

# Old Mutual Life Assurance Company (South Africa) Limited

Annual Financial  
Statements

31 December 2011

do great things



**OLD MUTUAL**

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Contacts

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# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

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The company's consolidated financial statements are contained in a separate document that is expected to be issued in June 2012.

# Old Mutual Life Assurance Company (South Africa) Limited

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## Corporate governance report

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### Introduction

The company has a balanced unitary board comprising a majority of independent and non-executive directors (the Board). The non-executive chairman (the Chairman) of the Board is Mr P B Hanratty, Head of Old Mutual plc Long Term Savings. In accordance with good governance principles, the Board had appointed a Lead Independent Director (LID), Mr G S van Niekerk.

The Old Mutual Group has an overarching governance structure (Group Operating Model), incorporating principles of governance to facilitate effective and dynamic management and oversight of a group containing several regulated entities, in different jurisdictions. These overarching governance structures are set out in the group operating manual (the Manual) which contains the internal operating framework and governance structure for the Old Mutual Group. The company has entered into a relationship agreement with Old Mutual plc and resolved to adhere to the Manual, noting that it is a governance framework for the promotion of efficiency and mitigation of risks, both in the interests of the company and the group, whilst maintaining the primacy of the fiduciary duties of the Board. The Board is satisfied that the company has made every practical effort to adapt all relevant principles and guidelines of King III during the review period, insofar as it was applicable to wholly owned subsidiaries.

### The Board of Directors

#### Role

The Board has a charter which defines its functions, responsibilities and relationship with Old Mutual plc and separates such from the role of management.

#### Selection and succession planning

The selection and appointment of directors is effected through a formal and transparent process and is a matter for the Board as a whole, assisted by recommendations from the Corporate Governance and Nomination Committee. Emphasis is placed on achieving a balance of diversity, skills, relevant business experience and knowledge. A formal orientation programme exists to familiarise incoming directors with the company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities.

#### Rotation and retirement

Newly appointed directors may hold office only until the next annual general meeting at which point they retire and become available for re-election by the shareholders, on the recommendations of the Corporate Governance and Nomination Committee and the Board. All directors are subject to retirement by rotation and re-election by the shareholders at least once every three years, giving due consideration to good governance guidelines in this regard. Executive directors have no fixed term of appointment, but are subject to short-term notice periods. They retire from the Board at age 61, while non-executive directors retire at age 70.

#### Performance and assessment

The Board meets regularly, having met for five scheduled meetings during 2011, including sessions specifically devoted to strategy and business planning as well as people and customer issues. It may also meet, and did meet, as and when required to deal with specific matters that arose between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted on an annual basis. In 2011 a facilitated review of the Board's effectiveness was conducted by the Institute of Directors of South Africa. All independent and non-executive directors, other than nominees of the ultimate holding company are remunerated for their services to the Board and committees.

#### Access to company resources

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure its effective functioning and the proper administration of Board proceedings. The Company Secretary ensures that the independent and non-executive directors are kept informed on latest developments regarding the company's business and industry-wide issues through a formal communication process.

#### Chairman and Managing Director

The roles of the Chairman and Chief Executive Officer are separate.

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The executive management of the company is the responsibility of Mr R T Mupita, who was appointed Chief Executive Officer on 1 February 2012 in place of Mr K D Dlamini who had resigned on 31 January 2012.

### Board committees

#### Purpose

The Board has established a number of committees to assist it in discharging its responsibilities. All board committees have formally delegated terms of reference and report to the Board and to the respective board committees of the ultimate holding company when relevant. The committees are chaired by independent non-executive directors, supported by the Company Secretary or his delegate, and are free to take independent professional advice as and when necessary.

#### Audit Committee

##### Members:

*Mr I B Skosana (Chairman), Ms A A Maule, Ms C E Maynard, Mr P G M Truyens and Mr G S van Niekerk.*

The committee is chaired by Mr I B Skosana, an independent director, and is comprised of independent directors only, and meets as often as necessary and met four times during the year.

#### Principal functions

The committee ensures the integrity of the company's financial statements, effectiveness of the systems of governance, risk management and internal control and monitoring. The Audit Committee report can be found on page 20 of the annual financial statements.

#### Risk Committee

##### Members:

*Mr P G M Truyens (Chairman), Mr P C Baloyi, Mr A S Birrell, Ms K Murray, Mr I B Skosana and Mr A H Trikamjee.*

The committee is chaired by Mr P G M Truyens, an independent director and comprises of independent, non-executive and executive directors, meets as often as necessary and met six times during the year.

#### Principal functions

The committee reviews management's recommendations on risk management, in particular in relation to the structure and implementation of the risk strategy, model, framework and methodologies, the quality and effectiveness of related internal processes, controls and reporting, risk appetite limits and exposure, and the overall risk profile of the business.

#### Remuneration Committee

##### Members:

*Ms A A Maule (Chairman), Mr A S Birrell, Mr P B Hanratty and Ms C E Maynard.*

*On 31 January 2012, Mr K D Dlamini resigned from the committee and Mr R T Mupita became an ex-officio member on 1 February 2012.*

The committee is chaired by Ms A A Maule, an independent director and comprises of independent, non-executive and executive directors and meets as often as necessary, but at least five times a year. During the year, it formally met seven times.

#### Principal functions

The committee assists the Board in discharging its governance duties by guiding and directing the implementation of remuneration strategy, policies, principles, related proposals and structures. Furthermore, the committee on behalf of the Board, monitors and controls remuneration and benefit structures and provides input into talent management and succession planning.

# Old Mutual Life Assurance Company (South Africa) Limited

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## Corporate governance report

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### Corporate Governance and Nomination Committee

#### Members:

*Mr G S van Niekerk (Chairman), Mr P B Hanratty, Mrs G T Serobe, Mr I B Skosana and Mr A H Trikamjee.*

The committee, chaired by Mr G S van Niekerk, an independent director, includes both independent and non-executive directors, meets as often as necessary and met four times during the year.

#### Principal functions

The committee regularly reviews the structure, size, diversity and mix of skills and experience of the Board and its committees and makes recommendations to the Board.

The committee identifies and nominates candidates to fill Board and committee vacancies, reviews the continuation in service of those directors who have reached the end of their term of office or retirement age and considers directors retiring by rotation for re-election. The committee also assists the Board in ensuring that an adequate and effective process of corporate governance is established and maintained.

### Environment Committee

#### Members:

*Prof I A Goldin (Chairman), Ms N M C Nyembezi-Heita, Mr F Robertson and Mr A H Trikamjee.*  
*On 31 January 2012, Mr K D Dlamini resigned from the committee.*

The committee is chaired by Prof I A Goldin, an independent director, and includes independent, non-executive and executive directors, meets as often as necessary and met three times during the year.

#### Principal functions

The committee provides input to the development of business strategy in respect of external stakeholders excluding customers, in particular government relations and transformation issues. It is expected to review and to provide input to the consideration of the political and regulatory environment. The committee has further taken on oversight responsibilities for social and ethics issues as prescribed by the Companies Act.

### Committee for Customer Affairs

#### Members:

*Mr P G M Truyens (Chairman), Mr P C Baloyi, Prof I A Goldin, Ms C E Maynard and Mr G S van Niekerk.*

The committee is chaired by Mr P G M Truyens, an independent director, and comprises only independent directors, meets as often as necessary and met four times during the year.

#### Principal functions

The committee reviews the extent to which the company is providing acceptable value for money to its customers and the extent to which customers are being treated fairly. The committee also reviews, approves and monitors compliance with the company's Principles and Practices of Financial Management which sets out the nature of discretion retained by the Board and the parameters within which this discretion would be used in relation to discretionary participation products.

### Strategic Investment Committee

#### Members:

*Ms C E Maynard (Chairman), Mr P C Baloyi, Prof I A Goldin and Mr P B Hanratty.*

The committee was formed on 1 January 2011. The Committee, chaired by Ms C E Maynard, an independent director and comprising independent and non-executive directors, meets as often as necessary and met four times during the year.

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### Principal functions

The committee assists the Board in monitoring the growth of investment activity of all entities and business units within the remit of the Chief Executive Officer and recommends new investments to the Board that meet the Group's strategic goals and have the overall objective of increasing investment in South Africa. The committee further monitors the communication of investment strategy to the Group's stakeholders, ensuring that the incremental investment activities are given appropriate prominence with the Group's stakeholders and are reported to the South African Government.

### Financial Assistance Committee

*Member:*

*Ms K Murray.*

### Principal functions

A Financial Assistance Committee was constituted by the Board on 20 June 2011 to consider financial assistance transactions to related or inter-related parties, as required by the Companies Act. Ms K Murray was appointed by the Board as the Committee's sole member to ensure that the requirements of the Act are adhered to and the Board's responsibilities in relation to financial assistance are effectively fulfilled.

### Internal control environment

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

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

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

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

### Approach to risk management

Creating long-term shareholder and policyholder value is the company's overriding business objective and the company derives its approach to risk management and control primarily from a shareholder value perspective.

Risk management is an integral part of the management decision making process and the company's overall approach is to define a clear risk strategy to ensure that risk taking is a conscious strategic decision. The pursuit of shareholder value requires the company to balance the risk assumed as reflected in capital required with the aim to provide higher risk-adjusted returns within an acceptable level of risk assumed and capital required. Significant progress has been made to implement a framework where risk, capital and value are fully aligned with commercial objectives. From a risk management perspective there is a strong emphasis on understanding the diversity and full breadth of risk to the business and its objectives and on implementing controls to reduce residual risk to an acceptable level. Risk management is, however, not limited solely to risks that may adversely affect the company's ability to achieve its objectives; it is also about identifying and seizing new opportunities while ensuring that the risks are understood, evaluated, appropriately taken on and managed.

The Company operates a risk management system, which contains the following components: Risk end vision, risk strategy and appetite, risk categorisation model, risk governance, risk value chain, risk management processes, risk reporting and risk culture.

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### Risk end vision

Our risk end vision describes the attributes of the organisation and condition when the risk management system is fully embedded. In particular the following are the desired outcomes of the risk management system:

- A strong risk management culture where risks are understood, controlled and meaningfully communicated by decision makers.
- Understanding of the material drivers of economic and regulatory capital.
- Clarity of individual responsibility in the management of risk.
- The management of risk is closely linked to the achievement of business objectives.
- Risks are continuously monitored and reviewed and there is organisational learning.
- Positive impact on policyholder protection.
- Reduced losses as a result of risks not materialising.

### Risk strategy and appetite

The risk strategy provides a link between the business strategy, risk appetite and risk limits framework. It serves four main purposes:

- To clearly articulate the company's risk strategy, and hence provide a common starting point for risk strategy discussions.
- To act as guidance to business segments when taking on or managing risk or restructuring operations to optimise risk adjusted return.
- To demonstrate that company has a structured and formalised way to think about risk, capital and its implications.
- To demonstrate that company is well positioned to deliver on forthcoming changes to local solvency regulations.

The risk appetite framework sets targets and limits against which risk exposures are compared to ensure that risk-taking remains in line with strategic objectives.

Old Mutual uses four key risk and capital metrics to calculate risk exposure being:

**Economic capital at risk:** This means the reduction in after tax economic value that we only expect to exceed with a 7-in-10 000 probability over a 1 year period.

**Earnings at risk:** This means the negative deviation from expected IFRS adjusted operating profit before tax over a 1 year forward looking time horizon that we only expect to exceed with a 1-in-10 probability.

**Cashflow at risk:** This means the reduction in the amount of expected after tax cash earnings generated over the next year forward looking time horizon that should only be exceeded with a 1-in-10 probability.

**Operational risk:** This means the reduction in economic value, net of tax due to 1-in-10 operational loss events.

### Risk categorisation model

The risk categorisation model is designed to provide a common framework within which to identify, collate, aggregate and report on risks, both from a bottom-up and top-down perspective and to assess quantitatively and qualitatively, at various levels within the organisation, including Group Internal Audit. To achieve these objectives, all three lines of defence are required to use the same categorisation model, and the model is designed to ensure that there is appropriate detail for it to be meaningful at all levels within the organisation, and also to enable aggregation and escalation of material items to the correct level. The following Level 1 risk categories are applied:

**Shareholder market risk:** This is the risk of loss as a result of changes in specified financial risk factors (for example, equity and real estate returns, and yield curve shifts), where changes are applied to shareholder fund assets.

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**Policyholder market risk:** This is the risk of loss as a result of mismatches between assets and liabilities due to changes in specified financial risk factors (e.g. equity and real estate returns, and yield curve shifts), where the changes are applied to policyholder fund assets and policyholder liabilities.

**Credit risk:** This is the risk of loss as a result of credit defaults, defaults by counterparties, credit rating changes and spread moves, where the changes are applied to fixed interest holdings and receivables of the company. This category includes concentration risk by credit counterparty.

**Liability risk:** This is the risk of loss as a result of fluctuations in current insurance claims experience and revisions to estimates of future insurance claims experience. For life insurance, this relates to the incidence of mortality, longevity, morbidity and insured accident and disability claims.

**Business risk:** This is a non-discretionary risk, being a fundamental risk associated with "being in business". This is the risk of loss due to adverse changes in new business volume, margin, expenses and termination experience.

**Operational risk:** This is the risk of loss due to the occurrence of unexpected one-off events caused by people, processes, systems or external events (excluding external events that are reflected in other risk categories above).

### Risk governance

Enterprise risk governance is a systematic approach to decision making based on the principles of cooperation, participation, mitigation and sustainability adopted to achieve more effective risk management.

The risk governance model is the construct of how the company's structures, processes and people relate to each other in order to enable optimal risk decisions. Risk governance provides assurance to the organisation's stakeholders that the organisation is being prudently managed in the context of value creation for stakeholders.

Other risk reporting includes:

- Three lines of defence model.
- Clearly defined accountabilities and expectations for all relevant parties, including the roles and responsibilities of the Board, management and employees.
- Clearly defined policies for the management of all defined risks.
- The monitoring and reporting processes for risk-based decision making, including a common set of metrics that enhance communication about enterprise risks.
- Approaches to enterprise risk assurance that enhance the organisation's resilience including Stress testing and contingency and crisis planning.
- A sound system of internal control.

### Risk value chain

Risks are always considered in the context of pre-defined business objectives, firstly at an inherent (gross) level, i.e. in the absence of any controls or management actions and secondly at a residual (net) level, i.e. based on the adequacy and effectiveness of specific controls or management actions.

There are eight distinct stages in the risk value chain:

**Risk identification:** Risk identification is the responsibility of line management. Risks are identified using a combination of bottom-up and top down approaches and considering various factors including organisational objectives, business environment, control breakdowns, internal risk events, audit reports and the regulatory environment. The identified risks are validated through management and board Risk Committees.

**Risk assessment:** Risks are assessed by line management using a risk scoring matrix which consists of a likelihood and impact scale. The net risk is managed in accordance with risk appetite with an accountable risk appointed to manage the risk on a continuous basis.

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**Risk monitoring:** Risk monitoring is a function of all three lines of defence in their respective areas of responsibility. Monitoring is performed by using risk indicators, modelling tools and methodologies that measure outcomes within an acceptable range, as pre-determined by risk appetite and tolerance levels.

**Risk recording:** The primary mechanism used by Old Mutual for the collation and recording of risk information is a risk management tool known as Open Pages.

**Risk escalation:** Risks and issues that meet the escalation threshold are escalated to Old Mutual Emerging Markets Exco and Old Mutual Plc as soon as possible, but at least within 30 days of identification.

**Risk reporting:** The Board receives sufficient risk information to enable them to understand the overall risk profile and focus on the material and strategic implications for the business. The risk reporting structure is hierarchical and cyclical. Formal risk reporting takes place quarterly at business segment level after which the key risks, trends and mitigating actions are reported at the management Risk Committee, prior to the quarterly board Risk Committee. The Board Risk Committee has oversight over all risk types in Old Mutual. There are also specialist management risk committees in place that focus on specific risk types, for example the Credit Review Committee and the ALM Committee.

**Stress Testing:** Old Mutual performs stress and scenario testing and sensitivity analysis to monitor the robustness of its regulatory and economic capital position. These assessments help to inform management's understanding of the capital that would be required in the event of the scenarios materialising. The output of these tests helps management to prepare for significant changes in the environment and ensure that the impact of such changes would be within risk appetite limits.

**Contingency and Crisis planning:** Old Mutual has formal contingency and business continuity plans in place to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruption. Management periodically reviews these plans so that they are consistent with Old Mutual's operations and business strategies. Moreover, these plans are tested periodically to ensure that Old Mutual would be able to execute these plans in the unlikely event of a severe business disruption.

### Risk management processes

Collating minimum prescribed information regarding major processes, key controls and risk and performance indicators linked to risks, contributes to the creation of a coherent and holistic single view of risk and allows staff to optimally manage risk. The key risk management processes are as follows:

- Risk self assessment
- Control self assessment
- Internal risk events
- Key risk indicators

### Risk reporting

The risk reporting framework uses the following reference points; local and group regulatory requirements, risk committee terms of reference, risk policies, the Risk categorisation model, risk strategy and appetite limits and key stakeholders to define the scope and content of risk reporting in the organisation.

The key stakeholders of risk management information are as follows:

- Old Mutual plc
- Executive and line management
- Risk Committee
- Segment and specialist risk committees
- General public
- Regulator

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### Risk culture

A risk-based culture implies neither risk aversion nor unwise risk taking. Rather, it means a balanced approach that strives for an integrated understanding of risk and approach to risk management. It cultivates risk responsiveness at all organisational levels, values and demands transparency, and evokes behaviour aligned with sound business growth. Old Mutual defines culture as “how we think about things and the way we do things around here”. Risk management culture, therefore, is related to the set of shared attitudes, values, goals and practices that characterise how Old Mutual’s people consider risks in their day to day activities.

**People capability and capacity:** The risk management processes depend on its people’s skills and willingness to execute the risk management system. Therefore a key step in its journey is to attract, grow and retain the right people. This is then maintained by having in place good people management practices, where staff are valued and understand their roles and responsibilities and how they fit in with the business strategy.

**Education and training:** Old Mutual’s central risk function develops training material that is customised for different target groups to raise risk awareness and to provide specific methodology and system training. Board induction material is also developed to educate Directors on their increased responsibilities.

**Whistle blowing and ethics:** An overarching formal code of ethics has been adopted by the Board. The Code of Ethics is founded on the Group values of “Respect”, “Integrity”, “Accountability”, and “Pushing beyond boundaries”. It is the responsibility of all employees to act in accordance with the Group values and thereby to maintain and enhance the Group’s reputation.

### Employment policies

The company’s employment policies are designed, regularly reviewed and updated to promote a working environment that supports the recruitment and retention of highly effective employees, improves productivity and fosters relationships that build on the diversity of its workforce.

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

- The company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and the future of the company.
- Employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity and the company’s practices are cognisant of this.
- The company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the company. Employee involvement and consultation is managed in a number of ways, including in-house publications, briefings, road shows and intranet. In many parts of the business, employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them.
- The efforts of the individual in helping to create the success of the company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals and the performance of the area of the business in which they work.
- The training and development of all employees remains a priority. The Old Mutual Business School was founded because the process of developing business staff and leaders requires a holistic learning experience that is aligned with core competencies, business objectives and company strategies, thereby ensuring that the growth and development of the organisation remains sustainable.
- Employees are annually required to sign and accept the “Hlonipha ikhaya” code of conduct. “Hlonipha ikhaya” means “respect this house”. By doing so, employees agree to adhere to the key company staff policies.

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## Corporate governance report

### Employment equity report

The table below sets out the staff profile of the Old Mutual Group in South Africa, excluding Nedbank and Mutual and Federal, across the different race groups (African, Coloured, Indian, and White) as at 31 August 2011. 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	2	-	-	2	-	-	1	2	1	1	9
Senior management	79	69	55	431	41	48	28	157	35	10	953
Professionally qualified and experienced specialists and mid-management	216	256	115	606	140	245	96	524	31	18	2 247
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 120	1 075	376	1 155	2 521	1 464	349	1 315	56	41	10 472
Semi-skilled and discretionary decision making	230	309	23	21	668	583	85	172	3	6	2 100
Unskilled and defined decision making	44	19	4	18	80	40	5	44	2	3	259
<b>Total permanent</b>	<b>2 691</b>	<b>1 728</b>	<b>573</b>	<b>2 233</b>	<b>3 450</b>	<b>2 380</b>	<b>564</b>	<b>2 214</b>	<b>128</b>	<b>79</b>	<b>16 040</b>
Temporary employees	38	61	7	22	73	69	11	25	3	-	309
<b>Grand total</b>	<b>2 729</b>	<b>1 789</b>	<b>580</b>	<b>2 255</b>	<b>3 523</b>	<b>2 449</b>	<b>575</b>	<b>2 239</b>	<b>131</b>	<b>79</b>	<b>16 349</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	
Top management	-	-	-	-	-	-	-	-	-	-	-
Senior management	-	6	-	4	-	1	-	-	2	-	13
Professionally qualified and experienced specialists and mid-management	5	4	3	20	1	12	-	9	-	-	54
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	15	35	5	32	33	44	10	49	1	-	224
Semi-skilled and discretionary decision making	8	16	1	4	13	27	2	13	-	-	84
Unskilled and defined decision making	21	10	4	18	13	15	4	43	2	2	132
<b>Total permanent</b>	<b>49</b>	<b>71</b>	<b>13</b>	<b>78</b>	<b>60</b>	<b>99</b>	<b>16</b>	<b>114</b>	<b>5</b>	<b>2</b>	<b>507</b>
Temporary employees	-	1	-	-	-	1	1	-	-	-	3
<b>Grand total</b>	<b>49</b>	<b>72</b>	<b>13</b>	<b>78</b>	<b>60</b>	<b>100</b>	<b>17</b>	<b>114</b>	<b>5</b>	<b>2</b>	<b>510</b>

**Note:** Racial categories: A - African; C - Coloured; I - Indian; W - White, Gender categories: M - Male; F - Female

Further details, together with the 2011 report, can be found in the Old Mutual Sustainability report.

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## Corporate governance report

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### Governance of smoothed bonus policyholder funds

Smoothed bonus products constitute a significant proportion of the company's business. The Board's Committee for Customer Affairs considers, amongst others, the interests of discretionary participation policyholders and reviews key decisions and recommendations affecting the interests of these policyholders.

The company's Principles and Practices of Financial Management (PPFM) document covers smoothed bonus and other discretionary participation business. The purpose of the document is to define the principles and practices of financial management that are currently applied in the management of the company's discretionary participation business, and to disclose the nature and extent of discretion used and the parameters within which it will be used. The Committee for Customer Affairs provides the Board with an independent assessment of compliance with the PPFM on an annual basis. The Board, in turn, reports on the extent of compliance with the PPFM in the company's annual statutory return to the Financial Services Board (FSB).

Specific steps are taken to ensure that policyholder funds in respect of smoothed bonus business are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The asset managers responsible for policyholder funds are clearly instructed that all investment decisions taken within policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of specified investment mandates.
- Each product portfolio has an investment mandate, based on the nature of that portfolio's liability. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For portfolios with fully guaranteed benefits (such as the immediate annuity portfolio), particular care is taken to ensure that assets appropriately match liabilities.
- In addition to applicable statutory limitations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group, within each policyholder fund portfolio.
- Major investments in Old Mutual Group companies (such as in Nedbank Group Limited and Mutual & Federal Insurance Company Limited) and loans to other companies in the Group (such as to Old Mutual plc) are held mainly in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- Potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders have an interest must be disclosed to the Statutory Actuary, who will report on these to the Committee for Customer Affairs. If the potential conflict of interest is material, approval by the Board is required. Any such transactions are conducted on arm's-length terms, and only when the asset manager is satisfied that such investments are in the interest of policyholders.
- The asset manager produces a monthly report covering, amongst others, the structure of each portfolio relative to its mandate and investment performance relative to benchmarks.
- The method of allocation of surplus between policyholders and shareholders is clearly specified. Smoothed bonus policyholder funds are credited (by way of bonus stabilisation reserves) with the investment return earned on those funds, less applicable charges and tax.
- Any surplus attributable to shareholders is only transferred from policyholder funds to shareholder funds on the recommendation of the Statutory Actuary, with the final amounts of the transfer being confirmed following the production of interim and year-end results. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities. These liabilities include provision for any guarantees that may apply.
- The company pays particular attention to ensuring that the declaration of bonuses is carried out in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the company manages these products ensures that information is produced on the financial strength of its smoothed bonus funds and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. Investment returns credited to policyholder funds, after deducting applicable charges and tax, that are not declared as bonuses are retained in bonus stabilisation reserves, which are used to support subsequent bonus declarations.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Corporate governance report

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### Going concern

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

### Corporate citizenship and non-financial reporting

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Remuneration report

### Directors' emoluments

Information relating to the emoluments paid to directors is set out in note 38 of the financial statements.

### Interests under employee share plans

#### Directors

The following share options in Old Mutual plc shares were outstanding in favour of executive directors under the company's participation in the various Group's share incentive arrangements at 31 December 2011:

	R Offer price	Date of grant	Number of shares outstanding	Dates deliverable	R '000 Gains on current year settlements
K D Dlamini	11.49	08/09/09	1 122 716	08/09/2012 - 08/09/2015 <sup>1</sup>	-
	13.80	16/04/10	124 729	16/04/2013 - 16/04/2016 <sup>2</sup>	-
	15.80	11/04/11	161 868	11/04/2014 - 11/04/2017 <sup>3</sup>	-
R T Mupita	14.50	26/04/05	-	26/04/2008 - 26/04/2011	40
	13.80	28/08/08	105 714	28/08/2013 - 28/08/2014 <sup>4</sup>	-
	7.45	08/04/09	196 001	08/04/2012 - 08/04/2015 <sup>5</sup>	-
	7.45	08/04/09	54 259	08/04/2012 - 08/04/2015 <sup>6</sup>	-
	13.80	16/04/10	115 070	16/04/2013 - 16/04/2016 <sup>2</sup>	-
	15.80	11/04/11	226 015	11/04/2014 - 11/04/2017 <sup>3</sup>	-
B M Rapiya	7.45	08/04/09	231 791	08/04/2012 - 08/04/2015 <sup>5</sup>	-
	7.45	08/04/09	122 898	08/04/2012 - 08/04/2015 <sup>6</sup>	-
	13.80	16/04/10	225 484	16/04/2013 - 16/04/2016 <sup>2</sup>	-

The above awards are subject to the following:

- 100% of the share entitlements granted on 8 September 2009 will be delivered if the Old Mutual plc earnings per share (EPS) and return on average equity (RoAE) achieve the prescribed targets. EPS targets are set in a range of percentage growth in IFRS adjusted operating earnings per share, compared to the base year of 2008, above UK inflation, as measured by the Retail price Index (RPI). The prescribed target range for the RoAE is between 11 to 12%.
- The share entitlements granted on 16 April 2010 as part of the Deferred Short Term Incentive ( DSTI ) are not subject to any Corporate Performance Targets.
- The share entitlements granted on 11 April 2011 as part of the DSTI are not subject to any Corporate Performance Targets.
- 100% of the share entitlements granted on 28 August 2008 will be delivered if the EPS and RoAE achieve the prescribed targets. EPS targets are set in a range of percentage growth in IFRS adjusted operating earnings per share, compared to the base year of 2008, above UK inflation, as measured by the RPI. The prescribed target range for the RoAE is between 11 to 12%.
- The share entitlements granted on 8 April 2009 as part of the DSTI are not subject to any Corporate Performance Targets.
- Share entitlements awarded on 8 April 2009 as special once-off top up grants under the Management Incentive Share Plan. The options are deliverable subject to Old Mutual (South Africa) Limited attaining a RoAE of at least 22.5% per annum over the three year period from 1 January 2009 to 31 December 2011.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Remuneration report

### Interests under employee share plans (continued)

The following Restricted Share Plan awards in Old Mutual plc shares were outstanding in favour of executive directors under the company's participation in the various Group's share incentive arrangements at 31 December 2011:

				R '000
	Date of grant	Number of shares outstanding	Dates deliverable	Gains on current year settlements
K D Dlamini	08/09/09	324 920	08/09/2013 <sup>1</sup>	-
	08/09/09	324 920	08/09/2014 <sup>1</sup>	-
	08/09/09	324 921	08/09/2015 <sup>1</sup>	-
	16/04/10	112 256	16/04/2013 <sup>2</sup>	-
	11/04/11	145 681	11/04/2014 <sup>3</sup>	-
K Murray	11/04/11	37 975	11/04/2014 <sup>3</sup>	-
R T Mupita	19/10/05	-	19/10/2011	749
	23/08/07	-	23/08/2011	167
	23/08/07	12 483	23/08/2012 <sup>4</sup>	-
	23/08/07	12 484	23/08/2013 <sup>4</sup>	-
	03/04/08	-	03/04/2011	732
	28/08/08	105 714	28/08/2013 <sup>5</sup>	-
	08/04/09	156 801	08/04/2012 <sup>6</sup>	-
	08/04/09	48 833	08/04/2012 <sup>7</sup>	-
	08/04/09	118 607	08/04/2013 <sup>8</sup>	-
	08/04/09	118 607	08/04/2014 <sup>8</sup>	-
	08/04/09	118 606	08/04/2015 <sup>8</sup>	-
	16/04/10	92 056	16/04/2013 <sup>2</sup>	-
	11/04/11	180 812	11/04/2014 <sup>3</sup>	-
B M Rapiya	19/10/05	-	19/10/2011	1 410
	23/08/07	-	23/08/2011	249
	23/08/07	18 657	23/08/2012 <sup>4</sup>	-
	23/08/07	18 657	23/08/2013 <sup>4</sup>	-
	03/04/08	-	03/04/2011	1 050
	08/04/09	185 433	08/04/2012 <sup>6</sup>	-
	08/04/09	110 608	08/04/2012 <sup>7</sup>	-
	16/04/10	180 388	16/04/2013 <sup>2</sup>	-

The above awards are subject to the following:

- 1 Restricted shares awarded on 8 September 2009, in terms of the Senior Black Management Share Plan, would be deliverable in three equal instalments on 8 September 2013, 8 September 2014 and 8 September 2015 and are entitled to dividends.
- 2 Restricted shares awarded on 16 April 2010, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 16 April 2013 and are entitled to dividends.
- 3 Restricted shares awarded on 11 April 2011, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 11 April 2014 and are entitled to dividends.
- 4 Restricted shares awarded on 23 August 2007, in terms of the Senior Black Management Share Plan, would be deliverable in three equal instalments on 23 August 2011, 23 August 2012 and 23 August 2013 and are entitled to dividends.
- 5 Restricted shares awarded on 28 August 2008, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 28 August 2013 and are entitled to dividends.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Remuneration report

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### Interests under employee share plans (continued)

- 6 Restricted shares awarded on 8 April 2009, as an alternative to share options under the Management Incentive Share Plan would be deliverable on 8 April 2012 and are entitled to dividends.
- 7 Restricted shares awarded on 8 April 2009, as special once-off top up grants under the Management Incentive Share Plan would be deliverable on 8 April 2012 and are entitled to dividends. These restricted shares are deliverable subject to Old Mutual (South Africa) Limited attaining a RoAE of at least 22.5% per annum over the three year period from 1 January 2009 to 31 December 2011.
- 8 Restricted shares awarded on 8 April 2009, in terms of the Senior Black Management Share Plan, would be deliverable in three equal instalments on 8 April 2013, 8 April 2014 and 8 April 2015 and are entitled to dividends.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Statement of directors' responsibilities

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

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

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

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

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

The annual financial statements for the year ended 31 December 2011 set out on pages 21 to 96 were approved by the Board of directors on 29 February 2012 and are signed on its behalf by:

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**K Murray**  
Finance Director

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**R T Mupita**  
Chief Executive Officer

## Certificate by the Company Secretary

I declare that, to the best of my knowledge, the company has lodged all such returns and notices as are required of it in terms section 88(2)(e) of the Companies Act of South Africa 71 of 2008, for the year ended 31 December 2011 and that all such returns appear true, correct and up to date.

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**R F Foster**  
Company Secretary  
29 February 2012

# Independent auditors' report

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

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited, which comprise the statement of financial position at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 21 to 96.

## Directors' Responsibility for the Annual Financial Statements

The company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Old Mutual Life Assurance Company (South Africa) Limited at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

**KPMG Inc.**  
**Registered Auditors**  
**Per: G M Pickering**  
**Chartered Accountant (SA), Registered Auditor**  
**Director**  
**13 April 2012**

**1 Mediterranean Street**  
**Foreshore**  
**Cape Town**  
**8000**

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2011, 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 IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in note 41 to the annual financial statements. Sample derivative contract prices derived from the calculation of market-consistent investment guarantee reserves are provided in note 40.

	R m		R m	
	2011 Published	2011 Statutory	2010 Published	2010 Statutory
<b>Actuarial balance sheet</b>				
Total value of assets	451 184	449 458	443 141	441 443
Actuarial value of policy liabilities	(360 172)	(356 618)	(354 662)	(351 306)
Unsecured subordinated callable notes	(3 000)	(3 000)	(3 000)	(3 000)
Provisions and other liabilities	(28 991)	(28 856)	(31 363)	(31 202)
	(392 163)	(388 474)	(389 025)	(385 508)
Excess of assets over liabilities	59 021	60 984	54 116	55 935
Less: Inadmissible for statutory solvency purposes		(466)		(316)
Less: Limits on group undertakings		(12 863)		(12 263)
Add: Unsecured subordinated callable notes		3 000		3 000
Excess assets (statutory basis)		50 655		46 356
<b>Statutory capital adequacy requirement (CAR)</b>		<b>12 651</b>		<b>11 824</b>
Ratio of excess assets to CAR		4.0		3.9

Notes:

- 1 Certain of the 2011 figures for inadmissible assets and limits in respect of group undertakings and the resulting calculations are estimates.
- 2 A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 41.1.
- 3 The composition of the assets backing the CAR is 12.5% in local equities and 87.5% in local cash (2010: 12.5% local equities and 87.5% local cash).

### Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2011, the results of which are summarised above, has been conducted in accordance with, and this statutory actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa professional guidance notes and Board Notice 14 of 2010;
- the company was financially sound on the statutory basis as at the valuation date, and in my opinion is likely to remain financially sound on the statutory basis for the foreseeable future; and
- the company also had sufficient non-linked assets to more than cover non-linked liabilities and capital adequacy requirements after allowing for the asset spreading requirements as prescribed by the Long Term Insurance Act.

**G W Voss**

Statutory Actuary  
BSc, FIA, FASSA  
Cape Town  
29 February 2012

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## 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, risk management and internal controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place. The committee works closely with the Risk Committee.

### Terms of reference

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

### Composition and meeting process

The current members are Mr I B Skosana (Chairman), Ms A A Maule, Ms C E Maynard, Mr P G M Truyens and Mr G S van Niekerk.

The committee comprises exclusively independent directors, and met four times during the year with senior management, including the chief executive officer, the statutory actuary, the finance director, the group audit director, the group compliance officer, the chief risk officer and certain other executive management. Representatives from Old Mutual plc also usually attend. The external and internal auditors attend committee meetings and have unrestricted access to the committee and to its chairman. Ad hoc meetings are held as required.

### Statutory duties

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

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit Committee, was independent of the company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the Companies Act 71 of 2008 and any other legislation relating to the appointment of such auditors.
- Determined the nature and extent of any non-audit services which the auditor may provide to the company or such services that the auditor may not provide to the company or related company.
- Pre-approved any proposed contract with the auditor for the provision of non-audit services to the company.
- Considered the independence of the external auditors and has concluded that the external auditor has been independent of the company throughout the year taking into account all other non-audit services performed and circumstances known to the committee.
- Received and dealt appropriately with any complaints relating to the accounting practices and internal audit of the company, the content or auditing of its annual financial statements, the internal financial controls of the company, or to any related matter.
- Made submissions to the Board on any matter concerning the company's accounting policies, financial control, records and reporting.

### Legal requirements

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

### Annual financial statements

Following our review of the annual financial statements for the year ended 31 December 2011, we are of the opinion that, in all material respects, they comply with the relevant provisions of IFRS and the Companies Act 71 of 2008 and that they fairly present the financial position at 31 December 2011 of the company and the results of operations and cash flows for the year then ended.

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**I B Skosana**  
Chairman of the Audit Committee  
29 February 2012

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Directors' report

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The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the company's annual financial statements for the year ended 31 December 2011.

### 1. Review of activities

The principal activity of the company is the transaction of all classes of life assurance, savings and retirement funding business. The company underwrites life insurance risks associated with death and disability. It also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs.

The operating results and financial position of the company are set out in the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes.

Profit before tax was R4 658 million (2010: R3 826 million), and R3 286 million (2010: R2 538 million) after tax.

### 2. Consolidated financial statements

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

In terms of IFRS, the company is required to produce consolidated financial statements as its subordinated debt instrument is traded in a public market. Consolidated financial statements prepared and presented in accordance with IFRS are expected to be issued in June 2012.

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

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

### 3. Holding company

The company's holding company is Old Mutual Life Holdings (South Africa) Limited incorporated in South Africa.

### 4. Ultimate holding company

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

### 5. Share capital

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

### 6. Dividends

#### Ordinary shares

Dividends on ordinary shares amounting to R1 495 million (2010: R677 million) were declared during the year.

#### Preference shares

Dividends on preference shares amounting to R nil (2010: R100) were declared during the year.

### 7. Public interest score

The company's public interest score, as determined in accordance with the relevant provisions of the Companies Act 71 of 2008, is 455 281.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Directors' report

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### 8. Directors

The directors of the company during the year and to the date of this report were as follows:

Name	Nationality	Changes
P C Baloyi	South African	
A S Birrell	South African	
K D Dlamini	South African	Resigned 31 January 2012
I A Goldin	South African	
P B Hanratty	Irish	
A A Maule	South African	
C E Maynard	South African	
R T Mupita	South African	Appointed 1 April 2011
K Murray	British	Appointed 1 January 2011
N M C Nyembezi-Heita	South African	
B M Rapiya	South African	Appointed 1 April 2011
J V F Roberts	British	
F Robertson	South African	
G T Serobe	South African	
I B Skosana	South African	
A H Trikamjee	South African	
P M G Truyens	Dutch	
G S van Niekerk	South African	

The directors currently holding office are:

#### Non-executive directors

A S Birrell *r, rc*  
P B Hanratty (Chairman) *r, c, s*  
J V F Roberts *o*  
F Robertson *e*  
G T Serobe *c*

#### Executive directors

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

#### Independent directors

P C Baloyi *ca, rc, s*  
I A Goldin *ca, e, s*  
A A Maule *a, r*  
C E Maynard *a, r, ca, s*  
N M C Nyembezi-Heita *e*  
I B Skosana *a, c, rc*  
A H Trikamjee *c, e, rc*  
P M G Truyens *a, ca, rc*  
G S van Niekerk *a, c, ca*

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Directors' report

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

In terms of the articles of association, A S Birrell, I B Skosana, P G M Truyens, G S van Niekerk, A A Maule and P B Hanratty are due to retire at the annual general meeting. R T Mupita and B M Rapiya having been appointed during the year, also retire at the annual general meeting. All directors, aside from A S Birrell, have indicated that they would seek re-election at the annual general meeting, and all being eligible, and having been recommended for re-election by the board of directors, offer themselves for re-election.

### 9. Company secretary

Mr R F Foster is the company secretary.

Business address

Mutualpark  
Jan Smuts Drive  
Pinelands  
7405  
South Africa

Postal address

PO Box 66  
Cape Town  
8000

### 10. Auditors

KPMG Inc. will continue in office in accordance with section 90 of the Companies Act 71 of 2008.

### 11. Events after the end of financial year

On 22 February 2012 changes to tax legislation were announced in respect of capital gains tax (CGT). Had the changes been in place at the reporting date, the balances in the financial statements for deferred CGT would have been higher by in the order of R 410 million, policyholder liabilities would have been lower by R 320 million and net assets would have been lower by the net amount.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Income statement

	Notes	2011 R m	2010 R m
<b>Revenue</b>			
Gross earned premiums	3	26 367	25 095
Outward reinsurance premiums	16	(819)	(694)
<i>Net earned premiums</i>		<b>25 548</b>	<b>24 401</b>
Investment income (net of investment losses)	5	26 899	43 752
Fee and commission income	6	2 586	3 174
Other income		60	31
<b>Total revenue</b>		<b>55 093</b>	<b>71 358</b>
<b>Expenses</b>			
Claims and benefits (including change in insurance contract provisions)		(30 597)	(43 054)
Reinsurance recoveries		754	826
<i>Net claims and benefits incurred</i>		<b>(29 843)</b>	<b>(42 228)</b>
Change in investment contract liabilities		(9 630)	(14 706)
Interest expense	7	(900)	(630)
Commission and other acquisition costs	8	(2 162)	(2 196)
Operating and administration expenses	9&10	(7 900)	(7 772)
<b>Total expenses</b>		<b>(50 435)</b>	<b>(67 532)</b>
<b>Profit before tax</b>		<b>4 658</b>	<b>3 826</b>
Income tax expense	11	(1 372)	(1 288)
<b>Profit after tax for the financial year</b>		<b>3 286</b>	<b>2 538</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Statement of comprehensive income

	Notes	2011 R m	2010 R m
<b>Profit after tax for the financial year</b>		<b>3 286</b>	<b>2 538</b>
<b>Other comprehensive income</b>			
Property revaluation		69	73
Available-for-sale investments			
Fair value gains		2 646	350
Recycled to profit on disposal or impairment		77	18
Shadow accounting		(68)	(66)
Taxation related to components of other comprehensive income	11	390	4
<b>Other comprehensive income for the year net of taxation</b>		<b>3 114</b>	<b>379</b>
<b>Total comprehensive income</b>		<b>6 400</b>	<b>2 917</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Statement of financial position

	Notes	2011 R m	2010 R m
<b>Assets</b>			
Intangible assets	12	79	97
Investment property	13	13 969	13 998
Property and equipment	14	3 410	3 635
Deferred tax assets	15	847	741
Reinsurance contracts	16	509	391
Deferred acquisition costs	17	1 105	1 162
Loans and advances	18	332	438
Investments and securities	19	403 902	388 817
Derivative assets	21	4 057	4 504
Amounts due by group companies	22	5 952	7 390
Other assets	23	6 898	6 728
Cash and cash equivalents	24	10 124	15 240
<b>Total assets</b>		<b>451 184</b>	<b>443 141</b>
<b>Liabilities</b>			
Insurance contract liabilities	25	138 712	142 741
Investment contract liabilities	25	223 666	214 013
Borrowed funds	26	3 000	3 000
Post employment benefits	27	125	100
Share-based payment liabilities	29	904	553
Deferred revenue on investment contracts	31	135	161
Deferred tax liabilities	15	1 697	2 105
Derivative liabilities	21	2 730	1 953
Amounts due to group companies	22	5 800	5 405
Provisions	30	1 037	982
Current tax payable		1 438	964
Other liabilities	32	12 919	17 048
<b>Total liabilities</b>		<b>392 163</b>	<b>389 025</b>
<b>Net assets</b>		<b>59 021</b>	<b>54 116</b>
<b>Shareholders' equity</b>			
Share capital and premium	33	6 254	6 254
Other reserves		14 379	11 265
Share-based payment reserve		481	481
Retained earnings		37 907	36 116
<b>Total equity</b>		<b>59 021</b>	<b>54 116</b>

## Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

### Statement of changes in equity

	Share capital	Share capital and premium	Other reserves	Share-based payment reserve	Total reserves	Retained earnings	Total equity
	R m	R m	R m	R m	R m	R m	R m
<b>Balance at 1 January 2010</b>	<b>8</b>	<b>6 254</b>	<b>10 886</b>	<b>481</b>	<b>11 367</b>	<b>34 255</b>	<b>51 876</b>
Profit after tax	-	-	-	-	-	2 538	2 538
Other comprehensive income	-	-	379	-	379	-	379
Dividends	-	-	-	-	-	(677)	(677)
Total changes	-	-	379	-	379	1 861	2 240
<b>Balance at 31 December 2010</b>	<b>8</b>	<b>6 254</b>	<b>11 265</b>	<b>481</b>	<b>11 746</b>	<b>36 116</b>	<b>54 116</b>
Profit after tax	-	-	-	-	-	3 286	3 286
Other comprehensive income	-	-	3 114	-	3 114	-	3 114
Dividends	-	-	-	-	-	(1 495)	(1 495)
Total changes	-	-	3 114	-	3 114	1 791	4 905
<b>Balance at end of the year 2011</b>	<b>8</b>	<b>6 254</b>	<b>14 379</b>	<b>481</b>	<b>14 860</b>	<b>37 907</b>	<b>59 021</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Statement of cash flows

	Notes	2011 R m	2010 R m
<b>Cash flows from operating activities</b>			
Cash used in operations	34	(16 028)	(9 000)
Interest received		11 695	12 756
Dividends received		5 197	3 707
Interest expense		(900)	(630)
Tax paid	35	(1 022)	(1 252)
<b>Net cash from operating activities</b>		<b>(1 058)</b>	<b>5 581</b>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	14	(110)	(96)
Proceeds from disposal of property and equipment	14	39	5
Acquisition of investment property	13	(566)	(880)
Proceeds from disposal of investment property	13	34	3 088
Acquisition of intangible assets	12	(14)	(45)
Net (acquisition)/disposal of financial instruments		(1 946)	1 428
<b>Net cash from investing activities</b>		<b>(2 563)</b>	<b>3 500</b>
<b>Cash flows from financing activities</b>			
Dividends paid to company's shareholders	36	(1 495)	(677)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5 116)</b>	<b>8 404</b>
Cash and cash equivalents at beginning of the year		15 240	6 836
<b>Total cash and cash equivalents at end of the year</b>	24	<b>10 124</b>	<b>15 240</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1. Statement of compliance

The company's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and the Companies Act 71 of 2008 of South Africa.

#### 1.1 Basis of preparation

The financial statements provide information about the financial position, results of operations and changes in the financial position of the company. They have been prepared under the historical cost convention, as modified by the accounting policies below. The accounting policies have been consistently applied to all periods presented.

The company's investments in subsidiaries and associate companies held in the shareholders' portfolio are accounted for as available-for-sale financial assets.

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

The financial statements are presented in South African Rands.

#### 1.2 Revenue

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

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

##### Premiums on insurance contracts and investment contracts with a discretionary participating feature

Premiums receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

##### Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue in the income statement as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over periods between 5 and 10 years.

#### 1.3 Insurance and investment contracts

##### Classification of contracts

##### Insurance contracts

Contracts under which the company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder, or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, significant insurance risk exists even if the insured event is extremely unlikely or even if the expected present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.3 Insurance and investment contracts (continued)

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

#### Contracts with a discretionary participating feature

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. Those contracts that have insurance risk are classified as insurance contracts. Those that do not have insurance risk are classified as investment contracts.

#### Investment contracts

Contracts under which the transfer of insurance risk to the company from the policyholder is not significant, are classified as investment contracts.

#### Claims paid on contracts

Claims and benefits incurred in respect of insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, death and disability payments and are recognised in the income statement.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature are recorded as deductions from investment contract liabilities.

#### Insurance contracts 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 (PGN) 104 (version 7). Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence.

Surplus allocated to policyholders under investment contracts liabilities with a discretionary participating feature but not yet distributed (i.e. bonus stabilisation reserves) is included in the carrying value of liabilities.

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

The company performs liability adequacy testing on its liabilities under insurance contracts (including investment contracts with discretionary participating features) to ensure that the carrying amount of its liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the company discounts all contractual cash flows and compares this amount to the carrying value of the liability at discounted rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur. These are described in more detail in the notes 40 and 41.

Whilst the directors consider that the gross insurance contract provisions and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.

The company applies shadow accounting in relation to certain insurance contract provisions where the measurement of the liability depends directly on the value of owner occupied property and the unrealised gains and losses on such property are recognised in other comprehensive income.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.3 Insurance and investment contracts (continued)

#### Investment contracts (other than with discretionary participating feature)

Liabilities under investment contracts without a discretionary participating feature, are classified as financial liabilities at fair value through profit or loss.

For unit linked and market linked contracts, this is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the value of the assets in the underlying fund (adjusted for tax). For other contracts, the fair value of the liability is determined by reference to the fair value of the underlying assets, and is in accordance with the FSV method, except that negative rand reserves arising from the capitalisation of future margins are not permitted.

The fair value of the liability is subject to the “deposit floor” such that the liability established cannot be less than the amount repayable on demand.

#### Acquisition costs

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

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

#### Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset to the extent they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs are amortised over periods of between 5 and 10 years.

### 1.4 Intangible assets

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

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

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

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

Research costs are expensed as incurred.

### 1.5 Investment property

Real estate held to earn rentals or for capital appreciation or both, is classified as investment property. It does not include owner-occupied property.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.5 Investment property (continued)

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

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition. Property developments are valued in a similar manner to income generating assets except where information about future net income cannot be determined with sufficient confidence, in which case fair value will be estimated with reference to the value of the land and the cost of construction to date.

Land is valued according to the existing zoning and town planning scheme at the date of valuation, with exceptions made by the valuer for reasonable potential of a successful rezoning.

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

For properties reclassified during the year from property and equipment to investment property, any revaluation gain arising is initially recognised in the income statement to the extent of previously charged impairment losses. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in the income statement.

Investment properties that are reclassified to owner-occupied property are revalued at the date of transfer, with any difference recognised in the income statement.

### 1.6 Property and equipment

#### Owned assets

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

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

#### Subsequent expenditure

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

#### Revaluation of owner-occupied property

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

When an individual owner-occupied property is revalued, any increase or decrease in its carrying amount (as a result of the revaluation) is taken to a revaluation reserve in other comprehensive income, 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.

Upon revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.6 Property and equipment (continued)

#### Derecognition

On derecognition of owner-occupied property or an item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement in the period of derecognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of owner-occupied property and equipment that are accounted for separately.

In the case of owner-occupied property, on revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Land is not depreciated.

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

### 1.7 Tax

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

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

Deferred taxation is provided using the balance sheet method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in other comprehensive income. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income.

Deferred tax is not recognised on temporary differences that arise from temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled by the company and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available, against which the unutilised tax losses and deductible temporary differences can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend and are included in the tax charge.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.8 Reinsurance contracts

Reinsurance contracts comprise contracts with reinsurers under which the company is compensated for losses on one or more contracts which are classified as insurance contracts. Reinsurance on contracts that do not meet this classification are classified as financial assets.

Reinsurance assets principally include the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the statement of financial position on a gross basis.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer.

### 1.9 Financial instruments

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

Financial instruments comprise investments and securities, loans and advances, including amounts due by/to group companies, derivative instruments, cash and cash equivalents.

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

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

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

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

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

#### Fair value measurement considerations

The fair values of quoted financial assets are based on quoted prices. If the market for a financial asset is not active, the company establishes fair value using valuation techniques that refer as far as possible to observable market data. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

To the extent that the fair values of unlisted equity instruments cannot be measured reliably, such instruments are carried at cost less impairments. These impairments are not subsequently reversed.

#### Categories of financial instruments

Financial instruments are categorised as financial assets and financial liabilities at fair value through profit or loss, loans and receivables or available-for-sale financial assets. An analysis of the company's statement of financial position, showing the categorisation of financial instruments is set out in note 4.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.9 Financial instruments (continued)

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

Financial assets at fair value through profit or loss comprise financial assets classified as held for trading (including derivative instruments and those that the company has elected to designate as at fair value through profit or loss.

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 gains or losses adjustment being recognised directly in the income statement.

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

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

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any other financial asset categories.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative loss previously reported in other comprehensive income is included in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership. Where available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the income statement as investment income.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated by the company as at fair value through profit or loss or available-for-sale. Loans and receivables are initially recognised at fair value. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses. Interest received is recognised as part of investment income. All loans and receivables are recognised when cash is advanced to borrowers.

#### Derivative financial instruments

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.9 Financial instruments (continued)

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and balances with banks but excluding cash and cash equivalent instruments held for investing purposes. It excludes cash balances held in policyholder investment portfolios. Cash balances include cash collateral held.

#### Financial liabilities

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

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

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

#### Interest income and expense

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

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

#### Dividend income

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

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

#### Offsetting

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

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

#### Lending of securities

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

#### Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets, excluding financial assets at fair value through profit or loss, is impaired.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.9 Financial instruments (continued)

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The impairment loss is recognised in profit or loss.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### Available-for-sale financial assets

A financial asset is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is objective evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to the income statement.

Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in income statement but rather as a fair value movement in other comprehensive income. Reversals of impairment losses on available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

### 1.10 Foreign currency translation

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently translated.

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.10 Foreign currency translation (continued)

#### Foreign operations

The assets and liabilities held by foreign branches to support liabilities in respect of contracts with policyholders are translated using the year-end exchange rates, and their income and expenses using average rates which approximates the exchange rate at the transaction date. Foreign currency differences are recognised directly in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

### 1.11 Employee benefits

#### Short-term employee benefits

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

#### Defined contribution plan

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

#### Defined benefit plan

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

The current service cost is recognised as an expense.

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

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

#### Other post-retirement benefit plan

The company makes provision for post-retirement medical, disability and housing benefits for eligible employees. Non-pension post-retirement benefits are accounted for according to their nature, either as defined contribution or defined benefit plans.

#### Actuarial gains and losses

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.11 Employee benefits (continued)

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

### 1.12 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the company expects some or all of a provision to be reimbursed, for example under the company's insurance arrangements, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Future operating costs or losses are not provided for.

### 1.13 Share based payment

#### Cash-settled share-based payment transactions

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

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

#### Equity-settled share-based payment transactions in respect of the Black Economic Empowerment (BEE) transaction

The services received from Black Business Partners, unions and distributors in terms of the Old Mutual Black Economic Empowerment transaction entered into in 2005 are equity-settled and are measured at the fair value of the equity instruments granted. The fair value of those equity instruments was measured at grant date and is not subsequently re-measured.

The equity instruments vested immediately and are not subject to any service conditions before the participants become unconditionally entitled to those instruments. As a result, the goods received including BEE equity ownership credentials are recognised in full on grant date in profit or loss for the period, with a corresponding increase in equity.

### 1.14 Segment reporting

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the company's revenue that can be allocated on a reasonable basis. Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to a segment. Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from operating activities of a segment.

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

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The company accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

### 1.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made and rentals received under operating leases are recognised in the income statement on a straight-line basis over the period of the lease.

### 1.16 Impairment of non-financial assets

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

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

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

### 1.17 Dividend distribution

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

### 1.18 Borrowing costs

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

### 1.19 Critical accounting estimates and judgements

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Accounting policies

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### 1.19 Critical accounting estimates and judgements (continued)

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

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

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in section 1.3 and 1.9 above. They are valued on the basis of quoted market prices in so far as this is possible. If prices are not readily determinable, fair value is based either on internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments including derivative instruments together with fair values of share-based payment liabilities are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, and volatility factors.

The nature and the key assumptions made in determining provisions are disclosed in note 30. The assumptions applied in valuing share-based payment liabilities are disclosed in note 29.

Assets are subject to regular impairment reviews as required. Impairments are measured as the difference between the cost (or amortised cost) of a particular asset and the current fair value or recoverable amount. Impairments are recorded in the income statement in the period in which they occur. The company's policy in relation to investment securities and loans and receivables is described in note 1.9 above. The accounting policy for deferred tax is detailed in note 1.7 above.

### 1.20 Share capital

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 2. New standards and interpretations

The following new standards and interpretations have had or will have a significant impact on these financial statements.

#### Standards and interpretations not early adopted in these annual financial statements

- IFRS 9 Financial Instruments (effective 1 January 2015) - this standard addresses the measurement and classification of financial assets. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows. All other financial assets are measured at fair value with changes recognised in profit or loss. For an investment in an equity instrument that is not held for trading, an entity may on initial recognition elect to present all fair value changes from the investment in other comprehensive income.

IFRS 9 retains the classification and measurement requirements in IAS 39 for financial liabilities. The standard requires for financial liabilities designated under the fair value option (other than loan commitments and financial guarantee contracts), that the amount of change in fair value attributable to changes in the credit risk of the liability be presented in other comprehensive income.

IFRS 9 will be adopted for the first time for the year ending 31 December 2015 and will be applied retrospectively, subject to certain transitional provisions. The impact on the financial statements has not yet been estimated.

- IAS 12 Deferred Tax: Recovery of Underlying Assets (effective 1 January 2012) - this amendment introduces an exception to the general measurement requirements of IAS 12 Income Taxes in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.

IAS 12 will be adopted for the first time for the year ending 31 December 2012 and will be applied retrospectively. The adoption of this amendment will lead to a restatement of certain tax assets, liabilities and charges.

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

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

- IFRS 13 Fair value Measurement (effective 1 January 2013) - this standard introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value as an exit price, establishing a framework for measuring fair value and setting out disclosures requirements for fair value measurements.

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

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

IAS 19 will be adopted for the first time for the year ending 31 December 2013 and will be applied retrospectively. The impact on the financial statements has not yet been estimated but is not expected to be significant.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 3. Segment information

#### Income statement

##### Segment revenue

Gross earned premiums  
Outward reinsurance

##### Net earned premiums

Investment income (net of investment losses)  
Fee and commission income

##### Segment expenses

Claims and benefits (including change in insurance contract provisions)  
Reinsurance recoveries

##### Net claims and benefits incurred

Change in investment contract liabilities  
Commission and other acquisition costs  
Operating and administration expenses

##### Segment result

##### Shareholder income

Investment income  
Other income

##### Shareholder expenses

Finance costs  
Operating and administration expenses

##### Profit before tax

Income tax expense

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

#### Statement of financial position

Segment assets  
Shareholder assets

##### Total assets

Insurance contracts  
Investment contracts with a discretionary participation feature  
Investment contracts  
Other liabilities

Segment liabilities  
Shareholder liabilities

##### Total liabilities

			2011 R m
	Retail	Corporate	Total
<b>Segment revenue</b>			
Gross earned premiums	16 216	10 151	26 367
Outward reinsurance	(678)	(141)	(819)
<b>Net earned premiums</b>	<b>15 538</b>	<b>10 010</b>	<b>25 548</b>
Investment income (net of investment losses)	11 854	12 122	23 976
Fee and commission income	2 206	380	2 586
<b>Segment expenses</b>			
Claims and benefits (including change in insurance contract provisions)	(14 606)	(15 991)	(30 597)
Reinsurance recoveries	543	211	754
<b>Net claims and benefits incurred</b>	<b>(14 063)</b>	<b>(15 780)</b>	<b>(29 843)</b>
Change in investment contract liabilities	(5 430)	(4 200)	(9 630)
Commission and other acquisition costs	(2 118)	(44)	(2 162)
Operating and administration expenses	(5 296)	(1 755)	(7 051)
<b>Segment result</b>	<b>2 691</b>	<b>733</b>	<b>3 424</b>
<b>Shareholder income</b>			
Investment income			2 923
Other income			60
<b>Shareholder expenses</b>			
Finance costs			(900)
Operating and administration expenses			(849)
<b>Profit before tax</b>			<b>4 658</b>
Income tax expense			(1 372)
<b>Profit after tax for the financial year</b>			<b>3 286</b>

Segment assets	214 074	156 679	370 753
Shareholder assets			80 431
<b>Total assets</b>			<b>451 184</b>
Insurance contracts	92 515	46 198	138 713
Investment contracts with a discretionary participation feature	13 702	70 496	84 198
Investment contracts	101 290	38 178	139 468
Other liabilities	6 567	1 807	8 374
Segment liabilities	214 074	156 679	370 753
Shareholder liabilities			21 410
<b>Total liabilities</b>			<b>392 163</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 3. Segment information (continued)

			2010 R m
	Retail	Corporate	Total
<b>Income statement</b>			
<b>Segment revenue</b>			
Gross earned premiums	15 210	9 885	25 095
Outward reinsurance	(623)	(71)	(694)
<i>Net earned premiums</i>	<b>14 587</b>	<b>9 814</b>	<b>24 401</b>
Investment income (net of investment losses)	23 174	18 340	41 514
Fee and commission income	2 873	301	3 174
Other income	-	9	9
<b>Segment expenses</b>			
Claims and benefits (including change in insurance contract provisions)	(21 664)	(21 390)	(43 054)
Reinsurance recoveries	669	157	826
<i>Net claims and benefits incurred</i>	<b>(20 995)</b>	<b>(21 233)</b>	<b>(42 228)</b>
Change in investment contract liabilities	(9 453)	(5 253)	(14 706)
Commission and other acquisition costs	(2 079)	(117)	(2 196)
Operating and administration expenses	(6 756)	(816)	(7 572)
<b>Segment result</b>	<b>1 351</b>	<b>1 045</b>	<b>2 396</b>
<b>Shareholder income</b>			
Investment income			2 238
Other income			22
<b>Shareholder expenses</b>			
Finance costs			(630)
Operating and administration expenses			(200)
<b>Profit before tax</b>			<b>3 826</b>
Income tax expense			(1 288)
<b>Profit after tax for the financial year</b>			<b>2 538</b>
<b>Statement of financial position</b>			
Segment assets	215 228	154 226	369 454
Shareholder assets			73 687
<b>Total assets</b>			<b>443 141</b>
Insurance contracts	96 725	46 016	142 741
Investment contracts with a discretionary participation feature	12 755	68 895	81 650
Investment contracts	95 084	37 279	132 363
Other liabilities	10 664	2 036	12 700
Segment liabilities	215 228	154 226	369 454
Shareholder liabilities			19 571
<b>Total liabilities</b>			<b>389 025</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 4. Financial assets and liabilities

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

#### Categories of financial instruments

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

						2011 R m
	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Available- for-sale	Loans and receivables	Non- financial assets	Total
Intangible assets	-	-	-	-	79	79
Investment property	-	-	-	-	13 969	13 969
Property and equipment	-	-	-	-	3 410	3 410
Deferred tax assets	-	-	-	-	847	847
Reinsurance contracts	-	-	-	-	509	509
Deferred acquisition costs	-	-	-	-	1 105	1 105
Loan and advances	-	-	-	332	-	332
Investments and securities	-	333 536	66 882	3 484	-	403 902
Derivative assets	4 057	-	-	-	-	4 057
Amounts due by group companies	-	-	-	5 952	-	5 952
Other assets	-	-	-	6 898	-	6 898
Cash and cash equivalents	-	-	-	10 124	-	10 124
	<b>4 057</b>	<b>333 536</b>	<b>66 882</b>	<b>26 790</b>	<b>19 919</b>	<b>451 184</b>

						2010 R m
	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Available- for-sale	Loans and receivables	Non- financial assets	Total
Intangible assets	-	-	-	-	97	97
Investment property	-	-	-	-	13 998	13 998
Property and equipment	-	-	-	-	3 635	3 635
Deferred tax assets	-	-	-	-	741	741
Reinsurance contracts	-	-	-	-	391	391
Deferred acquisition costs	-	-	-	-	1 162	1 162
Loan and advances	-	-	-	438	-	438
Investments and securities	-	322 856	61 842	4 119	-	388 817
Derivative assets	4 504	-	-	-	-	4 504
Amounts due by group companies	-	-	-	7 390	-	7 390
Other assets	-	-	-	6 728	-	6 728
Cash and cash equivalents	-	-	-	15 240	-	15 240
	<b>4 504</b>	<b>322 856</b>	<b>61 842</b>	<b>33 915</b>	<b>20 024</b>	<b>443 141</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

					2011 R m
	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Financial liabilities at amortised cost	Non- financial liabilities	Total
Insurance contract liabilities	-	-	-	138 712	138 712
Investment contract liabilities	-	139 468	-	84 198	223 666
Borrowed funds	-	-	3 000	-	3 000
Post employment benefits	-	-	-	125	125
Share-based payment liabilities	-	-	-	904	904
Deferred revenue	-	-	-	135	135
Deferred tax liabilities	-	-	-	1 697	1 697
Derivative liabilities	2 730	-	-	-	2 730
Amounts due to group companies	-	-	5 800	-	5 800
Provisions	-	-	-	1 037	1 037
Current tax payable	-	-	-	1 438	1 438
Other liabilities	-	-	12 046	873	12 919
	<b>2 730</b>	<b>139 468</b>	<b>20 846</b>	<b>229 119</b>	<b>392 163</b>

					2010 R m
	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Financial liabilities at amortised cost	Non- financial liabilities	Total
Insurance contract liabilities	-	-	-	142 741	142 741
Investment contract liabilities	-	132 363	-	81 650	214 013
Borrowed funds	-	-	3 000	-	3 000
Post employment benefits	-	-	-	100	100
Share-based payment liabilities	-	-	-	553	553
Deferred revenue	-	-	-	161	161
Deferred tax liabilities	-	-	-	2 105	2 105
Derivative liabilities	1 953	-	-	-	1 953
Amounts due to group companies	-	-	5 405	-	5 405
Provisions	-	-	-	982	982
Current tax payable	-	-	-	964	964
Other liabilities	-	-	16 161	887	17 048
	<b>1 953</b>	<b>132 363</b>	<b>24 566</b>	<b>230 143</b>	<b>389 025</b>

#### Fair values of financial assets and liabilities

##### Determination of fair value

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

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

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

In general, other than in respect of those securities that have been reclassified from designated to loans and receivables, none of the carrying amounts of financial assets and liabilities carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets and liabilities are primarily comprised of variable-rate financial assets and liabilities that reprice as interest rates change, short-term deposits or current assets.

#### *Investment and securities*

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

#### *Investment contracts*

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

#### *Borrowed funds*

The fair values of amounts included in borrowed funds are based on quoted market prices at the statement of financial position 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) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual 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

				2011 R m
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Held-for-trading				
Derivative assets	-	4 057	-	4 057
Designated				
Investments and securities	148 298	180 709	4 529	333 536
Available-for-sale				
Investments and securities	27 736	33 365	5 781	66 882
	<b>176 034</b>	<b>218 131</b>	<b>10 310</b>	<b>404 475</b>
				2010 R m
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Held-for-trading				
Derivative assets	-	4 504	-	4 504
Designated				
Investments and securities	171 877	142 685	8 294	322 856
Available-for-sale				
Investments and securities	25 599	29 879	6 364	61 842
	<b>197 476</b>	<b>177 068</b>	<b>14 658</b>	<b>389 202</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

			2011 R m
	Level 1	Level 2	Total
<b>Financial liabilities at fair value</b>			
Held-for-trading			
Derivative liabilities	67	2 663	2 730
Designated			
Investment contracts	-	139 468	139 468
	<b>67</b>	<b>142 131</b>	<b>142 198</b>
			2010 R m
	Level 1	Level 2	Total
<b>Financial liabilities at fair value</b>			
Held-for-trading			
Derivative liabilities	-	1 953	1 953
Designated			
Investment contracts	-	132 363	132 363
	<b>-</b>	<b>134 316</b>	<b>134 316</b>

### Movement in level 3 assets

								2011 R m
	At beginning of the year	Gains / losses recognised in income statement	Gains / losses recognised in equity	Purchases and issues	Sales and settlements	Transfers into level 3 from other categories	Transfers out of level 3 to other categories	At end of the year
Designated								
Investments and securities	8 294	735	-	386	(4 524)	-	(362)	4 529
Available-for-sale								
Investments and securities	6 364	-	(582)	4	(5)	-	-	5 781
	<b>14 658</b>	<b>735</b>	<b>(582)</b>	<b>390</b>	<b>(4 529)</b>	<b>-</b>	<b>(362)</b>	<b>10 310</b>

								2010 R m
	At beginning of the year	Gains / losses recognised in income statement	Gains / losses recognised in equity	Purchases and issues	Sales and settlements	Transfers into level 3 from other categories	Transfers out of level 3 to other categories	At end of the year
Designated								
Investments and securities	10 176	1 486	-	1 069	(1 771)	-	(2 666)	8 294
Available-for-sale								
Investments and securities	766	-	(599)	1 896	(55)	4 356	-	6 364
	<b>10 942</b>	<b>1 486</b>	<b>(599)</b>	<b>2 965</b>	<b>(1 826)</b>	<b>4 356</b>	<b>(2 666)</b>	<b>14 658</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

For designated level 3 assets held at the end of the year, net gains of R 37 million were recognised in the income statement (2010: R1 486 million). For available-for-sale assets net losses of R 581 million (2010: R 599 million) were recognised in other comprehensive income.

#### 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 parameter using statistical techniques. When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, the valuations are assessed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts to marketability.

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

#### Analysis of reasonably possible alternative assumptions - level 3 assets

	2011 R m			
	Reflected in income statement		Reflected in comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Designated Investments and securities	1 147	(742)	-	-
Available-for-sale Investments and securities	-	-	584	(582)
	<b>1 147</b>	<b>(742)</b>	<b>584</b>	<b>(582)</b>
	2010 R m			
	Reflected in income statement		Reflected in comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Designated Investments and securities	1 346	(1 248)	-	-
Available-for-sale Investments and securities	-	-	609	(609)
	<b>1 346</b>	<b>(1 248)</b>	<b>609</b>	<b>(609)</b>

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%).

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 5. Investment income

	2011 R m	2010 R m
<b>Interest and similar income</b>		
Loans and advances		
Policyholder loans	32	39
Investment and securities		
Government and government-guaranteed securities	3 472	3 760
Other debt securities, preference shares and debentures	3 721	3 381
Pooled investments	1 427	2 946
Short-term funds	1 208	1 323
Other	624	236
Cash and cash equivalents	591	717
Collateral held	620	354
	<b>11 695</b>	<b>12 756</b>
<b>Dividend income</b>		
Investment and securities		
Equity securities	4 223	3 157
Pooled investments	974	550
	<b>5 197</b>	<b>3 707</b>
<b>Net rental income from investment property</b>	1 530	1 481
<b>Fair value (losses)/gains</b>		
Investment property	(778)	340
Investments and securities *	9 676	24 548
Impairment of available-for-sale assets	(174)	(207)
Derivative instruments	(247)	1 127
	<b>8 477</b>	<b>25 808</b>
Total investment income recognised in profit and loss	<b>26 899</b>	<b>43 752</b>
The fair value gains and losses shown above are analysed by category as follows:		
Held-for-trading	(247)	1 127
Designated	9 579	24 323
Available-for-sale	(77)	18
Investment property	(778)	340
	<b>8 477</b>	<b>25 808</b>
Total interest income for assets not at fair value through profit or loss	1 243	1 110

\* Included in gains recognised in income are transaction costs amounting to R 106 million (2010: R 104 million).

In addition to the above, fair value gains of R2 715 million (2010: R423 million) were recognised in other comprehensive income.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 6. Fee and commission income

	2011 R m	2010 R m
Investment contracts		
Investment management fees	1 847	1 761
Change in deferred revenue	29	31
Commission income and other fee income	710	1 382
	<b>2 586</b>	<b>3 174</b>

### 7. Interest expense

	2011 R m	2010 R m
Borrowed funds		
Subordinated debt	268	268
Collateral held	620	354
Other interest expense	12	8
	<b>900</b>	<b>630</b>

### 8. Commissions and other acquisition costs

	2011 R m	2010 R m
Commission expenses	1 421	1 515
Other acquisition costs	684	616
Change in deferred acquisition costs	57	65
	<b>2 162</b>	<b>2 196</b>

### 9. Operating and administration expenses

	2011 R m	2010 R m
<b>Staff costs (excluding directors' emoluments)</b>		
Wages and salaries	2 506	2 211
Social security costs	15	14
Retirement obligations		
Defined contribution plans	230	206
Defined benefit plans	29	33
Bonus and incentives	627	659
Share-based payments	534	258
Other	200	191
Less: Staff costs included in other acquisition costs	(334)	(253)
	<b>3 807</b>	<b>3 319</b>
<b>Operating and administration expenses</b>		
Operating lease rentals	9	10
Amortisation on intangible assets	(32)	-
Asset management expenses	751	799
Depreciation of property and equipment	144	163
Technical and professional fees	547	624

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 10. Auditors' remuneration

	2011 R m	2010 R m
Statutory audit services - current year	19	15
Statutory audit services - prior year underprovision	3	2
Other non-audit related services	2	2
	<b>24</b>	<b>19</b>

### 11. Income tax expense

#### Major components of the tax expense

	2011 R m	2010 R m
<b>Current tax</b>		
Income tax	1 103	1 131
Capital gains tax	529	310
Prior year adjustments	(136)	7
	<b>1 496</b>	<b>1 448</b>
<b>Deferred tax</b>		
Originating and reversing temporary differences	(124)	(160)
	<b>1 496</b>	<b>1 448</b>
Total current tax	1 496	1 448
Total deferred tax	(124)	(160)
<b>Total tax expense</b>	<b>1 372</b>	<b>1 288</b>

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

	2011 %	2010 %
<b>Standard rate of tax</b>	28.0	28.0
Prior year adjustments	(2.5)	0.2
Exempt income	(8.7)	(6.2)
Disallowed expenses	1.0	1.3
Capital gains tax - rate	(0.3)	(6.1)
Policyholder tax	6.8	7.7
Other	5.2	8.8
<b>Effective tax rate</b>	<b>29.5</b>	<b>33.7</b>

The accumulated reserves that are available for distribution as a dividend (after taking into account minimum statutory capital adequacy requirements) amount to R46 370 million (2010: R42 292 million). If distributed as a dividend, STC amounting to R4 215 million (2010: R3 845 million) would arise.

	2011 R m	2010 R m
Shareholder taxation	920	991
Policyholder taxation	452	297
<b>Total tax expense</b>	<b>1 372</b>	<b>1 288</b>

#### Tax related to components of other comprehensive income

Fair value gains	390	4
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# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 12. Intangible assets

#### Development expenditure

	2011 R m	2010 R m
Carrying amount at beginning of the year	97	52
Additions	14	45
Amortisation	(32)	-
<b>Carrying amount at end of the year</b>	<b>79</b>	<b>97</b>
Cost	418	404
Accumulated amortisation and impairment losses	(339)	(307)
<b>Carrying amount at end of the year</b>	<b>79</b>	<b>97</b>

### 13. Investment property

	2011 R m	2010 R m
Carrying amount at beginning of the year	13 998	15 787
Additions	566	880
Disposals	(34)	(3 057)
Revaluation	(778)	340
Transfers from property and equipment	217	48
<b>Carrying amount at end of the year</b>	<b>13 969</b>	<b>13 998</b>

The entire carrying value relates to freehold property.

	2011 R m	2010 R m
Rental income from investment property	1 692	1 675
Direct operating expenses	(162)	(194)
	<b>1 530</b>	<b>1 481</b>

The fair value of freehold property leased to third parties under operating leases is R1 140 million (2010: R1 342 million).

Subject to certain terms and conditions being met, certain pre-emptive rights have been granted by the company to a third party, whereby the third party has a right of first refusal over the sale of certain of the company's properties to a value of R12 370 million.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 14. Property and equipment

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

  

	2010 R m		
	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 464	214	3 678
Additions	1	95	96
Revaluation	77	-	77
Disposals	-	(5)	(5)
Depreciation	(69)	(94)	(163)
Transfer to investment property	(48)	-	(48)
<b>Carrying amount at end of the year</b>	<b>3 425</b>	<b>210</b>	<b>3 635</b>
Cost or valuation	3 425	976	4 401
Accumulated depreciation	-	(766)	(766)
<b>Carrying amount at end of the year</b>	<b>3 425</b>	<b>210</b>	<b>3 635</b>

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

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R1 870 million (2010: R1 890 million).

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 15. Deferred tax

#### Deferred tax asset

	2011 R m	2010 R m
Investment contracts	762	706
Income tax losses	41	24
STC credits	44	11
	<b>847</b>	<b>741</b>

#### Deferred tax liability

Other	(55)	(28)
Capital gains tax - shareholders	(227)	(622)
Capital gains tax - policyholders	(1 415)	(1 455)
	<b>(1 697)</b>	<b>(2 105)</b>

#### Reconciliation of net deferred tax liability

At beginning of the year	(1 364)	(1 528)
Income statement charge	124	160
Other comprehensive income	390	4
<b>At end of the year</b>	<b>(850)</b>	<b>(1 364)</b>

### 16. Reinsurance contracts

	2011 R m	2010 R m
Insurance contracts	238	115
Outstanding claims	271	276
	<b>509</b>	<b>391</b>
<b>Insurance contracts</b>		
At beginning of the year	115	79
Outward reinsurance premiums	819	694
Reinsurance recoveries	(627)	(826)
Transfer to operating profit	(69)	168
<b>At end of the year</b>	<b>238</b>	<b>115</b>

### 17. Deferred acquisition costs

	2011 R m	2010 R m
At beginning of the year	1 162	1 227
Acquisition costs deferred	180	186
Amortisation	(237)	(251)
<b>At end of the year</b>	<b>1 105</b>	<b>1 162</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 18. Loans and advances

	2011 R m	2010 R m
<b>Policyholder loans</b>	<b>332</b>	<b>438</b>

Policyholder loans earned interest of 11% p.a. for the year (2010: 12.5% p.a. at the beginning for the year to 11% p.a. at end of the year). There were no impairments and no overdue amounts.

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

### 19. Investments and securities

#### Analysis of investments

				2011
	At fair value through profit or loss	Available- for-sale	Loans and receivables	R m Total
<b>Investments in group undertakings</b>				
Nedbank Group Limited	495	24 658	-	25 153
Other subsidiaries and associates	4 185	16 220	-	20 405
Capital advances to group undertakings	4 395	6 246	-	10 641
Old Mutual plc	3 160	-	-	3 160
	<b>12 235</b>	<b>47 124</b>	<b>-</b>	<b>59 359</b>
<b>Other financial assets</b>				
Government securities	38 287	109	3 484	41 880
Equity securities	79 947	4 114	-	84 061
Other debt securities	49 235	7 704	-	56 939
Pooled investments	124 747	3 940	-	128 687
Reinsurance	10 304	-	-	10 304
Short-term funds	18 781	3 891	-	22 672
	<b>321 301</b>	<b>19 758</b>	<b>3 484</b>	<b>344 543</b>
	<b>333 536</b>	<b>66 882</b>	<b>3 484</b>	<b>403 902</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 19. Investments and securities (continued)

				2010
	At fair value through profit or loss	Available- for-sale	Loans and receivables	R m Total
<b>Investments in Group undertakings</b>				
Nedbank Group Limited	597	22 516	-	23 113
Other subsidiaries and associates	4 259	15 891	-	20 150
Capital advances to group undertakings	2 430	6 617	-	9 047
Old Mutual plc	2 444	-	-	2 444
Old Mutual Capital Partners (Pty) Ltd	-	1 000	-	1 000
	<b>9 730</b>	<b>46 024</b>	<b>-</b>	<b>55 754</b>
<b>Other financial assets</b>				
Government securities	40 573	103	4 119	44 795
Equity securities	118 187	4 585	-	122 772
Other debt securities	45 994	7 087	-	53 081
Pooled investments	80 410	192	-	80 602
Reinsurance	9 426	-	-	9 426
Short-term funds	18 536	3 851	-	22 387
	<b>313 126</b>	<b>15 818</b>	<b>4 119</b>	<b>333 063</b>
	<b>322 856</b>	<b>61 842</b>	<b>4 119</b>	<b>388 817</b>

The investment in Old Mutual Capital Partners (Pty) Limited related to preference shares that were unsecured and had no fixed terms of repayment. The dividend rate was 85% of the annual JIBAR interest rate and was reset at each anniversary date.

Deposits and money market instruments earned interest of 5.3% (2010: 6.4%) on average.

The company conducts securities lending activities as a lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amounts to R10 832 million (2010: R12 762 million). As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

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

### Analysis of capital advances to group undertakings

	R m			R m
	At fair value through profit or loss	Available- for-sale	Total 2011	Total 2010
Mutual & Federal Investments (Pty) Ltd	-	1 288	1 288	2 057
Old Mutual Portfolio Holdings (Pty) Ltd	-	1 905	1 905	1 905
Old Mutual (South Africa) Ltd	-	1 081	1 081	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	-	169	169	12
Old Mutual (South Africa) Management Incentive Trust	-	1 299	1 299	1 058
Old Mutual Technology Holdings Ltd	-	54	54	54
Old Mutual Capital Holding (Pty) Ltd	4 395	450	4 845	2 880
	<b>4 395</b>	<b>6 246</b>	<b>10 641</b>	<b>9 047</b>

Available-for-sale capital advances are unsecured, interest free and have no fixed terms of repayment.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 20. Interest in principal subsidiaries and associates

			2011 R m	2011 R m
	Number of issued ordinary shares	% interest	Carrying value of shares	Loans to/(from) subsidiaries
<b>Listed - associate</b>				
Nedbank Group Ltd +	176 148 520	34 %	25 153	-
<b>Unlisted - subsidiaries</b>				
Mutual & Federal Investments (Pty) Ltd *	4 649 700	100 %	4 931	1 288
Barprop (Pty) Ltd	46 599 200	100 %	4	38
Millstream Ltd o	2 245 151	100 %	266	-
Old Mutual Holdings (Bahamas) Ltd o	762 383 611	100 %	6 758	-
Old Mutual Technology Holdings Ltd	10 000	100 %	(54)	54
Symmetry Investment Trust		100 %	241	-
Rodina Investments (Pty) Ltd	100 000	100 %	4 585	(5 171)
Community Property Holdings	1 108 417 261	100 %	3 674	-
			<b>45 558</b>	<b>(3 791)</b>
			2010 R m	2010 R m
	Number of issued ordinary shares	% interest	Carrying value of shares	Loans to/(from) subsidiaries
<b>Listed - associate</b>				
Nedbank Group Ltd +	177 318 352	34 %	23 113	-
<b>Unlisted - subsidiaries</b>				
Mutual & Federal Investments (Pty) Ltd *	4 649 700	100 %	5 546	2 057
Barprop (Pty) Ltd	46 599 200	100 %	1	33
Millstream Ltd o	2 245 151	100 %	216	-
Old Mutual Holdings (Bahamas) Ltd o	762 383 611	100 %	5 474	-
Old Mutual Technology Holdings Ltd	10 000	100 %	(54)	54
Symmetry Investment Trust		100 %	558	-
Rodina Investments (Pty) Ltd	100 000	100 %	4 924	(3 705)
Community Property Holdings	1 018 976 377	100 %	3 485	-
			<b>43 263</b>	<b>(1 561)</b>

+ Nedbank Group Limited holds a 100% (2010: 100%) interest in Nedbank Limited.

\* Mutual & Federal Investments (Pty) Ltd holds a 100% (2010: 100%) interest in Mutual & Federal Insurance Company Ltd

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 20. Interest in principal subsidiaries and associates (continued)

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

	2011 R m	2010 R m
<b>Statement of financial position</b>		
Total assets	648 127	608 718
Total liabilities	(595 442)	(560 904)
<b>Net assets</b>	<b>52 685</b>	<b>47 814</b>
<b>Revenue and profits</b>		
Revenue	33 446	29 823
Operating income	28 115	23 635
Profit for the year	6 503	5 136

### 21. Derivative assets and liabilities

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

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

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

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The company's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. The risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the company assesses counterparties using the same techniques as for its lending activities.

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the company's exposure to credit or price risks. The derivative instruments become in-the-money or out-of-the-money as a result of fluctuations in market interest rates, foreign exchange rates or asset prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand can fluctuate significantly from time to time and provide an indication of the size of positions taken on contracts entered into at the reporting date.

The following tables provide a detailed breakdown of the contractual or notional amounts and the fair values of the company's derivative financial instruments outstanding at the end of the year. These instruments allow the company and its customers to transfer, modify or reduce their credit, equity market, foreign exchange and interest rate risks.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 21. Derivative assets and liabilities (continued)

The company undertakes transactions involving derivative financial instruments with other financial institutions. The company has established limits commensurate with the credit quality of the institutions with which it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the company.

Fair Value	2011 R m		2010 R m	
	Assets	Liabilities	Assets	Liabilities
<b>Equity derivatives</b>				
Options purchased	-	-	2 390	-
Options written	-	-	-	842
Futures	-	67	-	-
<b>Interest rate contracts</b>				
Swaps	3 976	2 639	2 114	1 084
Forward rate agreements	81	-	-	27
Options written	-	24	-	-
	<b>4 057</b>	<b>2 730</b>	<b>4 504</b>	<b>1 953</b>

Notional principal	2011 R m		2010 R m	
	Positive Values	Negative Values	Positive Values	Negative Values
<b>Equity derivatives</b>				
Options purchased	-	-	1 543	-
Options written	-	-	-	(92)
Futures	-	(80)	60	(11)
<b>Interest rate contracts</b>				
Credit default swaps	-	-	-	(256)
Swaps	65 285	(51 281)	23 935	(20 510)
Forward rate agreements	626	-	-	(76)
Futures	-	-	-	(661)
	<b>65 911</b>	<b>(51 361)</b>	<b>25 538</b>	<b>(21 606)</b>

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

#### Subsidiaries

	2011 R m	2010 R m
Barprop (Proprietary) Limited	38	33
Rodina Investments (Proprietary) Limited	(5 171)	(5 014)
Rodina Investments (Proprietary) Limited	-	1 309
	<b>(5 133)</b>	<b>(3 672)</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

#### Associates

	2011 R m	2010 R m
Nedbank Limited	-	(3)

#### Holding companies

	2011 R m	2010 R m
Old Mutual Life Holdings (South Africa) Limited	(1)	(1)
Old Mutual (South Africa) Limited	4 907	4 991
Old Mutual plc	(142)	24
	4 764	5 014
Old Mutual plc - subordinated loan	(53)	(44)
	<b>4 711</b>	<b>4 970</b>

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

#### Fellow subsidiaries

	2011 R m	2010 R m
Old Mutual Property (Proprietary) Limited	56	56
Old Mutual (South Africa) Foundation	99	137
Old Mutual (Africa) Holdings (Proprietary) Limited	25	18
Old Mutual Capital Holding (Proprietary) Limited	338	348
Old Mutual International (Guernsey) Limited	65	78
Old Mutual Investment Group (SA) (Proprietary) Limited	(24)	(41)
Old Mutual Investment Services (Proprietary) Limited	214	198
Skandia International	52	44
Old Mutual Unit Trust Managers Limited	9	10
Old Mutual (South Africa) Share Trust	(40)	75
Old Mutual (South Africa) Dividend Access Trust	(299)	(282)
Old Mutual Investment Administrators (Proprietary) Limited	14	10
Other	82	54
	591	705
Old Mutual International (Guernsey) Limited - subordinated loan	(19)	(15)
	<b>572</b>	<b>690</b>

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

All other amounts due by or to group companies above are unsecured, interest free and are not subject to fixed terms of repayment. The carrying values of the amounts due by or to group companies approximate their fair values.

	2011 R m	2010 R m
Loans due by group companies	5 952	7 390
Loans due to group companies	(5 800)	(5 405)
	<b>152</b>	<b>1 985</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 23. Other assets

	2011 R m	2010 R m
Accrued interest on cash collateral	1 282	809
Other accrued interest and rent	2 704	2 762
Outstanding settlements	1 566	1 683
Other	1 346	1 474
	<b>6 898</b>	<b>6 728</b>

The carrying value of other assets approximates fair value.

### 24. Cash and cash equivalents

	2011 R m	2010 R m
Bank balances	3 690	4 206
Collateral held	6 434	11 034
	<b>10 124</b>	<b>15 240</b>

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

The effective interest rate on short-term bank deposits ranged from 1.35% to 3.9% (2010: 1.35% to 3.9%) and the deposits had an average maturity of between 32 and 90 days (2010: 32 and 90 days).

### 25. Policyholder liabilities

	2011 R m	2010 R m
<b>Insurance contracts</b>		
Outstanding claims	2 206	2 092
Future policyholders' benefits	136 506	140 649
	<b>138 712</b>	<b>142 741</b>
<b>Investment contracts</b>		
Liabilities at fair value through profit and loss	139 468	132 363
Liabilities with a discretionary participating feature	84 198	81 650
	<b>223 666</b>	<b>214 013</b>
	<b>362 378</b>	<b>356 754</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 25. Policyholder liabilities (continued)

#### Provision for insurance contracts

	2011 R m	2010 R m
Balance at beginning of the year	140 649	136 246
<b>Inflows</b>		
Premium income	16 639	16 008
Investment income (net of investment losses)	10 288	18 718
<b>Outflows</b>		
Claims and policy benefits	(21 939)	(22 318)
Operating expenses	(5 688)	(5 069)
Other charges and other transfers	112	131
Current tax	(20)	29
Deferred tax	79	(13)
Transfer to operating profit	(3 614)	(3 083)
<b>Balance at end of the year</b>	<b>136 506</b>	<b>140 649</b>

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

#### Liabilities at fair value through profit or loss

	2011 R m	2010 R m
Balance at beginning of the year	132 363	120 582
New contributions received	23 032	22 510
Withdrawals	(25 749)	(22 173)
Fair value movements	9 630	14 706
Foreign currency translation	2 039	(1 501)
Fees deducted	(1 847)	(1 761)
<b>Balance at end of the year</b>	<b>139 468</b>	<b>132 363</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 25. Policyholder liabilities (continued)

#### Liabilities with a discretionary participation feature

	2011 R m	2010 R m
Balance at beginning of the year	81 650	76 002
<b>Inflows</b>		
Premium income	9 728	9 087
Investment income (net of investment losses)	5 248	9 713
<b>Outflows</b>		
Claims and policy benefits	(10 337)	(10 751)
Operating expenses	(864)	(867)
Other charges and other transfers	(516)	(691)
Current tax	(71)	(57)
Deferred tax	(2)	(21)
Transfer to operating profit	(638)	(765)
<b>Balance at end of the year</b>	<b>84 198</b>	<b>81 650</b>

### 26. Borrowed funds

	2011 R m	2010 R m
8.92% Unsecured subordinated callable notes	3 000	3 000

The 8.92% unsecured subordinated callable notes were issued on 27 October 2005 at an aggregate nominal price of R3 billion. The notes are listed on the Bond Exchange of South Africa. The final maturity date for the notes is 27 October 2020, however they may be redeemed earlier by the company on 27 October 2015 or on each interest date thereafter. Interest is payable on 27 April and 27 October up to the call date, thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity date or date of early redemption, whichever is earlier. Interest is payable at 8.92% up to the date of early redemption and at 3-month JIBAR rate plus 159 basis points thereafter. Interest relating to the year under review amounted to R268 million (2010: R268 million).

The fair value of the notes is R3 131 million (2010: R3 018 million). The notes rank behind the claims from policyholders and other unsecured unsubordinated creditors.

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

### 27. Post employment benefits

#### Defined benefit plan

The company provides pension benefits to permanent employees and post-retirement benefits to qualifying employees. Pension benefits have been designed and are administered in accordance with the Pension Funds Act, 1956 as amended, and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a tri-annual basis. In the intervening years a qualified actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the defined benefit obligations of the company's defined benefit scheme vary according to the economic conditions.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 27. Post employment benefits (continued)

	2011 R m		2010 R m	
Obligations	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
At beginning of the year	194	1 204	194	1 158
Current service cost	5	27	5	28
Interest cost on benefit obligation	17	100	17	109
Actuarial (gains)/losses	(20)	6	(20)	(60)
Benefits paid	(2)	(34)	(2)	(31)
<b>At end of the year</b>	<b>194</b>	<b>1 303</b>	<b>194</b>	<b>1 204</b>

	2011 R m		2010 R m	
Plan assets	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
At beginning of the year	248	1 232	228	1 136
Actual return on plan assets	22	86	22	127
Benefits paid	(2)	(33)	(2)	(31)
<b>At end of the year</b>	<b>268</b>	<b>1 285</b>	<b>248</b>	<b>1 232</b>

	2011 R m		2010 R m	
Net asset/(liability)	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Funded status of plans	(34)	18	(54)	(28)
Unrecognised actuarial gains	34	107	54	128
	-	<b>125</b>	-	<b>100</b>

	2011 R m		2010 R m	
Expense recognised in income statement	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Current service cost	5	27	5	28
Interest cost	17	100	17	109
Expected return on plan assets	(22)	(98)	(22)	(104)
<b>Total (included in staff costs)</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>33</b>
<b>Actual return on plan assets</b>	<b>22</b>	<b>86</b>	<b>22</b>	<b>127</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 27. Post employment benefits (continued)

Principal actuarial assumptions	2011		2010	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Discount rates used	9 %	9 %	9 %	8 %
Expected return on plan assets	9 %	9 %	9 %	8 %
Future salary increases	6 %	9 %	6 %	8 %
Price inflation	6 %	9 %	6 %	8 %

Plan asset allocation	2011		2010	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Equity securities	59 %	58 %	58 %	59 %
Debt securities	23 %	30 %	22 %	31 %
Real estate	10 %	8 %	10 %	8 %
Other investments	8 %	4 %	10 %	2 %

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

Defined pension benefits					R m
	2011	2010	2009	2008	2007
Plan assets	268	248	228	209	194
Liability	(194)	(194)	(194)	(172)	(153)
	<b>74</b>	<b>54</b>	<b>34</b>	<b>37</b>	<b>41</b>

Post-retirement benefits					R m
	2011	2010	2009	2008	2007
Plan assets	1 285	1 232	1 136	1 117	1 044
Liability	(1 303)	(1 204)	(1 158)	(976)	(931)
	<b>(18)</b>	<b>28</b>	<b>(22)</b>	<b>141</b>	<b>113</b>

Sensitivities			2011	2010
Assumption	Change in assumption	Impact on scheme liabilities	R m	R m
Inflation rate	Decrease by 1.0%	Decrease	192	179
	Increase by 1.0%	Increase	243	226

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 28. Other employment benefits

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

#### Benefit obligation

	2011 R m	2010 R m
At beginning of the year	200	212
Current service cost	23	22
Net actuarial losses/(gains)	5	(12)
Benefits paid	(21)	(22)
<b>At end of the year</b>	<b>207</b>	<b>200</b>

#### Assets

	2011 R m	2010 R m
At beginning of the year	200	212
Contributions	23	22
Investment returns	(16)	(34)
<b>At end of the year</b>	<b>207</b>	<b>200</b>

#### Expense recognised in income statement

	2011 R m	2010 R m
Current service costs	23	22
Net actuarial losses/(gains)	5	(12)
<b>Total (included in staff costs)</b>	<b>28</b>	<b>10</b>

#### Principal actuarial assumptions

	2011	2010
Discount rate	7 %	7 %
Expected return on plan assets	7 %	7 %
Future salary increases	7 %	6 %
Price inflation	7 %	6 %

#### Net benefit obligation

	2011 R m	2010 R m
Assets	207	200
Benefit obligation	(207)	(200)
	-	-

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

The benefit obligation of R207 million at the end of the year (2010: R200 million) is supported by non-segregated managed assets amounting to R113 million (2010: R113 million) as part of the pool of policyholder funds. The company also has a reimbursive right of R94 million (2010: R87 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

### 29. Share-based payment liabilities

The company has employee compensation plans for all eligible employees. The Old Mutual plc Group Share Incentive Scheme implemented during 1999 and various senior employees share schemes implemented as part of the Old Mutual Black Economic Empowerment transaction in 2005, offer eligible employees of the company the right to acquire Old Mutual plc shares (plc shares) or a cash equivalent. The right to acquire plc shares or a cash equivalent vests depending on the type of plan under which the employee participates.

#### Composition of share-based payment liability

	2011 R m	2010 R m
Share options	272	159
Restricted share awards	632	394
	<b>904</b>	<b>553</b>

	2011		2010	
	Number of share options (Millions)	Weighted average exercise price (Rand)	Number of share options (Millions)	Weighted average exercise price (Rand)
<b>Share options</b>				
Outstanding at beginning of the year	50	11.89	45	12.38
Transfers to other group companies	(2)	-	(1)	-
Granted during the year	13	15.78	13	13.87
Forfeited during the year	(9)	17.59	(6)	19.56
Exercised during the year	(5)	13.04	(1)	12.26
Expired during the year	(1)	15.00	-	-
<b>Outstanding at end of the year</b>	<b>46</b>	<b>11.63</b>	<b>50</b>	<b>11.89</b>
Exercisable at end of the year	1	15.49	5	14.56

Share options vest subject to the fulfilment of service conditions and escalating exercise prices or performance targets as prescribed by the Remuneration Committee of Old Mutual plc. The options outstanding at the end of the year vest over periods between 3 to 6 years from the date of grant.

	Number of awards (Millions)	Number of awards (Millions)
<b>Restricted share awards</b>		
Outstanding at beginning of the year	38	35
Transfer to other group companies	(1)	(1)
Granted during the year	13	10
Forfeited during the year	(1)	(1)
Exercised during the year	(8)	(5)
<b>Outstanding at end of the year</b>	<b>41</b>	<b>38</b>

Restricted share awards are offered as an alternative to share options under the Share Option and Deferred Delivery plan or to senior management in terms of the Deferred Short Term Incentive Plan. They vest subject to the fulfilment of a specified period of employment and have a zero exercise price. The restricted share awards outstanding at the end of the year vest after 3 years from the date of grant.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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

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

Options are granted conditional on service and non-market based performance criteria. These conditions are taken into account in determining the estimated value of the ultimate liability to the company. There are no market conditions associated with the share entitlements.

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

	2011	2010
Number of options granted (millions)	13	13
Value of options granted (Rand millions)	202	183
Fair value per option at measurement date (in Rands) - highest	9.79	6.68
Fair value per option at measurement date (in Rands) - lowest	3.11	0.28
Share price (in Rands)	17.04	12.99
Exercise price (in Rands) - highest	19.10	19.10
Exercise price (in Rands) - lowest	7.45	7.45
Expected volatility	45 %	45 %
Expected life (in years)	4	4
Expected dividend yield	3.5 %	4 %
Risk free interest rate	7.1 %	7.5 %

The expected volatility is based on the annualised historic volatility of the share price over a period commensurate with the expected life of the grant.

The expected life assumption is based on the average length of time that similar grants have remained outstanding in the past and the behaviour patterns of the relevant employee groups.

### Restricted share awards

	2011	2010
Number granted (millions)	13	10
Value of restricted shares awards (Rand millions)	197	140
Fair value per share (in Rands)	17.04	12.99

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 30. Provisions

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

	Opening balance	Utilised during the year	Investment return	Charge	2010 R m Total
Administration and legal claims	259	(33)	-	34	260
Closure of Unclaimed Shares Trust	712	(66)	76	-	722
	<b>971</b>	<b>(99)</b>	<b>76</b>	<b>34</b>	<b>982</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.

#### Closure of Unclaimed Shares Trust

This provision relates to obligations of the company in connection with the closure of the Old Mutual South Africa Unclaimed Shares Trust in 2006. An agreement was entered into in 2006 in terms of which the company will provide donations to the Masisizane Fund, which has been set up as a charitable organisation for the enhancement of good causes.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 31. Deferred revenue on investment contracts

	2011 R m	2010 R m
At beginning of the year	161	192
Fees and commission income deferred	21	22
Amortisation	(47)	(53)
<b>At end of the year</b>	<b>135</b>	<b>161</b>

### 32. Other liabilities

	2011 R m	2010 R m
Collateral owing	7 716	11 842
Amounts owed to policyholders	2 509	2 837
Amounts owed to intermediaries	462	398
Accruals	873	887
Outstanding settlements	506	534
Other	853	550
	<b>12 919</b>	<b>17 048</b>

The carrying value of other liabilities approximates fair value.

### 33. Share capital and premium

	2011 R m	2010 R m
<b>Authorised share capital</b>		
10 000 000 ordinary shares of R1 each	10	10
10 redeemable preference shares of R1 each	-	-
	<b>10</b>	<b>10</b>
<b>Issued share capital</b>		
8 000 000 ordinary shares of R1 each	8	8
1 redeemable preference share of R1	-	-
Share premium	6 246	6 246
	<b>6 254</b>	<b>6 254</b>

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

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

Other reserves comprise:

Available-for-sale revaluation reserve	14 280	11 168
Property revaluation reserve	99	97
	<b>14 379</b>	<b>11 265</b>

For the comparative period R131 million has been transferred from the available-for-sale revaluation reserve to the property revaluation reserve. There was no other impact on the financial statements.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 34. Cash used in operations

	2011 R m	2010 R m
Profit before taxation	4 658	3 826
<b>Adjustments for non-cash movements included in profit</b>		
Depreciation and amortisation	176	164
Dividend income	(5 197)	(3 707)
Interest income	(11 695)	(12 756)
Interest expense	900	630
Net fair value gains	(8 477)	(26 158)
Movements in policyholder liabilities	5 624	20 485
Profit on disposal of property and equipment	(1)	-
Share based payments charge	351	128
Charges to provisions and post employment benefits obligation	80	32
<b>Changes in working capital</b>		
Deferred acquisition costs	57	66
Deferred revenue on investment contracts	(26)	(31)
Loans and advances	106	80
Other assets	(170)	(1 149)
Other liabilities	(4 129)	8 134
Reinsurance contracts	(118)	(60)
Net movement in loans to/from group companies	1 833	1 316
	<b>(16 028)</b>	<b>(9 000)</b>

### 35. Tax paid

	2011 R m	2010 R m
Balance at beginning of the year	(964)	(768)
Current tax expense	(1 496)	(1 448)
Balance at end of the year	1 438	964
	<b>(1 022)</b>	<b>(1 252)</b>

### 36. Dividends paid

	2011 R m	2010 R m
Dividends	<b>(1 495)</b>	<b>(677)</b>

### 37. Operating lease receivables

	2011 R m	2010 R m
Total future minimum lease receivables under operating leases		
Within one year	777	595
In second to fifth year inclusive	2 055	1 479
Later than five years	1 147	777
	<b>3 979</b>	<b>2 851</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 38. Related party disclosures

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

The company's principal subsidiaries and associates, together with loans due by or to them, are listed in note 20.

Other group companies consist of fellow subsidiaries and associates.

	<b>2011</b>			
	<b>R m</b>			
	<b>Holding</b>	<b>Fellow</b>	<b>Subsidiaries</b>	<b>Associates</b>
	<b>company subsidiaries</b>			
<b>Income statement</b>				
Interest income/(expense)	-	404	-	84
Dividends income/(expense)	(1 495)	-	402	921
Fair value gains/(losses)	-	(78)	-	-
Fee income/(expense)	-	(176)	-	-
Insurance contract premiums income/(expense)	-	(24)	-	74
Reinsurance contract premiums income/(expense)	-	8	-	-
Claims and policyholder benefits income/(expense)	-	21	-	-
Commission income/(expense)	-	(32)	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	-	-	3 690
Zero coupon bonds held	-	1 845	-	-
Credit linked notes including interest	-	6 425	-	-
Call loans including interest	-	3 338	-	-
Bonds including interest	-	-	-	830
				<b>2010</b>
				<b>R m</b>
	<b>Holding</b>	<b>Fellow</b>	<b>Subsidiaries</b>	<b>Associates</b>
	<b>company subsidiaries</b>			
<b>Income statement</b>				
Interest income/(expense)	-	543	-	270
Dividends income/(expense)	(677)	-	-	780
Fair value gains/(losses)	-	14	-	-
Fee income/(expense)	-	(405)	-	-
Insurance contract premiums income/(expense)	-	(21)	-	71
Reinsurance contract premiums income/(expense)	-	5	-	-
Claims and policyholder benefits income/(expense)	-	22	-	-
Commission income/(expense)	-	(98)	-	-
<b>Statement of financial position</b>				
Cash and short-term securities	-	-	-	4 206
Zero coupon bonds held	-	1 776	-	-
Stock lending - bonds lent including interest	-	968	-	-
Credit linked notes including interest	-	5 401	-	-
Call loans including interest	-	3 590	-	-
Bonds including interest	-	-	-	859

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 38. Related party disclosures (continued)

#### Directors' emoluments

	R'000					
2011	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
K D Dlamini	-	4 701	-	10 904	501	16 106
K Murray ^	-	2 104	2 297	661	771	5 833
R T Mupita	-	2 011	3 415	10 096	241	15 763
B M Rapiya	-	1 845	2 327	5 493	219	9 884
P C Baloyi	410	-	-	-	-	410
G J Gerwel	-	-	-	-	-	-
I A Goldin	397	-	-	-	-	397
D Konar	-	-	-	-	-	-
A A Maule	863	-	-	-	-	863
C E Maynard	506	-	-	-	-	506
N M C Nyembezi-Heita	245	-	-	-	-	245
F Robertson	245	-	-	-	-	245
G T Serobe	226	-	-	-	-	226
I B Skosana	576	-	-	-	-	576
A H Trikamjee	374	-	-	-	-	374
P G M Truyens	1 530	-	-	-	-	1 530
G S van Niekerk	601	-	-	-	-	601
A H van Wyk	-	-	-	-	-	-
	<b>5 973</b>	<b>10 661</b>	<b>8 039</b>	<b>27 154</b>	<b>1 732</b>	<b>53 559</b>

	R'000					
2010	Fees	Salary	Bonus	Share-based payment charge	Retirement and other benefits	Total
K D Dlamini	-	4 520	2 046	5 447	481	12 494
D C Radley	-	3 155	3 843	4 409	383	11 790
P C Baloyi	65	-	-	-	-	65
G J Gerwel	37	-	-	-	-	37
I A Goldin	314	-	-	-	-	314
D Konar	46	-	-	-	-	46
A A Maule	361	-	-	-	-	361
C E Maynard	302	-	-	-	-	302
N M C Nyembezi-Heita	125	-	-	-	-	125
F Robertson	125	-	-	-	-	125
G T Serobe	203	-	-	-	-	203
I B Skosana	441	-	-	-	-	441
A H Trikamjee	147	-	-	-	-	147
P G M Truyens	649	-	-	-	-	649
G S van Niekerk	359	-	-	-	-	359
A H van Wyk	408	-	-	-	-	408
	<b>3 582</b>	<b>7 675</b>	<b>5 889</b>	<b>9 856</b>	<b>864</b>	<b>27 866</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 38. Related party disclosures (continued)

The variable pay for Ms K Murray, Mr R T Mupita and Mr B M Rapiya for 2011 is made up of an award of restricted shares of 50% and a cash component of 50%.

The variable pay for Mr K D Dlamini for 2010 was made up of an award of restricted shares of 45%, share options of 15% and a cash component of 40%. The variable pay for Ms D C Radley for 2010 was made up of an award of restricted shares of 40%, share options of 15% and a cash component of 45%.

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 executive director's remain employed by the company until the third anniversary of the award date. There are no corporate performance targets applicable to these restricted shares and share options.

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

### 39. Financial risk management

The company is exposed to financial risk through its financial assets, financial liabilities (investment contracts, customer deposits and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of financial risk are credit risk, currency risk, market risk, interest rate risk and liquidity risk.

These risks arise from open positions in interest rate (both fair value and cash flow interest rate risk), currency and equity products, all of which are exposed to general and specific market movements.

#### Financial risk management strategy and policy

The company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the company's ALM framework is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The insurance contracts retain substantial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets and/or policyholders enjoy options embedded in their contracts which are not matched by identical options in the underlying investments. These exposures include duration risk, credit risk and market risk. The notes below explain how financial risks are managed using the categories utilised in the ALM framework. Note 40 explains in more detail how insurance risk is managed.

#### Capital adequacy

The capital position of the company is set out in the Statutory actuary's report on page 19.

#### Capital management policies

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

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### 39. Financial risk management (continued)

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

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

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirement.
- The business has been managed on an internal CAR basis which is higher than the statutory CAR.
- An economic capital at risk (ECaR) approach is also used by management and the Board to ensure that obligations to policyholders can be met in adverse circumstances. ECaR is calculated using an internal capital model applying shocks that should only be exceeded seven times in 10 000 years. However, as the total of the current statutory reserves and internal CAR is more onerous than the total of technical provisions calculated on the economic basis and ECaR (calculated as per approach above) the company will continue to hold capital on the more onerous internal CAR basis.
- Maintenance of an appropriate level of liquidity at all times. The company further ensures that it can meet its expected capital and financing needs at all times, having regard to business plans, forecasts and any strategic initiatives.

#### Sensitivities

The company has both qualitative and quantitative risk management procedures to monitor the key risks and sensitivities of the business. This is achieved through stress tests, scenario analyses and risk assessments. From an understanding of the principal risks, appropriate risk limits and controls are defined.

The risk types affecting the surplus capital of the company are market risk, credit risk, liquidity risk, liability 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 cash flows generated by these assets and liabilities in a deep and liquid market. All calculations include the impact on the time-value reserves necessary for policyholder financial options and guarantees. For each sensitivity illustrated, all other assumptions have been left unchanged.

At 31 December 2011	R m Embedded value
<b>Embedded value</b>	<b>79 250</b>
Effect of:	
Required capital equal to the minimum statutory requirement	530
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(784)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	565
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4 449
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4 412)
50 bps contraction on corporate bond spreads	194

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### 39. Financial risk management (continued)

25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(246)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(108)
Voluntary discontinuance rates decreasing by 10 per cent	656
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 634
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 190
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(247)
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	(115)

At 31 December 2010

Embedded value

R m  
Embedded  
value

72 431

Effect of:

Required capital equal to the minimum statutory requirement	469
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(320)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	304
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4 240
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4 271)
50 bps contraction on corporate bond spreads	217
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(205)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(75)
Voluntary discontinuance rates decreasing by 10 per cent	517
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 270
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	958
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(220)
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	(83)

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

### Credit risk

Credit risk is the risk of loss as a result of an asset against a counterparty not being repaid at the due and stipulated time.

The company does not use reinsurance to manage significant credit risk. The company is exposed to credit risk through its investment holdings (i.e. debt securities) backing the policyholder liabilities and in shareholder funds. Credit risk is managed by placing limits on exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Credit risk is monitored with reference to established credit rating agencies (where available) with limits placed on exposure to below investment grade holdings.

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 39. Financial risk management (continued)

#### Overall credit risk

	2011 R m	2010 R m
Reinsurance contracts	509	391
Loans and advances	332	438
Investments and securities		
Government and non-government-guaranteed securities	41 880	44 795
Other debt securities, preference shares and debentures	56 939	53 081
Short-term funds and securities treated as investments	22 672	22 387
Reinsurance	10 304	9 426
Other assets	6 898	6 728
Derivative assets	4 057	4 504
Amounts due by group companies	5 952	7 390
Cash and cash equivalents	10 124	15 240
	<b>159 667</b>	<b>164 380</b>

The company holds cash, government bonds and promissory notes as security in respect of government, non-government-guaranteed, other debt securities and securities treated as investments.

#### Debt instruments and similar securities

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

				2011 R m
	Government and non- government- guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	41 398	32 465	3 038	76 901
Not rated	482	24 160	19 634	44 276
Sub-investment grade	-	314	-	314
	<b>41 880</b>	<b>56 939</b>	<b>22 672</b>	<b>121 491</b>
				2010 R m
	Government and non- government- guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	44 294	28 697	6 957	79 948
Not rated	501	24 384	15 430	40 315
	<b>44 795</b>	<b>53 081</b>	<b>22 387</b>	<b>120 263</b>

#### Reinsurance assets

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

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 39. Financial risk management (continued)

#### Collateral obtained

	2011 Rm	2010 Rm
Bonds	1 423	165
Cash	9 409	12 597
<b>Total collateral</b>	<b>10 832</b>	<b>12 762</b>

#### Market risk

Market risk is the potential impact of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities. Market risk arises from changes in the fair value of investments.

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

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

#### Currency risk

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

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

The company operates in Hong Kong and Guernsey through branches which create an additional source of foreign currency risk which arises from the fact that the branches use UK Pounds as their functional currency, whereas the functional currency of the company is Rands. However, this foreign currency translation risk is not considered material.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 39. Financial risk management (continued)

The table below summarises the company's exposure to foreign currency exchange rate risk.

	ZAR	GBP	USD	Euro	Other	2011 R m Total
<b>Assets</b>						
Intangible assets	79	-	-	-	-	79
Investment property	13 969	-	-	-	-	13 969
Property and equipment	3 410	-	-	-	-	3 410
Deferred tax assets	847	-	-	-	-	847
Reinsurance contracts	509	-	-	-	-	509
Deferred acquisition costs	1 103	2	-	-	-	1 105
Loans and advances	332	-	-	-	-	332
Investments and securities	331 225	14 034	56 833	524	1 286	403 902
Derivative assets	4 057	-	-	-	-	4 057
Other assets	6 666	232	-	-	-	6 898
Cash and cash equivalents	10 080	44	-	-	-	10 124
Amounts due by group companies	5 805	117	-	6	24	5 952
	<b>378 082</b>	<b>14 429</b>	<b>56 833</b>	<b>530</b>	<b>1 310</b>	<b>451 184</b>

	ZAR	GBP	USD	Euro	Other	2011 R m Total
<b>Liabilities</b>						
Insurance contract liabilities	138 712	-	-	-	-	138 712
Investment contract liabilities	213 225	3 474	5 965	1 002	-	223 666
Borrowed funds	3 000	-	-	-	-	3 000
Post employment benefits obligation	125	-	-	-	-	125
Share-based payment liabilities	904	-	-	-	-	904
Deferred revenue on investment contracts	135	-	-	-	-	135
Deferred tax liabilities	1 697	-	-	-	-	1 697
Derivative liabilities	2 730	-	-	-	-	2 730
Amounts due to group companies	5 536	214	-	-	50	5 800
Provisions	1 037	-	-	-	-	1 037
Current tax payable	1 438	-	-	-	-	1 438
Other liabilities	12 785	134	-	-	-	12 919
	<b>381 324</b>	<b>3 822</b>	<b>5 965</b>	<b>1 002</b>	<b>50</b>	<b>392 163</b>

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 39. Financial risk management (continued)

	ZAR	GBP	USD	Euro	Other	2010 R m Total
<b>Assets</b>						
Intangible assets	97	-	-	-	-	97
Investment property	13 998	-	-	-	-	13 998
Property and equipment	3 635	-	-	-	-	3 635
Deferred tax assets	741	-	-	-	-	741
Reinsurance contracts	391	-	-	-	-	391
Deferred acquisition costs	1 159	3	-	-	-	1 162
Loans and advances	438	-	-	-	-	438
Investments and securities	323 379	15 552	47 239	1 637	1 010	388 817
Derivative assets	4 504	-	-	-	-	4 504
Amounts due by group companies	7 215	145	-	-	30	7 390
Other assets	6 489	239	-	-	-	6 728
Cash and cash equivalents	15 209	31	-	-	-	15 240
	<b>377 255</b>	<b>15 970</b>	<b>47 239</b>	<b>1 637</b>	<b>1 040</b>	<b>443 141</b>

	ZAR	GBP	USD	Euro	Other	2010 R m Total
<b>Liabilities</b>						
Insurance contract liabilities	142 741	-	-	-	-	142 741
Investment contract liabilities	204 499	3 210	5 234	1 070	-	214 013
Borrowed funds	3 000	-	-	-	-	3 000
Post employment benefits obligation	100	-	-	-	-	100
Share-based payment liabilities	553	-	-	-	-	553
Deferred revenue on investment contracts	154	7	-	-	-	161
Deferred tax liabilities	2 105	-	-	-	-	2 105
Derivative liabilities	1 953	-	-	-	-	1 953
Amounts due to group companies	5 345	60	-	-	-	5 405
Provisions	982	-	-	-	-	982
Current tax payable	964	-	-	-	-	964
Other liabilities	17 009	39	-	-	-	17 048
	<b>379 405</b>	<b>3 316</b>	<b>5 234</b>	<b>1 070</b>	<b>-</b>	<b>389 025</b>

#### Interest rate risk

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

The company has due regard to the nature of the liabilities and guarantees given to policyholders. The interest rate risk of such liabilities is managed by investing in assets of similar duration. Derivative instruments are not used to any material extent to manage the interest rate risk of these long-term assets and liabilities.

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates, with a reduction in interest rates increasing the reserves held. A partial hedge has been put in place to mitigate the impact. A discretionary margin is also held for this purpose.

#### Liquidity risk

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

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

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 39. Financial risk management (continued)

The table below is a maturity analysis of liability cashflows based on contractual maturity dates for investment contract liabilities and discretionary participating financial instruments, and expected maturity dates for insurance contracts. For other items the amounts included in the maturity table are the gross, undiscounted cash flows.

	2011 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	3 612	14 518	81 392	254 492
Investment contracts				
Unit-linked investment contracts and similar contracts	139 189	-	-	-
Investment contracts with a discretionary participating feature	81 490	-	-	-
Other investment contracts	147	409	1 055	296
Outstanding claims	2 206	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	200	477	1 370	1 556
Amounts due to group companies	5 800	-	-	-
	<b>232 644</b>	<b>15 404</b>	<b>83 817</b>	<b>259 344</b>

	2010 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	3 577	14 485	78 565	235 589
Investment contracts				
Unit-linked investment contracts and similar contracts	131 510	886	-	-
Investment contracts with a discretionary participating feature	76 219	-	-	-
Other investment contracts	70	201	899	1 732
Outstanding claims	3 873	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	42	63	398	835
Amounts due to group companies	5 405	-	-	-
	<b>220 696</b>	<b>15 635</b>	<b>79 862</b>	<b>241 156</b>

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 39. Financial risk management (continued)

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

			2011 R m
	Current assets	Non-current assets	Total
<b>Assets</b>			
Intangible assets	-	79	79
Investment property	-	13 969	13 969
Property and equipment	-	3 410	3 410
Deferred tax assets	-	847	847
Reinsurance contracts	271	238	509
Deferred acquisition costs	237	868	1 105
Loans and advances	-	332	332
Investments and securities	29 358	374 544	403 902
Derivative assets	1 429	2 628	4 057
Amounts due by group companies	5 952	-	5 952
Other assets	6 898	-	6 898
Cash and cash equivalents	10 124	-	10 124
	<b>54 269</b>	<b>396 915</b>	<b>451 184</b>
			2011 R m
	Current liabilities	Non-current liabilities	Total
<b>Liabilities</b>			
Insurance contracts	2 206	136 506	138 712
Investment contracts	-	223 666	223 666
Borrowed funds	-	3 000	3 000
Post employment benefits	-	125	125
Share-based payment liabilities	-	904	904
Deferred revenue on investment contracts	48	87	135
Deferred tax liabilities	-	1 697	1 697
Derivative liabilities	657	2 073	2 730
Amounts due to group companies	5 800	-	5 800
Provisions	-	1 037	1 037
Current tax payable	1 438	-	1 438
Other liabilities	12 919	-	12 919
	<b>23 068</b>	<b>369 095</b>	<b>392 163</b>

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 39. Financial risk management (continued)

			2010 R m
	Current assets	Non-current assets	Total
<b>Assets</b>			
Intangible assets	-	97	97
Investment property	-	13 998	13 998
Property and equipment	-	3 635	3 635
Deferred tax assets	-	741	741
Reinsurance contracts	276	115	391
Deferred acquisition costs	251	911	1 162
Loans and advances	-	438	438
Investments and securities	22 387	366 430	388 817
Derivative assets	440	4 064	4 504
Amounts due by group companies	7 390	-	7 390
Other assets	6 728	-	6 728
Cash and cash equivalents	15 240	-	15 240
	<b>52 712</b>	<b>390 429</b>	<b>443 141</b>
<b>Liabilities</b>			
Insurance contracts	2 092	140 649	142 741
Investment contracts	-	214 013	214 013
Borrowed funds	-	3 000	3 000
Post employment benefits	-	100	100
Share-based payment liabilities	-	553	553
Deferred revenue on investment contracts	53	108	161
Deferred tax liabilities	-	2 105	2 105
Derivative liabilities	106	1 847	1 953
Amounts due to group companies	5 405	-	5 405
Provisions	78	904	982
Current tax payable	964	-	964
Other liabilities	17 048	-	17 048
	<b>25 746</b>	<b>363 279</b>	<b>389 025</b>

### Designated financial assets

The maximum exposure to credit risk for designated financial assets that would have otherwise been categorised as loans and receivables amounted to R54 014 million (2010: R 52 457 million). The change in fair value of these assets relating to any change in credit risk was insignificant.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 40. Insurance risk management

The company assumes insurance risk by issuing insurance contracts, under which the company agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes liability (mortality, morbidity and longevity) risk and business (expense and lapse) risk.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the company may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The company's approach to financial risk management has been described in note 39.

#### Risk management objectives and policies for mitigating insurance risk

The company manages insurance risk through the following mechanisms:

- An agreed risk preference for all risk types, including those relating to insurance.
- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the company seeks to reduce variability in loss experience.
- The maintenance and use of management information systems, which provide current data on the risks to which the business is exposed and the quantification of such risks.
- Actuarial models, which use the above information to calculate premiums and monitor decrements and claims patterns. Past experience and statistical methods are used.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- Reinsurance, which is used to limit the company's exposure to large single claims and catastrophes. When selecting a reinsurer, consideration is given to those companies that provide high security using rating information from both public and private sources.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

#### Terms and conditions of insurance contracts

The terms and conditions attaching to insurance contracts determine the level of insurance risk accepted by the company. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred.

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 40. Insurance risk management (continued)

Category	Essential terms	Main risks	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 (also small exposure in Corporate Segment)	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 company's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non-vesting (in which latter case they can be removed in adverse circumstances).

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid to ensure that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. Investment returns not distributed after deducting charges are credited to bonus stabilisation reserves, which are used to support future bonus declarations.

In addition to the specified risks identified above, the company is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

#### Management of insurance risks

The table below summarises the variety of insurance risks to which the company is exposed, and the methods by which it seeks to mitigate these risks.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

### 40. Insurance risk management (continued)

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

Many of the above risks are concentrated by line of business (for example, longevity). The company, through diversification in the types of business it writes attempts to mitigate this concentration of risk.

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with corresponding decreases or increases to profit. For with-profit annuity business the effect of a change in mortality assumption is mitigated by the offset to the bonus stabilisation reserve.

The increase or decrease to insurance contract liabilities, and hence the impact on profit and loss and equity, as at 31 December 2011 has been estimated as follows:

#### Sensitivity analysis

Assumption	Change %	R m	R m
		Increase/ (decrease) in liabilities 2011	Increase/ (decrease) in liabilities 2010
Mortality and morbidity rates - assurance	10%	3 513	2 924
Mortality rates – annuities	-10%	636	625
Discontinuance rates	10%	(128)	(118)
Expenses (maintenance)	10%	773	694

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 40. Insurance risk management (continued)

Insurance contract liabilities recorded are also to some extent impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to insurance contract liabilities, and decrease to profit, of R1 321 million (2010: R937 million).

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The valuation interest rate sensitivity reflects a change in valuation interest rates without any corresponding change in investment returns or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

#### Guarantees and options

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

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a market-consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa, PGN 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 FSV basis and the underlying asset market value is paid out.

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

Investment guarantee reserves have been calculated using an internal Hull-White economic scenario generator model that generate product specific economic scenarios. The model has been calibrated to South African derivative market data (where available and reliable), according to the company's specific calibration requirements. The calibration has been performed as at 31 December 2011.

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## Notes to the annual financial statements

### 40. Insurance risk management (continued)

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

Term (years)	Annualised zero-coupon bond yield
1	5,7%
2	6,0%
3	6,4%
4	6,7%
5	7,1%
10	8,1%
15	8,1%
20	8,1%
25	8,0%
30	8,0%

The following derivative contract prices have been calculated using 2000 simulations of the internal Hull-White model at the calibration date.

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

Maturity (years)	Strike	Price	Implied volatility
1	Spot	9,5%	27,8%
1	0.8 times spot	2,4%	27,7%
1	Forward	10,6%	27,8%
5	Spot	12,4%	26,8%
5	1,04 <sup>5</sup> times spot	21,2%	26,7%
5	Forward	20,2%	26,7%
20	Spot	5,4%	29,4%
20	1,4 <sup>20</sup> times spot	20,6%	29,2%
20	Forward	26,7%	29,2%

PGN 110 also requires the disclosure of the following option prices:

Description of derivative contract*	Calculated price (% of spot price)
5-year put with a strike price equal to $(1.04)^5$ of spot, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place yearly.	14%
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.	0,43%

\* Note that the FTSE/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) Limited

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## Notes to the annual financial statements

### 41. Notes to the statutory actuary's report

#### 41.1. Change in excess assets on published basis

	2011 R m	2010 R m
At end of the year	59 021	54 116
At beginning of the year	54 116	51 876
<b>Change in excess assets</b>	<b>4 905</b>	<b>2 240</b>
<b>Analysis of change</b>	<b>2011 R m</b>	<b>2010 R m</b>
Operating profit before shareholder tax (excluding changes in valuation basis)	3 218	2 583
Dividend income	1 698	1 320
Interest income	372	222
Investment income on excess assets	2 070	1 542
Realised gains and losses on excess assets	(77)	(18)
Changes in valuation basis	(285)	(13)
Non-operating items (finance cost on subordinated debt)	(268)	(268)
Shareholder tax	(920)	(991)
Policyholders' tax	(452)	(297)
<b>Profit for the financial year</b>	<b>3 286</b>	<b>2 538</b>
Other comprehensive income and equity		
Fair value gains on excess assets	2 724	375
Income tax relating to components of other comprehensive income	390	4
Dividends	(1 495)	(677)
<b>Change in excess assets</b>	<b>4 905</b>	<b>2 240</b>

#### 41.2. Reconciliation of policy liabilities from published to statutory basis

	2011 R m	2010 R m
Published	(360 172)	(354 662)
Statutory	356 618	351 306
<b>Difference</b>	<b>(3 554)</b>	<b>(3 356)</b>
<b>Comprising</b>	<b>2011 R m</b>	<b>2010 R m</b>
Investment contracts	(3 676)	(3 505)
Reinsurance	(239)	(115)
Deferred tax adjustment on policyholder investment properties	361	264
	<b>(3 554)</b>	<b>(3 356)</b>

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 41. Notes to the statutory actuary's report (continued)

#### 41.3. Reconciliation of excess assets from published to statutory basis

	2011 R m	2010 R m
Published	59 021	54 116
Statutory	(60 984)	(55 935)
<b>Difference</b>	<b>(1 963)</b>	<b>(1 819)</b>
<b>Comprising</b>	<b>2011 R m</b>	<b>2010 R m</b>
Investment contracts	(3 676)	(3 505)
Revenue recognition	970	1 001
Deferred tax impacts on owner-occupied property	(19)	(21)
Deferred tax impacts of above items	762	706
	<b>(1 963)</b>	<b>(1 819)</b>

The investment contract adjustments relate to the increase in investment contract liabilities to hold market-related policies at the account balance. The revenue recognition adjustments are in respect of investment management contracts and arise from the spreading of incremental initial expenses and initial fees in excess of recurring fees.

#### 41.4. Published valuation basis

The published valuation of insurance contracts and investment contracts with a discretionary participating feature is performed using the FSV method, in accordance with PGN 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 IAS 39.

#### Assets

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

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

The major classes of business are valued as follows:

- For group savings policies, liabilities are based on account balances at the valuation date. Bonus stabilisation reserves are added.
- For retail policies where a portion of the premium is allocated to an accumulation account, liabilities are based on the account balances at the valuation date, less the present value of future charges not required for risk benefits and renewal expenses.
  - For market-related policies, the account balance is based on the market value of assets attributable to these policies.
  - For smoothed bonus policies, the account balance includes vested and non-vested bonuses declared to date, and where applicable provision for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) are added to ensure consistency of the value of liabilities with the value of assets.
- For reversionary bonus with-profit policies, liabilities are determined by calculating the present value of projected future benefits and expenses less the present value of projected future premiums. Projected future benefits include bonuses accrued to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves are added.

# Old Mutual Life Assurance Company (South Africa) Limited

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## Notes to the annual financial statements

### 41. Notes to the statutory actuary's report (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:

	2011	2010
Fixed interest securities	8.2%	8.5%
Cash	6.2%	6.5%
Equities	11.7%	12.0%
Properties	9.7%	10.0%
Future expense inflation	5.2%	5.5% *

\* 7.2% (2010: 7.5%) for Retail Affluent business administered on old platforms and 6.2% (2010: 6.5%) for Mass Foundation Cluster business.

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 PGN 104 and Board Notice 14 of 2010;
- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy; and
- Other discretionary margins, mainly held to cover:
  - mortality, lapse and investment return margins for Mass Foundation Cluster funeral policies, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,
  - mortality margins on Retail Affluent life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience,
  - margins on certain Retail Affluent non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk,
  - expense margins in the pricing basis for Corporate Segment annuities,
  - interest margins on Corporate Segment PHI claims in payment due to the inability to fully match assets to liabilities as a result of the high rate of change in the portfolio (high volume of new claimants and terminations),
  - termination margins on Corporate Segment PHI claims in payment due to uncertainty about future termination experience, and
  - margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market-consistent basis to implied volatilities in particular.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 41. Notes to the statutory actuary's report (continued)

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

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

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

<b>Business unit</b>	<b>Type of investigation</b>	<b>Period of investigation</b>
Retail Affluent	Annuitant mortality	2005 to 2006
	Greenlight mortality and morbidity	2007 to 2010
	Greenlight persistency	2003 to 2010
Mass Foundation	Mortality	2010
	Persistency	2009 to 2010
Corporate Segment	Annuitant mortality	2004 to 2009
	PHI claims termination	2006 to 2009
	Group Assurance mortality and morbidity experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

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In addition to these detailed experience investigations, valuation assumptions for all material products are actively reviewed. The 2011 analysis of profit provides a measure of the aggregate experience in 2011. During this valuation period, actual experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure.

### Liabilities: Investment contracts without a discretionary participation feature

- For both retail and group savings policies, liabilities for investment contracts without a discretionary participating feature are based on account balances at the valuation date. In respect of investment contracts that provide investment management services, for example market-related investment contracts, a deferred acquisition cost (DAC) asset is held, which defers incremental acquisition expenses over the expected term of the policy, and a deferred revenue liability (DRL) is held, which defers excess initial fees over the expected term of the policy.
- For structured products, liabilities are calculated based on the market value of matching assets, together with an allowance for future expenses and margins.
- For non-profit term certain annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using applicable yield curves.
- Liabilities include the cost of any investment guarantees for products that are classified as investment contracts. These have been calculated on a market-consistent basis and a discretionary margin has been added to the calculated reserve. Sample derivative contract prices derived from the calculation are provided in note 40.

# Old Mutual Life Assurance Company (South Africa) Limited

Annual financial statements for the year ended 31 December 2011

## Notes to the annual financial statements

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### 41. Notes to the statutory actuary's report (continued)

#### 41.5. Statutory capital adequacy requirement

The CAR has been calculated in accordance with PGN 104 and Board Notice 14 of 2010 issued by the FSB. These provide a buffer against future experience being worse than assumed in the FSV method, of which adverse investment conditions are the most significant.

The board has approved the management actions that would be taken in adverse investment conditions. These include reducing surrender values in accordance with underlying asset values, reducing interim bonuses (if necessary to zero), declaring low or if necessary zero bonuses, and if the circumstances warrant it, removing part or all of non-vested balances. The nature and extent of the action that would be taken will depend on the severity of the decline in asset values and the circumstances at that time.

The investment resilience CAR is the single most significant component of the company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions assumed to be taken by the company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 20% decline in foreign currency denominated assets other than equities, a 15% decline in property values and a 25% relative increase or decrease in fixed-interest yields to maturity and in real yields to maturity on inflation-linked bonds. The management action that is assumed to be taken is the minimum that the company would be willing to take under such conditions, and in assuming this action, the company does not limit itself to only taking this action under such circumstances.

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. The following management actions have been assumed in calculating the CAR as at 31 December 2011, if asset values had declined as specified as at 31 December 2011, and had not subsequently recovered:

- Future bonus rates would have been reduced by 5% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 4.5% per year in each of the following three years for Mass Foundation Cluster products.
- Future bonus rates would have been reduced by 3% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 3% per year in each of the following three years for Platinum 2003 with-profit annuities.
- Future bonus rates would have been reduced by 2.5% per year in each of the following three years for all other with-profit annuities.
- Future bonus rates would have been reduced by 5% per year in each of the following three years for all other smoothed bonus products.

In respect of 2010 the following management actions were assumed :

- Future bonus rates would have been reduced by 5% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products (excluding the versions of these products launched in 2009).
- Future bonus rates would have been reduced by 4% per year in each of the following three years for Absolute Smoothed Growth 2009, Absolute Stable Growth 2009 and Mass Foundation Cluster 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 2% per year in each of the following three years for with-profit annuities.
- Future bonus rates would have been reduced by 4.2% per year in each of the following three years for all other smoothed bonus products.

The management actions assumed above have been approved by specific resolution by the board of directors.

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## Notes to the annual financial statements

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### 41. Notes to the statutory actuary's report (continued)

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR\*) to determine the ordinary capital adequacy requirements (OCAR\*), it has been assumed that assets backing the capital adequacy requirements are invested 12.5% in local equities, and 87.5% in local cash (December 2010: 12.5% local equities and 87.5% local cash).

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

(\* As defined by PGN 104)

### 41.6. Changes to valuation assumptions

Various actuarial assumption changes have been made which resulted in a net increase in the value of liabilities of R285 million (2010: R13 million net increase in liabilities). A review of persistency assumptions across various products reduced liabilities by R37 million. This was offset by higher expense assumptions relating to project expenditure which increased liabilities by R15 million. Various methodology changes and error corrections increased liabilities by R239 million. Lastly, the reduction in the FSV interest rate increased liabilities by R68 million. The assumption changes exclude the impact on new business sold in 2011, as this is valued on the new basis.

### 42. Events after the end of the financial year

On 22 February 2012 changes to tax legislation were announced in respect of capital gains tax (CGT). Had the changes been in place at the reporting date, the balances in the financial statements for deferred CGT would have been higher by in the order of R 410 million, policyholder liabilities would have been lower by R 320 million and net assets would have been lower by the net amount.