

Old Mutual Life Assurance Company (South Africa) Ltd
Consolidated and Company Annual Financial Statements
For the year ended 31 December 2015

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Contacts

Public officer	J Baepi
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditors 1 Mediterranean Street Foreshore Cape Town 8001 South Africa
Postal address	PO Box 66 Cape Town 8000 South Africa
Registered office	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Company secretary	E M Kirsten
Company registration number	1999/004643/06
Preparation supervised by	I G Williamson Finance Director Post Graduate Diploma Actuarial Science, Bachelors of Business Science (Actuarial)

These financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Index

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

Index	Page
Statement of directors' responsibilities	3
Certificate by the Company Secretary	3
Directors' report	4
Statutory actuary's report	7
Audit, Risk and Compliance Committee report	8
Independent auditor's report	9
Income statements	10
Statements of comprehensive income	11
Statements of financial position	12
Statements of changes in equity	13
Statements of cash flows	15
Accounting policies	16
Notes to the financial statements	30
Employment equity report	111

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statement of directors' responsibilities

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and company annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, comprising the statements of financial position at 31 December 2015 and the income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

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

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

Approval of consolidated and company annual financial statements

The consolidated and company annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, as identified in the first paragraph, were approved by the board of directors on 04 April 2016 and signed by:

P G de Beyer
Chairman
Authorised Director

D Macready
Chief Executive Officer
Authorised Director

Certificate by the Company Secretary

In terms of Section 88(2)(e) of the Companies Act of South Africa 2008, as amended, I certify that the company has lodged with the Commissioner, all such returns and notices as required by the Companies Act of South Africa and that all such returns and notices appear to be true, correct and up to date.

E M Kirsten
Company Secretary
04 April 2016

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Ltd have pleasure in submitting their report on the consolidated and company annual financial statements for the year ended 31 December 2015.

1. Review of activities

The principal activity of the group is the transaction of all classes of life assurance, savings and retirement funding business. The group 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 group and company are set out in the income statements, statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes.

Profit before tax for the group was R 4,284 million (2014: R 11,144 million), and R 2,903 million (2014: R 7,836 million) after tax.

Profit before tax for the company was R 3,519 million (2014: R 16,270 million), and R 3,050 million (2014: R 13,276 million) after tax.

2. Consolidated and company annual financial statements

In terms of International Financial Reporting Standards ("IFRS"), the company is required to produce consolidated financial statements as its subordinated debt instrument is traded in a public market.

In the company financial statements the company's investments in its subsidiaries, joint ventures and associate companies are accounted for as financial assets at fair value through profit or loss and dividends are recognised when receivable.

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

3. Holding company

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

4. Ultimate holding company

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

5. Share capital

There were no changes in the authorised or issued ordinary or preference share capital of the company.

6. Dividends

Ordinary shares

Dividends on ordinary shares amounting to R 3,050 million (2014: R 2,817 million) were declared during the year by the group and the company.

Preference shares

Dividends on preference shares amounting to R 1,751 million (2014: R 1,053 million) were declared during the year by the group and R 1,751 million (2014: R 693 million) by the company.

7. Public interest score

The company's public interest score, as determined in accordance with the relevant provisions of the Companies Act, of South Africa 71 of 2008, is 617 359.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Directors' report

8. Directors

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

Name	Nationality	Changes
P G de Beyer	South African	
D Macready	South African	Appointed 1 May 2015
N T Moholi	South African	
C W N Molope	South African	
R T Mupita	South African	
K Murray	British	Resigned 31 July 2015
I G Williamson	South African	Appointed 1 August 2015
B M Rapiya	South African	
P G M Truyens	Dutch	

The directors currently holding office are:

Executive directors

R T Mupita
I G Williamson f
D Macready (Chief Executive Officer)
B M Rapiya (Deputy Chairman)

Independent directors

P G de Beyer ca
C W N Molope ar
P G M Truyens ar, ca
N T Moholi ar, ca

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

Mr R T Mupita, Mr B M Rapiya and Mr P G M Truyens were due to retire by rotation. Mr D Macready and Mr I G Williamson, who were appointed during the year, also retired at this meeting. All the Directors, being eligible, and having been recommended for re-election by the Board of Directors, offered themselves for re-election.

9. Company secretary

Ms E M Kirsten is the company secretary.

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

10. Auditors

KPMG Inc. has been nominated to continue in office in accordance with section 90 of the Companies Act of South Africa.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Directors' report

11. Events after the reporting period

Prior to year end a subsidiary received loan funding from Standard Bank to acquire a 50% interest in a commercial property outside Nairobi, Kenya. Collateral provided to Standard Bank includes a guarantee issued by two subsidiaries in Old Mutual Real Estate Holding Company Pty Ltd and K2012150042 (South Africa) (Pty) Ltd and a mortgage over Cavendish Square and Cavendish Connect to the value of R2.2 billion. The mortgage was registered on 28 January 2016.

On 24 February 2016 the Minister of Finance of the Republic of South Africa announced an increase in the capital gains tax inclusion rates for companies. As a result capital gains tax will be levied at an effective rate of 22.4% compared to 18.6% in the past. The result of the increase is that higher capital gains tax will be paid in the future and consequently deferred tax liabilities or deferred tax assets on unrealised capital gains or capital losses should be measured at the higher effective capital gains tax rate.

If the increase was effective for the financial year ended 31 December 2015, the relevant shareholder deferred tax liabilities and tax expense for the period ended 31 December 2015 would increase by R401 million. The increase in the inclusion rates will be effective for the financial year ending 31 December 2017.

To protect policyholder interests, Treasury proposed that unrealised capital gains tax at 29 February 2016 be considered and realised through the deemed sale of the related assets and therefore taxed at the previous effective capital gains tax rate. From 1 March 2016 the 'disposed' assets will have a capital gains tax base value equal to the disposal value of the assets at 29 February 2016. The estimated capital gains tax payable as a result of the 'disposal' is R 1,819 million at 31 December 2015. Any capital gains on these assets and new assets subsequent to 1 March 2016 will be taxed at the revised effective capital gains tax rate.

12. Going concern

The Board has satisfied itself that the group and company have adequate resources to continue in operation for the foreseeable future. The consolidated and company financial statements have accordingly been prepared on a going concern basis.

13. Corporate citizenship and non-financial reporting

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

14. King III

Our system of governance within the Old Mutual Emerging Markets group is informed by the King Report on Governance for South Africa, 2009 (King III). Regular review and assessment of our application of the King III principles indicate that the company generally conforms to all the principles recommended in the Code.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2015, according to applicable guidelines issued by the Actuarial Society of South Africa. Contracts classified as insurance and investment contracts with discretionary participation features have been valued using the Financial Soundness Valuation (FSV) method. Contracts classified as investment contracts (without discretionary participation in profit) have been valued at fair value as per IFRS 9, Financial Instruments. Policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in notes 42 and 45 to the consolidated and company annual financial statements. Sample derivative contract prices derived from the calculation of market-consistent investment guarantee reserves are provided in note 41.

Actuarial Balance Sheet

	Rm		Rm	
	2015 Published	2015 Statutory	2014 Published	2014 Statutory
Total value of assets	620,092	619,160	586,232	584,181
Actuarial value of policy liabilities	(518,978)	(519,100)	(492,651)	(488,028)
Unsecured subordinated callable notes	(5,733)	(5,733)	(3,996)	(3,996)
Provisions and other liabilities	(47,829)	(47,779)	(40,360)	(40,289)
	(572,540)	(572,612)	(537,007)	(532,313)
Excess of assets over liabilities	47,552	46,548	49,225	51,868
Less: Inadmissible for statutory solvency purposes		(739)		(495)
Less: Limits on group undertakings		(9,408)		(7,601)
Add: Unsecured subordinated callable notes		5,733		3,996
Excess assets (statutory basis)		42,134		47,768
Statutory capital adequacy requirement (CAR)		13,202		15,303
Ratio of excess assets to CAR		3.2		3.1

Notes:

1. Certain of the 2015 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 42.1.
3. The composition of the assets backing the CAR is 28% in local equities and 72% in local cash (2014: 12.5% local equities and 87.5% local cash).
4. The statutory policy liabilities for the remaining investment contracts with prospective liabilities have been aligned with the published policy liability valuation basis which resulted in a R5.1bn increase in statutory policy liabilities. As a result, the CAR has reduced due to a reduction in termination risk.

Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2015, 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
04 April 2016

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Audit, Risk and Compliance Committee report

The Audit, Risk and Compliance Committee is a committee of the Board of directors, and serves in an advisory capacity to the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, risk management and internal controls, the review of financial information and the preparation of the consolidated and company annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place.

Terms of reference

The Audit, Risk and Compliance Committee has adopted formal terms of reference that have been updated and approved by the board of directors, and has executed its duties during the past financial year in compliance with these terms of reference.

Composition and meeting process

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

The committee comprises exclusively independent directors, and met five 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 sometimes 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 of South Africa and the Long-term Insurance Act, during the past financial year the Audit, Risk and Compliance Committee has:

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit, Risk and Compliance Committee, was independent of the company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the Companies Act of South Africa 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 consolidated and company annual financial statements, the internal financial controls of the company, or to any related matter.
- Made submissions to the Board on any matter concerning the company's accounting policies, financial control, records and reporting.

Legal requirements

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

Consolidated and company annual financial statements

Following our review of the consolidated and company annual financial statements for the year ended 31 December 2015, we are of the opinion that, in all material respects, they comply with the relevant provisions of IFRS and the Companies Act of South Africa 71 of 2008 and that they fairly present the financial position at 31 December 2015 of the company and subsidiaries, joint ventures and associates and the consolidated results of operations and cash flows for the year then ended.

C W N Molope

Chairman of the Audit, Risk and Compliance Committee
04 April 2016

Independent Auditor's report

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

We have audited the consolidated and company financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, which comprise the statements of financial position at 31 December 2015, and the income statements and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 108.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and company financial position of Old Mutual Life Assurance Company (South Africa) Ltd at 31 December 2015, and its consolidated and company financial performance and consolidated and company 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 of South Africa

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report, the Audit, Risk and Compliance Committee's report and the Certificate by the Company Secretary 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.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Old Mutual Life Assurance Company (South Africa) Ltd for 25 years, of which 10 years was in our capacity as joint auditors.

KPMG Inc.

Registered Auditor

**Per: G Dixon
Chartered Accountant (SA)
Registered Auditor
Director
05 April 2016**

**1 Mediterranean Street
Foreshore
Cape Town
8000**

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Income statements

For the year ended 31 December 2015

		Company		Consolidated		R m
		Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014	
Revenue						
	Gross earned premiums	3	43,523	35,001	46,653	35,875
	Outward reinsurance	16	(1,076)	(998)	(1,209)	(1,128)
	<i>Net earned premiums</i>		42,447	34,003	45,444	34,747
	Investment income (net of investment losses)	5	39,507	65,004	46,013	66,400
	Fee and commission income	6	4,984	4,130	6,445	5,783
	Other income		257	323	892	828
	Total revenue		87,195	103,460	98,794	107,758
Expenses						
	Claims and benefits		(51,751)	(54,622)	(52,021)	(54,903)
	Reinsurance recoveries		1,426	471	1,440	541
	<i>Net claims incurred (including change in insurance contract provisions)</i>		(50,325)	(54,151)	(50,581)	(54,362)
	Change in investment contract liabilities		(18,566)	(19,957)	(22,250)	(21,750)
	Finance costs	7	(1,387)	(902)	(1,710)	(1,596)
	Commission and other acquisition costs	8	(4,309)	(3,480)	(4,900)	(4,053)
	Operating and administration expenses	9	(9,089)	(8,700)	(11,739)	(11,259)
	Change in third party interest in consolidated funds		-	-	(3,374)	(3,557)
	Total expenses		(83,676)	(87,190)	(94,554)	(96,577)
	Share of associates' and joint ventures' profit/(loss) after tax		-	-	44	(37)
	Profit before tax		3,519	16,270	4,284	11,144
	Income tax expense	11	(469)	(2,994)	(1,381)	(3,308)
	Profit after tax for the financial year		3,050	13,276	2,903	7,836
Attributable to:						
	Equity holders of the parent		3,050	13,276	2,906	7,838
	Non-controlling interest		-	-	(3)	(2)
	Profit after tax for the financial year		3,050	13,276	2,903	7,836

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statements of comprehensive income

	Company		Consolidated	
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
Profit after tax for the financial year	3,050	13,276	2,903	7,836
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Property revaluation	213	102	213	103
Policyholder property revaluation (shadow accounting)	(187)	(82)	(187)	(82)
Actuarial gains on defined benefit plans and return on plan assets	47	72	47	72
Items that will be reclassified subsequently to profit or loss				
Currency translation differences on foreign operations	42	4	444	(8)
Other comprehensive income for the year net of taxation	115	96	517	85
Total comprehensive income	3,165	13,372	3,420	7,921
Attributable to:				
Equity holders of the parent	3,165	13,372	3,423	7,923
Non-controlling interest	-	-	(3)	(2)
	3,165	13,372	3,420	7,921

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statements of financial position

At 31 December 2015

		R m				
		Company		Consolidated		
		At 31 December 2015	At 31 December 2014	At 31 December 2015	At 31 December 2014	
Notes						
Assets						
	Intangible assets	12	184	160	271	248
	Investment property	13	1,947	3,673	17,949	17,235
	Property and equipment	14	2,963	2,700	2,968	2,705
	Deferred tax assets	15	301	1,071	358	1,111
	Reinsurance contracts	16	608	477	871	773
	Post employment benefits	28	511	482	511	482
	Deferred acquisition costs	17	947	985	1,216	1,225
	Loans and advances	18	230	241	230	241
	Investment and securities	19	565,832	517,433	606,050	556,469
	Investment in associates and joint ventures		-	-	1,569	1,116
	Derivative assets	21	8,502	3,993	8,801	4,368
	Amounts due by group companies	22	10,989	29,395	9,793	27,832
	Other assets	23	7,121	5,557	15,107	10,427
	Cash and cash equivalents	24	17,940	17,265	36,940	38,353
	Non-current assets held for sale	25	2,017	2,800	3,267	2,800
	Total assets		620,092	586,232	705,901	665,385
Liabilities						
	Insurance contracts	26	154,809	157,742	155,741	158,648
	Investment contracts	26	366,263	336,996	387,770	355,530
	Third party interests in consolidated funds		-	-	55,629	56,026
	Borrowed funds	27	5,733	3,996	5,733	3,996
	Share-based payment liabilities	30	697	697	697	697
	Deferred revenue on investment contracts	32	50	71	81	102
	Deferred tax liabilities	15	3,992	4,626	4,644	5,096
	Derivative liabilities	21	12,588	5,323	12,804	5,561
	Amounts due to group companies	22	1,848	1,397	4,222	3,113
	Provisions	31	2,357	2,645	2,431	2,704
	Current tax payable		526	1,744	803	1,778
	Other liabilities	33	23,677	21,770	34,805	30,195
	Total liabilities		572,540	537,007	665,360	623,446
	Net assets		47,552	49,225	40,541	41,939
Shareholders' equity						
	Share capital and premium	34	6,423	6,423	6,423	6,423
	Other reserves	34	276	208	666	196
	Share-based payment reserve		-	481	-	481
	Retained earnings		40,853	42,113	33,477	34,861
	Equity attributable to holders of the parent		47,552	49,225	40,566	41,961
	Non-controlling interest		-	-	(25)	(22)
	Total equity		47,552	49,225	40,541	41,939

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statements of changes in equity

Company	Share capital	Share premium	Other reserves	Share-based payments reserve	Total reserves	Retained earnings	Total equity
	R m	R m	R m	R m	R m	R m	R m
Balance at 1 January 2014	8	6,415	184	481	665	32,323	39,411
Profit after tax	-	-	-	-	-	13,276	13,276
Other comprehensive income	-	-	24	-	24	72	96
Dividends	-	-	-	-	-	(3,510)	(3,510)
Other movements	-	-	-	-	-	(48)	(48)
Total changes	-	-	24	-	24	9,790	9,814
Balance at 31 December 2014	8	6,415	208	481	689	42,113	49,225
Profit after tax	-	-	-	-	-	3,050	3,050
Other comprehensive income	-	-	68	-	68	47	115
Dividends	-	-	-	-	-	(4,801)	(4,801)
Transfer between reserves	-	-	-	(481)	(481)	481	-
Other movements	-	-	-	-	-	(37)	(37)
Total changes	-	-	68	(481)	(413)	(1,260)	(1,673)
Balance at 31 December 2015	8	6,415	276	-	276	40,853	47,552

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Statements of changes in equity

Consolidated								
	Share capital	Share premium	Other reserves	Share-based payments reserve	Total reserves	Retained earnings	Non-controlling interest	Total equity
	R m	R m	R m	R m	R m	R m	R m	R m
Balance at 1 January 2014	8	6,415	183	481	664	31,061	(20)	38,128
Profit after tax	-	-	-	-	-	7,838	(2)	7,836
Other comprehensive income	-	-	13	-	13	72	-	85
Dividends	-	-	-	-	-	(3,870)	-	(3,870)
Other movements	-	-	-	-	-	(240)	-	(240)
Total changes	-	-	13	-	13	3,800	(2)	3,811
Balance at 31 December 2014	8	6,415	196	481	677	34,861	(22)	41,939
Profit after tax	-	-	-	-	-	2,906	(3)	2,903
Other comprehensive income	-	-	470	-	470	47	-	517
Dividends	-	-	-	-	-	(4,801)	-	(4,801)
Transfer between reserves	-	-	-	(481)	(481)	481	-	-
Other movements	-	-	-	-	-	(17)	-	(17)
Total changes	-	-	470	(481)	(11)	(1,384)	(3)	(1,398)
Balance at 31 December 2015	8	6,415	666	-	666	33,477	(25)	40,541

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1. Statement of compliance

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

1.1 Basis of preparation

Assumptions and policies applied in consolidating the company's investment in subsidiaries and associates are set out below.

The company financial statements refer to the financial statements of Old Mutual Life Assurance Company (South Africa) Ltd. The consolidated financial statements consolidate those of the company and its subsidiaries (together referred to as the 'group') and equity account the group's interest in associates and joint ventures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The accounting policies for the consolidated and company financial statements are the same except as otherwise stated.

The financial statements provide information about the financial position, results of operations and changes in the financial position of the group. They have been prepared under historical cost convention, as modified by the accounting policies below.

The consolidated and company financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points as set out in the directors' report. Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.21.

The consolidated and company financial statements are presented in South African Rands, which is the group and company's functional currency.

The consolidated and company financial statements have been amended to reflect the introduction of the following amendments to standards:

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation/amortisation

The amendments to IAS 16 and IAS 38 clarify that the revaluation can be performed, as follows:

- Adjust the gross carrying amount of the asset to market value or
- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The amendments also clarify that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset.

The adoption of this amendment did not have a material impact on the financial statements of the group or company. The amendments apply retrospectively and is effective for the financial period that commenced on 1 January 2015.

IAS 19: Employee benefits

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to the periods of service.

The amendments are relevant only to defined plans (post-employment plans or other long-term employee defined benefit plans) that involve contributions from employees of third parties meeting certain criteria. The amendments to IAS 19 introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties.

When contributions are eligible for the practical expedient, a group is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 and does not have a material impact on the financial statements of the group or company.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.2 Group accounting

In the company financial statements the company's investments in its subsidiaries, associates and joint arrangement companies are accounted for as financial assets through profit and loss and carried at fair value.

Consolidation procedures

The financial statements include assets, liabilities and results of the company and subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the commencement of control or up to the date of disposal.

For subsidiaries acquired that are under common control, the company recognises the difference between the consideration transferred and the net asset value of the subsidiaries acquired as previously recognised by the transferring entity.

Intra-group balances and transactions, income and expenses and all profits and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are only eliminated to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiary undertakings are those entities controlled by the group, which may form part of a corporation, trust, partnership or unincorporated entities, and where the substance of the relationship between the group and the entity indicates that the entity is controlled by the group.

The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. Considerations in the assessment of control include:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of the group give it the current ability to direct the relevant activities;
- whether the group is exposed, or has rights, to variable returns from its involvement with the investee; and
- whether the group has the ability to use its power over the investee to affect the amount of investor's returns.

The group continually assess any changes to the facts and circumstances to determine whether such entities should be consolidated.

The group consolidates certain of its interests in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles (collectively 'funds') in the event that the group has power to direct the relevant activities of a fund so as to obtain benefits from that fund, or for those auto pilot entities where the majority of benefits arising in a particular fund accrue to the group.

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The amounts due to the balance of the investors in these funds are reported as a liability in the statement of financial position as, 'Third-party interests in consolidated funds'. Such interests are not recorded as non-controlling interests as they meet the liability classification requirement set out in paragraph 18 of IAS 32, 'Financial Instruments: Presentation'. As stated in note 40, these liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

Associates

An associate is an entity over which the group has significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee (and that is neither a subsidiary nor an investment in a joint venture). This is generally demonstrated by the group holding in excess of 20%, but less than 50%, of the voting rights. All the other factors, contractual or otherwise, are assessed in determining whether the group has the ability to exercise significant influence.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.2 Group accounting (continued)

Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale, and those held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

Joint arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Joint control exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. There are two types of joint arrangements:

- Joint operations are those operations where the group has rights to the assets, and the obligations for the liabilities, relating to the arrangement. The group will recognise its portion of the assets, liabilities, revenue and expenses.
- Joint ventures are when the group have rights to the net assets of the arrangement. The group accounts for its interest using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of the individual investments.

Where a group enterprise transacts with a joint venture of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant joint venture. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in joint ventures that are held with a view to subsequent resale are accounted for as non-current assets held for sale, and those held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

1.3 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 (excluding investment losses).

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 income 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.4 Insurance and investment contracts

Classification of contracts

Insurance contracts

Contracts under which the group 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 group 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.4 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 group 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 group discounts all contractual cash flows and compares this amount to the carrying value of the liability at discounted rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur. These are described in more detail in notes 41 and 42.

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 group 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.

Unbundling

The group has elected to unbundle the deposit components of products where the deposit components can be measured reliably. The deposit components are classified as financial liabilities at fair value through profit or loss.

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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.5 Accounting for cell owners' interest

Through a specialised risk financing subsidiary, the Group provides cell captive facilities to clients. The cell captive facilities effectively ring fence the underwriting and declared investment results of insurance contracts introduced to the subsidiary by cell owners. Through participation agreements, the cell owners share in the risk and rewards of the insurance contracts.

In the case of third party cells, the subsidiary is still the principal to the insurance contract, although the risks are transferred to the cell owner through the participation agreement. Consequently all gross premiums, claims and commissions are still reflected by the Group but then shown as equal and opposite reinsurance transactions outwards to reflect the transfer of the risk to the cell owner.

The cell owners' interest is classified as a liability and represents the accumulated funds attributed to cell owners.

1.6 Intangible assets

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

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

An intangible asset arising from development expenditure on an individual project is recognised only when the group meets the following recognition criteria: demonstration of the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. The carrying value of capitalised development costs is reviewed for impairment annually when the asset is not available for use or more frequently when an indication of impairment arises during the reporting year.

Subsequent expenditure on capitalised intangible assets is capitalised only when it meets the criteria listed above. Research costs are expensed as incurred.

1.7 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 value for reasonable potential of a successful rezoning.

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

For owner occupied properties reclassified during the year from property and equipment (at revalued amounts) to investment property (at fair value), any increase in the carrying value of the property and equipment is accounted for as a revaluation in terms of IAS 16. If an impairment loss was recognised on this item of property and equipment in the past, the increase in value is used to recover the impairment loss previously recognised and any excess is accounted for as a revaluation. Any decrease in the carrying value of property and equipment is accounted for as a reduction against the specific revaluation reserve and any excess is accounted for as an impairment loss.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.7 Investment property (continued)

Investment properties that are reclassified to owner-occupied property are measured at fair value at the date of transfer, with the fair value movement recognised in the income statement. The fair value of the investment property is then used as the cost of the item of property, plant and equipment for accounting purposes.

1.8 Property and equipment

Owned assets

Property and equipment are initially measured at cost plus all expenditure that are directly attributable to the acquisition of the items.

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

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

Subsequent expenditure

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

Revaluation of owner-occupied property

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

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

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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.9 Tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax 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 tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in other comprehensive income or equity. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

Deferred tax is not recognised on temporary differences that arise from temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled by the group 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.

1.10 Reinsurance contracts

Reinsurance contracts comprise contracts with reinsurers under which the group 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 group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer.

Outward reinsurance premiums are recognised when due for payment.

1.11 Financial instruments

Recognition and de-recognition of financial instruments

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

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

The group 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 group; 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 group commits to purchase or sell the asset.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.11 Financial instruments (continued)

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 group 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, cost may be an appropriate estimate of fair value.

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

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

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

Financial assets at amortised cost

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

Derivative financial instruments

Derivative instruments carried at fair value, 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.11 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.

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 group.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current 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 group. Scrip lending fees received are included under fee income. The group continues to recognise the related income on the equities and bonds on loan.

Impairment of financial assets

The group 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 group 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 the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.12 Foreign currency translation

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the 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 as investment income 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 the 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 accumulated in foreign currency translation reserve in equity. 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.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the group 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 group's defined benefit retirement plan, the projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost, and where applicable, past service cost.

The current service cost is recognised as an expense.

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

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is limited to the net total of the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.13 Employee benefits (continued)

Other post-retirement benefit plan

The group 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.

Other long-term employee benefits

The group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

1.14 Provisions

Provisions are recognised when the group 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 group expects some or all of a provision to be reimbursed, for example under the group'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.

1.15 Share-based payment

Cash-settled share-based payment transactions

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

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.16 Segment reporting

The group's segmental results are presented for two reporting segments, Retail and Corporate with the balance of the group's financial results reflected as attributable to shareholders. This is consistent with the way that management and the board of directors considers information when making decisions and is the basis on which resources are allocated and performance assessed by management and the board of directors. The reporting segments are described as follows:

- The Retail segment offers a wide range of wealth creation and protection products to individual customers. They constitute a combination of Old Mutual's life and savings, unit trusts, healthcare and group schemes products.
- The Corporate segment serves the corporate market comprising groups of individuals such as companies, medical aid and retirement funds, unions and public sector bodies. The segment provides clients with a set of investment, savings, risk management and administration products, and services.

The products from both segments are sold in South Africa and there is no specific geographical concentration. Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the group's revenue that can be allocated on a reasonable basis. Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to a segment. Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from operating activities of a segment.

The information reflected in note 3 reflects the measures of profit or loss, assets and liabilities for each segment as regularly provided to management and the board of directors. There are no differences between the measurement of the assets and liabilities reflected in the primary financial statements and that reported for the segments.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group 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.

1.17 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.

1.18 Impairment of non-financial assets

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

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

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

1.19 Dividend distribution

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

1.20 Borrowing costs

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Accounting policies

1.21 Critical accounting estimates and judgements

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

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

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

Insurance contract accounting is discussed in note 1.4 above, and further detail of the methodology used in determining insurance contract liabilities is included in note 42. Accounting for deferred acquisition cost assets is discussed in note 1.4.

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 1.4 and 1.11 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 31. The assumptions applied in valuing share-based payment liabilities are disclosed in note 30.

Financial 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 group's policy in relation to investment securities and loans and receivables is described in note 1.11 above.

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

1.22 Share capital

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

1.23 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the 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 financial statements

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016).

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The group does not hold any equipment or intangible assets amortised on a revenue basis and therefore the amendment is not expected to have a material impact on the financial statements of the group and company.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted and must be disclosed.

- IAS 19 Employee Benefits – Discount rate. The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.

The amendment is not expected to have a material impact on the financial statements of the group and company. The amendment is effective for financial periods commencing on or after 1 January 2016.

- IFRS 9 Financial Instruments (effective 1 January 2018) - IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are removed.

IFRS 9 retains almost all of the existing requirements from IAS 39 for financial liabilities. However any gain or loss on a financial liability designated at FVTPL attributable to changes in own credit risk is generally presented in other comprehensive income with remaining change in fair value presented in profit or loss.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' approach for debt instruments measured at amortised cost or FVOCI.

IFRS 9 will align hedge accounting more closely with risk management of an entity. In terms of IFRS 9 additional exposures may be hedged items.

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).

The group had adopted a partial IFRS 9 (2009) before, but the comprehensive IFRS 9 requirements will be adopted for the first time for the year ending 31 December 2018. The impact on the financial statements has not yet been estimated.

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018) - In terms of IFRS 15, entities will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to customers at the amount to which the entity expects to be entitled to. IFRS 15 provides guidance on when to capitalise costs of obtaining or fulfilling a contract that are not addressed in other standards.

IFRS 15 will be adopted for the first time for the year ending 31 December 2018. The impact on the financial statements has not yet been estimated.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

2. New standards and interpretations (continued)

- The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

Key amendments are:

- Clarifying the materiality requirements in IAS 1
- Stating that entities have flexibility as to the order in which they present the notes to financial statements
- Stating that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss
- Providing requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness. The amendment may lead to changes being made to the disclosures in the financial statements of the company and group.

The amendments are effective for financial periods commencing on or after 1 January 2016.

Annual Improvements to IFRSs 2012-2014 Cycle (effective annual periods beginning on or after 1 January 2016). The following clarifications were finalised for certain standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – IFRS 5 is amended to clarify that:
 - if an entity changes the method of disposal of an asset (or disposal group) – ie. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag – then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognises any write-down (impairment loss) or subsequent increase in the fair value less cost to sell/distribute of the asset (or disposal group); and
 - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

- IFRS 7 Financial Instruments: Disclosures – IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset – eg. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

3. Segment information

Income statement

Segment revenue

Gross earned premiums

Outward reinsurance

Net earned premiums

Investment income (net of investment losses)

Fee and commission income

Other income

Segment expenses

Claims and benefits

Reinsurance recoveries

Net claims incurred (including change in insurance contract provisions)

Change in investment contract liabilities

Commission and other acquisition costs

Operating and administration expenses

Segment result

Shareholder income

Investment loss

Shareholder expenses

Finance costs

Operating and administration expenses

Profit before tax

Income tax expense

Profit after tax for the financial year

	Company 2015 R m		
	Retail	Corporate	Total
Gross earned premiums	21,380	22,143	43,523
Outward reinsurance	(974)	(102)	(1,076)
<i>Net earned premiums</i>	20,406	22,041	42,447
Investment income (net of investment losses)	22,483	18,324	40,807
Fee and commission income	4,767	217	4,984
Other income	257	-	257
Segment revenue			
Claims and benefits	(19,279)	(32,472)	(51,751)
Reinsurance recoveries	910	516	1,426
<i>Net claims incurred (including change in insurance contract provisions)</i>	(18,369)	(31,956)	(50,325)
Change in investment contract liabilities	(13,321)	(5,245)	(18,566)
Commission and other acquisition costs	(4,254)	(55)	(4,309)
Operating and administration expenses	(7,091)	(1,760)	(8,851)
Segment result	4,878	1,566	6,444
Shareholder income			
Investment loss			(1,300)
Shareholder expenses			
Finance costs			(1,387)
Operating and administration expenses			(238)
Profit before tax			3,519
Income tax expense			(469)
Profit after tax for the financial year			3,050

Statement of financial position

Segment assets

Shareholder assets

Total assets

Insurance contract liabilities

Investment contracts with discretionary participation features

Investment contracts

Other liabilities

Segment liabilities

Shareholder liabilities

Total liabilities

Segment assets	316,935	237,596	554,531
Shareholder assets			65,561
Total assets			620,092
Insurance contract liabilities	(96,767)	(58,042)	(154,809)
Investment contracts with discretionary participation features	(24,513)	(114,862)	(139,375)
Investment contracts	(171,811)	(55,077)	(226,888)
Other liabilities	(23,844)	(9,615)	(33,459)
Segment liabilities	(316,935)	(237,596)	(554,531)
Shareholder liabilities			(18,009)
Total liabilities			(572,540)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

3. Segment information (continued)

Income statement			Company 2014 R m
	Retail	Corporate	Total
Segment revenue			
Gross earned premiums	20,358	14,643	35,001
Outward reinsurance	(887)	(111)	(998)
<i>Net earned premiums</i>	19,471	14,532	34,003
Investment income (net of investment losses)	28,162	25,605	53,767
Fee and commission income	3,868	262	4,130
Other income	263	-	263
Segment expenses			
Claims and benefits	(24,889)	(29,733)	(54,622)
Reinsurance recoveries	826	(355)	471
<i>Net claims incurred (including change in insurance contract provisions)</i>	(24,063)	(30,088)	(54,151)
Change in investment contract liabilities	(13,019)	(6,938)	(19,957)
Commission and other acquisition costs	(3,437)	(43)	(3,480)
Operating and administration expenses	(6,612)	(1,871)	(8,483)
Segment result	4,633	1,459	6,092
Shareholder income			
Investment income			11,237
Other income			60
Shareholder expenses			
Finance costs			(902)
Operating and administration expenses			(217)
Profit before tax			16,270
Income tax expense			(2,994)
Profit after tax for the financial year			13,276

Statement of financial position

Segment assets	288,887	222,408	511,295
Shareholder assets			74,937
Total assets			586,232
Insurance contract liabilities	(100,022)	(57,720)	(157,742)
Investment contracts with discretionary participation features	(22,263)	(102,329)	(124,592)
Investment contracts	(152,069)	(60,335)	(212,404)
Other liabilities	(14,533)	(2,024)	(16,557)
Segment liabilities	(288,887)	(222,408)	(511,295)
Shareholder liabilities			(25,712)
Total liabilities			(537,007)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

3. Segment information

Income statement

Segment revenue

	Consolidated 2015 R m		
	Retail	Corporate	Total
Gross earned premiums	21,452	25,201	46,653
Outward reinsurance	(988)	(221)	(1,209)
<i>Net earned premiums</i>	20,464	24,980	45,444
Investment income (net of investment losses)	25,661	19,464	45,125
Fee and commission income	6,188	257	6,445
Other income	813	27	840

Segment expenses

Claims and benefits	(19,316)	(32,705)	(52,021)
Reinsurance recoveries	915	525	1,440
<i>Net claims incurred (including change in insurance contract provisions)</i>	(18,401)	(32,180)	(50,581)
Change in investment contract liabilities	(13,745)	(8,505)	(22,250)
Commission and other acquisition costs	(4,825)	(75)	(4,900)
Operating and administration expenses	(9,351)	(2,313)	(11,664)
Segment result	6,804	1,655	8,459

Shareholder income

Investment income	888
Other income	52
Share of associates and joint ventures profit after tax	44

Shareholder expenses

Finance costs	(1,710)
Operating and administration expenses	(75)
Change in third party interest in consolidated funds	(3,374)

Profit before tax	4,284
Income tax expense	(1,381)

Profit after tax for the financial year

2,903

Statement of financial position

Segment assets	338,096	241,234	579,330
Shareholder assets			126,571
Total assets			705,901

Insurance contract liabilities	(96,787)	(58,955)	(155,742)
Investment contracts with discretionary participation features	(24,513)	(114,862)	(139,375)
Investment contracts	(191,078)	(57,317)	(248,395)
Other liabilities	(25,718)	(10,100)	(35,818)
Segment liabilities	(338,096)	(241,234)	(579,330)
Shareholder liabilities			(86,030)
Total liabilities			(665,360)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

3. Segment information (continued)

Income statement	Consolidated 2014 R m		
	Retail	Corporate	Total
Segment revenue			
Gross earned premiums	20,428	15,447	35,875
Outward reinsurance	(902)	(226)	(1,128)
<i>Net earned premiums</i>	19,526	15,221	34,747
Investment income (net of investment losses)	28,826	26,867	55,693
Fee and commission income	5,472	311	5,783
Other income	673	23	696
Segment expenses			
Claims and benefits	(24,905)	(29,998)	(54,903)
Reinsurance recoveries	828	(287)	541
<i>Net claims incurred (including change in insurance contract provisions)</i>	(24,077)	(30,285)	(54,362)
Change in investment contract liabilities	(13,586)	(8,164)	(21,750)
Commission and other acquisition costs	(3,978)	(75)	(4,053)
Operating and administration expenses	(8,396)	(2,233)	(10,629)
Segment result	4,460	1,665	6,125
Shareholder income			
Investment income			10,707
Other income			132
Share of associates and joint ventures loss after tax			(37)
Shareholder expenses			
Finance costs			(1,596)
Operating and administration expenses			(630)
Change in third party interest in consolidated funds			(3,557)
Profit before tax			11,144
Income tax expense			(3,308)
Profit after tax for the financial year			7,836

Statement of financial position

Segment assets	308,683	224,326	533,009
Shareholder assets			132,376
Total assets			665,385
Insurance contract liabilities	(100,015)	(58,633)	(158,648)
Investment contracts with discretionary participation features	(22,262)	(102,329)	(124,591)
Investment contracts	(169,829)	(61,110)	(230,939)
Other liabilities	(16,577)	(2,254)	(18,831)
Segment liabilities	(308,683)	(224,326)	(533,009)
Shareholder liabilities			(90,437)
Total liabilities			(623,446)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities

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

Categories of financial instruments

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

	Company 2015			
	R m			
Assets	Fair value through profit or loss	Amortised cost	Other assets	Total
Intangible assets	-	-	184	184
Investment property	-	-	1,947	1,947
Property and equipment	-	-	2,963	2,963
Deferred tax assets	-	-	301	301
Reinsurance contracts	-	-	608	608
Post employment benefits	-	-	511	511
Deferred acquisition costs	-	-	947	947
Loans and advances	-	230	-	230
Investment and securities	565,714	118	-	565,832
Derivative assets	8,502	-	-	8,502
Amounts due by group companies	-	10,989	-	10,989
Other assets	-	7,121	-	7,121
Cash and cash equivalents	-	17,940	-	17,940
Non-current assets held for sale	-	-	2,017	2,017
Total assets	574,216	36,398	9,478	620,092

	Company 2014			
	R m			
Assets	Fair value through profit or loss	Amortised cost	Other assets	Total
Intangible assets	-	-	160	160
Investment property	-	-	3,673	3,673
Property and equipment	-	-	2,700	2,700
Deferred tax assets	-	-	1,071	1,071
Reinsurance contracts	-	-	477	477
Post employment benefits	-	-	482	482
Deferred acquisition costs	-	-	985	985
Loans and advances	-	241	-	241
Investment and securities	517,307	126	-	517,433
Derivative assets	3,993	-	-	3,993
Amounts due by group companies	-	29,395	-	29,395
Other assets	-	5,557	-	5,557
Cash and cash equivalents	-	17,265	-	17,265
Non-current assets held for sale	-	-	2,800	2,800
Total assets	521,300	52,584	12,348	586,232

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

	Company 2015 R m			
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	154,809	154,809
Investment contract liabilities	226,888	-	139,375	366,263
Borrowed funds	5,733	-	-	5,733
Share-based payment liabilities	-	-	697	697
Deferred revenue	-	-	50	50
Deferred tax liabilities	-	-	3,992	3,992
Derivative liabilities	12,588	-	-	12,588
Amounts due to group companies	-	1,848	-	1,848
Provisions	-	-	2,357	2,357
Current tax payable	-	-	526	526
Other liabilities	-	22,666	1,011	23,677
	245,209	24,514	302,817	572,540

	Company 2014 R m			
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	157,742	157,742
Investment contract liabilities	212,404	-	124,592	336,996
Borrowed funds	996	3,000	-	3,996
Share-based payment liabilities	-	-	697	697
Deferred revenue	-	-	71	71
Deferred tax liabilities	-	-	4,626	4,626
Derivative liabilities	5,323	-	-	5,323
Amounts due to group companies	-	1,397	-	1,397
Provisions	-	-	2,645	2,645
Current tax payable	-	-	1,744	1,744
Other liabilities	-	20,793	977	21,770
	218,723	25,190	293,094	537,007

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and Liabilities (continued)

				Consolidated 2015 R m
	Fair value through profit or loss	Amortised cost	Other assets	Total
Assets				
Intangible assets	-	-	271	271
Investment property	-	-	17,949	17,949
Property and equipment	-	-	2,968	2,968
Deferred tax assets	-	-	358	358
Reinsurance contracts	-	-	871	871
Post employment benefits	-	-	511	511
Deferred acquisition costs	-	-	1,216	1,216
Loans and advances	-	230	-	230
Investment and securities	605,932	118	-	606,050
Investments in associates	-	-	1,569	1,569
Derivative assets	8,801	-	-	8,801
Amounts due by group companies	-	9,793	-	9,793
Other assets	-	15,107	-	15,107
Cash and cash equivalents	-	36,940	-	36,940
Non-current assets held for sale	-	-	3,267	3,267
Total assets	614,733	62,188	28,980	705,901

				Consolidated 2014 R m
	Fair value through profit or loss	Amortised cost	Other assets	Total
Assets				
Intangible assets	-	-	248	248
Investment property	-	-	17,235	17,235
Property and equipment	-	-	2,705	2,705
Deferred tax assets	-	-	1,111	1,111
Reinsurance contracts	-	-	773	773
Post employment benefits	-	-	482	482
Deferred acquisition costs	-	-	1,225	1,225
Loans and advances	-	241	-	241
Investment and securities	556,344	125	-	556,469
Investments in associates	-	-	1,116	1,116
Derivative assets	4,368	-	-	4,368
Amounts due by group companies	-	27,832	-	27,832
Other assets	-	10,427	-	10,427
Cash and cash equivalents	-	38,353	-	38,353
Non-current assets held for sale	-	-	2,800	2,800
Total assets	560,712	76,978	27,695	665,385

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

				Consolidated 2015 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	155,741	155,741
Investment contract liabilities	248,395	-	139,375	387,770
Third party interest in consolidated funds	55,629	-	-	55,629
Borrowed funds	5,733	-	-	5,733
Share-based payment liabilities	-	-	697	697
Deferred revenue	-	-	81	81
Deferred tax liabilities	-	-	4,644	4,644
Derivative liabilities	12,804	-	-	12,804
Amounts due to group companies	-	4,222	-	4,222
Provisions	-	-	2,431	2,431
Current tax payable	-	-	803	803
Other liabilities	-	30,182	4,623	34,805
	322,561	34,404	308,395	665,360

				Consolidated 2014 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contract liabilities	-	-	158,648	158,648
Investment contract liabilities	230,938	-	124,592	355,530
Third party interest in consolidated funds	56,026	-	-	56,026
Borrowed funds	996	3,000	-	3,996
Share-based payment liabilities	-	-	697	697
Deferred revenue	-	-	102	102
Deferred tax liabilities	-	-	5,096	5,096
Derivative liabilities	5,561	-	-	5,561
Amounts due to group companies	-	3,113	-	3,113
Provisions	-	-	2,704	2,704
Current tax payable	-	-	1,778	1,778
Other liabilities	-	25,474	4,721	30,195
	293,521	31,587	298,338	623,446

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

Determination of fair value

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

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

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

Investments and securities

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

Investment contracts

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

Borrowed funds

Borrowed funds are carried at fair value (2014 carrying value of borrowed funds was based on a combination of fair value and amortised cost). The fair value of amounts included in borrowed funds 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

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.

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'.

Financial assets at fair value

Derivative assets
Investment and securities

Company 2015			
R m			
Level 1	Level 2	Level 3	Total
-	8,502	-	8,502
265,095	274,578	26,041	565,714
265,095	283,080	26,041	574,216

Financial assets at fair value

Derivative assets
Investment and securities

Company 2014			
R m			
Level 1	Level 2	Level 3	Total
-	3,993	-	3,993
263,330	233,515	20,462	517,307
263,330	237,508	20,462	521,300

Financial liabilities at fair value

Derivative liabilities
Investment contracts
Borrowed funds

Company 2015		
R m		
Level 1	Level 2	Total
-	12,588	12,588
-	226,888	226,888
5,733	-	5,733
5,733	239,476	245,209

Financial liabilities at fair value

Derivative liabilities
Investment contracts
Borrowed funds

Company 2014		
R m		
Level 1	Level 2	Total
-	5,323	5,323
-	212,404	212,404
996	-	996
996	217,727	218,723

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

Financial assets at fair value

Derivative assets
Investment and securities

			Consolidated 2015 R m
Level 1	Level 2	Level 3	Total
-	8,801	-	8,801
405,426	184,702	15,804	605,932
405,426	193,503	15,804	614,733

Financial assets at fair value

Derivative assets
Investment and securities

			Consolidated 2014 R m
Level 1	Level 2	Level 3	Total
-	4,368	-	4,368
388,100	156,570	11,673	556,343
388,100	160,938	11,673	560,711

Financial liabilities at fair value

Derivative liabilities
Investment contracts
Third party interest in consolidated funds
Borrowed funds

			Consolidated 2015 R m
Level 1	Level 2	Total	
-	12,804	12,804	
-	248,395	248,395	
-	55,629	55,629	
5,733	-	5,733	
5,733	316,828	322,561	

Financial liabilities at fair value

Derivative liabilities
Investment contracts
Third party interest in consolidated funds
Borrowed funds

			Consolidated 2014 R m
Level 1	Level 2	Total	
-	5,561	5,561	
-	230,938	230,938	
-	56,026	56,026	
996	-	996	
996	292,525	293,521	

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

Movement in level 3 assets

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
At the beginning of the year	20,462	13,285	11,673	10,878
Gains recognised in income statement	4,022	7,119	2,574	1,367
Purchases and issues	2,852	2,600	2,852	1,970
Sales and settlements	(1,567)	(2,667)	(1,567)	(2,667)
Transfers into level 3 from other categories	554	125	554	125
Transfers out of level 3 to other categories	(282)	-	(282)	-
At end of the year	26,041	20,462	15,804	11,673

For the group's designated level 3 assets held at the end of the year, net gains of R1,342 million were recognised in the income statement as investment income (2014: net gains of R1,304 million).

For the company's designated level 3 assets held at the end of the year, net gains of R2,795 million were recognised in the income statement as investment income (2014: net gains of R7,755 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.

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

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

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

Analysis of reasonably possible alternative assumptions - level 3 assets

Level 3 financial assets

Investments and securities

Company			
2015		2014	
R m		R m	
Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2,833	(2,542)	3,225	(2,854)

Level 3 financial assets

Investments and securities

Consolidated			
2015		2014	
R m		R m	
Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
1,995	(1,803)	2,169	(1,923)

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%).

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

Valuation technique	Significant unobservable input	Range of unobservable inputs
Discounted cash flow (DCF)	Risk adjusted discount rate: - Equity risk premium - Liquidity discount rate - Nominal risk free rate	5% - 8.5% 10% - 25% 8% - 9%
Price earnings (PE) model/multiple/ embedded value	PE ratio/multiple: discounts applied, e.g. marketability	8% - 24%
Sum of parts	PE ratio and DCF	See PE ratio and DCF

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

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

	Company 2015				
	R m				
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
Assets					
Loans and advances	-	-	230	230	230
Other assets	-	-	7,121	7,121	7,121
Cash and cash equivalents	-	17,940	-	17,940	17,940
	-	17,940	7,351	25,291	25,291
Liabilities					
Other liabilities	-	-	23,677	23,677	23,677
	-	-	23,677	23,677	23,677

	Company 2014				
	R m				
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
Assets					
Loans and advances	-	-	241	241	241
Other assets	-	-	5,557	5,557	5,557
Cash and cash equivalents	-	17,265	-	17,265	17,265
	-	17,265	5,798	23,063	23,063
Liabilities					
Borrowed funds	3,035	-	-	3,035	3,000
Other liabilities	-	-	21,770	21,770	21,770
	3,035	-	21,770	24,805	24,770

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

4. Financial assets and liabilities (continued)

				Consolidated 2015 R m	
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
Assets					
Loans and advances	-	-	230	230	230
Other assets	-	-	15,107	15,107	15,107
Cash and cash equivalents	-	36,940	-	36,940	36,940
	-	36,940	15,337	52,277	52,277
Liabilities					
Other liabilities	-	-	34,805	34,805	34,805
	-	-	34,805	34,805	34,805

				Consolidated 2014 R m	
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
Assets					
Loans and advances	-	-	241	241	241
Other assets	-	-	10,427	10,427	10,427
Cash and cash equivalents	-	38,353	-	38,353	38,353
	-	38,353	10,668	49,021	49,021
Liabilities					
Borrowed funds	3,035	-	-	3,035	3,000
Other liabilities	-	-	30,195	30,195	30,195
	3,035	-	30,195	33,230	33,195

Financial instruments that are subject to master netting agreements

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

The potential effect of netting, provided that master netting agreements are in place for all counterparties, is:

- Derivative financial instruments – assets: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 8,801 million (2014: R 4,368 million).
- Derivative financial instruments – liabilities: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 12,804 million (2014: R 5,561 million).
- Derivative financial instruments – assets (Company): Gross amounts of recognised financial instruments in the statement of financial position amounted to R8,502 million (2014: R3,993 million).
- Derivative financial instruments – liabilities (Company): Gross amounts of recognised financial instruments in the statement of financial position amounted to R12,588 million (2014: R5,323 million).
- Cash and bond collateral amounts not offset against derivative assets and liabilities in the statement of financial position are R3,456 million (2014: R1,139 million).

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

5. Investment income

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Interest and similar income				
Loans and advances				
Policyholder loans	15	16	15	16
Investment and securities				
Government	4,986	4,495	5,038	4,518
Other debt securities	4,466	4,219	4,725	4,438
Pooled investments	3,274	2,855	3,956	3,451
Short-term funds	2,140	1,539	2,140	1,540
Other	151	128	346	147
Cash and cash equivalents	1,017	1,039	1,376	1,753
Collateral held	823	620	823	620
	16,872	14,911	18,419	16,483
Dividend income				
Investment and securities				
Equity securities	3,867	3,608	4,081	3,924
Pooled investments	1,106	1,284	1,566	1,707
	4,973	4,892	5,647	5,631
Rental income from investment property	528	710	2,070	2,061
Fair value gains/(losses)				
Investment property	85	531	1,161	1,151
Investment and securities *	20,382	42,791	22,049	39,904
Derivative instruments	(3,323)	1,169	(3,323)	1,170
	17,144	44,491	19,887	42,225
Foreign currency gains and losses	(10)	-	(10)	-
Total investment income recognised in income statement	39,507	65,004	46,013	66,400

*Included in gains recognised in income for the group and company are transaction costs amounting to R 110 million (2014: R98 million).

6. Fee and commission income

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Investment management fees	3,086	2,746	5,916	5,299
Changes in deferred revenue	21	23	21	5
Commission income	1,877	1,361	508	479
	4,984	4,130	6,445	5,783

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

7. Finance costs

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Interest payable				
Borrowed funds - subordinated debt	558	276	558	276
Collateral held	823	620	823	620
Other interest expense	44	6	367	700
Fair value gains and losses on borrowed funds				
Borrowed funds	(256)	(4)	(256)	(4)
Derivative instruments used as economic hedges	218	4	218	4
	1,387	902	1,710	1,596
Total interest expense included above for liabilities at fair value through profit and loss	335	8	335	8

8. Commission and other acquisition costs

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Commission and fee expenses	3,054	2,456	3,461	3,047
Other acquisition costs	1,330	1,143	1,543	1,175
Change in deferred acquisition costs	(75)	(119)	(104)	(169)
	4,309	3,480	4,900	4,053

9. Operating and administration expenses

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Staff costs (excluding directors' emoluments)				
Wages and salaries	3,351	3,188	3,425	3,263
Social security costs	18	17	18	18
Defined contribution plans	311	278	311	279
Bonus and incentive remuneration	1,290	1,059	1,289	1,062
Share-based payments	256	161	257	161
Other	142	160	142	163
Less: Staff costs included in other acquisition costs	(297)	(269)	(297)	(269)
	5,071	4,594	5,145	4,677
Operating and administration expenses include				
Amortisation of intangible assets	46	24	47	27
Asset management expenses	855	800	723	629
Depreciation of property and equipment	522	156	540	159
Technical and professional fees	881	705	881	705

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

10. Auditors' remuneration

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Statutory audit services - current year	22	22	29	28
Other non-audit related services	4	4	5	5
	26	26	34	33

11. Income tax expense

Major components of the tax expense

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Current tax				
Income tax				
Current year	(300)	1,343	424	1,573
Prior year adjustments	172	62	172	65
Capital gains tax	310	318	338	318
Dividends withholding tax	130	137	130	137
	312	1,860	1,064	2,093
Deferred tax				
Originating and reversing temporary differences - current year	157	1,134	317	1,215
	157	1,134	317	1,215
Total current tax	312	1,860	1,064	2,093
Total deferred tax	157	1,134	317	1,215
Total tax expense	469	2,994	1,381	3,308

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

11. Income tax expense (continued)

Reconciliation of tax rate on profit before tax

	Company		Consolidated	
	2015 %	2014 %	2015 %	2014 %
Standard rate of tax	28.0	28.0	28.0	28.0
Prior year adjustments				
Shareholders	4.9	(0.4)	4.0	(0.6)
Policyholder	1.7	1.0	1.4	1.4
Exempt income	(37.8)	(12.0)	(13.4)	(1.6)
Disallowed expenses	0.2	2.4	0.6	3.6
Capital gains tax - rates	11.1	(1.9)	7.7	(2.8)
Policyholder tax	5.0	1.0	4.1	1.7
Other	0.2	0.3	(0.2)	-
Effective tax rate	13.3	18.4	32.2	29.7

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Shareholder tax	141	2,535	803	2,713
Policyholder tax	328	459	578	595
Total tax expense	469	2,994	1,381	3,308

12. Intangible assets

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Developmental expenditure				
Carrying amount at beginning of the year	160	255	248	264
Additions	151	48	152	129
Amortisation	(46)	(24)	(47)	(27)
Disposals	(81)	(119)	(82)	(118)
Carrying amount at end of the year	184	160	271	248
Cost	643	573	743	673
Accumulated amortisation and impairment loss	(459)	(413)	(472)	(425)
Carrying amount at end of the year	184	160	271	248

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

13. Investment property

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Carrying amount at beginning of the year	3,673	6,985	17,235	19,142
Additions	1,652	536	2,161	1,322
Disposals	(2,790)	(1,579)	(685)	(1,579)
Revaluation	85	531	1,161	1,150
Transfers to non-current assets held-for-sale	(673)	(2,800)	(1,923)	(2,800)
Carrying amount at end of the year	1,947	3,673	17,949	17,235

Other items

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Rental income from investment property	528	710	2,070	2,061
Direct operating expenses	(113)	(97)	(485)	(189)
	415	613	1,585	1,872

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

- Income generating assets - commercial, retail and industrial properties: Valued using the internationally and locally recognised Discounted Cash Flow method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions. Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers' assumptions and information they have based on similar valuations they have done or sourced from external brokers.
- Land holdings or land: As a general rule, these will be valued according to the prevailing town planning scheme and current zoning at the date of valuation. The land is valued according to its current condition and zoning. Should the valuer consider that the site has potential for a different zoning, the valuer is permitted to report a value subject to receipt of zoning and advise accordingly. Land is to be valued by the direct comparison method by reference to recent sales of comparable properties in the neighbourhood or similar localities on a land per square metre, bulk per square metre or unit basis.
- Investment property under construction: Valued in a similar manner to income producing properties (less outstanding development costs), except where the fair value of the investment property is not reliably determinable. In certain exceptional cases the cost model approach of land value plus development costs to date can be adopted to value developments in progress.
- Owner-occupied properties: Valued according to the sales of comparable properties. Owner-occupied properties are valued as at 31 December each year by internal professional valuers and external valuations are obtained once every 3 years.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

13. Investment property (continued)

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

Type of property	Valuation approach	Key unobservable inputs	Range of estimates for unobservable inputs
Income generating assets - commercial/retail/industrial properties	Valued using the internationally and locally recognised Discounted Cash Flow (DCF) method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions.	Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers assumptions and information they have based on similar valuations they have done our sourced from external brokers.	Office Capitalisation rates: 7.75% to 9.5% Discount rates: 13.5% to 14.5% Market rentals: R85 to R135 per m ² Vacancy rates: 0% to 9.4% Retail Capitalisation rates: 6.5% to 9.25% Discount rates: 12.75% to 14.75% Market rentals: R48 to R1 300 per m ² Vacancy rates: 0% to 19.4% Industrial Capitalisation rates: 8.5% to 10.5% Discount rates: 13.5% to 14.5% Market rentals: R40 to R58 per m ² Vacancy rates: 0% to 5.2%
Land	Valued according to the existing zoning and town planning scheme at the date of valuation. However there are cases where exceptional circumstances need to be considered.	The land per m ² and bulk per m ² are based on comparable sales and zoning conditions. Discount rates are based on industry guidelines predominantly from SAPOA and IPD as well as comparison to listed property funds in South Africa.	Land Land per m ² : R348 to R1 262

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

14. Property and equipment

	Company 2015 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	2,460	240	2,700
Additions	-	626	626
Revaluation	195	-	195
Disposals	(34)	(2)	(36)
Depreciation	(39)	(483)	(522)
Carrying amount at end of the year	2,582	381	2,963
Cost or valuation	2,582	1,248	3,830
Accumulated depreciation	-	(867)	(867)
Carrying amount at end of the year	2,582	381	2,963

	Company 2014 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3,095	208	3,303
Additions	-	216	216
Revaluation	98	-	98
Disposals	(694)	(67)	(761)
Depreciation	(39)	(117)	(156)
Carrying amount at end of the year	2,460	240	2,700
Cost or valuation	2,460	624	3,084
Accumulated depreciation	-	(384)	(384)
Carrying amount at end of the year	2,460	240	2,700

	Consolidated 2015 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	2,461	244	2,705
Additions	-	645	645
Revaluation	195	-	195
Disposals	(34)	(3)	(37)
Depreciation	(40)	(500)	(540)
Carrying amount at end of the year	2,582	386	2,968
Cost or valuation	2,582	1,302	3,884
Accumulated depreciation	-	(916)	(916)
Carrying amount at end of the year	2,582	386	2,968

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

14. Property and equipment (continued)

	Consolidated 2014		
	R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3,096	211	3,307
Additions	1	218	219
Revaluation	98	-	98
Disposals	(695)	(65)	(760)
Depreciation	(39)	(120)	(159)
Carrying amount at end of the year	2,461	244	2,705
Cost or valuation	2,461	661	3,122
Accumulated depreciation	-	(417)	(417)
Carrying amount at end of the year	2,461	244	2,705

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

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

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R 2,223 million (2014: R 2,223 million) for the group and the company.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

15. Deferred tax

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Deferred tax asset				
Investment contracts	249	1,031	249	1,031
Income tax losses	52	40	109	80
Deferred tax asset	301	1,071	358	1,111
Deferred tax liability				
Capital gains tax - shareholders	(1,991)	(2,818)	(1,992)	(2,901)
Capital gains tax - policyholders	(1,819)	(1,594)	(2,379)	(1,933)
Other	(182)	(214)	(273)	(262)
	(3,992)	(4,626)	(4,644)	(5,096)
Reconciliation of net deferred tax liability				
At beginning of the year	(3,555)	(2,371)	(3,985)	(2,706)
Income statement charge	(157)	(1,134)	(317)	(1,215)
Other movements	39	-	34	(52)
Charged to other comprehensive income	(18)	(50)	(18)	(12)
At end of the year	(3,691)	(3,555)	(4,286)	(3,985)

16. Reinsurance contracts

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Reinsurers' share of policyholder liabilities	341	34	588	317
Outstanding claims	267	443	283	456
	608	477	871	773
Reinsurers' share of policyholder liabilities				
At beginning of the year	34	465	317	706
Outward reinsurance premiums	1,076	998	1,209	1,128
Reinsurance recoveries	(1,119)	(914)	(1,106)	(990)
Increase/(decrease) in reinsurers' share of policyholder liabilities	350	(515)	168	(527)
At end of the year	341	34	588	317

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

17. Deferred acquisition costs

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
At beginning of the year	985	1,145	1,225	1,335
Acquisition cost deferred on inward business	351	373	383	445
Transfer to investment contract liabilities	(112)	(279)	(112)	(279)
Amortisation	(277)	(254)	(280)	(276)
At end of the year	947	985	1,216	1,225

18. Loans and advances

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Policyholder loans	230	241	230	241

The effective interest earned on policyholder loans changed in 2015 due to the changes in the prime rate. It increased to 11.5% on the 1st of December 2015. (2014: Changed twice due to changes in the prime rate, it increased to 11% on the 1st March and to 11.25% on 1st of August 2014).

The group and company has recognised no impairment loss (2014:nil) on loans and advances during the year ended 31 December 2015. As at 31 December 2015 and 2014, there were no overdue loans and advances and no impairment provision made against any amounts.

The fair value of policyholder loans approximates their carrying value.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

19. Investments and securities

Analysis of investments

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Investments in group undertakings				
Nedbank Group Ltd	14,715	19,946	14,731	19,968
Subsidiaries, joint ventures and associates	21,958	18,947	-	-
Capital advances to group undertakings	10,963	11,749	10,963	11,749
Old Mutual plc	2,781	2,342	2,781	2,342
	50,417	52,984	28,475	34,059
Other financial assets				
Government securities	64,678	63,651	76,401	74,136
Equity securities	96,477	96,172	221,567	210,660
Other debt securities	59,471	61,611	67,107	68,409
Pooled investments	257,252	214,363	168,222	136,854
Short-term funds	37,537	28,652	44,278	32,351
At end of the year	515,415	464,449	577,575	522,410
	565,832	517,433	606,050	556,469

The group and 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 R16,950 million (2014: R17,731 million). As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

Other debt securities include credit linked notes of R4,289 million (2014: R3,997 million). Credit linked notes are made up of a deposit and a credit default swap. A credit default swap is a derivative instrument and this has not been separated out from the host contract as the entire contract is carried at fair value. The credit default swap component of the overall balance is insignificant.

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

Analysis of capital advances to group undertakings

	Company and Consolidated	
	2015 R m	2014 R m
Old Mutual Portfolio Holdings (Pty) Ltd	2,030	2,028
Old Mutual Group Holdings (SA) (Pty) Ltd	-	1,081
Old Mutual (South Africa) Management Incentive Trust	118	126
Old Mutual Capital Holding (Pty) Ltd	8,815	8,514
	10,963	11,749

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

20. Investment in principal subsidiaries, joint ventures and associates (continued)

Investment in associates and joint ventures

				Consolidated 2015 R m
	Country of incorporation	% interest held	Carrying value	Gross share of profit/(loss)
Unlisted - associates				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49%	68	7
Real People Investment Holdings Ltd	Republic of South Africa	30%	70	-
Unlisted - joint venture				
Old Mutual Guodian Life Insurance Company Ltd	Republic of China	50%	1,431	37
			1,569	44

				Consolidated 2014 R m
	Country of incorporation	% interest held	Carrying value	Gross share of profit/(loss)
Unlisted - associates				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49%	65	7
Real People Investment Holdings Ltd	Republic of South Africa	30%	60	-
Unlisted - joint venture				
Old Mutual Guodian Life Insurance Company Ltd	Republic of China	50%	991	(44)
			1,116	(37)

During the year, the company increased its stake in 22seven Digital (Pty) Ltd by acquiring 6 Ordinary Class B shares via a loan capitalisation.

* The company sold its shareholding in K201250042 (Pty) Ltd to another subsidiary, Old Mutual Real Estate Holding Company (Pty) Ltd, with effect from 1 January 2015.

Community Property Holdings (Pty) Ltd and Old Mutual Real Estate Holding Company (Pty) Ltd are property loan stock companies. The company invests in its linked units comprising of part share and part debenture.

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

20. Investment in principal subsidiaries, joint ventures and associates (continued)

Structured entities

The group's involvement in structured entities includes:

- Investment funds – the nature of the entity is to manage client funds through the investment in assets, in order to generate fees from managing assets on behalf of third-party investors.
- Investment in unlisted debt and equity investments.

In structured entities, voting rights are not the predominant factor in deciding who controls the entity but rather the group's exposure to the variability of returns from these entities. The group acts as fund manager to a number of investment funds. Determining whether the group controls such an investment fund usually focuses on the assessment of decision making rights as fund manager, the investor rights to remove the fund manager and the aggregate economic interests of the group in the fund in the form of interest held and exposure to variable returns.

In most instances the group's decision-making authority, in capacity as fund manager, with regard to these funds is regarded to be well-defined. Discretion is however exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the group where the investors have the right to remove the group as fund manager without cause, the fees earned by the group are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangement for similar services and level of skills negotiated on an arm's length basis. The group has concluded that it acts as agent on behalf of the investors in these instances.

The group is considered to be acting as principal where Old Mutual is the fund manager and is able to make the investment decisions on behalf of the unit holders, earn a variable fee and there are "no kick out" rights that would remove the group as fund manager.

This is considered to be a critical accounting judgement. There have been no changes during the year which have changed the group's conclusion on the consolidation of funds.

The group has not provided any non-contractual support to any consolidated or unconsolidated structured entities.

The table below sets out the interest held by the group in unconsolidated entities. The maximum exposure to loss is equal to sum of the carrying amount of the assets held.

	Consolidated 2015 R m	
	Investment securities	Total
Pooled investments - Investment funds	51,615	51,615
Other	14,348	14,348
Total	65,963	65,963

	Consolidated 2014 R m	
	Investment securities	Total
Pooled investments - Investment funds	20,786	20,786
Other	4,060	4,060
Total	24,846	24,846

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

21. Derivative assets and liabilities

The group utilises derivative instruments to enhance the risk-return profile of policyholder and shareholders' funds. Interest rate, equity and exchange traded derivatives are contractual obligations to receive or pay a net amount based on changes in underlying interest rates, equity prices or indices or a financial instrument price on a future date at a specified price established in an organised financial market (an exchange). Since futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is low.

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

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The risk is monitored continuously with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the company assesses counterparties using the same techniques as for its lending activities.

Equity options or equity index options, are contractual agreements under which the writer grants the holder the right but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument or amount of assets determined by reference to an index at a predetermined price. In consideration for the assumption of interest rate or asset price risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the company and a customer (over-the-counter). The group 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 group's derivative financial instruments outstanding at the end of the year. These instruments allow the group and its customers to transfer, modify or reduce their credit, equity market, foreign exchange and interest rate risks.

The group undertakes transactions involving derivative financial instruments with other financial institutions. The group 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.

		Company			
		2015		2014	
		R m		R m	
		Assets	Liabilities	Assets	Liabilities
Fair value					
Derivatives					
Interest rate swaps		8,502	12,588	3,993	5,323
		8,502	12,588	3,993	5,323
		Consolidated			
		2015		2014	
		R m		R m	
		Assets	Liabilities	Assets	Liabilities
Fair value					
Derivatives					
Interest rate swaps		8,502	12,588	3,993	5,323
Other derivatives		299	216	375	238
		8,801	12,804	4,368	5,561

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

22. Amounts due (to)/from group companies

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Subsidiaries and associates				
Rodina Investments (Pty) Ltd	(1)	335	-	-
Old Mutual Heath Insurance Ltd	2	1	-	-
Old Mutual Alternative Risk Transfer Ltd	4	3	-	-
South Africa Celestis Brokers Services (Pty) Ltd	4	44	-	-
K201250042 (Pty) Ltd	-	237	-	-
Old Mutual Investment Services (Pty) Ltd	601	414	-	-
Old Mutual Unit Trust Managers (RF) (Pty) Ltd	21	20	-	-
Old Mutual Real Estate Holding Company (Pty) Ltd	340	-	-	-
Masthead (Pty) Ltd	2	-	-	-
Acsis Ltd	14	-	-	-
Old Mutual Wealth (Pty) Ltd	207	-	-	-
Old Mutual Alternative Solutions Ltd	7	-	-	-
Real People Home Improvement Finance (RF) (Pty) Ltd	607	777	607	777
	1,808	1,831	607	777

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Holding companies				
Old Mutual Emerging Markets Ltd	(202)	(238)	(202)	(238)
Old Mutual Group Holdings (SA) (Pty) Ltd	7,621	6,573	6,920	6,042
Old Mutual plc	13	13	13	13
	7,432	6,348	6,731	5,817
Old Mutual plc - subordinated loan	(97)	(76)	(97)	(76)
	7,335	6,272	6,634	5,741

The Old Mutual plc subordinated loan of £4.25 million (2014: £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Fellow subsidiaries				
Old Mutual Property (Pty) Ltd	10	14	10	14
Old Mutual (South Africa) Foundation	13	64	13	64
Old Mutual (Africa) Holdings (Pty) Ltd	176	134	176	134
Old Mutual Capital Holdings (Pty) Ltd	514	373	514	373
Old Mutual International (Guernsey) Ltd	(6)	156	(6)	156
Old Mutual Investment Group (Pty) Ltd	(16)	(27)	(31)	(40)
Old Mutual Alternative Investments Holdings (Pty) Ltd	108	-	108	-
Royal Skandia Life Assurance Ltd	105	20,097	105	20,097
Old Mutual (South Africa) Share Trust	99	(37)	99	(37)
Old Mutual (South Africa) Dividend Access Trust	(582)	(515)	(582)	(515)
Old Mutual Investment Administrators (Pty) Ltd	39	32	39	32
Old Mutual Specialised Finance (Pty) Ltd	(861)	(439)	(2,486)	(2,063)
Old Mutual Finance (Pty) Ltd	(39)	-	(39)	-
Old Mutual Life Assurance Company (Namibia) Ltd	113	32	113	32
Old Mutual Life Assurance Company (Kenya) Ltd	256	-	256	-
Other	104	38	75	(18)
	33	19,922	(1,636)	18,228
Old Mutual International (Guernsey) Ltd - subordinated loan	(34)	(27)	(34)	(27)
	(1)	19,895	(1,670)	18,201

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

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

The subordinated loan from Old Mutual International (Guernsey) Ltd is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.

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.

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Loans due by group companies	10,989	29,395	9,793	27,832
Loan due to group companies	(1,848)	(1,397)	(4,222)	(3,113)
	9,141	27,998	5,571	24,719

23. Other assets

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Accrued interest on cash collateral	1,323	432	1,323	432
Other accrued interest and rent	1,787	2,070	1,796	2,073
Outstanding settlements	1,885	1,813	7,691	5,500
Other	2,126	1,242	4,297	2,422
	7,121	5,557	15,107	10,427

The carrying value of other assets approximates fair value.

24. Cash and cash equivalents

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Bank balances	8,000	5,696	27,000	26,784
Collateral held	9,940	11,569	9,940	11,569
	17,940	17,265	36,940	38,353

The carrying value of other assets approximates fair value.

The effective interest rate on short-term bank deposits ranged from 1.9% to 4.35% (2014: 1.5% to 4.1%) and the deposits had an average maturity of between 32 and 90 days (2014: 32 and 90 days).

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

25. Non-current assets held for sale

Carrying value of assets classified as held-for-sale:

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Investment property				
50% share of the Portside building	673	-	673	-
Portfolio of properties owned by Community Property Company (Pty) Ltd	-	-	1,250	-
50% share in Menlyn Shopping Centre	-	2,800	-	2,800
Associate				
UAP Holdings Ltd	1,344	-	1,344	-
	2,017	2,800	3,267	2,800

The group has agreed to dispose of the share of the Portside building in South Africa for R 840 million less cost to sell of R 167 million. This transaction is subject to competition commission approval and transfer by the Deeds office. The group has agreed to provide the purchaser with a rental guarantee of R 120 million. These assets form part of the policyholder property portfolio.

In the prior year, the group agreed to dispose of the remaining portion of the Menlyn Shopping Centre in South Africa for R 3,200 million, subsequent to the completion of agreed upon improvements on the centre. This transaction was subject to Competition Commission approval and transfer by the Deeds office. As part of the transaction, the Group agreed to acquire the 50% share of the Cavendish Shopping Centre for R 1,100 million. These assets form part of the policyholder property portfolio. There was no impact on the income statement as a result of this transaction.

It is intended that the investment in UAP Holdings Ltd, which is incorporated in Kenya, is to be sold to Old Mutual Kenya Holdings Ltd within the following year.

Community Property Company (Pty) Ltd has agreed to sell investment properties to the Public Investment Corporation. The disposals are expected to occur within the next 12 months. The valuations of the investment properties have been approved by the board of directors and the properties are written up to their sale price of R 1,250 million.

All items are categorised into level 3 of the fair value hierarchy. Refer to note 13 for information regarding valuation techniques used in the determination of fair values for investment property. The investment in UAP Holdings Ltd has been measured at fair value using the recent over-the-counter transactions of this share.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

26. Policyholder liabilities

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Insurance contracts				
Outstanding claims	2,095	2,087	2,139	2,116
Future policyholders' benefits	152,714	155,655	153,602	156,532
	154,809	157,742	155,741	158,648
Investment contracts				
Liabilities at fair value through profit of loss	226,888	212,404	248,395	230,938
Liabilities with a discretionary participating feature	139,375	124,592	139,375	124,592
	366,263	336,996	387,770	355,530
	521,072	494,738	543,511	514,178

Movement in future policyholder's benefits for insurance contracts

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Balance at beginning of the year	155,655	154,101	156,532	154,855
Inflows				
Premium income	23,416	20,847	26,546	21,721
Investment income (net of investment losses)	10,833	19,905	10,852	19,965
Outflows				
Claims and policy benefits	(23,540)	(26,637)	(23,798)	(26,907)
Operating expenses	(7,904)	(7,281)	(7,990)	(7,331)
Other charges and transfers	(658)	(264)	(2,898)	(141)
Tax	326	6	168	(136)
Transfer to operating profit	(5,414)	(5,022)	(5,810)	(5,494)
Balance at end of the year	152,714	155,655	153,602	156,532

Investment contract liabilities at fair value through profit and loss

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Balance at beginning of the year	212,404	190,228	230,938	205,624
New contributions received	42,899	37,574	46,266	41,152
Withdrawals	(49,923)	(32,974)	(54,074)	(35,994)
Fair value movements, net of tax	18,566	19,957	22,250	21,750
Foreign currency translation	6,140	644	6,140	644
Fees deducted	(3,086)	(2,746)	(3,013)	(1,959)
Transfer from deferred acquisition costs	(112)	(279)	(112)	(279)
Balance at end of the year	226,888	212,404	248,395	230,938

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

26. Policyholder liabilities (continued)

Liabilities with a discretionary participation feature

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Balance at beginning of the year	124,592	113,527	124,592	113,527
Inflows				
Premium income	20,107	14,154	20,107	14,154
Investment income (net of investment losses)	12,866	15,180	12,866	15,180
Outflows				
Claims and policy benefits	(16,370)	(14,857)	(16,370)	(14,857)
Operating expenses	(888)	(1,154)	(888)	(1,154)
Other charges and other transfers	515	(1,277)	515	(1,277)
Tax	(152)	(121)	(152)	(121)
Transfer to operating profit	(1,295)	(860)	(1,295)	(860)
Balance at end of the year	139,375	124,592	139,375	124,592

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

27. Borrowed funds

		Company and Consolidated	
		2015	2014
		R m	R m
Fixed and variable rate unsecured subordinated callable notes		5,733	3,996
		2015	2014
		R m	R m
Subordinated debt securities	Maturity Date	Carrying Amount	
R 3,000 million at 8.92% *	October 2020	-	3,000
R 700 million at 3-month JIBAR+2.20% **	November 2024	703	700
R 300 million at 9.26% **	November 2024	280	296
R 537 million at 3-month JIBAR+2.30% ***	March 2025	538	-
R 425 million at 9.76% ***	March 2025	399	-
R 409 million at 10.32% ***	March 2027	375	-
R 1,150 million at 10.96% ***	March 2030	1,039	-
R 1,288 million at 3-month JIBAR+2.25% ****	September 2025	1,288	-
R 568 million at 10.90% ****	September 2027	534	-
R 623 million at 11.35% ****	September 2030	577	-
Total fixed and variable unsecured subordinated		5,733	3,996

The fair value of the unsecured subordinated callable notes is R 5,733 million (2014: R 4,031 million).

* These subordinated debt notes were originally issued on 27 October 2005 and redeemed on 27 October 2015.

The company has issued a mixture of floating rate and fixed rate instruments with several maturities through its existing local SA programme. Accordingly, the JSE Limited has granted a listing to the company on the South African Interest Rate Market with effect from 19 March 2015 under its Unsecured Subordinated Callable Note Programme dated 4 September 2014. All instruments were issued under this programme.

** On 27 November 2014, the company issued R1,000 million of floating rate and fixed instruments, which have been classified as subordinated debt. These are Solvency II (SII) / Solvency Assessment and Management (SAM) compliant hybrid instruments and matures in 2024.

*** On 19 March 2015, the company issued R2,061 million of floating rate and fixed instruments, which have been classified as subordinated debt. These are SII/SAM compliant hybrid instruments and have maturity dates ranging from 2025 to 2030. On 4 November 2015, the company issued R460 million of fixed rate instruments, which have been classified as subordinated debt. These are SII/SAM compliant hybrid instruments and matures in 2030.

**** On 14 September 2015, the company issued R2,479 million of floating rate and fixed instruments, which have been classified as subordinated debt. These are SII/SAM compliant hybrid instruments and have maturity dates ranging from 2025 to 2030.

The subordinated notes rank behind the claims from policyholders and other unsecured unsubordinated creditors. The notes are listed on the Bond Exchange of South Africa (BESA). All subordinated debt securities have a first call date five years before the maturity date. Capital is redeemed on maturity or call date. Refer to the Liquidity Risk section in note 40 for future cash flow requirements on borrowed funds.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

27. Borrowed funds (continued)

Interest accrued on these notes relating to the year under review amounted to R 558 million (2014: R 276 million). Interest payments on floating rate instruments are made on a quarterly basis. Interest payments on fixed rate instruments are made on a half-yearly basis.

The company is authorised to issue notes up to a par value of R10 billion.

28. Post employment benefits

Defined benefit plan

The group 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 group's defined benefit scheme vary according to the economic conditions.

	Company and Consolidated			
	2015 R m		2014 R m	
	Defined pension benefits	Post- retirement benefits	Defined pension benefits	Post- retirement benefits
Obligations				
At beginning of the year	170	1,174	188	1,098
Current service cost	2	21	3	21
Interest cost on benefit obligation	18	94	15	99
Actuarial gains arising from				
- demographic assumptions	-	19	-	49
- experience adjustment	21	(38)	(34)	(53)
Benefits paid	(1)	(47)	(2)	(40)
At end of the year	210	1,223	170	1,174
Plan assets				
At beginning of the year	170	1,656	188	1,494
Expected return/(loss) on plan assets	21	138	(2)	122
Benefits paid	(1)	(47)	(2)	(40)
Net actuarial gains/(loss)	20	(13)	(14)	80
At end of the year	210	1,734	170	1,656
Net assets				
Funded status of plans	-	511	-	482

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

28. Post employment benefits (continued)

	Company and Consolidated			
	2015		2014	
	R m		R m	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
(Income)/expense recognised in income statement				
Current service cost	2	21	3	21
Interest cost	(2)	(44)	(3)	(23)
Total	-	(23)	-	(2)

	Company and Consolidated			
	2015		2014	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Principal actuarial assumptions				
Discount rates used	11%	11%	9%	9%
Expected return on plan assets	11%	10%	9%	9%
Future salary increases	10%	10%	6%	8%
Price inflation	10%	10%	8%	8%

	Company and Consolidated			
	2015		2014	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Plan asset allocation				
Equity securities	56%	57%	57%	54%
Debt securities	27%	27%	25%	28%
Real estate	6%	6%	6%	7%
Other investments	11%	10%	12%	11%

			Company and Consolidated	
			2015	2014
			R m	R m
Sensitivities				
Assumption	Change in assumption	Impact on scheme liabilities		
Inflation rate	Decrease by 1.0%	Decrease	191	284
	Increase by 1.0%	Increase	159	69

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

28. Post employment benefits (continued)

The group contributes to the following post-employment defined benefit plans in South Africa:

- The defined pension benefits plan entitles a retired employee to receive a monthly pension payment, equal to 2% of final salary for each year of service that the employee provided.
- The post-retirement benefits plan provides for a flat amount of subsidy towards the medical aid contributions for employees in retirement, provided they were employed prior to 1998.

The defined pension benefits plan is administered as a pension fund in South Africa that is legally separated from the group. The Fund has been transferred to an Umbrella arrangement, subject to the approval of the legislative authorities. Employee and Employer representatives are part of the Member Management Committee. Both the board and the Management Committee are responsible for setting certain policies (e.g. contribution rates; benefits and investments) and the implementation of such policies.

These defined benefit plans expose the group to actuarial risks, such as longevity risk and investment risk. The group has taken an appropriate insurance policy to provide for the benefits in the post-retirement benefits plan.

The assets of the plans are invested in insurance policies and related investment policies held by the insurers.

Funding

Both plans are fully funded. The funding requirements are based on the fund's actuarial measurement framework set out in the funding policies of the plans.

The funding of the defined pension benefits plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions set out. Employees are required to contribute to the defined pension benefits plan.

The group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements for the defined pension benefits plan) for the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis.

As such, no decrease in the defined benefit asset was necessary at 31 December 2015 or 31 December 2014.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

29. Other employment benefits

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

	Company and Consolidated	
	2015 R m	2014 R m
Benefit obligation		
At beginning of the year	271	245
Current service cost	29	32
Net actuarial (gains)/losses	(11)	17
Benefits paid	(22)	(23)
At end of the year	267	271

	Company and Consolidated	
	2015 R m	2014 R m
Assets		
At beginning of the year	271	245
Contributions	29	32
Investment returns	(33)	(6)
At end of the year	267	271

	Company and Consolidated	
	2015 R m	2014 R m
Expense recognised in income statement and other comprehensive income		
Current service cost	29	32
Other long-term employee benefits	(11)	17
Total (included in staff costs)	18	49

	Company and Consolidated	
	2015	2014
Principal actuarial assumptions		
Discount rate		
Expected return on assets	9%	8%
Future salary increases	9%	8%
Price inflation	8%	8%

	Company and Consolidated	
	2015 R m	2014 R m
Net benefit obligation		
Assets	267	271
Benefit obligation	(267)	(271)
	-	-

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

29. Other employment benefits (continued)

The benefit obligation of R267 million at the end of the year (2014: R271 million) is supported by non-segregated managed assets amounting to R137 million (2014: R143 million) as part of the pool of policyholder funds. The group also has a reimbursive right of R130 million (2014: R128 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

30. Share-based payment liabilities

The group 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 group 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.

	Company and Consolidated	
	2015 R m	2014 R m
Composition of share-based payment liabilities		
Share options	38	83
Restricted share awards	659	614
	697	697

	Company and Consolidated			
	2015		2014	
	Number of share options (Millions)	Weighted average exercise price (Rand)	Number of share options (Millions)	Weighted average exercise price (Rand)
Share options				
Outstanding at beginning of the year	4	13.04	14	14.49
Transfers to other group companies	-	-	(1)	14.49
Exercised during the year	(2)	11.90	(9)	15.07
Outstanding at end of the year	2	14.96	4	13.04
Exercisable at end of year	2	14.96	4	13.04

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 vested over periods between 3 to 6 years from the date of grant.

	Company and Consolidated	
	Number of awards (Millions)	Number of awards (Millions)
Restricted / Forfeitable share awards		
Outstanding at beginning of the year	28	36
Transfers to other group companies	(1)	(4)
Granted during the year	8	8
Forfeited during the year	(2)	(2)
Exercised during the year	(8)	(10)
Outstanding at end of the year	25	28

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

30. Share-based payment liabilities (continued)

Restricted share awards and Forfeitable share awards are granted to eligible employees in terms of the Management Incentive Share Plan and Old Mutual Plc Share Reward and Performance Share Plans. Restricted share awards are also granted to eligible senior management in terms of the Senior Black Management Plan. The share awards vest subject to the fulfilment of a specified period of employment and have a zero exercise price. The restricted and forfeitable share awards outstanding at the end of the year vest after 3 years from the date of the grant in terms of the Management Incentive Share Plan and Old Mutual Plc Share Reward and Performance Share Plans. Restricted share awards granted in terms of the Senior Black Management Plan vest in three equal tranches 4; 5 and 6 years from grant date.

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

Options are granted conditional on service and non-market based performance criteria. These conditions are taken into account in determining the estimated value of the ultimate liability to the group. These 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:

	Company and Consolidated	
	2015	2014
Fair value per option at measured date (in Rands) - highest	27.51	27.04
Fair value per option at measurement date (in Rands) - lowest	25.48	19.02
Share price (in Rands)	41.45	34.70
Exercise price (in Rands) - highest	15.80	15.80
Exercise price (in Rands) - lowest	13.80	7.45
Expected volatility	43%	44%
Expected life (in years)	0.81	1.30
Expected dividend yield	3.50%	3.50%
Risk free interest rate	8.17%	6.70%

The expected volatility is based on 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 past behaviour patterns of the relevant employee.

Restricted / Forfeitable share awards	Company and Consolidated	
	2015	2014
Number granted (millions)	8	8
Value of share awards (Rand millions)	326	293
Fair value per share (in Rands)	41.45	34.70

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

31. Provisions

	Company 2015					R m
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Total
Opening balance	252	1,024	722	295	352	2,645
Utilised during the year	(77)	(178)	(370)	(21)	-	(646)
Investment return and repayments	-	132	-	-	-	132
Charge	122	-	-	-	104	226
	297	978	352	274	456	2,357

	Company 2014					R m
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Total
Opening balance	212	975	500	-	-	1,687
Transfer from other liabilities	-	-	-	339	322	661
Utilised during the year	(16)	(98)	-	(44)	(15)	(173)
Investment return and repayments	-	147	-	-	-	147
Charge	56	-	222	-	45	323
	252	1,024	722	295	352	2,645

	Consolidated 2015					R m
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Total
Opening balance	305	1,024	722	295	358	2,704
Utilised during the year	(77)	(178)	(370)	(21)	(9)	(655)
Investment return and repayments	-	132	-	-	-	132
Charge	142	-	-	-	108	250
	370	978	352	274	457	2,431

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

31. Provisions (continued)

						Consolidated 2014 R m Total
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	
Opening balance	217	975	500	-	-	1,692
Transfer from other liabilities	-	-	-	339	322	661
Utilised during the year	(16)	(98)	-	(44)	(15)	(173)
Investment return and repayments	-	147	-	-	-	147
Charge	104	-	222	-	51	377
	305	1,024	722	295	358	2,704

Administration and legal claims

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

Charitable donations

This provision relates to obligations of the group 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 group will provide donations to the Masisizane Fund, which has been set up as a charitable organisation for the enhancement of good causes.

Provision for enhanced benefits

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

Provision for claw-back of prescribed claims

This provision is held to allow for the possible future payment of claims that have been previously reversed. Due to the nature of the provision, the timing of the expected cash outflows are uncertain. Estimates are reviewed annually and adjusted, as appropriate, for new circumstances.

Other provisions

Other provisions include provisions for variable pay and restructuring.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

32. Deferred revenue on investment contracts

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Balance at beginning of year	71	94	102	105
Acquisitions through business combinations	-	-	-	2
Fees and commission income deferred	2	4	11	29
Amortisation	(23)	(27)	(32)	(34)
At end of the year	50	71	81	102

33. Other liabilities

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Collateral owing	14,758	15,595	14,758	15,595
Amounts owed to policyholders	2,956	3,083	2,666	2,834
Amounts owed to intermediaries	364	232	365	238
Accruals	1,011	978	1,128	1,099
Outstanding settlement	3,710	1,101	10,682	6,042
Other	878	781	5,206	4,387
	23,677	21,770	34,805	30,195

The carrying value of other liabilities approximates fair value.

34. Share capital and premium and other reserves

Authorised share capital

10 000 000 ordinary shares of R1 each
10 redeemable preference shares of R1 each

Company and Consolidated	
2015 R m	2014 R m
10	10
-	-
10	10

Issued share capital and premium

8 000 001 ordinary shares
1 redeemable preference share of R1
Share premium

8	8
-	-
6,415	6,415
6,423	6,423

Subject to the restrictions imposed by the Companies Act of South Africa, 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 shareholders 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 shareholders have full voting rights.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

34. Share capital and premium and other reserves (continued)

Other reserves comprise:

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Property revaluation reserve	170	144	170	144
Currency translation reserve	106	64	496	52
	276	208	666	196

35 Cash used in operations

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Profit before tax	3,519	16,270	4,284	11,144
Adjustments for non-cash movements included in profit				
Depreciation and amortisation	568	180	587	186
Dividend income	(4,973)	(4,892)	(5,647)	(5,631)
Interest income	(16,872)	(14,911)	(18,419)	(16,483)
Finance costs	1,387	902	1,710	1,596
Net fair value gains	(17,144)	(44,491)	(19,887)	(42,225)
Movements in policyholder liabilities	26,334	34,894	29,333	38,152
Movement in share-based payment liabilities	-	(301)	-	(301)
Changes to provisions and post employment benefit obligations	(317)	872	302	1,226
Adjustments for non-cash movement included in the statement of financial position				
Investments and securities	20,174	(20,174)	20,174	(20,174)
Amounts due from group companies	(20,174)	20,174	(20,174)	20,174
Changes in working capital				
Deferred acquisition costs	38	160	9	110
Deferred revenue on investment contracts	(21)	(23)	(21)	(3)
Loans and advances	11	18	11	18
Other assets	(1,564)	2,133	(4,680)	(619)
Other liabilities	1,907	988	4,610	1,299
Reinsurance contracts	(131)	289	(98)	236
Net movement in loans to/from group companies	(1,316)	(485)	(1,026)	2,252
	(8,574)	(8,397)	(8,932)	(9,043)

36. Tax paid

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Balance payable at beginning of the year	(1,744)	(2,011)	(1,778)	(2,033)
Current tax expense	(312)	(1,860)	(1,064)	(2,093)
Balance payable at end of the year	526	1,744	803	1,778
	(1,530)	(2,127)	(2,039)	(2,348)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

37. Dividends paid

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Dividends paid	(4,801)	(3,510)	(4,801)	(3,870)

38. Operating lease receivables

	Company		Consolidated	
	2015 R m	2014 R m	2015 R m	2014 R m
Total future minimum lease receivables under operating leases				
Within one year	117	274	1,126	1,051
In second to fifth year inclusive	459	741	2,551	2,478
Later than five years	346	546	882	1,172
	922	1,561	4,559	4,701

Investment property comprises a portfolio of retail, commercial and industrial properties that are leased to third parties. Each lease has a defined lease period and financial terms. Renewal negotiations with tenants commence prior to expiry of their current lease agreement. Lease periods vary and are dependent on the tenant and property type. No contingent rents are charged.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

39. Related party disclosures

The company's immediate holding company is Old Mutual Emerging Markets Ltd, incorporated in South Africa, which holds 100% of the company's ordinary shares. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

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

Other group companies consist of fellow subsidiaries and associates.

	Company 2015			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	1,185	32	-
Dividend income	-	1,103	-	-
Fee income/(expense)	-	(354)	957	-
Insurance contract premiums income/(expense)	-	133	-	-
Reinsurance contract premiums income/(expense)	-	8	-	-
Claims and policyholder benefits income/(expense)	-	22	-	-
Statement of financial position				
Cash and short-term securities	-	472	-	-
Zero coupon bonds held	-	1,857	-	-
Credit linked notes including interest	-	2,175	-	-
Call loans including interest	-	(5,128)	-	-
Bonds including interest	-	1,249	-	-
Statement of changes in equity				
Dividend expense	(4,801)	-	-	-
Company 2014				
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	384	472	-
Dividend income	-	765	2	-
Fee income/(expense)	-	(449)	743	-
Insurance contract premiums income/(expense)	-	182	-	-
Reinsurance contract premiums income/(expense)	-	12	-	-
Claims and policyholder benefits income/(expense)	-	23	-	-
Statement of financial position				
Cash and short-term securities	-	5,696	-	-
Zero coupon bonds held	-	3,473	-	-
Credit linked notes including interest	-	4,004	-	-
Call loans including interest	-	(4,854)	-	-
Bonds including interest	-	234	-	-
Statement of changes in equity				
Dividend expense	(3,510)	-	-	-

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

39. Related party disclosures (continued)

	Consolidated 2015			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	1,185	-	-
Dividend income	-	1,103	-	-
Fee income/(expense)	-	(354)	-	-
Insurance contract premiums income/(expense)	-	133	-	-
Reinsurance contract premiums income/(expense)	-	8	-	-
Claims and policyholder benefits income/(expense)	-	22	-	-
Statement of financial position				
Cash and short-term securities	-	472	-	-
Zero coupon bonds held	-	1,857	-	-
Credit linked notes including interest	-	2,175	-	-
Call loans including interest	-	(5,128)	-	-
Bonds including interest	-	1,249	-	-
Statement of changes in equity				
Dividend expense	(4,801)	-	-	-
				Consolidated 2014
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	384	-	-
Dividend income	-	765	-	-
Fee income/(expense)	-	(449)	-	-
Insurance contract premiums income/(expense)	-	182	-	-
Reinsurance contract premiums income/(expense)	-	12	-	-
Claims and policyholder benefits income/(expense)	-	23	-	-
Statement of financial position				
Cash and short-term securities	-	5,696	-	-
Zero coupon bonds held	-	3,473	-	-
Credit linked notes including interest	-	4,004	-	-
Call loans including interest	-	(4,854)	-	-
Bonds including interest	-	235	-	-
Statement of changes in equity				
Dividend expense	(3,870)	-	-	-

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

At 31 December 2015 government and corporate bonds with a fair value of R9,522 million (2014: R6,448 million) including interest had been lent to Old Mutual Specialised Finance (Pty) Ltd. R7,211 million (2014: R5,090 million) of these securities borrowed had been sold under repurchase agreements, R710 million (2014: R903 million) sold short and R1,601 million (2014: R456 million) was used as collateral against scrip lending positions. The bonds used to settle short selling have not been recognised as financial assets by the company. The nominal value of bonds borrowed was R9,129 million (2014: R5,872 million). The bonds borrowed had a weighted average coupon rate of 5.85% (2014: 7.40%).

At 31 December 2015 equities with a fair value of R3,635 million (2014: R4,074 million) had been lent to Old Mutual Specialised Finance (Pty) Ltd.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

39. Related party disclosures (continued)

Included in note 33 is R14,037million (2014: R6,402 million) collateral owing to Old Mutual Specialised Finance (Pty) Ltd.

Directors emoluments

2015						R'000
	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
R T Mupita	-	5,160	9,750	11,103	616	26,629
K Murray	-	2,348	6,050	7,336	286	16,020
I G Williamson	-	2,506	4,206	3,464	305	10,481
B M Rapiya	-	3,076	4,077	6,560	364	14,077
D Macready	-	2,676	6,543	1,108	325	10,652
P D de Beyer	2,470	-	-	-	-	2,470
N T Moholi	1,360	-	-	-	-	1,360
C W N Molope	1,341	-	-	-	-	1,341
P G M Truyens	1,957	-	-	-	-	1,957
	7,128	15,766	30,626	29,571	1,896	84,987

2014						Total
	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
R T Mupita	-	4,368	5,638	11,517	522	22,045
K Murray	-	2,664	2,357	3,125	324	8,470
B M Rapiya	-	2,947	2,410	1,290	345	6,992
P C Baloyi	480	-	-	-	-	480
P G de Beyer	1,557	-	-	-	-	1,557
A A Maule	151	-	-	-	-	151
N T Moholi	1,057	-	-	-	-	1,057
C W N Molope	1,007	-	-	-	-	1,007
C E Maynard	680	-	-	-	-	680
F Roberson	294	-	-	-	-	294
G T Serobe	289	-	-	-	-	289
P G M Truyens	1,775	-	-	-	-	1,775
G S van Niekerk	26	-	-	-	-	26
	7,316	9,979	10,405	15,932	1,191	44,823

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

39. Related party disclosures (continued)

The variable pay for Mr D Macready, Ms K Murray, Mr R T Mupita, Mr B M Rapiya and Mr I G Williamson 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 group until the third anniversary of the award date. There are no corporate performance targets applicable to these restricted shares and share options.

40. Financial risk management

The group 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 group 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 group'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 41 explains in more detail how insurance risk is managed.

Capital adequacy

The insurance operations within the group met the minimum capital requirements as set by the regulator for each entity throughout the year. The capital position of the company is set out in the Statutory actuary's report on page 7.

The company has adopted the following capital management policies:

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

Sensitivities

The group 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 group 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.

	R m Embedded Value
31 December 2015	
Embedded value	80,215
Effect of:	
Required capital equal to the minimum statutory requirement	587
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(303)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	407
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4,122
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4,132)
50 bps contraction on corporate bond spreads	165
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1,024)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(50)
Voluntary discontinuance rates decreasing by 10 per cent	1,218
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,584
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,620
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(128)
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	(143)

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

31 December 2014	R m Embedded Value
Embedded value	77,993
Effect of:	
Required capital equal to the minimum statutory requirement	477
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(407)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	345
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4,208
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4,219)
50 bps contraction on corporate bond spreads	156
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1,123)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(8)
Voluntary discontinuance rates decreasing by 10 per cent	1,110
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,641
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,590
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(46)
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	(128)

*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 group does not use reinsurance to manage significant credit risk. The group is exposed to credit risk through its investment holdings (i.e. debt securities) backing the policyholder liabilities and in shareholders 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

Overall credit risk

	Company		Consolidated	
	2015 Rm	2014 R m	2015 Rm	2014 R m
Reinsurance contracts	608	477	871	773
Loans and advances	230	241	230	241
Investments and securities				
Government securities	64,678	63,651	76,401	74,136
Other debt securities	59,471	61,611	67,107	68,409
Short-term funds	37,537	28,652	44,278	32,351
Other assets	7,121	5,557	15,107	10,427
Derivative assets	8,502	3,993	8,801	4,368
Amounts due by group companies	10,989	29,395	9,793	27,832
Cash and cash equivalents	17,940	17,265	36,940	38,353
	207,076	210,842	259,528	256,890

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.

	Company 2015 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	63,758	25,104	30,995	119,857
Not rated	854	33,159	6,509	40,522
Sub-investment grade	66	1,208	33	1,307
	64,678	59,471	37,537	161,686

	Company 2015 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	63,651	34,296	28,336	126,283
Not rated	-	26,016	260	26,276
Sub-investment grade	-	1,299	56	1,355
	63,651	61,611	28,652	153,914

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	Consolidated 2015 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	63,758	25,317	33,209	122,284
Not rated	12,577	40,582	11,036	64,195
Sub-investment grade	66	1,208	33	1,307
	76,401	67,107	44,278	187,786

	Consolidated 2014 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	63,651	34,543	29,145	127,339
Not rated	10,485	32,567	3,150	46,202
Sub-investment grade	-	1,299	56	1,355
	74,136	68,409	32,351	174,896

The group's cash balances are mainly held with Nedbank Limited, which has a credit rating of BBB (2014: BBB-).

Reinsurance assets

The total reinsurance contracts amount of R 871 million (2014: R 773 million) is investment grade (AAA to BBB) rated. None are past due or impaired.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

Collateral obtained

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

	Company and Consolidated	
	2015	2014
	Rm	Rm
Bonds	358	1,008
Cash	16,592	16,723
Total collateral	16,950	17,731

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

Market risk

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

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

Equity price risk and interest rate risk (on the value of the securities) are modelled by the group's risk-based capital practices.

Currency risk

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

The company operates in Hong Kong, Guernsey and Isle of Man through branches and in China through an associate. This creates an additional source of foreign currency risk which arises from the fact that the branches use GBP and the associate the Chinese Yuan Renminbi as their functional currencies, whereas the functional currency of the company is Rands.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

The table below summaries the group's exposure to foreign currency exchange rate risk.

	ZAR	GBP	USD	Euro	Other	Company 2015 R m Total
Assets						
Intangible assets	184	-	-	-	-	184
Investment property	1,947	-	-	-	-	1,947
Property and equipment	2,963	-	-	-	-	2,963
Deferred tax assets	301	-	-	-	-	301
Reinsurance contracts	608	-	-	-	-	608
Deferred acquisition costs	947	-	-	-	-	947
Loans and advances	230	-	-	-	-	230
Investments and securities	446,510	9,184	107,172	2,018	948	565,832
Derivative assets	8,502	-	-	-	-	8,502
Other assets	7,121	-	-	-	-	7,121
Cash and cash equivalents	14,591	3,349	-	-	-	17,940
Amounts due by group companies	10,471	100	4	-	414	10,989
Post employment benefit asset	511	-	-	-	-	511
Non-current assets held-for-sale	673	-	-	-	1,344	2,017
Total assets	495,559	12,633	107,176	2,018	2,706	620,092
Liabilities						
Insurance contract liabilities	154,809 ¹	-	-	-	-	154,809
Investment contract liabilities	322,944 ¹	8,680	20,400	14,105	134	366,263
Borrowed funds	5,733	-	-	-	-	5,733
Share-based payment liabilities	697	-	-	-	-	697
Deferred revenue on investment contracts	50	-	-	-	-	50
Deferred tax liabilities	3,992	-	-	-	-	3,992
Derivative liabilities	11,880	-	708	-	-	12,588
Amounts due to group companies	1,701	118	-	-	29	1,848
Provisions	2,357	-	-	-	-	2,357
Current tax payable	526	-	-	-	-	526
Other liabilities	21,828	1,840	-	-	9	23,677
Total liabilities	526,517	10,638	21,108	14,105	172	572,540

¹ A substantial portion of the policyholder liabilities will be settled in Rand, but are linked to assets denominated in other currencies.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	ZAR	GBP	USD	Euro	Other	Company 2014 R m Total
Assets						
Intangible assets	160	-	-	-	-	160
Investment property	3,673	-	-	-	-	3,673
Property and equipment	2,700	-	-	-	-	2,700
Deferred tax assets	1,071	-	-	-	-	1,071
Reinsurance contracts	477	-	-	-	-	477
Deferred acquisition costs	984	1	-	-	-	985
Loans and advances	241	-	-	-	-	241
Investments and securities	437,306	755	77,512	1,015	845	517,433
Derivative assets	3,993	-	-	-	-	3,993
Other assets	5,548	8	1	-	-	5,557
Cash and cash equivalents	17,209	56	-	-	-	17,265
Amounts due by group companies	9,133	20,174	5	-	83	29,395
Post employment benefit asset	482	-	-	-	-	482
Non-current assets held-for-sale	2,800	-	-	-	-	2,800
Total assets	485,777	20,994	77,518	1,015	928	586,232

	ZAR	GBP	USD	Euro	Other	Company 2014 R m Total
Liabilities						
Insurance contract liabilities	157,742 ¹	-	-	-	-	157,742
Investment contract liabilities	316,713 ¹	5,901	13,179	1,125	78	336,996
Borrowed funds	3,996	-	-	-	-	3,996
Share-based payment liabilities	697	-	-	-	-	697
Deferred revenue on investment contracts	70	1	-	-	-	71
Deferred tax liabilities	4,626	-	-	-	-	4,626
Derivative liabilities	5,323	-	-	-	-	5,323
Amounts due to group companies	420	795	-	-	182	1,397
Provisions	2,645	-	-	-	-	2,645
Current tax payable	1,744	-	-	-	-	1,744
Other liabilities	21,257	280	230	3	-	21,770
Total liabilities	515,233	6,977	13,409	1,128	260	537,007

¹A substantial portion of the policyholder liabilities will be settled in Rand, but are linked to assets denominated in other currencies.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

						Consolidated 2015 R m Total
	ZAR	GBP	USD	Euro	Other	
Assets						
Intangible assets	271	-	-	-	-	271
Investment property	17,949	-	-	-	-	17,949
Property and equipment	2,968	-	-	-	-	2,968
Deferred tax assets	358	-	-	-	-	358
Reinsurance contracts	871	-	-	-	-	871
Deferred acquisition costs	1,216	-	-	-	-	1,216
Loans and advances	230	-	-	-	-	230
Investments and securities	486,728	9,184	107,172	2,018	948	606,050
Investment in associate undertakings	588	-	-	-	981	1,569
Derivative assets	8,801	-	-	-	-	8,801
Other assets	15,107	-	-	-	-	15,107
Cash and cash equivalents	33,591	3,349	-	-	-	36,940
Amounts due by group companies	9,275	100	4	-	414	9,793
Post employment benefit asset	511	-	-	-	-	511
Non-current assets held-for-sale	1,923	-	-	-	1,344	3,267
Total assets	580,387	12,633	107,176	2,018	3,687	705,901
Liabilities						
Insurance contract liabilities	155,741 ¹	-	-	-	-	155,741
Investment contract liabilities	344,451 ¹	8,680	20,400	14,105	134	387,770
Third party interest in consolidated funds	55,629	-	-	-	-	55,629
Borrowed funds	5,733	-	-	-	-	5,733
Share-based payment liabilities	697	-	-	-	-	697
Deferred revenue on investment contracts	81	-	-	-	-	81
Deferred tax liabilities	4,644	-	-	-	-	4,644
Derivative liabilities	12,096	-	708	-	-	12,804
Amounts due to group companies	4,055	118	-	-	49	4,222
Provisions	2,431	-	-	-	-	2,431
Current tax payable	803	-	-	-	-	803
Other liabilities	32,956	1,840	-	-	9	34,805
Total liabilities	619,317	10,638	21,108	14,105	192	665,360

¹ A substantial portion of the policyholder liabilities will be settled in Rand, but are linked to assets denominated in other currencies.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	ZAR	GBP	USD	Euro	Other	Consolidated 2014 R m Total
Assets						
Intangible assets	248	-	-	-	-	248
Investment property	17,235	-	-	-	-	17,235
Property and equipment	2,705	-	-	-	-	2,705
Deferred tax assets	1,111	-	-	-	-	1,111
Reinsurance contracts	773	-	-	-	-	773
Deferred acquisition costs	1,224	1	-	-	-	1,225
Loans and advances	241	-	-	-	-	241
Investments and securities	476,341	756	77,512	1,015	845	556,469
Investments in associate undertakings	125	-	-	-	991	1,116
Derivative assets	4,368	-	-	-	-	4,368
Other assets	10,419	7	1	-	-	10,427
Cash and cash equivalents	38,297	56	-	-	-	38,353
Amounts due by group companies	7,570	20,174	5	-	83	27,832
Post employment benefit asset	482	-	-	-	-	482
Non-current assets held-for-sale	2,800	-	-	-	-	2,800
Total assets	563,939	20,994	77,518	1,015	1,919	665,385

	ZAR	GBP	USD	Euro	Other	Consolidated 2014 R m Total
Liabilities						
Insurance contract liabilities	158,648 ¹	-	-	-	-	158,648
Investment contract liabilities	335,246 ¹	5,901	13,179	1,125	79	355,530
Third party interest in consolidated funds	56,026	-	-	-	-	56,026
Borrowed funds	3,996	-	-	-	-	3,996
Share-based payment liabilities	697	-	-	-	-	697
Deferred revenue on investment contracts	101	1	-	-	-	102
Deferred tax liabilities	5,096	-	-	-	-	5,096
Derivative liabilities	5,561	-	-	-	-	5,561
Amounts due to group companies	3,066	-	-	-	47	3,113
Provisions	2,704	-	-	-	-	2,704
Current tax payable	1,778	-	-	-	-	1,778
Other liabilities	29,682	280	230	3	-	30,195
Total liabilities	602,601	6,182	13,409	1,128	126	623,446

¹A substantial portion of the policyholder liabilities will be settled in Rand, but are linked to assets denominated in other currencies.

Interest rate risk

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

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

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. 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 group'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 cash flows 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.

	Company 2015			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	6,751	16,633	95,305	343,297
Investment contracts				
Unit-linked investment contracts and similar contracts	226,122	-	-	-
Investment contracts with discretionary participating features	139,375	-	-	-
Other investment contracts	855	228	589	58
Outstanding claims	1,958	-	-	-
Borrowed funds	-	-	-	5,733
Derivative liabilities	(322)	255	5,845	22,805
Amounts due to group companies	1,848	-	-	-
	376,587	17,116	101,739	371,893

	Company 2014			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	3,840	16,817	93,619	281,213
Investment contracts				
Unit-linked investment contracts and similar contracts	211,494	-	-	-
Investment contracts with discretionary participating features	124,592	-	-	-
Other investment contracts	1,007	246	567	39
Outstanding claims	1,994	-	-	-
Borrowed funds	-	-	-	3,996
Derivative liabilities	(46)	53	1,375	10,415
Amounts due to group companies	1,397	-	-	-
	344,278	17,116	95,561	295,663

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	Consolidated 2015 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	6,751	16,633	95,305	343,297
Investment contracts				
Unit-linked investment contracts and similar contracts	247,629	-	-	-
Investment contracts with discretionary participating features	139,375	-	-	-
Other investment contracts	855	228	589	58
Outstanding claims	2,002	-	-	-
Borrowed funds	-	-	-	5,733
Derivative liabilities	(322)	255	5,845	22,805
Amounts due to group companies	4,222	-	-	-
	400,512	17,116	101,739	371,893

	Consolidated 2014 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	3,869	16,875	93,849	281,724
Investment contracts				
Unit-linked investment contracts and similar contracts	230,028	-	-	-
Investment contracts with discretionary participating features	124,592	-	-	-
Other investment contracts	1,007	246	567	39
Outstanding claims	2,116	-	-	-
Borrowed funds	-	-	-	3,996
Derivative liabilities	(46)	53	1,375	10,415
Amounts due to group companies	3,113	-	-	-
	364,679	17,174	95,791	296,174

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. 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.

	Company 2015 R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	184	184
Investment property	-	1,947	1,947
Property and equipment	-	2,963	2,963
Deferred tax assets	-	301	301
Reinsurance contracts	267	341	608
Post employment benefits	-	511	511
Deferred acquisition costs	277	670	947
Loans and advances	-	230	230
Investments and securities	54,186	511,646	565,832
Derivative assets	897	7,605	8,502
Amounts due by group companies	10,989	-	10,989
Other assets	7,121	-	7,121
Cash and cash equivalents	17,940	-	17,940
Non-current assets held-for-sale	2,017	-	2,017
Total assets	93,694	526,398	620,092
	Company 2015 R m		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contract liabilities	2,095	152,714	154,809
Investment contract liabilities	-	366,263	366,263
Borrowed funds	-	5,733	5,733
Share-based payment liabilities	333	364	697
Deferred revenue on investment contracts	23	27	50
Deferred tax liabilities	-	3,992	3,992
Derivative liabilities	1,296	11,292	12,588
Amounts due to group companies	1,848	-	1,848
Provisions	-	2,357	2,357
Current tax payable	526	-	526
Other liabilities	23,677	-	23,677
Total liabilities	29,798	542,742	572,540

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	Company 2014		
	R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	160	160
Investment property	-	3,673	3,673
Property and equipment	-	2,700	2,700
Deferred tax assets	-	1,071	1,071
Reinsurance contracts	443	34	477
Post employment benefits	-	482	482
Deferred acquisition costs	255	730	985
Loans and advances	-	241	241
Investments and securities	49,785	467,648	517,433
Derivative assets	47	3,946	3,993
Amounts due by group companies	29,395	-	29,395
Other assets	5,557	-	5,557
Cash and cash equivalents	17,265	-	17,265
Non-current assets held-for-sale	2,800	-	2,800
Total assets	105,547	480,685	586,232

	Company 2014		
	R m		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contract liabilities	2,088	155,654	157,742
Investment contract liabilities	-	336,996	336,996
Borrowed funds	3,000	996	3,996
Share-based payment liabilities	328	369	697
Deferred revenue on investment contracts	27	44	71
Deferred tax liabilities	-	4,626	4,626
Derivative liabilities	157	5,166	5,323
Amounts due to group companies	1,397	-	1,397
Provisions	-	2,645	2,645
Current tax payable	1,744	-	1,744
Other liabilities	21,770	-	21,770
Total liabilities	30,511	506,496	537,007

Designated financial assets

The maximum exposure of the company to credit risk for designated financial assets that would have otherwise been categorised as financial assets carried at amortised cost amounted to R 73,901 million (2014: R 66,251 million). The changes in fair value of these assets relating to any change in credit risk was insignificant.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	Consolidated 2015 R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	271	271
Investment property	-	17,949	17,949
Property and equipment	-	2,968	2,968
Deferred tax assets	-	358	358
Reinsurance contracts	267	604	871
Post employment benefits	-	511	511
Deferred acquisition costs	280	936	1,216
Loans and advances	-	230	230
Investments and securities	54,186	551,864	606,050
Investments in associated undertakings and joint ventures	-	1,569	1,569
Derivative assets	897	7,904	8,801
Amounts due by group companies	9,793	-	9,793
Other assets	15,107	-	15,107
Cash and cash equivalents	36,940	-	36,940
Non-current assets held-for-sale	3,267	-	3,267
Total assets	120,737	585,164	705,901
			Consolidated 2015 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contract liabilities	-	155,741	155,741
Investment contract liabilities	-	387,770	387,770
Third party interest in consolidated funds	55,629	-	55,629
Borrowed funds	-	5,733	5,733
Share-based payment liabilities	333	364	697
Deferred revenue on investment contracts	32	49	81
Deferred tax liabilities	-	4,644	4,644
Derivative liabilities	1,296	11,508	12,804
Amounts due to group companies	4,222	-	4,222
Provisions	-	2,431	2,431
Current tax payable	803	-	803
Other liabilities	34,805	-	34,805
Total liabilities	97,120	568,240	665,360

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

40. Financial risk management (continued)

	Consolidated 2014 R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	248	248
Investment property	-	17,235	17,235
Property and equipment	-	2,705	2,705
Deferred tax assets	-	1,111	1,111
Reinsurance contracts	452	321	773
Post employment benefits	-	482	482
Deferred acquisition costs	276	949	1,225
Loans and advances	-	241	241
Investments and securities	49,009	507,461	556,469
Investment in associates and joint ventures	-	1,116	1,116
Derivative assets	47	4,321	4,368
Amounts due by group companies	27,832	-	27,832
Other assets	10,427	-	10,427
Cash and cash equivalents	38,353	-	38,353
Non-current assets held-for-sale	2,800	-	2,800
Total assets	129,196	536,190	665,385

	Consolidated 2014 R m		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contract liabilities	2,115	156,533	158,648
Investment contract liabilities	-	355,530	355,530
Third party interests in consolidated funds	56,026	-	56,026
Borrowed funds	3,000	996	3,996
Share-based payment liabilities	328	369	697
Deferred revenue on investment contracts	34	68	102
Deferred tax liabilities	-	5,096	5,096
Derivative liabilities	157	5,404	5,561
Amounts due to group companies	3,113	-	3,113
Provisions	-	2,704	2,704
Current tax payable	1,778	-	1,778
Other liabilities	30,195	-	30,195
Total liabilities	96,746	526,700	623,446

Designated financial assets

The maximum exposure of the group to credit risk for designated financial assets that would have otherwise been categorised as financial assets carried at amortised cost amounted to R 81,626 million (2014:R 62,784 million). The changes in fair value of these assets relating to any change in credit risk was insignificant.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

41. Insurance risk management

The group assumes insurance risk by issuing insurance contracts, under which the group 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 group 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 group's approach to financial risk management has been described in note 40.

Risk management objectives and policies for mitigating insurance risk

The group 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 group 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 group'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 group. 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

41. Insurance risk management (continued)

Category	Essential terms	Main risk	Policyholder guarantees	Policyholder participation in investment return
Retail Affluent				
Flexi business with cover	Mortality / morbidity rates may be repriced	Mortality, morbidity, investment	Some investment performance, cover and annuity guarantees	Yes, varies - see below
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity, investment	Some investment performance and annuity guarantees	Yes, varies - see below
Greenlight	Charges fixed at inception and cannot be changed for a specified term	Mortality, morbidity, expense	Rates fixed for a specified number of years	None
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Longevity, investment	Benefit payment schedule is guaranteed	None
Mass Foundation cluster				
Funeral cover	Charges fixed at inception and cannot be changed for a specified number of years	Mortality including HIV/AIDS, expense	Rates fixed for a specified number of years	None
Corporate segment				
Group Assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees except for permanent health insurance claims in payment for which benefit payment schedule is guaranteed.	None
With-profit annuity	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes - See below

The extent of the group'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 group 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 group is exposed, and the methods by which it seeks to mitigate these risks.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

41. Insurance risk management (continued)

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

Many of the above risks are concentrated by line of business (for example, longevity). The group, 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 the income statement and equity, as at 31 December has been estimated as follows:

Sensitivity analysis

Assumption	R m		
	Increase/ (decrease) in Change %	liabilities 2015	Increase/ (decrease) in liabilities 2014
Mortality and morbidity rates - assurance	10%	4,582	4,618
Mortality rates - annuities	-10%	847	783
Discontinuance rates	10%	(11)	(100)
Expenses (maintenance)	10%	970	888

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

41. 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 have no impact on insurance contract liabilities or profit in 2015 (2014: R 39 million). There is no impact in 2015 due to further management actions taken to reduce the impact of changing interest rates on operating profit. This impact is also calculated with no change to the charges paid by policyholders.

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

Guarantees and options

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

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

Product category	Description of options and guarantees
Retail	
Death, disability, point and/or maturity guarantees	A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% pa for life and endowment business and 4.78% pa for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims.
	A small block of smoothed bonus savings business in Mass Foundation Cluster that has death guarantees of premiums (net of fees) plus 4.25% pa investment return.
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.
Corporate	
Vested bonuses in respect of pre-retirement with- profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.
Guaranteed annuity payments in respect of with-profit annuity business	There is a significant with-profit annuity portfolio. The underlying pricing interest rate is guaranteed and as such the current level of annuity payments (including past declared bonuses) cannot be reduced. If, however, a scheme terminates, the lower of the liability value on the Financial Soundness Valuation basis and the underlying asset market value is paid out.

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

Investment guarantee reserves have been calculated using an internal economic scenario generator (ESG) model that generates product specific economic scenarios. These scenarios comprise interest rates, inflation and fund returns and are generated using a Hull-White model for interest rates and inflation, and a Merton jump diffusion model for fund returns. The model is calibrated to South African derivative market data (where available and reliable), according to the group's specific calibration requirements. The calibration has been performed as at 31 December 2015.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

41. Insurance risk management (continued)

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

Term (years)	Annualised zero-coupon yield
1	7.7%
2	8.4%
3	8.8%
4	9.1%
5	9.3%
10	9.9%
15	10.3%
20	10.2%
25	10.0%
30	9.6%

The following derivative contract prices have been calculated using 8192 simulations of the internal ESG model at the calibration

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

Maturity (years)	Strike	Price	Implied volatility
1	Spot	7.1%	23.6%
1	0.8 times spot	2.3%	28.5%
1	Forward	8.3%	21.6%
5	Spot	9.1%	26.9%
5	1.04 ⁵ times spot	15.7%	26.6%
5	Forward	19.6%	26.2%
20	Spot	2.7%	29.4%
20	1.04 ²⁰ times spot	11.2%	29.1%
20	Forward	25.4%	28.7%

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.	7.04%
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	0.32%

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

42. Notes to the Statutory actuary's report

42.1 Change in excess assets on published basis

	Company	
	2015 Rm	2014 R m
At end of the year	47,552	49,225
At beginning of the year	(49,225)	(39,411)
Change in excess assets	(1,673)	9,814
Analysis of change		
Operating profit before shareholders tax (excluding changes in the valuation basis)	5,318	5,654
Dividend income	1,266	1,020
Interest income	1,070	698
Investment income on excess assets	2,336	1,718
Gains and losses on excess assets	(4,358)	8,819
Changes in valuation basis	781	356
Non-operating items (finance cost on subordinated debt)	(558)	(276)
Shareholders' tax	(141)	(2,536)
Policyholders' tax	(328)	(459)
Profit for the financial year	3,050	13,276
Other comprehensive income and equity		
Actuarial gains on defined benefit plans	47	72
Revaluation of owner - occupied property	26	20
Currency translation differences	42	4
Issue of share capital	-	-
Other movements	(37)	(48)
Dividends	(4,801)	(3,510)
Change in excess assets	(1,673)	9,814

42.2 Reconciliation of policy liabilities from published to statutory basis

	Company	
	2015 Rm	2014 R m
Published	(518,978)	(492,651)
Statutory	519,100	488,028
	122	(4,623)
Comprising:		
	2015	2014
	Rm	R m
Investment contracts	463	(4,589)
Reinsurance	(341)	(34)
	122	(4,623)

The statutory policy liability valuation basis for investment contracts was aligned with the published valuation basis at the end of 2015 resulting in a significantly smaller difference between the two bases.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

42.3 Reconciliation of excess assets from published to statutory basis

	Company	
	2015	2014
	Rm	R m
Published	47,552	49,225
Statutory	(46,548)	(51,868)
	1,004	(2,643)
Comprising:	2015	2014
	Rm	R m
Investment contracts	463	(4,569)
Revenue recognition	897	914
Deferred tax impacts of above items	(356)	1,012
	1,004	(2,643)

The investment contracts adjustments relate to a remaining difference between the published and statutory policy liabilities for one particular product range where the statutory policy liability exceeds the published policy liability. The revenue recognition adjustments are in respect of investment management contracts and arise from the spreading of incremental initial expenses and initial fees to emerge over the lifetime of the contracts.

42.4 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 1.7 and 1.11 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

42.4 Published valuation basis (continued)

- 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:

	2015 Rm	2014 R m
Fixed interest securities	9.9%	8.0%
Cash	7.9%	6.0%
Equities	13.6%	11.7%
Properties	11.4%	9.5%
Future expense inflation *	6.9%	5.0%

*8.9% (2014: 7.0%) for Retail Affluent business administered on old platforms and 7.9% (2014: 6.0%) for Mass Foundation Cluster.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

42.4 Published valuation basis (continued)

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

- The company's best-estimate of future experience, as described below;
- The compulsory margins as set out in SAP 104 and Board Notice 14 of 2010;
- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy; and
- Other discretionary margins, mainly held to cover:
 - mortality, lapse and investment return margins for Mass Foundation Cluster funeral policies, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,
 - mortality margins on Retail Affluent old generation life policies and accidental death and disability supplementary benefits, to ensure that profit is released appropriately over the term of the policies,
 - interest rate margin on certain Retail Affluent life policies and Mass Foundation Cluster policies to allow for the uncertainty associated with volatile interest rates,
 - margins on certain Retail Affluent non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk,
 - investment margins in the pricing basis for Corporate Segment annuities, as well as expense margins on Corporate Segment with-profit annuities to defer the recognition of these margins,
 - interest margins on Corporate Segment PHI claims in payment due to the inability to fully match assets to liabilities as a result of the high rate of change in the portfolio (high volume of new claimants and terminations),
 - termination margins on Corporate Segment PHI claims in payment due to uncertainty about future termination experience, and
 - margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market-consistent basis to implied volatilities in particular.
- Investment contracts are valued at units times price for statutory purposes, i.e an implicit discretionary margin is held equal to the value of the negative rand reserve.

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

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

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

42.4 Published valuation basis (continued)

The company's recent experience in respect of products open to new business has been analysed in the following main experience investigations:

Business unit	Type of investigation	Period of investigation
Retail Affluent	Annuitant mortality	2008 to 2013
	Greenlight mortality	2010 to 2014
	Greenlight morbidity	2010 to 2014
	Greenlight persistency	2011 to 2014
Mass foundation	Mortality	2009 to 2014
	Persistency	2009 to 2014
Corporate segment	Annuitant mortality	2008 to 2012
	PHI claims termination	2009 to 2013
	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 2015 analysis of profit provides a measure of the aggregate experience in 2015. 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 41.

Various actuarial assumption changes have been made which resulted in a net reduction in the value of liabilities of R 781 million (2014: R 356 million reduction in liabilities). This is mainly the result of positive expense assumption changes and an annuitant mortality assumption change to annuities with a capital preservation option. The assumption changes exclude the impact on new business sold in 2015, as this is valued on the new basis.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

43. Events after the reporting period

Prior to year end a subsidiary received loan funding from Standard Bank to acquire a 50% interest in a commercial property outside Nairobi, Kenya. Collateral provided to Standard Bank includes a guarantee issued by two subsidiaries in Old Mutual Real Estate Holding Company Pty Ltd and K2012150042 (South Africa) (Pty) Ltd and a mortgage over Cavendish Square and Cavendish Connect to the value of R2.2 billion. The mortgage was registered on 28 January 2016.

On 24 February 2016 the Minister of Finance of the Republic of South Africa announced an increase in the capital gains tax inclusion rates for companies. As a result capital gains tax will be levied at an effective rate of 22.4% compared to 18.6% in the past. The result of the increase is that higher capital gains tax will be paid in the future and consequently deferred tax liabilities or deferred tax assets on unrealised capital gains or capital losses should be measured at the higher effective capital gains tax rate.

If the increase was effective for the financial year ended 31 December 2015, the relevant shareholder deferred tax liabilities and tax expense for the period ended 31 December 2015 would increase by R401 million. The increase in the inclusion rates will be effective for the financial year ending 31 December 2017.

To protect policyholder interests, Treasury proposed that unrealised capital gains tax at 29 February 2016 be considered and realised through the deemed sale of the related assets and therefore taxed at the previous effective capital gains tax rate. From 1 March 2016 the 'disposed' assets will have a capital gains tax base value equal to the disposal value of the assets at 29 February 2016. The estimated capital gains tax payable as a result of the 'disposal' is R 1,819 million at 31 December 2015. Any capital gains on these assets and new assets subsequent to 1 March 2016 will be taxed at the revised effective capital gains tax rate.

44. General company information

44.1 Review of activities

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

44.2 Holding company

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

44.3 Ultimate holding company

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

44.4 Company secretary

Ms E M Kirsten is the company secretary.

Registered office Mutual Park
Jan Smuts Drive
Pinelands
7405
South Africa

Postal address PO Box 66
Cape Town
8000

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

45. Statutory capital adequacy requirements

The CAR has been calculated in accordance with SAP 104 issued by the Actuarial Society of South Africa and Board Notice 14 of 2010 issued by the FSB. These provide a buffer against future experience being worse than assumed in the statutory valuation method (as calculated in accordance with SAP104 and Board Notice 14 of 2010).

The CAR is the greater of two calculations, viz. the Ordinary Capital Adequacy Requirement (OCAR*) and the Termination Capital Adequacy Requirement (TCAR*), which are calculated as follows:

- The TCAR ensures that a long-term insurer is in a position to survive a very selective “run-on-the-bank” scenario, and requires that the insurer holds capital equal to the amount by which excess assets would drop on the immediate termination (lapse or surrender) of all policies with a statutory liability less than the benefit amount payable on immediate termination.
- The OCAR formula comprises a factor-based approach that isolates each major risk category and establishes what capital needs to be held in respect of that risk. The results are summed with an adjustment (“summing and squaring” approach) to allow for diversification between the risks. The OCAR also allows for the effect of a fall in the fair value of the assets backing it as well as any credit risk associated with these assets (this is referred to as the “grossing up factor”).

At 31 December 2015, the OCAR exceeded the TCAR, and thus the capital adequacy requirements have been based on the OCAR.

(* As defined by SAP 104)

The investment resilience is the single most significant component of the company's OCAR. 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 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. In addition, the board has also approved that a portion of the discretionary margins in the valuation basis would be released in the calculation of both the OCAR (under adverse investment conditions) and TCAR (under adverse termination experience). 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.

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

45. Statutory capital adequacy requirements (continued)

The offsetting management actions that are assumed in calculating the OCAR vary depending on circumstances at the valuation date. The following management actions have been assumed in calculating the OCAR as at 31 December 2015, if asset values had declined as specified as at 31 December 2015, and had not subsequently recovered:

- A negative bonus of 6.0% followed by future bonus rates reduced by 3.7% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 2.5% per year in each of the following three years for Retail Affluent smoothed bonus products.
- Future bonus rates would have been reduced by 4.0% per year in each of the following three years for Mass Foundation smoothed bonus products.
- Future bonus rates would have been reduced by 2.5% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 0.5% per year in each of the following three years for Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 3.7% per year in each of the following three years for all other Corporate Segment pre-retirement smoothed bonus products (mainly Guaranteed Fund and Genesis).

For 31 December 2014 the following management actions were assumed, if assets had declined and subsequently not recovered:

- Future bonus rates would have been reduced by 4.2% 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 1.9% per year in each of the following three years for Retail Affluent smoothed bonus products.
- Future bonus rates would have been reduced by 3.0% per year in each of the following three years for Mass Foundation Cluster products.
- Future bonus rates would have been reduced by 1.6% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 0.4% per year in each of the following three years for with-profit annuities (excluding Platinum 1999 and Platinum 2003).
- Future bonus rates would have been reduced by 0.1% per year in each of the following three years for Platinum 1999 with-profit annuities.
- Future bonus rates would have been reduced by 1.5% per year in each of the following three years for Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 2.1% per year in each of the following three years for all other Corporate Segment pre-retirement smoothed bonus products (mainly Guaranteed Fund and Genesis).

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 OCAR, it has been assumed that assets backing the capital adequacy requirements are invested 28% in local equities, and 72% in local cash (December 2014: 12.5% local equities and 87.5% local cash).

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2015

Notes to the financial statements

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 2015. 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.

Occupational levels	Male				Female				Foreign national		Total
	A	C	I	W	A	C	I	W	M	F	
Top management	3	-	-	1	2	-	-	1	1	-	8
Senior management	84	78	59	398	60	68	50	139	33	8	977
Professionally qualified and experienced specialists and mid management	318	326	139	560	261	353	113	491	27	16	2,604
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	2,314	1,122	311	919	3,810	1,562	300	1,052	40	36	11,466
Semi-skilled and discretionary decision making	635	439	14	31	1,603	822	53	131	3	3	3,734
Unskilled and defined decision making	18	12	-	-	61	25	-	-	-	-	116
Total permanent	3,372	1,977	523	1,909	5,797	2,830	516	1,814	104	63	18,905
Temporary employees	21	17	4	8	32	50	3	4	-	2	141
Grand total	3,393	1,994	527	1,917	5,829	2,880	519	1,818	104	65	19,046

The following table indicates the total

Occupational levels	Male				Female				Foreign national		Total
	A	C	I	W	A	C	I	W	M	F	
Senior management	1	4	2	5	-	3	2	2	1	-	20
Professionally qualified and experienced specialists and mid management	7	9	4	16	1	8	1	9	-	-	55
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	17	20	6	18	27	48	6	35	-	-	177
Semi-skilled and discretionary decision making	25	31	2	-	34	23	3	5	1	1	125
Unskilled and defined decision making	1	1	-	-	3	1	-	-	-	-	6
Total permanent	51	65	14	39	65	83	12	51	2	1	383
Grand total	51	65	14	39	65	83	12	51	2	1	383