

Absolute Growth Portfolios

Absolute Smooth Growth

Absolute Stable Growth

Absolute Secure Growth



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Introduction

Dear Absolute Growth Investor,

Smoothed Bonus products in general have been criticised of non-transparent management practices. The main areas of concern centre on

- the methods of declaring bonus rates,
- the segregation of policyholder funds from shareholder funds, and
- the impact of bonus smoothing reserves on the equitable allocation of investment returns to policies.

We believe that the Old Mutual Absolute Growth Portfolios (collectively Absolute Smooth Growth, Absolute Stable Growth and Absolute Secure Growth in all the series') have addressed many of these concerns. To reinforce this belief, Old Mutual has engaged an independent auditor, KPMG, to provide independent assurance in respect of our annual report on the governance of our Smoothed Bonus (including Absolute Growth) 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 Absolute Growth Portfolios from Old Mutual Corporate.

We trust that this will provide a greater understanding of how these portfolios operate. This report, along with the independent report by KPMG, is intended to offer assurance concerning the governance of your investment in the Absolute Smooth Growth, Absolute Stable Growth or Absolute Secure Growth Portfolio and the sound financial management of your money.

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

Executive Summary and Declaration

We, Old Mutual, make the following declaration in respect of the Absolute Growth Portfolios under the following main headings:

1. Investment philosophy

The investment philosophy of the Absolute Growth Portfolios is described in detail in Appendix 1 to this report. Contained within the investment philosophy is a description of the investment mandate of the Absolute Growth Portfolios. The Absolute Growth performance benchmark is also included in the investment philosophy.

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

- The actual exposure to Property Assets fell outside its long-term guideline range of between 5% and 10% for 10 months over the year ending 30 June 2009. The exposure to Property was higher than the mandated maximum of 10% because of relative market movements and it persisted due to the asset class being illiquid. The following provides the actual allocation to Property Assets at the end of each quarter within the period:

Effective Date	Actual Allocation
30 September 2008	10.0%
31 December 2008	10.9%
31 March 2009	11.9%
30 June 2009	11.2%

- The actual exposure to Local Alternative Assets fell outside its long-term guideline range of between 2.5% and 7.5% for 2 months over the year ending 30 June 2009. The exposure to Local Alternative Assets dropped below the mandated minimum of 2.5% at the end of February 2009 and June 2009 due to relative market movements. The following provides the actual allocation of Local Alternative Assets at the end of each quarter within the period:

Effective Date	Actual Allocation
30 September 2008	5.5%
31 December 2008	6.1%
31 March 2009	7.1%
30 June 2009	7.6%

- The actual exposure to Local Cash (including FSC Assets) fell outside its long-term guideline range of between 4% and 11% for 4 months over the year ending 30 June 2009. The reason for the portfolio holding less than the mandated minimum of 4% in Local Cash was as a result of derivative exposures, which had occurred at the end of the following months: December 2008, January 2009, February 2009 and March 2009.

The following provides the actual allocation of Local Cash (including FSC Assets) at the end of each quarter within the period:

Effective Date	Actual Allocation
30 September 2008	8.3%
31 December 2008	3.1%
31 March 2009	3.8%
30 June 2009	5.9%

- The actual exposure to Local Bonds fell outside its long-term guideline range of between 4.5% and 15.5%, for 2 months over the year ending 30 June 2009. The exposure to Local Bonds fell below the mandated minimum of 4.5% at the end of May 2009 and June 2009 due to relative market movements. The following provides the actual allocation of Local Bonds at the end of each quarter within the period:

Effective Date	Actual Allocation
30 September 2008	6.6%
31 December 2008	7.8%
31 March 2009	4.9%
30 June 2009	4.3%

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

We declare that the Absolute Growth Portfolio performance (gross of asset management charges) over the 1-year period ending 30 June 2009 (-9.7% p.a.), as measured against the benchmark, underperformed the benchmark return (-9.4% p.a.) over the same period.

2. Bonus philosophy

From October 2008 until June 2009, Old Mutual departed from the bonus formula shown in the previous governance report and declared discretionary positive bonuses. Subsequently, an enhanced bonus formula was introduced in July 2009. The new bonus formula is described in detail in Appendix 2.

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

A statement regarding the Absolute Growth Portfolio’s solvency level is set out in Appendix 4 to this report.

The Bonus Smoothing Reserve of the Absolute Growth Portfolios was more negative than –7.5% of the value of the liabilities as at the end of the financial year at 31 December 2008.

In addition, we can disclose that the Bonus Smoothing Reserve (BSR) at the end of each quarter over the 1-year period ending 30 June 2009 as follows:

BSR Range	30 Sept 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009*	Long-Term Expected Average
0% to 5%					
-5% to 0%				*	
-10% to -5%					
-15% to -10%					

* BSR for the Absolute Growth Portfolios in the then Transition Series (currently known as the 2009 Series)

Signed on this the 9th day of November 2009



Trevor Pascoe
Product Solutions Executive
Investment Services
Old Mutual Corporate



Roger Birt
Head of Guaranteed Investment Portfolios
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 following mandate outlined below.
- Although this mandate is not expected 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. This report describes the mandate effective 30 June 2009.

The Absolute Growth Portfolios invest in four broad asset classes, namely International Assets, South African Direct Property, South African Alternative Assets, and South African Equities & Interest-bearing Assets (including Targeted Investments).

The following specifies the mandated allocation to each broad class:

Broad Class	Sub Class	Strategic Allocation (1 July 2008)	Strategic Allocation (30 June 2009)
South African Equities and Interest-bearing Assets	South African Equities	56.25%	52.25%
	South African Bonds	9.25%	8.25%
	South African Cash (incl. FSC assets)	7.00%	7.00%
South African Direct Property	South African Direct Property	7.50%	7.50%
South African Alternative Assets	South African Alternative Assets	5.00%	5.00%
International Assets	International Equities	7.75%	11.50%
	International Fixed Interest Investments	4.25%	5.00%
	International Alternative Assets	3.00%	3.50%

The following specifies the mandated minimum and maximum for each broad class:

Broad Class	Sub Class	Range (1 July 2008)	Range (30 June 2009)
South African Equities and Interest-bearing Assets	South African Equities	[48%;65%]	[43.5%;61%]
	South African Bonds	[4.5%;15.5%]	[4.5%;15.5%]
	South African Cash (incl. FSC assets)	[4%;11%]	[4%;11%]
South African Direct Property	South African Direct Property	[5%;10%]	[5%;10%]
South African Alternative Assets	South African Alternative Assets	[2.5%;7.5%]	[2.5%;7.5%]
International Assets	International Equities	[3.5%;14%]	[6.5%;16.5%]
	International Fixed Interest Investments	[0%;9%]	[0%;10%]
	International Alternative Assets	[1.5%;6%]	[1.5%;7%]

Asset Classes

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

The exposure to international assets in the benchmark portfolio is set to the fixed weightings as indicated at the start of this section. The strategic allocation to offshore assets was changed from 15% to 20% with effect from 1 August 2008.

International Equities

As at 30 June 2009, the exposure to the international equities is limited to between 6.5% and 16.50%.

To construct the optimal portfolio, the portfolio manager makes use of OMAM (UK) and OMAM (US) on a multi-manager basis.

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

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.

International Interest Bearing Assets

As at 30 June 2009, the exposure to the international interest bearing assets is limited to between 0% and 10%.

The performance benchmark for international interest bearing assets is a composite index of 50% Lehman Global Aggregate Total Return Index (now named the Barclays Capital Aggregate Index) plus 50% JP Morgan Total Return Index (in South African rand).

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.

International Alternative Assets

As at 30 June 2009, the exposure to the international alternative assets is limited to between 0% and 10%.

The benchmark for international alternatives was changed from a composite of 50% MSCI World index and 25% Lehman Brothers Aggregate Bond index (now named the Barclays Capital Aggregate) and 25% JP Morgan Global Government Bond index to USA Consumer Inflation plus 5% in USD, over rolling 5 year periods, effective from 1 December 2008.

A maximum exposure of 7% of the portfolio can be held in alternative assets. These assets can include hedge funds, funds of hedge funds, absolute return funds and other defensive portfolios.

South African Direct Property:

As at 30 June 2009, the exposure to the local direct property assets is limited to between 5% and 10%.

From 1 June 2008, in calculating the benchmark portfolio performance, the exposure to this asset class in the benchmark portfolio was set to the strategic exposure (i.e. 7.5%), provided the actual exposure was equal to or less than a hurdle of 8%. The exposure to this asset class in the benchmark portfolio was increased above 7.5% by the extent to which the actual Domestic Direct Property exposure exceeds 8%. Any exposure above 7.5% in the benchmark portfolio for Domestic Direct Property was accommodated for by reducing the exposure in the benchmark portfolio to Domestic Equities and Domestic Interest Bearing Assets equally. From 1 January 2009 the hurdle used in this calculation was changed from 8% to 10%. This is an interim method in calculating the strategic exposures to cater for the illiquidity of the asset class and will be reviewed to better align the strategic allocation to 7.5% at the end of 2009.

Due to the change in the CPI and CPIX indices introduced in 2009, the benchmark became CPI+5.5% with effect from 1 April 2009.

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.

South African Alternative Assets:

This asset class contains investments in Alternative Asset Portfolios managed by OMIGSA. The portfolio has a strategic allocation to South African Alternative Assets of 5%, with a minimum exposure of 2.5% and a maximum exposure of 7.5%.

Alternative assets include investments in:

Private Equity

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

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.

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.

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.

African Assets

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

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.

Due to the nature of the investments in this class, the portfolio manager is not in a position to effect asset allocation changes in the short term. Prior to 1 June 2008, when calculating benchmark portfolio performance, the exposure to this class was set to the actual exposure at the start of each month. However, effective from 1 June 2008, the exposure to South African Alternative assets in the benchmark portfolio is set to the fixed weighting as indicated at the start of this section.

The performance benchmark for this broader class is to generate a real return (relative to CPIX) in excess of 7% per annum (before tax and charges) over rolling 3-year periods. With effect from 1 April 2009, real returns are measured relative to CPI.

South African Equities & Interest-bearing Assets:

Effective from 1 June 2008, the exposure to each asset class (within this broader class) in the benchmark portfolio is set to the fixed weighting as indicated at the start of this section.

Equities

As at 30 June 2009, the exposure to the local equities is limited to between 43.5% and 61%.

The South African equity portion of this asset class is managed by the OMIGSA Equity Boutiques shown below, with the strategic allocations to these Boutiques, as indicated:

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

The performance benchmark for the South African equity portion of the portfolio is the Shareholder's Weighted Index (SWIX). For the purposes of performance measurement, total returns are used i.e. dividends are included in the calculation of the benchmark portfolio return.

Performance is measured over rolling 12-month periods. The South African equity portion of the portfolio is targeted to produce 1.55% per annum outperformance of its benchmark (SWIX).

With effect from 24 December 2008, the portfolio could invest up to 2.5% in quoted property which is considered as part of the local equity exposure. The strategic asset allocation remained unchanged at 0%.

Interest bearing assets

As at 30 June 2009, the exposure to the local interest bearing assets is limited to between 8.5% and 26.5%.

The performance benchmark for the South African Interest-bearing asset portion of the portfolio is 40% STeFI Money Market Composite Index and 60% BEASSA All Bond Index. For the purposes of performance measurement, total returns on this benchmark is used i.e. interest is included in the calculation of the benchmark portfolio return.

The portfolio is at all times limited to durations within one year of the duration of the benchmark. The portfolio is targeted to produce 0.5% per annum outperformance of the benchmark over rolling 3-year periods.

The credit risk exposure of the portfolio as a whole must be subject to the Asset Manager's credit risk guidelines as documented in the Approved Exposure Guidelines, Intermediaries, Counterparties, and Instruments as approved from time to time by the OMIGSA Credit Committee.

The South African Interest Bearing portion of the portfolio includes 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. The long-term performance objective of the Targeted Investments is to earn a return of 3 month JIBAR plus 70bps per annum, gross of asset management fees.

Overall Restrictions & 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.
- For shares with market capitalisation of less than R2bn, the local equity portfolios cannot invest more than 5% of their assets. For all other shares local equity portfolios cannot invest more than 15% of their assets in any one 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, Nedbank and Mutual & Federal shares during closed periods.

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

No strict criteria are set for performance relative to peers. However, the monthly performance monitoring process has regard to the performance of similar mandates offered by other asset managers. This is used to assess the robustness of the benchmark, the reasonability of the outperformance target, and the relative success of the asset manager, taking into account any differences in benchmark and restraints imposed on the asset manager.

Appendix 2 - Bonus Philosophy

The smoothing process inherent in the bonus philosophy aims to ensure that, over time, the bonus should produce the same return as the underlying portfolio net of the guarantee charge and other costs, but with the impact of short-term market volatility significantly reduced.

Bonus Philosophy

The surplus attributable to smoothed bonus 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 difference between the market value of the assets and the value of the basic liabilities.

A separate BSR is maintained for each of the Old Mutual Corporate Smoothed Bonus Portfolios and for each of the Old Mutual Corporate Absolute Growth Portfolios, i.e. Absolute Smooth Growth, Absolute Stable Growth and Absolute Secure Growth. As a general rule, Old Mutual determines a combined BSR in respect of the three Absolute Growth Portfolio options for the purposes of declaring bonuses. Old Mutual is, however, entitled to determine separate BSRs, which may either be an individual BSR in respect of each of the three portfolio options, or a combined BSR in respect of any two of the portfolio options and a separate BSR in respect of the remaining portfolio option. Without limitation to the generality of this entitlement, Old Mutual may exercise its entitlement to determine separate BSRs, in particular when a negative bonus is determined, as described in this section, in respect of any one of the portfolio options.

For the year ending 30 June 2009, two separate BSRs were maintained for the two series of the Absolute Growth Portfolios for the purposes of declaring bonuses. The 2007 Series of the Absolute Growth Portfolios was launched on 1 April 2007 and the 2009 Series of the Absolute Growth Portfolios was launched on 1 April 2009. The current 2009 Series of the Absolute Growth Portfolios was previously known as the Transition Series (an investment vehicle for the existing clients who want to migrate between Smoothed Bonus Products), which was merged with the 2009 Series (an investment vehicle for the new clients) to form the 2009 Series of the Absolute Growth Portfolios. The reason for the merger of the Transition Series and the previous 2009 Series was because the reserves of the two series' were closely aligned at the time of the merger.

The amount available for each bonus declaration is therefore taken as the accumulated balance in the BSR. This balance depends primarily on:

- Amounts earned in the past, which have not previously been declared as bonuses.

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 net investment return earned during the prior month.

Bonuses declared usually differ from the actual net (of charges) investment return earned in any month, so as to reduce the impact of short-term volatility of returns to policyholders. In months when above

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

The BSR is therefore credited with the net investment return and is debited with the cost of bonuses declared and the cost of investment guarantees.

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

Bonus Declaration Process

Bonuses are declared monthly in advance, based on the bonus formula described below. Since October 2008, Old Mutual departed from the stated formula as disclosed in the 30 June 2008 Absolute Growth Portfolios governance report in the existing bonus series for the Absolute Growth Portfolios and declared bonuses on a discretionary basis. An enhancement was made to the bonus formula in July 2009. The reason for this is that the previous formula tended to declare higher bonuses than what Old Mutual deemed prudent, due to the reliance of the formula on CPI inflation (averaged over three years).

The revised formula adopts the same structure as the previous bonus formula, i.e. the focal point of the formula is based on the investment return target for each Absolute Growth Portfolio product option (e.g. CPI+5.5% for Absolute Stable Growth). However, elements have been built into the formula to enable it to better deal with high inflation environments, thus declaring lower bonuses during these environments compared to the existing formula, and as such reducing the pace at which the reserves for the Absolute Growth Portfolios become negative.

Old Mutual, in the reasonable exercise of its discretion, is entitled to depart from the formulaic method of calculation and application of the bonus. The bonus declaration is therefore at the ultimate discretion of the Board and is based on the recommendation by the Statutory Actuary. The Board has delegated the authority for approving monthly bonuses to the Statutory Actuary, who will keep the Board informed periodically.

The following describes how the bonus formula is used to declare bonuses for each Absolute Growth Portfolio.

Each Absolute Growth Portfolio targets declared bonuses based on inflation, as follows:

Portfolio Option	Inflation Target
Absolute Smooth Growth	CPI+6.0%
Absolute Stable Growth	CPI+5.5%
Absolute Secure Growth	CPI+3.5%

These targets are measured over any rolling three-year period. The bonus declaration process is as follows:

While the bonus smoothing reserves (BSR) are 0% or greater

The monthly bonus is defined as:

A+B, subject to a minimum of 0.05%

Where $A = (1 + \text{CPI} + \text{return target})^{(1/12)} - 1$, where the return target is the return target for the Absolute Growth Portfolio product option, and CPI is the rolling three-year CPI with a three-month lag. Where B is an adjustment to A, which either adds or deducts a percentage to arrive at the bonus to be declared, and depends on the size of the BSR. This is consistent with the previous formula, but now allows for a lower adjustment where average three-year CPI exceeds the upper limit of the South African Reserve Bank's targeted range (i.e. 6%). This is reasonable as factor 'A' is higher in this scenario due to average three-year inflation exceeding 6%.

Reserve	Average three-year CPI is less than or equal to 6%	Average three-year CPI is greater than 6%
0% (incl) to 5%	0.00%	-0.50%
5% (incl) to 10%	0.50%	0.00%
10% (incl) to 15%	0.75%	0.25%
15% (incl) to 20%	1.00%	0.50%
20% (incl) to 25%	1.25%	0.75%
25% (incl) to 30%	1.50%	1.00%
> 30% (incl)	1.75%	1.25%

While the bonus smoothing reserves (BSR) are between minus 15% and 0%

The bonus is fixed, without linkage to CPI, and depends entirely on the size of the BSR as follows:

Reserve	Monthly Gross Bonus		
	Absolute Smooth Growth	Absolute Stable Growth	Absolute Secure Growth
-2.5% (incl) to 0%	0.49%	0.45%	0.29%
-5.0% (incl) to -2.5%	0.29%	0.25%	0.08%
-7.5% (incl) to -5.0%	0.14%	0.10%	0.05%
-15% (incl) to -7.5%	0.05%	0.05%	0.05%

While the bonus smoothing reserves (BSR) is less (more negative) than minus 15%

Standard negative bonuses apply for Absolute Smooth Growth and Absolute Stable Growth, as per the existing formula, as follows:

Reserve	Gross Bonus
-20% (incl) to -15%	-15%
-25% (incl) to -20%	-20%
-30% (incl) to -25%	-25%
-35% (incl) to -30%	-30%
-40% (incl) to -35%	-35%
Below -40%	-40%

The magnitude of any negative bonus applied is limited by the guarantee level of the product option, e.g. -20% for Absolute Stable Growth (80% guarantee level). Negative bonuses cannot be declared for Absolute Secure Growth (100% guarantee level).

The BSR is targeted in the long term to be within a range of 0% to 5% of the accumulated policy values. The bonus formula described above aims to restore the BSR to its long-term target over a reasonable period, consistent with guidelines issued by the Actuarial Society of South Africa that require the Statutory Actuary not to allow the BSR to drop below a position that can reasonably be expected to be restored within three years.

However, the smoothing process, coupled with short-term market movements, and the impact of cashflows will inevitably cause the BSR to move outside of this range in the short term. In severe market conditions, should the BSR fall below minus 15%, Old Mutual declares negative bonuses for Absolute Smooth Growth and Absolute Stable Growth. This is described in the relevant section above.

Old Mutual may use discretion to declare bonuses, and so depart from the above formula, if the bonus declared by the formula would result in a BSR that is inappropriately high or low, reducing the possibility of restoring the BSR to its long-term target over a reasonable period. In assessing the possibility of restoring the BSR to its long-term target, consideration will be taken of the views on the relative level of the market compared to historical levels, as well as the current and medium-term economic outlook and prospects for investment markets.

When determining the bonus to be declared by discretion, consideration is also given to 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.

Guaranteed vs Non-Guaranteed Bonuses

For Absolute Smooth Growth, 50% of the total balance is guaranteed. For Absolute Stable Growth, 80% of the total balance is guaranteed. For Absolute Secure Growth, 100% of the total balance is guaranteed. Before a negative bonus is applied, the bonuses declared are therefore 50%, 80% and 100% guaranteed for each of Absolute Smooth Growth, Absolute Stable Growth and Absolute Secure Growth respectively.

If a negative bonus is applied to Absolute Smooth Growth and/or Absolute Stable Growth, the guaranteed percentage of policy values for these portfolios will increase. Thereafter, the bonus declared may be guaranteed at a level lower than those specified above, so as to reduce the guaranteed percentage of policy values until it is restored to 50% for Absolute Smooth Growth and 80% for Absolute Stable Growth.

Negative Bonuses in Adverse Circumstances

Contractually, in severe market conditions, should the BSR become more negative than minus 15%, the monthly bonus in respect of Absolute Smooth Growth and Absolute Stable Growth will be negative and based on the table below, subject to a maximum of the non-guaranteed element for each product option (e.g. for Absolute Stable Growth, the negative bonus will not be more severe than minus 20%). Negative bonuses cannot be declared for Absolute Secure Growth, given that it is fully (100%) guaranteed.

Reserve	Monthly Negative Bonus	
	Absolute Smooth Growth	Absolute Stable Growth
-20% (incl) to -15%	- 15%	- 15%
-25% (incl) to -20%	- 20%	- 20%
-30% (incl) to -25%	- 25%	- 20%
-35% (incl) to -30%	- 30%	- 20%
-40% (incl) to -35%	- 35%	- 20%
Below -40%	- 40%	- 20%

Old Mutual can depart from the method stated above for Absolute Smooth Growth and Absolute Stable Growth, provided the Board, on the recommendation of the Statutory Actuary, considers it still possible to restore the level of the BSR during the ensuing three years, while taking due consideration of the economic and investment environment at all times. This may result in a more or less severe negative bonus being declared at each BSR level, or that a negative bonus is declared at a BSR level less negative than minus 15%.

If, after the removal of the non-guaranteed element through negative bonuses, the Board considers that the level of the BSR may not be capable of being restored within three years, shareholder capital will be used to provide temporary support to the portfolios. If and when the position improves, the support provided will be returned to shareholder funds with returns earned.

The Cost of Providing Guarantees

Old Mutual levies a capital charge of 0.2% per annum for Absolute Smooth Growth, 0.7% per annum for Absolute Stable Growth and 2.7% per annum for Absolute Secure Growth. The capital charge will be levied monthly in arrears on the assets underlying the policy. Thus any bonuses declared are net thereof. This charge is in respect of the cost of providing the guarantees inherent in each product option.

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

Smoothed Bonus products (including Absolute Growth) 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 Smoothed Bonus business are managed in the interests of the policyholders concerned.

Old Mutual, in the reasonable exercise of its discretion and with the objective of maintaining equity between different generations of policyholders in the Absolute Growth Portfolios, will be entitled to operate more than one series of the Absolute Growth Portfolios and/or merge some or all of the Absolute Growth Portfolio Options within any two or more of the Absolute Growth Portfolio series. For the year ending 30 June 2009, the 2007 and the 2009 Series of the Absolute Growth Portfolios are maintained separately for the purposes of ring-fencing of the different policyholder funds invested in the two series.

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The portfolio managers responsible for the policyholder funds have been clearly instructed that all investment decisions taken within the 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 that sets out the mandate for that product portfolio. Amongst others, the mandate specifies which asset classes may be held, and in what proportions.
- 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 Nedbank and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominately held in shareholder funds. Policyholder fund 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 and investment performance relative to benchmarks.
- The method of allocation of profits and investment returns between policyholders and shareholders is

clearly specified, and Smoothed Bonus 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.
- 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 Portfolios became effective.

Old Mutual complies with this guidance by making public, information relating to the solvency levels for all classes of business. The published reports contain a statement regarding the solvency levels of each class relative to a level of -7.5% of the value of the liabilities in that class.

The Bonus Smoothing Reserve of the Absolute Growth Portfolios was more negative than -7.5% of the value of the liabilities as at the end of the financial year at 31 December 2008.

On a quarterly basis Old Mutual provides information on the Bonus Smoothing Reserves (BSR) for Absolute Growth in the format shown below. The aim of this information is to demonstrate the extent to which the long-term objective in terms of a target range of BSR is being achieved.

The actual BSR after taking account of all declared bonuses falls within one of the following ranges at each quarter end:

BSR Range	30 Sept 2008	31 Dec 2008	31 Mar 2009	30 Jun 2009*	Long-Term Expected Average
> 20%					
15% to 20%					
10% to 15%					
5% to 10%					
0% to 5%					
-5% to 0%				*	
-10% to -5%					
-15% to -10%					
< -15%					

* BSR for the Absolute Growth Portfolios in the then Transition Series (currently known as the 2009 Series)

The current 2009 Series of the Absolute Growth Portfolios was previously known as the Transition Series (an investment vehicle for the existing clients who want to migrate between Smoothed Bonus Products), which was merged with the 2009 Series (an investment vehicle for the new clients) to form the 2009 Series of the Absolute Growth Portfolios.

As at 30 June 2009, the actual BSRs for the 2007 Series of the Absolute Growth Portfolios and the 2009 Series of the Absolute Growth Portfolios were in the range between -15% and -10%, and -5% to 0% respectively.

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 reasonable 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 nineteen of the Annual Governance Report on the Internal Policies, Practices, Processes and Philosophies of the Old Mutual Smoothed Bonus Portfolios for the Absolute Growth Investment 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. 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 the 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 the 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 six to nineteen, 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 Smoothed Bonus Portfolios for the Absolute Growth Investment 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 Smoothed Bonus Portfolios for the Absolute Growth Investment 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 Smoothed Bonus Portfolios for the Absolute Growth Investment Portfolio for the year ended 30 June 2009.

Yours faithfully

KPMG Services (Proprietary) Limited



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

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