

Old Mutual Life Assurance Company (South Africa) Limited



Annual Financial Statements 2005



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Corporate governance report

Introduction

The Company has a balanced unitary board comprising a majority of independent non-executive and non-executive directors. The Chairman of the Board is Mr J H Sutcliffe who is the Chief Executive of the ultimate holding company. Mr W A M Clewlow who is also a non-executive director of the ultimate holding company, is the Deputy Chairman.

The Old Mutual Group in South Africa is committed to the objective of achieving high standards of corporate governance and internal control. The Board of Directors endorses the code of corporate practice and conduct recommended in the King Report on corporate governance for South Africa 2002. The code is applied to all operating Group entities of the nature and size recommended by the King Report. The Group 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

The Board has a Charter which defines its functions and responsibilities and separates these from the role of management.

Selection and Succession Planning

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

Rotation and Retirement

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

Performance and Assessment

The Board meets regularly, having met six times in 2005 including sessions devoted to strategy and business planning. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted at appropriate intervals.

Access to Company Resources

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

Chairman and Managing Director

The roles of the Chairman and Managing Director are separate. The Chairman and his deputy lead the Board.

The executive management of the Company is the responsibility of the Managing Director, Mr R J A Sparks, and his Deputy Managing Directors, Messrs P G de Beyer and P B Hanratty.

Corporate governance report

Board Committees

Purpose

The Board has established a number of committees to assist it in discharging its responsibilities. All Board committees have formally delegated terms of reference and report to the Board and to the respective Board committees of the ultimate holding company 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.

Committee Members' Remuneration

All non-executive directors are remunerated for their services to the committees excluding nominees of the ultimate holding company and the Chairman.

Audit, Risk and Compliance Committee

Members: Dr D Konar (Chairman), Ms A A Maule, Prof W L Nkuhlu, Mrs G T Serobe and Mr G S van Niekerk.

The committee, which comprises a majority of independent non-executive directors, meets four times during the year with senior management, which includes the Managing Directors, senior executive management, the Statutory Actuary, Executive General Manager - Finance, the Chief Internal Auditor, the Compliance Officer and the Chief Risk Officer. The independent auditors and internal auditors attend these meetings and to ensure that their independence is not impaired, have unrestricted access to the committee and to its chairman. Ad hoc meetings are held as required.

Principal functions

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.

Remuneration Committee

Members: Mr J H Sutcliffe (Chairman), Mr R M Head, Ms A A Maule and Prof G J Gerwel.

The Remuneration Committee, chaired by Mr Sutcliffe, comprises three non-executive directors and one independent non-executive director and meets as often as necessary. It met five times during the year.

Principal functions

The committee determines the remuneration, incentive arrangements, profit participation and benefits of the Deputy Managing Directors and general management. It makes recommendations on the remuneration of non-executive directors and on the grant of awards under the share incentive scheme. The Remuneration Committee of the ultimate holding company determines the remuneration of the Managing Director.

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. The committee annually reviews the succession plan for senior management.

Corporate governance report

Board Committees (continued)

Corporate Governance and Nomination Committee

Members: Prof A H van Wyk (Chairman), Dr D Konar, Mr W A M Clewlow and Mr J H Sutcliffe.

This committee, chaired by Prof van Wyk, an independent non-executive director, includes both non-executive and independent non-executive directors, meets as often as necessary and met three times during the year.

Principal functions

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

Environment Committee

Members: Prof G J Gerwel (Chairman), Ms A A Maule, Mr R J A Sparks, Mr P B Hanratty, Mr P G de Beyer and Prof A H van Wyk.

The committee is chaired by Prof Gerwel, a non-executive director, and includes executive and independent non-executive directors. It met four times during the year.

Principal functions

This committee provides input into the development of business strategy in respect of external stakeholders, in particular government relations and transformation issues. It plays an important role at the time of strategy and plan creation, and is expected to review and input into the consideration of the customer, government and regulatory environment.

Corporate governance report

Internal control environment

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

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

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

The Company's internal control system is designed to 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.

Approach to risk management

Creating long-term shareholder and policyholder value is the Company's overriding business objective and the Company derives its approach to risk management and control from a shareholder value perspective. As a result the business manages a broad range of risk categories and specifically includes Strategic Risk and Enterprise Risk Management ("ERM").

The Company's overall approach is to understand the diversity and full breadth of risk to its objectives, and to respond to it appropriately, with a strong emphasis on implementing controls that reduce residual risk to a level calculated to optimise the level of return on investment. However, risk management is not limited solely to risks that may adversely affect the Company's ability to achieve its objectives; it is also about identifying and seizing new opportunities while ensuring that the risks are understood, evaluated, appropriately taken and managed.

The Company operates a risk management framework, which is based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") ERM Framework. The current risk framework contains the following components: (i) a robust risk governance structure; (ii) risk appetites established at Company level; (iii) Company-wide risk policies; and (iv) methodologies that focus on risk identification, risk assessment, risk response, action/ control plans, monitoring and reporting.

Risk Governance

A risk governance model based on three lines of defence complements the formal governance structures described earlier in this report. This model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance.

- **The first line of defence.** The Company's Executive Management Committee ("Exco") sets its risk appetite, approves the strategy for managing risk and is responsible for the system of internal control. The Company's Managing Director, supported by the Exco, has overall responsibility for the management of risks facing the Company and is supported in the management of these risks by Management. Management and staff within each business have the primary responsibility for managing risk. They must take ownership for the identification, assessment, and management, monitoring and reporting of enterprise risks arising within their areas of responsibility.
- **The second line of defence** is comprised of the specialist functions, namely the Chief Risk Officer, supported by the risk function, Legal, Finance, Human Resources, Tax etc. These functions, together with their corresponding functions at the lower levels, provide technical support and advice to the Management of the Company to assist them with the identification, assessment, management, monitoring and reporting of financial and non-financial risks. The Chief Risk Officer recommends the Company's Risk Policies for approval by the Audit, Risk and Compliance Committee, provides objective oversight and co-ordinates ERM activities in conjunction with other specialist risk related functions. The Chief Risk Officer is not accountable for the day-to-day management of financial and non-financial risks.

Corporate governance report

Internal control environment (continued)

Risk Governance (continued)

- **The third line of defence** provides independent objective assurance on the effectiveness of the management of enterprise risks across the Company. This is provided by the Internal Audit function and the Audit, Risk and Compliance Committee.

Risk Appetite

The fundamental purpose of the Company's risk appetite is to define how much risk the Company is willing to take. Risks falling outside the agreed risk appetite are identified for immediate remedial action and subjected to executive management and Audit, Risk and Compliance Committee oversight.

The Company has set escalation criteria to establish a reporting process that will promote a sound risk culture and identify and escalate to appropriate levels of management significant risks, control breakdowns and materialised risks (collectively referred to as Risks and Issues).

Risk Policies

Risk policies, for each major risk category to which the Company is exposed, have been established and approved by the Audit, Risk and Compliance Committee. These are designed to provide management with guiding principles within which to manage risks.

Risk Methodologies

As stated earlier in this report, the Company operates a risk management framework, which is based on the COSO ERM Framework. The methodologies include the following:

Risk identification

Strategic objectives reflect management's choice as to how the Company will seek to create value for its stakeholders. Strategic objectives are translated into business unit objectives. Risks are then identified that would prevent the achievement of both the strategic and business objectives. For this reason, risk identification is part of the annual business planning process. Risks to the achievement of the Company's objectives are continuously being identified throughout the year.

Risk assessment and response

Risks identified are inherently assessed based on both impact and likelihood criteria in accordance with the Company's escalation matrix. The executive management team of the Company then agrees appropriate risk responses for the prioritised risks.

Monitoring and reporting

Risks are recorded in a risk register, with details of existing controls and actions to mitigate the risks, any associated timeframe, details of who owns the actions or controls, and a measure of the residual risk. The risk register is reported on a quarterly basis to the Audit, Risk and Compliance Committee, which is responsible for reviewing the adequacy and effectiveness of the Company's system of internal controls and reports to the Board.

Other risk reporting includes:

- 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 to the businesses. The Board receives monthly performance information in the form of a Business Review Pack, which includes key performance and risk indicators.
- Exposure reporting, risk concentrations and solvency and capital adequacy reports are submitted to the relevant credit and capital management committees in the normal course of business.

Corporate governance report

Internal control environment (continued)

Risk Methodologies (continued)

Monitoring and reporting (continued)

- 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 to the head of internal audit at the ultimate holding company, 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. Progress against the plan is reported regularly to the Audit, Risk and Compliance Committee.
- 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.

Whistle Blowing

The Company has adopted a policy on fraud, theft, corruption and associated irregularities and has provided an employee reporting mechanism through an independent anonymous hotline to ensure that employees remain anonymous when reporting any company business or related irregularities.

Employment Policies

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

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

- the Company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and 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 is managed in a number of ways, including in-house publications, briefings, road shows and intranet. In many parts of the business employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them;
- the efforts of the individual in helping to create the success of the Company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals and the performance of the 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.

Corporate governance report

Life Assurance

Underwriting risk is controlled by setting appropriate underwriting limits and procedures. These include testing policyholders for HIV and other illnesses above specified levels of cover. The impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS.

Market risks are managed by specifying investment mandates for each product that govern the ways assets backing each product may be invested. These mandates are based on and reflect the nature the liabilities, particularly where guarantees are provided. Market risks on policies where the terms are guaranteed in advance and the investment risk is carried by the shareholders, principally reside in the South African immediate annuity book, where interest bearing assets closely match liabilities by duration as far is practically possible.

Equity price risk and interest rate risk (on the value of securities) are managed through the Company's risk based capital management process, which requires sufficient capital to be held by the Company to cover the shortfalls that could arise if extremely adverse movements in equity prices or interest rates were to occur. Credit risk is monitored by the Credit Committee covering life and third party funds, which has established appropriate exposure limits.

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 Nedbank Group 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.
- All potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders' interests, are disclosed to the Statutory Actuary, and if material are approved by the Board. Any such transactions are conducted on arms-length terms, and only when it is clearly demonstrated that such investments are in the 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 stabilisation reserves) with the full investment return earned on their funds, less applicable charges and tax.

Corporate governance report

Governance of Smoothed Bonus Policyholder Funds (continued)

- Any profit allocated to shareholder funds is only transferred from policyholder funds on the recommendation of the Statutory Actuary, following an actuarial valuation. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities as determined by the Statutory Actuary on the valuation date. These liabilities include provision for any guarantees that may apply.
- With each 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 bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the Company manages these products, ensures that information is produced on the financial strength of its smoothed bonus funds, and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. All investment returns credited to policyholder funds, after deducting applicable charges and tax, that are not declared as bonuses are retained in bonus stabilisation reserves, which may only be used to support subsequent bonus declarations.

Going Concern

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

Corporate Citizenship and Non-financial Reporting

The broader Old Mutual Group in South Africa publishes a 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.

Remuneration report

Directors' emoluments

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Directors' emoluments

	2005	2004
Non-executive directors		
Fees	1 644	1 889
Executive directors	16 745	24 325
Salary	8 210	8 210
Bonus	6 162	6 559
Gains on share options exercised and related payments	1 383	8 539
Retirement and related benefits	990	1 017
Total directors' emoluments	18 389	26 214

Fees paid to non-executive directors were as follows:

W A M Clewlow	371	406
G J Gerwel	184	184
D Konar	241	241
C F Liebenberg	-	156
A A Maule	207	180
M Morobe	40	138
W A Mgoqi	16	122
P F Nhleko	95	110
W L Nkuhlu	145	-
G T Serobe	46	-
G S van Niekerk	145	180
A H van Wyk	154	172
	1 644	1 889

2005

Executive directors' total emoluments comprise:

	Salary	Bonus	Gains on share options and related payments	Retirement and other benefits	Total
R J A Sparks	2 438	2 069	403	301	5 211
P G de Beyer	1 961	1 943	324	244	4 472
P B Hanratty	1 950	2 150	214	242	4 556
M P Moyo	1 861	-	442	203	2 506
	8 210	6 162	1 383	990	16 745

2004

Executive directors' total emoluments comprise:

	Salary	Bonus	Gains on share options and related payments	Retirement and other benefits	Total
R J A Sparks	2 438	1 657	4 219	301	8 615
P G de Beyer	1 961	1 528	1 467	243	5 199
P B Hanratty	1 850	1 871	913	230	4 864
M P Moyo	1 961	1 503	1 940	243	5 647
	8 210	6 559	8 539	1 017	24 325

Remuneration report

Directors' interests under Employee Share Plans

The following Share Option and Deferred Delivery Plan grants in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2005:

	Offer price	Date of grant	Number of shares outstanding	Dates deliverable	Gains on current year settlements
<i>Executive directors</i>					
R J A Sparks	13.20	14/03/00	188 600	14/03/2003 - 14/03/2006 ¹	-
	17.63	16/10/00	113 500	16/10/2003 - 16/10/2006 ¹	-
	15.15	04/03/02	268 350	04/03/2005 - 04/03/2008 ²	-
	11.15	26/02/03	721 975	26/02/2006 - 26/02/2009 ³	-
	11.77	03/03/04	569 627	03/03/2007 - 03/03/2010 ⁴	-
	14.50	26/04/05	168 139	26/04/2008 - 26/04/2011 ⁵	-
P G de Beyer	13.20	14/03/00	226 300	14/03/2003 - 14/03/2006 ¹	-
	17.63	16/10/00	96 500	16/10/2003 - 16/10/2006 ¹	-
	15.15	04/03/02	215 850	04/03/2005 - 04/03/2008 ²	-
	11.15	26/02/03	580 718	26/02/2006 - 26/02/2009 ³	-
	11.77	03/03/04	299 899	03/03/2007 - 03/03/2010 ⁴	-
	14.50	26/04/05	103 449	26/04/2008 - 26/04/2011 ⁵	-
P B Hanratty	13.20	14/03/00	111 800	14/03/2003 - 14/03/2006 ¹	-
	15.15	04/03/02	142 350	04/03/2005 - 04/03/2008 ²	-
	11.15	26/02/03	259 801	26/02/2006 - 26/02/2009 ³	-
	11.77	03/03/04	648 365	03/03/2007 - 03/03/2010 ⁴	-
	14.50	26/04/05	159 484	26/04/2008 - 26/04/2011 ⁵	-
			4 874 707		-

Subject to the fulfilment of escalating offer prices/performance targets prescribed by the Remuneration Committee, under which:

- 1 the price at delivery for shares granted on 14 March and 16 October 2000, is the offer price escalated by 6.5% per annum, compounded monthly, until the date of delivery.
- 2 50% of the share entitlements granted on 4 March 2002 were deliverable as the Old Mutual plc Group's earnings per share increased by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2002 and 31 December 2004. The 50% of the allocation of share entitlements granted on 4 March 2002 deliverable if the Old Mutual plc Group's earnings per share expressed in SA Rands increased by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2002 and 31 December 2004, lapsed due to non attainment of the targets. The basic factor of 9% over UK RPI and SA CPI 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 share entitlements granted on 26 February 2003 will only be deliverable 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 2003 and 31 December 2005, and 50% of the allocation of the share entitlements granted on 26 February 2003 will only be deliverable 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 2003 and 31 December 2005. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

Remuneration report

Directors' interests under Employee Share Plans (continued)

- 4 50% of the share entitlements granted on 3 March 2004 will only be deliverable 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 2004 and 31 December 2006, and 50% of the allocation of the share entitlements granted on 3 March 2004 will only be deliverable 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 2004 and 31 December 2006. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.
- 5 50% of the share entitlements granted on 26 April 2005 will only be deliverable 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 2005 and 31 December 2007, and 50% of the allocation of the share entitlements granted on 26 April 2005 will only be deliverable 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 2005 and 31 December 2007. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

The following Restricted Share Plan awards in Old Mutual plc shares were outstanding in favour of executive directors under the Company's various participation in the Old Mutual plc Group's share incentive arrangements at 31 December 2005.

	Number of shares outstanding	Dates exercisable	Gains on current year settlements
<i>Executive directors</i>			
R J A Sparks	34 432	16/03/2007 - 16/03/2009 ³	-
	57 150	26/04/2008 - 26/04/2010 ⁴	-
	50 442	26/04/2008 - 26/04/2010 ⁵	-
P G de Beyer	59 980	03/03/2007 - 03/03/2009 ²	-
	42 151	26/04/2008 - 26/04/2010 ⁴	-
	31 035	26/04/2008 - 26/04/2010 ⁵	-
P B Hanratty	43 842	26/02/2006 - 26/02/2008 ¹	-
	64 837	03/03/2007 - 03/03/2009 ²	-
	19 555	16/03/2007 - 16/03/2009 ³	-
	43 678	26/04/2008 - 26/04/2010 ⁴	-
	47 845	26/04/2008 - 26/04/2010 ⁵	-
Total	494 947		-

The above awards are subject to a three year waiting period, under which:

- restricted shares awarded on 26 February 2003, as an alternative to grants under the Deferred Delivery Plan, would be delivered over the period between 26 February 2006 and 26 February 2008 and are entitled to dividends.
- restricted shares awarded on 3 March 2004, as an alternative to grants under the Deferred Delivery Plan, would be delivered over the period between 3 March 2007 and 3 March 2009 and are entitled to dividends.
- restricted shares awarded on 16 March 2004, in terms of the Deferred Short Term Incentive, would be delivered over the period between 16 March 2007 and 16 March 2009 and are entitled to dividends.
- restricted shares awarded on 26 April 2005, in terms of the Deferred Short Term Incentive, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.
- restricted shares awarded on 26 April 2005, as an alternative to grants under the Share Option Plan, would be delivered over the period between 26 April 2008 and 26 April 2010 and are entitled to dividends.

Statement of Directors' responsibilities

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.

Except for the fact that consolidated annual financial statements are not prepared for the reasons set out in the Directors' report, the annual financial statements are prepared in accordance with statements of International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) 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 2005 set out on pages 15 to 70 were approved by the Board of Directors on 23 February 2006 and are signed on its behalf by:

J H Sutcliffe

Chairman

R J A Sparks

Managing Director

Certificate 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 2005 and that all such returns are true, correct and up to date.

R F Foster

Company Secretary

23 February 2006

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 15 to 70 for the year ended 31 December 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Basis for adverse opinion on financial statements prepared in accordance with International Financial Reporting Standards and unqualified opinion on financial statements prepared in the manner required by the Companies Act of South Africa

The Companies Act of South Africa does not require consolidated financial statements as the Company is a wholly owned subsidiary of another company incorporated in South Africa. However, as a result of the issue by the Company of its listed subordinated debt instrument in October 2005, the Company is required by International Financial Reporting Standards to prepare consolidated financial statements. The directors have not prepared consolidated financial statements and the Directors' report sets out the reasons why consolidated financial statements have not been prepared. The financial statements are the Company's unconsolidated financial statements which have been prepared on the same basis as separate financial statements, which are financial statements permitted in terms of International Financial Reporting Standards when an entity also prepares consolidated financial statements. Separate financial statements are prepared on the basis that investments in subsidiaries and associates are accounted for at fair value and income is recognised when dividends from subsidiaries and associates are receivable.

Adverse opinion on financial statements prepared in accordance with International Financial Reporting Standards

In our opinion, because consolidated financial statements have not been prepared, the financial statements do not present fairly the financial position of the Group and Company at 31 December 2005, and of the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Unqualified opinion on financial statements prepared in the manner required by the Companies Act of South Africa

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2005, and the results of its operations and cash flows for the year then ended, as if these were separate financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of

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

Per T H Bashall
Director
23 February 2006

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 2005.

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, 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 and which comply with IFRS. These consolidated financial statements can be obtained directly from Old Mutual plc, 5th floor, Old Mutual Place, 2 Lambeth Hill, London, EC4V 4GG, United Kingdom.

In terms of IFRS, the Company is required to produce consolidated financial statements as its debt instruments are traded in a public market. Consolidated financial statements have not, however, been prepared as the directors of the Company are of the opinion that the required information about the state of affairs, financial position and operating results of the Company and its subsidiaries is presented more effectively and meaningfully in the form of unconsolidated, separate financial statements. They are also of the opinion that the production of consolidated financial statements would entail expense and delay out of proportion to the value to the members of the Company.

The Company's investments in subsidiary and associate companies are accounted for at fair value and dividends are recognised when receivable.

Details of the Company's interest in its principal subsidiaries and associates are set out in note 31.

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, Johannesburg, Malawi, Namibia, Stockholm and Zimbabwe stock exchanges.

Share capital

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

Borrowings

On 27 October 2005 the Company issued Unsecured Subordinated Callable Notes at a nominal price of R3 billion which are listed on the Bond Exchange of South Africa (BESA). The final maturity date for the notes is 27 October 2020, however they may be redeemed earlier by the Company on 27 October 2015 or on each interest date thereafter. Interest is payable on 27 April and 27 October up to the call date, and thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity date or date of early redemption, whichever is earlier. Interest is payable at 8.92% up to the date of early redemption and at 3-month JIBAR rate plus 159 basis points thereafter.

Dividends

Ordinary shares

Dividends on ordinary shares amounting to R1 313 million (2004 : R1 323 million) were declared during the year.

Preference shares

Dividends on preference shares amounting to R916 million (2004 : R118 million) were declared during the year.

Directors' report *(continued)*

Directors

On 14 April 2005, Mr M Morobe resigned as a non-executive director and Mr M J Levett resigned as Chairman of the Company. On the same day, Mr J H Sutcliffe was appointed as Chairman of the Company.

On 4 August 2005, Mrs G T Serobe was appointed as a non-executive director and Mr M P Moyo resigned as an executive director of the Company on 31 October 2005. Mr R M Head was appointed as a non-executive director of the Company on 9 November 2005.

The directors currently holding office are:

Non-executive directors

J H Sutcliffe (British) (Chairman)*
W A M Clewlow (Deputy Chairman)*
G J Gerwel
R M Head (British)
G T Serobe

Executive directors

R J A Sparks (Managing Director)
P G de Beyer (Deputy Managing Director)
P B Hanratty (Deputy Managing Director) (Irish)

Independent non-executive directors

D Konar
A A Maule
P F Nhleko
W L Nkulu*
G S van Niekerk
A H van Wyk

*Member of the Old Mutual plc Board of Directors

In terms of the Articles of Association, Dr D Konar and Messrs P G de Beyer, R J A Sparks and J H Sutcliffe are due to retire at the Annual General Meeting. Mr R M Head and Mrs G T Serobe, who were appointed during the year, also retire at this meeting, but being eligible, and having been recommended for re-election by the Board of Directors, offer themselves for re-election.

Company Secretary

Mr R F Foster is the Company Secretary.

Business address: Mutualpark
Jan Smuts Drive
Pinelands
7405

Postal address: PO Box 66
Cape Town
8000

Statutory Actuary's report

I have conducted an actuarial review of the Company as at 31 December 2005, according to applicable guidelines issued by the Actuarial Society of South Africa. Contracts classified as insurance and investment contracts with discretionary participation features have been valued using the Financial Soundness Valuation (FSV) method. Contracts classified as investment contracts (without discretionary participation in profit) have been valued at fair value as per IAS 39, Financial Instruments: Recognition and Measurement ("IAS39"). 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 3 to the annual financial statements, which can be found on pages 35 to 39.

	Rm		Rm	
	2005 Published	2005 Statutory	2004 Published	2004 Statutory
Actuarial balance sheet				
Total value of assets	328 553	327 143	274 702	273 511
Total value of liabilities	(283 732)	(281 330)	(239 250)	(237 261)
Actuarial value of policy liabilities	(269 743)	(267 698)	(229 727)	(228 041)
Unsecured subordinated callable bonds	(3 000)	(3 000)	-	-
Provisions and other liabilities	(10 989)	(10 632)	(9 523)	(9 220)
Excess of assets over liabilities	44 821	45 813	35 452	36 250
Less : Inadmissible for statutory solvency purposes		288		321
: Excess over Associate limits		5 106		5 413
: Limits on Group Undertakings		8 751		1 642
Add : Unsecured subordinated callable bonds		3 000		-
Excess Assets (Statutory basis)		34 668		28 874
Statutory capital adequacy requirements (CAR)		11 500		10 993
Ratio of excess assets to CAR		3.0		2.6

Note: The 2005 figures for Inadmissible Assets and limits in respect of Associates and Group Undertakings and the resulting calculations are estimates.

The 2004 values of published and statutory assets have changed from that previously reported as a result of IFRS accounting adjustments. The 2004 statutory value of liabilities has reduced and other liabilities correspondingly increased by R583m as a result of a change in classification of deferred policyholder tax. Furthermore, the published assets and liabilities are now shown gross of reinsurance.

Certification of Statutory Financial Position

I hereby certify that:

- the valuation on the Statutory basis of the Company as at 31 December 2005, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with applicable Actuarial Society of South Africa Professional Guidance Notes; and
- the Company was financially sound on the Statutory basis as at the valuation date, and in my opinion is likely to remain financially sound on the Statutory basis for the foreseeable future.

G S Palser

Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
23 February 2006

Income statement

for the year ended 31 December 2005

R million	Notes	2005	2004
Revenue			
Gross earned premiums	20,21	17 914	15 951
Outward reinsurance	17	(314)	(251)
<i>Net earned premium</i>		17 600	15 700
Investment income (net of investment losses)	5	60 672	39 088
Fee and commission income	6	2 074	1 616
Other income	7	239	10
Total revenue		80 585	56 414
Expenses			
Claims and benefits (including change in insurance contract provisions)	20,21	(53 859)	(36 954)
Reinsurance recoveries	17	296	651
Change in provision for investment contract liabilities	21	(13 102)	(7 861)
Finance costs		(104)	(8)
Commissions and other acquisition costs	8	(1 428)	(1 352)
Other operating and administrative expenses	9	(4 682)	(4 242)
Total expenses		(72 879)	(49 766)
Provision for donations to charitable organisations	23	(21)	(190)
Costs associated with the Black Economic Empowerment transaction	10	(587)	-
Profit before tax		7 098	6 458
Income tax expense	11	(2 672)	(2 137)
Profit for the financial year		4 426	4 321

Balance sheet

at 31 December 2005

R million	Notes	2005	2004
Assets			
Intangible assets	12	41	60
Investment property	13	8 811	6 951
Owner-occupied property and equipment	14	2 054	2 099
Financial assets fair valued through profit or loss	15	260 348	223 974
Financial assets 'available-for-sale'	15	46 002	34 159
Deferred tax asset	16	669	626
Reinsurers' share of insurance contract provisions	17	64	31
Deferred acquisition costs	18	956	811
Amounts due by group companies	19	4 633	1 074
Outstanding premiums, accrued investment income and other debtors		3 417	3 371
Cash and cash equivalents		1 558	1 546
Total assets		328 553	274 702
Liabilities			
Insurance contract provisions	20	127 223	107 919
Investment contract liabilities	21	142 520	121 808
Borrowed funds	22	3 000	-
Other provisions	23	692	555
Share-based payment liabilities	24	394	189
Deferred revenue on investment contracts	25	279	303
Post employment benefits obligation	26	54	26
Deferred tax liability	16	1 939	908
Current tax payable		394	576
Amounts due to group companies	19	67	224
Amounts owed to policyholders, outstanding claims and other creditors		7 170	6 502
Shareholder for dividends		-	240
Total liabilities		283 732	239 250
Net assets		44 821	35 452
Shareholders' equity			
Share capital and premium	27	6 254	6 254
Share-based payments reserve		481	-
Revaluation reserve		9 769	3 078
Distributable reserve		28 317	26 120
Total equity		44 821	35 452

Statement of changes in equity

for the year ended 31 December 2005

R million

	Share capital and premium	Revaluation reserve	Distributable reserve	Share-based payments reserve	Total
2005					
Shareholders' equity at beginning of year	6 254	3 078	26 120	-	35 452
Unrealised revaluation reserve		6 997			6 997
Deferred taxation - net capital gains		(306)			(306)
Fair value of equity settled share options				481	481
Profit for the financial year			4 426		4 426
Dividends			(2 229)		(2 229)
Shareholders' equity at end of year	6 254	9 769	28 317	481	44 821

2004

Shareholders' equity at beginning of year	6 254	(1 245)	23 240	-	28 249
Unrealised revaluation reserve		4 547			4 547
Deferred taxation - net capital gains		(224)			(224)
Profit for the financial year			4 321		4 321
Dividends			(1 441)		(1 441)
Shareholders' equity at end of year	6 254	3 078	26 120	-	35 452

Cash flow statement

for the year ended 31 December 2005

R million	2005	2004
Cash flows from operating activities		
Profit before tax	7 098	6 458
Fair value gains on financial assets 'available-for-sale'	6 997	4 547
Non-cash movements and adjustments to profit before tax	28.1 (13 937)	(14 691)
Changes in working capital	28.2 (3 506)	538
Taxation paid	28.3 (2 172)	(2 162)
Net cash outflow from operating activities	(5 520)	(5 310)
Cash flows from investing activities		
Net disposal of financial investments	4 685	5 740
Net disposal of investment properties	316	166
Net cash inflow from investing activities	5 001	5 906
Cash flows from financing activities		
Proceeds from issue of debt	3 000	-
Dividends paid	(2 469)	(1 201)
Net cash inflow/(outflow) from financing activities	531	(1 201)
Net increase/(decrease) in cash and cash equivalents	12	(605)
Cash and cash equivalents at beginning of year	1 546	2 151
Cash and cash equivalents at end of year	1 558	1 546

Notes to the annual financial statements

for the year ended 31 December 2005

1 General information

Old Mutual Life Assurance Company (South Africa) Limited underwrites life insurance risks, such as those associated with death and disability. It also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs.

2 Accounting policies

2.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB) and in accordance with the requirements of the South African Companies Act, 1973.

2.2 Basis of preparation

In terms of IFRS, the Company is required to produce consolidated financial statements as its debt instruments are traded publicly. Except for the fact that consolidated annual financial statements are not prepared for the reasons set out in the Directors' report, the financial statements have been prepared, for the first time, based on and in compliance with IFRS. The comparatives have been restated accordingly.

The financial statements provide information about the financial position, results of operations and changes in financial position of the Company. They have been prepared under historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) fair valued through profit or loss.

The Company's investments in subsidiary and associate companies are accounted for at fair value and dividends are recognised when receivable.

2.3 First time adoption of IFRS

2.3.1 Transitional arrangements

The date of transition to IFRS for the Company is 1 January 2004, as required by IFRS1, First-time Adoption of International Financial Reporting Standards ("IFRS1"). The Company's opening balance sheet at 1 January 2004 has been restated to reflect all IFRSs applicable at 31 December 2005. At transition, IFRS 1 allows a number of exemptions to the application of this retrospective restatement principle upon adoption of IFRS. The Company has utilised the transitional arrangements as follows:

Property

The Company has elected to measure individual items of property at fair value at the date of transition to IFRS, hence fair value is deemed to be cost at that date.

Employee benefits

The Company has elected to recognise all cumulative actuarial gains and losses on defined benefit post employment schemes in equity at the date of transition.

Financial instruments

The Company has elected to early-adopt the provisions contained in the amendment to IAS39, Financial Instruments: Recognition and Measurement ("IAS 39"), The Fair Value Option, in these annual financial statements.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.3.1 Transitional arrangements (continued)

Comparatives

The Company has chosen not to take advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, Financial Instruments: Disclosure and Presentation ("IAS 32"), IAS 39 and IFRS 4, Insurance Contracts ("IFRS 4").

Estimates

The comparative financial information for the year ended 31 December 2004 is based on the Company's annual financial statements which were prepared in accordance with South African Generally Accepted Accounting Practice (SA GAAP) approved by the Board on 16 February 2005, and adjusted to comply with IFRS. In accordance with IFRS 1 there have been no adjustments to the estimates made at the time of the preparation of the SA GAAP annual financial statements.

Cash flow statement

There are no material changes to the Company's cash flow statement, or to the value of cash and cash equivalents, as a result of the implementation of IFRS.

2.4 Material adjustments to comparatives

The basis for material adjustments between SA GAAP and IFRS is shown in the Reconciliation of equity and Reconciliation of profit after tax tables as set out below. Note that the adjustments are net of the associated tax impact.

R million	Notes	Assets		Liabilities		Equity	
		At 31 Dec 2004	At 1 Jan 2004	At 31 Dec 2004	At 1 Jan 2004	At 31 Dec 2004	At 1 Jan 2004
Reconciliation of equity							
As reported under SA GAAP		273 294	245 818	(236 876)	(216 756)	36 418	29 062
Revenue recognition	2.4.1	657	625	(303)	(324)	354	301
Investment contract liabilities	2.4.2	503	466	(1 655)	(1 522)	(1 152)	(1 056)
Post employment benefits	2.4.3	10	-	(36)	-	(26)	-
Share-based payments	2.4.4	-	-	(142)	(58)	(142)	(58)
Reclassifications	2.4.6	238	-	(238)	-	-	-
As reported under IFRS		274 702	246 909	(239 250)	(218 660)	35 452	28 249

R million	Notes	Revenue	Expenses	Profit after tax
		2004	2004	2004
Reconciliation of profit after tax				
As reported under SA GAAP		56 391	(49 755)	4 474
Revenue recognition	2.4.1	23	52	53
Investment contract liabilities	2.4.2	-	(133)	(96)
Post employment benefits	2.4.3	-	(36)	(26)
Share-based payments	2.4.4	-	(84)	(84)
As reported under IFRS		56 414	(49 956)	4 321

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.4 Material adjustments to comparatives (continued)

2.4.1 Revenue recognition

Under IAS 18, Revenue ("IAS 18"), initial fees that are directly attributable to securing an investment management service contract are deferred as a liability. This liability represents the deferred revenue from providing investment management services and is amortised as the related services are provided.

Costs that are directly attributable to securing an investment management service contract are deferred as an asset and expensed in line with the related revenue as the services are provided.

The effect on the balance sheet at 31 December 2004 is a recognition of deferred acquisition costs asset of R811 million, a deferred revenue liability of R303 million and net deferred tax thereon of R154 million resulting in a net increase in equity of R354 million. Profit after tax for the year ended 31 December 2004 increased by R53 million in aggregate.

2.4.2 Investment contract liabilities

Under IFRS 4, certain contracts previously accounted for as insurance are classified as investment contracts as they do not contain significant insurance risk. Those that have a discretionary participating feature continue to be accounted for using the Financial Soundness Valuation method. Under IAS 39, investment contracts without a discretionary participating feature are carried at fair value. Fair value for these investment contracts is equal to the fair value of the related assets, or the policyholder's account balance. Adjustments to the account balance under the previous basis of accounting for Rand reserves and actuarial funding have been reversed. The effect is to increase investment contract liabilities by R1 655 million at 31 December 2004 and R1 522 million at 1 January 2004, with an impact on profit after tax of R96 million.

2.4.3 Post-employment benefits

Under SA GAAP, the Company accounted for actuarial gains and losses on post-employment benefit plans as they arose. On transition to IFRS the Company has elected to amend its previous policy and to recognise actuarial gains and losses using the 'corridor' method in IAS19, Employee Benefits. The effect of these changes is to decrease profit after tax by R26 million for the year ended 31 December 2004. As the Company's previous policy was one of full recognition, there was no impact on equity at date of transition.

2.4.4 Share-based payments

Under SA GAAP, the costs of awards to employees under equity compensation plans were recognised immediately if they were not conditional on performance criteria. If the award was conditional, the cost was recognised over the period to which the performance criteria related. The minimum cost for the award was the difference between the share price of the underlying equity instruments at the date of grant less any contribution required from the employee. The cost was based on a reasonable expectation of the extent to which the performance criteria would be met. Any subsequent changes in that expectation were reflected in the income statement.

Under IFRS 2, equity instruments granted under cash-settled awards are measured at fair value at each reporting date. The fair value is recognised over the vesting period and is re-measured until the underlying liability is settled. Any changes in the fair value are reflected in profit and loss. The effect of this change in treatment is a decrease in profit after tax of R84 million and a corresponding decrease to equity of R58 million and R142 million at 1 January 2004 and 31 December 2004 respectively.

2.4.5 Policyholder tax

Previously, charges for current and deferred taxes in policyholders' funds were shown as deductions in arriving at profit before tax, either separately or as a part of the movements in liabilities to policyholders. Under IFRS, all tax is presented as part of the tax charge in the income statement. There was no overall impact on profit after tax or equity as a result of this reclassification.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.4 Material adjustments on comparatives (continued)

2.4.6 Reclassifications

Amongst other reclassifications, the Company reclassified owner-occupied property held to support policyholder liabilities from investments to property and office equipment. This has resulted in a reclassification of fair value gains included in profit after tax to a revaluation reserve in equity of R72 million. However, at the same time the Company has made a corresponding 'shadow accounting' adjustment as permitted under IFRS4, Insurance Contracts, resulting in an equal and opposite adjustment from revaluation reserve to profit after tax. As a result, there is no impact on net equity or profit after tax.

Reclassifications and presentational changes, individually and collectively have an immaterial effect on the Company's assets, liabilities, equity and profit after tax. This includes the change in presentation of investments in shares of the Company's subsidiaries from a "look-through" to the underlying assets to classification as investment in Group undertakings, the straight-lining of operating leases and the reclassifications of certain asset finance arrangements.

2.5 Revenue

Revenue comprises premium income from insurance contracts and investment contracts with a discretionary participating feature, fee income from investment management contracts and investment income.

Revenue is accounted for in accordance with the particular accounting policies as set out below.

2.6 Insurance and investment contracts

2.6.1 Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Company's discretion, represent a significant portion of the total contractual payments and are contractually based on (i) the performance of a specified pool of contracts or a specified type of contract or (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Company. Contracts with a discretionary participating feature may be classified either as insurance contracts or investment contracts. All contracts with a discretionary participating feature are accounted for in the same manner as insurance contracts.

2.6.2 Premiums received on contracts

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

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature are recorded as deposits and added to investment contract liabilities.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.6 Insurance and investment contracts (continued)

2.6.3 Fees on investment contracts

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

2.6.4 Claims paid on contracts

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

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

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

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

2.6.5 Insurance contract provisions

Insurance contract provisions are measured using the Financial Soundness Valuation (FSV) method as set out in the guidelines issued by the ASSA in Professional Guidance Note (PGN) 104 (version 6). Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also measured using the FSV method. Surplus allocated to policyholders but not yet distributed (i.e. bonus smoothing reserve) related to these contracts is included as a provision.

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. The entire contract is measured as described above.

The Company performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of its liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur. These are described in more detail in the note on insurance risk.

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

2.6.6 Investment contract liabilities

Liabilities for investment contracts without a discretionary participating feature are recorded at fair value. For unit linked and market linked contracts, this is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the value of the assets in the underlying fund (adjusted for tax). For other linked contracts, the fair value of the liability is determined by reference to the fair value of the underlying assets, and is in accordance with the FSV method, except that negative Rand reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability is subject to the "deposit floor" such that the liability established cannot be less than the amount repayable on demand.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.6 Insurance and investment contracts (continued)

2.6.7 Acquisition costs

Acquisition costs, disclosed as sales remuneration, comprise all direct and indirect costs arising from the sale of contracts.

The FSV method, used to value insurance contract provisions and provisions for investment contracts with a participating discretionary feature, makes implicit allowance for the deferral of acquisition costs, therefore no explicit deferred acquisition cost asset is recognised in the balance sheet for insurance contracts.

Costs that are directly attributable to securing an investment management contract are deferred if they can be identified separately and measured reliably and it is probable that they will be recovered. The deferred costs represent the contractual right to benefit from providing investment management services and are amortised over a period of 5 to 10 years.

2.7 Intangible assets

Intangible assets, which comprise purchased and capitalised internally developed software, are amortised over their estimated useful lives. Such assets are stated at cost less accumulated amortisation and impairment losses. Software is recognised in the balance sheet if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Company and its cost can be measured reliably.

Costs incurred in the research phase are expensed whereas costs incurred in the development phase are capitalised. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the relevant software, not exceeding five years.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The Company reviews assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset exceeds its recoverable amount.

2.8 Investment property

Investment property is real estate held to earn rentals or for capital appreciation. It does not include owner-occupied property.

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

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

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

2.9 Owner-occupied property and equipment

Owned assets

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

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

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.9 Owner-occupied property and equipment (continued)

Revaluation of owner-occupied property

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

When an individual owner-occupied property is re-valued, any increase or decrease in its carrying amount (as a result of the revaluation) is taken to a revaluation reserve in equity, except to the extent it represents an increase that reverses a revaluation decrease previously recognised in the income statement, or a decrease that exceeds the revaluation surplus.

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

Depreciation

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

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

Land is not depreciated.

Owner-occupied property is depreciated over a period of 50 years using the straight line method. Office equipment items are depreciated over a period between 2 to 5 years using straight line method. Residual values and useful lives are reassessed annually.

2.10 Taxation

Income tax charge for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

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

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

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.11 Reinsurance

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

Reinsurance asset principally includes the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the balance sheet on a gross basis.

2.12 Financial instruments

Recognition and de-recognition of financial instruments

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

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

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

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

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

Derivative instruments

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

Derivative instruments are recorded at market value. Listed derivatives are stated at quoted prices, unlisted derivative instruments are valued using standard market valuation techniques.

Hedge accounting is not applied. All gains and losses, whether realised or unrealised, are recognised in the income statement.

Financial assets fair valued through profit or loss

All financial assets held to support liabilities in respect of contracts with policyholders are designated as 'fair valued through profit or loss'. All gains or losses on those financial assets, whether realised or unrealised, are recognised in the income statement.

Financial assets 'available-for-sale'

Financial assets that form part of the shareholders' fund are classified as 'available-for-sale'. Gains and losses on the realisation of assets 'available-for-sale', calculated as the difference between the net proceeds on realisation and the amount recorded on initial recognition, are included in the income statement. Unrealised gains and losses on assets 'available-for-sale' are recognised in a revaluation reserve in equity, through the statement of changes in equity, until such time as the asset is sold or otherwise disposed of, or if the asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Listed securities are stated at quoted prices, unlisted securities are valued using standard market valuation techniques.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.12 Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Company as fair valued through profit or loss or available-for-sale. Loans and receivables, including those made to fellow group undertakings, are carried at amortised cost with the effective interest recorded in investment income.

Other financial assets and liabilities

Other financial assets and liabilities, namely trade and other receivables, interest bearing borrowings and payables are measured at amortised cost.

Dividend income

Dividend income is recognised on the ex-dividend date.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with banks.

Offsetting

Where a legally enforceable right of off-set exists for recognised financial assets and 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.

Scrip lending

The Company engages in scrip lending of its securities for which it obtains collateral security where deemed appropriate. As a consequence the relevant securities are not de-recognised and are reflected in the balance sheet.

Scrip lending fees received are included under other income.

2.13 Foreign currency translation

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

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies, whether monetary or non-monetary, are recognised in the income statement as part of investment income.

Foreign branches

The assets and liabilities held by foreign branches to support liabilities in respect of contracts with policyholders are translated using the year-end exchange rates, and their income and expenses using average rates. Unrealised gains and losses are recognised in the income statement as part of investment income.

2.14 Post employment benefits

Defined contribution plan

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

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.14 Post employment benefits (continued)

Defined benefit plan

In respect of the Company's defined benefit retirement plan, the Projected Unit Credit Method is used to determine the present value of the defined benefit obligations and the related current service cost, and where applicable, past service cost.

The current service cost is recognised as an expense.

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

Other post retirement benefit plans

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

Actuarial gains and losses

Actuarial gains or losses are accounted for using the 'corridor' method. Actuarial gains and losses are recognised in the income statement to the extent that they exceed ten per cent of the greater of the gross assets or gross defined benefit obligations in the scheme. Actuarial gains and losses exceeding ten per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

2.15 Other 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.

Future operating costs or losses are not provided for.

2.16 Share-based payments

Cash-settled employee compensation plans.

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

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

Equity-settled Black Economic Empowerment transaction

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

The equity instruments vest immediately and are not subject to any vesting conditions before the participants become unconditionally entitled to those instruments. As a result, the services received are recognised in full on grant date in profit and loss for the period, with a corresponding increase in equity.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.17 Segmental reporting

Primary segment

Primary segmental reporting is based on the type of business and correlates with the activities of the main operating business. The Company operates long-term insurance business as the primary business.

Secondary segment

Geographical segmentation is determined by origin of the business transacted.

Business transacted is mainly with South African residents, either locally or in terms of their personal offshore allowances through the Company's offshore investment vehicles.

Business transacted with non-South African residents is minimal and not material.

2.18 Leases

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

2.19 Impairment of assets

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

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

An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

2.20 Dividends

Dividends payable to holders of equity instruments or preference shares are recognised in the period in which they are declared.

2.21 Borrowing costs

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

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.22 Forthcoming requirements

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. The Company has chosen to early adopt the amendment to IAS39 in respect of the fair value option. Other standards, amendments to standards, and interpretations will be adopted in future accounting periods.

Early adoption of the fair value option amendment to IAS 39

In respect of the current financial year, the Company has chosen to early adopt the provisions of the amendment to IAS39, the fair value option, effective for accounting periods commencing on or after 1 January 2006, which permits the designation of certain financial assets and liabilities at fair value through profit and loss, depending on the satisfaction of certain conditions, as set out below:

- The designation eliminates or significantly reduces an “accounting mismatch” arising from measuring assets and liabilities or recognising gains or losses on them on different bases; or
- A group of financial assets and / or financial liabilities or both is managed and its performance evaluated on a fair value basis; or
- A contract contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the host contract or it is clear with little or no analysis that separation of the embedded derivative would be permitted.

The principal area where the adoption of the amendment had an impact on the financial results of the Company is in respect of insurance and investment contracts. Investment contract liabilities, which would otherwise have been recorded at amortised cost, have been designated at fair value through profit or loss, and financial assets supporting investment and insurance contract liabilities, which would have otherwise been recorded as loans and receivables or available-for-sale financial assets, have also been designated at fair value through profit or loss. The combined impact of these designations has been the elimination or significant reduction of balance sheet and income statement accounting mismatches that would otherwise have arisen had designation not been permitted.

Future adoption

The following standards, amendments to standards, and interpretations, effective in future accounting periods, which are relevant to the Company, have not been early adopted in these financial statements:

- IFRS4 and IAS39, Amendment for financial guarantee contracts (effective 1 January 2006)
The amendment to IFRS4 provides guidance on accounting by the issuer of financial guarantee contracts. Under the amendment, the issuer of the contract normally accounts for it as a financial instrument liability, however, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and had accounted for them as such, it may elect to irrevocably account for the contracts as financial instruments or insurance contracts. The amendment will have minimal impact on the Company's financial statements.
- IFRS7 Financial Instruments: Disclosures (effective 1 January 2007)
IFRS7 supersedes IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation. IFRS 7 requires additional disclosure over and above that required by IAS32 in respect of the following:
 - The significance of financial instruments for an entity's financial position and performance;
 - The nature and extent of risks arising from financial instruments; and
 - Capital objectives and policies.

The adoption of IFRS7 will lead to extended disclosure in the financial statements, but will have no impact on the accounting policies for financial instruments.

Notes to the annual financial statements

for the year ended 31 December 2005

2 Accounting policies (continued)

2.22 Forthcoming requirements (continued)

Future adoption (continued)

- IAS1, Additional disclosures about an entity's capital (effective 1 January 2007)
A consequential amendment on capital disclosures has been made to IAS1 as a result of the introduction of IFRS7. The additional disclosures will be included in the financial statements as part of the implementation of IFRS7.
- IAS19, Actuarial Gains and Losses, Group Plans and Disclosures (effective 1 January 2006)
The adoption of the amendment to IAS19 will have no impact on the Company's accounting policies for post-retirement benefits, however there will be additional disclosure provided on implementation in 2006.
- IFRIC4, Determining whether an Arrangement contains a Lease (effective 1 January 2006)
IFRIC4 provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17, Leases.
In terms of IFRIC4 the company is required to examine outsourcing arrangements and similar contracts to identify if these arrangements contain leases that are required to be accounted for in terms of IAS17. In accordance with the transitional provisions of this Interpretation, the Interpretation will be applied to arrangements existing at 1 January 2005 and the 2005 figures will be restated accordingly.
It is not anticipated that there will be any change in accounting policies as a result of the implementation of this Interpretation.
- IFRIC8, Scope of IFRS2 (effective 1 May 2006)
The adoption of IFRIC8 will have no impact on the Company's accounting policies or financial statements.

Notes to the annual financial statements

for the year ended 31 December 2005

3 Notes to the Statutory Actuary's report

3.1 Analysis of change in excess assets on published reporting basis

	Rm	Rm
	2005	2004
Excess assets at end of year	44 821	35 452
Excess assets at beginning of year	35 452	28 249
Change in excess assets on published reporting basis during the year	9 369	7 203
<i>The change in the excess assets on the published reporting basis has arisen from the following main sources:</i>		
Investment income on excess assets	873	516
Fair value gains and losses on excess assets	8 823	6 403
Operating profit before tax (excluding the effect of changes in the valuation basis)	4 970	4 054
Non - operating items	(608)	(190)
Policyholder tax	(1 435)	(728)
Changes in valuation basis and cost of benefit improvements	37	109
Taxation	(1 237)	(1 296)
Deferred taxation - net capital gains	(306)	(224)
Total earnings	11 117	8 644
Dividends	(2 229)	(1 441)
Share-based payment reserve	481	-
Change in excess assets on published reporting basis during the year	9 369	7 203

3.2 Reconciliation to income statement

The published operating profit before tax in the table above is reconciled with the profit before tax for the year in the income statement (page 18) as follows:

Operating profit before tax (excluding the effect of changes in the valuation basis)	4 970	4 054
Non - operating items	(608)	(190)
Changes in valuation basis and cost of benefit improvements	37	109
Operating profit before shareholder tax and investment income	4 399	3 973
Investment income and realised fair value gains	2 699	2 485
Profit before tax as shown in the income statement	7 098	6 458

3.3 Reconciliation of excess assets between published reporting basis and statutory basis

The reconciliation of excess of assets over liabilities between the published reporting basis and the statutory basis is as follows:

Excess of assets over liabilities on published reporting basis	44 821	35 452
Investment contracts	2 078	1 655
Revenue recognition	(676)	(508)
Deferred tax impacts of above items	(410)	(349)
Excess of assets over liabilities on statutory reporting basis	45 813	36 250

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

Notes to the annual financial statements

for the year ended 31 December 2005

3 Notes to the Statutory Actuary's report (continued)

3.4 Published valuation basis

The published valuation of insurance contracts and investment contracts with discretionary participation features is performed using the 'Financial Soundness Valuation' method, in accordance with PGN 104 issued by ASSA. This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus compulsory margins for prudence and further discretionary margins. The result of the valuation method and assumptions is such that profits are released appropriately over the term of each policy, to avoid premature recognition of profits that may give rise to losses in later years. Liabilities under investment contracts without discretionary participation are valued at fair value in accordance with IAS 39.

3.4.1 Valuation of assets on the published basis

Investment properties and financial assets are valued on the bases set out in note 2.8 and 2.12 respectively.

3.4.2 Valuation of liabilities on the published basis: insurance contracts and investment contracts with discretionary participation features

The major classes of business are valued as follows:

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

Bonus stabilisation reserves are calculated by adding the investment return earned on assets backing smoothed bonus policies, less applicable charges and tax, and by deducting the cost of bonuses declared, including the cost of interim bonuses to the valuation date where applicable. The bonus stabilisation reserves for all classes of smoothed bonus business were better than -7.5% of corresponding liabilities at the valuation date.

Policyholder reasonable benefit expectations are provided for by assuming that future bonuses would be declared at levels supported by the future investment return assumed, adjusted for the balance in the bonus stabilisation reserves over the next three years.

The future gross investment return by major asset categories and expense inflation (excluding margins) assumed for South African assurance business are as follows:

	December 2005	December 2004
Fixed interest securities	8.0%	*
Cash	6.0%	*
Equities	11.5%	*
Properties	9.5%	*
Future expense inflation	5.0%**	8.0%

* Investment return assumption was not split by asset class. An aggregate gross investment return of 11.0% was assumed for December 2004.

** 7% for Retail business administered on old platforms and 6% for Group Schemes business.

Notes to the annual financial statements

for the year ended 31 December 2005

3 Notes to the Statutory Actuary's report (continued)

3.4.2 Valuation of liabilities on the published basis: insurance contracts and investment contracts with discretionary participation features (continued)

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

- The Company's best-estimate of future experience, as described below, and
- The compulsory margins as set out in PGN 104, and
- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy; and
- Other discretionary margins, mainly held to cover:
 - mortality and investment return margins for Group Schemes funeral policies, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,
 - mortality margins on Individual Business life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience,
 - interest margins on certain Individual Business non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds,
 - expense margins in the pricing basis for Employee Benefits with-profit annuities,
 - profit margins on Employee Benefits Platinum and non-profit annuities to ensure that profit is released appropriately over the life of the policies, and
 - interest margins on Employee Benefits PHI claims in payment due to the limited availability of CPI-linked bonds and long-dated bonds and the high rate of change in the portfolio (high volume of new claimants and terminations).

Liabilities include provisions to meet financial options and 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 assured lives experience due to AIDS, and for the expected improvement in annuitant mortality.

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

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

<i>Business unit</i>	<i>Type of investigation</i>	<i>Period of investigation</i>
Individual business	Flexi business mortality	2001 to 2002
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2001 to 2002
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency	2003
Group Schemes	Mortality	2004
	Persistency	2005
Employee Benefits	Annuitant Mortality	July 2000 to June 2003
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

In addition to these detailed experience investigations, the analysis of profit provides a measure of the aggregate experience in 2005. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions.

Notes to the annual financial statements

for the year ended 31 December 2005

3 Notes to the Statutory Actuary's report (continued)

3.4.3 Valuation of liabilities on the published basis: investment contracts without discretionary participation features

- For both individual and group savings policies, liabilities for investment contracts without a discretionary participating feature are based on account balances at the valuation date. In respect of investment contracts that provide investment management services, for example market-related investment contracts, a deferred acquisition cost (DAC) asset is held, which defers incremental acquisition expenses over the expected term of the policy, and a deferred revenue liability (DRL) is held as a liability, which defers excess initial fees over the expected term of the policy.
- For structured products, liabilities are calculated based on the market value of matching assets, together with an allowance for future expenses and margins.
- For non-profit term certain annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using current fixed-interest yields.
- Liabilities include the cost of any investment guarantees classified as investment contracts.

3.5 Statutory capital adequacy requirements

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

The Board has approved the management actions that would be taken in adverse investment conditions. These include reducing surrender values in accordance with underlying asset values, reducing interim bonuses (if necessary to zero), declaring low or if necessary zero bonuses, and if the circumstances warrant it, removing part or all of 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 CAR is the single most significant component of the Company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions that would be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 20% decline in foreign currency denominated assets other than equities, a 15% decline in property values and a 25% relative increase or decrease in fixed-interest yields to maturity and in real yields to maturity on inflation-linked bonds. The management action that is assumed to be taken is the minimum that the Company would be willing to take under such conditions, and in assuming this action, the Company does not limit itself to only taking this action under such circumstances.

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. More extensive action is assumed under more adverse circumstances. In calculating the CAR as at 31 December 2005 it has been assumed that:

- no accrued non-vested bonuses would have been removed (December 2004: 38%); and
- for all smoothed bonus products, future bonuses would have been reduced by an average of 1.0% per year over the following 3 years (December 2004: 1.4% per year for products with fully vested bonuses only),

if asset values had declined as specified as at 31 December 2005, 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 2005 by R4bn (December 2004: R10bn). This in turn reduced the capital requirement by R5bn (December 2004: R13bn).

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 60% in local equities, 20% in international cash and 20% in local cash (December 2004: 57% local equities, 23% international cash and 20% local cash).

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)

Notes to the annual financial statements

for the year ended 31 December 2005

3 Notes to the Statutory Actuary's report (continued)

3.6 Benefit improvements and changes to valuation assumptions (published basis)

There were some benefit improvements and various changes to valuation assumptions. These largely offset each other resulting in a net reduction in the value of liabilities of R37million on the Published basis.

The main changes were as follows:

Benefit improvements:

- A reserve of R716m has been established for the effect of the minimum paid-up and surrender value bases that were announced in the Statement of Intent by the Long-term Insurance Industry and the Minister of Finance on 12 December 2005.
- Provision has been made for the cover on certain Group Schemes funeral plans to be increased or extended, to improve value for money, leading to an increase in liabilities of R222m.

Assumption changes:

- The change in the expense inflation assumptions reduced the value of liabilities by R638m.
- The provision for future maintenance expenses for certain products was reduced based on the results of the most recent expense investigation, reducing the value of liabilities by R261m.
- Greenlight decrement assumption changes resulted in a reduction in liabilities of R186m.
- Group Schemes reviewable funeral plans are now valued for the full contract term. This, together with a reduction in assumed future premium increases for other funeral plans led to a reduction in the value of liabilities of R149m.
- Shareholder-funded investment guarantee reserves were increased by R152m due to modelling changes.
- The change in the investment return valuation assumptions has resulted in an increase in the value of liabilities of R108m.

Notes to the annual financial statements

for the year ended 31 December 2005

4	Analysis of total gross premium and investment contract deposits	Rm			Rm
		South African operation	Rest of the World	Total 2005	2004
	<i>Gross premiums and investment contract deposits written</i>				
	Individual	19 801	1 430	21 231	19 112
	Single	8 312	1 404	9 716	8 199
	Recurring	11 489	26	11 515	10 913
	Group	11 090	-	11 090	8 640
	Single	7 644	-	7 644	5 116
	Recurring	3 446	-	3 446	3 524
	Total gross premiums and investment contract deposits	30 891	1 430	32 321	27 752
	Comprising:				
	Insurance contracts (refer note 20)	12 762	18	12 780	11 491
	Investment contracts with discretionary participation features (refer note 21)	5 134	-	5 134	4 460
	Deposits received on investment contracts (refer note 21)	12 995	1 412	14 407	11 801
		30 891	1 430	32 321	27 752
	Less: Deposits on investment contracts (refer note 21)	(12 995)	(1 412)	(14 407)	(11 801)
	Total gross premiums	17 896	18	17 914	15 951

Notes to the annual financial statements

for the year ended 31 December 2005

4	Analysis of total gross premium and investment contract deposits <i>(continued)</i>	Rm			Rm
		South African operation	Rest of the World	Total 2005	2004
	<i>Gross new business premiums and investment contract deposits written</i>				
	Individual	10 195	1 407	11 602	10 021
	Single	8 312	1 404	9 716	8 199
	Recurring	1 883	3	1 886	1 822
	Group	7 848	-	7 848	5 298
	Single	7 645	-	7 645	5 116
	Recurring	203	-	203	182
	Total new business gross premiums and investment contract deposits	18 043	1 407	19 450	15 319
	Comprising:				
	Insurance contracts	4 341	-	4 341	2 933
	Investment contracts with discretionary participation features	2 185	-	2 185	1 975
	Deposits received on investment contracts	11 517	1 407	12 924	10 411
		18 043	1 407	19 450	15 319
	Less: Deposits received on investment contracts	(11 517)	(1 407)	(12 924)	(10 411)
	Total gross new business premiums	6 526	-	6 526	4 908

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
5 Investment income	2005	2004
Dividend income		
Financial assets fair valued through profit or loss	3 654	2 667
Financial assets 'available-for-sale'	584	337
	4 238	3 004
Interest income		
Finance leases	11	12
Cash and short term funds held	64	73
Other financial assets	6 943	7 056
Fair valued through profit or loss	6 717	6 880
'Available-for-sale'	226	176
	7 018	7 141
Net rental income		
Investment property	680	636
	46 560	27 862
Fair value gains and losses on financial assets		
Gains on financial assets fair valued through profit or loss*	44 734	26 006
Realised foreign exchange gains on financial assets 'available-for-sale'	3	18
Realised fair value gains on financial assets 'available-for-sale'	1 823	1 838
Investment property	2 176	474
	48 736	28 336
Foreign currency translation losses	-	(29)
Included in income statement	60 672	39 088
Fair value gains		
Financial assets 'available-for-sale'	6 997	4 547
Included in the revaluation reserve	6 997	4 547
* Included in gains are transaction costs amounting to R110 million (2004: R85 million)		
6 Fee and commission income		
Investment contracts		
Investment management fees	1 194	1 085
Change in deferred revenue	25	18
Sundry fee and commission income	855	513
	2 074	1 616
7 Other income		
Profit on sale of office equipment	2	1
Release of provision related to share incentive arrangements	100	-
Interest received	68	-
Other	69	9
	239	10

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
8		
<u>Commissions and other acquisition costs</u>	<u>2005</u>	<u>2004</u>
Commission expenses	888	913
Other acquisition costs	685	491
Changes in deferred acquisition costs	(145)	(52)
	<u>1 428</u>	<u>1 352</u>
9		
<u>Other operating and administration expenses</u>		
Other operating and administrative expenses include:		
Amortisation of deferred acquisition costs	147	129
Amortisation of deferred revenue liabilities	(85)	(79)
Amortisation of intangibles	29	23
Asset management expenses	374	304
Depreciation of owner-occupied property and office equipment	81	139
Operating lease rentals	68	90
Technical and professional fees	469	367
Auditors' remuneration		
Statutory audit services	7	7
Other audit and assurance related services	1	1
Other non-audit related services	2	1
	<u>10</u>	<u>9</u>
Directors' emoluments (R'000s)	18 389	26 214
- for other services rendered	16 745	24 325
- for services as Directors	1 644	1 889
Staff costs		
Wages and salaries	1 392	1 364
Social security costs	9	8
Retirement obligations	167	60
Defined contribution plans	138	28
Defined benefit plans	29	32
Bonus and incentive remuneration	351	324
Share based payments	205	117
Termination benefits	-	22
Other	116	78
	<u>2 240</u>	<u>1 973</u>
Less: Staff costs included in other acquisition costs	(510)	(343)
	<u>1 730</u>	<u>1 630</u>

Notes to the annual financial statements

for the year ended 31 December 2005

10 Costs associated with the Black Economic Empowerment transaction

During the year the Company, through its ultimate holding company, Old Mutual plc, entered into a Black Economic Empowerment transaction. The once-off costs associated with the transaction are set out below:

	Rm	Rm
	<u>2005</u>	<u>2004</u>
Broad-based employee share scheme	86	-
Black Business Partners, unions and distributors' schemes	481	-
External transaction costs	20	-
	<u>587</u>	<u>-</u>

Broad-based employee scheme

In terms of the transaction, on 20 October 2005 the Company granted R86 million to a trust established as part of the scheme in respect of the value of Old Mutual plc shares granted to eligible employees under the broad-based employee scheme. The grant represents a share-based payment transaction as defined in IFRS 2, Share-based payments. The cost of the grant has been expensed immediately on the basis that there are no services or vesting conditions attached to the shares granted to the eligible employees.

Black Business Partners, unions and distributors' schemes

On 1 August 2005 Old Mutual plc issued 116 million new ordinary shares to various Black controlled special purpose vehicles beneficially owned or controlled by unions, distributors and Black Business Partners as part of its Black Economic Empowerment transaction. The shares have been issued in return for services to be provided in the future and Black Economic Empowerment credentials. As such they represent equity-settled share-based payment transactions as defined in IFRS 2. The charge above represents the value of the future services and credentials provided, calculated by reference to the fair value of the instruments issued on 1 August 2005. Fair value is determined using a Black-Scholes option pricing model. The share price implicit in the model takes into account the deferred acquisition price payable by the counterparties, and is calculated based on contractually agreed terms. Dividends received by the counterparties are applied to reduce the deferred acquisition price that is payable where appropriate. The share prices range between £1.60 and £2.10 per share. The contractual term is 10 years and the volatility assumed is 25.8 percent.

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
	<u>2005</u>	<u>2004</u>
11		
Income tax expense		
South African taxation		
Normal income tax		
- current year	1 006	1 333
- prior years' adjustment	99	35
- policyholders	710	614
- Secondary tax on companies (STC)	-	100
Capital gains tax		
- current year	321	122
- prior years' adjustment	(146)	11
Deferred taxation		
- origination of temporary differences	(103)	(193)
- policyholders	725	114
- prior years' adjustment	60	1
	<u>2 672</u>	<u>2 137</u>

Reconciliation of taxation rate on profit before tax

	%	%
Standard rate of taxation	29.0	30.0
Adjusted for:		
Prior years' under provision	1.1	0.7
Exempt income	(3.5)	(1.6)
Disallowed expenses	0.2	1.2
Capital gains tax - rate difference	(2.9)	(6.5)
Share-based payments	0.2	0.4
Policyholders' tax	14.2	7.9
Other	(0.7)	1.0
Effective tax rate	<u>37.6</u>	<u>33.1</u>

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
	2005	2004
12 Intangible assets		
<i>Capitalised software</i>		
Cost		
Balance at beginning of year	205	161
Additions	10	44
Balance at end of year	215	205
Amortisation and impairment losses		
Balance at beginning of year	(145)	(122)
Amortisation charge for the year	(29)	(23)
Balance at end of year	(174)	(145)
Carrying amount at end of year	41	60
13 Investment property		
Carrying amount at beginning of year	6 951	6 643
Additions	61	220
Disposals	(377)	(386)
Net gain from fair value adjustments	2 176	474
Carrying amount at end of year	8 811	6 951
Comprising:		
Freehold property	8 811	6 951

Notes to the annual financial statements

for the year ended 31 December 2005

		Rm		Rm	
		Owner occupied property	Office equipment	Total 2005	
					2004
14	Owner-occupied property and equipment				
Gross carrying amount					
	Balance at beginning of year	1 975	523	2 498	2 505
	Additions	26	45	71	285
	Increases arising from revaluation	161	-	161	67
	Disposals	(214)	14	(200)	(327)
	Transfer on revaluation	(30)	-	(30)	(32)
	Balance at end of year	1 918	582	2 500	2 498
Accumulated depreciation and impairment losses					
	Balance at beginning of year	-	(399)	(399)	(356)
	Depreciation charge for the year	(33)	(48)	(81)	(139)
	Disposals	3	1	4	64
	Transfer on revaluation	30	-	30	32
	Balance at end of year	-	(446)	(446)	(399)
	Carrying amount at end of year	1 918	136	2 054	2 099
15	Financial assets	Fair valued through profit or loss		Available-for-sale	Total 2005
					2004
15.1	Analysis of investments				
Investments in Group undertakings					
	Equity investment in principal subsidiaries	3 128	28 588	31 716	34 126
	Capital advances to Group undertakings	951	4 745	5 696	3 662
	Old Mutual plc	4 971	-	4 971	3 960
	Nedgroup Life Assurance Company Ltd	-	20	20	20
	Callable preference shares	-	1 000	1 000	1 000
		9 050	34 353	43 403	42 768
Financial assets					
	Equity securities - listed	113 242	7 004	120 246	88 063
	- unlisted	4 542	1 558	6 100	4 560
	- derivatives	(776)	-	(776)	1 495
	Debt securities - listed	63 261	8	63 269	57 116
	- unlisted	3 460	13	3 473	3 577
	- derivatives	376	-	376	1 493
	Pooled investments - listed	1 533	-	1 533	1 638
	- unlisted	43 090	2 455	45 545	36 505
	Reinsurance of investment contract liabilities	5 826	-	5 826	4 614
	Other assets	4 982	-	4 982	5 621
	Deposits and money market securities	11 762	611	12 373	10 683
		251 298	11 649	262 947	215 365
		260 348	46 002	306 350	258 133

Notes to the annual financial statements

for the year ended 31 December 2005

15 Financial assets (continued)

15.2 Analysis of capital advances to Group undertakings	Rm			Rm
	Fair valued through profit or loss	Available-for-sale	Total 2005	2004
Just Now Investments (Pty) Ltd	186	-	186	179
Mutual & Federal Investments (Pty) Ltd	-	1 360	1 360	1 619
Old Mutual Finance (Pty) Ltd	-	450	450	450
Old Mutual Portfolio Holdings (Pty) Ltd	-	1 032	1 032	1 048
Old Mutual (South Africa) Ltd	-	1 081	1 081	-
Old Mutual Technology Holdings Ltd	-	315	315	339
Omibon (No. 13) (Pty) Ltd	-	-	-	113
Rodina Investments (Pty) Ltd	765	-	765	(592)
Other	-	507	507	506
	951	4 745	5 696	3 662

16 Deferred tax

	At beginning 2005	Income statement charge/ credit	Charged/ credited to Equity	At end 2005	2004
Deferred tax asset					
Investment contracts	349	61	-	410	349
Income tax losses	60	(45)	-	15	60
STC credits	53	(43)	-	10	53
Other provisions	164	70	-	234	164
	626	43	-	669	626
Deferred tax liability					
Capital gains tax - Shareholders	(325)	-	(306)	(631)	(325)
Capital gains tax - Policyholders	(583)	(725)	-	(1 308)	(583)
	(908)	(725)	(306)	(1 939)	(908)

17 Re-insurers' share of insurance contract provisions

Balance at beginning of year	31	83
Inflows		
Outwards reinsurance premiums	314	251
Investment income	15	348
Outflows		
Reinsurance recoveries	(296)	(651)
Balance at end of year	64	31

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
	2005	2004
18 Deferred acquisition costs		
Balance at beginning of year	811	759
Acquisition cost deferred on inward business	292	182
Amortisation	(147)	(129)
Foreign exchange movements	-	(1)
Balance at end of year	956	811

	Amounts due by	Amounts due (to)	Total 2005	2004
19 Amounts due by or (to) group companies				
Barprop (Pty) Ltd	23	-	23	23
Global Edge technologies (Pty) Ltd	33	-	33	25
Old Mutual Asset Managers (SA) (Pty) Ltd	-	(3)	(3)	(22)
Old Mutual Healthcare (Pty) Ltd	25	-	25	29
Old Mutual Investment Services (Pty) Ltd	32	-	32	17
Old Mutual International (Guernsey) Ltd	122	-	122	-
Old Mutual plc	16	-	16	32
Old Mutual (South Africa) Ltd	1 242	-	1 242	(140)
Old Mutual Specialised Finance (Pty) Ltd	837	-	837	3
Old Mutual (South Africa) Share Trust	817	-	817	811
OM(SA) Management Incentive Trust	1 249	-	1 249	-
OM(SA) Broad-based Share Trust	117	-	117	-
Other	120	-	120	134
Subordinated loans:	4 633	(3)	4 630	912
Old Mutual plc	-	(48)	(48)	(46)
The loan of £4.25 million (2004 : £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 International (Guernsey) Ltd	-	(16)	(16)	(16)
The loan of £1.5 million (2004 : £1.5 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.				
	4 633	(67)	4 566	850

The amounts due to or from group companies above are unsecured, interest free and are not subject to fixed terms of repayment.

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
	2005	2004
20 Insurance contract provisions		
Movement in provision for insurance contracts		
Balance at beginning of year	107 919	98 902
Inflows		
Premium income	12 780	11 491
Investment income	28 626	18 489
Outflows		
Claims and policy benefits	(14 997)	(14 625)
Operating expenses	(3 143)	(2 587)
Other charges and other transfers	(274)	(395)
Taxation		
Current tax	(554)	(463)
Deferred tax	(410)	(16)
Transfer to operating profit	(2 724)	(2 877)
Balance at end of year	127 223	107 919

The material assumptions used in determining the provisions for insurance contracts are detailed in note 3 above.

21 Investment contract liabilities		
Composition of liabilities in respect of investment contracts		
Liabilities fair valued through profit or loss	76 687	66 322
Liabilities with discretionary participating features	65 833	55 486
	142 520	121 808
Movement in liabilities fair valued through profit or loss		
Balance at beginning of year	66 322	60 016
New contributions received	14 407	11 801
Withdrawals	(15 891)	(12 245)
Fair value movements	13 102	7 861
Currency translation losses	(59)	(26)
Fees deducted	(1 194)	(1 085)
Balance at end of year	76 687	66 322

Notes to the annual financial statements

for the year ended 31 December 2005

21 *Investment contract liabilities* (continued)

	Rm	Rm
	2005	2004
Movement in liabilities with discretionary participation features		
Balance at beginning of year	55 486	52 014
Inflows		
Premium income	5 134	4 460
Investment income	16 381	9 879
Outflows		
Claims and policy benefits	(9 448)	(9 342)
Operating expenses	(671)	(866)
Taxation		
Current tax	(68)	(100)
Deferred tax	(51)	21
Transfer to operating profit	(930)	(580)
Balance at end of year	65 833	55 486

22 *Borrowed funds*

	Coupon rate	2005	2004
Unsecured Subordinated Callable Notes	8.92%	3 000	-

The subordinated notes rank behind the claims from policyholders and other unsecured unsubordinated creditors. The subordinated notes are unsecured.

On 27 October 2005 the Company issued 8.92% Unsecured Subordinated Callable Notes at a nominal price of R3 billion which are listed on the Bond Exchange of South Africa (BESA). The final maturity date for the notes is 27 October 2020, however they may be redeemed earlier by the issuer on 27 October 2015 or on each interest date thereafter. Interest is payable on 27 April and 27 October up to the call date, thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity date or date of early redemption, whichever is earlier. Interest is payable at 8.92% up to the date of early redemption and at 3-month JIBAR rate plus 159 basis points thereafter. Interest relating to the year under review of R48 million (2004:Nil) is payable on 27 April 2006.

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

23 *Other provisions*

	Charitable donations	Restructuring and claims	Other	Rm Total 2005
Balance at beginning of year	190	211	154	555
Amount utilised	-	(26)	(41)	(67)
Notional interest	16	-	-	16
Released	-	(12)	(100)	(112)
Charge	21	254	25	300
Balance at end of year	227	427	38	692

Notes to the annual financial statements

for the year ended 31 December 2005

23 Other provisions (continued)

	Charitable donations	Restructuring and claims	Other	Rm Total 2004
Balance at beginning of year	-	224	145	369
Amount utilised	-	(15)	(49)	(64)
Notional interest	-	-	11	11
Released	-	(17)	(6)	(23)
Charge	190	19	53	262
Balance at end of year	190	211	154	555

Charitable donations

The Company has recognised a provision amounting to R227 million (2004: R190 million) in relation to donations to be made to charitable organisations.

Restructure and claims

The provisions relate to restructuring costs and potential claims arising in the ordinary course of business.

Other

Other provisions relate mainly to provisions in respect of share incentive arrangements.

24 Share-based payment liabilities

Cash-settled share-based employee compensation plans

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

	Rm 2005	Rm 2004
<i>Composition of share-based payment liabilities</i>		
Share Option and Deferred Delivery entitlements	212	104
Restricted Share awards	182	85
	394	189

Movement relating to share entitlements and awards during the year are as follows:

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for the year ended 31 December 2005

24 Share-based payment liabilities (continued)

	2005		2004	
	Number of share options (Millions)	Weighted average exercise price	Number of share options (Millions)	Weighted average exercise price
Share Option and Deferred Delivery entitlements				
Outstanding, at beginning of year	57	14.34	62	15.24
Granted during year	10	14.59	11	11.78
Forfeited during year	(4)	14.02	(4)	13.59
Exercised during year	(3)	14.25	-	11.39
Expired during year	(11)	15.49	(12)	18.24
Outstanding, at end of year	49	14.46	57	14.34
Exercisable, at end of year	19	13.14	14	12.89

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

	2005 (Millions)	2004 (Millions)
Restricted Share awards		
Outstanding, at beginning of year	9	5
Granted during year	5	5
Forfeited during year	(1)	(1)
Exercised during year	(1)	-
Outstanding, at end of year	12	9
Exercisable, at end of year	-	-

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

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24 Share-based payment liabilities (continued)

Share Option and Deferred Delivery entitlements

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

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

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

	2005	2004
Number of options granted (millions)	10	11
Fair value per option at measurement date (in Rands)	5	3
Share price (in Rands)	18	11
Exercise price (in Rands)	15	12
Expected volatility	32%	32%
Expected life (in years)	5	5
Expected dividends	4%	4%
Risk free interest rate	7.6%	7.6%

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

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

Restricted shares

Number granted (millions)	5	5
Fair value (in Rands)	18	11

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

25 Deferred revenue on investment contracts

	Rm	Rm
	2005	2004
Balance at beginning of year	303	324
Fees and commission income deferred	60	61
Amortisation	(85)	(79)
Foreign exchange movements	1	(3)
Balance at end of year	279	303

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for the year ended 31 December 2005

26 Post employment benefits obligation

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

	Rm		Rm	
	2005		2004	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Movement in projected defined benefit obligations</i>				
Projected benefit obligation at beginning of year	109	741	110	691
Current service cost	3	29	3	28
Interest cost on benefit obligation	10	68	10	64
Actuarial (gains)/losses	3	(37)	(10)	(25)
Benefits paid	(2)	(18)	(4)	(17)
Projected benefit obligation at end of year	123	783	109	741

	Rm		Rm	
	2005		2004	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Movement in plan assets</i>				
Plan assets at beginning of year	(160)	(752)	(151)	(674)
Actual return on plan assets	(13)	(86)	(13)	(73)
Contributions	-	-	-	(22)
Benefits paid	2	18	4	17
Plan assets at end of year	(171)	(820)	(160)	(752)

	Rm		Rm	
	2005		2004	
	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
<i>Net asset or (liability) recognised in balance sheet</i>				
Funded status of plan	(48)	(37)	(51)	(11)
Unrecognised actuarial gains	48	91	51	37
Net amount recognised in balance sheet	-	54	-	26

Notes to the annual financial statements

for the year ended 31 December 2005

26 Post employment benefits obligation (continued)

	Rm		Rm	
	2005		2004	
<i>Expense recognised in income statement</i>	Defined pension benefits	Post-retirement benefits	Defined pension benefits	Post-retirement benefits
Current service costs	3	29	3	28
Interest cost	10	68	10	64
Expected return on plan assets	(13)	(86)	(13)	(73)
Net actuarial losses recognised in year	-	-	4	-
Total (included in staff costs)	-	11	4	19
Actual return on plan assets	13	86	13	73
<i>Principal actuarial assumptions</i>				
Discount rate	9%	8%	9%	9%
Expected return on plan assets	9%	8%	9%	9%
Future salary increases	6%	6%	6%	6%
Price inflation	n/a	8%	n/a	9%
<i>Plan asset allocation</i>				
Equity securities	63%	47%	63%	51%
Debt securities	26%	47%	26%	44%
Real estate	6%	5%	6%	5%
Other investments	5%	1%	5%	0%
	100%	100%	100%	100%

27 Share capital and premium

	Rm	Rm
	2005	2004
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 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

for the year ended 31 December 2005

	Rm	Rm
	2005	2004
28 Notes to the cash flow statement		
28.1 Non-cash movements and adjustments to profit before tax consist of:		
Depreciation and amortisation	172	212
Profit on sale of office equipment	(2)	(1)
Fair value gains for the year	(55 078)	(32 853)
Charges to provisions and post employment benefits obligation	165	210
Share-based payments charge	686	117
Interest paid	104	8
Movement in policyholder liabilities	40 016	17 616
	(13 937)	(14 691)
28.2 Changes in working capital comprises:		
Outstanding premiums, debtors and amount due by Group undertakings	(3 604)	(1 351)
Outstanding claims, creditors and amounts due to Group undertakings	406	1 913
Reinsurer's share of liabilities in respect of insurance contracts	(33)	231
Deferred acquisition costs	(292)	(182)
Deferred revenue on investment contracts	60	61
Intangibles	(10)	(44)
Fixed assets	(33)	(90)
	(3 506)	538
28.3 Taxation paid:		
Taxation payable at beginning of year	(576)	(523)
Tax charge for the year (excluding deferred tax)	(1 990)	(2 215)
Tax payable at end of year	394	576
	(2 172)	(2 162)

Notes to the annual financial statements

for the year ended 31 December 2005

	Rm	Rm
	2005	2004
29 Leases		
<i>The Company as lessor - operating lease arrangements</i>		
Total future minimum lease receivables under operating leases		
Not later than one year	572	443
Later than one year and not later than five years	1 396	1 776
Later than five years	328	519
	2 296	2 738

30 Related party transactions

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

Transactions and balances with subsidiaries and other Group companies

	Rm	Rm
	2005	2004
Subsidiaries and associates:		
Nedbank Group Ltd		
<i>Nature of transactions</i>		
Insurance contract premiums	64	68
Interest earned on cash balances	91	293
Interest earned on Nedbank bonds	120	118
Dividends received	258	59
Cash and short term securities	2 747	2 093
Nedbank bonds	969	1 034
Old Mutual Dividend Access Company (Pty) Ltd		
<i>Nature of transactions</i>		
Dividends paid	(916)	(118)
Old Mutual Investment Services (Pty) Ltd		
<i>Nature of transactions</i>		
Fees received	199	127
Old Mutual Life Holdings (SA) Ltd		
<i>Nature of transactions</i>		
Dividends paid	(1 313)	(1 323)
Old Mutual Properties (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(144)	(174)

Notes to the annual financial statements

for the year ended 31 December 2005

30 Related party transactions (continued)

Transactions and balances with subsidiaries and other Group companies (continued)

	Rm	Rm
	2005	2004
Old Mutual Asset Managers (SA) (Pty) Ltd		
<i>Nature of transactions</i>		
Fees paid	(259)	(220)
Old Mutual Specialised Finance (Pty) Ltd		
<i>Nature of transactions:</i>		
Scrip lending fees paid	(4)	(4)
Scrip lending fees received	6	8
Premium received on sale of dividend rights	3	-
Other administration, management and secretarial fees received	7	5
Fees paid for the bond issue	(1)	-
Interest received on call advances	209	215
Net interest received on interest rate swaps	6	1
Realised (losses)/gains on interest rate swaps	(13)	29
Net unrealised losses on trading of financial assets	(3)	-
Fees paid for staff secondment	(7)	(3)

Old Mutual International Guernsey Ltd

The Company has reinsured substantially all the liabilities in respect of contracts with policyholders of its Guernsey branch with a fellow subsidiary, Old Mutual International Guernsey Ltd. The liabilities in respect of contracts with policyholders subject to the reinsurance agreement amounted to R5 845 million (2004: R4 583 million).

Nedgroup Life Assurance Company Ltd

In July 2003 the Company took out a Term Certain Linked Annuity Policy with Nedgroup Life Assurance Company Ltd (Nedlife) in terms of which it is an annuitant and Nedlife is the insurer. The policy, which involves a lumpsum payment of R5 billion, has been in operation since 23 July 2003 and terminates on 30 September 2008. In terms of the policy the Company receives annuity payments from 30 September 2003 up to 30 September 2008 based on the market value of the financial instruments underlying the policy. To date annuity payments amounting to R3 billion (2004: R2 billion) have been received.

Old Mutual Specialised Finance (Pty) Ltd

At 31 December 2005 government bonds with a fair value of R6 681 million (2004: R1 553 million) including interest and listed equities with a fair value of R Nil million (2004: R3 706 million) had been lent to Old Mutual Specialised Finance (Pty) Ltd (OMSFIN). The nominal value of bonds lent was R5 016 million (2004: R1 281 million). The bonds lent had a weighted average coupon rate of 10.9% (2004: 11.9%). OMSFIN has pledged securities to the value of R Nil million (2004: R452 million) as security.

Old Mutual Group Achievements (Pty) Ltd

Old Mutual Group Achievements (Pty) Ltd (OMGA) has two endowment policies taken out with the Company. The policies were taken out to cover share entitlements issued to eligible members of senior management by OMGA, before the Company demutualised. The value of the policies grows based on the Company's shareholders' fund growth. At year end the combined value of the policies was R195 million (2004: R153 million). This value is a net amount after deducting a loan amounting to R661 million raised by OMGA against these policies.

Loans due by or to subsidiaries and other group companies

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

All Company's principal subsidiaries and associates together with loans due by or to them are listed in note 31.

Capital advances and amounts due by or to group companies are disclosed in note 15 and 19 respectively.

Notes to the annual financial statements

for the year ended 31 December 2005

30 Related party transactions (continued)

Key management personnel

The Company's executive directors are listed in the Directors' report. Other members of the Company's key management personnel include members of its Executive Committee including Messrs P J Golesworthy, N A Bicket, K S Mthembu and C J Hood.

<i>(R'000)</i>	2005	2004
<i>Amounts payable to key management</i>		
Salary	12 665	12 665
Bonus	8 767	8 743
Gains on share options exercised and related payments	2 883	8 898
Pension and other benefits	1 554	1 579
Share-based payment charge	16 920	13 346
	42 789	45 231

31 Interest in principal subsidiaries and associates

	Number of issued ordinary shares	% interest	Carrying value of shares	Rm Due by/(to) subsidiaries
2005				
The Company's interest in its principal subsidiary and associate companies is as follows:				
Listed				
Nedbank Group Ltd	150 362 794	34%	15 042	-
Unlisted				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	6 567	1 360
Barprop (Pty) Ltd	46 599 200	100%	(8)	23
Millstream Ltd	2 245 151	100%	176	-
Old Mutual Fund Holdings (Bermuda) Ltd	12 000	100%	2 414	-
Old Mutual Holdings (Bahamas) Ltd	502 783 750	100%	3 479	-
Old Mutual Technology Holdings Ltd	10 000	100%	(59)	315
SYmmETRY Investment Trust		100%	501	-
Rodina Investments (Pty) Ltd	100 000	100%	3 604	765
Just Now Investments (Pty) Ltd	20 000	100%	-	186

Notes to the annual financial statements

for the year ended 31 December 2005

Rm

31 Interest in principal subsidiaries and associates

	Number of issued ordinary shares	% interest	Carrying value of shares	Due by/(to) subsidiaries
2004				
The Company's interest in its principal subsidiary and associate companies is as follows:				
Listed				
Nedbank Group Ltd	134 898 115	34%	10 314	-
Unlisted				
Mutual & Federal Investments (Pty) Ltd *	3 649 700	100%	4 878	1 619
Barprop (Pty) Ltd	46 599 200	100%	(8)	23
Millstream Ltd	2 245 151	100%	175	-
Old Mutual Fund Holdings (Bermuda) Ltd	12 000	100%	12 907	-
Old Mutual Holdings (Bahamas) Ltd	502 783 750	100%	3 022	-
Old Mutual Technology Holdings Ltd	10 000	100%	(138)	339
Omibon (No. 13) (Pty) Ltd	100	100%	-	113
SYmmETRY Investment Trust		100%	206	-
Rodina Investments (Pty) Ltd	100 000	100%	2 770	(592)
Just Now Investments (Pty) Ltd	20 000	100%	-	179

* Mutual & Federal Investments (Pty) Ltd holds 77% (2004: 87%) interest in Mutual & Federal Insurance Company Ltd

32 Financial risk management

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Financial risk management strategy and policy

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with the insurance and investment liabilities (in particular borrowings and investments in foreign operations). The notes below explain how financial risks are managed using the categories utilised in the ALM framework.

Notes to the annual financial statements

for the year ended 31 December 2005

32 Financial risk management (continued)

Financial risk management strategy and policy (continued)

A Capital Adequacy

The capital position of the Company on statutory basis can be summarised as follows:

	Rm	Rm
	2005	2004
Shareholder's equity	45 813	36 250
Adjustments to statutory basis:		
Inadmissible assets	(11 145)	(7 376)
Other adjustments	3 000	-
Total available capital resources	34 668	28 874
Total capital requirements (Statutory Basis)	(11 500)	(10 993)
Overall excess	23 168	17 881

The calculations have been determined in accordance with the requirements of the South African Financial Services Board, with reliable estimates of the regulatory adjustments, as regulatory returns have yet to be completed. At 31 December 2005, the Company's excess assets were 3 times (2004: 2.6 times) the statutory capital adequacy requirement (CAR), after allowing for reliable estimates of statutory limitations on the value of certain assets.

The shareholders' equity includes the Company's investment in Nedbank Group Ltd amounting to R14 996 million (2004: R10 066 million) and R6 567 million (2004: R4 878 million) in Mutual & Federal Investments (Pty) Ltd, a wholly owned subsidiary which holds 77% (2004: 87%) of Mutual & Federal Insurance Company Ltd. In addition, R3 479 million (2004: R3 022 million) is invested in Old Mutual plc's loan notes through Old Mutual Holdings (Bahamas) Ltd, a wholly owned subsidiary and R4 745 million (2004: R2 189 million) is held in intercompany advances. There are no formal intra-Group arrangements that exist to provide capital to other subsidiaries. All intercompany advances are immediately repayable and are subject to commercial terms and conditions, with the exception that interest is waived in all circumstances.

The amount of the surplus available to be distributed as dividends for the ultimate parent, Old Mutual plc, is subject to available distributable reserves within the shareholders' equity, maintaining the minimum statutory capital adequacy requirement and foreign exchange controls, as determined by the South African Reserve Bank.

Notes to the annual financial statements

for the year ended 31 December 2005

32 Financial risk management (continued)

Financial risk management strategy and policy (continued)

A Capital Adequacy (continued)

Capital management policies

Capital is actively managed to ensure that the Company is properly capitalised and funded at all times, having regard to its regulatory needs, prudent management and the needs of all stakeholders.

The Company has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts, and the operations of the Capital Management Committee (CMC) that the Company's capital is managed.

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

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

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirements and such additional capital as management believes is necessary to ensure that obligations to policyholders can be met on a timely basis.
- Maintenance of an appropriate level of liquidity at all times. The Company further ensures that it can meet its expected capital and financing needs at all times, having regard to the business plans, forecasts and any strategic initiatives.

Sensitivities

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

The key risks affecting the surplus capital of the Company are market risk, credit risk, underwriting risk and business risk.

For further details of the management of specific financial risks, refer to the relevant sections of this note.

B Credit Risk

Credit risk is the risk that an asset, in the form of a monetary claim against a counterparty, may not result in a cash receipt (or equivalent) in accordance with the terms of a contract.

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

C Market Risk

Market risk is the potential impact on earnings of unfavourable changes in foreign exchange rates, interest rates, prices, market volatilities and liquidity. Investment risk arises from changes in the fair value of investments and includes private equity, property and strategic investments.

Notes to the annual financial statements

for the year ended 31 December 2005

32 Financial risk management (continued)

Financial risk management strategy and policy (continued)

C Market Risk (continued)

The stock selection and investment analysis process is supported by a well-developed research function. For fixed annuities, market risks are managed by investing in fixed interest securities with a duration closely corresponding to those liabilities. Market risks on policies where the terms are guaranteed in advance and the investment risk is carried by the shareholders, principally reside in the South African guaranteed non-profit annuity book, which is closely matched with gilts and semi-gilts. Other non-profit policies are also suitably matched through comprehensive investment guidelines. Market risks on with-profit policies, where investment risk is shared, are minimised by appropriate bonus declaration practices.

Equity price risk and interest rate risk (on the value of the securities) are modelled by the Company's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow the Company to manage significant equity exposures.

D Currency Risk

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

The Company's operations 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.

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

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

						Rm
At 31 December 2005	ZAR	GBP	USD	Euro	Other	Total
Investments in Group undertakings	32 539	4 971	5 893	-	-	43 403
Other financial assets	227 156	4 103	31 070	233	385	262 947
Cash and cash equivalents	1 510	18	27	1	2	1 558
Financial assets bearing currency risk	261 205	9 092	36 990	234	387	307 908
						Rm
At 31 December 2004						
Investments in Group undertakings	22 879	3 960	15 929	-	-	42 768
Other financial assets	184 714	3 958	26 102	256	335	215 365
Cash and cash equivalents	1 515	17	12	-	2	1 546
Financial assets bearing currency risk	209 108	7 935	42 043	256	337	259 679

Notes to the annual financial statements

for the year ended 31 December 2005

32 Financial risk management (continued)

Financial risk management strategy and policy (continued)

E Interest rate Risk

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

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

The table below summarises the effective average interest rate by major currencies across all interest-bearing financial instruments:

At December 2005	ZAR %	GBP %	USD %	Euro %
Interest bearing financial assets				
Other financial assets	7.37%	4.69%	3.95%	2.30%
Cash and cash equivalents	6.00%	4.87%		
Interest bearing financial liabilities				
Borrowed funds	8.92%			

At December 2004

Interest bearing financial assets

Other financial assets	7.81%	
Cash and cash equivalents	6.00%	5.58%

Interest sensitivity

Assuming the financial and insurance assets and liabilities at 31 December 2005 were to remain until maturity or settlement (anticipated surrender, lapse, maturity or death in respect of insurance and investment contract liabilities) without any action by the Company to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would reduce net income for the following year by approximately R36 million (2004: R43 million) and the shareholder's equity by approximately R12 million (2004: R65 million).

	Rm 2005	Rm 2004
F Notional value of derivative contracts		
Interest rate swaps	9 637	3 654
Forwards and futures	453	707
Options purchased	6 672	376
Options written	(5 382)	(2 510)
	11 380	2 227

Notes to the annual financial statements

for the year ended 31 December 2005

33 Insurance risk management

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

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

A Risk management objectives and policies for mitigating insurance risk

The Company effectively manages its insurance risks through the following mechanisms:

- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the Company seeks to reduce variability in loss experience.
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed at any point in time.
- Actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities.

Notes to the annual financial statements

for the year ended 31 December 2005

33 Insurance risk management (continued)

B Terms and conditions of insurance contracts

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

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation-investment
Individual life				
Flexi business with cover	Mortality/morbidity rates may be repriced	Mortality, morbidity	Some investment performance, cover and annuity guarantees	Yes, varies - see below
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity	Some investment performance and annuity guarantees	Yes, varies - see below
Greenlight	Charges fixed at inception and cannot be changed for a specified term	Mortality, morbidity, expense	Rates fixed for a specified number of years	None
Group schemes - funeral cover	Charges fixed at inception and cannot be changed for a specified number of years	Mortality including HIV/AIDS,	Rates fixed for a specified number of years	None
Employee Benefits - Group assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees except for PHI claims in payment for which benefit payment schedule is guaranteed	None
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
With-profit annuity	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes - see below

The extent of the Company's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non-vesting (in which case they can be removed).

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. The return not distributed after deducting charges is credited to a bonus stabilisation reserve, which may only be used to support subsequent bonus declarations.

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

Notes to the annual financial statements

for the year ended 31 December 2005

33 Insurance risk management (continued)

C Management of insurance risks

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

Risks	Definition	Risk management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
HIV/AIDS	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS. Tests for AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates. Reduced premiums are offered to those willing to undergo regular testing.
Medical developments	Possible increase in annuity costs due to policyholders living longer	For non-profit annuities, improvement to mortality is allowed for in pricing and valuation. Experience is closely monitored. For with-profit annuity business, the mortality risk is carried by policyholders and any mortality profits or loss is reflected in bonuses declared.
Changing financial market conditions	The move to a lower inflationary environment may cause more policyholder guarantees to be "in the money"	Value of guarantees, determined on a stochastic basis, included in current reserves. Fewer and lower guarantees are typically provided on new business.
Policyholder behaviour	Selection of more expensive options, or lapse and re-entry when premium rates are falling	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies	Catastrophe excess of loss re-insurance treaty covers all claims from one incident occurring within a specified period.

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

Notes to the annual financial statements

for the year ended 31 December 2005

33 Insurance risk management (continued)

D Sensitivity analysis

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

The increase or decrease to insurance contract liabilities recorded as of 31 December 2005 has been estimated as follows:

Assumption	Change %	Rm	Rm
		Increase/ (decrease) in 2005	Increase/ (decrease) in 2004
Mortality and morbidity rates - assurance	+10	1 981	1 605
Mortality rates – annuities	-10	491	403
Discontinuance rates	+10	(93)	(71)
Expenses (maintenance)	+10	686	701

Insurance contract liabilities recorded are also significantly impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to insurance contract liabilities, and decrease to profit, of R231 million (2004: R 241 million).

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

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

Notes to the annual financial statements

for the year ended 31 December 2005

33 Insurance risk management (continued)

E Guarantees and options

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

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a "real world" stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa (ASSA). The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below. The required shock calculations have been performed as at 31 December 2005.

Product category	Description of options and guarantees	Required Shock to bring "out-of-the-money" policies "in-the-money"
Individual Business		
Death, disability, point and/or maturity guarantees	<p>A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% pa for life and endowment business and 4.78% pa for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims.</p> <p>A small block of smoothed bonus savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25% pa investment return.</p>	<p>An insignificant proportion of policies are currently in-the-money (current actual cumulative investment return lower than that guaranteed). On average a 46% (2004: 36%) fall in asset value is required to bring current out-of-the-money policies to become in-the-money.</p> <p>None of these policies are currently in-the-money. On average a 43% (2004: 35%) fall in asset value is required to bring current out-of-the-money policies to become in-the-money.</p>
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.	A small proportion of policies are currently in-the-money (the current policy value lower than the threshold annuity consideration at which the guaranteed annuity option becomes in-the-money). On average a 190 basis point (2004: 230 basis point) reduction in yield is required to bring current out-of-the-money policies to become in-the-money.
Group Business		
Vested bonuses in respect of pre-retirement with - profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.	This business is currently out-of-the-money as the aggregate market value exceeds the vested reserve. On average a 35% (2004: 29%) fall in assets is required to cause the business to become in-the-money.