	9 %
Future salary increases	6 %	7 %	6 %	9 %
Price inflation	6 %	7 %	6 %	9 %

	2012		2011	
Plan asset allocation	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Equity securities	59 %	59 %	59 %	58 %
Debt securities	24 %	30 %	23 %	30 %
Real estate	9 %	7 %	10 %	8 %
Other investments	8 %	4 %	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.

					R m
Defined pension benefits	**2012**	**2011**	**2010**	**2009**	**2008**
Plan assets	284	268	248	228	209
Liability	(194)	(194)	(194)	(194)	(172)
	90	**74**	**54**	**34**	**37**

Notes to the annual financial statements

27. Post employment benefits (continued)

Post-retirement benefits	**2012**	**2011**	**2010**	**2009**	**R m 2008**
Plan assets	1 379	1 285	1 232	1 136	1 117
Liability	(1 134)	(1 303)	(1 204)	(1 158)	(976)
	245	**(18)**	**28**	**(22)**	**141**

Sensitivities

Assumption	**Change in assumption**	**Impact on scheme liabilities**	**2012 R m**	**2011 R m**
Inflation rate	Decrease by 1.0%	Decrease	184	192
	Increase by 1.0%	Increase	170	243

Notes to the annual 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 fellow subsidiary. The costs and contributions relating to the scheme are assessed in accordance with the advice of qualified actuaries. The scheme is reviewed at least on an annual basis. The actuarial assumptions used to calculate the benefit obligations of the scheme vary according to the economic conditions.

Benefit obligation

	2012 R m	2011 R m
At beginning of the year	207	200
Current service cost	30	23
Net actuarial losses	3	5
Benefits paid	(21)	(21)
At end of the year	**219**	**207**

Assets

	2012 R m	2011 R m
At beginning of year	207	200
Contributions	30	23
Investment returns	(18)	(16)
At end of the year	**219**	**207**

Expense recognised in income statement

	2012 R m	2011 R m
Current service costs	30	23
Net actuarial losses	3	5
Total (included in staff costs)	**33**	**28**

Principal actuarial assumptions

	2012	2011
Discount rate	6 %	7 %
Expected return on plan assets	6 %	7 %
Future salary increases	6 %	7 %
Price inflation	6 %	7 %

Net benefit obligation

	2012 R m	2011 R m
Assets	219	207
Benefit obligation	(219)	(207)
	-	**-**

28. Other employment benefits (continued)

The benefit obligation of R219 million at the end of the year (2011: R207 million) is supported by non-segregated managed assets amounting to R119 million (2011: R113 million) as part of the pool of policyholder funds. The company also has a reimbursive right of R98 million (2011: R92 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

	2012 R m	2011 R m
Share options	249	272
Restricted share awards	566	632
	815	**904**

Share options	2012 Number of share options (Millions)	2012 Weighted average exercise price (Rand)	2011 Number of share options (Millions)	2011 Weighted average exercise price (Rand)
Outstanding at beginning of the year	46	11.63	50	11.89
Transfers to other group companies	(1)	-	(2)	-
Granted during the year	-	-	13	15.78
Forfeited during the year	(2)	12.71	(9)	17.59
Exercised during the year	(17)	8.14	(5)	13.04
Expired during the year	-	-	(1)	15.00
Share consolidation during year	(1)	-	-	-
Outstanding at end of the year	**25**	**13.92**	**46**	**11.63**
Exercisable at end of the year	4	8.41	1	15.49

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)	Number of awards (Millions)
Outstanding at beginning of the year	41	38
Transfer to other group companies	(2)	(1)
Granted during the year	11	13
Forfeited during the year	(1)	(1)
Exercised during the year	(18)	(8)
Share consolidation during the year	(5)	-
Outstanding at end of the year	**26**	**41**

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. They vest subject to the fulfilment 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 grant.

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:

	2012	2011
Number of options granted (millions)	-	13
Value of options granted (Rand millions)	-	202
Fair value per option at measurement date (in Rands) - highest	16.18	9.79
Fair value per option at measurement date (in Rands) - lowest	10.94	3.11
Share price (in Rands)	24.49	17.04
Exercise price (in Rands) - highest	15.80	19.10
Exercise price (in Rands) - lowest	7.45	7.45
Expected volatility	45 %	45 %
Expected life (in years)	3	4
Expected dividend yield	3.50 %	3.50 %
Risk free interest rate	5.60 %	7.12 %

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

	2012	2011
Number granted (millions)	11	13
Value of restricted shares awards (Rand millions)	200	197
Fair value per share (in Rands)	24.49	17.04

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

30. Provisions

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

	Opening balance	Utilised during the year	Investment return	Charge	2011 R m Total
Administration and legal claims	260	(19)	-	45	286
Unclaimed Shares Trust	722	(42)	71	-	751
	982	**(61)**	**71**	**45**	**1 037**

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.

Unclaimed Shares Trust

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.

Notes to the annual financial statements

31. Deferred revenue on investment contracts

	2012 R m	2011 R m
Balance at beginning of the year	135	161
Fees and commission income deferred	20	21
Amortisation	(43)	(47)
At end of the year	**112**	**135**

32. Other liabilities

	2012 R m	2011 R m
Collateral owing	11 947	7 716
Amounts owed to policyholders	3 384	2 509
Amounts owed to intermediaries	506	462
Accruals	1 033	873
Outstanding settlements	707	506
Other	572	853
	18 149	**12 919**

The carrying value of other liabilities approximates fair value.

33. Share capital and premium

	2012 R m	2011 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		
8 000 000 ordinary shares of R1 each	8	8
1 redeemable preference share of R1	-	-
Share premium	6 246	6 246
	6 254	**6 254**

Subject to the restrictions imposed by the Companies Act, 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 annual financial statements

34. Cash used in operations

	2012 R m	2011 Restated R m
Profit before taxation	14 740	6 808
Adjustments for non-cash movements included in profit		
Depreciation and amortisation	183	176
Dividend income	(10 951)	(5 197)
Interest income	(10 807)	(11 695)
Interest expense	842	900
Net fair value gains	(48 795)	(10 724)
Movements in policyholder liabilities	43 079	5 721
Movement in share-based payment liability	(90)	350
Changes to provisions and post employment benefits obilgation	95	80
Changes in working capital		
Deferred acquisition costs	41	57
Deferred revenue on investment contracts	(23)	(26)
Loans and advances	40	106
Other assets	(789)	(57)
Other liabilities	5 230	(4 129)
Reinsurance contracts	(380)	(118)
Net movement in loans to/from group companies	(5 242)	1 833
	(12 827)	**(15 915)**

35. Tax paid

	2012 R m	2011 R m
Balance at beginning of the year	(1 438)	(964)
Current tax expense	(2 498)	(1 496)
Balance at end of the year	2 576	1 438
	(1 360)	**(1 022)**

36. Dividends paid

	2012 R m	2011 R m
Dividends	**(9 779)**	**(1 495)**

37. Operating lease receivables

	2012 R m	2011 R m
Total future minimum lease receivables under operating leases		
Within one year	824	777
In second to fifth year inclusive	2 378	2 055
Later than five years	730	1 147
	3 932	**3 979**

38. Related party disclosures

The company's immediate holding company is Old Mutual Life Holdings (South Africa) (Pty) 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 and associates, together with loans due by or to them, are listed in note 20.

Other group companies consist of fellow subsidiaries and associates.

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

2011 R m	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income/(expense)	-	404	-	84
Dividend income/(expense)	(1 495)	-	402	921
Fair value gains/(losses)	-	(78)	-	-
Fee income/(expense)	-	(176)	-	-
Insurance contract premiums income/(expense)	-	(24)	-	74
Reinsurance contract premiums income/(expense)	-	8	-	-
Claims and policyholder benefits income/(expense)	-	21	-	-
Commission income/(expense)	-	(32)	-	-
Statement of financial position				
Cash and short-term securities	-	-	-	3 690
Zero coupon bonds held	-	1 845	-	-
Credit linked notes including interest	-	6 425	-	-
Call loans including interest	-	3 338	-	-
Bonds including interest	-	-	-	830

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

At 31 December 2012 government and corporate bonds with a fair value of R484 million (2011: R1 199 million) including interest had been lent to Old Mutual Specialised Finance Proprietary Limited. Rnil (2011: R932 million) of these securities borrowed had been sold under repurchase agreements, R387 million (2011: R267 million) sold short and R97 million (2011: Rnil) was used as collateral against scrip lending positions. The nominal value of bonds borrowed was R474 million (2011: R1 376 million). The bonds lent had a weighted average coupon rate of 7.8% (2011: 7.0%).

At 31 December 2012 equities with a fair value of R2 048 million (2011: R2 730 million) had been lent to Old Mutual Specialised Finance Proprietary Limited.

38. Related party disclosures (continued)

Directors' emoluments

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 D 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 M G Truyens	1 031	-	-	-	-	1 031
G S van Niekerk	539	-	-	-	-	539
	5 911	**8 723**	**10 433**	**24 784**	**11 161**	**61 012**

R'000

2011	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
K D Dlamini	-	4 701	-	10 904	501	16 106
K Murray ^	-	2 104	2 297	661	771	5 833
R T Mupita	-	2 011	3 415	10 096	241	15 763
B M Rapiya	-	1 845	2 327	5 493	219	9 884
P C Baloyi	410	-	-	-	-	410
G J Gerwel	-	-	-	-	-	-
I A Goldin	397	-	-	-	-	397
D Konar	-	-	-	-	-	-
A A Maule	863	-	-	-	-	863
C E Maynard	506	-	-	-	-	506
N M C Nyembezi-Heita	245	-	-	-	-	245
F Robertson	245	-	-	-	-	245
G T Serobe	226	-	-	-	-	226
I B Skossana	576	-	-	-	-	576
A H Trikamjee	374	-	-	-	-	374
P G M Truyens	1 530	-	-	-	-	1 530
G S van Niekerk	601	-	-	-	-	601
	5 973	**10 661**	**8 039**	**27 154**	**1 732**	**53 559**

38. Related party disclosures (continued)

The variable pay for Ms K Murray, Mr R T Mupita and Mr B M Rapiya for 2012 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.

^ An allowance of R 500 000 is included in retirement and other benefits.

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 capital position of the company is set out in the Statutory actuary's report on page 7.

Capital management policies

Capital is actively managed with a focus on capital efficiency and effective risk management. The capital objectives are to ensure that the company is properly capitalised and funded at all times, having regard to its regulatory needs, prudent management and the needs of all stakeholders.

The company has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts, and the operations of the Capital Management Committee (CMC) and the Shareholder Fund Investment Committee that the company's capital is managed to ensure alignment with overall strategy, business plans and risk appetite.

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

39. Financial risk management (continued)

Specifically, 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 seven times in 10 000 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.

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 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

Notes to the annual financial statements

39. Financial risk management (continued)

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)

At 31 December 2011	R m Embedded value
Embedded value	**79 250**
Effect of:	
Required capital equal to the minimum statutory requirement	530
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(784)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	565
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4 449
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4 412)
50 bps contraction on corporate bond spreads	194
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(246)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(108)
Voluntary discontinuance rates decreasing by 10 per cent	656
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 634
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 190
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(247)
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	(115)

* 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 annual financial statements

39. Financial risk management (continued)

Overall credit risk

	2012 R m	2011 Restated R m
Reinsurance contracts	889	509
Loans and advances	292	332
Investment and securities		
Government and non-government-guaranteed securities	50 124	41 880
Other debt securities, preference shares and debentures	53 801	56 939
Short-term funds and securities treated as investments	26 927	22 672
Reinsurance	10 748	10 304
Other assets	7 575	6 786
Derivative assets	8 331	4 057
Amounts due by group companies	6 291	5 952
Cash and cash equivalents	14 578	10 124
	179 556	**159 555**

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.

				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**

				2011 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)	41 398	32 465	3 038	76 901
Not rated	482	24 160	19 634	44 276
Sub-investment grade	-	314	-	314
	41 880	**56 939**	**22 672**	**121 491**

Reinsurance assets

None of the company's reinsurance assets are rated. None are past due or impaired.

Notes to the annual financial statements

39. Financial risk management (continued)

Collateral obtained

	2012 Rm	2011 Rm
Bonds	2 218	1 423
Cash	11 843	9 409
Total collateral	**14 061**	**10 832**

Market risk

Market risk is the potential impact of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities. 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 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 R73 247 million (2011: R72 677 million). Of these, R73 222 million (2011: R65 894 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 R379 million (2011: R425 million).

The company operates in Hong Kong and Guernsey through branches which create an additional source of foreign currency risk which arises from the fact that the branches use 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 and Guernsey policyholder liabilities amounted to R10 936 million (2011: R10 459 million), which was fully matched by foreign investment assets.

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 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 now 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.

Notes to the annual financial statements

39. Financial risk management (continued)

Liquidity risk

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

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.

				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 financial instruments - liabilities	326	1 004	3 204	687
Amounts due to group companies	897	-	-	-
	261 451	**16 212**	**86 209**	**261 352**

				2011 Restated R m
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**
Insurance contracts	3 612	14 518	81 392	254 492
Investment contracts	-	-	-	-
Unit-linked investment contracts and similar contracts	139 726	-	-	-
Investment contracts with discretionary participating features	84 207	-	-	-
Other investment contracts	147	409	1 055	296
Outstanding claims	2 206	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	200	477	1 370	1 556
Amounts due to group companies	5 800	-	-	-
	235 898	**15 404**	**83 817**	**259 344**

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.

			2012 R m
	Current assets	Non-current 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	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 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
Total assets	**74 499**	**425 634**	**500 133**

			2012 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	1 990	149 314	151 304
Investment contracts	-	254 514	254 514
Borrowed funds	-	3 000	3 000
Post employment benefits	-	162	162
Share-based payment liabilities	-	815	815
Deferred revenue on investment contracts	42	70	112
Deferred tax liabilities	-	958	958
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
Total liabilities	**23 217**	**415 625**	**438 842**

39. Financial risk management (continued)

At 31 December 2011	Current assets	Non-current assets	2011 Restated R m Total
Assets			
Intangible assets	-	79	79
Investment property	-	13 969	13 969
Property and equipment	-	3 410	3 410
Deferred tax assets	-	847	847
Reinsurance contracts	271	238	509
Deferred acquisition costs	237	868	1 105
Loans and advances	-	332	332
Investments and securities	29 358	373 958	403 316
Derivative financial instruments - assets	1 429	2 628	4 057
Amounts due by group companies	5 952	-	5 952
Other assets	6 786	-	6 786
Cash and cash equivalents	10 124	-	10 124
	54 157	**396 329**	**450 486**

	Current liabilities	Non-current liabilities	2011 Restated R m Total
Liabilities			
Insurance contracts	2 206	136 600	138 806
Investment contracts	-	223 933	223 933
Borrowed funds	-	3 000	3 000
Post employment benefits	-	125	125
Share-based payment liabilities	-	904	904
Deferred revenue on investment contracts	48	87	135
Deferred tax liabilities	-	1 336	1 336
Derivative liabilities	657	2 073	2 730
Amounts due to group companies	5 800	-	5 800
Provisions	-	1 037	1 037
Current tax payable	1 438	-	1 438
Other liabilities	12 919	-	12 919
	23 068	**369 095**	**392 163**

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 51 852 million (2011: R 54 014 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.

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 (also small exposure in Corporate Segment)	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

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.

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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 now 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

		R m	R m
Assumption	**Change %**	**Increase/ (decrease) in liabilities 2012**	**Increase/ (decrease) in liabilities 2011**
Mortality and morbidity rates - assurance	10%	4 136	3 513
Mortality rates - annuities	-10%	702	636
Discontinuance rates	10%	(205)	(128)
Expenses (maintenance)	10%	816	773

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 464 million (2011 restated: R 263 million). The 2011 figure is restated as both a valuation discount rate and the valuation inflation rate are now reduced by 1% for this sensitivity (in line with expected practice), where historically only the valuation discount rate was reduced (with the inflation rate unchanged). Consequently, the impact of this sensitivity is reduced as lower future expenses partially offset the increase in liabilities caused by the lower discount rate. 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 Hull-White economic scenario generator model that generates product specific economic scenarios. The model has been 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 2012.

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 bond yield
1	5,0%
2	5,1%
3	5,4%
4	5,7%
5	6,0%
10	7,1%
15	7,4%
20	7,3%
25	7,3%
30	7,2%

The following derivative contract prices have been calculated using 2000 simulations of the internal Hull-White 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	6,0%	18,1%
1	0.8 times spot	0,5%	17,4%
1	Forward	7,0%	18,1%
5	Spot	13,8%	27,2%
5	1.04^5 times spot	23,5%	27,3%
5	Forward	20,7%	27,5%
20	Spot	6,3%	28,8%
20	1.04^20 times spot	23,7%	28,8%
20	Forward	26,1%	29,0%

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.	11,02%
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	0,55%

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

Notes to the annual financial statements

41. Notes to the Statutory actuary's report

41.1. Change in excess assets on published basis

	2012 R m	2011 Restated R m
At end of the year	61 291	58 323
At beginning of the year	58 323	53 894
Change in excess assets	**2 968**	**4 429**

Analysis of change	2012 R m	2011 Restated R m
Operating profit before shareholder tax (excluding changes in the valuation basis)	4 231	3 121
Dividend income	5 621	1 698
Interest income	646	372
Investment income on excess assets	6 267	2 070
Gains and losses on excess assets	4 855	2 171
Changes in valuation basis	(343)	(285)
Non-operating items (finance cost on subordinated debt)	(270)	(268)
Shareholder tax	(1 132)	(530)
Policyholders' tax	(861)	(355)
Profit for the financial year	**12 747**	**5 924**
Other comprehensive income and equity		
Dividends	(9 779)	(1 495)
Change in excess assets	**2 968**	**4 429**

41.2. Reconciliation of policy liabilities from published to statutory basis

	2012 R m	2011 Restated R m
Published	(403 827)	(360 533)
Statutory	388 170	346 315
Difference	**(15 657)**	**(14 218)**

Comprising:	2012 R m	2011 Restated R m
Investment contracts	(4 290)	(3 676)
Reinsurance	(11 367)	(10 542)
	(15 657)	**(14 218)**

41.3. Reconciliation of excess assets from published to statutory basis

	2012 R m	2011 Restated R m
Published	61 291	58 323
Statutory	(63 708)	(60 286)
Difference	**(2 417)**	**(1 963)**

Comprising	2012 R m	2011 Restated R m
Investment contracts	(4 290)	(3 676)
Revenue recognition	952	970
Deferred tax impacts of above items	921	743
	(2 417)	**(1 963)**

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:

	2012	**2011**
Fixed interest securities	6.9%	8.2%
Cash	4.9%	6.2%
Equities	10.6%	11.7%
Properties	8.4%	9.7%
Future expense inflation	3.9%*	5.2%*

* 5.9% (2011: 7.2%) for Retail Affluent business administered on old platforms and 4.9% (2011: 6.2%) 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 life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience,
  - margins on certain Retail Affluent non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk,
  - expense margins in the pricing basis for Corporate Segment annuities,
  - interest margins on Corporate Segment PHI claims in payment due to the inability to fully match assets to liabilities as a result of the high rate of change in the portfolio (high volume of new claimants and terminations),
  - 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.

Notes to the annual financial statements

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	2005 to 2006
	Greenlight mortality	2007 to 2011
	Greenlight morbidity	2003 to 2011
	Greenlight persistency	2003 to 2011
Mass Foundation	Mortality	2011
	Persistency	2011
Corporate Segment	Annuitant Mortality	2004 to 2009
	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 2012 analysis of profit provides a measure of the aggregate experience in 2012. 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.

41.5. 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 2012, if asset values had declined as specified as at 31 December 2012, and had not subsequently recovered:

- 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.

In respect of 2011 the following management actions were assumed :

- Future bonus rates would have been reduced by 5% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 4.5% per year in each of the following three years for Mass Foundation Cluster products.
- Future bonus rates would have been reduced by 3% 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 3% per year in each of the following three years for Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 2.5% per year in each of the following three years for all other with-profit annuities.
- Future bonus rates would have been reduced by 5% 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 2011: 12.5% local equities and 87.5% local cash).

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

(* As defined by SAP 104)

41.6. 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 R 343 million (2011: R286 million increase in liabilities). This is mainly due to economic assumption changes, which increased liabilities by R580 million. Regulatory changes in taxation increased liabilities by R247 million. A review of mortality and disability assumptions across various products reduced liabilities by R128 million in aggregate. Other operating assumptions have also been reviewed, resulting in a reduction in liabilities of R77 million in aggregate. Lastly, various methodology changes, management actions and error corrections reduced liabilities by R280 million in aggregate. The assumption changes exclude the impact on new business sold in 2012, as this is valued on the new basis.

42. Events after the reporting period

Subsequent to the end of the financial year the Company initiated a process to transfer approximately R12 billion of the company's directly held investment property into a newly established special purpose vehicle. Transfers are expected to be completed during 2013.

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 2012. 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	68	79	59	432	48	56	32	155	38	11	978
Professionally qualified and experienced specialists and mid-management	212	267	123	618	128	261	99	520	27	13	2 268
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 217	1 132	328	1 067	2 850	1 455	327	1 202	51	40	10 669
Semi-skilled and discretionary decision making	242	312	17	21	690	582	66	148	3	1	2 082
Unskilled and defined decision making	35	16	3	17	66	38	3	41	2	2	223
Total permanent	**2 776**	**1 806**	**530**	**2 156**	**3 782**	**2 392**	**528**	**2 068**	**122**	**68**	**16 228**
Temporary employees	40	59	4	30	88	78	6	46	-	3	354
Grand total	**2 816**	**1 865**	**534**	**2 186**	**3 870**	**2 470**	**534**	**2 114**	**122**	**71**	**16 582**

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	-	5	-	4	1	1	-	1	2	-	14
Professionally qualified and experienced specialists and mid-management	6	5	2	19	1	13	-	9	-	-	55
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	11	36	5	25	20	42	9	43	1	-	192
Semi-skilled and discretionary decision making	8	22	1	3	14	25	1	9	-	-	83
Unskilled and defined decision making	21	10	3	17	12	18	3	41	2	2	129
Total permanent	**46**	**78**	**11**	**68**	**48**	**99**	**13**	**103**	**5**	**2**	**473**
Temporary employees	1	1	-	1	2	-	-	1	-	-	6
Grand total	**47**	**79**	**11**	**69**	**50**	**99**	**13**	**104**	**5**	**2**	**479**

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

Further details, together with the 2012 report, can be found in the Old Mutual Sustainability report.