Annual financial statements




Registration no. 1999/004643/06

2002

Old Mutual
Life Assurance Company
(South Africa) Limited

Annual financial statements

for the year ended 31 December 2002

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Corporate governance

The Board of Directors endorses the code of corporate practice and conduct recommended in the King Report on corporate governance for South Africa 2002 and endeavours to conduct its affairs in the best interests of all its stakeholders, in so far as it may be applicable and relevant to a wholly-owned subsidiary whose ultimate holding company is required to comply with listing requirements of various stock exchanges.

The Board of Directors

Role and composition

The Company has a unitary board of 18 directors, the majority of whom are independent of management. The Board currently comprises 15 non-executive directors, three directors whom are executive directors of the ultimate holding company, and three executive directors. Full details are set out in the directors' report.

The selection and appointment of directors 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 skills, experience and knowledge. New directors may hold office only until the next annual general meeting at which they retire and become available for re-election by shareholders on the recommendation of the Corporate Governance and Nomination Committee and of the Board.

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.

All directors are subject to retirement by rotation and re-election by shareholders at least once every three years. Proposals for re-election to the Board are considered by the Corporate Governance and Nomination Committee and are not automatic.

With effect from 1 January 2003, non-executive directors will be appointed for a three year term and will serve one or two terms. A minority will serve a longer term to provide the necessary continuity. 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.

The Board meets regularly, having met eight times in 2002 including sessions devoted to strategy and business planning and an annual self-evaluation review. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

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 proper administration of board proceedings.

Chairman and Managing Director

The roles of the Chairman and Managing Director are separate. The Board is led by the Chairman, Mr Levett, a non-executive director, and Mr Clewlow, also a non-executive director, as Deputy Chairman.

The executive management of the Company is the responsibility of the Managing Director, Mr Sparks, and his Deputy Managing Directors, Messrs de Beyer and Moyo.

Corporate governance *(continued)*

The Board of Directors *(continued)*

Board Committees

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 as required. The committees are chaired by independent or non-executive directors, supported by the Company Secretary, and are free to take independent professional advice as and when necessary.

Audit, Risk and Compliance Committee

This committee, chaired by Dr Konar, an independent director, met four times during the year with senior management, which included the Managing Directors, senior executive management, the Chief Actuary, the Chief Internal Auditor, the Compliance Officer and the Risk Manager. The independent auditors and internal auditors attend these meetings and have unrestricted access to the committee and to its chairman.

The committee serves in an advisory capacity to the Board and assists the directors to discharge their duties relating to the safeguarding of assets, the operation of adequate systems, risk management and 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 and that material corporate risks have been identified and are being effectively managed and monitored. The committee also evaluates the adequacy and efficiency of the actuarial valuation process.

The Company has an internal audit function. It has a specific mandate from this committee and independently appraises the Company's internal controls and accounting records, reporting its findings to management as well as to the Audit, Risk and Compliance Committee. As part of the system of internal control, the Company's internal audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the independent auditors.

Remuneration Committee

The Remuneration Committee, chaired by Mr Clewlow, a non-executive director, meets as often as necessary, and met six times during the year. The committee assists the Board by guiding and directing the remuneration strategy and structure, and monitoring and controlling the remuneration and benefits structure and cost.

The committee determines the remuneration, incentive arrangements, profit participation and benefits of the Deputy Managing Directors and executive management. It makes recommendations on the remuneration of non-executive directors and on the grant of awards under the share incentive scheme. The remuneration of the Managing Director is determined by the Remuneration Committee of Old Mutual plc.

Specific emphasis is placed on incentive payments and longer-term remuneration structures. In order to promote an identity of interests with shareholders, share incentives are considered to be an integral and vital element of remuneration structures. At all times attention is paid to the retention of key executives.

Corporate Governance and Nomination Committee

This committee, chaired by Prof van Wyk, an independent director, meets as often as necessary and met twice during the year. Its function is to regularly review the structure, size, composition and mix of skills and experience of the Board and its committees and to make recommendations to the Board.

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

Corporate governance *(continued)*

The Board of Directors *(continued)*

Environment Committee

This is a new committee introduced from 1 January 2003 to provide input into the development of business strategy in respect of external stakeholders, in particular government relations and transformation issues. It will play an important role at the time of strategy and plan creation, and will be expected to review and input into the consideration of the customer, government and regulatory environment. It is chaired by Prof Gerwel, an independent non-executive director, and will meet four times a year.

Strategic Projects Management Committee

This is another new committee introduced from 1 January 2003, chaired by Mr van Niekerk, a non-executive director. It will provide input on strategic initiatives, review their progress, provide input at the time of strategy and business plan creation and act as a sounding board for management's ideas. The committee includes executive directors and will meet on an ad hoc basis as the requirements of the projects within its scope require.

Governance of Smoothed Bonus policyholder funds

Smoothed bonus 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 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 the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The portfolio manager responsible for the policyholder funds has 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, based on the nature of that product's liability, particularly the nature of any investment guarantees that are provided. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For products with fully guaranteed benefits (such as the level annuity portfolio) particular care is taken to ensure that assets match liabilities as closely as possible.
- 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 investments in Old Mutual Group companies (such as in Nedcor and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominantly 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.
- Where it is proposed that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders' interest, all such potential conflicts of interest must be disclosed to the Statutory Actuary, and if material be approved by the Board. It is important that any such transactions are conducted on arms-length terms, and that it can be clearly demonstrated that such investments are in the interests 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 smoothed bonus policyholder funds are credited (via bonus smoothing reserves) with the full investment return earned on their funds, less specified charges.

Corporate governance *(continued)*

The Board of Directors *(continued)*

Governance of Smoothed Bonus policyholder funds *(continued)*

- Any profit allocated to shareholder funds may only be transferred from policyholder funds on 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 actuarial valuation, a detailed analysis of profit is done, which confirms that there are no material errors or inconsistencies in the valuation, 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 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 smooth 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 smoothing reserves, which may only be used to support subsequent bonus declarations.

Directors' emoluments

R' 000

Directors' emoluments	**2002**
Non-executive directors	
Fees	**1 566**
Executive directors	**8 487**
Basic salaries	**5 875**
Bonuses and performance related payments	**1 887**
Retirement, medical and other benefits	**725**
Total directors' emoluments	**10 053**

Fees paid to non-executive directors were as follows:	
W A M Clewlow	418
G J Gerwel	80
P G Joubert	154
D Konar	194
R C M Laubscher	-
M J Levett	-
C F Liebenberg	154
A A Maule	80
M Morobe	94
W A Mgoqi	80
P F Nhleko	80
J V F Roberts	-
J H Sutcliffe	-
G S van Niekerk	124
A H van Wyk	108
	1 566

Corporate governance *(continued)*

R '000

Directors' emoluments *(continued)*

2002	Basic salaries	Bonuses and performance related payments	Retirement, medical and other benefits	Total emoluments
Executive directors' total emoluments comprise:				
R J A Sparks	2 300	787	283	**3 370**
P G de Beyer	1 850	644	228	**2 722**
M P Moyo	1 725	456	214	**2 395**
	5 875	1 887	725	**8 487**

Details of the directors' share interest arising from the OMGA Share Incentive Scheme and outstanding at 31 December 2002 are set out below:

	Exercise price	Number of shares outstanding	Date of grant	Gains on current year settlements
Executive directors				
R J A Sparks	9.90	22 100	01/02/1997	528
	10.69	101 900	01/06/1997	-
	9.70	257 800	01/10/1998	-
	9.80	284 300	01/10/1998	-
	9.70	618 600	08/04/1999	-
P G de Beyer	9.90	-	02/01/1997	900
	11.34	150 000	20/08/1997	-
	9.80	126 700	01/10/1998	-
	9.70	270 700	01/10/1998	-
M P Moyo	11.64	29 600	20/10/1997	246
	12.71	69 300	25/08/1998	250
	9.70	147 100	01/10/1998	738
	9.95	85 500	26/10/1998	-
		2 163 600		2 662
Non-executive directors				
M J Levett	9.80	646 800	01/10/1998	-
	9.70	562 100	01/10/1998	-
G S van Niekerk (date exercised)	9.70	-	06/03/2002	5 387
Total		3 372 500		8 049

Rights under the Old Mutual Group Achievements Share Incentive Scheme (OMGA) were awarded based on grade level and annual pensionable earnings, but are not linked to future performance criteria. The major assets of OMGA are two endowment policies with the Company and listed shares in Old Mutual plc.

Delivery or disposal of the shares is only permitted at the earliest, as to one third at the end of each of three, four and five years from, and must in any event take place within six years from, the date of grant.

Corporate governance *(continued)*

R '000

Directors' emoluments *(continued)*

The following options in Old Mutual plc were outstanding in favour of directors of the Company under the Group's Deferred Delivery Plan at 31 December 2002:

	Exercise price	Number of shares outstanding	Dates exercisable or receivable	Gains on current year settlements
Executive directors				
R J A Sparks	13.20	188 600	14/03/2003 - 14/03/2006 [1]	-
	17.63	113 500	16/10/2003 - 16/10/2006 [1]	-
	18.62	371 400	08/03/2004 - 08/03/2007 [2]	-
	15.15	536 700	04/03/2005 - 04/03/2008 [3]	-
P G de Beyer	13.20	226 300	14/03/2003 - 14/03/2006 [1]	-
	17.63	96 500	16/10/2003 - 16/10/2006 [1]	-
	18.62	315 700	08/03/2004 - 08/03/2007 [2]	-
	15.15	431 700	04/03/2005 - 04/03/2008 [3]	-
M P Moyo	13.20	207 500	14/03/2003 - 14/03/2006 [1]	-
	17.63	170 200	16/10/2003 - 16/10/2006 [1]	-
	18.62	278 600	08/03/2004 - 08/03/2007 [2]	-
	15.15	402 500	04/03/2005 - 04/03/2008 [3]	-
		3 339 200		-
Non-executive directors				
G S van Niekerk	17.96	-	06/03/2002 [4]	265
Total		3 339 200		265

Subject to the fulfilment of performance targets prescribed by the Remuneration Committee, under which:

1 options granted on 14 March and 16 October 2000 will only be exercisable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2000 and 31 December 2002. The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary;

2 options granted on 8 March 2001 will only be exercisable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2001 and 31 December 2003. The basic factor of 9% over UK RPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

3 50% of the allocation of the options granted on 4 March 2002 will only be exercisable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2002 and 31 December 2004, and 50% of the allocation of the options granted on 4 March 2002 will only be exercisable if the Old Mutual plc Group's earnings per share expressed in SA Rands increases by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2002 and 31 December 2004. The basic factor of 9% over UK RPI and SA CRI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

4 Mr van Niekerk retired on 31 March 2001 and had to exercise all options granted to him within one year of his retirement date.

Corporate governance *(continued)*

Internal controls

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, and ensuring that liabilities are identified and managed.

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 manage, 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.

The key components of the Company's overall system of internal control currently in operation and the process of review by the directors are set out below:

Actuarial Review Committee

The Actuarial Review Committee has been reconstituted as a sub-committee of the Old Mutual plc Audit Committee, and consists of non-executive and executive directors of Old Mutual plc. The Statutory Actuary and the independent auditors also attend its meetings. It reviews the suitability of the actuarial valuation basis and the accuracy of the published financial results. A separate report on the actuarial bases and results is submitted to and reviewed by this committee, and by the Audit, Risk and Compliance Committee.

Credit Committee

The Company has established policies, procedures and standards to limit the concentration of credit risk to any counterparty and to ensure that overall credit risk is maintained at an acceptable level. Credit exposures are continuously monitored and are subject to a formal quarterly review by a Credit Committee, which comprises senior management from asset management, legal, banking and corporate operations of the Old Mutual (South Africa) Limited Group of companies.

Management structures

The Company has an appropriate organisational structure for planning, executing, controlling and monitoring its business operations in order to achieve the strategic business objectives approved by the Board. The management of the Company is delegated to the executive directors in accordance with the articles of association of the Company, which also governs the conduct of executive managers of the underlying operations of the Company. The executive managers are accountable for the control, conduct and performance of their businesses within the agreed business strategy.

Business planning

The Board regularly reviews the Company's strategic direction and the executive directors consider the strategy for the individual lines of business with executive management on a planned basis. Annual budgets and three-year strategic plans are prepared, with performance targets for each line of business set by the executive directors in conjunction with executive managers. The overall business plan for the Company is then reviewed by the Board and the Board of Old Mutual plc in light of the Company and the Old Mutual plc Group's objectives.

Performance against plan is regularly monitored at Board level. Forecasts are done on a regular basis to combine the business plan and actual figures to give the Board a better reflection of the Company's financial position, and what can be expected for the remaining portion of the year. This will also give the Board a clear indication of what needs to be done in order to meet the Company's objectives.

Employment policies

The internal controls are based on established policies and procedures, are applied by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the Company. All employees are required to maintain the highest ethical standards in ensuring that the Company's business practices are conducted in a manner which in all reasonable circumstances is above reproach.

The Company's employment policies take the above-mentioned into consideration and are regularly reviewed and updated to ensure their appropriateness. They are further designed to promote a working environment which supports the recruitment and retention of highly effective employees with a high ethical and moral standard.

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 to 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 are 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 sector of the business in which they work;

- the training and development of all employees including the directors 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.

Risk management and compliance

Executive management is responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal and external sources.

The Executive Management reports to the Audit, Risk and Compliance Committee and to the Old Mutual plc Group Compliance and Risk Management Committee on significant risks to the achievement of the Company's business objectives.

Corporate governance *(continued)*

Monitoring of controls

The Board has reviewed the effectiveness of the system of internal control during the year. The key processes supporting the Board's regular and annual review processes are summarised below.

The executive directors, together with executive management, report to the Board on behalf of their respective businesses on major changes in the business and the external environment that affect the significant risks of their respective businesses. The Board receives monthly performance information, which includes key performance and risk indicators.

As part of the Board's annual review process, each executive director is asked to complete a letter of assurance confirming compliance throughout the year and up to the date of approval of the Old Mutual plc Group Annual Report with the Old Mutual plc Group's Scheme of Delegated Authority and with the risk management and control policies. The results of these letters are reported to the Audit, Risk and Compliance Committee. These letters of assurance are supported by regularly updated risk profiles of each business unit, combined with a process of control self-assessment. Management teams in each business unit have applied the Criteria of Control Model (CoCo) developed by the Canadian Institute of Chartered Accountants, and have produced a control integrity profile for each subsidiary and business unit in the Old Mutual plc Group. This process is co-ordinated and facilitated by the Risk Function.

The Company's internal audit function carries out regular risk-focused reviews of the system of internal control. The internal audit function operates independently of executive management, reporting, for day-to-day operational purposes only, to the Executive General Manager Finance, with unrestricted access to the Chairman of the Audit, Risk and Compliance Committee. An Internal Audit Charter, reviewed and approved by the Old Mutual plc Audit Committee, governs internal audit activity within the Company and the Group. Progress against the plan is reported regularly to the Audit, Risk and Compliance Committee.

Control failures are reported in terms of an escalation protocol to the appropriate level of risk and audit committee, where rectification procedures and progress are closely monitored. Planned corrective actions are independently monitored for timely completion by internal audit and, as appropriate, by the Audit, Risk and Compliance Committee and Board.

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

During 2002 the broader Old Mutual Group in South Africa introduced its first separate annual corporate citizenship report on its social, transformation, ethical, safety, health and environmental policies and practices.

This report also covers the financial benefits delivered to customers, employees, government and shareholders. The Group subscribes to a code of ethics which is included in the corporate citizenship report.

Directors' responsibility for the annual financial statements

The directors are responsible for monitoring the preparation and integrity 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, Risk and Compliance Committee and various other risk monitoring committees.

The annual financial statements are prepared in accordance with statements of South African Generally Accepted Accounting Practice and incorporate disclosure in line with the accounting and corporate governance philosophy of the Company. 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 in operation for the foreseeable future. The Company's annual financial statements have accordingly been prepared on a going concern basis.

The annual financial statements for the year ended 31 December 2002 set out on pages 13 to 46 were approved by the Board of Directors on 14 February 2003 and are signed on its behalf by:

M J Levett
Chairman

R J A Sparks
Managing Director

Report by the Company Secretary

I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, for the year ended 31 December 2002 and that all such returns are true, correct and up to date.

J L Cowburn
Company Secretary
14 February 2003

Report of the independent auditors

To the members 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 set out on pages 13 to 46 for the year ended 31 December 2002. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

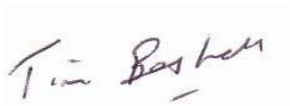
- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2002 and the results of its operations and cash flows for the year then ended in accordance with South African statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)
Cape Town



T H Bashall
Partner
14 February 2003

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the annual financial statements for the year ended 31 December 2002.

Business activities

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

Results of operations

The operating results and financial position of the Company are set out in the income statement, balance sheet, statement of changes in equity shareholders' fund, cash flow statement and accompanying notes.

Consolidated annual financial statements

Consolidated annual financial statements have not been prepared as 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.

These consolidated financial statements can be obtained directly from Old Mutual plc, registered office, 3rd floor, Lansdowne House, Berkeley Square, London, WIX 5DH, United Kingdom.

Holding company

The Company is a wholly-owned subsidiary of Old Mutual Life Holdings (South Africa) Limited. The ultimate holding company is Old Mutual plc, which is incorporated in the United Kingdom and listed on the London, Malawi, Namibia and Zimbabwe stock exchanges and on the JSE Securities Exchange South Africa.

Subsidiaries

Details of the Company's interest in its principal subsidiaries are set out in note 25.

Share capital

There was no change in the authorised or issued ordinary or preference share capital of the Company.

Dividends

Ordinary shares
Dividends on ordinary shares amounting to R900 million (2001 : R1 525 million) were declared during the year.

Preference shares
Dividends on preference shares amounting to R100 (2001 : R2 404 million) were declared during the year.

Directors' report *(continued)*

Directors

The directors currently holding office are :

Non-executive directors

M J Levett (Chairman) * ❄
W A M Clewlow (Deputy Chairman) * ✧🌢❄
P G Joubert * ✧🌢
R C M Laubscher *
C F Liebenberg * ✧🌢❖
J V F Roberts (British) * ✧
J H Sutcliffe (British) * 🌢❄
G S van Niekerk ✧⌘

Executive directors

R J A Sparks (Managing Director) ❖⌘
P G de Beyer (Deputy Managing Director) ❖⌘
M P Moyo (Deputy Managing Director) ❖⌘

Independent non-executive directors

G J Gerwel 🌢❖
D Konar ✧❄
A A Maule ❖⌘
W A Mgoqi ❖
M Morobe ❄❖
P F Nhleko ✧
A H van Wyk ❄❖⌘

✧ Member of the Audit, Risk and Compliance Committee
🌢 Member of the Remuneration Committee
❄ Member of the Corporate Governance and Nomination Committee
❖ Member of the Environment Committee
⌘ Member of the Strategic Projects Management Committee
* Director of Old Mutual plc.

In terms of the Company's Articles of Association, Dr Konar, Dr Mgoqi, Messrs de Beyer, Moyo, Liebenberg and Sutcliffe retire at the forthcoming Annual General Meeting but, being eligible, and recommended by the Board, offer themselves for re-election.

Company Secretary

Mr J L Cowburn is the Company Secretary.

Business address:	Mutualpark Jan Smuts Drive Pinelands 7405	Postal address:	PO Box 66 Cape Town 8000

Report of the Statutory Actuary

I have conducted an actuarial review of the Company as at 31 December 2002, according to applicable guidelines issued by the Actuarial Society of South Africa. In particular, the valuation was performed using the Financial Soundness Valuation method, assets and liabilities have been valued on bases that are consistent with each other and 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 2 to the annual financial statements, which can be found on pages 24 to 27.

Actuarial balance sheet

R million	2002	2001
Total assets per balance sheet	**234 494**	266 105
Total value of liabilities	**(202 832)**	(231 968)
Actuarial value of policy liabilities	**(196 627)**	(223 223)
Provisions and current liabilities	**(6 205)**	(8 745)
Excess of assets over liabilities	**31 662**	34 137
Statutory capital adequacy requirements	**13 937**	12 697
Ratio of excess assets to statutory capital adequacy requirements	**2.3**	2.7
The change in the excess assets has arisen from the following main sources:		
Investment income on excess assets	**1 304**	2 063
Realised and unrealised gains/losses on excess assets	**(5 620)**	(184)
Operating profit before tax (excl. the effect of changes in the valuation basis)	**3 349**	3 060
Changes in valuation basis	**67**	(3)
Taxation	**(1 299)**	(943)
Deferred taxation - net capital gains	**624**	(515)
Total earnings	**(1 575)**	3 478
Dividends	**(900)**	(3 929)
Total decrease in excess assets	**(2 475)**	(451)

Certification of financial position

I hereby certify that:

- the valuation of the Company as at 31 December 2002, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Note 104;
- this Statutory Actuary's Report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note 103;
- this Statutory Actuary's report, read together with the annual financial statements, fairly presents the financial position of the Company as at the valuation date; and
- the Company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

G S PALSER
Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
14 February 2003

Income statement

for the year ended 31 December 2002

R million	Notes	2002	2001
Policyholder revenue		**26 266**	69 942
Net premium income	13.1	**33 387**	31 875
Investment income	13.2	**(7 317)**	37 883
Other income		**196**	184
Policyholder outgo		**(49 611)**	(35 931)
Claims and policy benefits	13.3	**(37 540)**	(33 635)
Operating expenses	13.4	**(4 257)**	(3 954)
Other charges and transfers	13.5	**(6 973)**	2 333
Taxation	13.6	**(841)**	(675)
		(23 345)	34 011
Transfer from/(to) policy liabilities	13.7	**26 596**	(30 978)
Operating profit	3	**3 251**	3 033
Other shareholder income		**165**	24
Operating income before taxation and investment income	4	**3 416**	3 057
Investment income	5	**1 546**	2 223
Profit on ordinary activities before taxation		**4 962**	5 280
Taxation	6	**(1 299)**	(943)
Profit for the year		**3 663**	4 337

Balance sheet

at 31 December 2002

R million

Assets	Notes	2002	2001
Investments	7	**229 205**	257 827
Property, plant and equipment	8	**374**	254
Intangible assets	9	**90**	49
Deferred taxation asset	10	**449**	798
Current assets		**4 376**	7 177
Net outstanding premiums, accrued investment income and other debtors		**2 975**	5 671
Amounts due by group companies	11	**104**	453
Cash and cash equivalents		**1 297**	1 053
Total assets		**234 494**	266 105

Equity and liabilities	Notes	2002	2001
Equity shareholders' fund		**31 662**	34 137
Share capital and premium	12	**6 254**	6 254
Revaluation reserve		**2 076**	7 314
Distributable reserve		**23 332**	20 569
Policy liabilities	13	**196 627**	223 223
Provisions	14	**1 037**	1 050
Deferred taxation liability	15	**324**	512
Current liabilities		**4 844**	7 183
Outstanding claims, policyholders' benefits and other creditors		**4 283**	4 791
Amounts due to group companies	16	**179**	304
Taxation		**382**	1 104
Shareholder for dividend		**-**	984
Total equity and liabilities		**234 494**	266 105

Statement of changes in equity shareholders' fund

for the year ended 31 December 2002

R million

2002	Share capital and premium	Revaluation reserve	Distributable reserve	Total
Equity shareholders' fund at beginning of year	**6 254**	**7 314**	**20 569**	**34 137**
Unrealised revaluation reserve		**(5 862)**		**(5 862)**
Deferred taxation - net capital gains		**624**		**624**
Profit for the year			**3 663**	**3 663**
Dividends			**(900)**	**(900)**
Equity shareholders' fund at end of year	**6 254**	**2 076**	**23 332**	**31 662**

2001				
Equity shareholders' fund at beginning of year	6 254	8 173	20 161	34 588
Unrealised revaluation reserve		(344)		(344)
Deferred taxation - net capital gains		(515)		(515)
Profit for the year			4 337	4 337
Dividends			(3 929)	(3 929)
Equity shareholders' fund at end of year	6 254	7 314	20 569	34 137

Cash flow statement

for the year ended 31 December 2002

R million	Notes	2002	2001
Net cash (outflow)/inflow from operating activities		**(3 875)**	2 409
Cash (utilised in)/generated by operations	17	**86**	8 242
Taxation paid		**(2 077)**	(1 688)
Dividends paid	18	**(1 884)**	(4 145)
Net cash inflow/(outflow) from investing activities		**4 119**	(1 960)
Equity investments		**6 579**	6 180
Property investments		**195**	(662)
Interest bearing stocks, debentures and other loans		**(386)**	(8 510)
Deposit and money market securities		**(2 269)**	1 032
Net increase in cash and cash equivalents		**244**	449
Cash and cash equivalents at beginning of year		**1 053**	604
Cash and cash equivalents at end of year		**1 297**	1 053

Notes to the annual financial statements

for the year ended 31 December 2002

1 Accounting policies

The financial statements incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year.

1.1 Statement of compliance

The financial statements are prepared in accordance with South African statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act, 1973.

1.2 Basis of preparation

The annual financial statements incorporate the assets, liabilities and the results of the Company. Investment subsidiaries and associate undertakings are treated as investment assets in the balance sheet. For the purpose of the analysis of equity investments, investments held by these companies are classified into the applicable categories.

1.3 Premium income and benefits paid

Premiums are recognised as income when they are receivable.

Benefits paid reflect the cost of all claims arising during the year. Death claims and surrenders represent those notified up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment.

Premiums and benefits are shown net of reinsurance.

1.4 Investment income

Dividends receivable are recognised as income on the ex-dividend date. Interest is recorded on the effective yield basis and net rental income from property investments is recorded on an accrual basis.

Shares received in terms of capitalisation share awards, including those where there is an option to receive a cash dividend, are accounted for as dividend income.

1.5 Employee benefits

1.5.1 Retirement benefit costs

Contributions to the Company's defined contribution schemes are charged against income as incurred. 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.

Actuarial gains or losses in respect of defined benefit schemes are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

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 the benefits are already vested, past service costs are recognised immediately.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

1 Accounting policies *(continued)*

1.5.2 Off-set

Assets and liabilities from separate plans are off-set when there is a legally enforceable right to use a surplus in the one plan to settle obligations under the other plan or when there is an intention to settle the obligations on a net basis or to realise the surplus and settle the obligation simultaneously.

1.5.3 Post retirement benefits other than pensions

The expected cost of post retirement benefits other than pensions is charged against income so as to spread the cost over the service lives of employees entitled to those benefits. Costs are assessed in accordance with the advice of qualified actuaries.

Liabilities for employee benefits which are not expected to be settled within 12 months are discounted using the market yields, at the balance sheet date, on high quality bonds with terms which closely match the terms of maturity of the related liabilities.

1.6 Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as below.

1.6.1 Investments

Investments are valued on the bases set out below. Market value is determined by the directors using, where appropriate, quoted prices or market related rates of return. Resulting gains and losses attributable to policyholders' interests together with any related taxation impact, are included in policyholders' funds. Realised investment gains and losses attributable to the shareholders' interests are included in the income statement. Unrealised gains or losses are included in the revaluation reserve.

Listed investments, including those held by wholly-owned investment subsidiaries, investments in unit trusts and unlisted investments are stated at market value, repurchase price and directors' valuation respectively. Shares in other investment subsidiaries are stated at market value.

Interest bearing investments are valued by discounting expected future cash flows at appropriate market interest rates.

Land and buildings in the policyholders portfolio are treated as investment properties and valued at a market valuation by using the discounted cash flow method of valuation, primarily by internal professional valuers. All land and buildings are valued by external valuators on a five year cyclical basis. No depreciation is provided on the properties as the directors consider that these properties are held for investment and to depreciate them would not result in fair presentation.

1.6.2 Cash and cash equivalents

Cash and cash equivalents are measured at fair value and margin deposits are included in current assets.

1 Accounting policies *(continued)*

1.6.3 Derivative instruments

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

Derivative instruments are valued at fair market value. Listed derivative instruments are stated at quoted prices, unlisted derivative instruments are valued using standard market valuation methodologies.

Gains and losses from measuring fair value hedging instruments, including fair value hedges for foreign currency denominated transactions, are recognised immediately in the income statement or policyholders' funds.

Gains and losses from remeasuring cash flow hedging instruments, including cash flow hedges for forecasted foreign currency denominated transactions and for interest rate swaps, are initially recognised directly in equity or policyholders' funds. If the hedged firm commitment or forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognised the associated gains or losses that were recognised directly in equity is included in net profit or loss in the same period or periods during which the hedged firm commitment or forecasted transaction affects net profit or loss.

Financial futures and option contracts in respect of listed shares are valued daily at fair value and capital gains and losses resulting from these valuations are accounted for in the policyholders' funds to which they relate.

1.6.4 Off-set

Where a legally enforceable right of off-set exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

1.7 Scrip lending

The company engages in scrip lending for which it obtains collateral security. The investments on loan are reflected in the balance sheet at year end.

1.8 Intangible assets

Intangible assets comprising of computer software development costs are recognised as an expense as incurred. However, costs that can be directly attributed to a separately identifiable software application, which will be controlled by the Company and has probable benefit exceeding its cost beyond one year, are recognised as an asset.

The assets are amortised over their expected useful lives, not exceeding five years, on a straight line basis through the income statement, and are carried in the balance sheet at cost less accumulated amortisation and impairment losses.

1.9 Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation which is calculated to write-off the assets over their estimated useful lives.

Owner-occupied land and buildings in the shareholder fund are treated as property, plant and equipment, and carried on the balance sheet at a depreciated fair value. These properties are depreciated over their estimated useful lives on a straight line basis.

1 Accounting policies *(continued)*

1.10 Policy liabilities

The policy liabilities in respect of unmatured policies are determined by the Company's valuator according to prevailing legislation and generally accepted actuarial practices. Further details are provided in note 2.

1.11 Foreign currency

Foreign currency transactions and balances

Transactions in foreign currencies are converted to South African Rand at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into South African Rand at rates of exchange ruling at the balance sheet date. Exchange gains and losses on the translation of foreign currency assets and liabilities are disclosed as unrealised gains or losses and included in policyholders' funds or the revaluation reserve.

Foreign operations

The income statement items of foreign branches are translated at the appropriate weighted average exchange rates for the year. Balance sheet items are translated at the ruling exchange rates at the balance sheet dates. Translation gains and losses are disclosed as part of unrealised gains and losses on investments and recognised in the income statement or policyholders' funds.

1.12 Deferred taxation

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except for the initial recognition of assets or liabilities which affect neither accounting nor taxable profit or loss.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

Deferred taxation is calculated using taxation rates that have been enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax on unrealised capital gains or losses is provided in full and charged or credited to the revaluation reserve. Deferred tax arising on capital gains or losses on policyholder investments is included in the policy liabilities.

1.13 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 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.

1.14 Comparative figures

Where necessary comparative figures are reclassified in line with current year presentation.

2 Notes to the report of the Statutory Actuary

2.1 Valuation basis

The valuation was performed using the 'Financial Soundness Valuation' method, in accordance with PGN 104 issued by the Actuarial Society of South Africa (ASSA). This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus prescribed margins for prudence and further 'second-tier' margins. The result of the valuation method and assumptions is 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. The assets and liabilities have been valued on methods and assumptions that are consistent with each other.

2.1.1 Valuation of assets

- Investments have been valued on the bases set out in note 1.6

2.1.2 Valuation of liabilities

The major classes of business have been valued as follows:

- For group investment policies, liabilities were based on account balances at the valuation date.
- For individual policies where a portion of the premium is allocated to an accumulation account, liabilities were 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 was 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 provisions for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) were added to ensure consistency of the value of liabilities with the value of assets.
- For reversionary bonus with-profit policies, liabilities were determined by calculating the present value of projected future benefits and expenses less the present value of projected future premiums. Projected future benefits include bonus accrued to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves were added.
- For with-profit annuities, liabilities were 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 were added.
- For non-profit annuities, liabilities were determined by calculating the present value of projected future benefits and expenses. Expected future benefits were valued at interest rates based on the bond yield curve at the valuation date.
- For structured products, liabilities were derived from the market value of matching assets, plus an allowance for future expenses and margins.

Bonus stabilisation reserves have been calculated by adding the actual net investment return earned on assets backing smoothed bonus policies, 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.

2 Notes to the report of the Statutory Actuary *(continued)*

Policyholder reasonable benefit expectations were 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 assumed for South African assurance business is 14% per annum.

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

- Our best-estimate of future experience, as described below, plus
- All the margins prescribed by the Actuarial Society of South Africa guidelines, plus
- Second-tier margins reflecting mainly the excess of capital charges over the prescribed investment margin of 0.25% for policies that are valued prospectively. These 'second-tier' 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.
- Other second tier margins, mainly held to cover:
  - mortality and investment return margins for Group Schemes funeral policies, because of the additional risk associated with this business,
  - margins on Individual Business accidental death and disability supplementary benefits, because of uncertainty about future experience, and
  - expense margins in the pricing basis for Employee Benefits with-profit annuities.

Liabilities include provisions to meet maturity and mortality guarantees, and make due allowance for potential lapses and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with Old Mutual'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 experience due to AIDS.

The provision for expenses (before allowing for margins) starts at a level consistent with the Company's recent experience and allows for an 11% escalation per year thereafter in South Africa.

Old Mutual's recent experience has been analysed in the following main experience investigations:

Business unit	*Type of investigation*	*Period of investigation*
Individual business	Flexi business mortality	2000
	Conventional business mortality	1999 to 2000
	Annuitant mortality	1999 to 2000
	Dread Disease	1998 to 2000
	Disability	1995 to 1999
	Persistency	2001
Group Schemes	Mortality	2001
	Persistency	January 2001 to April 2002
Employee Benefits	Annuitant Mortality	July 1996 to June 2000
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

2 Notes to the report of the Statutory Actuary *(continued)*

In addition to these detailed experience investigations, the analysis of profit provides a measure of the aggregate experience in 2002. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions.

2.2 Statutory capital adequacy requirements

The statutory capital adequacy requirements have been calculated in accordance with PGN 104 issued by the Actuarial Society of South Africa. These provide a buffer against future experience worse than assumed in the financial soundness valuation, of which adverse investment conditions are the most significant.

The actions that the Board has approved would be taken in adverse investment conditions 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 previously declared non-vested bonuses. 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 SCAR is the single most significant component of the Company's SCAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the actions that would at least be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 15% decline in property values and a 3% increase in fixed-interest yields. 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 such action under such circumstances.

The offsetting management actions that are assumed in calculating the SCAR vary depending on circumstances at the valuation date. More extensive action is assumed under more adverse circumstances. The following actions have been assumed in calculating the SCAR as at 31 December 2002, that

- an average of at least 75% of accrued non-vested bonuses as at the valuation date would have been removed,
- for fully vesting products (with no non-vested bonuses), future bonuses would have been reduced by at least an average of 4% per year over the following 3 years,

if asset values had declined as specified as at 31 December 2002, and had not subsequently recovered.

I certify that the off-setting management actions assumed above have been approved by specific resolution by the board of directors, and that I am satisfied that actions of at least this extent would have been taken if the asset values had declined to the extent assumed at the valuation date and not subsequently recovered. The management actions assumed would have reduced liabilities as at 31 December 2002 by about R17bn.

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 100% in equities.

The ordinary capital adequacy requirements (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)

2 Notes to the report of the Statutory Actuary *(continued)*

2.3 Changes to valuation assumptions

There were various changes and refinements to valuation assumptions and methodology. These largely offset each other resulting in a net decrease in the value of liabilities of R67 million.

The main changes were as follows:

- Certain Individual Life mortality assumptions have been revised, reflecting on-going favourable experience.
- Some expense assumptions have been revised, reflecting recent actual experience.
- The reserve for investment guarantees that may apply on maturity in future has been increased.

2.4 Reconciliation of operating profit

The operating profit before tax in the report of the Statutory Actuary (page 15) is reconciled with the profit on ordinary activities for the year in the income statement (page 16) as follows:

R million	**2002**	2001
Items in the Statutory Actuary's Report		
Operating profit before tax	**3 349**	3 060
Changes in valuation basis	**67**	(3)
Operating profit before tax and investment income and tax shown in the income statement and in note 4.	**3 416**	3 057

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

3 Operating profit

	2002	2001
is arrived at after taking into account:		
Amortisation of capitalised software	**19**	8
Auditors' remuneration	**9**	14
Audit fees	**6**	5
Other audit related services	**1**	1
Secondments of staff	**1**	2
Other non-audit related services	**1**	6
Depreciation	**79**	112
Interest paid	**84**	89
Operating lease charges - equipment	**59**	47
Staff costs	**1 400**	1 215
Loss/(surplus) on sale of property, plant and equipment	**14**	(1)
Technical and professional fees	**280**	254
Monthly average number of employees	**11 414**	11 563

4 Analysis of operating profit

	2002	2001
Individual business	**2 455**	2 164
Group business	**962**	903
	3 417	3 067
Shareholder services	**(1)**	(10)
	3 416	3 057

R million

5 Investment income - equity shareholders' fund

	2002	2001
Dividends	**1 137**	1 823
- listed investments	**1 124**	654
- unlisted investments	**13**	1 169
Interest received	**167**	240
- listed investments	**-**	149
- unlisted investments	**167**	91
Net realised gains/(losses)	**242**	160
Market value fluctuation	**111**	(785)
- equities	**103**	(785)
- interest bearing instruments	**8**	-
Forex gains	**131**	945
- equities	**41**	393
- interest bearing instruments	**90**	552
Included in income statement	**1 546**	2 223
Net unrealised losses		
Market value fluctuation	**(3 131)**	(2 865)
- equities	**(3 130)**	(2 865)
- interest bearing instruments	**(1)**	-
Forex (losses)/gains	**(2 731)**	2 521
- equities	**(2 356)**	2 428
- interest bearing instruments	**(375)**	93
Included in the revaluation reserve	**(5 862)**	(344)

Investment income from subsidiaries (included in equity shareholders' fund)

	2002	2001
Dividends received	**884**	1 236
- listed investments	**871**	69
- unlisted investments	**13**	1 167
Realised (losses)/gains	**(9)**	87
Unrealised losses	**(3 706)**	(6 865)
	(2 831)	(5 542)

R million

6 Taxation - equity shareholders' fund

		2002	2001
South African taxation			
Normal income tax	- current year	**513**	858
	- prior year over provision	**(39)**	(33)
Deferred taxation	- current year	**418**	(13)
	- prior year under provision	**366**	125
		1 258	937
Capital gains tax	- current year	**38**	2
	- prior year under provision	**3**	
Foreign tax	- current year	**-**	4
		1 299	943

The Company has Secondary Tax on Companies (STC) credits which have arisen as a result of dividends received being in excess of dividends paid in the amount of R595 million (2001 : R105 million). Dividends to the value of this amount may be distributed without attracting STC.

Reconciliation of taxation rate on profit on ordinary activities

	%	%
Standard rate of taxation	**30.0**	30.0
Adjusted for:		
Prior year under provision	**6.7**	1.7
Exempt income	**(11.4)**	(7.0)
Disallowed expenses	**0.2**	2.9
Deferred tax credits not utilised	**-**	(9.5)
Other	**0.7**	(0.3)
Effective tax rate	**26.2**	17.8

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

7 Investments

Registers recording details of all investments, including property investments, are available for inspection at the Company's registered office.

7.1 Analysis of investments

	Shareholders' fund	Policyholders' fund	**Total**	2001
South African	22 230	143 960	**166 190**	170 298
Equity investments	20 440	69 646	**90 085**	99 169
Nedcor	9 620	734	**10 354**	10 358
Mutual & Federal Insurance Company	1 814	84	**1 898**	1 961
Other - listed	7 764	57 116	**64 880**	72 986
- unlisted	1 241	11 712	**12 953**	13 864
Investment property	5	8 813	**8 818**	10 076
Other property investments	-	1 394	**1 394**	1 519
Interest bearing instruments	3	54 071	**54 074**	49 161
Deposits and money market securities	1 878	10 039	**11 917**	10 679
Working capital of subsidiaries	(96)	(2)	**(98)**	(306)
International	8 702	54 313	**63 015**	87 529
Equity investments - listed	3 405	38 199	**41 605**	67 208
- unlisted	40	3 920	**3 960**	2 738
Interest bearing instruments	22	7 373	**7 395**	4 915
Old Mutual plc Medium Term Notes	4 289	-	**4 289**	6 232
Deposits and money market securities	946	4 798	**5 744**	6 309
Working capital of subsidiaries	-	21	**21**	127
	30 932	198 273	**229 205**	257 827
Total investments				
Equity investments	23 885	111 765	**135 650**	169 115
Investment property	5	8 813	**8 818**	10 076
Other property investments	-	1 394	**1 394**	1 519
Interest bearing instruments	4 314	61 444	**65 758**	60 308
Deposits and money market securities	2 824	14 837	**17 661**	16 988
Working capital of subsidiaries	(96)	20	**(76)**	(179)
	30 932	198 273	**229 205**	257 827

7.2 Spread of investments in equities by sector

	Shareholders' fund	Policyholders' fund	**Total**	2001
Resources	3 312	26 053	**29 365**	34 023
Basic and general industrials	1 687	8 370	**10 057**	17 891
Cyclical and non-cyclical consumer goods	1 182	10 044	**11 226**	14 686
Cyclical and non-cyclical services	1 654	9 878	**11 532**	12 983
Financials	13 377	26 112	**39 490**	54 957
Information technology	65	1 179	**1 244**	3 233
Unlisted investments	1 243	4 960	**6 202**	5 701
Unit trusts	1 365	25 169	**26 534**	25 641
	23 885	111 765	**135 650**	169 115

The Company's interest in its wholly-owned investment subsidiaries has been apportioned across the above sectors according to the nature of the underlying assets.

R million

7 Investments *(continued)*

7.3 Investment properties	**2002**	2001
Carrying amount at beginning of year	**10 076**	9 105
Additions	**263**	1 067
Disposals	**(475)**	(537)
Net (losses)/gains from fair value adjustments	**(1 046)**	441
Carrying amount at end of year	**8 818**	10 076

8 Property, plant and equipment

Office equipment and other tangible assets		
Cost	**678**	763
Accumulated depreciation	**(399)**	(509)
Carrying amount	**279**	254
Carrying amount at beginning of year	**254**	291
Additions	**228**	194
Disposals	**(125)**	(119)
Depreciation	**(78)**	(112)
Carrying amount at end of year	**279**	254
Owner-occupied property		
Cost	**96**	-
Accumulated depreciation	**(1)**	-
Carrying amount	**95**	-
Carrying amount at beginning of year	**-**	-
Additions	**96**	-
Depreciation	**(1)**	-
Carrying amount at end of year	**95**	-
Total property, plant and equipment	**374**	254

Included in the cost of owner-occupied property is land valued at R26 million, which is not depreciated.

R million

9 Intangible assets

	2002	2001
Capitalised computer software development costs		
Cost	**117**	57
Accumulated depreciation	**(27)**	(8)
Carrying amount	**90**	49
Carrying amount at beginning of year	**49**	-
Additions	**60**	57
Disposals		-
Amortisation	**(19)**	(8)
Carrying amount at end of year	**90**	49

10 Deferred taxation asset

	2002	2001
Deferred taxation asset at beginning of year	**798**	959
Current year release	**(321)**	(26)
- utilisation of tax loss	**(382)**	(10)
- provisions	**(51)**	(16)
- unrealised capital losses	**112**	-
Prior year overprovision	**(28)**	(135)
Deferred taxation asset at end of year	**449**	798
Comprising:		
- tax losses	**88**	505
- provisions	**249**	293
- capital losses	**112**	-
	449	798

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

		2002	2001
11	**Amounts due by group companies**		
	Global Edge technologies (Proprietary) Limited	**24**	33
	Fairbairn Capital (Proprietary) Limited	**10**	-
	Old Mutual Healthcare (Proprietary) Limited	**18**	12
	Old Mutual Life Assurance Company (Malawi) Limited	**3**	12
	Old Mutual Life Assurance Company (Namibia) Limited	**15**	281
	Old Mutual plc	**11**	73
	Old Mutual Unit Trust Managers Limited	**4**	14
	Other	**19**	28
		104	453

12	**Share capital and premium**		
	Authorised share capital		
	10 000 000 ordinary shares of R1 each	**10**	10
	10 redeemable preference shares of R1 each	**-**	-
	Issued share capital		
	8 000 000 ordinary shares of R1 each	**8**	8
	1 redeemable preference share of R1	**-**	-
	Share premium	**6 246**	6 246
		6 254	6 254

Subject to the restrictions imposed by the Companies Act, 1973, as amended, the unissued shares are under the control of the directors, until the forthcoming annual general meeting.

The preference shares are not redeemable by the holder before 12 April 2004, but 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.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

13 Policy liabilities

	South African operations	* Overseas operations	Total 2002	2001
13.1 Net premium income				
Individual business	19 198	211	**19 409**	21 034
Single	9 625	161	**9 786**	11 654
Recurring	9 573	50	**9 623**	9 380
Group business	13 978	-	**13 978**	10 841
Single	10 215	-	**10 215**	7 409
Recurring	3 763	-	**3 763**	3 432
Total premium income	33 176	211	**33 387**	31 875

New business premium income				
Life business - direct				
Individual business	10 432	211	**10 643**	12 369
Single	8 624	161	**8 785**	10 883
Recurring	1 808	50	**1 858**	1 486
Group business	7 679	-	**7 679**	4 574
Single	7 384	-	**7 384**	4 332
Recurring	295	-	**295**	242
Total life business - direct	18 111	211	**18 322**	16 943
Other life licence business - single				
Individual business	1 001	-	**1 001**	771
Group business	2 832	-	**2 832**	2 707
Total life licence business	3 833	-	**3 833**	3 478
Other single premiums	-	-	**-**	370
Total new business premium income	21 944	211	**22 155**	20 791

Other life licence business comprises premiums received in respect of business sold by fellow subsidiaries of the Company using the life licence of the Company. The items included investment only business sold by Old Mutual Asset Managers (SA) (Proprietary) Limited and retirement annuity business sold by Fairbairn Capital (Proprietary) Limited and Old Mutual Unit Trust Managers Limited.

*** Comprises operations of Guernsey and Hong Kong branches.**

R million

13.2 *Investment income*

	2002	2001
Dividends	**3 167**	2 747
- listed investments	**2 854**	2 606
- unlisted investments	**313**	141
Interest received	**7 131**	6 368
- listed investments	**4 501**	4 929
- unlisted investments	**2 630**	1 439
Net rental income	**559**	457
Net realised gains	**10 489**	14 466
- derivative instruments	**(1 225)**	459
- other	**11 714**	14 007
Unrealised (losses)/gains	**(28 663)**	13 845
- derivative instruments	**(508)**	216
- other	**(28 155)**	13 629
	(7 317)	37 883

Investment income from subsidiaries (included in policyholder funds)

	2002	2001
Dividends received	**193**	142
- listed investments	**22**	1
- unlisted investments	**171**	141
Realised gains	**8**	593
Unrealised (losses)/gains	**(7 026)**	4 158
	(6 825)	4 893

13.3 *Claims and policy benefits*

	2002	2001
Individual business	**19 581**	20 737
Death and disability benefits	**2 202**	2 191
Maturity benefits	**8 769**	9 141
Annuities	**3 252**	3 309
Surrenders	**5 358**	6 096
Group business	**17 959**	12 898
Death and disability benefits	**1 251**	1 110
Pension commutations, maturity and withdrawal benefits	**1 551**	1 457
Annuities	**2 135**	1 899
Surrenders	**13 022**	8 432
	37 540	33 635

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

13.4	*Operating expenses*	**2002**	2001
	Sales remuneration	**1 358**	1 150
	Selling and marketing expenses	**601**	698
	Administration expenses	**2 298**	2 106
		4 257	3 954

13.5	*Other charges and transfers*		
	Reinsurance of Guernsey branch (see note 22)	**5 410**	-
	Assets transferred in respect of reinsurance agreement	**6 702**	-
	Currency movement	**(1 292)**	-
	Currency translation loss/(gain)	**1 383**	(2 585)
	Other	**180**	252
		6 973	(2 333)

13.6	*Taxation*		
	South African taxation		
	Current	**843**	673
	Normal income tax	**281**	357
	Capital gains tax	**177**	(3)
	Retirement fund tax	**385**	319
	Foreign taxation	**(2)**	2
		841	675

13.7	*Movements in policy liabilities*		
	Balance at beginning of year	**223 223**	192 245
	Transfer (to)/from income statement	**(26 596)**	30 978
	Change in policy liabilities	**(21 186)**	30 978
	Reinsurance of Guernsey branch	**(5 410)**	-
	Liability reinsured	**(6 702)**	-
	Currency movement	**1 292**	-
	Balance at end of year	**196 627**	223 223

Included in policy liabilities is a deferred tax asset in respect of capital gains tax on unrealised capital gains and losses of R189 million (2001 : liability of R535 million).

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

13.8 *Composition of policy liabilities*

	2002	2001
Market related liabilities	**50 141**	65 682
Individual	**36 959**	49 898
Group	**13 182**	15 784
Non-market related liabilities	**146 486**	157 541
Individual	**72 841**	78 436
Group	**73 645**	79 105
	196 627	223 223

13.9 *Capital adequacy and ratios*

	2002	2001
Statutory capital adequacy requirements (SCAR)	**13 937**	12 697
Shareholders' funds	**31 662**	34 137
Times SCAR covered by shareholders' funds	**2.3**	2.7
Shareholders' fund as a percentage of:		
Policy liabilities	**16%**	15%
Non-market related liabilities	**22%**	22%

13.10 *Balance sheet (extracts)*

	South African operations	* Overseas operations	Total 2002	2001
Investments	228 762	443	**229 205**	257 827
Property, plant and equipment	374	-	**374**	254
Intangible assets	90	-	**90**	49
Deferred taxation asset	449	-	**449**	798
Current assets	4 328	48	**4 376**	7 177
Total assets	234 003	491	**234 494**	266 105
Equity shareholders' fund	31 664	(2)	**31 662**	34 137
Policy liabilities	196 256	371	**196 627**	223 223
Deferred taxation liability	324	-	**324**	512
Provisions	1 037	-	**1 037**	1 050
Current liabilities	4 722	122	**4 844**	7 183
Total equity and liabilities	234 003	491	**234 494**	266 105

*** Comprises operations of Guernsey and Hong Kong branches.**

R million

14 Provisions

	Restructuring and claims	Post retirement benefits	Other	Total
Balance at 1 January 2002	221	720	109	**1 050**
Amount utilised	(13)	(17)	(30)	**(60)**
Notional interest		79	4	**83**
Released	-	-	(23)	**(23)**
Charge	(4)	(20)	11	**(13)**
Balance at 31 December 2002	204	762	71	**1 037**

Restructuring and claims

The company has recognised provisions totalling R204 million (2001 : R221 million) in relation to restructuring costs and potential claims arising in the ordinary course of business.

Post retirement benefits

The provision for post-retirement benefits represents the present value of accrued costs relating to the employer's medical aid contributions and mortgage bond subsidy in respect of current pensioners. Refer to note 19.

Other provisions

Other provisions relate mainly to expenditure in connection with the discharge of responsibilities arising from undertakings made at the time of demutualisation in May 1999.

15 Deferred taxation liability

	2002	2001
Deferred taxation liability at beginning of year	**512**	49
Current year (release)/charge	**(474)**	473
- foreign exchange gains	**-**	(39)
- CFC deferred income	**5**	
- unrealised income taxable gains	**33**	
- unrealised capital gains	**(512)**	512
Prior year over/(under)provision	**286**	(10)
Deferred taxation liability at end of year	**324**	512
Comprising:		
- capital gains tax	**-**	512
- unrealised taxable gains	**324**	
	324	512

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

16	Amounts due to group companies	2002	2001
	Old Mutual Specialised Finance (Proprietary) Limited	**96**	-
	Other	**3**	13
	The loans due to group companies above are unsecured, interest free and are not subject to fixed terms of repayment.		
	Old Mutual International (Guernsey) Limited	**-**	121
	Subordinated loans		
	Old Mutual plc	**59**	74
	The loan of £4.25 million (2001 : £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.		
	Old Mutual Group (UK) Limited	**21**	96
	The loan of £1.5 million (2001 : £5.5 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.		
		179	304

17	Cash (utilised in)/generated by operations	2002	2001
	Earnings attributable to equity shareholders' fund per income statement	**3 663**	4 337
	Transfer to policyholder's funds	**2 768**	17 133
	Adjustments for:		
	Depreciation and amortisation	**98**	120
	Loss/(profit) on sale of property, plant and equipment	**14**	(1)
	Realised gains attributable to shareholder	**(242)**	(160)
	Realised gains attributable to policyholders	**(10 482)**	(14 466)
	Taxation	**2 141**	1 261
		(2 040)	8 224
	Working capital changes:	**2 126**	18
	Net outstanding premiums and other debtors	**3 044**	(426)
	Outstanding claims, policyholders' benefits and other creditors	**(645)**	552
	Property, plant and equipment	**(273)**	(108)
	Cash (utilised in)/generated by operations	**86**	8 242

18	Dividends paid	2002	2001
	Dividends payable at beginning of year	**(984)**	(1 200)
	Dividends as per income statement	**(900)**	(3 929)
	Dividends payable at end of year	**-**	984
		(1 884)	(4 145)

19 Employee benefits

Defined benefit and defined contribution plans registered in terms, of the relevant retirement fund legislation, provide retirement benefits for the Company's permanent employees. In terms of the Pension Funds Act, 1956 as amended, the defined benefit fund is actuarially valued every three years. The most recent valuation done in July 2000 confirmed that the fund was in a sound financial position.

19.1 Post-retirements benefits other than pensions

The company subsidises medical aid contributions and provides mortgage bond benefits to qualifying employees beyond the date of retirement. A liability has been raised for the expected cost of these benefits in accordance with the advice of qualified actuaries and has been charged to the income statement accordingly.

R million

	2002		2001	
19.2 Retirement benefit obligations	**Defined benefit pension plan**	**Defined contribution pension plan**	Defined benefit pension plan	Defined contribution pension plan
Present value of obligations	**(102)**	**(3 501)**	(86)	(3 629)
Unrecognised actuarial losses	**-**	**-**	-	-
Unrecognised past service cost	**-**	**-**	-	-
	(102)	**(3 501)**	(86)	(3 629)
Fair value of plan assets	**165**	**4 271**	148	4 499
Net asset not recognised in the balance sheet	**63**	**770**	62	870

The employer surplus on the defined benefit and contribution schemes, has not been recognised on the balance sheet of the Company due to new pension fund legislation that came into effect in December 2001. The effect of the new legislation is that the Company will only be able to recognise the asset once the apportionment of surplus to the Company has been approved.

19.3 Post-retirement benefit obligations	**Medical aid benefits**	**Mortgage bond subsidy**	Medical aid benefits	Mortgage bond subsidy
Present value of obligations	**753**	**18**	701	19
Unrecognised actuarial losses	**(9)**	**-**	-	-
Unrecognised past service cost	**-**	**-**	-	-
Net liability in balance sheet	**744**	**18**	701	19

19.4 Principal actuarial assumptions at the balance sheet date

Retirement benefit obligations	**Defined benefit pension plan**	**Defined contribution pension plan**	Defined benefit pension plan	Defined contribution pension plan
Discount rate	**11.0%**	**11.0%**	12.0%	12.0%
Expected rate of return on plan assets	**12.0%**	**12.0%**	14.0%	14.0%
Expected rate of salary increases	**7.5%**	**7.5%**	8.6%	8.6%

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2002

R million

19 Employee benefits *(continued)*

19.4 *Principal actuarial assumptions at the balance sheet date (continued)*

Post-retirement benefit obligations	2002 Medical aid benefits	2002 Mortgage bond subsidy	2001 Medical aid benefits	2001 Mortgage bond subsidy
Discount rate	**11.0%**	**11.0%**	12.0%	12.0%
Expected rate of salary increases	**7.5%**		8.6%	
Annual increase in healthcare costs	**12.0%**	**12.0%**	13.0%	13.0%

19.5 *Amounts recognised in the income statement*

Retirement benefit obligations	Defined benefit pension plan	Defined contribution pension plan	Defined benefit pension plan	Defined contribution pension plan
Current service cost	**5**	**175**	4	158
Interest cost	**10**	**-**	9	-
Expected return on plan assets	**(16)**	**-**	(16)	-
Net actuarial gain recognised in year	**4**	**-**	-	-
Contribution holiday	**-**	**(175)**	3	(158)
	3	**-**	-	-

Post retirement benefits	Medical aid benefits	Mortgage bond subsidy	Medical aid benefits	Mortgage bond subsidy
Current service cost	**37**	**-**	40	-
Interest cost	**77**	**2**	76	1
Net actuarial (gain)/loss recognised in year	**(57)**	**-**	(52)	2
	57	**2**	64	3

20 Financial instruments and risk management

Effective risk management is integral to the Company's objective of consistently adding value to the business. The focus of risk management is on identifying, assessing, managing and monitoring risk. Exposure to market risk and credit risk arises in the normal course of the Company's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. The Company also uses derivatives in its portfolio management to hedge against market movements in the values of investment assets and as a means of effecting a change in the asset mix of its portfolios.

Derivative financial instruments used include futures contracts, options, swaps and forward exchange contracts. Derivative instruments are purchased only from counterparties which have been approved by the Company's Credit Committee.

20 Financial instruments and risk management *(continued)*

20.1 Currency risk management

The Company's policy is to hedge against certain currency exposures where assets and matching or associated 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.

Details of foreign currency contracts entered into are not separately disclosed, as the value of these contracts is not considered to be material.

20.2 Interest rate risk management

The investment policies for the individual life and employee benefits businesses have due regard to the nature of the liabilities and the 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.

20.3 Nominal value of derivative contracts

Non-trading contracts	*Behavioural analysis*				
R million	Under one year	One to five years	Over five years	Total notional amounts	Total fair value of amounts
2002					
Equity products					
Over the counter options	2 579	9 114	(26)	11 667	9 270
Over the counter options written	(2 629)	(11 273)	(24)	(13 926)	(4 361)
Futures	(285)	-	-	(285)	-
	(335)	(2 159)	(50)	(2 544)	4 909
2001					
Equity products					
Over the counter options	5 218	18 923	(3)	24 138	14 609
Over the counter options written	(4 034)	(17 960)	(3)	(21 997)	(9 160)
Futures	(163)	-	-	(163)	-
Listed options	3	-	-	3	1
	1 024	963	(6)	1 981	5 450

R million

20 Financial instruments and risk management *(continued)*

20.4 Counterparty analysis

	2002	2001
Notional principal of derivatives		
Financial institutions	(2 259)	2 141
Safex	(285)	(160)
	(2 544)	1 981

20.5 Maturity profile of financial instruments

The maturity profile of financial instruments held by the Company is summarised as follows:

	Under one year	One to five years	Over five years	Total
2002				
Financial assets				
Cash and cash equivalents	2 784	-	-	**2 784**
Investments	4	-	28 144	**28 148**
Trade and other receivables	1 846	-	-	**1 846**
Financial liabilities				
Trade and other payables	(1 115)	-	-	**(1 115)**
2001				
Financial assets				
Cash and cash equivalents	2 012	-	-	2 012
Investments	6 801	-	26 352	33 153
Trade and other receivables	2 070	-	-	2 070
Financial liabilities				
Trade and other payables	(3 098)	-	-	(3 098)

20.6 Credit risk

Credit risk represents the risk that any counterparty may not be able to pay its obligations to the Company when due. Credit risk is managed through a process of establishing limits for exposure and monitoring that exposure.

20.7 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow is tightly managed in order to control the liquidity risk to which the Company is exposed.

20 Financial instruments and risk management *(continued)*

20.8 Capital adequacy risk

Statutory capital adequacy requirements were covered approximately 2.3 times (2001 - 2.7 times).

20.9 Equity risk

Equity investments are made on behalf of policyholders and shareholders. Equities are reflected at market values, which are susceptible to fluctuations in value. The stock selection and investment analysis process is supported by a well-developed research function.

21 Scrip lending

The Company conducts scrip lending activities in respect of listed equities and bonds.

At 31 December 2002, 3.4% (2001 : 2%) of the market value of listed equities held and 3.2% (2001 : 8%) of the value of bonds held had been lent to third parties. Collateral security in the form of cash and bonds as well as guarantees had been received from third parties.

22 Related parties

Holding company

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.

Subsidiaries

The principal subsidiaries of the Company are identified in note 25.

Fellow subsidiaries

At the beginning of the year, policy liabilities relating to the Company's Guernsey branch amounting to R6 701 million were reinsured with a fellow subsidiary, Old Mutual International Guernsey Limited. After taking into account current year movements, the policy liabilities subject to the reinsurance agreement at the end of year amounted to R4 627 million.

Directors

The directors are listed in the Directors' report.

Transactions

All transactions are conducted at arms length and are not considered to have a material effect on the financial position or results of the Company.

There were no material transactions with directors or their families during the current or previous financial year.

23 Contingent liabilities

The Company has no contingent liabilities other than those arising out of insurance contracts and other agreements entered into in the normal course of business and in respect of related litigation.

24 Share incentive schemes

24.1 OMGA share option plan

In terms of a share incentive scheme which has been closed to new participants, options on shares in Old Mutual Group Achievements Ltd (OMGA) were granted to senior management where considered appropriate. The major assets of OMGA are two endowment policies with the Company and listed shares in Old Mutual plc. The return on the policies is related to the growth in the Company's shareholder's fund.

The Old Mutual plc Group Share Incentive Scheme implemented during 1999 offers key employees of the Company the right to acquire Old Mutual plc shares.

25 Interest in principal subsidiaries

	Number of issued ordinary shares	% interest	Carrying value of shares	Due (to)/by subsidiaries
2002			**R million**	**R million**
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	243 340 520	51%	1 814	-
Unlisted				
Barprop Limited	465 992	100%	470	(219)
Millstream Limited	115 000 000	100%	707	-
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	9 455	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	4 452	-
Old Mutual Technology Holdings Limited	10 000	100%	(144)	348
Omibon (No. 13) (Proprietary) Limited	100	100%	-	103
Rodina Investments Limited	100 000	100%	2 206	(310)

2001				
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	242 236 124	51%	1 961	(3)
Unlisted				
Ashtree Investments Limited	1 343 831	100%	451	(451)
Barprop Limited	465 992	100%	466	(219)
Capital Securities Limited	3 943 158	100%	1 373	(1 373)
Millstream Limited	115 000 000	100%	1 247	-
Old Mutual Bermuda Holdings (SA) Limited	486 130	100%	68	(68)
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	10 796	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	6 098	-
Old Mutual Technology Holdings Limited	10 000	100%	(135)	356
Rodina Investments Limited	100 000	100%	2 492	(402)