

Pensions Optiplus



OLD MUTUAL

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Introduction

Dear Pensions OptiPlus Investor,

With-profit annuities in general have been criticised for non-transparent management practices. The main areas of concern centre around

- the methods of declaring annual bonuses,
- the segregation of policyholder funds from shareholder funds, and
- the impact of Bonus Smoothing Reserves on the equitable allocation of investment returns to policies.

In light of the above, Old Mutual has engaged its independent auditor KPMG to provide independent assurance in respect of our annual report on the governance of our with-profit annuity business for the year ended 30 June 2009.

KPMG has reviewed our processes and its findings are included as Appendix 5 to this report.

This report aims to shed more light on the internal operation of the Old Mutual With-Profit Annuities Pensions OptiPlus Portfolio. We trust that this will go a long way towards providing a greater understanding of how this portfolio operates. This report, along with the independent report by KPMG, is intended to give assurance about the governance surrounding your investment in Pensions OptiPlus and the sound financial management of your money.

It is with great pleasure that we present this report for Pensions OptiPlus for the financial year ended 30 June 2009.



Executive Summary and Declaration

We, Old Mutual, make the following declaration in respect of the Pensions OptiPlus Portfolio for the year to 30 June 2009, under the following main headings:

1. Investment philosophy

The investment philosophy of the Pensions OptiPlus Portfolio is described in detail in Appendix 1 to this report. Contained within the investment philosophy is a description of the investment mandate of the Pensions OptiPlus Portfolio. The Pensions OptiPlus performance benchmarks are also included in the investment philosophy.

1.1 We declare that the portfolio is being managed in line with the specifications of the mandate.

1.1.1 The actual exposure of Domestic Unmatched Interest Bearing Assets was 0.02% lower than the minimum of 1% at the end of December 2008. This was a result of market movements and was subsequently corrected.

1.2 We declare that the risk management controls, employed by the asset manager, are of a sound financial nature.

2. Bonus philosophy

The bonus philosophy is described in detail in Appendix 2 to this report.

2.1. We declare that the approach taken in determining the bonus declarations is financially sound and equitable between the different bonus categories.

2.2. We declare that the documented methodology in managing the level of the Bonus Smoothing Reserve is compliant with the stated bonus philosophy.

3. Segregation of funds between policyholders and shareholders ("ring-fencing")

Old Mutual's approach to ring-fencing is set out in Appendix 3 to this report.

We declare that the structures and controls set in place to ensure portfolio segregation are adequate and are being adhered to.

4. Portfolio solvency levels

Statements regarding the Pensions OptiPlus Portfolio's solvency levels are set out in Appendix 4 to this report.



We certify that the Bonus Smoothing Reserves as at 31 December 2008, of the class of business of which the Pensions OptiPlus Portfolio forms part, were not more negative than -7.5% of the value of the liabilities.

Long-term Bonus Smoothing Reserve

Old Mutual has reviewed the basis on which it values its liabilities, the Financial Soundness Valuation (FSV) method, with effect from 31 December 2007. This change is consistent with recommendations made by external consultants who reviewed our practice. The total value of policyholder funds is the same on the new basis as under the old basis. However, the allocation between the bonus smoothing reserve (BSR) and underlying liabilities has changed. The existing (short-term) BSR continues unchanged. In addition to this, a new "long term" BSR is now shown separately from the underlying liabilities. This was previously included in the underlying liabilities. This new BSR essentially reflects bond capital appreciation that has not yet been released to the short-term BSR, and will vary depending on the level of market yields. It will be released to pensioners gradually over the expected lifetime of the pensioners via the Short-term BSR.

We can disclose that the Short-term Bonus Smoothing Reserve (BSR) as at 30 September 2008, the bonus declaration date, was between 0% and 5% of the value of the liabilities.

The Long-term Bonus Smoothing reserve as at the 2008 Pensions OptiPlus bonus declaration date, 30 September 2008, was between 10% and 15% of the value of the liabilities.

Signed on this the 12th day of November 2009.

Trevor Pascoe
General Manager: Investment Services
Investment Services
Old Mutual Corporate

Roy Stephenson
Product Owner
Investment Services
Old Mutual Corporate



APPENDICES

Appendix 1 - Investment Philosophy

- Old Mutual Investment Group (SA) (OMIGSA) manages the underlying portfolio. Denzil Burger is the portfolio manager.
- The portfolio manager is expected to manage the portfolio in line with the mandate specified below.
- Although this mandate is expected not to change frequently, Old Mutual will make adjustments as changes occur in the economic and investment environment and if a change occurs in the assessment of the inherent risks in the portfolios. The latest version of the mandate change was signed on the 9 April 2009, effective from that date. This report describes the mandates applicable for the period 1 July 2008 to 30 June 2009 where relevant.

Investment Objective of the Portfolios

To provide a return which provides for fully vesting bonuses after allowing for the pricing interest rate (p.i.r.). The pricing interest rate is the rate of return that needs to be earned on the portfolio to ensure that the current level of annuity can be maintained into the future.

The mandate is for an actively managed range of South African and international assets, measured against the benchmarks specified below.

The Pensions OptiPlus Portfolio invests in six broad asset classes, namely International Assets, SA Direct Property, SA Alternative Assets, SA Equities, SA Matched Interest-bearing assets and SA Unmatched Interest-bearing Assets. The asset classes are outlined below.

International Assets (Equities, Interest-bearing Assets & Alternative Assets)

The long-term objective is for the exposure to the total of International Equities, International Interest-bearing and International Alternative Assets to be at 15% of the total portfolio. With regards to calculating the benchmark portfolio performance, the exposure to International Assets in the benchmark portfolio will be set to the actual international exposure at the start of each month. In creating the benchmark portfolio, the following fixed allocations are made within this broader class:

Equities: 80%
Interest-Bearing: 13.3%
Alternative Assets: 6.7%

Prior to 6 August 2008, the fixed allocations were:

Equities: 70%
Interest-Bearing: 20%
Alternative Assets: 10%



The performance benchmark for international equities will be the total return of the MSCI World Equity Index (in South African Rands).

The performance benchmark for international interest bearing assets will be a composite index of 50% Barclays Capital Aggregate Bond Index (previously Lehman Global Aggregate Total Return Index) plus 50% JP Morgan Total Return Index (in South African rands).

The performance benchmark for any international alternative assets for the time period June 2008 to November 2008 was the weighted average benchmark for the international equities and the benchmark for the international interest-bearing assets. On 1 December 2008 this benchmark was changed to US CPI+5% in US Dollar terms over rolling 5-year periods.

Should the total international exposure for the Pensions OptiPlus Portfolio fall below 10%, or exceed 20%, the EB Annuities Actuary must be notified. A maximum of 10% of international assets, or 2% of the total portfolio, within the Pensions OptiPlus Portfolio can be held in alternative assets.

The international equity portion of the portfolio is targeted to produce 1.5% per annum outperformance of its benchmark over any rolling 3-year periods, before costs.

The international interest-bearing portion of the portfolio is targeted to produce 0.5% per annum outperformance of its benchmark over rolling 3-year periods, before costs. The portfolio shall at all times be limited to duration within one year of the duration of the benchmark.

South African Direct Property

As of 1 June 2008, the portfolio has a strategic asset allocation to South African Direct Property of 7.5%. Previously, the long-term objective of this component was to maintain a property exposure of 5% of the portfolio.

The management of this component of the portfolio has been outsourced to OMIGSA Property Investments (OMIGPI), and exposure to South African Direct Property is achieved through investments in OMIGPI's Triangle Core, Development and SRI funds.

Given the exposure to South African Direct Property, Quoted Property investments are not permitted where the underlying property assets are located within the Southern African region.

Due to the illiquidity of this asset class, the portfolio manager is not in a position to effect asset allocation changes in the short term. Historically, when benchmark portfolio performance was calculated the exposure to this class was set to the actual exposure at the start of each month. A benchmark of CPI+5.5% was introduced on 7 July 2008 and the benchmark allocation was set to strategic asset allocation for the purposes of calculating the portfolio's benchmark return. There is an agreement in place to take into account the overweight allocation to this asset class, which the portfolio manager is not in a position to make asset allocation changes in the short term due to the illiquidity of this asset class.

In calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio is set to the strategic exposure (i.e. 7.5%), provided the actual exposure is equal to or less than 10%. The exposure to this asset class in the benchmark portfolio is increased above 7.5% by the extent



to which the actual Domestic Direct Property exposure exceeds 10%. Any exposure above 7.5% in the benchmark portfolio for Domestic Direct Property is accommodated for by reducing the exposure in the benchmark portfolio to Domestic Equities and Domestic Interest Bearing Assets equally.

The performance benchmark is the SAPOA/IPD South African Property Total Return Index (All Property). A benchmark of CPIX+5.5% has also been introduced (from 7 July 2008) in order to evaluate OMIGPI in between IPD release dates.

South African Alternative Assets

This asset class contains investments in Alternative Asset Portfolios managed by OMIGSA. The long-term objective is to keep the exposure to South African alternative assets at 2% of the portfolio. The portfolio may also have exposure to some of Old Mutual Corporate's other portfolios, e.g. Symmetry Multi-Manager Portfolios and Symmetry Defensive Fund. The maximum exposure to South African alternative assets is set at 4% of the portfolio.

Alternative assets include investments in:

1. Private Equity

Private equity investments consist of unlisted equity or equity-linked investments.

2. Infrastructure

Infrastructure investments include investments in the African Infrastructure Investment fund, which includes investments in a diverse range of infrastructure projects within Africa, as well as the Infrastructural Development and Environmental Assets (IDEAS) fund, which invests in commercially viable development projects that aim to achieve development objectives within South Africa.

3. Mezzanine Debt

Mezzanine financing is a hybrid of debt and equity financing. Essentially, it is debt capital with contractual repayment obligations ranking ahead of pure equity instruments. These investments include some right to participate in the net asset value and/or the cash available for distribution to shareholders.

4. Domestic Hedge Funds

Hedge funds seek to provide diversification from other asset classes while consistently generating positive performance returns in excess of money market rates, even in adverse market conditions.

5. African Assets

These include unlisted private equity and actively managed listed equity and equity-linked investments in Africa outside of South Africa.

Given the very low liquidity in this asset class, and the long-term nature of investments, OMIGSA is not able to effect asset allocation changes to this class over the short to medium term. It is recognised that although short-term performance objectives may be meaningless, the following is a guideline to the performance that can be expected.



In December 2008, the performance benchmark was changed to generate a real return (relative to CPIX) in excess of 7% per annum over rolling 3-year periods. Prior to December 2008, the performance benchmark was to generate a real return (relative to CPI) in excess of 7% per annum over rolling 3-year periods.

South African Equities

The total amount of combined benchmark exposure to South African Equity Assets will be 100% less the allocations made to South African Direct Property, South African Alternative Assets, total International Assets and total (Matched and Unmatched) Interest-bearing Assets i.e. the balance of the portfolio is invested in South African equities.

The SA equity portion of this asset class is managed by OMIGSA Equity Boutiques, with strategic allocations to these Boutiques given by the following table:

Boutique	Strategic Allocation
Umbono ¹	50%
Core Equity	20%
Select Equity	10%
Value Equity	10%
SYmmETRY Equity	10%

The performance benchmark for the SA equity portion of the portfolio is the Shareholder's Weighted Index (SWIX). Prior to January 2008 the Capped All Share Index (CAPI) was used. For the purposes of performance measurement, total returns on this benchmark will be used i.e. dividends will be included in the calculation of the benchmark portfolio return.

Performance is measured over rolling 12 month periods. The following table summarises the performance and risk targets for each equity fund:

Boutique	Performance Target	Maximum Tracking Error
Umbono ¹	benchmark	0.5%
Core Equity	benchmark + 1.75% p.a.	3.0%
Select Equity	benchmark+ 4% p.a.	8.0%
Value Equity	benchmark + 4% p.a.	8.0%
SYmmETRY Equity	benchmark + 4% p.a.	N/A

South African Matched Interest-bearing Assets (IBA)

The strategic benchmark asset allocation objective is calculated each month, being a function of the liabilities to be matched. As at 30 June 2009 this mandate required an allocation of approximately 53%.

¹ During July 2009, Umbono Fund Managers changed its name to Dibanisa Fund Managers



The mandate for the Matched Interest-bearing Asset holdings is designed to ensure that the amount and nature of the portfolio closely matches the associated liability. Old Mutual uses this portfolio to match a certain portion of its expected future with-profit annuity cashflows including expected bonuses.

Tanja Tippett of OMSFIN, a boutique of OMIGSA manages the interest-bearing assets.

Interest rate risk is measured in terms of 'Rand per Point', which is defined as the absolute value of the change in market value of a security or portfolio for a 1 basis point change in yield. At a portfolio level, the RPP limit is set to 1% of the liabilities. RPP limits are also set at 3% across the following term buckets: 0-1yrs, 2-3yrs, 4-7yrs, 8-12yrs, and 12+ yrs.

The benchmark for the Matched Interest-bearing Assets is the liabilities as supplied by the Valuations Actuary on a quarterly basis. The portfolio is targeted to match the cash flow profile of the annuity liabilities as far as reasonably possible while earning additional yield spread above the South African Government Yield Curve is a secondary consideration.

South African Matched Interest-bearing assets include Targeted Investments, which are investments in assets that partially or wholly meet the definition of Targeted Investments as published by the Financial Services Charter Council. Targeted Investments are benchmarked against 3 month JIBAR + 0.5% p.a. These assets currently form 2% of the total portfolio.

South African Unmatched Interest-bearing Assets (IBA)

The long-term objective of this component is to maintain a South African Unmatched Interest-bearing exposure of 2% for the Pensions OptiPlus Portfolio. The South African Unmatched Bond portion of the Pensions OptiPlus Portfolio is to invest only in South African inflation-linked bonds.

During the course of 2008, OMIGSA bought FutureGrowth - a specialist in Fixed Interest. The OMIGSA Fixed Interest Boutique was merged with FutureGrowth. Jennifer Sheehy of OMIGSA manages the interest-bearing assets.

Benchmark performance is set equal to actual performance, as benchmark performance against an index is impractical given the poor liquidity in the secondary market. OMIGSA is however expected to exercise due diligence in the selection of inflation-linked bonds.

Overall Restriction and Limitations

- The portfolio shall at all times comply with Part 2 of the Schedule of the Regulations under the Long-term Insurance Act.
- All statutory requirements will be adhered to at all times.
- Derivative instruments can only be used for the purpose of reducing investment risk, efficient portfolio allocation and yield enhancement. Derivatives may not be used to speculate.
- A maximum exposure of 5% of assets for a particular share is allowed for shares with a market cap of less than R2bn, in a South African equity portfolio. For all other shares, a South African equity portfolio may not invest more than 15% of its assets in any one particular share.



- Old Mutual is not legally permitted to acquire any further shareholding in Old Mutual plc, as a result of the LSE listing. For this reason, a group-wide strategic holding of 10% of the market capitalisation at listing, excluding any additional capital raised, was acquired prior to listing. As at 30 June 2009, this holding makes up 3.16% of the value of the policyholder equity holdings in total.
- Restrictions apply on the trading of Old Mutual, Nedcor and Mutual & Federal shares during closed periods.

Performance will be monitored on a monthly basis. Actual time-weighted performance will be compared to the benchmark performance plus the targeted outperformance over the rolling periods specified.

Allocation Summary

Main Class	Sub-class	Minimum	Maximum	Benchmark
South African Matched IBA		As Calculated - 2.5%	As Calculated + 5%	As Calculated
South African Unmatched IBA	Inflation-Linked	1%	3%	2%
South African Equity		Balancing	Balancing	Balancing
South African Alternative		0%	4%	2%
South African Property		5%	10%	7.5%
International Assets	Equities	7%	17%	12%
	Interest-Bearing	0%	4%	2%
	Alternative	0%	2%	1%
Total International		10%	20%	15%



Appendix 2 - Bonus Philosophy

Bonus Philosophy

The surplus attributable to with-profit policies (i.e. generally the net investment return earned on policyholder funds) is credited to a Bonus Smoothing Reserve (BSR), from which bonuses are declared. The BSR is in effect the excess of the market value of the assets over the value of the liabilities. Bonuses declared usually differ from the actual net (of charges and pricing interest rate) investment return earned in a year, so as to reduce the impact of short-term volatility of returns to policyholders. The pricing interest rate is deducted from the investment return earned in determining the surplus available for bonuses, as this has already been taken into account in determining the annuity instalments.

In years when above average investment returns are earned, the bonus declared tends to be lower than the net investment return earned, and in years when below average investment returns are earned, the bonus declared tends to exceed the net investment return earned.

Positive BSR balances represent surplus attributable to with-profit policyholders that have not yet been declared as bonuses, which will be used to support subsequent bonus declarations. A negative BSR balance means that more has been declared as bonuses to policyholders than has been earned to that date (as a consequence of the smoothing process), and that this will be recovered in future bonus declarations (i.e. future bonuses will be less than the net investment return earned).

The BSR is credited with the surplus or deficit and is debited with the cost of bonuses declared, the charge for investment guarantees, the unwinding of the pricing interest rate on benefit payments, and investment management charges.

Profit Sources

Pensioners participate in the investment and mortality profits/losses generated by the portfolio, through bonus increases.

Investment profits are realised for each profit category (i.e. the pricing or post-retirement interest rate category chosen by clients) if the returns earned on the underlying portfolios are in excess of the pricing or post-retirement rate. Mortality profits will arise if pensioners do not live as long as expected. Mortality losses will arise if pensioners live longer than expected. However, the main source of profits is likely to be investment profit.

The bonus increase, once granted, is guaranteed and can never be removed. The level of future bonuses is, however, not guaranteed.

Bonus Declaration Process

Bonuses are declared annually in arrears, based on the financial position as at 30 September, at the discretion of the Board which is based on the recommendation by the Statutory Actuary. Each bonus is effective for increase dates between the subsequent 1 January and 31 December. In assessing the bonus rate to declare,



the Board of Old Mutual will look primarily at the size of the Short-term BSR. The long-term target level for the Short-term BSR should be in the range of 0% to 5%. The target can vary outside this range depending on market conditions. In determining a minimum Short-term BSR tolerance level, the criterion is that any negative BSR should be capable of being recouped within at most 3 years. If recoupment is not possible within 3 years, shareholder funds are used to correct the situation.

In determining the maximum tolerance level, consideration is given to the maintenance of equity between different generations of pensioners.

It is important to note that the Short-term BSR is used to declare bonuses for the benefit of Pensions OptiPlus policyholders only, and can therefore not be accessed by Old Mutual shareholders.

Further factors that the Board considers when determining the bonus to be declared, include the following:

- The reasonable expectations of policyholders as to the size of the final bonus.
- The impact on bonuses if a severely falling market environment was experienced. For example, in such an environment, bonuses will be affected by the need to ensure that the BSR does not become too negative, as this would adversely affect subsequent bonuses.
- Our competitive position against the bonus declarations of With-Profit Portfolios offered by other providers.

Allowance for Management Action in Adverse Circumstances

As mentioned, the Short-term BSR is targeted in the long term to be within a range of 0% to 5% of the liabilities. Tolerance for Short-term BSR levels outside this range reduces as the absolute levels move further away from this range. The tolerance for a particular level of smoothing reserve is also a function of the prevailing investment and economic conditions and the outlook for these.

The focus here is particularly on a three-year time horizon, in line with the Actuarial Society of South Africa guidelines as described in this section. While Old Mutual has some internal guidelines, there are no absolute levels set at which particular management actions are automatically taken. Such an approach may be imprudent, as it may not consider all the factors involved at that time. However, if the Short-term BSR trends away from the long-term average, the extent of management action will become more pronounced, taking due consideration of the economic and investment environment at all times.

The Short-term BSR is debited with the following costs:

Investment Management Charge

The investment management charge (which includes asset manager costs) is approximately 0.70% to 0.75% of assets per annum. It may vary slightly depending on the asset allocation and asset manager performance relative to benchmark.

Bonuses declared are net of this charge.



The Cost of Providing Guarantees

Old Mutual guarantees that existing pensions will be paid for life, and that any increase, once granted, will also be guaranteed for life. The price Old Mutual levies for these guarantees is the capital charge.

The capital charge will be levied monthly in arrears on the assets underlying the policy. Thus any bonuses declared are net thereof. The charges differ per profit category due to the differing investment guarantees inherent in each category.

Profit Category	Capital Charge (annual)
I	1.0%
II	1.1%
III	1.2%
IV	1.3%
V	1.4%
VI	1.5%
VII	1.6%
VIII	1.7%
IX	1.8%
X	1.9%



Appendix 3 - Segregation of Portfolios (“Ring-Fencing”)

With-profit annuity products constitute a significant proportion of the Company’s business. Because of the nature of this business, specific steps are taken to ensure that policyholder funds, in respect of with-profit annuity business, are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

- The portfolios of underlying assets that support Pensions OptiPlus (all bonus categories) are managed separately from the assets of other portfolios (both policyholder and shareholder fund portfolios). This separation extends to the Bonus Smoothing Reserve that forms an integral part of the portfolio of underlying assets that supports Pensions OptiPlus.
- The assets within the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The Pensions OptiPlus portfolio is managed in accordance with a specific mandate as described earlier in this document. Although the assets are managed separately from other portfolios they are not housed in a separate legal entity but remain the registered property of OMLAC(SA).
- In addition to the limitation specified in the Long-term Insurance Act Investment Regulations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group within each policyholder portfolio.
- Major investment in Old Mutual Group companies (such as Nedcor and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominately held in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- All potential conflicts of interests arising out of proposals that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders’ interest, are disclosed to the Statutory Actuary, and if material are approved by the Board. Any such transactions are conducted on arms-length terms, and only when it is clearly demonstrated that such investments are in the interest of policyholders.
- The portfolio manager produces a monthly report covering, amongst others, the structure of each portfolio relative to its mandate, investment performance relative to benchmarks, purchases and sales, any special investment opportunities that arose and how these were equitably allocated between portfolios, any potential conflicts of interest that arose and how these were dealt with, and any investment activity in associated companies.
- The method of allocation of profits and investment returns between policyholders and shareholders is clearly specified, and With-profit Annuity policyholder funds are credited (via bonus stabilisation reserves) with the full investment return earned on their funds, less specified charges.
- Any profit allocated to shareholder funds is only transferred from policyholder funds on the recommendation of the Statutory Actuary, following an actuarial valuation. Such transfers are always subject to the assets



in the policyholder funds remaining sufficient to cover all the corresponding liabilities as determined by the Statutory Actuary on the valuation date. These liabilities include provision for any guarantees that may apply.

- With each valuation, a detailed analysis of profit is done, which confirms that there are no material errors or inconsistencies in the valuations, and that valuation assumptions are appropriate.
- All fees and charges will be transferred from this portfolio to shareholder fund portfolios.
- Other transfers of assets between different portfolios would occur in the normal course of events. Such transfers could reflect normal trading between two portfolio managers with different investment mandates and investment views or the transfer of a pool of assets where a client chooses to change its investment from, say, Pensions OptiPlus to Platinum Pension.
- Large new clients may also be allowed to bring in portfolios of assets rather than cash as consideration, if acceptable to the portfolio manager. The principle that applies to any such transfers or take-on of portfolios will be that any assets accepted into the portfolio must not alter the portfolio in such a way that compliance with the investment mandate is compromised.
- The transfer of Bonus Smoothing Reserves between different policyholder portfolios is not precluded, but will only happen in specific circumstances.
- This could occur where a client moves its investment from one annuity portfolio to another. Under certain circumstances any corresponding portion of the underlying BSR in the transferring portfolio can be transferred. The principle followed is that the transferring portfolio should be left, at worst, in a neutral position, such that the BSR as a percentage of the total portfolio is unchanged after the transfer. The BSR of the receiving portfolio may be in a better off or worse off position, but we would expect this effect to be marginal given that funding levels across the funds are relatively similar. In the event of such a transfer impacting the receiving portfolio inequitably, discretion lies with the Chief Actuary in determining the manner in which this transfer will be managed.
- As a mature portfolio diminishes in size over time, a stage might be reached where the size of the portfolio is less than optimal for the smoothing of returns to be effective. At such a point, the mature portfolio could be combined with a larger portfolio, with a corresponding transfer of BSR taking place. The principle applied in such an instance is once again that investors in neither of the portfolios should be prejudiced by such a step.
- The Company pays particular attention to ensuring that the declaration of bonuses is done 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. All investment returns credited to policyholder funds that are not declared as bonuses are retained in bonus stabilisation reserves, which may only be used to support subsequent bonus declarations.



Appendix 4 - Portfolio Solvency Levels

As of 31 December 2002, mandatory guidance relating to the disclosure of solvency levels (Bonus Smoothing Reserves) in Smoothed Bonus and With-Profit Portfolios became effective.

Old Mutual complies with this requirement through making public, information relating to the BSR levels for all classes of business.

As at financial year ended 31 December 2008, the Bonus Smoothing Reserves for none of the classes of business issued by OMLAC(SA) was more negative than the stated level of -7.5% of the value of the liabilities in that class.

The long-term target of the Short-term Bonus Smoothing Reserve is between 0% and 5%. Departures around this long-term target can be expected in the short-term.

The bonuses effective for increase dates between 1 January 2009 and 31 December 2009 were based on the portfolio's Short-term BSR level as at 30 September 2008. At this date, the Short-term BSR, after taking account of all declared bonuses for 2009, falls within the indicated range in the table shown.

Bonus Smoothing Reserve Range	
Greater than 15.0%	
Between 10.0% and 15.0%	
Between 5.0% and 10.0%	
Between 0% and 5.0%	X
Between -5.0% and 0.0%	
Less than -5.0%	

Long-term Bonus Smoothing Reserve

Old Mutual has reviewed the basis on which it values its liabilities, the Financial Soundness Valuation (FSV) method, with effect from 31 December 2007. This change is consistent with recommendations made by external consultants who reviewed our practice. The total value of policyholder funds is the same on the new basis as under the old basis. However, the allocation between the bonus smoothing reserve (BSR) and underlying liabilities has changed. The existing (short-term) BSR continues unchanged. However, a new "long term" BSR is now shown separately from the underlying liabilities, whereas it was previously included in the underlying liabilities. This new BSR essentially reflects bond capital appreciation that has not yet been released to the Short-term BSR, and will vary depending on the level of market yields. It will be released to pensioners gradually over the expected lifetime of the pensioners via the Short-term BSR.



Long-term (LT) Bonus Smoothing Reserve levels as at 30 September 2008, falls within the indicated range in the table shown.

LT Bonus Smoothing Reserve Range	
Greater than 15.0%	
Between 10.0% and 15.0%	X
Between 5.0% and 10.0%	
Between 0% and 5.0%	
Between -5.0% and 0.0%	
Less than -5.0%	



Appendix 5 - KPMG Independent Assurance Report

Independent assurance report to the Directors of Old Mutual Life Assurance Company of South Africa Limited

Introduction

We have performed our assurance engagement for the Old Mutual Life Assurance Company of South Africa Limited (Old Mutual) with respect to the extent of compliance with the governance policies set out on pages three to seventeen of the Annual Governance Report on the Internal Policies, Practices, Processes and Philosophies of the Old Mutual With-Profit Annuities for the Pensions OptiPlus Portfolio (the Annual Governance Report) for the year ended 30 June 2009.

This report is made solely to Old Mutual in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Old Mutual those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Old Mutual, for our work, for this report, or for the conclusions we have reached.

Responsibilities of directors

The directors of Old Mutual are responsible for the preparation and presentation of the Annual Governance Report. This responsibility includes the design, implementation, and maintenance of processes and procedures for compliance with the governance policies for the relevant investment portfolios and for all underlying information reported therein.

Responsibilities of assurance provider

Our responsibility is to express our conclusion based on our independent reasonable assurance engagement, performed in accordance with the International Standard on Assurance Engagements (ISAE 3000): *Assurance engagements other than audits or reviews of historical information* issued by the International Audit and Assurance Standards Board. This standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain reasonable assurance, regarding the subject matter of the engagement.

Basis of our work and inherent limitations

As there are no published International Standards for reporting on corporate governance, the disclosures in the Annual Governance Report have been evaluated against the extent of compliance with the stated governance policies applicable to the four aspects set out in the body of the Annual Governance Report on pages five to seventeen, namely:

- Appendix 1: Investment Philosophy
- Appendix 2: Bonus Philosophy



- Appendix 3: Segregation of Portfolios (“Ring-fencing”), and
- Appendix 4: Portfolio Solvency Levels.

The application of the governance policies is dependent on the effective functioning of internal controls which are subject to inherent limitations and, accordingly, errors or irregularities might occur and may not be detected. Our procedures cannot provide assurance that fraudulent collusion or misrepresentation, especially on the part of those holding positions of authority or trust, has not occurred. Furthermore, our conclusions are limited to the period reported on and the projection of any conclusions to future periods is inappropriate. Individual calculations have not been subject to detailed recalculation and, accordingly, we do not express a conclusion on any specific calculation.

Work performed

We planned and performed our work to obtain all the information and explanations we considered necessary to provide sufficient evidence for us to provide reasonable assurance that the four aspects indicated are substantially in compliance with the stated governance policies applicable to the Old Mutual With-Profit Annuities for the Pensions OptiPlus Portfolio. The procedures performed depended on our judgement, including the assessment of risks of material misstatement of the information contained in the Annual Governance Report, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the company’s preparation and presentation of information in the Annual Governance Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of the company’s internal control.

Our procedures consisted of:

- Obtaining an understanding of the governance policies applied by management in the governance of the investment portfolio;
- On a test basis determining that the performance calculations and related statements of performance have been calculated in accordance with the stated policies;
- Inquiring about and obtaining representations that the stated investment philosophy, and in particular, the investment limitations, the bonus philosophy and segregation of investments have been complied with;
- On a test basis determining that the Bonus Smoothing Reserves and portfolio solvency levels have been calculated in accordance with the governance policies applicable to the relevant investment portfolios;
- Reviewing the presentation of the four aspects of the Annual Governance Report in light of the findings from our work performed.

We believe that the evidence that we have obtained is sufficient and appropriate to provide a basis for our conclusion, expressed below, for the application of the governance policies for the Old Mutual With-Profit Annuities for the Pensions OptiPlus Portfolio and does not extend to any other business or operations of Old Mutual.



Conclusion

Based on our work performed, in our opinion, Old Mutual has complied with the governance policies stated in the Annual Governance Report on the Internal Policies, Practices, Processes and Philosophies of the Old Mutual With-Profit Annuities for the Pensions OptiPlus Portfolio for the year ended 30 June 2009.

Yours faithfully

KPMG Services (Proprietary) Limited

A handwritten signature in black ink, appearing to read 'G. Pickering'. The signature is stylized and cursive.

Per G Pickering
Chartered Accountant (SA)
Director
Cape Town
16 November 2009

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