Old Mutual Life Assurance Company (South Africa) Ltd
Consolidated Annual Financial Statements
for the year ended 31 December 2014

Old Mutual Life Assurance Company (South Africa) Ltd

Consolidated annual financial statements for the year ended 31 December 2014

Contacts

Public officer	J Baepi
Audited by	KPMG Inc. Chartered Accountants (SA) Registered Auditor 1 Mediterranean Street Foreshore Cape Town 8001 South Africa
Postal address	PO Box 66 Cape Town 8000 South Africa
Registered office	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Company secretary	E M Kirsten
Company registration number	1999/004643/06
Preparation supervised by	K Murray CA Finance Director

These financial statements have been audited in compliance with the applicable requirements of the Companies Act.

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The reports and statements set out below comprise the company's consolidated annual financial statements:

Statement of directors' responsibilities

Directors responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, comprising the statement of financial position at 31 December 2014, and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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

Approval of consolidated annual financial statements

The consolidated annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, as identified in the first paragraph, were approved by the board of directors on 1 April 2015 and signed by:

P G de Beyer **Chairman**	**B M Rapiya** **Chief Executive Officer**

Certificate by the Company Secretary

I declare that, to the best of my knowledge, the company has lodged all such returns and notices as are required of it in terms section 88(2)(e) of the Companies Act of South Africa 71 of 2008, for the year ended 31 December 2014 and that all such returns appear true, correct and up to date.

E M Kirsten
Company Secretary
1 April 2015

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Ltd have pleasure in submitting their report on the consolidated annual financial statements for the year ended 31 December 2014.

1. Review of activities

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

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

Profit before tax was R11 144 million (2013: R18 423 million), and R7 836 million (2013: R14 205 million) after tax.

2. Holding company

The company's holding company is Old Mutual Emerging Markets Ltd incorporated in South Africa.

3. Ultimate holding company

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

4. Share capital

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

5. Dividends

Ordinary shares

Dividends on ordinary shares amounting to R2 817 million (2013: R19 042 million) were declared during the year. The 2013 total includes dividends in specie of R17 518 million.

Preference shares

Dividends on preference shares amounting to R1 053 million (2013: R2 720 million) were declared during the year.

Directors' report

6. Directors

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

Name	Nationality	Changes
P G de Beyer	South African	
N T Moholi	South African	Appointed 17 February 2014
C W N Molope	South African	
R T Mupita	South African	
K Murray	British	
B M Rapiya	South African	
P G M Truyens	Dutch	
G S van Niekerk	South African	Resigned 17 February 2014

The directors currently holding office are:

Executive directors

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

Independent directors

P G de Beyer ca
N T Moholi
C W N Molope ar
P M G Truyens ar, ca

ar Member of the Audit, Risk and Compliance Committee
ca Member of the Customer Affairs Committee
f Member of the Financial Assistance Committee

In terms of the memorandum of incorporation, Mr P G de Beyer, Ms C W N Molope and Mr R T Mupita are due to retire at the annual general meeting. Ms N T Moholi, having been appointed during the year, is also due to retire at the annual general meeting. All remaining directors have indicated that they would seek re-election at the annual general meeting, and all being eligible, and having been recommended for re-election by the board of directors, offer themselves for re-election.

7. Company secretary

Ms E M Kirsten is the company secretary.

Registered office

Mutualpark
Jan Smuts Drive
Pinelands
7405
South Africa

Postal address

PO Box 66
Cape Town
8000

Directors' report

8. Auditors

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

9. Events after the end of financial year

On 12 January 2015 the Group agreed to dispose of the remaining portion of the Menlyn Shopping Centre in South Africa for R3,200 million, subsequent to the completion of agreed upon improvements on the centre. Refer to note 13 for more information.

On 23 January 2015 the Company purchased a 23.3% stake in UAP Holdings Ltd, an East and Central African financial services company, for a total consideration of R1 139 million (KES 8.88 billion). On 26 January Old Mutual Holdings Ltd, a fellow subsidiary based in Kenya, confirmed that it will be acquiring an additional 37.3% of UAP's shareholding, subject to regulatory approval.

Following the successful completion of a bond auction, which took place on 16 March 2015, the company has issued a mixture of floating rate and fixed instruments with several maturities through its existing local South African programme. Accordingly, the JSE Limited has granted a listing to the company on the South African Interest Rate Market with effect from 19 March 2015 under its Unsecured Subordinated Callable Note Programme dated 4 September 2014. The total nominal value of instruments issued was R2 061 million.

Audit, Risk and Compliance Committee report

The Audit, Risk and Compliance Committee is a committee of the board of directors, and serves in an advisory capacity to the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, risk management and internal controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place.

Terms of reference

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

Composition and meeting process

The current members are Ms C W N Molope, Mr P G M Truyens and Ms N T Moholi.

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

Statutory duties

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

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

Legal requirements

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

Consolidated annual financial statements

Following our review of the consolidated annual financial statements for the year ended 31 December 2014, we are of the opinion that, in all material respects, they comply with the relevant provisions of IFRS and the Companies Act 71 of 2008 and that they fairly present the consolidated financial position at 31 December 2014 of the company and its subsidiaries, joint ventures and associates and the consolidated results of operations and cash flows for the year then ended.

C W N Molope
Chairman of the Audit Risk and Compliance Committee
1 April 2015

Independent auditor's report

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

We have audited the consolidated financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, which comprise the statement of financial position at 31 December 2014, and the income statement and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 74.

Directors' responsibility for the Financial Statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Old Mutual Life Assurance Company (South Africa) Ltd at 31 December 2014, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended 31 December 2014, we have read the Directors' report, the Audit, Risk and Compliance Committee's report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Per: G Dixon
Chartered Accountant (SA)
Registered Auditor
Director

1 Mediterranean Street
Foreshore
Cape Town
8000

1 April 2015

Old Mutual Life Assurance Company (South Africa) Ltd

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Income statement

	Notes	2014 R m	2013 R m
Revenue			
Gross earned premiums	3	35 875	41 295
Outward reinsurance premiums		(1 128)	(2 260)
Net earned premiums		**34 747**	**39 035**
Investment income (net of investment losses)	5	66 400	86 687
Fee and commission income	6	5 783	4 644
Other income		828	650
Total revenue		**107 758**	**131 016**
Expenses			
Claims and benefits		(54 903)	(66 085)
Reinsurance recoveries		541	2 154
Net claims and benefits incurred (including change in insurance contract provisions)		**(54 362)**	**(63 931)**
Change in investment contract liabilities		(21 750)	(28 016)
Finance costs	7	(1 596)	(1 477)
Commission and other acquisition costs	8	(4 053)	(4 496)
Operating and administration expenses	9 &10	(11 259)	(11 408)
Change in third party interest in consolidated funds		(3 557)	(4 912)
Total expenses		**(96 577)**	**(114 240)**
Share of associates' (loss)/profit after tax		(37)	1 647
Profit before tax		**11 144**	**18 423**
Income tax expense	11	(3 308)	(4 218)
Profit after tax for the financial year		**7 836**	**14 205**
Attributable to:			
Equity holders of the parent		7 838	14 166
Non-controlling interest		(2)	39
		7 836	**14 205**

Statement of comprehensive income

	2014 R m	2013 R m
Profit after tax for the financial year	**7 836**	**14 205**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Property revaluation	103	(23)
Policyholder property revaluation (shadow accounting)	(82)	(107)
Actuarial gains on defined benefit plans and return on plan assets	72	149
	93	**19**
Items that will be reclassified subsequently to profit or loss		
Currency translation differences	(8)	(115)
	(8)	**(115)**
Total comprehensive income	**7 921**	**14 109**
Attributable to:		
Equity holders of the parent	7 923	14 070
Non-controlling interest	(2)	39
	7 921	**14 109**

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Statement of financial position

	Notes	2014 R m	2013 R m
Assets			
Intangible assets	12	248	264
Investment property	13	17 235	19 142
Property and equipment	14	2 705	3 307
Deferred tax assets	15	1 111	1 357
Reinsurance contracts	16	773	1 009
Post employment benefits	27	482	396
Deferred acquisition costs	17	1 225	1 335
Loans and advances	18	241	259
Investments and securities	19	557 306	533 296
Investments in associates and joint ventures	20	1 056	875
Derivative assets	21	4 368	6 599
Amounts due by group companies	22	27 055	7 411
Other assets	23	10 427	9 808
Cash and cash equivalents	24	38 353	34 761
Non-current assets held for sale	13	2 800	-
Total assets		**665 385**	**619 819**
Liabilities			
Insurance contracts	25	158 648	156 875
Investment contracts	25	355 530	319 151
Third party interests in consolidated funds		56 026	54 955
Borrowed funds	26	3 996	3 000
Share-based payment liabilities	29	698	998
Deferred revenue on investment contracts	31	102	105
Deferred tax liabilities	15	5 096	4 063
Derivative liabilities	21	5 561	8 534
Amounts due to group companies	22	3 113	1 390
Provisions	30	2 704	1 692
Current tax payable		1 778	2 033
Other liabilities	32	30 194	28 895
Total liabilities		**623 446**	**581 691**
Net assets		**41 939**	**38 128**
Shareholders' equity			
Share capital and premium	33	6 423	6 423
Other reserves	33	196	183
Share-based payment reserve		481	481
Retained earnings		34 861	31 061
Equity attributable to holders of the parent		**41 961**	**38 148**
Non-controlling interest		(22)	(20)
Total equity		**41 939**	**38 128**

Old Mutual Life Assurance Company (South Africa) Ltd

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Statement of changes in equity

	Share capital and premium R m	Other reserves R m	Share-based payment reserve R m	Retained earnings R m	Non-controlling interest R m	Total equity R m
Balance at 1 January 2013	**6 254**	**428**	**481**	**39 121**	**308**	**46 592**
Profit after tax	-	-	-	14 166	39	14 205
Other comprehensive income	-	(245)	-	149	-	(96)
Dividends	-	-	-	(21 762)	(23)	(21 785)
Share issue for acquisition of group companies	169	-	-	-	-	169
Additions	-	-	-	-	(19)	(19)
Disposal of subsidiary	-	-	-	-	(325)	(325)
Other movements	-	-	-	(613)	-	(613)
Total changes	169	(245)	-	(8 060)	(328)	(8 464)
Balance at 31 December 2013	**6 423**	**183**	**481**	**31 061**	**(20)**	**38 128**
Profit after tax	-	-	-	7 838	(2)	7 836
Other comprehensive income	-	13	-	72	-	85
Dividends	-	-	-	(3 870)	-	(3 870)
Other movements	-	-	-	(240)	-	(240)
Total changes	-	13	-	3 800	(2)	3 811
Balance at 31 December 2014	**6 423**	**196**	**481**	**34 861**	**(22)**	**41 939**

Old Mutual Life Assurance Company (South Africa) Ltd

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Statement of cash flows

	Notes	2014 R m	2013 R m
Cash flows from operating activities			
Cash (used in)/from operations	34	(9 043)	8 529
Interest received		16 483	15 023
Dividends received		5 631	4 622
Finance costs		(1 596)	(1 477)
Tax paid	35	(2 348)	(2 289)
Net cash from operating activities		**9 127**	**24 408**
Cash flows from investing activities			
Acquisition of property and equipment	14	(219)	(250)
Proceeds from disposal of property and equipment	14	760	390
Acquisition of investment property	13	(1 322)	(528)
Proceeds from disposal of investment property	13	1 579	359
Acquisition of intangible assets	12	(129)	(234)
Disposal of intangible assets	12	118	-
Net acquisition of financial instruments		(3 452)	(20 982)
Disposal of subsidiaries, net of cash		-	(1 047)
Cash flows used in investing activities		**(2 665)**	**(22 292)**
Cash flows from financing activities			
Issue of subordinated debt		1 000	-
Dividends paid	36	(3 870)	(4 245)
Net cash flows used in financing activities		**(2 870)**	**(4 245)**
Net increase/(decrease) in cash and cash equivalents		**3 592**	**(2 129)**
Cash and cash equivalents at beginning of the year		34 761	36 890
Total cash and cash equivalents at end of the year	24	**38 353**	**34 761**

Accounting policies

1. Statement of compliance

These consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), and the Companies Act of South Africa.

1.1 Basis of preparation

Assumptions and policies applied in consolidating the company's investment in subsidiaries and associates are set out below. The company's separate financial statements were issued in April 2015.

The consolidated financial statements consolidate those of the company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and joint ventures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. These accounting policies are those additional policies over and above the detailed accounting policies presented in the company's separate financial statements and those of its subsidiaries. The company and its subsidiaries' accounting policies should therefore be considered part of, and read in conjunction with, these accounting policies.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and liabilities designated as fair value through profit or loss, owner-occupied property and investment property. Non-current assets held for sale are stated at the lower of the previous carrying amount and the fair value less costs to sell.

The consolidated financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points as set out in the directors' report contained herein and in the directors' report in the company's separate financial statements.

Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.5.

The consolidated financial statements are presented in South African Rands.

1.2 Group accounting

Consolidation procedures

The financial statements include assets, liabilities and results of the company and subsidiary undertakings.The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the commencement of control or up to the date of disposal.

For subsidiaries acquired that are under common control, the company recognises the difference between the consideration transferred and the net asset value of the subsidiaries acquired as previously recognised by the transferring entity.

Intra-group balances and transactions, income and expenses and all profits and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are only eliminated to the extent that there is no evidence of impairment.

Accounting policies

1.2 Group accounting (continued)

Subsidiaries

Subsidiary undertakings are those entities controlled by the Group, which may form part of a corporation, trust, partnership or unincorporated entities, and where the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. Considerations in the assessment of control include:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of the Group give it the current ability to direct the relevant activities;
- whether the Group is exposed, or has rights, to variable returns from its involvement with the investee; and
- whether the Group has the ability to use its power over the investee to affect the amount of investor's returns.

The Group continually assess any changes to the facts and circumstances to determine whether such entities should be consolidated.

The Group consolidates certain of its interests in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles (collectively 'funds') in the event that the Group has power to direct the relevant activities of a fund so as to obtain benefits from that fund, or for those auto pilot entities where the majority of benefits arising in a particular fund accrue to the Group.

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The amounts due to the balance of the investors in these funds are reported as a liability under the balance sheet caption 'Third-party interests in consolidated funds'. Such interests are not recorded as non controlling interests as they meet the liability classification requirement set out in paragraph 18 of IAS 32, 'Financial Instruments: Presentation'. As stated in note 39, these liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

Associates

An associate is an entity over which the Group has significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee (and that is neither a subsidiary nor an investment in a joint venture). This is generally demonstrated by the Group holding in excess of 20%, but less than 50%, of the voting rights. All the other factors, contractual or otherwise, are assessed in determining whether the Group has the ability to exercise significant influence.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in associates that are held with a view to subsequent resale are accounted for as non current assets held for sale, and those held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

Accounting policies

1.2 Group accounting (continued)

Joint arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Joint control exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. There are two types of joint arrangements:

- Joint operations are those operations where the Group has rights to the assets, and the obligations for the liabilities, relating to the arrangement. The Group will recognise its portion of the assets, liabilities, revenue and expenses.

- Joint ventures are when the Group have rights to the net assets of the arrangement. The Group accounts for its interest using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of the individual investments.

Where a group enterprise transacts with a joint venture of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in joint ventures that are held with a view to subsequent resale are accounted for as non current assets held for sale, and those held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

1.3 General insurance business

Premiums

Gross written general insurance premiums comprise the premiums on general insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums on general reinsurance assumed are included in gross written general insurance premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Outward general reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of general insurance premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward general reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Unearned premium provision

The provision for unearned general insurance premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each general insurance contract using a time proportionate basis, or another suitable basis for uneven risk contracts.

Claims incurred

Claims incurred on general insurance contracts consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and an appropriate risk margin.

Accounting policies

1.3 General insurance business (continued)

Reinsurance

The Group cedes general reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transfer of its risks. General reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Premiums ceded, claims reimbursed and commission recovered are presented in the income statement and statement of financial position separately from the gross amounts.

Only general reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. General reinsurance agreements that do not transfer significant insurance risk are accounted for as financial assets. Amounts recoverable under general reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Deferred acquisition costs

Acquisition costs on general insurance business comprise all direct and indirect costs arising from the conclusion of general insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premium provision.

Liabilities and related assets under liability adequacy test

The net liability recognised for general insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in the income statement for the year.

Contingency reserve

A reserve is created for the full amount of the contingency reserve as required by the regulatory authorities in Namibia. Transfers to and from this reserve are treated as appropriations of retained earnings.

Subrogation and salvage recoveries

In certain circumstances the Group acquires the right to pursue third parties for losses paid to policyholders under insurance contracts. The Group has recognised and disclosed all identifiable and measurable amounts it expects to recover, in the future, from past loss events, as a separate asset in the statement of financial position.

1.4 Accounting for cell owners' interest

Through a specialised risk financing subsidiary, the Group provides cell captive facilities to clients. The cell captive facilities effectively ring fence the underwriting and declared investment results of insurance contracts introduced to the subsidiary by cell owners. Through participation agreements, the cell owners share in the risk and rewards of the insurance contracts.

In the case of third party cells, the subsidiary is still the principal to the insurance contract, although the risks are transferred to the cell owner through the participation agreement. Consequently all gross premiums, claims and commissions are still reflected by the Group but then shown as equal and opposite reinsurance transactions outwards to reflect the transfer of the risk to the cell owner.

The cell owners’ interest is classified as a liability and represents the accumulated funds attributed to cell owners.

Accounting policies

1.5 Segment reporting

The Group's results are presented for three reporting segments, Retail (life assurance), Corporate (life assurance) and General Insurance, with the balance of the Group's financial results reflected as attributable to shareholders. This is consistent with the way that management and the board of directors considers information when making decisions and is the basis of which resources are allocated and performance assessed by management and the board of directors. Other than the inclusion of an additional general insurance segment, the Group's accounting policies for segmental reporting are as set out in the company's separate financial statements.

1.6 Critical accounting estimates and judgements

In the preparation of the financial statements, management is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of comprehensive income, statement of financial position and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments, with estimates based on knowledge of the current situation and circumstances and assumptions based on that knowledge and predictions of future events and actions. The areas of the Group's business that typically require such estimates are in respect of life and general insurance contracts, determination of the fair value for financial assets and liabilities, provisions, impairment charges, deferred acquisition costs, deferred taxes, share based payment liabilities and tax provisions.

Insurance contract accounting for general insurance is discussed in note 1.3 above, and further detail of the methodology used in determining life insurance contract liabilities is included in the company's separate financial statements. Accounting for general insurance deferred acquisition cost assets is discussed in note 1.3.

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in note 4 below. They are valued on the basis of quoted market prices in so far as this is possible. If prices are not readily determinable, fair value is based either on internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments including derivative instruments together with fair values of share-based payment liabilities are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, and volatility factors.

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

Financial assets are subject to regular impairment reviews as required. Impairments are measured as the difference between the cost (or amortised cost) of a particular asset and the current fair value or recoverable amount. Impairments are recorded in the income statement in the period in which they occur. The company's policy in relation to investment securities and loans and receivables is described in the company's separate financial statements.

The Group in the ordinary course of business enters into transactions that expose the group to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities.

Historically, a number of group companies entered into structured transactions with third parties using their tax bases. This may expose the Group to tax risk.

Accounting policies

1.7 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the company's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

2. New standards and interpretations

The following new standards and interpretations will have a significant impact on these consolidated financial statements in future periods.

New standards and interpretations not adopted in these consolidated financial statements

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016) - The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

  Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured. As a consequence of these amendments, the Group will amend its accounting policy with effect from 1 July 2016 for acquisitions of interests in a joint operation.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016) - The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

  The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue.

  The Group does not hold any equipment or intangible assets amortised on a revenue basis and therefore the amendments are not expected to have a significant impact on the Group.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

- Amendments to IAS 19: Employee benefits (effective 1 July 2014) - The amendments are relevant only to defined plans (post-employment plans or other long-term employee defined benefit plans) that involve contributions from employees of third parties meeting certain criteria. The amendments to IAS 19 introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties.

  When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

  The amendments apply prospectively for annual periods beginning on or after 1 July 2014 and is not expected to have a significant impact.

2. New standards and interpretations (continued)

- IFRS 9 Financial Instruments (effective 1 January 2018) - IFRS 9 contains three principal classification categories for financial assets, ie measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale are removed.

  IFRS 9 retains almost all of the existing requirements from IAS 39 for financial liabilities. However any gain or loss on a financial liability designated at FVTPL attributable to changes in own credit risk is generally presented in OCI with remaining change in fair value presented in profit or loss.

  IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ approach for debt instruments measured at amortised cost or FVOCI.

  IFRS 9 will align hedge accounting more closely with risk management of an entity. In terms of IFRS 9 additional exposures may be hedged items.

  The residual IFRS 9 requirements (other than the financial assets classification) will be adopted for the first time for the year ending 31 December 2018. The impact on the financial statements has not yet been estimated.

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017) - In terms of IFRS 15, entities will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) and entity transfers control of goods or services to customers at the amount to which the entity expects to be entitled to. IFRS 15 provides guidance on when to capitalise costs of obtaining or fulfilling a contract that are not addressed in other standards.

  IFRS 15 will be adopted for the first time for the year ending 31 December 2017. The impact on the financial statements has not yet been estimated.

Annual Improvements to IFRSs 2010-2012 Cycle (effective annual periods beginning on or after 1 July 2014) - The following clarifications were finalised for certain standards:

- IFRS 2 Share-based Payment - IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

- IFRS 3 Business Combinations - IFRS 3 has been amended to clarify the classification and measurement of contingent consideration in a business combination.

- IFRS 8 Operating Segments - IFRS 8 has been amended to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

- IFRS 13 Fair Value Measurement - The IASB has clarified that, in issuing IFRS 13 and making consequential amendments to IAS 39 and IFRS 9, it did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of discounting is immaterial.

- IAS 24 Related Party Disclosures - The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

2. New standards and interpretations (continued)

Annual Improvements to IFRSs 2011-2013 Cycle (effective annual periods beginning on or after 1 July 2014) - The following clarifications were finalised for certain standards:

- IFRS 3 Business Combination - IFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11 Joint Arrangements - i.e. including joint operations - in the financial statements of the joint arrangements themselves.

- IFRS 13 Fair Value Measurement - The scope of the IFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of IAS 39 and IFRS 9.

- IAS 40 Investment Property - IAS 40 has been amended to clarify that an entity should assess whether an acquired property in an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

Notes to the financial statements

3. Segment information

Income statement	Retail	Corporate	2014 R m Total
Segment revenue			
Gross earned premiums	20 428	15 447	35 875
Outward reinsurance	(902)	(226)	(1 128)
Net earned premiums	19 526	15 221	34 747
Investment income	28 826	26 867	55 693
Fee and commission income	5 472	311	5 783
Other income	673	23	696
Segment expenses			
Claims and benefits	(24 905)	(29 998)	(54 903)
Reinsurance recoveries	828	(287)	541
Net claims and benefits incurred (including change in insurance contract provision)	(24 077)	(30 285)	(54 362)
Change in investment contract liabilities	(13 586)	(8 164)	(21 750)
Commission and other acquisition costs	(3 978)	(75)	(4 053)
Operating and administration expenses	(8 398)	(2 233)	(10 631)
Segment result	**4 458**	**1 665**	**6 123**
Shareholder income			
Investment income			10 707
Other income			132
Share of associates and joint ventures loss after tax			(37)
Shareholder expenses			
Finance costs			(1 596)
Operating and administration expenses			(630)
Change in third-party interest in consolidated funds			(3 557)
Profit before tax			11 144
Income tax expense			(3 308)
Profit after tax for the financial year			**7 836**

Statement of financial position	Retail	Corporate	Total
Segment assets	308 683	224 326	533 009
Shareholder assets			132 376
Total assets			**665 385**
Insurance contracts	(100 015)	(58 633)	(158 648)
Investment contracts with discretionary participation features	(22 262)	(102 329)	(124 591)
Investment contracts	(169 827)	(61 110)	(230 937)
Other liabilities	(16 577)	(2 246)	(18 823)
Segment liabilities	(308 681)	(224 318)	(532 999)
Shareholder liabilities			(90 447)
Total liabilities			**(623 446)**

Notes to the financial statements

3. Segment information (continued)

				2013 R m
Income statement	**Retail**	**Corporate**	**General insurance**	**Total**
Segment revenue				
Gross earned premiums	19 117	15 815	6 363	41 295
Outward reinsurance	(821)	(133)	(1 306)	(2 260)
Net earned premiums	18 296	15 682	5 057	39 035
Investment income	39 968	27 289	381	67 638
Fee and commission income	4 051	375	218	4 644
Other income	148	7	-	155
Segment expenses				
Claims and benefits	(26 821)	(34 538)	(4 726)	(66 085)
Reinsurance recoveries	917	150	1 087	2 154
Net claims and benefits incurred (including change in insurance contract provision)	(25 904)	(34 388)	(3 639)	(63 931)
Change in investment contract liabilities	(22 388)	(5 628)	-	(28 016)
Commission and other acquisition costs	(3 009)	(60)	(1 002)	(4 071)
Operating and administration expenses	(7 220)	(1 925)	(665)	(9 810)
Segment result	**3 942**	**1 352**	**350**	**5 644**
Shareholder income				
Investment income				19 049
Other income				495
Share of associates profit after tax				1 647
Shareholder expenses				
Finance costs				(1 477)
Commission and other acquistion costs				(425)
Operating and administration expenses				(1 598)
Change in third-party interest in consolidated funds				(4 912)
Profit before tax				18 423
Income tax expense				(4 218)
Profit after tax for the financial year				**14 205**
Statement of financial position				
Segment assets	298 953	191 495	-	490 448
Shareholder assets			-	129 371
Total assets				**619 819**
Insurance contracts	(100 299)	(56 576)	-	(156 875)
Investment contracts with discretionary participation features	(19 560)	(93 966)	-	(113 527)
Investment contracts	(166 530)	(39 094)	-	(205 624)
Other liabilities	(12 564)	(1 858)	-	(14 422)
Segment liabilities	(298 953)	(191 495)	-	(490 448)
Shareholder liabilities				(91 243)
Total liabilities				**(581 691)**

4. Financial assets and liabilities

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

Categories of financial instruments

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

				2014 R m
	Fair value through profit or loss	**Amortised cost**	**Other assets**	**Total**
Assets				
Intangible assets	-	-	248	248
Investment property	-	-	17 235	17 235
Property and equipment	-	-	2 705	2 705
Deferred tax assets	-	-	1 111	1 111
Reinsurance contracts	-	-	773	773
Post employment benefits	-	-	482	482
Deferred acquisition costs	-	-	1 225	1 225
Loans and advances	-	241	-	241
Investments and securities	557 181	125	-	557 306
Investments in associates	-	-	1 056	1 056
Derivative assets	4 368	-	-	4 368
Amounts due by group companies	-	27 055	-	27 055
Other assets	-	10 427	-	10 427
Cash and cash equivalents	-	38 353	-	38 353
Non-current assets held for sale	-	-	2 800	2 800
	561 549	**76 201**	**27 635**	**665 385**

Notes to the financial statements

4. Financial assets and liabilities (continued)

2013 R m	Fair value through profit or loss	Amortised cost	Other assets	Total
Assets				
Intangible assets			264	264
Investment property	-	-	3 307	3 307
Property and equipment	-	-	19 142	19 142
Deferred tax assets	-	-	1 357	1 357
Reinsurance contracts	-	-	1 009	1 009
Post employment benefits	-	-	396	396
Deferred acquisition costs	-	-	1 335	1 335
Loans and advances	-	259	-	259
Investments and securities	532 854	442	-	533 296
Investments in associates	-	-	875	875
Derivative assets	6 599	-	-	6 599
Amounts due by group companies	-	7 411	-	7 411
Other assets	-	9 808	-	9 808
Cash and cash equivalents	-	34 761	-	34 761
	539 453	**52 681**	**27 685**	**619 819**

2014 R m	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	158 648	158 648
Investment contracts	230 938	-	124 592	355 530
Third party interest in consolidated funds	56 026	-	-	56 026
Borrowed funds	996	3 000	-	3 996
Share-based payment liabilities	-	-	698	698
Deferred revenue on investment contracts	-	-	102	102
Deferred tax liabilities	-	-	5 096	5 096
Derivative liabilities	5 561	-	-	5 561
Amounts due to group companies	-	3 113	-	3 113
Provisions	-	-	2 704	2 704
Current tax payable	-	-	1 778	1 778
Other liabilities	-	25 473	4 721	30 194
	293 521	**31 586**	**298 339**	**623 446**

4. Financial assets and liabilities (continued)

2013 R m	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	156 875	156 875
Investment contracts	205 624	-	113 527	319 151
Third party interest in consolidated funds	54 955	-	-	54 955
Borrowed funds	-	3 000	-	3 000
Deferred revenue on investment contracts	-	-	105	105
Deferred tax liabilities	-	-	4 063	4 063
Derivative liabilities	8 534	-	-	8 534
Amounts due to group companies	-	1 390	-	1 390
Provisions	-	-	1 692	1 692
Current tax payable	-	-	2 033	2 033
Other liabilities	-	24 157	5 736	29 893
	269 113	**28 547**	**284 031**	**581 691**

Fair values of financial assets and liabilities

Determination of fair value

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

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

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

Investment and securities

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

4. Financial assets and liabilities (continued)

Investment contracts

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

Borrowed funds

The carrying value of a portion of borrowed funds is based on amortised cost, with the remainder carried at fair value. Where the fair value of amounts included in borrowed funds are also disclosed these are based on quoted market prices at the reporting date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.

Fair value hierarchy

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction is likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs.

Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

Additional information on the impact of unobservable inputs is provided in the section headed 'Effect of changes in significant unobservable assumptions to reasonably possible alternatives'.

Notes to the financial statements

4. Financial assets and liabilities (continued)

Fair value hierarchy

	Level 1	Level 2	Level 3	2014 R m Total
Financial assets at fair value				
Derivative assets	-	4 368	-	4 368
Investments and securities	388 100	157 408	11 673	557 181
	388 100	**161 776**	**11 798**	**561 674**

	Level 1	Level 2	Level 3	2013 R m Total
Financial assets at fair value				
Derivative assets	-	6 599	-	6 599
Investments and securities	381 933	140 043	10 878	532 854
	381 933	**148 642**	**10 878**	**539 453**

	Level 1	Level 2	2014 R m Total
Financial liabilities at fair value			
Derivative liabilities	-	5 561	5 561
Investment contract liabilities	-	230 938	230 938
Third party interest in consolidated funds	-	56 026	56 026
Borrowed funds	996	-	996
	996	**292 525**	**293 521**

	Level 1	Level 2	2013 R m Total
Financial liabilities at fair value			
Derivative liabilities	-	8 534	8 534
Investment contract liabilities	-	205 624	205 624
Third party interest in consolidated funds	-	54 955	54 955
	-	**269 113**	**269 113**

4. Financial assets and liabilities (continued)

Movement in level 3 assets

	2014 Rm	2013 Rm
At beginning of the year	10 878	7 554
Gains recognised in income statement	1 492	1 163
Purchases and issues	1 970	1 839
Disposals	(2 667)	(750)
Transfers into level 3 from other categories	125	1 072
At end of the year	**11 798**	**10 878**

For level 3 assets held at the end of the year, net gains of R1 304 million were recognised as investment income in the income statement (2013: net gains R 2 451 million).

Effect of changes in assumptions

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameter using statistical techniques. When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

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

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

Analysis of reasonably possible alternative assumptions - level 3 assets

	2014 R m		2013 R m	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Level 3 financial assets				
Investments and securities	2 169	(1 923)	2 093	(1 831)

Key inputs and assumptions used in the valuation models include discount rates (with the reasonably possible alternative assumptions calculated by increasing/decreasing the discount rate by 10%) and price earnings ratio (with the reasonably possible alternative assumptions calculated by increasing/decreasing the price earnings ratio by 10%).

4. Financial assets and liabilities (continued)

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 3:

Valuation technique	Significant unobservable input	Range of unobservable inputs
Discounted cash flow	Risk adjusted discount rate: -Equity risk premium -Liquidity risk premium -Nominal risk free rate	 5% - 8.5% 10% - 25% 7% - 8%
Price earnings (PE) model/multiple/embedded value	PE ratio/multiple: discounts applied, eg.marketability	15% - 30%
Sum of parts	PE ratio Option inputs: -Continuous interest rates -Volatility - Dividend yield	15% - 30% 5% - 6% 30% -31% 4% - 5%
Net Asset Value (NAV adjustments)	Risk adjusted discount rate: -Beta -Risk free rate Option inputs: -Continuous interest rate -volatility -dividend yielded	 0.5 - 1 7% - 9% 5% - 6% 22% - 47% 0% - 4%

The following table presents the fair value hierarchy for assets and liabilities for which fair values is disclosed, but which are not recognised at fair value. Fair value is not the value ascribed to a financial asset or liability by management but it is representative of what the market would be willing to pay for an asset or to settle or transfer the liability.

					2014 R m
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Loan and advances	-	-	241	241	241
Other assets	-	-	10 427	10 427	10 427
Cash and cash equivalents	-	38 353	-	38 353	38 353
	-	**38 353**	**10 668**	**49 021**	**49 021**
Liabilities					
Borrowed funds	3 035	-	-	3 035	3 000
Other liabilities	-	-	30 194	30 194	30 194
	3 035	**-**	**30 194**	**33 229**	**33 194**

Notes to the financial statements

4. Financial assets and liabilities (continued)

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
					2013 R m
Assets					
Loan and advances	-	-	259	259	259
Other assets	-	-	9 808	9 808	9 808
Cash and cash equivalents	-	34 761	-	34 761	34 761
		34 761	**10 067**	**44 828**	**44 828**
Liabilities					
Borrowed funds	3 128	-	-	3 128	3 000
Other liabilities	-	-	29 893	29 893	29 893
	3 128	**-**	**29 893**	**33 021**	**32 893**

Notes to the financial statements

4. Financial assets and liabilities (continued)

Financial instruments that are subject to master netting agreements

The Group offsets financial assets and liabilities in the statement of financial position when it has a legal enforceable right to do so and intends to settle on a net basis or at a simultaneous time. Certain master netting agreements do not provide the Group with the current legally enforceable right to offset the instruments. The majority of these transactions are governed by the principles of ISDA or similar type of agreements. These agreements aim to protect the parties in the case of default.

The potential effect of netting, provided that master netting agreements are in place for all counterparties, is:

- Derivative financial instruments – assets: Gross amounts of recognised financial instruments in the statement of financial position amounted to R4 368 million (2013: R6 599 million).
- Derivative financial instruments – liabilities: Gross amounts of recognised financial instruments in the statement of financial position amounted to R5 561 million (2013: R8 534 million).
- Cash and bond collateral amounts not offset against derivative assets and liabilities in the statement of financial position are R1 139 million (2013: R1 869 million).

Notes to the financial statements

5. Investment income

	2014 R m	2013 R m
Interest and similar income		
Loans and advances		
Policyholder loans	16	14
Investment and securities		
Government and government-guaranteed securities	4 518	3 594
Other debt securities, preference shares and debentures	4 438	4 125
Pooled investments	3 451	2 733
Short-term funds and securities treated as investments	1 540	1 454
Other	147	428
Cash and cash equivalents	1 753	2 000
Collateral held	620	675
	16 483	**15 023**
Dividend income		
Investment and securities		
Equity securities	3 924	3 597
Pooled investments	1 707	1 025
	5 631	**4 622**
Rental income from investment property	**2 061**	**1 812**
Fair value gains/(losses)		
Investment property	1 151	1 141
Investments and securities *	39 904	68 671
Derivative instruments	1 170	(4 715)
	42 225	**65 097**
Foreign currency gains	**-**	**133**
Total investment income recognised in profit or loss	**66 400**	**86 687**

* Includes transaction costs amounting to R 98 million (2013: R 106 million).

6. Fee and commission income

	2014 R m	2013 R m
Investment management fees	5 299	4 101
Change in deferred revenue	5	6
Commission income and other fee income	479	537
	5 783	**4 644**

Notes to the financial statements

7. Finance costs

	2014 R m	2013 R m
Interest payable		
Borrowed funds - Subordinated debt	276	268
Collateral held	620	675
Other interest expense	700	534
Fair value gains and losses on borrowed funds		
Borrowed funds	(4)	-
Derivative instruments used as economic hedges	4	-
	1 596	**1 477**

8. Commissions and other acquisition costs

	2014 R m	2013 R m
Commission and fee expenses	3 047	3 822
Other acquisition costs	1 175	772
Change in deferred acquisition costs	(169)	(98)
	4 053	**4 496**

9. Operating and administration expenses

	2014 R m	2013 R m
Staff costs		
Wages and salaries	3 263	3 768
Social security costs	18	21
Retirement obligations		
Defined contribution plans	279	304
Bonus and incentives	1 062	1 015
Share-based payments	161	416
Other	163	170
Less: Staff costs included in other acquisition costs	(269)	(382)
	4 677	**5 312**
Operating lease rentals	9	31
Amortisation on intangible assets	27	25
Asset management expenses	629	744
Depreciation of property and equipment	159	196
Technical and professional fees	705	632

10. Auditors' remuneration

	2014 R m	2013 R m
Statutory audit services - current year	28	32
Statutory audit services - prior year under provision	-	1
Other non-audit related services	5	2
	33	**35**

Notes to the financial statements

11. Income tax expense

Major components of the tax expense

	2014 R m	2013 R m
Current tax		
Income tax		
Current year	1 573	1 408
Prior year adjustment	65	(126)
Capital gains tax	318	409
Dividends withholdings tax	137	120
	2 093	**1 811**
Deferred tax		
Originating and reversing temporary differences - current year	1 215	2 407
	1 215	**2 407**
Total current tax	2 093	1 811
Total deferred tax	1 215	2 407
Total tax expense	**3 308**	**4 218**

Reconciliation of tax rate on profit before tax

	2014 %	2013 %
Standard rate of tax	28.0	28.0
Prior year adjustments		
Shareholder	(0.6)	(0.8)
Policyholder	1.4	-
Exempt income	(1.6)	(17.9)
Disallowed expenses	3.6	1.3
Capital gains tax - rates	(2.8)	7.6
Policyholder tax	1.7	2.5
Profits from associates	-	2.2
Effective tax rate	**29.7**	**22.9**

	2014 R m	2013 R m
Shareholder tax	2 713	3 440
Policyholder tax	595	778
Total tax expense	**3 308**	**4 218**

Notes to the financial statements

12. Intangible assets

Development expenditure

	2014 R m	2013 R m
Carrying amount at beginning of the year	264	229
Additions	129	234
Acquisitions through business combinations	-	11
Amortisation	(27)	(25)
Disposal	(118)	(40)
Disposal of subsidiaries	-	(145)
Carrying amount at end of the year	**248**	**264**
Cost	673	662
Accumulated amortisation and impairment losses	(425)	(398)
Carrying amount at end of the year	**248**	**264**

13. Investment property

	2014 R m	2013 R m
Carrying amount at beginning of the year	19 142	17 725
Additions	1 322	529
Disposals	(1 579)	(373)
Revaluation	1 150	1 141
Transfers from property and equipment	-	120
Transfer to non-current assets held for sale	(2 800)	-
Carrying amount at end of the year	**17 235**	**19 142**

The entire carrying value relates to freehold property.

Non-current assets held for sale

Carrying value of assets classified as held for sale:

	2014 R m	2013 R m
50% share in Menlyn Shopping Centre	**2 800**	**-**

The company has agreed to dispose of the remaining portion of the Menlyn Shopping Centre in South Africa for R3 200 million, subsequent to the completion of agreed upon improvements on the centre. This transaction is subject to Competition Commission approval and transfer by the Deeds office. As part of the transaction the Group agreed to acquire the 50% share of the Cavendish Shopping Centre for R1 100 million. These assets form part of the policyholder property portfolio. There will be no impact on profit and loss as a result of this transaction.

	2014 R m	2013 R m
Rental income from investment property	2 061	1 812
Direct operating expenses	(189)	(276)
	1 872	**1 536**

13. Investment property (continued)

Subject to certain terms and conditions being met, certain pre-emptive rights have been guaranteed by the Group to a third party, whereby the third party has a right of first refusal over the sale of certain of the Group's properties to a value of R14 241 million. These pre-emptive rights will cease to have effect with the disposal of the Menlyn property. Refer to note 42 for further details on this disposal.

The fair value of the Group's properties are categorised into level 3 of the fair value hierarchy. The valuation techniques used in the determination of the fair values for investment and owner-occupied properties, as well as the unobservable inputs used in the valuation models are as follows:

- Income generating assets - commercial, retail and industrial properties: valued using the internationally and locally recognised Discounted Cash Flow method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions. Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers assumptions and information they have based on similar valuations they have done or sourced from external brokers.

- Land holdings or land: As a general rule, these will be valued according to the prevailing town planning scheme and current zoning at the date of valuation. The land is valued according to its current condition and zoning. Should the valuer consider that the site has potential for a different zoning, the valuer is permitted to report a value subject to receipt of zoning and advise accordingly. Land is to be valued by the direct comparison method by reference to recent sales of comparable properties in the neighbourhood or similar localities on a land per square metre, bulk per square metre or unit basis.

- Investment property under construction: Valued in a similar manner to income producing properties (less outstanding development costs), except where the fair value of the investment property is not reliably determinable. In certain exceptional cases the cost model approach of land value plus development costs to date can be adopted to value developments in progress.

- Owner-occupied properties: Valued according to the sales of comparable properties. Owner-occupied properties are valued as at 31 December each year by internal professional valuers and external valuations are obtained once every 3 years.

Notes to the financial statements

13. Investment property (continued)

The following table shows the valuation techniques used in the determination of the fair values for investment and owner-occupied properties, as well as the unobservable inputs used in the valuation models.

Type of property	Valuation approach	Key unobservable inputs	Range of estimates for unobservable inputs
Income generating assets - commercial/retail/industrial properties	Valued using the internationally and locally recognised Discounted Cash Flow (DCF) method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions.	Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers assumptions and information they have based on similar valuations they have done our sourced from external brokers.	**Office** Capitalisation rates: 9.25% to 11.0% Discount rates: 15.25% to 16.5% Market rentals: R50 to R140 per m² Vacancy rates: 0% to 100% **Retail** Capitalisation rates: 8.0% to 11.0% Discount rates: 13.5% to 17% Market rentals: R10 to R4000 per m² Vacancy rates: 0% to 16%
Land	Valued according to the existing zoning and town planning scheme at the date of valuation. However there are cases where exceptional circumstances need to be considered.	The land per m² and bulk per m² are based on comparable sales and zoning conditions. Discount rates are based on industry guidelines predominantly from SAPOA and IPD as well as comparison to listed property funds in South Africa.	**Land** Land per m2: R175 to R3 800

Notes to the financial statements

14. Property and equipment

2014 R m	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 096	211	3 307
Additions	1	218	219
Revaluation	98	-	98
Disposals	(695)	(65)	(760)
Depreciation	(39)	(120)	(159)
Carrying amount at end of the year	**2 461**	**244**	**2 705**
Cost or valuation	2 461	661	3 122
Accumulated depreciation	-	(417)	(417)
Carrying amount at end of the year	**2 461**	**244**	**2 705**

2013 R m	Owner-occupied property	Equipment	Total
Carrying amount at beginning of the year	3 280	346	3 626
Additions from business combinations	-	8	8
Additions	10	240	250
Revaluation	129	-	129
Disposal arising from sale of subsidiaries	(150)	(172)	(322)
Disposals	-	(68)	(68)
Depreciation	(53)	(143)	(196)
Transfers to investment property	(120)	-	(120)
Carrying amount at end of the year	**3 096**	**211**	**3 307**
Cost or valuation	3 096	572	3 668
Accumulated depreciation	-	(361)	(361)
Carrying amount at end of the year	**3 096**	**211**	**3 307**

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

Refer note 13 for information regarding valuation techniques used in the determination of fair values for owner occupied property.

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R2 223 million (2013: R2 568 million).

Notes to the financial statements

15. Deferred tax

Deferred tax asset	2014 R m	2013 R m
Investment contracts	1 031	1 152
Income tax losses	80	47
Other	-	158
	1 111	**1 357**
Deferred tax liability		
Other	(262)	(229)
Capital gains tax - shareholders	(2 901)	(2 279)
Capital gains tax - policyholders	(1 933)	(1 555)
	(5 096)	**(4 063)**

Reconciliation of net deferred tax liability

At beginning of the year	(2 706)	(176)
Acquisition of subsidiaries	-	(47)
Disposal of subsidiaries	-	(13)
Income statement credit	(1 215)	(2 407)
Other movements	(52)	(20)
Charged to other comprehensive income	(12)	(43)
At end of the year	**(3 985)**	**(2 706)**

16. Reinsurance contracts

	2014 R m	2013 R m
Insurance contracts		
Reinsurers' share in policyholder liabilities	317	706
Outstanding claims	456	303
	773	**1 009**
Reinsurers' share in policyholder liabilities		
At beginning of the year	706	601
Additions from business combinations	-	234
Outward reinsurance premiums	1 128	1 015
Reinsurance recoveries	(990)	(870)
Decrease in reinsurers share of policyholder liabilities	(527)	(274)
At end of the year	**317**	**706**

Notes to the financial statements

17. Deferred acquisition costs

	2014 R m	2013 R m
At beginning of the year	1 335	1 312
Acquisition costs deferred	445	415
Acquisitions through business combinations	-	165
Disposal of subsidiaries	-	(288)
Amortisation	(276)	(269)
Transfer to investment contract liabilities	(279)	-
At end of the year	**1 225**	**1 335**

18. Loans and advances

	2014 R m	2013 R m
Policyholder loans	**241**	**259**

The effective interest earned on policyholder loans changed twice in 2014 due to the changes in the prime rate. It increased to 11% on the 1st of March and again to 11.25% on 1st of August 2014. (2013: 10.5% throughout the course of the year).

The Group has recognised no impairment loss (2013: nil) on loans and advances during the year ended 31 December 2014. As at 31 December 2014 and 2013, there were no overdue loans and advances and no impairment provision made against any amounts.

The fair value of policyholder loans approximates their carrying value.

19. Investments and securities

Analysis of investments

	2014 R m	2013 R m
Investments in group undertakings		
Nedbank Ltd	19 968	16 791
Capital advances to group undertakings	11 749	11 718
Old Mutual plc	2 342	3 618
	34 059	**32 127**
Other financial assets		
Government securities	74 136	72 029
Equity securities	210 720	208 791
Other debt securities	69 186	66 798
Pooled investments	136 854	104 171
Reinsurance of investment contract liabilities	-	17 295
Short-term funds	32 351	32 085
	523 247	**501 169**
	557 306	**533 296**

The Group conducts securities lending activities as a lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amounts to R16 723 million (2013: R15 903 million). As no transfer of ownership has taken place, any collateral accepted for securities lending arrangements may not be used for any purpose other than being held as security for the arrangements.

19. Investments and securities (continued)

Other debt securities include credit linked notes of R3 997 million (2013: R3 976 million). Credit linked notes are made up of a deposit and a credit default swap. A credit default swap is a derivative instrument and this has not been separated out from the host contract as the entire contract is carried at fair value. The credit default swap component of the overall balance is insignificant.

Analysis of capital advances to group undertakings

	2014 R m	2013 R m
Old Mutual Portfolio Holdings (Pty) Ltd	2 028	2 028
Old Mutual Group Holdings (SA) (Pty) Ltd	1 081	1 081
Old Mutual (South Africa) Broad-based Employee Share Trust	-	33
Old Mutual (South Africa) Management Incentive Trust	126	408
Old Mutual Capital Holding (Pty) Ltd	8 514	8 168
	11 749	**11 718**

Capital advances are unsecured, interest free and have no fixed terms of repayment.

20. Investments in principal subsidiaries, associates and joint ventures

	2014	
	Number of issued ordinary shares	% interest
Unlisted - subsidiaries		
Old Mutual Technology Holdings Ltd	11 000	100 %
Rodina Investments (Pty) Ltd	100 000	100 %
Old Mutual Unit Trust Managers (RF) (Pty) Ltd	2 510 000	100 %
Community Property Holdings(Pty) Ltd*	1 108 417 261	100 %
Old Mutual Alternative Solutions Ltd**	45 000 001	100 %
Old Mutual Health Insurance Ltd	15 000 000	100 %
Agility Broker Services (Pty) Ltd	50 000	100 %
Old Mutual Alternative Risk Transfer Ltd	100	100 %
South Africa Celestis Brokers Services (Pty) Ltd	100	100 %
Old Mutual Wealth (Pty) Ltd	120	100 %
K201250042 (Pty) Ltd*	120	100 %

	2013	
	Number of issued ordinary shares	% interest
Unlisted - subsidiaries		
Old Mutual Technology Holdings Ltd	11 000	100 %
Rodina Investments (Pty) Ltd	100 000	100 %
Community Property Holdings (Pty) Ltd*	1 108 417 261	100 %
MS Life Assurance Company Ltd	45 000 001	100 %
Old Mutual Health Insurance Ltd	15 000 000	100 %
Agility Broker Services (Pty) Ltd	50 000	100 %
Old Mutual Alternative Risk Transfer Ltd	100	100 %
South Africa Celestis Broker Services (Pty) Ltd	100	100 %
Old Mutual Wealth (Pty) Ltd	120	100 %
K201250042 Ltd*	120	100 %

During the year Old Mutual Wealth (Pty) Ltd acquired Old Mutual Unit Trust Managers (RF) (Pty) Ltd on the 6 January 2014 from Old Mutual Group Holdings (SA) Ltd.

* Community Property Holdings (Pty) Ltd and K201250042 (Pty) Ltd are property loan stock companies. The company invests in its linked units comprising of part share and part debenture.

** During 2014 MS Life Assurance Company Ltd changed the company name to Old Mutual Alternative Solutions Ltd.

20. Investments in principal subsidiaries, associates and joint ventures (continued)

Investment in associates and joint venture

			2014 R m	
	Country of incorporation	**% interest held**	**Carrying value**	**Gross share of profit/(loss)**
Unlisted - associate				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49 %	65	7
Unlisted - joint venture				
Old Mutual Goudian Life Insurance Company Ltd	Republic of China	50 %	991	(44)
			1 056	**(37)**

			2013 R m	
	Country of incorporation	**% interest held**	**Carrying value**	**Gross share of profit**
Unlisted - associate				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49 %	64	7
Unlisted - joint venture				
Old Mutual Goudian Life Insurance Company Ltd	Republic of China	50 %	811	(38)
			875	**(31)**

All the Group's subsidiaries and joint ventures at year end are South African entities except Old Mutual Goudian Life Insurance Company Ltd which is incorporated in China.

Structured entities

The Group's involvement in structured entities include:

- Investment funds - the nature of the entity is to manage client funds through the investment in assets, in order to generate fees from managing assets on behalf of third-party investors.
- Investment in unlisted debt and equity investments.

In structured entities, voting rights are not the predominant factor in deciding who controls the entity but rather the Group's exposure to the variability of returns from these entities. The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of decision making rights as fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the Group in the fund in the form of interest held and exposure to variable returns.

In most instances the Group's decision-making authority, in capacity as fund manager, with regard to these funds is regarded to be well-defined. Discretion is however exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the group where the investors have the right to remove the group as fund manager without cause, the fees earned by the group are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis. The Group has concluded that it acts as agent on behalf of the investors in these instances.

The Group is considered to be acting as principal where Old Mutual is the fund manger and is able to make the investment decisions on behalf of the unit holders, earn a variable fee and there are "no kick out" rights that would remove the Group as fund manager.

20. Investments in principal subsidiaries, associates and joint ventures (continued)

This is considered to be a critical accounting judgment. There have been no changes during the year which have changed the Group's conclusion on the consolidation of funds.

The Group has not provided any non-contractual support to any consolidated or unconsolidated structured entities.

The table below sets out the interest held by the Group in unconsolidated entities. The maximum exposure to loss is equal to sum of the carrying amount of assets held.

		2014 R m
	Investment securities	**Total**
Investment funds	20 786	20 786
Other	4 060	4 060
Total	**24 846**	**24 846**

		2013 R m
	Investment securities	**Total**
Investment funds	17 424	17 424
Other	5 777	5 777
Total	**23 201**	**23 201**

21. Derivative assets and liabilities

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

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

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

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

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

The following table provides detail of the fair values of the Group's derivative financial instruments outstanding at the end of the year. These instruments allow the Group and its customers to transfer, modify or reduce their credit, equity market, foreign exchange and interest rate risks.

21. Derivative assets and liabilities (continued)

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

	2014 R m		2013 R m	
Fair value	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	3 993	5 323	6 122	8 215
Other derivatives	375	238	477	319
	4 368	**5 561**	**6 599**	**8 534**

22. Amounts due (to)/from group companies

Holding companies

	2014 R m	2013 R m
Old Mutual Emerging Markets Ltd	(238)	(310)
Old Mutual Group Holdings (SA) (Pty) Ltd	6 042	6 739
Old Mutual plc	13	(182)
	5 817	6 247
Old Mutual plc - subordinated loan	(76)	(74)
	5 741	**6 173**

The Old Mutual plc subordinated loan of £ 4.25 million (2013: £ 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.

Fellow subsidiaries

	2014 R m	2013 R m
Old Mutual Property (Pty) Ltd	14	30
Old Mutual (South Africa) Foundation	64	106
Old Mutual (Africa) Holdings (Pty) Ltd	134	69
Old Mutual Capital Holding (Pty) Ltd	373	337
Old Mutual International (Guernsey) Ltd	156	84
Old Mutual Investment Group (Pty) Ltd	(40)	(10)
Old Mutual Specialised Finance (Pty) Ltd	(2 063)	(234)
Royal Skandia Life Assurance Ltd	20 097	(21)
Old Mutual Unit Trust Managers (RF) (Pty) Ltd	-	29
Old Mutual (South Africa) Share Trust	(37)	(91)
Old Mutual (South Africa) Dividend Access Trust	(515)	(456)
Old Mutual Investment Administrators (Pty) Ltd	32	(36)
Other	13	67
	18 228	(126)
Old Mutual International (Guernsey) Ltd - subordinated loan	(27)	(26)
	18 201	**(152)**

Notes to the financial statements

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

The subordinated loan from Old Mutual International (Guernsey) Ltd 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.

During the year under review, a reinsurance agreement with a fellow subsidiary, Royal Skandia Life Assurance Ltd, was cancelled. The transfer of the related investments is in progress and the balances are therefore included in amounts owed by group companies in 2014.

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

	2014 R m	2013 R m
Amounts due by group companies	27 055	7 411
Amounts due to group companies	(3 113)	(1 390)
	23 942	**6 021**

23. Other assets

	2014 R m	2013 R m
Accrued interest on cash collateral	432	1 992
Other accrued interest and rent	2 073	2 407
Outstanding settlements	5 500	5 060
Other	2 422	349
	10 427	**9 808**

The carrying value of other assets approximates fair value.

24. Cash and cash equivalents

	2014 R m	2013 R m
Bank balances	26 784	25 849
Collateral held	11 569	8 912
	38 353	**34 761**

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

The effective interest rate on short-term bank deposits ranged from 1.5% to 4.1% (2013: 1 % to 3.4%) and the deposits had an average maturity of between 32 and 90 days (2013: 32 and 90 days).

Notes to the financial statements

25. Policyholder liabilities

	2014 R m	2013 R m
Insurance contracts		
Outstanding claims	2 116	2 020
Future policyholders' benefits	156 532	154 855
	158 648	**156 875**
Investment contracts		
Liabilities at fair value through profit or loss	230 938	205 624
Liabilities with a discretionary participating feature	124 592	113 527
	355 530	**319 151**

Movement in future policyholders' benefits for insurance contracts

	2014 R m	2013 R m
Balance at beginning of the year	154 855	149 119
Additions from business combinations	-	946
Inflows		
Premium income	21 721	22 450
Investment income (net of investment losses)	19 965	20 062
Outflows		
Claims and policy benefits	(26 907)	(26 100)
Operating expenses	(7 331)	(6 457)
Other charges and other transfers	(141)	(834)
Tax	(136)	(165)
Transfer to operating profit	(5 494)	(4 166)
Balance at end of the year	**156 532**	**154 855**

Liabilities at fair value through profit or loss

	2014 R m	2013 R m
Balance at beginning of the year	205 624	159 108
Additions from business combinations	-	14 280
New contributions received	41 152	31 404
Withdrawals	(35 994)	(28 020)
Fair value movements, net of tax	21 750	28 016
Foreign currency translation	644	3 405
Fees deducted	(2 238)	(2 569)
Balance at end of the year	**230 938**	**205 624**

25. Policyholder liabilities (continued)

Liabilities with a discretionary participation feature

	2014 R m	2013 R m
Balance at beginning of the year	113 527	95 406
Inflows		
Premium income	14 154	12 483
Investment income (net of investment losses)	15 180	21 451
Outflows		
Claims and policy benefits	(14 857)	(12 342)
Operating expenses	(1 154)	(2 118)
Other charges and other transfers	(1 277)	(21)
Tax	(121)	(156)
Transfer to operating profit	(860)	(1 176)
Balance at end of the year	**124 592**	**113 527**

26. Borrowed funds

	2014 R m	2013 R m
Fixed and variable rate unsecured subordinated callable notes	3 996	3 000

The fair value of the unsecured subordinated callable notes is R4 031 million (2013: R3 128 million).

The subordinated notes rank behind the claims from policyholders and other unsecured unsubordinated creditors. On 27 October 2005 the company issued 8.92% Unsecured Subordinated Callable Notes at an aggregate nominal price of R3 billion. The notes 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, thereafter on 27 January, 27 April, 27 July and 27 October through to final maturity or date of early redemption, whichever is earlier.

Interest is payable at 8.92% up to the date of early redemption and at the 3-month JIBAR rate plus 159 basis points there after.

On the 27 November 2014 the company issued R1 billion unsecured subordinated notes. These bonds are split between R300 million fixed rate notes and R700 million floating rate notes. The notes are listed on the BESA.

These notes have a 10 year maturity period that expire on the 27 November 2024, however, they are callable after 5 years. The first call date is the 27 November 2019.

The interest for the fixed rate notes is payable at 9.26% and the interest on the floating rate notes is payable at the 3-month JIBAR rate plus 220 basis points which equates to 8.28% at year end.

Interest relating to the year under review amounted to R 276 million (2013: R 268 million).

The Group is authorised to issue notes up to a par value of R 10 billion.

27. Post employment benefits

Defined benefit plan

The Group 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' over the remaining service lives of participating employees. The schemes are reviewed on a tri-annual basis or more frequently. In the intervening years a qualified actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the defined benefit obligations of the Group's defined benefit scheme vary according to the economic conditions.

		2014 R m		2013 R m
Obligations	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
At beginning of the year	188	1 098	187	1 399
Current service cost	3	21	3	23
Interest cost on benefit obligation	15	99	16	87
Actuarial gains arising from				
- demographic assumptions	(34)	(4)	-	-
- experience adjustment	-	-	(16)	(104)
Benefits paid	(2)	(40)	(2)	(42)
Disposal of subsidiaries	-	-	-	(265)
At end of the year	**170**	**1 174**	**188**	**1 098**

Notes to the financial statements

27. Post employment benefits (continued)

Plan assets	2014 R m Defined pension benefits	2014 R m Post-retirement benefits	2013 R m Defined pension benefits	2013 R m Post-retirement benefits
At beginning of the year	188	1 494	187	1 357
Expected (losses)/return on plan assets	(2)	122	(3)	155
Benefits paid	(2)	(40)	(2)	(18)
Net actuarial gains/(losses)	14	(80)	6	-
At end of the year	**(170)**	**(1 656)**	**188**	**1 494**

Net asset	2014 R m Defined pension benefits	2014 R m Post-retirement benefits	2013 R m Defined pension benefits	2013 R m Post-retirement benefits
Funded status of plans	**-**	**482**	**-**	**396**

Expense recognised in comprehensive income	2014 R m Defined pension benefits	2014 R m Post-retirement benefits	2013 R m Defined pension benefits	2013 R m Post-retirement benefits
Current service cost	3	21	3	23
Interest cost	(3)	(23)	(3)	(18)
Total	**-**	**(2)**	**-**	**5**

Principal actuarial assumptions	2014 Defined pension benefits	2014 Post-retirement benefits	2013 Defined pension benefits	2013 Post-retirement benefits
Discount rates used	9 %	9 %	9 %	9 %
Expected return on plan assets	9 %	8 %	9 %	9 %
Future salary increases	6 %	8 %	8 %	8 %
Price inflation	8 %	8 %	8 %	8 %

Notes to the financial statements

27. Post employment benefits (continued)

Plan asset allocation	2014 Defined pension benefits	2014 Post-retirement benefits	2013 Defined pension benefits	2013 Post-retirement benefits
Equity securities	57 %	54 %	58 %	54 %
Debt securities	25 %	28 %	25 %	33 %
Real estate	6 %	7 %	8 %	7 %
Other investments	12 %	11 %	9 %	6 %

Sensitivities

Assumption	Change in assumption	Impact on scheme liabilities	2014 R m	2013 R m
Inflation rate	Decrease by 1.0%	Decrease	284	145
	Increase by 1.0%	Increase	69	175

The company contributes to the following post-employment defined benefit plans in South Africa:

- The defined pension benefits plan entitles a retired employee to receive a monthly pension payment, equal to 2% of final salary for each year of service that the employee provided.
- The post-retirement benefits plan provides for a flat amount of subsidy towards the medical aid contributions for employees in retirement, provided they were employed prior to 1998.

The defined pension benefits plan is administered as a pension fund in South Africa that is legally separated from the company. The Fund has been transferred to an Umbrella arrangement, subject to the approval of the legislative authorities. Employee and Employer representatives are part of the Member Management Committee.Both the board and the Management Committee are responsible for setting certain policies (eg contribution rates; benefits and investments) and the implementation of such policies.

These defined benefit plans expose the company to actuarial risks, such as longevity risk, current risk and investment risk. The company has taken an appropriate insurance policy to provide for the benefits in the post-retirement benefits plan.

The assets of the plans are invested in insurance policies and related investment policies held by the insurers.

Funding

Both plans are fully funded. The funding requirements are based on the fund's actuarial measurement framework set out in the funding policies of the plans.

The funding of the defined pension benefits plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions set out. Employees are required to contribute to the defined pension benefits plan.

The company has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements for the defined pension benefits plan) for the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis.

As such, no decrease in the defined benefit asset was necessary at 31 December 2014 or 31 December 2013.

Notes to the financial statements

28. Other employment benefits

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

Benefit obligation

	2014 R m	2013 R m
At beginning of the year	245	219
Current service cost	32	29
Net actuarial losses	17	19
Benefits paid	(23)	(22)
At end of the year	**271**	**245**

Assets

	2014 R m	2013 R m
At beginning of the year	245	219
Contributions	32	29
Investment returns	(6)	(3)
At end of the year	**271**	**245**

Expense recognised in comprehensive income

	2014 R m	2013 R m
Current service cost	32	29
Net actuarial losses	17	19
Total	**49**	**48**

Principal actuarial assumptions

	2014	2013
Discount rate	8 %	8 %
Expected return on plan assets	8 %	8 %
Future salary increases	8 %	8 %
Price inflation	8 %	8 %

Net benefit obligation

	2014 R m	2013 R m
Assets	271	245
Benefit obligation	(271)	(245)
	-	-

28. Other employment benefits (continued)

The benefit obligation of R271 million at the end of the year (2013: R245 million) is supported by non-segregated managed assets amounting to R143 million (2013: R 132 million) as part of the pool of policyholder funds. The Group also has a reimbursive right of R128 million (2013: R112 million) relating to the disability benefit obligation through an insurance policy with Old Mutual Alternative Risk Transfer Ltd.

29. Share-based payment liabilities

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

Composition of share-based payment liabilities

	2014 R m	2013 R m
Share options	83	254
Restricted share awards	615	744
	698	**998**

Share options	2014 Number of share options (Millions)	2014 Weighted average exercise price (Rand)	2013 Number of share options (Millions)	2013 Weighted average exercise price (Rand)
Outstanding at beginning of the year	14	14.49	26	13.92
Transfers to other group companies	(1)	14.49	(1)	13.92
Forfeited during the year	-	-	(1)	14.86
Exercised during the year	(9)	15.07	(10)	13.16
Outstanding at end of the year	**4**	**13.04**	**14**	**14.49**
Exercisable at end of the year	4	13.04	4	11.12

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

Restricted share awards	Number of awards (Millions)	Number of awards (Millions)
Outstanding at beginning of the year	36	41
Transfer to other group companies	(4)	(4)
Granted during the year	8	12
Forfeited during the year	(2)	(2)
Exercised during the year	(10)	(11)
Outstanding at end of the year	**28**	**36**

29. Share-based payment liabilities (continued)

Restricted share awards are offered as an alternative to share options under the Share Option and Deferred Delivery plan or to senior management in terms of the Deferred Short Term Incentive Plan. Restricted share awards are also offered to eligible senior management in terms of the Senior Black Management Plan. They vest subject to the fulfillment of a specified period of employment and have a zero exercise price. The restricted share awards outstanding at the end of the year vest after 3 years from the date of the grant in terms of the Deferred Short Term Incentive Plan. Restricted share awards granted in terms of the Senior Black Management Plan vest in three equal tranches 4, 5 and 6 years from grant date.

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

Options are granted conditional on service and non-market based performance criteria. These conditions are taken into account in determining the estimated value of the ultimate liability to the Group. 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:

	2014	2013
Fair value per option at measurement date (in Rands) - highest	27.04	24.47
Fair value per option at measurement date (in Rands) - lowest	19.02	17.58
Share price (in Rands)	34.70	32.79
Exercise price (in Rands) - highest	15.80	15.80
Exercise price (in Rands) - lowest	7.45	7.45
Expected volatility	44 %	44 %
Expected life (in years)	1	3
Expected dividend yield	3.50 %	3.50 %
Risk free interest rate	6.70 %	6.74 %

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

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

Restricted share awards

	2014	2013
Number granted (millions)	8	12
Value of restricted share awards (Rand millions)	293	329
Fair value per share (in Rands)	34.70	32.79

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

Notes to the financial statements

30. Provisions

	Administration and legal claims	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	2014 R m Total
Opening balance	217	975	500	-	-	1 692
Transfer from other liabilities	-	-	-	339	322	661
Utilised during the year	(16)	(98)	-	(44)	(15)	(173)
Investment return and repayments	-	147	-	-	-	147
Charge	104	-	222	-	51	377
	305	**1 024**	**722**	**295**	**358**	**2 704**

	Administration and legal claims	Charitable donations and other	Provision for enhanced benefits	2013 R m Total
Opening balance	248	847	-	1 095
Utilised during the year	(54)	(80)	-	(134)
Investment return and repayments	-	208	-	208
Charge	23	-	500	523
	217	**975**	**500**	**1 692**

Administration and legal claims

The provisions relate to costs arising from administration related and legal claims. The timing of resolution of these claims is uncertain and it is expected that most of this provision will be utilised over a number of years from the reporting date.

Charitable donations and other

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

Provision for enhanced benefits

This provision is held in respect of obligations which have arisen as a result of changes in legislation and updated interpretations of existing legislation impacting the life insurance industry.

Provision for claw-back of prescribed claims

This provision is held to allow for the possible future payment of claims that have been previously reversed. Due to the nature of the provision, the timing of the expected cash outflows are uncertain. Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Other provisions

Other provisions include provisions for variable pay, restructuring and onerous lease.

Notes to the financial statements

31. Deferred revenue on investment contracts

	2014 R m	2013 R m
At beginning of the year	105	250
Acquisitions through business combinations	2	21
Disposal of subsidiaries	-	(160)
Fees and commission income deferred	29	37
Amortisation	(34)	(43)
At end of the year	**102**	**105**

32. Other liabilities

	2014 R m	2013 R m
Collateral owing	15 595	14 482
Amounts owed to policyholders	2 834	3 553
Amounts owed to intermediaries	238	271
Accruals	1 099	1 159
Outstanding settlements	6 042	5 718
Other	4 386	3 712
	30 194	**28 895**

The carrying value of other liabilities approximates fair value.

33. Share capital and premium

	2014 R m	2013 R m
Authorised share capital		
10 000 000 ordinary shares of R1 each	10	10
30 Redeemable preference shares of R1 each	-	-
	10	**10**
Issued share capital		
8 000 001 ordinary shares of R1 each	8	8
3 Redeemable preference shares of R1 each	-	-
Share premium	6 415	6 415
	6 423	**6 423**

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

The redeemable preference share referred to above have been issued by the company. The preference shares may be redeemed by giving 30 days written notice. The shareholders have the right to receive a dividend of R100 per share or an additional amount at the discretion of the relevant company's directors. The preference shareholders have full voting rights.

Other reserves comprise:	2014 R m	2013 R m
Property revaluation reserve	144	123
Translation reserve	52	60
	196	**183**

Notes to the financial statements

34. Cash (used in)/from operations

	2014 R m	2013 R m
Profit before tax	11 144	18 423
Adjustments for non-cash movements included in profit		
Depreciation and amortisation	186	220
Dividend income	(5 631)	(4 622)
Interest income	(16 483)	(15 023)
Finance costs	1 596	1 477
Net fair value gains	(42 225)	(65 098)
Movements in policyholder liabilities	38 152	65 635
Changes to provisions and post employment benefits obligation	925	159
Adjustments for non-cash movement included in the statement of financial position		
Investments and securities	(20 174)	-
Amounts due from group companies	20 174	-
Changes in working capital:		
Deferred acquisition costs	110	(23)
Deferred revenue on investment contracts	(3)	(145)
Loans and advances	18	38
Other assets	(619)	3 116
Other liabilities	1 299	3 760
Reinsurance contracts	236	1 240
Net movement in loans to/from group companies	2 252	(628)
	(9 043)	**8 529**

35. Tax paid

	2014 R m	2013 R m
Balance at beginning of the year	(2 033)	(2 511)
Current tax expense	(2 093)	(1 811)
Balance at end of the year	1 778	2 033
	(2 348)	**(2 289)**

36. Dividends paid

	2014 R m	2013 R m
Dividends	**(3 870)**	**(4 245)**

Notes to the financial statements

37. Operating lease receivables

	2014 R m	2013 R m
Total future minimum lease receivables under operating leases		
Within one year	1 051	926
In second to fifth year inclusive	2 478	2 247
Later than five years	1 172	1 067
	4 701	**4 240**

The future minimum operating lease receivables do not take into account the asset swap as disclosed in note 13, as this is still subject to competition authority approval.

Investment property comprises a portfolio of retail, commercial and industrial properties that are leased to third parties. Each lease has a defined lease period and financial terms. Renewal negotiations with tenants commence prior to expiry of their current lease agreement. Lease periods vary and are dependent on the tenant and property type. No contingent rents are charged.

38. Related party disclosures

The company's immediate holding company is Old Mutual Emerging Markets Ltd, 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.

Other group companies consist of fellow subsidiaries and associates.

	2014 R m		
	Holding company	Fellow subsidiaries	Associates
Income statement			
Interest income/(expense)	-	384	-
Dividends income	-	765	-
Fee income/(expense)	-	(449)	-
Insurance contract premiums income/(expense)	-	182	-
Reinsurance contract premiums income/(expense)	-	12	-
Claims and policyholder benefits income/(expense)	-	23	-
Statement of financial position			
Cash and short-term securities	-	5 696	-
Zero coupon bonds held	-	3 473	-
Credit linked notes including interest	-	4 004	-
Call loans including interest	-	(4 854)	-
Bonds including interest	-	234	-
Statement of changes in equity			
Dividends expense	(2 817)	(1 053)	-

Notes to the financial statements

38. Related party disclosures (continued)

	2013 R m		
	Holding company	Fellow subsidiaries	Associates
Income statement			
Interest income/(expense)	-	692	9
Dividends income	-	23	-
Fair value gains/(losses)	-	334	-
Fee income/(expense)	-	25	-
Insurance contract premiums income/(expense)	-	79	178
Reinsurance contract premiums income/(expense)	-	11	-
Claims and policyholder benefits income/(expense)	-	22	(58)
Commission income/(expense)	-	-	(16)
Statement of financial position			
Cash and short-term securities	-	3 271	-
Zero coupon bonds held	-	5 008	-
Credit linked notes including interest	-	3 986	-
Call loans including interest	-	(55)	-
Bonds including interest	-	366	-
Reinsurance of investment contract liabilities	-	16 882	-
Statement of changes in equity			
Dividends expense	(19 042)	(2 720)	-

	2014 R '000	2013 R '000
Directors' emoluments		
Fees	7 316	7 642
Salary and bonus	20 384	19 478
Retirement and other benefits	1 191	1 054
Share-based payment charge	15 932	23 261
	44 823	**51 435**

Further disclosure relating to director emoluments can be found in the Old Mutual Life Assurance Company (South Africa) Ltd's company-only financial statements.

39. Financial risk management

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

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

39. Financial risk management (continued)

Financial risk management strategy and policy

The Group 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 Group's ALM framework is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework. For each distinct category of liabilities, a separate portfolio of assets is maintained.

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

Capital adequacy

The Financial Services Board imposes certain capital requirements on the Group. The Group has met all these requirements at all times during the year.

The Group has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirement.
- The business has been managed on an internal CAR basis which is higher than the statutory CAR.
- An economic capital at risk (ECaR) approach is also used by management and the board to ensure that obligations to policyholders can be met in adverse circumstances. ECaR is calculated using an internal capital model applying shocks that should only be exceeded once in 200 years. However, as the total of the current statutory reserves and internal CAR is more onerous than the total of technical provisions calculated on the economic basis and ECaR (calculated as per approach above) the company will continue to hold capital on the more onerous internal CAR basis.
- Maintenance of an appropriate level of liquidity at all times. The company further ensures that it can meet its expected capital and financing needs at all times, having regard to business plans, forecasts and any strategic initiatives.
- With regards to its consolidated collective investment schemes, the group maintains at a minimum capital sufficient to meet the statutory requirements and such additional capital as management believes is necessary to ensure that obligations to unitholders of its collective investment schemes can be met on a timely basis.

Sensitivities

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

The risk types affecting the surplus capital of the Group are market risk, credit risk, liquidity risk, liability risk, business risk and operational risk.

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

39. Financial risk management (continued)

Sensitivity tests

The table below shows the sensitivity of the company-only embedded value to changes in key assumptions. Embedded value is a measure of the value of shareholders' interests in the covered business of the company after sufficient allowance has been made for the aggregate risks in the covered business. It is measured in a way that is consistent with the value that would normally be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. All calculations include the impact on the time-value reserves necessary for policyholder financial options and guarantees. For each sensitivity illustrated, all other assumptions have been left unchanged.

At 31 December 2014	R m Embedded value
Embedded value	**77 993**
Effect of:	
Required capital equal to the minimum statutory requirement	477
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(407)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	345
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4 208
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4 219)
50 bps contraction on corporate bond spreads	156
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1 123)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(8)
Voluntary discontinuance rates decreasing by 10 per cent	1 110
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 641
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 590
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(46)
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	(128)

39. Financial risk management (continued)

At 31 December 2013	R m Embedded value
Embedded value	**68 001**
Effect of:	
Required capital equal to the minimum statutory requirement	705
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(726)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	552
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	3 412
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(3 428)
50 bps contraction on corporate bond spreads	213
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1 185)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	(210)
Voluntary discontinuance rates decreasing by 10 per cent	949
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1 663
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1 502
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(57)
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	(131)

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

Credit risk

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

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

Notes to the financial statements

39. Financial risk management (continued)

Overall credit risk

	2014 R m	2013 R m
Reinsurance contracts	773	1 009
Loans and advances	241	259
Investment and securities		
Government and non-government-guaranteed securities	74 136	72 029
Other debt securities, preference shares and debentures	69 186	66 798
Short-term funds and securities treated as investments	32 351	32 085
Reinsurance	-	17 295
Other assets	10 427	9 808
Derivative assets	4 368	6 599
Amounts due by group companies	27 055	7 411
Cash and cash equivalents	38 353	34 761
	256 890	**248 054**

Debt instruments and similar securities

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

2014 R m	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	63 651	35 320	29 145	127 175
Not rated	10 485	32 567	3 150	46 202
Sub-investment grade	-	1 299	56	1 355
	74 136	**69 186**	**32 351**	**174 732**

2013 R m	Government and non-government-guaranteed securities	Other debt securities, preference shares and debentures	Short-term funds and securities treated as investments	Total
Investment grade (AAA to BBB)	52 184	41 194	27 710	121 088
Not rated	19 845	25 477	4 375	49 697
Sub-investment grade	-	127	-	127
	72 029	**66 798**	**32 085**	**170 912**

Notes to the financial statements

39. Financial risk management (continued)

Reinsurance assets

The company's cash balances are mainly held with Nedbank Limited, which has a credit rating of BBB- (2013: AA).

The total reinsurance contracts amount of R 773 million (2013: R 766 million) is investment grade (AAA to BBB) rated.

Market risk

Market risk is the potential impact of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities on its financial position, financial performance and cash flows. Market risk arises from changes in the fair value of investments.

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

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

Currency risk

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

The Group operates in Hong Kong, Guernsey and Isle of Man through branches, which creates an additional source of foreign currency risk.

	ZAR	GBP	USD	Euro	Other	2014 R m Total
Assets						
Intangible assets	248	-	-	-	-	248
Investment property	17 235	-	-	-	-	17 235
Property and equipment	2 705	-	-	-	-	2 705
Deferred tax assets	1 111	-	-	-	-	1 111
Reinsurance contracts	773	-	-	-	-	773
Deferred acquisition costs	1 224	1	-	-	-	1 225
Loans and advances	241	-	-	-	-	241
Investments and securities	477 178	756	77 512	1 015	845	557 306
Investments in associated undertakings	65	-	-	-	991	1 056
Derivative assets	4 368	-	-	-	-	4 368
Amounts due by group companies	6 793	20 174	5	-	83	27 055
Other assets	10 419	7	1	-	-	10 427
Post employment benefits asset	482	-	-	-	-	482
Cash and cash equivalents	38 297	56	-	-	-	38 353
Non-current assets held-for-sale	2 800	-	-	-	-	2 800
	563 939	**20 994**	**77 518**	**1 015**	**1 919**	**665 385**

Notes to the financial statements

39. Financial risk management (continued)

	ZAR	GBP	USD	Euro	Other	2014 R m Total
Liabilities						
Insurance contracts	158 648 [1]	-	-	-	-	158 648
Investment contracts	335 246 [1]	5 901	13 179	1 125	79	355 530
Third party interest in consolidated funds	56 026	-	-	-	-	56 026
Borrowed funds	3 996	-	-	-	-	3 996
Share-based payment liabilities	698	-	-	-	-	698
Deferred revenue	101	1	-	-	-	102
Deferred tax liabilities	5 096	-	-	-	-	5 096
Derivative liabilities	5 561	-	-	-	-	5 561
Amounts due to group companies	3 066	-	-	-	47	3 113
Provisions	2 704	-	-	-	-	2 704
Current tax payable	1 778	-	-	-	-	1 778
Other liabilities	29 681	280	230	3	-	30 194
	602 601	**6 182**	**13 409**	**1 128**	**126**	**623 446**

[1] A substantial portion of the policyholder liabilities will be settled in Rand, but are linked to assets denominated in other currencies.

	ZAR	GBP	USD	Euro	Other	2013 R m Total
Assets						
Intangible assets	264	-	-	-	-	264
Investment property	19 142	-	-	-	-	19 142
Property and equipment	3 307	-	-	-	-	3 307
Deferred tax assets	1 357	-	-	-	-	1 357
Reinsurance contracts	1 009	-	-	-	-	1 009
Deferred acquisition costs	1 335	-	-	-	-	1 335
Loans and advances	259	-	-	-	-	259
Investments and securities	442 080	17 534	71 541	798	1 343	533 296
Investments in associated undertakings	64	-	-	-	811	875
Derivative assets	6 599	-	-	-	-	6 599
Amounts due by group companies	7 348	63	-	-	-	7 411
Other assets	9 804	3	1	-	-	9 808
Post employment benefits asset	396	-	-	-	-	396
Cash and cash equivalents	34 719	42	-	-	-	34 761
	527 683	**17 642**	**71 542**	**798**	**2 154**	**619 819**

39. Financial risk management (continued)

	ZAR	GBP	USD	Euro	Other	2013 R m Total
Liabilities						
Insurance contracts	156 875	-	-	-	-	156 875
Investment contracts	302 063	7 327	8 700	1 057	4	319 151
Third party interest in consolidated funds	54 955	-	-	-	-	54 955
Borrowed funds	3 000	-	-	-	-	3 000
Share-based payment liabilities	998	-	-	-	-	998
Deferred revenue	105	-	-	-	-	105
Deferred tax liabilities	4 063	-	-	-	-	4 063
Derivative liabilities	8 534	-	-	-	-	8 534
Amounts due to group companies	1 111	279	-	-	-	1 390
Provisions	1 692	-	-	-	-	1 692
Current tax payable	2 033	-	-	-	-	2 033
Other liabilities	28 875	20	-	-	-	28 895
	564 304	**7 626**	**8 700**	**1 057**	**4**	**581 691**

39. Financial risk management (continued)

Interest rate risk

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

The Group has due regard to the nature of the liabilities and guarantees given to policyholders. The interest rate risk of such liabilities is managed by investing in assets of similar duration. For products that have a durational mismatch between premium inflows and benefit and expense outflows, mainly pure risk products, matching of assets and liabilities is complex and earnings are exposed to interest rate movements. Hedging strategies and a discretionary margin are now in place to partially hedge this exposure to interest rate movements.

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates as well as the implied volatility of interest rates, with a reduction in interest rates or an increase in implied interest rate volatility increasing the reserves held. Hedging is largely in place to mitigate the impact of interest rate movements. A discretionary margin is also held for the potential ineffectiveness of such hedging strategies and for the movements in implied volatilities which are not currently hedged.

Liquidity risk

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

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

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

Notes to the financial statements

39. Financial risk management (continued)

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
				2014 R m
Liabilities				
Insurance contracts	3 869	16 875	93 849	281 724
Investment contracts				
Unit-linked investment contracts and similar contracts	230 028	-	-	-
Investment contracts with discretionary participating features	124 592	-	-	-
Other investment contracts	1 007	246	567	39
Outstanding claims	2 116	-	-	-
Borrowed funds	-	-	-	3 996
Derivative liabilities	(46)	53	1 375	10 415
Amounts due to group companies	3 113	-	-	-
	364 586	**17 174**	**95 791**	**296 174**

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
				2013 R m
Liabilities				
Insurance contracts	4 144	15 882	88 755	283 231
Investment contracts				
Unit-linked investment contracts and similar contracts	205 624	-	-	-
Investment contracts with discretionary participating features	113 527	-	-	-
Other investment contracts	113	297	645	113
Outstanding claims	2 020	-	-	-
Borrowed funds	-	-	-	3 000
Derivative liabilities	(310)	(789)	1 482	23 140
Amounts due to group companies	1 396	-	-	-
	326 514	**15 390**	**90 882**	**309 484**

Notes to the financial statements

39. Financial risk management (continued)

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

			2014 R m
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	248	248
Investment property	-	17 235	17 235
Property and equipment	-	2 705	2 705
Deferred tax assets	-	1 111	1 111
Reinsurance contracts	452	321	773
Post employment benefits	-	482	482
Deferred acquisition costs	276	949	1 225
Loans and advances	-	241	241
Investments and securities	49 785	507 521	557 306
Investments in associates	-	1 056	1 056
Derivative assets	47	4 321	4 368
Amounts due by group companies	27 055	-	27 055
Other assets	10 427	-	10 427
Cash and cash equivalents	38 353	-	38 353
Non-current assets held-for-sale	2 800	-	2 800
	129 195	**536 190**	**665 385**

			2014 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2 115	156 533	158 648
Investment contracts	-	355 530	355 530
Third party interest in consolidated funds	56 026	-	56 026
Borrowed funds	3 000	996	3 996
Share-based payment liabilities	329	369	698
Deferred revenue on investment contracts	34	68	102
Deferred tax liabilities	-	5 096	5 096
Derivative liabilities	157	5 404	5 561
Amounts due to group companies	3 113	-	3 113
Provisions	-	2 704	2 704
Current tax payable	1 778	-	1 778
Other liabilities	30 194	-	30 194
	96 746	**526 700**	**623 446**

39. Financial risk management (continued)

			2013 R m
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	264	264
Investment property	-	19 142	19 142
Property and equipment	-	3 307	3 307
Deferred tax assets	-	1 357	1 357
Reinsurance contracts	303	706	1 009
Post employment benefits	-	396	396
Deferred acquisition costs	269	1 066	1 335
Loans and advances	-	259	259
Investments and securities	47 612	485 684	533 296
Investments in associates	-	875	875
Derivative assets	125	6 474	6 599
Amounts due by group companies	7 411	-	7 411
Other assets	9 808	-	9 808
Cash and cash equivalents	34 761	-	34 761
	100 289	**519 530**	**619 819**

			2013 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2 020	154 855	156 875
Investment contracts	-	319 151	319 151
Third party interest in consolidated funds	54 955	-	54 955
Borrowed funds	-	3 000	3 000
Share-based payment liabilities	574	424	998
Deferred revenue on investment contracts	43	62	105
Deferred tax liabilities	-	4 063	4 063
Derivative liabilities	75	8 459	8 534
Amounts due to group companies	1 390	-	1 390
Provisions	-	1 692	1 692
Current tax payable	1 792	241	2 033
Other liabilities	28 895	-	28 895
	89 744	**491 947**	**581 691**

Designated financial assets

The maximum exposure to credit risk for designated financial assets that would have otherwise been categorised as loans and receivables amounted to R62 784 million (2013: R 68 855 million). The change in fair value of these assets relating to any change in credit risk was insignificant.

40. Insurance risk management

The Group assumes insurance risk by issuing insurance contracts, under which the Group 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 and morbidity risk.

Insurance risk arises through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. Uncertainty in persistency, expenses and mortality and morbidity claim rates, relative to actuarial assumptions made in the pricing process, may prevent the Group from achieving its profit objectives.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group 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 Group's approach to financial risk management has been described in note 39.

The Group has developed a risk policy which sets out practices which are used to manage insurance risk and the management information and stress testing requirements. The policy is cascaded to all entities across the Group who each have their own risk policy suite aligned to the Group. In addition to management of persistency, expense and claim experience, the risk policy sets out requirements and standards on matters such as underwriting and claims management practices, and the use of reinsurance to mitigate insurance risk.

The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

More information about the (i) risk management objectives and policies for mitigating insurance risk, (ii) terms and conditions of insurance contracts, (iii) management of insurance risk, (iv) guarantees and options - life assurance and (v) insurance related sensitivity analyses can be found in the company-only financial statements of Old Mutual Life Assurance Company (South Africa) Ltd.

41. General company information

41.1. Review of activities

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

41.2. Holding company

The company's holding company is Old Mutual Emerging Markets Ltd incorporated in South Africa.

41.3. Ultimate holding company

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

41.4. Company secretary

Ms E M Kirsten is the company secretary.

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42. Events after the end of the financial year

On 12 January 2015 the company agreed to dispose of the remaining portion of the Menlyn Shopping Centre in South Africa for R3,200 million, subsequent to the completion of agreed upon improvements on the centre. Refer to note 13 for more information.

On 23 January 2015 the company purchased a 23.3% stake in UAP Holdings Ltd, an East and Central African financial services company, for a total consideration of R1 139 million (KES 8.88 billion). On 26 January Old Mutual Holdings Ltd, a fellow subsidiary based in Kenya, confirmed that it will be acquiring an additional 37.3% of UAP's shareholding, subject to regulatory approval.

Following the successful completion of a bond auction, which took place on 16 March 2015, the Group has issued a mixture of floating rate and fixed instruments with several maturities through its existing local South African programme. Accordingly, the JSE Limited has granted a listing to the company on the South African Interest Rate Market with effect from 19 March 2015 under its Unsecured Subordinated Callable Note Programme dated 4 September 2014. The total nominal value of instruments issued was R2 061 million.