

# OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LTD



## CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

DO GREAT THINGS



OLDMUTUAL

Old Mutual Life Assurance Company (South Africa) Ltd  
Consolidated and Company Annual Financial Statements  
For the year ended 31 December 2016

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Contacts

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<b>Public officer</b>	J Baepi
<b>Auditors</b>	KPMG Inc. 1 Mediterranean Street Foreshore Cape Town 8001 South Africa
<b>Postal address</b>	PO Box 66 Cape Town 8000 South Africa
<b>Registered office</b>	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
<b>Company secretary</b>	E M Kirsten
<b>Company registration number</b>	1999/004643/06
<b>Preparation supervised by</b>	I G Williamson Finance Director B.Bus.Sc, FASSA

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 2016

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

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# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Statement of directors' responsibilities

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### 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 2016 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 (IFRS) and the requirements of the Companies Act of South Africa, and the director's report.

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

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

The auditor is responsible for reporting on whether the 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 30 March 2017 and signed on their behalf by:

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**P G de Beyer**  
Chairman  
Authorised Director

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**D Macready**  
Chief Executive Officer  
Authorised Director

## Certificate by the Company Secretary

I declare that, to the best of my knowledge, the Company has lodged all such returns and notices as are required of it in terms of section 88(2)(e) of the Companies Act of South Africa 71 of 2008, for the year ended 31 December 2016 and that all such returns appear true, correct and up to date.

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**E M Kirsten**  
Company Secretary  
30 March 2017

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Directors' report

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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 2016.

### 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 and earns fee income from investment management service contracts.

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 12,886 million (2015: R 4,284 million), and R 8,770 million (2015: R 2,903 million) after tax.

Profit before tax for the company was R 11,523 million (2015: R 3,519 million), and R 8,014 million (2015: R 3,050 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 instruments are 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 14.

### 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

Dividends on ordinary shares amounting to R 1,293 million (2015: R 3,050 million) and dividends on preference shares amounting to R 3,631 million (2015: R 1,751 million) were declared during the year 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 681 894.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Directors' report

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### 8. Directors

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

Name	Nationality
P G de Beyer	South African
D Macready	South African
N T Moholi	South African
C W N Molope	South African
R T Mupita	South African
I G Williamson	South African
B M Rapiya	South African
P G M Truyens	Dutch

The directors who held office in 2016 are:

#### Executive directors

R T Mupita  
I G Williamson f  
D Macready (Chief Executive Officer)

#### Non-executive director

B M Rapiya

#### Independent directors

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

a Member of the Audit Committee  
r Member of Risk Committee  
ca Member of the Customer Affairs Committee  
f Member of the Financial Assistance Committee

Mr P G de Beyer, Ms N Moholi and Ms N Molope were due to retire by rotation at the Annual General Meeting. Mr R T Mupita resigned on 31 January 2017. 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 2016

## Directors' report

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### 11. Events after the reporting period

The Board is not aware of any material events after the reporting period.

### 12. Going concern

The Board has satisfied itself that the company has 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 2016

## Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2016, 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 33 and 35 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 31.

### Actuarial Balance Sheet

	Rm		Rm	
	2016 Published	2016 Statutory	2015 Published	2015 Statutory
Total value of assets	631,410	630,402	620,092	619,160
Actuarial value of policy liabilities	(524,047)	(523,976)	(518,978)	(519,100)
Unsecured subordinated callable notes	(5,902)	(5,902)	(5,733)	(5,733)
Provisions and other liabilities	(50,875)	(50,840)	(47,829)	(47,779)
	(580,824)	(580,718)	(572,540)	(572,612)
Excess of assets over liabilities	50,586	49,684	47,552	46,548
Less: Inadmissible for statutory solvency purposes		(1,172)		(739)
Less: Limits on group undertakings		(8,440)		(9,408)
Add: Unsecured subordinated callable notes		5,902		5,733
Excess assets (statutory basis)		45,974		42,134
<b>Statutory capital adequacy requirement (CAR)</b>		<b>14,344</b>		<b>13,202</b>
Ratio of excess assets to CAR		3.2		3.2

Notes:

1. Certain of the 2016 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 33.1.
3. The composition of the assets backing the CAR is 30% in local equities and 70% in local cash (2015: 28% local equities and 72% local cash).

### Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2016, 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.

**W Louw**  
Statutory Actuary  
BComm (Hons), FASSA  
Cape Town  
30 March 2017

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Audit Committee report

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The Audit Committee is a committee of the Board of directors, and serves in an advisory capacity to the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, 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 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 Molohe (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 group 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 Committee has:

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit Committee, was independent of the company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the Companies Act 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 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 2016, 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 2016 of the company and subsidiaries, joint ventures and associates and the consolidated results of operations and cash flows for the year then ended.

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**C W N Molohe**

Chairman of the Audit Committee  
30 March 2017

# Independent Auditor's report

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

## Report on the Audit of the Consolidated and Separate Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of Old Mutual Life Assurance Company (South Africa) Ltd (the group and company) set out on pages 13 to 92, which comprise the statements of financial position at 31 December 2016, and the income statements and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Old Mutual Life Assurance Company (South Africa) Ltd at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Valuation of insurance contracts and investment contracts ("policyholder liabilities") (Aggregated policyholder liabilities for company: R526,3 billion and group: R547,3 billion)**

*Refer to the accounting policy on page 21 to 23 and the disclosures in notes 2, 20, 31 and 33.4 to the financial statements.*

#### *The key audit matter:*

The group and company have incurred significant obligations in respect of policyholder liabilities related to life insurance contracts. Judgement is required over a variety of uncertain future outcomes, including the policy for creating and releasing discretionary margins, economic assumptions, such as discount rates, and operating assumptions, such as mortality/morbidity, maintenance expense and persistency. In addition, in the current year the taxation of South African life insurers was amended to introduce a new tax fund for all new risk business sold from 1 January 2016. The company elected to utilise a one-off option to transfer existing risk business to the new fund. This election resulted in a release of policyholder liabilities as discussed in note 2. Due to the significant judgment and estimation involved in the determination of the policyholder liabilities and the change due to the new tax legislation, this was considered a key audit matter.

#### *How the matter was addressed in our audit:*

Our procedures in this area included testing the design, implementation and operating effectiveness of key controls over the identification, measurement and management of the group and the company's calculation of insurance and investment contract liabilities and evaluation of the consistency of methodologies and the appropriateness of the assumptions used by the group and the company.

## Independent Auditor's report

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We involved our own internal actuarial specialists to assist us in our challenge of the assumptions used (refer to note 33.4) and the process followed for setting and updating these assumptions, particularly around persistency, expense and mortality/morbidity assumptions. This included testing the appropriateness of the data used in management's analysis prepared to set the assumptions. Our challenge was provided in the context of our own industry knowledge, external data and our views of experience to date, an understanding of which was enhanced through our attendance at the Old Mutual Group's Internal Review Committee meetings.

In respect of the discretionary margins held, we tested and challenged the group and company's use and application of the established policy, with reference to industry-wide practice and applicable accounting standards.

To assess the impact of the one-off transfer of risk policies on policyholder liabilities we assessed the logic of the company's underlying workings based on our understanding of the new legislation. We also considered the company's approach to identify which risk policies to transfer with reference to industry-wide practice. This included an inspection of independent tax advice obtained by the company and the principles underlying such a transfer contained in an interpretation note released by the tax authority for comment.

### **Valuation of investments and securities (company: R576,2 billion and group: R635,0 billion)**

*Refer to the accounting policy on page 25 to 26 and the disclosures in notes 2, 4 and 14 to the financial statements.*

*The key audit matter:*

The group and the company holds and manages a significant investment portfolio to meet its obligations under insurance and investment contracts and for shareholder investment purposes. The size of the portfolio and the judgments involved in applying the applicable valuation models contributes to making the valuation of investments a key area of focus within our audit.

*How the matter was addressed in our audit:*

Our procedures in this area included understanding, assessing and testing the group and company's controls for the investment valuation process, monitoring performance of investments and the data integrity of the investment records.

For financial instruments which have been marked to market (fair value hierarchy 1), we performed independent sample checks on the pricing used to value the instruments.

For financial instruments which have been marked to model (fair value hierarchy 2), our internal valuation specialists interrogated management's modelling and assumptions based on their knowledge of the industry and on external data, ensuring consistency across the group and company.

For unlisted debt (fair value hierarchy 3), we evaluated the movement in the credit spreads over the period and also benchmarked the reasonability of the credit spreads to similar counterparties.

We assessed the allocation of assets into the fair value hierarchy as disclosed in note 4, placing specific emphasis on financial instruments where a greater degree of judgment is required.

### **Taxation (Deferred tax asset for company: R501 million and group: R539 million. Aggregated current and deferred tax liabilities for company: R5,9 billion and group: R7,1 billion)**

*Refer to the accounting policy on page 25 and the disclosures in notes 2, 8 and 12 to the financial statements*

*The key audit matter:*

Taxation liabilities require the group and company to make judgement and estimates in relation to various taxation issues and exposures. Judgment is further specifically required over the allocation of expenses to the different tax funds and the valuation of deferred tax liabilities for unrealised capital gains.

## Independent Auditor's report

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### *How the matter was addressed in our audit:*

In this area our audit procedures included, among others, the use of our internal taxation specialists to assess the taxation positions, to consider correspondence with the taxation authority to analyse and challenge the assumptions used to determine taxation provisions using our knowledge and experiences of the application of the legislation by the relevant authorities and courts.

We also considered the adequacy of the disclosures in respect of taxation and uncertain taxation positions as part of the critical accounting estimates and judgements.

### *Other Information*

The directors are responsible for the other information. The other information comprises the Directors' report, the Audit Committee report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, and the Statement of directors' responsibilities, Statutory actuary's report and the Employment equity report. Other information does not include the consolidated and company financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Consolidated and Separate Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Independent Auditor's report

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- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### 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 26 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  
30 March 2017**

**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 2016

## Income statements

For the year ended 31 December 2016

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		Company		Consolidated	
	Notes	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
<b>Revenue</b>					
Gross earned premiums		50,224	43,523	51,231	46,653
Outward reinsurance	13	(1,324)	(1,076)	(1,532)	(1,209)
<i>Net earned premiums</i>		48,900	42,447	49,699	45,444
Investment return	5	33,503	39,507	38,151	46,013
Fee, commission and other income		5,811	5,241	8,222	7,337
<b>Total revenue</b>		<b>88,214</b>	<b>87,195</b>	<b>96,072</b>	<b>98,794</b>
<b>Expenses</b>					
Claims and benefits		(52,161)	(51,751)	(52,587)	(52,021)
Reinsurance recoveries		1,028	1,426	1,251	1,440
<i>Net claims incurred (including change in insurance contract provisions)</i>		(51,133)	(50,325)	(51,336)	(50,581)
Change in investment contract liabilities		(10,616)	(18,566)	(10,700)	(22,250)
Finance costs	6	(1,588)	(1,387)	(2,179)	(1,710)
Commission and other acquisition costs		(4,035)	(4,309)	(4,308)	(4,900)
Operating and administration expenses	7	(9,319)	(9,089)	(12,419)	(11,739)
Change in third party interest in consolidated funds		-	-	(2,212)	(3,374)
<b>Total expenses</b>		<b>(76,691)</b>	<b>(83,676)</b>	<b>(83,154)</b>	<b>(94,554)</b>
Share of associates' and joint ventures' (loss)/profit after tax		-	-	(32)	44
<b>Profit before tax</b>		<b>11,523</b>	<b>3,519</b>	<b>12,886</b>	<b>4,284</b>
Income tax expense	8	(3,509)	(469)	(4,116)	(1,381)
<b>Profit after tax for the financial year</b>		<b>8,014</b>	<b>3,050</b>	<b>8,770</b>	<b>2,903</b>
<b>Attributable to:</b>					
Equity holders of the parent		8,014	3,050	8,772	2,906
Non-controlling interest		-	-	(2)	(3)
<b>Profit after tax for the financial year</b>		<b>8,014</b>	<b>3,050</b>	<b>8,770</b>	<b>2,903</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Statements of comprehensive income

	R m			
	Company		Consolidated	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
<b>Profit after tax for the financial year</b>	<b>8,014</b>	<b>3,050</b>	<b>8,770</b>	<b>2,903</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Property revaluation	122	213	122	213
Shadow accounting (change in long term policyholder liabilities due to property revaluation)	(133)	(187)	(133)	(187)
Actuarial (losses)/ gains on defined benefit plans and return on plan assets	(10)	47	(10)	47
<b>Items that will be reclassified subsequently to profit or loss</b>				
Currency translation differences on foreign operations	(63)	42	(448)	444
<b>Other comprehensive (loss)/ income for the year net of taxation</b>	<b>(84)</b>	<b>115</b>	<b>(469)</b>	<b>517</b>
<b>Total comprehensive income</b>	<b>7,930</b>	<b>3,165</b>	<b>8,301</b>	<b>3,420</b>
<b>Attributable to:</b>				
Equity holders of the parent	7,930	3,165	8,303	3,423
Non-controlling interest	-	-	(2)	(3)
	<b>7,930</b>	<b>3,165</b>	<b>8,301</b>	<b>3,420</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Statements of financial position

At 31 December 2016

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		Company		Consolidated	
	Notes	At 31 December 2016	At 31 December 2015	At 31 December 2016	At 31 December 2015
<b>Assets</b>					
Intangible assets	9	606	184	692	271
Investment property	10	519	1,947	19,180	17,949
Property and equipment	11	3,092	2,963	3,097	2,968
Deferred tax assets	12	501	301	539	358
Reinsurance contracts	13	617	608	962	871
Post employment benefits	22	594	511	594	511
Deferred acquisition costs		1,000	947	2,097	1,929
Loans and advances		222	230	222	230
Investment and securities	14	576,164	566,913	634,967	607,131
Investment in associates and joint ventures	15	-	-	2,112	1,569
Derivative assets		3,595	8,502	3,852	8,801
Amounts due by group companies	16	10,253	9,908	8,884	8,712
Other assets	17	6,554	7,121	11,178	15,107
Cash and cash equivalents	18	25,083	17,940	34,090	36,940
Non-current assets held for sale	19	2,610	2,017	2,839	3,267
<b>Total assets</b>		<b>631,410</b>	<b>620,092</b>	<b>725,305</b>	<b>706,614</b>
<b>Liabilities</b>					
Insurance contracts	20	149,087	154,809	150,010	155,741
Investment contracts	20	377,162	366,263	397,235	387,770
Third party interests in consolidated funds		-	-	66,042	55,629
Borrowed funds	21	5,902	5,733	10,488	10,876
Share-based payment liabilities	23	533	697	533	697
Deferred revenue on investment contracts		35	50	878	794
Deferred tax liabilities	12	4,496	3,992	5,595	4,644
Derivative liabilities		4,844	12,588	4,867	12,804
Amounts due to group companies	16	902	1,848	1,648	2,598
Provisions	24	1,462	2,357	1,496	2,431
Current tax payable		1,448	526	1,475	803
Collateral owing		25,939	14,758	25,939	14,758
Other liabilities	25	9,014	8,919	15,666	16,528
<b>Total liabilities</b>		<b>580,824</b>	<b>572,540</b>	<b>681,872</b>	<b>666,073</b>
<b>Shareholders' equity</b>					
Share capital and premium	26	6,423	6,423	6,423	6,423
Reserves	26	44,163	41,129	37,037	34,143
<b>Equity attributable to holders of the parent</b>		<b>50,586</b>	<b>47,552</b>	<b>43,460</b>	<b>40,566</b>
Non-controlling interest		-	-	(27)	(25)
<b>Total equity</b>		<b>50,586</b>	<b>47,552</b>	<b>43,433</b>	<b>40,541</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Statements of changes in equity

### Company

	Share capital	Share premium	Reserves	Total equity
	R m	R m	R m	R m
<b>Balance at 1 January 2015</b>	<b>8</b>	<b>6,415</b>	<b>42,802</b>	<b>49,225</b>
Profit after tax	-	-	3,050	3,050
Other comprehensive income	-	-	115	115
Dividends	-	-	(4,801)	(4,801)
Other movements	-	-	(37)	(37)
Total changes	-	-	(1,673)	(1,673)
<b>Balance at 31 December 2015</b>	<b>8</b>	<b>6,415</b>	<b>41,129</b>	<b>47,552</b>
Profit after tax	-	-	8,014	8,014
Other comprehensive loss	-	-	(84)	(84)
Dividends	-	-	(4,924)	(4,924)
Other movements	-	-	28	28
Total changes	-	-	3,034	3,034
<b>Balance at 31 December 2016</b>	<b>8</b>	<b>6,415</b>	<b>44,163</b>	<b>50,586</b>

### Consolidated

	Share capital	Share premium	Reserves	Non-controlling interest	Total equity
	R m	R m	R m	R m	R m
<b>Balance at 1 January 2015</b>	<b>8</b>	<b>6,415</b>	<b>35,538</b>	<b>(22)</b>	<b>41,939</b>
Profit after tax	-	-	2,906	(3)	2,903
Other comprehensive income	-	-	517	-	517
Dividends	-	-	(4,801)	-	(4,801)
Other movements	-	-	(17)	-	(17)
Total changes	-	-	(1,395)	(3)	(1,398)
<b>Balance at 31 December 2015</b>	<b>8</b>	<b>6,415</b>	<b>34,143</b>	<b>(25)</b>	<b>40,541</b>
Profit after tax	-	-	8,772	(2)	8,770
Other comprehensive loss	-	-	(469)	-	(469)
Dividends	-	-	(4,924)	-	(4,924)
Acquisition of business from fellow subsidiary	-	-	(386)	-	(386)
Other movements	-	-	(99)	-	(99)
Total changes	-	-	2,894	(2)	2,892
<b>Balance at 31 December 2016</b>	<b>8</b>	<b>6,415</b>	<b>37,037</b>	<b>(27)</b>	<b>43,433</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Statements of cash flows

For the year ended 31 December 2016

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		Company		Consolidated	
	Notes	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
<b>Cash flows from operating activities</b>					
Cash used in operations	27	(5,356)	(7,493)	(5,374)	(12,994)
Interest received		18,238	16,872	19,914	18,419
Dividends received		6,802	4,973	7,269	5,647
Interest paid		(1,641)	(1,387)	(2,232)	(1,710)
Tax paid	27	(2,306)	(1,530)	(2,862)	(2,039)
<b>Net cash from operating activities</b>		<b>15,737</b>	<b>11,435</b>	<b>16,715</b>	<b>7,323</b>
<b>Cash flows from investing activities</b>					
Net acquisition of property and equipment		(289)	(590)	(301)	(608)
Acquisition of investment property	10	(678)	(1,652)	(957)	(2,161)
Proceeds from disposal of investment property		1,788	5,590	1,838	3,485
Net acquisition of intangible assets	9	(447)	(70)	(447)	(70)
Acquisition of investment in associates		-	(1,344)	(961)	(1,344)
Acquisition of business from fellow subsidiary		-	-	(401)	-
Net acquisition of financial instruments		(4,044)	(9,893)	(12,912)	(6,223)
<b>Net cash used in investing activities</b>		<b>(3,670)</b>	<b>(7,959)</b>	<b>(14,141)</b>	<b>(6,921)</b>
<b>Cash flows from financing activities</b>					
Issue of borrowed funds		-	5,000	-	5,986
Repayment of borrowed funds		-	(3,000)	(500)	(3,000)
Dividends paid to company's shareholders		(4,924)	(4,801)	(4,924)	(4,801)
<b>Net cash used in financing activities</b>		<b>(4,924)</b>	<b>(2,801)</b>	<b>(5,424)</b>	<b>(1,815)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,143</b>	<b>675</b>	<b>(2,850)</b>	<b>(1,413)</b>
Cash and cash equivalents at beginning of the year		17,940	17,265	36,940	38,353
<b>Total cash and cash equivalents at end of the year</b>	18	<b>25,083</b>	<b>17,940</b>	<b>34,090</b>	<b>36,940</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Accounting policies

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### 1.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the South African Companies Act, 2008.

The consolidated financial statements consolidate those of the company and its subsidiaries (together referred to as the group) and equity account the group's interests in associates and joint ventures (other than those held by investment linked insurance funds which are accounted for as investments at fair value through profit or loss). The company financial statements present information about Old Mutual Life Assurance Company (South Africa) Ltd as a separate entity and not about the group.

### 1.2 Basis of preparation

In principle, financial statements are prepared on the historical cost basis except as stated otherwise.

The company and group financial statements are prepared in accordance with these accounting policies.

The accounting policies adopted have been consistently applied to all years presented, unless otherwise stated.

The financial statements have been prepared on the going concern basis.

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

### 1.3 New and amended standards adopted

The company has adopted the following standards and amendments for the first time in their annual reporting period commencing 1 January 2016:

#### *Amendments to IAS 1 Presentation of Financial Statements - Disclosure initiative*

The amendments to IAS 1 are effective for financial periods commencing on or after 1 January 2016 and is applied retrospectively. The amendments clarify the existing requirements in IAS 1. The group reviewed the accounting policies and other disclosures in the financial statements to enhance disclosure effectiveness. The amendments did not impact recognition or measurement in the financial statements.

### 1.4 New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and amendments to standards which are relevant to the group have been issued by the International Accounting Standards Board (IASB). The group will apply the standards and amendments on the relevant effective dates.

#### *IFRS 9 Financial Instruments*

The standard is effective for financial years commencing on or after 1 January 2018. The group has adopted a partial IFRS 9 (2009) but will adopt the comprehensive standard which becomes effective for financial years commencing on or after 1 January 2019. The group has chosen the option to not restate comparative numbers when adopting IFRS 9.

In terms of IFRS 9:

- equities, derivatives or debt instruments managed in accordance with a fair value business model are accounted for at fair value through profit or loss;
- financial assets are measured at amortised cost if they are held within a business model whose objective is to hold those assets for the purpose of collecting contractual cash flows and those cash flows comprise solely payments of principal and interest (hold to collect);
- financial assets are measured at fair value through other comprehensive income, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and those contractual cash flows comprise solely payments of principal and interest ('hold to collect and sell'); and
- the accounting for financial liabilities is largely unchanged, but changes in the fair value of financial liabilities designated at fair value through profit or loss which are attributable to the group's own credit risk, are recognised in OCI.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Accounting policies

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### 1.4 New standards and interpretations not yet adopted (continued)

During the year, the group conducted an assessment of potential classification and measurement changes to financial assets based on the composition of the balance sheet as at 31 December 2015. This may not be fully representative of the impact as at 1 January 2018 as IFRS 9 requires that business models be assessed based on facts and circumstances from the date of initial application. However, based on the assessment of financial assets as at 31 December 2015, the group does not expect the impact of the changes to classification and measurement of financial assets, to be significant to the group's statement of financial position and performance.

Impairments in terms of IFRS 9 will be determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39. The group will be required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The ECL model applies to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments. The group expects that impairment losses for relevant financial assets will increase as a result of the application of IFRS 9.

The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Until such time as the macro-hedging project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39.

The group expects that significant additional disclosures will be added to the financial statements to meet the revised requirements of IFRS 7 *Financial Instruments: Disclosures*. The revisions will be effective for financial periods commencing on or after 1 January 2018.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard is effective for the group for the financial year commencing 1 January 2018. The group is currently performing an assessment to determine the potential impact of the new standard on the group's statement of financial position and performance. The group is still considering the transition approach to be applied. The group expects that significant additional disclosures will be added to the financial statements to meet the revised requirements of IFRS 15.

### IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases* and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting is substantially unchanged from accounting under IAS 17. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The group is in the process of assessing the impact of IFRS 16 and the transitional provisions.

### Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses

The amendments are effective for annual periods beginning on or after 1 January 2017 and should be applied retrospectively. The IASB issued the amendments to IAS 12 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

### 1.5 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Accounting policies

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### 1.5 Group accounting (continued)

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. 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.

Where the group acts as a fund manager to a number of investment funds determining whether the group controls such an investment usually focuses on the assessment of decision making rights as a fund manager, the investor's 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. Discretion is 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 arrangements 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 all instances. The group is considered to be acting as principal where the group is the fund manager and is able to make investment decisions on behalf of the unit holders to earn a variable fee, and there are no or weak kick out rights that would remove the group as fund manager.

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

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The interest of the balance of the investors in these funds are reported as a financial liability in the statement of financial position as, 'Third-party interests in consolidated funds'. As stated in note 30, 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 and Joint Ventures

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. 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.

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.

The results, assets and liabilities of associates and joint ventures 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. Dividends declared by associates and joint ventures reduce the carrying value of the equity accounted investments in associates and joint ventures.

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.

Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale. For the period of time that an investment in an associate is classified as held for sale, equity accounting ceases until the investment is sold or the classification is no longer applicable. Investments in associates held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

Step acquisition of investments in associates and joint ventures is accounted for by measuring the previously held interest and the consideration paid for the additional interest at fair value. The fair value adjustment on the previously hold interest is recognised in profit or loss.

### 1.6 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Accounting policies

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### 1.6 Revenue (continued)

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.

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 as the services are rendered.

Commission income is accounted for on an earned basis.

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.

### 1.7 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.

### 1.8 Insurance and investment contracts

#### Classification of 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 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 are accounted similar to insurance contracts.

Contracts under which the transfer of insurance risk to the group from the policyholder is not significant (or there is no transfer of insurance risk) and where there is no discretionary participation are classified as investment contracts. Such contracts include unit-linked contracts and investment contracts sold without life insurance protection.

Contracts that expose the group to financial risk and do not expose the group to significant insurance risk are 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Accounting policies

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### 1.8 Insurance and investment contracts (continued)

#### 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 insurance contracts or investment contracts liabilities with a discretionary participating feature but not yet distributed (i.e. bonus stabilisation reserves) is included in the carrying value of liabilities.

Investment options and guarantees embedded in insurance contracts have been calculated on a market-consistent basis, with additional margins added as permitted by APN 110.

The 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. The liability adequacy test is performed making use of current assumptions at the reporting date. 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 31 and 33.

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 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.

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.

Premiums received on investment contracts are included in the liability at fair value through profit or loss.

#### Unbundling

The group has elected to unbundle the deposit components of insurance contracts 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.

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 2016

## Accounting policies

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### 1.8 Insurance and investment contracts (continued)

#### 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. Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

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.

#### 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.

### 1.9 Intangible assets

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

The cost of intangible assets includes the directly attributable costs necessary to acquire, develop and complete the asset to be able to operate as intended by management. Subsequent expenditure on intangible assets is expensed, unless probable that the expenditure will result in future economic benefits being received by the group and the cost can be measured reliably.

Intangible assets are amortised over their useful life on a straight-line basis. 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.

Research costs are expensed as incurred. An intangible asset arising from development expenditure 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 intangible assets are reviewed for indicators of impairment annually. If indicators of impairment exist, the particular asset is tested for impairment. An intangible asset that is not yet available for use or has an indefinite useful life are tested for impairment on an annual basis.

### 1.10 Investment property

Land and buildings held to earn rentals or for capital appreciation or both, is classified as investment property.

Investment properties are stated at fair value. 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. Internal professional valuers perform valuations annually. 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.

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### 1.10 Investment property (continued)

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.

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.

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.

### 1.11 Property and equipment

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 is capitalised when it is reliably 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.

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.

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 is charged to the income statement on a straight-line basis over the estimated useful lives of items of owner-occupied property and equipment to residual value.

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.

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### 1.11 Property and equipment (continued)

Owner-occupied property is currently depreciated over a period of 50 years using the straight-line method. Equipment is currently depreciated over a period between 2 to 5 years using the straight-line method. Residual values, depreciation methods and useful lives are reassessed at each financial year-end.

### 1.12 Tax

Tax charges 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. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

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

Deferred tax is recognised in respect of most 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.

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.

In certain circumstances deferred tax balances are not recognised. In particular, deferred tax is not recognised on taxable 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.

### 1.13 Financial assets and liabilities

#### Recognition and de-recognition of financial instruments

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
- It retains contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to other entity(ies); 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 that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

#### Initial measurement

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### Classification

Non-derivative 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.

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## Accounting policies

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### 1.13 Financial assets and liabilities (continued)

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise those financial assets where the 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.

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.

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

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. Gains and losses are recognised in the income statement when the assets are derecognised as well as through the amortisation process.

#### Financial liabilities at amortised cost

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Interest expenses are included in finance costs.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### Derivative financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. When applicable, derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives not designated as hedges for hedge accounting purposes are included in investment income or finance costs as appropriate.

#### Cash and cash equivalents

Cash and cash equivalents comprises balances with banks and are carried at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and highly liquid short-term funds, mandatory reserve deposits held with central banks, cash held in investment portfolios awaiting reinvestment and cash and cash equivalents through consolidation of funds. It excludes cash balances held in policyholder investment portfolios. Cash balances include cash collateral held.

#### 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.

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## Accounting policies

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### 1.13 Financial assets and liabilities (continued)

#### Lending of securities

The equities or bonds on loan under securities lending arrangements are not derecognised 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 at amortised cost

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.

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 what the amortised cost balance would have been at the reversal date, if no impairment loss was recognised in the past.

### 1.14 Foreign currency translation

#### Foreign currency transactions and balances other than in respect of foreign operations

Transactions in foreign currencies are converted into South African Rands, the group's functional currency, at the rate of exchange ruling 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 retranslated.

Exchange gains and losses on the translation and settlement of monetary items during the period of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in the consolidated statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the consolidated statement of other comprehensive income, and in profit or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

#### Translation foreign operations

The assets and liabilities of foreign operations are translated from their respective functional currencies into the group's presentation currency (South African Rands) using the year-end exchange rates, and their income and expenses using the average exchange rates for the year. Cumulative exchange differences from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity in the foreign currency translation reserve. Upon the disposal of a foreign operation, the cumulative amount of exchange differences deferred in shareholders' equity is recognised in profit or loss.

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### 1.15 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. Net interest income/expense on the net defined benefit plan asset/liability is determined by multiplying the net defined benefit plan asset/liability with the applicable discount rate, both at the beginning of the financial year.

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 lower of the asset or the 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 defined benefit plan asset and liability, the return on plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately as other income.

#### 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.

### 1.16 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.

### 1.17 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 to the extent that the employee rendered the services at the reporting date. 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

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### 1.18 Segment reporting

The group's reported segments are Retail and Corporate, with the balance of the group's financial results reflected as attributable to shareholders. The segmental results are reported on a basis consistent with the way that the executive committee assesses performance of the underlying businesses and allocate resources. The reporting segments are described as follows:

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

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the 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. 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.

### 1.19 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.

### 1.20 Impairment of non-financial assets

The recoverable amount of non-financial assets (other than financial assets, deferred tax assets and investment properties) 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.

### 1.21 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.

### 1.22 Borrowing costs

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

### 1.23 Share capital

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

### 1.24 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.

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### 1.24 Non-current assets held-for-sale (continued)

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. 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.

### 1.25 Comparative figures

Where appropriate comparative figures are reclassified in line with current year presentation. Details are shown in the appropriate section.

In the current year, deferred acquisition costs that were previously offset against deferred revenue on investment contracts have been reclassified into the deferred acquisition costs line in the statement of financial position. Comparatives have been restated.

## 2. 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.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments.

The accounting treatment of products issued by the group is based on whether the contracts are classified as insurance or investment contracts. Determining whether a contract is an insurance or investment contract takes into account the exposure of the group to significant insurance risk and is a matter of judgment. Insurance contract accounting is discussed in note 1.8 above, and further detail of the methodology used in determining insurance contract liabilities is included in note 33.4.

If the fair values of financial instruments are not readily determinable with reference to quoted market prices, the fair values are based either on internal valuation models or management estimates of amounts that could be realised under current market conditions. The 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 methods and assumptions used in determining the fair values of specific financial instruments are disclosed in note 4.

The nature and the key assumptions made in determining provisions are disclosed in note 24. The assumptions applied in valuing share-based payment liabilities are disclosed in note 23.

The group in the ordinary course of business enters into transactions that expose the group to tax, legal and business risks. For further information on significant judgments impacting income tax expense in the current year refer to note 8. 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, refer to note 32.

The measurement of the defined benefit plan assets and liabilities takes into estimates regarding employees, costs of providing the defined benefits and financial assumptions. For further information on the estimates and assumptions, refer to note 22.

The fair values and revalued amounts of investment property and owner-occupied properties are based on various assumptions such as rental income, vacancy rates, discount rates and comparable market transactions. For further information on the assumptions and estimates used in determining the carrying values of these properties, refer to notes 10 and 11.

The group invests funds in various investment vehicles such as unit trust and private equity funds. Determining whether the group controls, and therefore consolidates, the various investment vehicles is a matter of judgment and takes into account the exposure of the group to the returns from the investment vehicles.

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## 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, commission and 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 income

Other income

Share of associates and joint ventures (loss)/profit after tax

##### Shareholder expenses

Finance costs

Operating and administration expenses

Change in third party interest in consolidated funds

Profit before tax

Income tax expense

##### Profit after tax for the financial year

#### 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

	Consolidated 2016 R m		
	Retail	Corporate	Total
<b>Segment revenue</b>			
Gross earned premiums	22,019	29,212	51,231
Outward reinsurance	(1,071)	(461)	(1,532)
<i>Net earned premiums</i>	20,948	28,751	49,699
Investment income (net of investment losses)	16,571	14,802	31,373
Fee, commission and other income	7,760	368	8,128
<b>Segment expenses</b>			
Claims and benefits	(17,548)	(35,039)	(52,587)
Reinsurance recoveries	826	425	1,251
<i>Net claims incurred (including change in insurance contract provisions)</i>	(16,722)	(34,614)	(51,336)
Change in investment contract liabilities	(5,232)	(5,468)	(10,700)
Commission and other acquisition costs	(4,242)	(66)	(4,308)
Operating and administration expenses	(9,369)	(2,328)	(11,697)
<b>Segment result</b>	<b>9,714</b>	<b>1,445</b>	<b>11,159</b>
<b>Shareholder income</b>			
Investment income			6,778
Other income			94
Share of associates and joint ventures (loss)/profit after tax			(32)
<b>Shareholder expenses</b>			
Finance costs			(2,179)
Operating and administration expenses			(722)
Change in third party interest in consolidated funds			(2,212)
Profit before tax			12,886
Income tax expense			(4,116)
<b>Profit after tax for the financial year</b>			<b>8,770</b>

Segment assets	323,594	254,785	578,379
Shareholder assets			146,926
<b>Total assets</b>			<b>725,305</b>
Insurance contract liabilities	(89,644)	(60,366)	(150,010)
Investment contracts with discretionary participation features	(24,955)	(122,966)	(147,921)
Investment contracts	(187,954)	(61,360)	(249,314)
Other liabilities	(21,042)	(10,093)	(31,135)
Segment liabilities	(323,595)	(254,785)	(578,380)
Shareholder liabilities			(103,492)
<b>Total liabilities</b>			<b>(681,872)</b>

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## Notes to the financial statements

### 3. Segment information (continued)

	Consolidated 2015 R m		
	Retail	Corporate	Total
<b>Income statement</b>			
<b>Segment revenue</b>			
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, commission and other income	7,001	284	7,285
Other income			
<b>Segment expenses</b>			
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)
<b>Segment result</b>	<b>6,804</b>	<b>1,655</b>	<b>8,459</b>
<b>Shareholder income</b>			
Investment income			888
Other income			52
Share of associates and joint ventures loss after tax			44
<b>Shareholder expenses</b>			
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)
<b>Profit after tax for the financial year</b>			<b>2,903</b>
<b>Statement of financial position</b>			
Segment assets	338,809	241,234	580,043
Shareholder assets			126,571
<b>Total assets</b>			<b>706,614</b>
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	(26,431)	(10,100)	(36,531)
Segment liabilities	(338,809)	(241,234)	(580,043)
Shareholder liabilities			(86,030)
<b>Total liabilities</b>			<b>(666,073)</b>

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## 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. Note 30 discusses the financial risk management of the group. This section provides a detailed analysis of the composition of the financial assets and liabilities.

#### 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 2016			
	R m			
<b>Assets</b>	<b>Fair value through profit or loss</b>	<b>Amortised cost</b>	<b>Other assets</b>	<b>Total</b>
Intangible assets	-	-	606	606
Investment property	-	-	519	519
Property and equipment	-	-	3,092	3,092
Deferred tax assets	-	-	501	501
Reinsurance contracts	-	-	617	617
Post employment benefits	-	-	594	594
Deferred acquisition costs	-	-	1,000	1,000
Loans and advances	-	222	-	222
Investment and securities	576,111	53	-	576,164
Derivative assets	3,595	-	-	3,595
Amounts due by group companies	-	10,253	-	10,253
Other assets	-	6,554	-	6,554
Cash and cash equivalents	-	25,083	-	25,083
Non-current assets held for sale	-	-	2,610	2,610
<b>Total assets</b>	<b>579,706</b>	<b>42,165</b>	<b>9,539</b>	<b>631,410</b>

	Company 2015			
	R m			
<b>Assets</b>	<b>Fair value through profit or loss</b>	<b>Amortised cost</b>	<b>Other assets</b>	<b>Total</b>
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	566,795	118	-	566,913
Derivative assets	8,502	-	-	8,502
Amounts due by group companies	-	9,908	-	9,908
Other assets	-	7,121	-	7,121
Cash and cash equivalents	-	17,940	-	17,940
Non-current assets held for sale	-	-	2,017	2,017
<b>Total assets</b>	<b>575,297</b>	<b>35,317</b>	<b>9,478</b>	<b>620,092</b>



# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 4. Financial assets and Liabilities (continued)

	Consolidated 2016 R m			
<b>Assets</b>	Fair value through profit or loss	Amortised cost	Other assets	Total
Intangible assets	-	-	692	692
Investment property	-	-	19,180	19,180
Property and equipment	-	-	3,097	3,097
Deferred tax assets	-	-	539	539
Reinsurance contracts	-	-	962	962
Post employment benefits	-	-	594	594
Deferred acquisition costs	-	-	2,097	2,097
Loans and advances	-	222	-	222
Investment and securities	634,914	53	-	634,967
Investments in associates	-	-	2,112	2,112
Derivative assets	3,852	-	-	3,852
Amounts due by group companies	-	8,884	-	8,884
Other assets	-	11,178	-	11,178
Cash and cash equivalents	-	34,090	-	34,090
Non-current assets held for sale	-	-	2,839	2,839
<b>Total assets</b>	<b>638,766</b>	<b>54,427</b>	<b>32,112</b>	<b>725,305</b>

	Consolidated 2015 R m			
<b>Assets</b>	Fair value through profit or loss	Amortised cost	Other assets	Total
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	-	-	1,929	1,929
Loans and advances	-	230	-	230
Investment and securities	607,013	118	-	607,131
Investments in associates	-	-	1,569	1,569
Derivative assets	8,801	-	-	8,801
Amounts due by group companies	-	8,712	-	8,712
Other assets	-	15,107	-	15,107
Cash and cash equivalents	-	36,940	-	36,940
Non-current assets held for sale	-	-	3,267	3,267
<b>Total assets</b>	<b>615,814</b>	<b>61,107</b>	<b>29,693</b>	<b>706,614</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 4. Financial assets and liabilities (continued)

				Consolidated 2016 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
<b>Liabilities</b>				
Insurance contract liabilities	-	-	150,010	150,010
Investment contract liabilities	249,314	-	147,921	397,235
Third party interest in consolidated funds	66,042	-	-	66,042
Borrowed funds	5,902	4,586	-	10,488
Share-based payment liabilities	-	-	533	533
Deferred revenue	-	-	878	878
Deferred tax liabilities	-	-	5,595	5,595
Derivative liabilities	4,867	-	-	4,867
Amounts due to group companies	-	1,648	-	1,648
Provisions	-	-	1,496	1,496
Current tax payable	-	-	1,475	1,475
Collateral owing	-	25,939	-	25,939
Other liabilities	-	14,871	795	15,666
	<b>326,125</b>	<b>47,044</b>	<b>308,703</b>	<b>681,872</b>

				Consolidated 2015 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
<b>Liabilities</b>				
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	5,143	-	10,876
Share-based payment liabilities	-	-	697	697
Deferred revenue	-	-	794	794
Deferred tax liabilities	-	-	4,644	4,644
Derivative liabilities	12,804	-	-	12,804
Amounts due to group companies	-	2,598	-	2,598
Provisions	-	-	2,431	2,431
Current tax payable	-	-	803	803
Collateral owing	-	14,758	-	14,758
Other liabilities	-	11,905	4,623	16,528
	<b>322,561</b>	<b>34,404</b>	<b>309,108</b>	<b>666,073</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

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### 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 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 2016

## 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'.

#### Fair value hierarchy

	Company 2016			
	R m			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Derivative assets	-	3,595	-	3,595
Investment and securities	284,558	266,175	25,378	576,111
	<b>284,558</b>	<b>269,770</b>	<b>25,378</b>	<b>579,706</b>

	Company 2015			
	R m			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Derivative assets	-	8,502	-	8,502
Investment and securities	265,095	275,659	26,041	566,795
	<b>265,095</b>	<b>284,161</b>	<b>26,041</b>	<b>575,297</b>

	Company 2016			
	R m			
	Level 1	Level 2	Level 3	Total
<b>Financial liabilities at fair value</b>				
Derivative liabilities	-	4,844	-	4,844
Investment contracts	-	229,242	-	229,242
Borrowed funds	5,902	-	-	5,902
	<b>5,902</b>	<b>234,086</b>	<b>-</b>	<b>239,988</b>

	Company 2015			
	R m			
	Level 1	Level 2	Level 3	Total
<b>Financial liabilities at fair value</b>				
Derivative liabilities	-	12,588	-	12,588
Investment contracts	-	226,888	-	226,888
Borrowed funds	5,733	-	-	5,733
	<b>5,733</b>	<b>239,476</b>	<b>-</b>	<b>245,209</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 4. Financial assets and liabilities (continued)

	Consolidated 2016 R m			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Derivative assets	-	3,852	-	3,852
Investment and securities	416,388	205,993	12,533	634,914
	<b>416,388</b>	<b>209,845</b>	<b>12,533</b>	<b>638,766</b>

	Consolidated 2015 R m			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Derivative assets	-	8,801	-	8,801
Investment and securities	405,426	185,783	15,804	607,013
	<b>405,426</b>	<b>194,584</b>	<b>15,804</b>	<b>615,814</b>

	Consolidated 2016 R m		
	Level 1	Level 2	Total
<b>Financial liabilities at fair value</b>			
Derivative liabilities	-	4,867	4,867
Investment contracts	-	249,314	249,314
Third party interest in consolidated funds	-	66,042	66,042
Borrowed funds	5,902	4,586	10,488
	<b>5,902</b>	<b>324,809</b>	<b>330,711</b>

	Consolidated 2015 R m		
	Level 1	Level 2	Total
<b>Financial liabilities at fair value</b>			
Derivative liabilities	-	12,804	12,804
Investment contracts	-	248,395	248,395
Third party interest in consolidated funds	-	55,629	55,629
Borrowed funds	5,733	5,143	10,876
	<b>5,733</b>	<b>321,971</b>	<b>327,704</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 4. Financial assets and liabilities (continued)

Movement in level 3 assets	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
At the beginning of the year	26,041	20,462	15,804	11,673
Gains recognised in income statement	435	4,022	927	2,574
Purchases and issues	1,901	2,852	1,882	2,852
Sales and settlements	(2,732)	(1,567)	(2,170)	(1,567)
Transfers into level 3 from other categories	1,152	554	1,152	554
Transfers out of level 3 to other categories	(1,419)	(282)	(5,062)	(282)
<b>At end of the year</b>	<b>25,378</b>	<b>26,041</b>	<b>12,533</b>	<b>15,804</b>

For the group's designated level 3 assets held at the end of the year, net gains of R1,031 million were recognised in the income statement as investment income (2015: net gains of R1,342 million).

For the company's designated level 3 assets held at the end of the year, net gains of R187 million were recognised in the income statement as investment income (2015: net gains of R2,795 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 2016

## 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			
2016		2015	
R m		R m	
Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
3,394	(3,409)	2,833	(2,542)

##### Level 3 financial assets Investments and securities

Consolidated			
2016		2015	
R m		R m	
Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2,439	(2,587)	1,995	(1,803)

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% - 7% 10% - 40% 9% - 10%
Price earnings (PE) model/multiple/ embedded value	PE ratio/multiple	4 - 11 times
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 2016

## Notes to the financial statements

### 4. Financial assets and liabilities (continued)

#### Fair value hierarchy for financial assets and liabilities not measured at fair value

Certain financial instruments of the group are not carried at fair value, principally loans and advances, cash and cash equivalents, and other financial assets and financial liabilities at amortised cost. The calculation of the fair value of these financial instruments incorporates the group's best estimate of the value at which these financial assets could be exchanged, or financial liabilities transferred, between market participants at the measurement date.

	Company 2016				
	R m				
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
<b>Assets</b>					
Loans and advances	-	-	222	222	222
Other assets	-	-	6,554	6,554	6,554
Cash and cash equivalents	-	25,083	-	25,083	25,083
	-	<b>25,083</b>	<b>6,776</b>	<b>31,859</b>	<b>31,859</b>
<b>Liabilities</b>					
Collateral owing	-	-	25,939	25,939	25,939
Other liabilities	-	-	9,014	9,014	9,014
	-	-	<b>34,953</b>	<b>34,953</b>	<b>34,953</b>

	Company 2015				
	R m				
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
<b>Assets</b>					
Loans and advances	-	-	230	230	230
Other assets	-	-	7,121	7,121	7,121
Cash and cash equivalents	-	17,940	-	17,940	17,940
	-	<b>17,940</b>	<b>7,351</b>	<b>25,291</b>	<b>25,291</b>
<b>Liabilities</b>					
Collateral owing	-	-	14,758	14,758	14,758
Other liabilities	-	-	8,919	8,919	8,919
	-	-	<b>23,677</b>	<b>23,677</b>	<b>23,677</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 4. Financial assets and liabilities (continued)

				Consolidated 2016 R m	
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
<b>Assets</b>					
Loans and advances	-	-	222	222	222
Other assets	-	-	11,178	11,178	11,178
Cash and cash equivalents	-	34,090	-	34,090	34,090
	-	<b>34,090</b>	<b>11,400</b>	<b>45,490</b>	<b>45,490</b>
<b>Liabilities</b>					
Collateral owing	-	-	25,939	25,939	25,939
Other liabilities	-	-	15,666	15,666	15,666
	-	-	<b>41,605</b>	<b>41,605</b>	<b>41,605</b>

				Consolidated 2015 R m	
	Level 1	Level 2	Level 3	Total Fair values	Total Carrying amount
<b>Assets</b>					
Loans and advances	-	-	230	230	230
Other assets	-	-	15,107	15,107	15,107
Cash and cash equivalents	-	36,940	-	36,940	36,940
	-	<b>36,940</b>	<b>15,337</b>	<b>52,277</b>	<b>52,277</b>
<b>Liabilities</b>					
Collateral owing	-	-	14,758	14,758	14,758
Other liabilities	-	-	16,528	16,528	16,528
	-	-	<b>31,286</b>	<b>31,286</b>	<b>31,286</b>

### 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 offset arrangements after taking into consideration these types of agreements is:

- Derivative financial instruments – assets: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 3,852 million (2015: R 8,801 million).
- Derivative financial instruments – liabilities: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 4,867 million (2015: R 12,804 million).
- Derivative financial instruments – assets (Company): Gross amounts of recognised financial instruments in the statement of financial position amounted to R3,595 million (2015: R8,502 million).
- Derivative financial instruments – liabilities (Company): Gross amounts of recognised financial instruments in the statement of financial position amounted to R4,844 million (2015: R12,588 million).
- Cash and bond collateral amounts not offset against derivative assets and liabilities in the statement of financial position are R1,042 million (2015: R3,456 million).

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 5. Investment income

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Interest and similar income</b>				
Loans and advances (Policyholder loans)	15	15	15	15
Investment and securities	15,771	15,017	16,333	16,205
Cash and cash equivalents	779	1,017	1,893	1,376
Collateral held	1,673	823	1,673	823
	<b>18,238</b>	<b>16,872</b>	<b>19,914</b>	<b>18,419</b>
<b>Dividend income</b>				
Investment and securities				
Equity securities	5,747	3,867	5,954	4,081
Pooled investments	1,055	1,106	1,315	1,566
	<b>6,802</b>	<b>4,973</b>	<b>7,269</b>	<b>5,647</b>
<b>Rental income from investment property</b>	<b>290</b>	<b>528</b>	<b>1,970</b>	<b>2,070</b>
<b>Fair value gains/(losses)</b>				
Investment property	477	85	1,886	1,161
Investment and securities *	3,474	20,382	2,890	22,049
Derivative instruments	4,222	(3,323)	4,222	(3,323)
	<b>8,173</b>	<b>17,144</b>	<b>8,998</b>	<b>19,887</b>
<b>Foreign currency gains and losses</b>	-	(10)	-	(10)
<b>Total investment income recognised in income statement</b>	<b>33,503</b>	<b>39,507</b>	<b>38,151</b>	<b>46,013</b>

\*Included in gains recognised in income for the group and company are transaction costs amounting to R 159 million ( 2015: R 110 million).

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 6. Finance costs

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Interest payable</b>				
Borrowed funds - subordinated debt	583	558	583	558
Collateral held	1,051	823	1,051	823
Other interest expense	7	44	598	367
<b>Fair value gains and losses on borrowed funds</b>				
Borrowed funds	169	(256)	169	(256)
Derivative instruments used as economic hedges	(222)	218	(222)	218
	<b>1,588</b>	<b>1,387</b>	<b>2,179</b>	<b>1,710</b>
Total interest expense included above for liabilities at fair value through profit and loss	583	335	583	335

### 7. Operating and administration expenses

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Staff costs (excluding directors' emoluments)</b>				
Wages and salaries	3,741	3,351	3,844	3,425
Social security costs	18	18	18	18
Defined contribution plans	199	311	199	311
Bonus and incentive remuneration	788	1,290	803	1,289
Share-based payments	65	256	68	257
Other	94	142	94	142
Less: Staff costs included in other acquisition costs	(365)	(297)	(365)	(297)
	<b>4,540</b>	<b>5,071</b>	<b>4,661</b>	<b>5,145</b>
<b>Auditors' remuneration</b>				
Statutory audit services - current year	25	22	32	29
Other non-audit related services	3	4	3	5
	<b>28</b>	<b>26</b>	<b>35</b>	<b>34</b>
<b>Operating and administration expenses include</b>				
Amortisation of intangible assets	25	46	26	47
Asset management expenses	829	855	631	723
Depreciation of property and equipment	203	522	205	540
Technical and professional fees	930	881	930	881

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 8. Income tax expense

#### Major components of the tax expense

##### Current tax

Income tax

Current year

Prior year adjustments

Capital gains tax

Dividends withholding tax

##### Deferred tax

Originating and reversing temporary differences - current year

Changes in tax rates

##### Total tax expense

#### Reconciliation of tax rate on profit before tax

Standard rate of tax

Prior year adjustments

Shareholders

Policyholder

Exempt income

Disallowed expenses (including movement in provisions)

Capital gains tax - rates

Policyholder tax

Other

##### Effective tax rate

Shareholder tax

Policyholder tax

##### Total tax expense

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Current tax</b>				
Income tax				
Current year	1,800	(300)	2,035	424
Prior year adjustments	(68)	172	(66)	172
Capital gains tax	1,336	310	1,405	338
Dividends withholding tax	160	130	160	130
	<b>3,228</b>	<b>312</b>	<b>3,534</b>	<b>1,064</b>
<b>Deferred tax</b>				
Originating and reversing temporary differences - current year	(37)	157	181	317
Changes in tax rates	318	-	401	-
	<b>281</b>	<b>157</b>	<b>582</b>	<b>317</b>
<b>Total tax expense</b>	<b>3,509</b>	<b>469</b>	<b>4,116</b>	<b>1,381</b>

	Company		Consolidated	
	2016 %	2015 %	2016 %	2015 %
Standard rate of tax	28.0	28.0	28.0	28.0
Prior year adjustments				
Shareholders	(1.3)	4.9	-	4.0
Policyholder	0.6	1.7	(0.6)	1.4
Exempt income	(1.1)	(37.8)	(1.8)	(13.4)
Disallowed expenses (including movement in provisions)	(0.8)	0.2	(0.7)	0.6
Capital gains tax - rates	1.9	11.1	1.7	7.7
Policyholder tax	3.3	5.0	5.6	4.1
Other	(0.1)	0.2	(0.3)	(0.2)
<b>Effective tax rate</b>	<b>30.4</b>	<b>13.3</b>	<b>31.9</b>	<b>32.2</b>

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Shareholder tax	2,988	141	3,183	803
Policyholder tax	521	328	933	578
<b>Total tax expense</b>	<b>3,509</b>	<b>469</b>	<b>4,116</b>	<b>1,381</b>

#### Fifth Fund Income Tax

The taxation of life insurers in South Africa was amended to introduce a separate tax fund for risk products sold after 1 January 2016. In the new risk tax fund, the insurer is taxed on profits generated only and investment returns are not taxed. As part of the introduction of the risk fund, the company elected to transfer some of the existing risk policies to the new risk fund. As result of the transfer, the policyholder liabilities reduced by R 1.7 billion with a corresponding increase in profit before tax. The increase in profit before tax resulted in an increase in the income tax expense for shareholders of approximately R 470 million.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 9. Intangible assets

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Developmental expenditure</b>				
Carrying amount at beginning of the year	184	160	271	248
Additions	447	151	447	152
Amortisation	(25)	(46)	(26)	(47)
Disposals	-	(81)	-	(82)
<b>Carrying amount at end of the year</b>	<b>606</b>	<b>184</b>	<b>692</b>	<b>271</b>
Cost	1,090	643	1,190	743
Accumulated amortisation and impairment loss	(484)	(459)	(498)	(472)
<b>Carrying amount at end of the year</b>	<b>606</b>	<b>184</b>	<b>692</b>	<b>271</b>

### 10. Investment property

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Carrying amount at beginning of the year	1,947	3,673	17,949	17,235
Additions	678	1,652	957	2,161
Disposals	(1,115)	(2,790)	(144)	(685)
Revaluation	477	85	1,886	1,161
Transfers to non-current assets held-for-sale	(1,468)	(673)	(1,468)	(1,923)
<b>Carrying amount at end of the year</b>	<b>519</b>	<b>1,947</b>	<b>19,180</b>	<b>17,949</b>

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Rental income from investment property	290	528	1,970	2,070
Direct operating expenses arising from investment property rented out	(24)	(113)	(466)	(485)
	<b>266</b>	<b>415</b>	<b>1,504</b>	<b>1,585</b>

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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 10. Investment property (continued)

- 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.

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 or sourced from external brokers.	<b>Office</b> Capitalisation rates: 7.75% to 9.5% Discount rates: 13.5% to 14.5% Market rentals: R85 to R135 per m <sup>2</sup> Vacancy rates: 0% to 9.4% <b>Retail</b> Capitalisation rates: 6.5% to 9.25% Discount rates: 12.75% to 14.75% Market rentals: R48 to R1 300 per m <sup>2</sup> Vacancy rates: 0% to 19.4% <b>Industrial</b> Capitalisation rates: 8.5% to 10.5% Discount rates: 13.5% to 14.5% Market rentals: R40 to R58 per m <sup>2</sup> 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 <sup>2</sup> and bulk per m <sup>2</sup> 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.	<b>Land</b> Land per m <sup>2</sup> : R348 to R1 262

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 11. Property and equipment

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Owner-occupied property	2,658	2,582	2,658	2,582
Equipment	434	381	439	386
<b>Balance at end of the year</b>	<b>3,092</b>	<b>2,963</b>	<b>3,097</b>	<b>2,968</b>

#### Owner-occupied property

Balance at beginning of the year

Revaluation

Disposals

Depreciation

**Balance at end of the year**

#### Company and Consolidated

	2,582	2,461
	118	195
	-	(34)
	(42)	(40)
<b>Balance at end of the year</b>	<b>2,658</b>	<b>2,582</b>

The group engages internal and external valuers 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 10 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 2,181 million (2015: R 2,223 million) for the group and the company.

### 12. Deferred tax

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Deferred tax asset</b>				
Investment contracts	-	249	-	249
Income tax losses	118	52	216	109
Other	383	-	323	-
<b>Deferred tax asset</b>	<b>501</b>	<b>301</b>	<b>539</b>	<b>358</b>
<b>Deferred tax liability</b>				
Capital gains tax - shareholders	(3,042)	(1,991)	(3,044)	(1,992)
Capital gains tax - policyholders	(1,436)	(1,819)	(2,533)	(2,379)
Investment contracts	(18)	-	(18)	-
Other	-	(182)	-	(273)
	<b>(4,496)</b>	<b>(3,992)</b>	<b>(5,595)</b>	<b>(4,644)</b>
<b>Reconciliation of net deferred tax liability</b>				
At beginning of the year	(3,691)	(3,555)	(4,286)	(3,985)
Income statement charge	(281)	(157)	(582)	(317)
Other movements	(0)	39	(165)	34
Charged to other comprehensive income	(23)	(18)	(23)	(18)
<b>At end of the year</b>	<b>(3,995)</b>	<b>(3,691)</b>	<b>(5,056)</b>	<b>(4,286)</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 12. Deferred Tax (continued)

#### Capital Gains Tax

Capital Gains Tax rates were increased during the 2016 financial period. The increase is effective for capital gains tax payable on policyholder assets from 1 March 2016. The transitional provisions required the company to account for a deemed disposal and subsequent repurchase of policyholder assets at 29 February 2016 to ensure that policyholders are not negatively affected for unrealised gains or losses incurred prior to the effective date. The deemed disposal and repurchase resulted in deferred tax liabilities of R1.21 billion being reversed and income tax liabilities recognised for the same amount. The deemed disposal and repurchase had no impact on the effective tax rate for the company.

The revised capital gains tax rates are effective on 1 January 2017 for shareholder assets and resulted in an increase of R400 million in deferred tax liabilities and an increase in the effective tax rate for the company.

### 13. Reinsurance contracts

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Reinsurers' share of policyholder liabilities	376	341	699	588
Outstanding claims	241	267	263	283
	<b>617</b>	<b>608</b>	<b>962</b>	<b>871</b>
<b>Reinsurers' share of policyholder liabilities</b>				
At beginning of the year	341	34	588	317
Outward reinsurance premiums	1,324	1,076	1,532	1,209
Reinsurance recoveries	(993)	(1,119)	(1,141)	(1,106)
(Decrease) /increase in reinsurers' share of policyholder liabilities	(296)	350	(280)	168
<b>At end of the year</b>	<b>376</b>	<b>341</b>	<b>699</b>	<b>588</b>

### 14. Investments and securities

#### Analysis of investments

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Investments in group undertakings</b>				
Nedbank Group Ltd	19,539	14,715	19,560	14,731
Subsidiaries, joint ventures and associates	23,341	21,958	-	-
Capital advances to group undertakings	10,014	12,044	10,014	12,044
Old Mutual plc	2,314	2,781	2,314	2,781
	<b>55,208</b>	<b>51,498</b>	<b>31,888</b>	<b>29,556</b>
<b>Other financial assets</b>				
Government securities	57,532	64,678	69,049	76,401
Equity securities	93,645	96,477	216,401	221,567
Other debt securities	78,980	59,471	87,113	67,107
Pooled investments	244,039	257,252	168,284	168,222
Short-term funds	46,760	37,537	62,232	44,278
<b>At end of the year</b>	<b>520,956</b>	<b>515,415</b>	<b>603,079</b>	<b>577,575</b>
	<b>576,164</b>	<b>566,913</b>	<b>634,967</b>	<b>607,131</b>

The Company conducts securities lending activities as lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amount to R25,563 million (2015: R16,950 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 14. Investments and securities (continued)

Other debt securities include credit linked notes of R 3,871 million (2015: R 4,289 million). Credit linked notes are made up of a deposit and a credit default swap.

No financial assets have been pledged as collateral for the Company's obligations. The split of investments and securities between current and non-current is shown in Note 30.

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

### Analysis of capital advances to group undertakings

	Company and Consolidated	
	2016 R m	2015 R m
Old Mutual Portfolio Holdings (Pty) Ltd	2,030	2,030
Old Mutual Group Holdings (SA) (Pty) Ltd	1,081	1,081
Old Mutual (South Africa) Management Incentive Trust	53	118
Old Mutual Capital Holding (Pty) Ltd	6,850	8,815
	<b>10,014</b>	<b>12,044</b>

Capital advances are unsecured, interest free and have no fixed terms of repayment, with the exception of those amounts due by Old Mutual Capital Holding (Pty) Ltd.

Of the R6.9 billion due by Old Mutual Capital Holding (Pty) Ltd, R4.1 billion is unsecured but interest is levied at market related rates and have fixed terms of repayment with a last date of repayment of 31 March 2021. The remainder of the amounts due by this fellow subsidiary is unsecured, interest free and have fixed terms of repayment with a final tranche of repayment by 24 December 2018. In arriving at the carrying value of this portion of the loan cash flows are discounted to present value using interest rates applicable to similar loans.

### Investment in principal subsidiaries, joint ventures and associates

	Company 2016 R m		
	Number of issued ordinary shares	% interest	Carrying value
<b>Unlisted - joint venture</b>			
Old Mutual Guodian Life Insurance Company Ltd	-	50%	1,755
<b>Unlisted - associate</b>			
Real People Investment Holdings Ltd and its subsidiary	85,998	30%	57
<b>Unlisted - subsidiaries</b>			
Old Mutual Technology Holdings Ltd	11,000	100%	1
Rodina Investments (Pty) Ltd	100,000	100%	20
Community Property Holdings (Pty) Ltd*	1,108,417,261	100%	2,638
Old Mutual Alternative Solutions Ltd	45,000,001	100%	132
Old Mutual Health Insurance Ltd	15,000,000	100%	21
Agility Broker Services (Pty) Ltd	50,000	100%	-
Old Mutual Alternative Risk Transfer Ltd	100	100%	51
South Africa Celestis Brokers Services (Pty) Ltd	100	100%	-
Old Mutual Wealth (Pty) Ltd	120	100%	6,441
Old Mutual Real Estate Holding Company (Pty) Ltd*	1,030,744,634	100%	12,225
22 Seven Digital (Pty) Ltd#	2,541	100%	-
			<b>23,341</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 14. Investments and securities (continued)

	Company 2015		
	R m		
	Number of issued ordinary shares	% interest	Carrying value
<b>Unlisted - joint venture</b>			
Old Mutual Guodian Life Insurance Company Ltd	-	50%	2,267
<b>Unlisted - associate</b>			
Real People Investment Holdings Ltd and its subsidiary	82,795	30%	70
<b>Unlisted - subsidiaries</b>			
Old Mutual Technology Holdings Ltd	11,000	100%	-
Rodina Investments (Pty) Ltd	100,000	100%	-
Community Property Holdings (Pty) Ltd*	1,108,417,261	100%	3,348
Old Mutual Alternative Solutions Ltd	45,000,001	100%	131
Old Mutual Health Insurance Ltd	15,000,000	100%	19
Agility Broker Services (Pty) Ltd	50,000	100%	-
Old Mutual Alternative Risk Transfer Ltd	100	100%	46
South Africa Celestis Brokers Services (Pty) Ltd	100	100%	-
Old Mutual Wealth (Pty) Ltd	120	100%	6,672
Old Mutual Real Estate Holding Company (Pty) Ltd*	843,539,115	100%	9,307
22 Seven Digital (Pty) Ltd	2,541	100%	98
			<b>21,958</b>

### 15. Investment in associates, joint ventures and structured entities

	Consolidated 2016		
	R m		
	Country of incorporation	% interest held	Gross share of Carrying value profit/(loss)
<b>Unlisted - associates</b>			
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49%	89 9
Real People Investment Holdings Ltd	Republic of South Africa	30%	57 -
Triangle Real Estate India Fund Managers Private Ltd	India	50%	5 -
Pioneer Property Zone Private Ltd	India	50%	- -
Two Rivers Lifestyle Centre Ltd	Kenya	50%	902 -
Newtown Motor Dealership (Pty) Ltd	Republic of South Africa	50%	54 -
<b>Unlisted - joint venture</b>			
Old Mutual Guodian Life Insurance Company Ltd	Republic of China	50%	1,005 (41)
			<b>2,112 (32)</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 15. Investment in associates, joint ventures and structured entities (continued)

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

# The investment in 22 Seven Digital (Pty) Ltd has been fully impaired.

\* During the year, Old Mutual Real Estate Holding Company (Pty) Ltd and its subsidiaries acquired the following:

- A 50% shareholding Newton Motor Dealership (Pty) Ltd on the 22 September 2016.
- A 50% shareholding in Triangle Real Estate India Fund Managers Private Ltd on the 8 November 2016.
- A 50% shareholding in Pioneer Property Zone Private Ltd on the 31 August 2016. This investment of R12 million has been fully impaired at year end.
- A 10% shareholding in Two Rivers Lifestyle Centre Ltd on the 24 December 2015 with an increase in shareholding of 40% on the 1 April 2016.

Old Mutual Real Estate Holding Company (Pty) Ltd issued 843,539,115 units of share and debenture capital to the value of R2,477 million.

Community Property Holdings (Pty) Ltd and Old Mutual Real Estate Holding Company (Pty) Ltd are property loan stock companies. These types of companies unitise their portfolio of property holdings and the units acquired by investors are hybrid instruments comprising part debt and part equity.

### 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.

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 2016	Consolidated 2015 R m
	Investment securities	Investment securities
Pooled investments - Investment funds	16,680	51,615
Other	1,592	14,348
<b>Total</b>	<b>18,272</b>	<b>65,963</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 16. Amounts due (to)/by group companies

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Amounts due by group companies	10,253	9,908	8,884	8,712
Amounts due to group companies	(902)	(1,848)	(1,648)	(2,598)
	<b>9,351</b>	<b>8,060</b>	<b>7,236</b>	<b>6,114</b>

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Subsidiaries and associates</b>				
Rodina Investments (Pty) Ltd	(1)	(1)	-	-
Old Mutual Heath Insurance Ltd	-	2	-	-
Old Mutual Alternative Risk Transfer Ltd	2	4	-	-
South Africa Celestis Brokers Services (Pty) Ltd	1	4	-	-
Old Mutual Investment Services (Pty) Ltd	563	601	-	-
Old Mutual Unit Trust Managers (RF) (Pty) Ltd	13	21	-	-
Old Mutual Real Estate Holding Company (Pty) Ltd	407	340	-	-
Masthead (Pty) Ltd	2	2	-	-
Acsis Ltd	35	14	-	-
Old Mutual Wealth (Pty) Ltd	338	207	-	-
Old Mutual Alternative Solutions Ltd	2	7	-	-
Real People Home Improvement Finance (RF) (Pty) Ltd	591	607	591	607
22 Seven Digital (Pty) Ltd	8	-	-	-
Old Mutual Technology Holdings (Pty) Ltd	(1)	-	-	-
Old Mutual Wealth Services Company (Pty) Ltd	7	-	-	-
Fairheads Bond Managers (Pty) Limited	2	-	-	-
Grand Central Airport (Pty) Ltd	1	-	-	-
	<b>1,970</b>	<b>1,808</b>	<b>591</b>	<b>607</b>

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Holding companies</b>				
Old Mutual Emerging Markets Ltd	(98)	(202)	(98)	(202)
Old Mutual Group Holdings (SA) (Pty) Ltd	6,638	6,539	5,937	5,839
Old Mutual plc	13	13	13	13
	<b>6,553</b>	<b>6,350</b>	<b>5,852</b>	<b>5,650</b>
Old Mutual plc - subordinated loan	(72)	(97)	(72)	(97)
	<b>6,481</b>	<b>6,253</b>	<b>5,780</b>	<b>5,553</b>

The Old Mutual plc subordinated loan of £4.25 million (2015: £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 16. Amounts due (to)/by group companies (continued)

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Fellow subsidiaries</b>				
Old Mutual Property (Pty) Ltd	2	10	2	10
Old Mutual (South Africa) Foundation	6	13	6	13
Old Mutual (Africa) Holdings (Pty) Ltd	249	176	249	176
Old Mutual Capital Holdings (Pty) Ltd	316	514	316	514
Old Mutual International (Guernsey) Ltd	(2)	(6)	(2)	(6)
Old Mutual Investment Group (Pty) Ltd	(1)	(16)	(14)	(31)
Old Mutual Alternative Investments Holdings (Pty) Ltd	108	108	108	108
Royal Skandia Life Assurance Ltd	30	105	30	105
Old Mutual (South Africa) Share Trust	187	99	187	99
Old Mutual (South Africa) Dividend Access Trust	(617)	(582)	(617)	(582)
Old Mutual Investment Administrators (Pty) Ltd	39	39	39	39
Old Mutual Specialised Finance (Pty) Ltd	147	(861)	147	(861)
Old Mutual Finance (Pty) Ltd	48	(39)	48	(39)
Old Mutual Life Assurance Company (Namibia) Ltd	198	113	198	113
Old Mutual Life Assurance Company (Kenya) Ltd	-	256	-	256
Old Mutual South Africa Broad Based Employee Share Trust	(69)	-	(69)	-
Old Mutual Black Distributors Trust	30	16	30	16
Old Mutual Education Trust	41	40	41	40
Old Mutual Corporate Real Estate Asset Management (Pty) Ltd	9	6	9	6
K2013236459 South Africa (Pty) Limited	102	-	102	-
Old Mutual Transaction Services (Pty) Ltd	12	14	12	14
Global Edge Technologies (Pty) Ltd	13	3	13	3
OM Zimbabwe Holdco Limited	22	4	22	4
Old Mutual Holdings Limited	20	-	20	-
Mutual & Federal Insurance Company Limited	15	16	15	16
Mexico Old Mutual Life S.A. de C. V.	10	-	10	-
Other	10	5	(12)	(25)
	925	33	890	(12)
Old Mutual International (Guernsey) Ltd - subordinated loan	(25)	(34)	(25)	(34)
	<b>900</b>	<b>(1)</b>	<b>865</b>	<b>(46)</b>

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.

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 17. Other assets

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Accrued interest on cash collateral	1,033	1,323	1,033	1,323
Other accrued interest and rent	2,121	1,787	2,155	1,796
Outstanding settlements	2,104	1,885	5,581	7,691
Other	1,296	2,126	2,409	4,297
	<b>6,554</b>	<b>7,121</b>	<b>11,178</b>	<b>15,107</b>

### 18. Cash and cash equivalents

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Bank balances	6,841	8,000	15,848	27,000
Collateral held	18,242	9,940	18,242	9,940
	<b>25,083</b>	<b>17,940</b>	<b>34,090</b>	<b>36,940</b>

### 19. Non-current assets held for sale

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Investment property</b>				
Old Mutual Head Office on Stella Road	701	-	701	-
Portfolio of properties owned by the Company	767	-	767	-
50% share of the Portside building	-	673	-	673
Portfolio of properties owned by Community Property Company (Pty) Ltd	-	-	229	1,250
<b>Subsidiary</b>				
Grand Central Airport (Pty) Ltd	265	-	265	-
<b>Associate</b>				
UAP Holdings Ltd	877	1,344	877	1,344
	<b>2,610</b>	<b>2,017</b>	<b>2,839</b>	<b>3,267</b>

Old Mutual is currently in the process of developing a head office in Sandton on a portion of an erf on Stella Road. Sale agreements are in place for the other undeveloped portions and transfer is expected to occur within the following year.

Grand Central Airport (Pty) Ltd was acquired in the current year with the intention of disposing it with other investment property included in the portfolio held as Non-current assets held for sale.

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.

During last year Community Property Company (Pty) Ltd agreed to sell investment properties to the Public Investment Corporation. At year-end some of these properties to the value of R 229 million have not been transferred but are expected to occur within the following year. The valuations of the investment properties have been approved by the board of directors and the properties are written up to their sales prices.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 19. Non-current assets held for sale (continued)

All items are categorised into level 3 of the fair value hierarchy. Refer to note 10 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 a discounted cash flow valuation that takes into account the recent over-the-counter transactions of this share.

### 20. Policyholder liabilities

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Insurance contracts</b>				
Outstanding claims	2,202	2,095	2,205	2,139
Future policyholders' benefits	146,885	152,714	147,805	153,602
	<b>149,087</b>	<b>154,809</b>	<b>150,010</b>	<b>155,741</b>
<b>Investment contracts</b>				
Liabilities at fair value through profit of loss	229,242	226,888	249,315	248,395
Liabilities with a discretionary participating feature	147,920	139,375	147,920	139,375
	<b>377,162</b>	<b>366,263</b>	<b>397,235</b>	<b>387,770</b>
	<b>526,249</b>	<b>521,072</b>	<b>547,245</b>	<b>543,511</b>

### Movement in future policyholder's benefits for insurance contracts

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Balance at beginning of the year	152,714	155,655	153,602	156,532
<b>Inflows</b>				
Premium income	23,929	23,416	24,936	26,546
Investment income (net of investment losses)	13,048	10,833	13,117	10,852
<b>Outflows</b>				
Claims and policy benefits	(28,926)	(23,540)	(29,322)	(23,798)
Operating expenses	(8,037)	(7,904)	(8,141)	(7,990)
Other charges and transfers	(194)	(658)	(91)	(2,898)
Tax	(25)	326	(173)	168
Transfer to operating profit	(5,624)	(5,414)	(6,123)	(5,810)
<b>Balance at end of the year</b>	<b>146,885</b>	<b>152,714</b>	<b>147,805</b>	<b>153,602</b>

### Investment contract liabilities at fair value through profit and loss

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Balance at beginning of the year	226,888	212,404	248,395	230,938
New contributions received	37,396	42,899	39,184	46,266
Withdrawals	(38,970)	(49,923)	(42,155)	(54,074)
Fair value movements, net of tax	10,616	18,566	10,700	22,250
Foreign currency translation	(3,184)	6,140	(3,184)	6,140
Fees deducted	(3,538)	(3,086)	(3,659)	(3,013)
Transfer to / (from) deferred acquisition costs	34	(112)	34	(112)
<b>Balance at end of the year</b>	<b>229,242</b>	<b>226,888</b>	<b>249,315</b>	<b>248,395</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 20. Policyholder liabilities (continued)

#### Liabilities with a discretionary participation feature

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Balance at beginning of the year	139,375	124,592	139,375	124,592
<b>Inflows</b>				
Premium income	26,296	20,107	26,296	20,107
Investment income (net of investment losses)	5,496	12,866	5,496	12,866
<b>Outflows</b>				
Claims and policy benefits	(20,517)	(16,370)	(20,517)	(16,370)
Operating expenses	(910)	(888)	(910)	(888)
Other charges and other transfers	(557)	515	(557)	515
Tax	(34)	(152)	(34)	(152)
Transfer to operating profit	(1,229)	(1,295)	(1,229)	(1,295)
<b>Balance at end of the year</b>	<b>147,920</b>	<b>139,375</b>	<b>147,920</b>	<b>139,375</b>

### 21. Borrowed funds

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Subordinated debt securities				
Fixed and variable rate unsecured subordinated callable notes	5,902	5,733	5,902	5,733
Other debt securities in issue at book value				
Term loans and other loans	-	-	4,586	5,143
<b>Total borrowed funds</b>	<b>5,902</b>	<b>5,733</b>	<b>10,488</b>	<b>10,876</b>

Subordinated debt securities	Maturity Date	Company and Consolidated	
		2016 R m	2015 R m
R 700 million at 3-month JIBAR+2.20%	November 2024	700	703
R 300 million at 9.26%	November 2024	292	280
R 537 million at 3-month JIBAR+2.30%	March 2025	538	538
R 425 million at 9.76%	March 2025	416	399
R 409 million at 10.32%	March 2027	395	375
R 1,150 million at 10.96%	March 2030	1,099	1,039
R 1,288 million at 3-month JIBAR+2.25%	September 2025	1,292	1,288
R 568 million at 10.90%	September 2027	561	534
R 623 million at 11.35%	September 2030	609	577
<b>Total fixed and variable unsecured subordinated</b>		<b>5,902</b>	<b>5,733</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 21. Borrowed funds (continued)

The unsecured subordinated callable notes are carried at fair value.

The subordinated notes rank behind the claims from the company's 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 30 for future cash flow requirements on borrowed funds.

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

	Maturity Date	Consolidated	
		2016 R m	2015 R m
Term loans and other loans		Carrying Amount	
<b>Floating rate term loans</b>			
\$65 million at 3 month LIBOR plus 2.80%	December 2020	935	986
R500 million at 3 month JIBAR plus 1.35%	September 2017	503	502
R500 million at 3 month JIBAR plus 1.45%	April 2018	509	508
<b>Fixed rate term loans</b>			
R500 million at 6.79% *	April 2016	-	507
R500 million at 7.17%	April 2017	507	508
R500 million at 7.45%	April 2018	508	508
R400 million at 9.25%	April 2023	402	402
R300 million at 8.10%	April 2020	305	305
R300 million at 8.46%	April 2021	306	306
R300 million at 8.70%	April 2022	306	306
R300 million at 8.87%	April 2023	305	305
<b>Total fixed and variable rate term loans and other loans</b>		<b>4,586</b>	<b>5,143</b>

All of the loans above relate to term loan financing received by K2012150042 (South Africa) (Pty) Ltd. These loans were reclassified into borrowed funds from other liabilities and amounts due to group companies in 2016. Comparatives have been restated.

\* This term loan was repaid during the current year.

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 22. 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			
	2016 R m		2015 R m	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<b>Obligations</b>				
At beginning of the year	210	1,223	170	1,174
Current service cost	2	20	2	21
Interest cost on benefit obligation	23	107	18	94
Actuarial (gains)/losses arising from				
- demographic assumptions	-	-	-	19
- experience adjustment	(26)	(37)	21	(38)
Benefits paid	(1)	(50)	(1)	(47)
<b>At end of the year</b>	<b>208</b>	<b>1,263</b>	<b>210</b>	<b>1,223</b>
<b>Plan assets</b>				
At beginning of the year	210	1,734	170	1,656
Expected return on plan assets	30	176	21	138
Benefits paid	(1)	(50)	(1)	(47)
Net actuarial (loss)/gains	(31)	(3)	20	(13)
<b>At end of the year</b>	<b>208</b>	<b>1,857</b>	<b>210</b>	<b>1,734</b>
<b>Net assets</b>				
Funded status of plans	-	594	-	511

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 22. Post employment benefits (continued)

	Company and Consolidated			
	2016		2015	
	R m		R m	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<b>(Income)/expense recognised in income statement</b>				
Current service cost	2	20	2	21
Interest cost	(7)	(69)	(3)	(44)
<b>Total</b>	<b>(5)</b>	<b>(49)</b>	<b>(1)</b>	<b>(23)</b>

	Company and Consolidated			
	2016		2015	
	R m		R m	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<b>Principal actuarial assumptions</b>				
Discount rates used	10%	10%	11%	11%
Expected return on plan assets	10%	10%	11%	10%
Future salary increases	8%	8%	10%	10%
Price inflation	7%	7%	10%	10%

	Company and Consolidated			
	2016		2015	
	R m		R m	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<b>Plan asset allocation</b>				
Equity securities	56%	56%	56%	57%
Debt securities	28%	27%	27%	27%
Real estate	6%	7%	6%	6%
Other investments	10%	10%	11%	10%

	Assumption	Change in assumption	Impact on scheme liabilities	Company and Consolidated	
				R m	
				2016	2015
<b>Sensitivities</b>					
Inflation rate	Decrease by 1.0%	Decrease		152	159
	Increase by 1.0%	Increase		201	191

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

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### 22. 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.

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 2016 or 31 December 2015.

### 23. 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.

#### Composition of share-based payment liabilities

Share options  
Restricted share awards

Company and Consolidated	
2016 R m	2015 R m
5	38
528	659
<b>533</b>	<b>697</b>

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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 23. Share-based payment liabilities (continued)

Restricted / Forfeitable share awards

Outstanding at beginning of the year  
Transfers to other group companies  
Granted during the year  
Forfeited during the year  
Exercised during the year  
**Outstanding at end of the year**

Company and Consolidated	
Number of awards (Millions)	Number of awards (Millions)
25	28
-	(1)
11	8
(2)	(2)
(8)	(8)
<b>26</b>	<b>25</b>

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 significant pricing inputs used in the valuation of the share-based payment liability are as follows:

Share price (in Rands)  
Exercise price (in Rands) - highest  
Exercise price (in Rands) - lowest  
Expected life (in years)

Company and Consolidated	
2016	2015
34.44	41.45
15.80	15.80
15.80	13.80
0.28	0.81

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

Number granted (millions)  
Value of share awards (Rand millions)  
Fair value per share (in Rands)

Company and Consolidated	
2016	2015
11	8
442	326
34.44	41.45

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 2016

## Notes to the financial statements

### 24. Provisions

	Company 2016					
						R m
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Total
Opening balance	297	978	352	274	456	2,357
Transfer to other liabilities	-	-	-	-	(237)	(237)
Utilised or reversed during the year	(111)	(278)	(178)	(56)	(85)	(708)
Investment return and repayments	-	57	-	-	-	57
Charge	-	-	-	-	(7)	(7)
	<b>186</b>	<b>757</b>	<b>174</b>	<b>218</b>	<b>127</b>	<b>1,462</b>

	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 or reversed during the year	(77)	(178)	(370)	(21)	-	(646)
Investment return and repayments	-	132	-	-	-	132
Charge	122	-	-	-	104	226
	<b>297</b>	<b>978</b>	<b>352</b>	<b>274</b>	<b>456</b>	<b>2,357</b>

	Consolidated 2016					
						R m
	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Total
Opening balance	370	978	352	274	457	2,431
Transfer to other liabilities	-	-	-	-	(237)	(237)
Utilised or reversed during the year	(111)	(278)	(178)	(56)	(57)	(680)
Investment return and repayments	-	57	-	-	-	57
Charge	(68)	-	-	-	(7)	(75)
	<b>191</b>	<b>757</b>	<b>174</b>	<b>218</b>	<b>156</b>	<b>1,496</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 24. Provisions (continued)

						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 or reversed during the year	(77)	(178)	(370)	(21)	(9)	(655)
Investment return and repayments	-	132	-	-	-	132
Charge	142	-	-	-	108	250
	<b>370</b>	<b>978</b>	<b>352</b>	<b>274</b>	<b>457</b>	<b>2,431</b>

#### 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 2016

## Notes to the financial statements

### 25. Other liabilities

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Amounts owed to policyholders	3,559	2,956	3,569	2,666
Amounts owed to intermediaries	373	364	374	365
Accruals	916	1,011	1,021	1,128
Outstanding settlements	3,048	3,710	8,567	10,682
Other	1,118	878	2,135	1,687
	<b>9,014</b>	<b>8,919</b>	<b>15,666</b>	<b>16,528</b>

Term loan financing received by K2012150042 (South Africa) (Pty) Ltd were reclassified to borrowed funds from other liabilities in 2016. Comparatives have been restated.

### 26. 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	
2016 R m	2015 R m
10	10
-	-
<b>10</b>	<b>10</b>

#### Issued share capital and premium

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

8	8
-	-
6,415	6,415
<b>6,423</b>	<b>6,423</b>

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 share may be redeemed by the company by giving 30 days written notice to the holder. The preference shareholder has the right to receive a dividend of R100 per share or an additional amount at the discretion of the company's directors. The preference shareholder has full voting rights.

Other reserves comprise:

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Retained earnings	43,961	40,853	36,830	33,477
Property revaluation reserve	159	170	159	170
Currency translation reserve	43	106	48	496
	<b>44,163</b>	<b>41,129</b>	<b>37,037</b>	<b>34,143</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 27. Notes to the statement of cash flows

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Cash used in operations</b>				
Profit before tax	11,523	3,519	12,886	4,284
<b>Adjustments for non-cash movements included in profit</b>				
Depreciation and amortisation	228	568	231	587
Dividend income	(6,802)	(4,973)	(7,269)	(5,647)
Interest income	(18,238)	(16,872)	(19,914)	(18,419)
Finance costs	1,588	1,387	2,179	1,710
Net fair value gains	(8,173)	(17,144)	(8,998)	(19,887)
Movements in policyholder liabilities	5,177	26,334	3,734	29,333
Movement in share-based payment liabilities	(164)	-	(164)	-
Changes to provisions and post employment benefit obligations	(978)	(317)	(1,018)	302
<b>Adjustments for non-cash movement included in the statement of financial position</b>				
Investments and securities	-	20,174	-	20,174
Amounts due from group companies	-	(20,174)	-	(20,174)
<b>Changes in working capital</b>				
Deferred acquisition costs	(53)	38	(168)	(704)
Deferred revenue on investment contracts	(15)	(21)	84	692
Loans and advances	8	11	8	11
Other assets	567	(1,564)	3,929	(4,680)
Other liabilities	95	2,743	(862)	1,927
Reinsurance contracts	(9)	(131)	(91)	(98)
Net movement in loans to/from group companies	(1,291)	(235)	(1,122)	(1,569)
Collateral owing	11,181	(836)	11,181	(836)
	<b>(5,356)</b>	<b>(7,493)</b>	<b>(5,374)</b>	<b>(12,994)</b>
<b>Tax paid:</b>				
Balance payable at beginning of the year	(526)	(1,744)	(803)	(1,778)
Current tax expense	(3,228)	(312)	(3,534)	(1,064)
Balance payable at end of the year	1,448	526	1,475	803
	<b>(2,306)</b>	<b>(1,530)</b>	<b>(2,862)</b>	<b>(2,039)</b>

### 28. Operating lease receivables

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
Total future minimum lease receivables under operating leases				
Within one year	13	117	1,367	1,383
In second to fifth year inclusive	12	459	3,050	3,227
Later than five years	-	346	593	988
	<b>25</b>	<b>922</b>	<b>5,010</b>	<b>5,598</b>

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

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## Notes to the financial statements

### 29. 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 14 and 15.

Other group companies consist of fellow subsidiaries and associates.

	Company 2016			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
<b>Income statement</b>				
Interest income	-	1,244	11	-
Dividend income	-	1,487	-	-
Fee income/(expense)	-	(327)	834	-
Insurance contract premiums income/(expense)	-	130	-	-
Reinsurance contract premiums income/(expense)	-	10	-	-
Claims and policyholder benefits income/(expense)	-	26	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	11,036	-	-
Zero coupon bonds held	-	3,378	-	-
Credit linked notes including interest	-	3,308	-	-
Collateral owing	-	(16,907)	-	-
Call loans including interest	-	10,205	-	-
Bonds including interest	-	1,077	-	-
<b>Statement of changes in equity</b>				
Dividend expense	(4,924)	-	-	-
	Company 2015			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
<b>Income statement</b>				
Interest income	-	1,212	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	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	8,459	-	-
Zero coupon bonds held	-	1,857	-	-
Credit linked notes including interest	-	2,175	-	-
Collateral owing	-	(14,125)	-	-
Call loans including interest	-	8,997	-	-
Bonds including interest	-	1,249	-	-
<b>Statement of changes in equity</b>				
Dividend expense	(4,801)	-	-	-

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 29. Related party disclosures (continued)

	Consolidated 2016			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
<b>Income statement</b>				
Interest income	-	352	-	-
Dividend income	-	897	-	-
Fee income/(expense)	-	(327)	-	-
Insurance contract premiums income/(expense)	-	130	-	-
Reinsurance contract premiums income/(expense)	-	10	-	-
Claims and policyholder benefits income/(expense)	-	26	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	11,358	-	-
Zero coupon bonds held	-	3,378	-	-
Credit linked notes including interest	-	3,308	-	-
Collateral owing	-	(16,907)	-	-
Call loans including interest	-	10,205	-	-
Bonds including interest	-	1,077	-	-
<b>Statement of changes in equity</b>				
Dividend expense	(4,924)	-	-	-
	Consolidated 2015			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
<b>Income statement</b>				
Interest income	-	1,203	-	-
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	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	8,563	-	-
Zero coupon bonds held	-	1,857	-	-
Credit linked notes including interest	-	2,175	-	-
Collateral owing	-	(14,037)	-	-
Call loans including interest	-	8,909	-	-
Bonds including interest	-	1,249	-	-
<b>Statement of changes in equity</b>				
Dividend expense	(4,801)	-	-	-

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

At 31 December 2016 government and corporate bonds with a fair value of R13 003 million (2015: R9 522 million) including interest and equities with a fair value of R3 129 million (2015: R3 635 million) had been lent to Old Mutual Specialised Finance (Pty) Ltd.

Included in the Statement of Financial Position is R16,907 million (2015: R14,037 million) collateral owing to Old Mutual Specialised Finance (Pty) Ltd.

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 29. Related party disclosures (continued)

#### Directors emoluments

									R'000
2016	Fees	Salary	Bonus	Retirement and other benefits	Total excluding share-based payments	IFRS 2 fair value *	Number of shares vested	Class of share	Exercise price paid **
<b>R T Mupita</b>	-	5,812	-	288	6,100	15,781	184,068	Ordinary	-
<b>I G Williamson</b>	-	3,437	2,829	170	6,436	5,344	73,595	Ordinary	-
<b>B M Rapiya</b>	134	1,699	-	107	1,940	-	225,484	Ordinary	3,112
<b>D Macready</b>	-	4,502	6,733	225	11,460	7,047	-	Ordinary	-
<b>P D de Beyer</b>	2,796	-	-	-	2,796	-	-	-	-
<b>N T Moholi</b>	1,731	-	-	-	1,731	-	-	-	-
<b>C W N Molope</b>	1,714	-	-	-	1,714	-	-	-	-
<b>P G M Truyens</b>	2,461	-	-	-	2,461	-	-	-	-
	<b>8,836</b>	<b>15,450</b>	<b>9,562</b>	<b>790</b>	<b>34,638</b>	<b>28,172</b>	<b>483,147</b>		<b>3,112</b>

									R'000
2015	Fees	Salary	Bonus	Retirement and other benefits	Total excluding share-based payments	IFRS 2 fair value *	Number of shares vested	Class of share	Exercise price paid **
<b>R T Mupita</b>	-	5,160	9,750	616	15,526	15,541	257,269	Ordinary	-
<b>K Murray</b>	-	2,348	6,050	286	8,684	-	323,820	Ordinary	-
<b>I G Williamson</b>	-	2,506	4,206	305	7,017	5,579	56,295	Ordinary	-
<b>B M Rapiya</b>	-	3,076	4,077	364	7,517	6,204	354,689	Ordinary	2,642
<b>D Macready</b>	-	2,676	6,543	325	9,544	1,108	-	Ordinary	-
<b>P D de Beyer</b>	2,470	-	-	-	2,470	-	-	-	-
<b>N T Moholi</b>	1,360	-	-	-	1,360	-	-	-	-
<b>C W N Molope</b>	1,341	-	-	-	1,341	-	-	-	-
<b>P G M Truyens</b>	1,957	-	-	-	1,957	-	-	-	-
	<b>7,128</b>	<b>15,766</b>	<b>30,626</b>	<b>1,896</b>	<b>55,416</b>	<b>28,432</b>	<b>992,073</b>		<b>2,642</b>

\* IFRS 2 fair value of unvested shares at year end owed to director

\*\* Exercise price paid by director for share options exercised

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 60% and a cash component of 40% (2015: 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.

### 30. 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

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### 30. Financial risk management (continued)

#### 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 31 explains in more detail how insurance risk is managed.

The group utilises derivative instruments to enhance the risk-return profile of policyholder and shareholders' funds. The group undertakes transactions involving derivative financial instruments with other financial institutions, and 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.

#### Capital adequacy

Capital is actively managed to ensure that the group is properly capitalised and funded at all times, having regard to its regulatory needs, prudent management and the needs of all stakeholders. The group has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts, and the operations of the Capital Management Committee (CMC) that the group's capital is managed.

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

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.

Specifically, the group has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirements and such additional capital as management believes is necessary to ensure that obligations to policyholders can be met on a timely 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.

#### 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.

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Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 30. Financial risk management (continued)

	R m Embedded Value
<b>31 December 2016</b>	
<b>Embedded value</b>	77,541
Effect of:	
Required capital equal to the minimum statutory requirement	635
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(121)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(36)
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	3,699
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(3,715)
50 bps contraction on corporate bond spreads	104
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1,378)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	3
Voluntary discontinuance rates decreasing by 10 per cent	1,448
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,711
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,959
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(175)
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	(142)
	<b>R m Embedded Value</b>
<b>31 December 2015</b>	
<b>Embedded value</b>	74,483
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)

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

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 30. Financial risk management (continued)

#### 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.

#### Overall credit risk

	Company		Consolidated	
	2016 Rm	2015 R m	2016 Rm	2015 R m
Reinsurance contracts	617	608	962	871
Loans and advances	222	230	222	230
Investments and securities				
Government securities	57,532	64,678	69,049	76,401
Other debt securities	78,980	59,471	87,113	67,107
Short-term funds	46,760	37,537	62,232	44,278
Capital advances to group undertakings	10,014	12,044	10,014	12,044
Other assets	6,554	7,121	11,178	15,107
Derivative assets	3,595	8,502	3,852	8,801
Amounts due by group companies	10,253	9,908	8,884	8,712
Cash and cash equivalents	25,083	17,940	34,090	36,940
	<b>239,610</b>	<b>218,039</b>	<b>287,596</b>	<b>270,491</b>

#### 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 Pools or equivalent) by investment grade.

	Company 2016 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	57,532	42,616	33,269	133,417
Not rated	-	29,333	13,491	42,824
Sub-investment grade	-	7,031	-	7,031
	<b>57,532</b>	<b>78,980</b>	<b>46,760</b>	<b>183,272</b>

  

	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
	<b>64,678</b>	<b>59,471</b>	<b>37,537</b>	<b>161,686</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 30. Financial risk management (continued)

	Consolidated 2016 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	57,532	42,878	34,330	134,740
Not rated	11,517	37,204	27,902	76,623
Sub-investment grade	-	7,031	-	7,031
	<b>69,049</b>	<b>87,113</b>	<b>62,232</b>	<b>218,394</b>

  

	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
	<b>76,401</b>	<b>67,107</b>	<b>44,278</b>	<b>187,786</b>

The group's cash balances are mainly held with Nedbank Ltd, which has a credit rating of BBB- (2015: BBB).

### Reinsurance assets

The total reinsurance contracts amount of R 962 million (2015: R 871 million) for the group and R 617 million (2015: R 608 million) for the company is investment grade (AAA to BBB) rated. None are past due or impaired.

### Collateral obtained

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

	Company and Consolidated	
	2016 Rm	2015 Rm
Bonds	578	358
Cash	25,563	16,592
Total collateral	<b>26,141</b>	<b>16,950</b>

Further detail on the group's security lending activities is contained in note 14.

### 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.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 30. Financial risk management (continued)

#### 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.

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

	Company		Consolidated	
	2016 R m	2015 R m	2016 R m	2015 R m
<b>Total assets</b>				
ZAR	521,014	495,559	613,904	581,100
GBP	10,986	12,633	10,986	12,633
USD	94,001	107,176	94,001	107,176
EUR	1,897	2,018	1,897	2,018
Other	3,512	2,706	4,517	3,687
	<b>631,410</b>	<b>620,092</b>	<b>725,305</b>	<b>706,614</b>
<b>Total liabilities</b>				
ZAR	549,442	526,516	650,433	620,030
GBP	8,860	10,638	8,896	10,638
USD	20,939	21,108	20,939	21,108
EUR	1,407	14,105	1,407	14,105
Other	176	173	197	192
	<b>580,824</b>	<b>572,540</b>	<b>681,872</b>	<b>666,073</b>

#### 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.

#### 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.

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## Notes to the financial statements

### 30. Financial risk management (continued)

	Company 2016			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	7,472	20,660	98,561	328,427
Investment contracts				
Unit-linked investment contracts and similar contracts	228,099	-	-	-
Investment contracts with discretionary participating features	147,920	-	-	-
Other investment contracts	1,241	273	834	57
Outstanding claims	2,082	-	-	-
Borrowed funds	-	-	-	5,902
Derivative liabilities	36	117	1,410	6,773
Amounts due to group companies	902	-	-	-
Collateral owing	25,939	-	-	-
	<b>413,691</b>	<b>21,050</b>	<b>100,805</b>	<b>341,159</b>

  

	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	-	-	-
Collateral owing	14,758	-	-	-
	<b>391,345</b>	<b>17,116</b>	<b>101,739</b>	<b>371,893</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 30. Financial risk management (continued)

	Consolidated 2016 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	8,453	20,660	98,561	328,427
Investment contracts				
Unit-linked investment contracts and similar contracts	248,172	-	-	-
Investment contracts with discretionary participating features	147,921	-	-	-
Other investment contracts	1,241	273	834	57
Outstanding claims	2,085	-	-	-
Borrowed funds	-	1,010	2,563	6,915
Derivative liabilities	36	117	1,410	6,773
Amounts due to group companies	1,648	-	-	-
Collateral owing	25,939	-	-	-
	<b>435,495</b>	<b>22,060</b>	<b>103,368</b>	<b>342,172</b>

	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	-	507	3,317	7,052
Derivative liabilities	(322)	255	5,845	22,805
Amounts due to group companies	2,598	-	-	-
Collateral owing	14,758	-	-	-
	<b>413,646</b>	<b>17,623</b>	<b>105,056</b>	<b>373,212</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

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## Notes to the financial statements

### 30. 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 2016 R m		
	Current assets	Non-current assets	Total
<b>Assets</b>			
Intangible assets	-	606	606
Investment property	-	519	519
Property and equipment	-	3,092	3,092
Deferred tax assets	-	501	501
Reinsurance contracts	241	376	617
Post employment benefits	-	594	594
Deferred acquisition costs	281	719	1,000
Loans and advances	-	222	222
Investments and securities	56,541	519,623	576,164
Derivative assets	465	3,130	3,595
Amounts due by group companies	-	10,253	10,253
Other assets	6,554	-	6,554
Cash and cash equivalents	25,083	-	25,083
Non-current assets held-for-sale	2,610	-	2,610
<b>Total assets</b>	<b>91,775</b>	<b>539,635</b>	<b>631,410</b>
	Company 2016 R m		
	Current liabilities	Non-current liabilities	Total
<b>Liabilities</b>			
Insurance contract liabilities	2,202	146,885	149,087
Investment contract liabilities	-	377,162	377,162
Borrowed funds	-	5,902	5,902
Share-based payment liabilities	212	321	533
Deferred revenue on investment contracts	16	19	35
Deferred tax liabilities	-	4,496	4,496
Derivative liabilities	369	4,475	4,844
Amounts due to group companies	902	-	902
Provisions	-	1,462	1,462
Current tax payable	1,448	-	1,448
Collateral owing	25,939	-	25,939
Other liabilities	9,014	-	9,014
<b>Total liabilities</b>	<b>40,102</b>	<b>540,722</b>	<b>580,824</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 30. Financial risk management (continued)

	Company 2015		
	R m		
	Current assets	Non-current assets	Total
<b>Assets</b>			
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	512,727	566,913
Derivative assets	897	7,605	8,502
Amounts due by group companies	-	9,908	9,908
Other assets	7,121	-	7,121
Cash and cash equivalents	17,940	-	17,940
Non-current assets held-for-sale	2,017	-	2,017
<b>Total assets</b>	<b>82,705</b>	<b>537,387</b>	<b>620,092</b>

	Company 2015		
	R m		
	Current liabilities	Non-current liabilities	Total
<b>Liabilities</b>			
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
Collateral owing	14,758	-	14,758
Other liabilities	8,919	-	8,919
<b>Total liabilities</b>	<b>29,798</b>	<b>542,742</b>	<b>572,540</b>

### 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 98,921 million (2015: R 73,901 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 2016

## Notes to the financial statements

### 30. Financial risk management (continued)

	Consolidated 2016 R m		
	Current assets	Non-current assets	Total
<b>Assets</b>			
Intangible assets	-	692	692
Investment property	-	19,180	19,180
Property and equipment	-	3,097	3,097
Deferred tax assets	-	539	539
Reinsurance contracts	241	721	962
Post employment benefits	-	594	594
Deferred acquisition costs	283	1,814	2,097
Loans and advances	-	222	222
Investments and securities	56,541	578,426	634,967
Investments in associated undertakings and joint ventures	-	2,112	2,112
Derivative assets	465	3,387	3,852
Amounts due by group companies	-	8,884	8,884
Other assets	11,178	-	11,178
Cash and cash equivalents	34,090	-	34,090
Non-current assets held-for-sale	2,839	-	2,839
<b>Total assets</b>	<b>105,637</b>	<b>619,668</b>	<b>725,305</b>
			Consolidated 2016 R m
	Current liabilities	Non-current liabilities	Total
<b>Liabilities</b>			
Insurance contract liabilities	2,205	147,805	150,010
Investment contract liabilities	-	397,235	397,235
Third party interest in consolidated funds	66,042	-	66,042
Borrowed funds	1,010	9,478	10,488
Share-based payment liabilities	212	321	533
Deferred revenue on investment contracts	22	856	878
Deferred tax liabilities	-	5,595	5,595
Derivative liabilities	369	4,498	4,867
Amounts due to group companies	1,648	-	1,648
Provisions	-	1,496	1,496
Current tax payable	1,475	-	1,475
Collateral owing	25,939	-	25,939
Other liabilities	15,666	-	15,666
<b>Total liabilities</b>	<b>114,588</b>	<b>567,284</b>	<b>681,872</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 30. Financial risk management (continued)

	Consolidated 2015 R m		
	Current assets	Non-current assets	Total
<b>Assets</b>			
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	1,649	1,929
Loans and advances	-	230	230
Investments and securities	54,186	552,945	607,131
Investment in associates and joint ventures	-	1,569	1,569
Derivative assets	897	7,904	8,801
Amounts due by group companies	-	8,712	8,712
Other assets	15,107	-	15,107
Cash and cash equivalents	36,940	-	36,940
Non-current assets held-for-sale	3,267	-	3,267
<b>Total assets</b>	<b>110,944</b>	<b>595,670</b>	<b>706,614</b>

	Consolidated 2015 R m		
	Current liabilities	Non-current liabilities	Total
<b>Liabilities</b>			
Insurance contract liabilities	-	155,741	155,741
Investment contract liabilities	-	387,770	387,770
Third party interests in consolidated funds	55,629	-	55,629
Borrowed funds	507	10,369	10,876
Share-based payment liabilities	333	364	697
Deferred revenue on investment contracts	32	762	794
Deferred tax liabilities	-	4,644	4,644
Derivative liabilities	1,296	11,508	12,804
Amounts due to group companies	2,598	-	2,598
Provisions	-	2,431	2,431
Current tax payable	803	-	803
Collateral owing	14,758	-	14,758
Other liabilities	16,528	-	16,528
<b>Total liabilities</b>	<b>92,484</b>	<b>573,589</b>	<b>666,073</b>

### 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 122,263 million (2015:R 81,626 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 2016

## Notes to the financial statements

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### 31. 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 30.

#### 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 2016

## Notes to the financial statements

### 31. Insurance risk management (continued)

Category	Essential terms	Main risk	Policyholder guarantees	Policyholder participation in investment return
<b>Retail Affluent</b>				
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
<b>Mass Foundation cluster</b>				
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
<b>Corporate segment</b>				
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 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 2016

## Notes to the financial statements

### 31. 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	Change %	R m	R m
		Increase/ (decrease) in liabilities 2016	Increase/ (decrease) in liabilities 2015
Mortality and morbidity rates - assurance	10%	5,016	4,582
Mortality rates - annuities	-10%	939	847
Discontinuance rates	10%	133	(11)
Expenses (maintenance)	10%	992	970

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

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### 31. 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 2016 (2015: no impact). There continues to be no impact in 2016 due to 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
<b>Retail</b>	
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.
<b>Corporate</b>	
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.

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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 2016.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 31. 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	7.6%
2	7.7%
3	7.8%
4	7.9%
5	8.1%
10	8.8%
15	9.0%
20	8.7%
25	8.4%
30	7.9%

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

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

Maturity (years)	Strike	Price	Implied volatility
1	Spot	6.7%	22.7%
1	0.8 times spot	1.6%	25.4%
1	Forward	8.2%	21.2%
5	Spot	9.9%	26.1%
5	1.04 <sup>5</sup> times spot	17.4%	25.9%
5	Forward	19.5%	25.7%
20	Spot	4.2%	29.1%
20	1.04 <sup>20</sup> times spot	16.8%	29.1%
20	Forward	26.9%	28.8%

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 <sup>5</sup> ) 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.	8.41%
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.	0.37%

\*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 2016

## Notes to the financial statements

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### 32. Contingencies and commitments

#### Commitments

The group entered into several contracts with an estimated value of R810 million relating to external technology service providers to procure various services and IT Software products and solutions.

Commitments relating to investment properties have been made totalling R262 million for the company and R976 million for the group.

The group entered into agreements where it has committed to provide capital to funds and partnerships that it has invested in. The total undrawn commitment is R7,003 million at 31 December 2016.

#### Collateral

##### Guarantees and assets pledged as collateral security

The company encumbered its investment in N3TC in favour of a group of funders (including commercial banks and financial institutions) as security for financing issued in the year to the value of R439 million.

K201250042 (Pty) Ltd has provided a back-to-back corporate guarantee for the loan of OMP Africa Holdco to the value of \$100 million. The guarantee becomes payable on default of the loan.

Assets are pledged as collateral under repurchase agreements with other financial institutions. The group enters into derivative instruments such as option contracts, interest rate swap agreements and other financial agreements in the normal course of business.

The group has evaluated the extent of the possibility of the guarantees being called on and has provided appropriately.

#### Contingent liabilities

##### Consumer protection

The group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals and treating customers fairly is central to how our businesses operate. We routinely engage with customers and regulators to ensure that we meet this commitment, but there is the risk of regulatory intervention across various jurisdictions, giving rise to the potential for customer redress which can result in retrospective changes to policyholder benefits, penalties or fines. The possible financial effect (amount and timing of possible cash flows) of future regulatory changes or actions cannot be reliably determined at the reporting date.

##### Uncertain tax positions

The Revenue authorities in the jurisdictions in which the group operates routinely review historic transactions undertaken and tax law interpretations made by the group. The group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which they operate. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the group's interpretation of tax law may be challenged by the Revenue authorities. The financial statements include provisions that reflect the group's assessment of liabilities which might reasonably be expected to materialise as part of their review. The board is satisfied that adequate provisions have been made to cater for the resolution of known tax uncertainties and that the resources required to fund such potential settlements are sufficient. Uncertain tax positions unknown to the company and group at year-end could result in higher or lower tax payments in the future.

Due to the level of estimation required in determining tax provisions amounts eventually payable may differ from the provision recognised.

##### Implications of the Old Mutual Group Managed Separation strategy

The group routinely monitors and reassesses contingent liabilities arising from matters such as litigation, and warranties and indemnities relating to past acquisitions and disposals. The adoption of the Managed Separation strategy by the wider Old Mutual Group on 11 March 2016 does not affect the nature of such items; however it is possible that the group may seek to resolve certain matters as part of the implementation of the Managed Separation strategy.

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 33. Notes to the Statutory actuary's report

#### 33.1 Change in excess assets on published basis

	Company	
	2016 Rm	2015 R m
At end of the year	50,586	47,552
At beginning of the year	(47,552)	(49,225)
<b>Change in excess assets</b>	<b>3,034</b>	<b>(1,673)</b>
<b>Analysis of change</b>		
Operating profit before shareholders tax (excluding changes in the valuation basis)	5,726	5,318
Dividend income	1,669	1,266
Interest income	933	1,070
Investment income on excess assets	2,602	2,336
Gains and losses on excess assets	1,886	(4,916)
Changes in valuation basis	1,309	781
Shareholders' tax	(2,988)	(141)
Policyholders' tax	(521)	(328)
Profit for the financial year	8,014	3,050
Other comprehensive income and equity		
Actuarial gains on defined benefit plans	(10)	47
Revaluation of owner - occupied property	(11)	26
Currency translation differences	(63)	42
Issue of share capital	-	-
Other movements	28	(37)
Dividends	(4,924)	(4,801)
<b>Change in excess assets</b>	<b>3,034</b>	<b>(1,673)</b>

#### 33.2 Reconciliation of policy liabilities from published to statutory basis

	Company	
	2016 Rm	2015 R m
Published	(524,047)	(518,978)
Statutory	523,976	519,100
	<b>(71)</b>	<b>122</b>
<b>Comprising:</b>		
	<b>2016</b>	<b>2015</b>
	<b>Rm</b>	<b>R m</b>
Investment contracts	305	463
Reinsurance	(376)	(341)
	<b>(71)</b>	<b>122</b>

# Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated and company annual financial statements for the year ended 31 December 2016

## Notes to the financial statements

### 33.3 Reconciliation of excess assets from published to statutory basis

	Company	
	2016	2015
	Rm	R m
Published	50,586	47,552
Statutory	(49,684)	(46,548)
	<b>902</b>	<b>1,004</b>
<b>Comprising:</b>	<b>2016</b>	<b>2015</b>
	<b>Rm</b>	<b>R m</b>
Investment contracts	305	463
Revenue recognition	965	897
Deferred tax impacts of above items	(368)	(356)
	<b>902</b>	<b>1,004</b>

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.

### 33.4 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 1.10 and 1.13 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 2016

## Notes to the financial statements

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### 33.4 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:

	<b>2016</b>	<b>2015</b>
	<b>Rm</b>	<b>R m</b>
Fixed interest securities	9.1%	9.9%
Cash	7.1%	7.9%
Equities	12.8%	13.6%
Properties	10.6%	11.4%
Future expense inflation *	6.1%	6.9%

\*8.1% (2015: 8.9%) for Retail Affluent business administered on old platforms and 7.1% (2015: 7.9%) for Mass Foundation Cluster.

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## Notes to the financial statements

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### 33.4 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 the Actuarial Society's Standards of Actuarial Practice (SAP 104) and FSB board notices;
- 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 and Mass Foundation Cluster life policies to allow for the uncertainty associated with volatile interest rates,
  - margins on certain Retail Affluent non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk,
  - investment 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 over the term of the policy,
  - 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.

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.

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## Notes to the financial statements

### 33.4 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	2010 to 2014
	Greenlight mortality	2011 to 2015
	Greenlight morbidity	2011 to 2015
	Greenlight persistency	2011 to 2015
Mass foundation	Mortality	2012 to 2015
	Persistency	2009 to 2015
Corporate segment	Annuitant mortality	2010 to 2014
	PHI claims termination	July 2011 to June 2016
	Pre-retirement retention	2012 to 2016
	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 2016 analysis of profit provides a measure of the aggregate experience in 2016. 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 31.

Various actuarial assumption changes have been made which resulted in a net reduction in the value of liabilities of R 1 309 million (2015: R 781 million reduction in liabilities). This is mainly the result of the transfer of classes of existing risk business to the new risk policy fund in terms of the Taxation Laws Amendment Act of 2015. The assumption changes exclude the impact on new business sold in 2016, as this is valued on the new basis.

### 34. Events after the reporting period

Management are not aware of any material events after the reporting period.

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## Notes to the financial statements

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### 35. 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 2016, 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, negative 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

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## Notes to the financial statements

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### 35. 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 2016, if asset values had declined as specified as at 31 December 2016, and had not subsequently recovered:

- A negative bonus of 6.0% followed by future bonus rates reduced by 4.9% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 3.4% per year in each of the following three years for Retail Affluent smoothed bonus products.
- Future bonus rates would have been reduced by 4.9% per year in each of the following three years for Mass Foundation Cluster products.
- Future bonus rates would have been reduced by 3.2% 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 1.1% 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 1.4% per year in each of the following three years for Platinum 1999 with-profit annuities.
- Future bonus rates would have been reduced by 1.7% per year in each of the following three years for Platinum 2003 with-profit annuities.
- A removal of non-vested bonuses of up to 6.0% of fund value for the Guaranteed Fund, followed by future bonus rates reduced by 4.5% per year in each of the following three years for Corporate Segment pre-retirement smoothed bonus products.

For 31 December 2015 the following management actions were assumed, if assets had declined and subsequently not 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).

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 30% in local equities, and 70% in local cash (December 2015: 28% local equities and 72% local cash).

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## Employment equity report

The table below sets out the staff profile of the company, across the different race groups (African, Coloured, Indian and White) as at 14 December 2016. 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	4	-	-	3	1	-	-	1	2	-	11
Senior management	98	82	64	378	76	74	54	133	33	10	1,002
Professionally qualified and experienced specialists and mid management	344	356	144	517	307	375	131	487	31	17	2,709
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	2,479	1,196	317	888	4,175	1,650	313	943	42	32	12,035
Semi-skilled and discretionary decision making	569	391	14	25	1,440	749	39	71	3	1	3,302
Unskilled and defined decision making	10	9	-	-	28	14	-	-	-	-	61
<b>Total permanent</b>	<b>3,504</b>	<b>2,034</b>	<b>539</b>	<b>1,811</b>	<b>6,027</b>	<b>2,862</b>	<b>537</b>	<b>1,635</b>	<b>111</b>	<b>60</b>	<b>19,120</b>
Temporary employees	53	44	3	11	131	96	7	15	2	1	363
<b>Grand total</b>	<b>3,557</b>	<b>2,078</b>	<b>542</b>	<b>1,822</b>	<b>6,158</b>	<b>2,958</b>	<b>544</b>	<b>1,650</b>	<b>113</b>	<b>61</b>	<b>19,483</b>

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

Occupational levels	Male				Female				Foreign national		Total
	A	C	I	W	A	C	I	W	M	F	
Senior management	2	4	2	5	-	2	2	2	1	-	20
Professionally qualified and experienced specialists and mid management	4	9	4	15	3	12	-	11	1	-	59
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	14	28	7	16	25	45	4	35	-	-	174
Semi-skilled and discretionary decision making	21	22	4	1	50	31	2	1	1	-	133
Unskilled and defined decision making	-	-	-	-	2	-	-	-	-	-	2
<b>Total permanent</b>	<b>41</b>	<b>63</b>	<b>17</b>	<b>37</b>	<b>80</b>	<b>90</b>	<b>8</b>	<b>49</b>	<b>3</b>	<b>-</b>	<b>388</b>
Temporary employees	3	4	-	-	2	2	1	1	-	-	13
<b>Grand total</b>	<b>44</b>	<b>67</b>	<b>17</b>	<b>37</b>	<b>82</b>	<b>92</b>	<b>9</b>	<b>50</b>	<b>3</b>	<b>-</b>	<b>401</b>