

Annual Financial Statements

2004

Old Mutual
Life Assurance Company
(South Africa)
Limited



Annual financial statements

for the year ended 31 December 2004

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Registration no. 1999/004643/06

Corporate governance

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

The Board of Directors

Role and composition

The Company has a unitary board of 16 directors, the majority of whom are independent of management. The Board currently comprises 12 non-executive directors, one of whom is an executive director of the ultimate holding company, and four executive directors. Full details are set out in the directors' report.

The selection and appointment of directors is a matter for the Board as a whole, assisted by recommendations from the Corporate Governance and Nomination Committee. Emphasis is placed on achieving a balance of skills, experience and knowledge. A formal orientation programme exists to familiarise incoming directors with the Company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities. New directors may hold office only until the next annual general meeting at which they retire and become available for re-election by shareholders on the recommendation of the Corporate Governance and Nomination Committee and of the Board. All directors are subject to retirement by rotation and re-election by shareholders at least once every three years. Executive directors have no fixed term of appointment, but are subject to short-term notice periods. They retire from the Board at age 61, while non-executive directors retire at age 70.

The Board meets regularly, having met six times in 2004 including sessions devoted to strategy and business planning. Self-evaluation reviews are conducted at appropriate intervals. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure its effective functioning and proper administration of board proceedings.

Chairman and Managing Director

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

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

Board Committees

All Board committees have formally delegated terms of reference and report to the Board and to the respective board committees of the ultimate holding company as required. The committees are chaired by independent or non-executive directors, supported by the Company Secretary, and are free to take independent professional advice as and when necessary.

Audit, Risk and Compliance Committee

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

The committee serves in an advisory capacity to the Board and assists the directors to discharge their duties relating to the safeguarding of assets, the operation of adequate systems, risk management and controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place and that material corporate risks have been identified and are being effectively managed and monitored.

Corporate governance *(continued)*

The Board of Directors *(continued)*

Board Committees *(continued)*

Remuneration Committee

The Remuneration Committee, chaired by Mr Sutcliffe, who was appointed during the year and is Chief Executive Officer of the ultimate holding company, comprises only non-executive directors, meets as often as necessary, and met four times during the year.

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

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

Corporate Governance and Nomination Committee

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

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

Environment Committee

This committee provides input into the development of business strategy in respect of external stakeholders, in particular government relations and transformation issues. It plays an important role at the time of strategy and plan creation, and is expected to review and input into the consideration of the customer, government and regulatory environment. It is chaired by Prof Gerwel, an independent non-executive director, and includes executive and non-executive directors. It met five times during the past year.

Strategic Projects Management Committee

This committee, chaired by Mr van Niekerk, a non-executive director, provided input on strategic initiatives, reviewed their progress, provided input at the time of strategy and acted as a sounding board for management's ideas. The committee included executive and non-executive directors and met on an ad hoc basis as the requirements of the projects within its scope required. It met twice during 2004 and was subsequently dissolved during August 2004 as it was considered to have achieved its desired purpose.

Corporate governance *(continued)*

The Board of Directors *(continued)*

Directors' emoluments

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<i>Directors' emoluments</i>	2004	2003
<i>Non-executive directors</i>		
Fees	1 889	1 851
<i>Executive directors</i>	24 325	9 583
Basic salaries	8 210	5 530
Bonuses and performance related payments	15 098	3 309
Retirement, medical and other benefits	1 017	744
Total directors' emoluments	26 214	11 434

Fees paid to non-executive directors were as follows:

W A M Clewlow	406	418
G J Gerwel	184	160
P G Joubert	-	90
D Konar	241	194
C F Liebenberg	156	179
A A Maule	180	130
M Morobe	138	119
W A Mgoqi	122	105
P F Nhleko	110	124
G S van Niekerk	180	174
A H van Wyk	172	158
	1 889	1 851

2004	Basic salaries	Bonuses and performance related payments	Retirement, medical and other benefits	Total emoluments
Executive directors' total emoluments comprise:				
R J A Sparks	2 438	5 876	301	8 615
P G de Beyer	1 961	2 995	243	5 199
M P Moyo	1 961	3 443	243	5 647
P B Hanratty	1 850	2 784	230	4 864
	8 210	15 098	1 017	24 325

Bonuses and performance related payments reflected above are payable in 2005 based on the 2004 results and performance.

Corporate governance *(continued)*

R '000

Directors' emoluments *(continued)*

2003	Basic salaries	Bonuses and performance related payments	Retirement, medical and other benefits	Total emoluments
R J A Sparks	2 300	1 120	284	3 704
P G de Beyer	1 380	915	230	2 525
M P Moyo	1 850	1 274	230	3 354
	5 530	3 309	744	9 583

Bonuses and performance related payments reflected above are payable in 2004 based on the 2003 results and performance. Previously bonuses reflected the actual cash amount paid in the respective year.

Directors' interests under Employee Share Plans

Details of the interests under Employee Share Plans of non-executive directors of the Company who are also directors of Old Mutual plc are dealt with in the Annual Report of Old Mutual plc.

Details of the executive directors' share interests arising from the Old Mutual Group Achievements Share Incentive Scheme (OMGA) and outstanding at 31 December 2004 are set out below:

	Offer price	Number of shares outstanding	Date of grant	Gains on current year settlements
<i>Executive directors</i>				
R J A Sparks	9.70	-	01/10/98	950
	9.80	-	01/10/98	991
	9.70	-	08/04/99	2 219
P G de Beyer	9.80	-	01/10/98	313
	9.70	-	01/10/98	994
	9.80	-	01/10/98	140
M P Moyo	12.71	-	25/08/98	459
	9.70	-	01/10/98	1 186
	9.95	-	26/10/98	285
P B Hanratty	9.80	-	01/10/98	393
	9.70	-	01/10/98	508
		-		8 438

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

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

Corporate governance *(continued)*

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Directors' interests under Employee Share Plans *(continued)*

The following share entitlements in Old Mutual plc were outstanding in favour of executive directors of the Company under the Company's participation in the Old Mutual plc Group's Share Option and Deferred Delivery Plan at 31 December 2004:

	Offer price	Date of grant	Number of shares outstanding	Dates deliverable	Gains on current year settlements
<i>Executive directors</i>					
R J A Sparks	13.20	14/03/00	188 600	14/03/2003 - 14/03/2006	-
	17.63	16/10/00	113 500	16/10/2003 - 16/10/2006	-
	15.15	04/03/02	536 700	04/03/2005 - 04/03/2008	-
	11.15	26/02/03	721 975	26/02/2006 - 26/02/2009	-
	11.77	03/03/04	569 627	03/03/2007 - 03/03/2010	-
P G de Beyer	13.20	14/03/00	226 300	14/03/2003 - 14/03/2006	-
	17.63	16/10/00	96 500	16/10/2003 - 16/10/2006	-
	15.15	04/03/02	431 700	04/03/2005 - 04/03/2008	-
	11.15	26/02/03	580 718	26/02/2006 - 26/02/2009	-
	11.77	03/03/04	299 899	03/03/2007 - 03/03/2010	-
M P Moyo	13.20	14/03/00	207 500	14/03/2003 - 14/03/2006	-
	17.63	16/10/00	170 200	16/10/2003 - 16/10/2006	-
	15.15	04/03/02	402 500	04/03/2005 - 04/03/2008	-
	11.15	26/02/03	418 117	26/02/2006 - 26/02/2009	-
	11.77	03/03/04	291 568	03/03/2007 - 03/03/2010	-
P B Hanratty	13.20	14/03/00	111 800	14/03/2003 - 14/03/2006	-
	15.15	04/03/02	284 700	04/03/2005 - 04/03/2008	-
	11.15	26/02/03	259 801	26/02/2006 - 26/02/2009	-
	11.77	03/03/04	648 365	03/03/2007 - 03/03/2010	-
			6 560 070		-

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

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

Corporate governance *(continued)*

R '000

Directors' interests under Employee Share Plans *(continued)*

- 4 50% of the share entitlements granted on 3 March 2004 will only be deliverable if the Old Mutual plc Group's earnings per share increases by prescribed factors of between 9% and 15% in excess of UK RPI over the period between 1 January 2004 and 31 December 2006, and 50% of the allocation of the share entitlements granted on 3 March 2004 will only be deliverable if the Old Mutual plc Group's earnings per share expressed in SA Rands increases by prescribed factors of between 9% and 15% in excess of SA CPI over the period between 1 January 2004 and 31 December 2006. The basic factor of 9% over UK RPI and SA CPI applies to multiples of up to one times basic salary, with a sliding scale applicable to multiples of up to three times basic salary.

The following share awards in Old Mutual plc were outstanding in favour of executive directors of the Company under the Company's participation in the Old Mutual plc Group's Restricted Share Plan at 31 December 2004:

	Number of shares outstanding	Dates exercisable	Gains on current year settlements
<i>Executive directors</i>			
R J A Sparks	34 432	16/03/2007 - 16/03/2009	-
P G de Beyer	59 980	03/03/2007 - 03/03/2009	-
M P Moyo	48 781 87 471	26/02/2006 - 26/02/2008 03/03/2007 - 03/03/2009	- -
P B Hanratty	43 842 64 837 19 555	26/02/2006 - 26/02/2008 03/03/2007 - 03/03/2009 16/03/2007 - 16/03/2009	- - -
Total	358 898		-

Subject to a three year waiting period, under which:

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

Corporate governance *(continued)*

Internal controls

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

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

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

The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve the Company's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

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

Actuarial Review Committee

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

Credit Committee

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

Management structures

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

Business planning

The Board regularly reviews the Company's strategic direction and the executive directors consider the strategy for the individual lines of business with executive management on a planned basis. Annual budgets and three-year strategic plans are prepared, with performance targets for each line of business set by the executive directors in conjunction with executive managers. The Business planning process incorporates a detailed risk identification process, in accordance with the plc Enterprise Risk Policy, that ensures that key risks that may impact the business objectives have been identified and appropriate management actions assigned. The overall business plan for the Company is then reviewed by the Board and the Board of Old Mutual plc in light of the Company and the Old Mutual plc Group's objectives. Performance against plan is regularly monitored at Board level.

Corporate governance *(continued)*

Monitoring of controls

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

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

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

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

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

Employment policies

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

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

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

- the Company considers that the establishment of the right priorities and environment for its people is essential for their performance and development and to the future of the Company;
- employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity, and the Company's practices are cognisant of this;
- the Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Company. Employee involvement and consultation are managed in a number of ways, including in-house publications, briefings, road shows and intranet. In many parts of the business employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Where this is not the case, change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them;

Corporate governance *(continued)*

Employment policies *(continued)*

- the efforts of the individual in helping to create the success of the Company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals and the performance of the sector of the business in which they work;
- the training and development of all employees, including the directors, remains a priority. The Old Mutual Business School was founded, because the process of developing business staff and leaders requires a holistic learning experience that is aligned with core competencies, business objectives and Company strategies, thereby ensuring that the growth and development of the organisation remains sustainable.

Risk management and compliance

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

Executive Management reports to the Audit, Risk and Compliance Committee on significant risks to the achievement of the Company's business objectives and instances of significant control failures.

Life assurance

Underwriting risk is controlled by underwriting principles governing product repricing procedures and authority limits. The underwriting process takes into account actual and prospective mortality, morbidity and expense experience. The impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS. The Company conducts HIV and other tests for lives insured above certain values.

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

Equity price risk and interest rate risk (on value of securities) are modelled by the Company's risk based capital practices, which require sufficient capital to be held by the Company in excess of the statutory minimum to allow the Company to manage significant equity exposures. Credit risk is monitored by Credit Committee covering life and third party funds, which have established appropriate exposure limits.

Governance of Smoothed Bonus policyholder funds

Smoothed bonus products constitute a significant proportion of the Company's business. Because of the nature of this business, specific steps are taken to ensure that policyholder funds in respect of smoothed bonus business are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within the shareholder and policyholder funds are managed by different portfolio managers, in terms of different investment mandates.
- The portfolio manager responsible for the policyholder funds has been clearly instructed that all investment decisions taken within the policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of specified investment mandates.
- Each product portfolio has an investment mandate, that sets out the mandate for that product portfolio, based on the nature of that product's liability, particularly the nature of any investment guarantees that are provided. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For products with fully guaranteed benefits (such as the level annuity portfolio) particular care is taken to ensure that assets match liabilities as closely as possible.
- In addition to the limitation specified in the Long-term Insurance Act Investment Regulations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group within each policyholder portfolio.

Corporate governance *(continued)*

Governance of Smoothed Bonus policyholder funds *(continued)*

- Major investments in Old Mutual Group companies (such as in Nedcor and Mutual & Federal) and loans to other companies in the Group (such as to Old Mutual plc) are predominantly held in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- All potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders could have an interest that could conflict with the policyholders' interest, are disclosed to the Statutory Actuary, and if material are approved by the Board. Any such transactions are conducted on arms-length terms, and only when it is clearly demonstrated that such investments are in the interests of policyholders.
- The portfolio manager produces a monthly report covering amongst others the structure of each portfolio relative to its mandate, investment performance relative to benchmarks, purchases and sales, any special investment opportunities that arose and how these were equitably allocated between portfolios, any potential conflicts of interest that arose and how these were dealt with, and any investment activity in associated companies.
- The method of allocation of profits and investment returns between policyholders and shareholders is clearly specified, and smoothed bonus policyholder funds are credited (via bonus stabilisation reserves) with the full investment return earned on their funds, less specified charges.
- Any profit allocated to shareholder funds is only transferred from policyholder funds on the recommendation of the Statutory Actuary, following an actuarial valuation. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities as determined by the Statutory Actuary on the valuation date. These liabilities include provision for any guarantees that may apply.
- With each actuarial valuation, a detailed analysis of profit is done, which confirms that there are no material errors or inconsistencies in the valuation, and that valuation assumptions are appropriate.
- The Company pays particular attention to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the Company manages these products, ensures that information is produced on the financial strength of its smoothed bonus funds, and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. All investment returns credited to policyholder funds that are not declared as bonuses are retained in bonus stabilisation reserves, which may only be used to support subsequent bonus declarations.

Going concern

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

Corporate citizenship and non-financial reporting

The broader Old Mutual Group in South Africa publishes a separate annual corporate citizenship report on its social, transformation, ethical, safety, health and environmental policies and practices.

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

Directors' responsibility for the annual financial statements

The directors are responsible for monitoring the preparation and integrity of the annual financial statements and related information included in this annual report.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the Audit, Risk and Compliance Committee and various other risk monitoring committees.

The annual financial statements are prepared in accordance with statements of South African Generally Accepted Accounting Practice and incorporate disclosure in line with the accounting and corporate governance philosophy of the Company. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

The annual financial statements for the year ended 31 December 2004 set out on pages 14 to 48 were approved by the Board of Directors on 16 February 2005 and are signed on its behalf by:



M J Levett
Chairman



R J A Sparks
Managing Director

Report by the Company Secretary

I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268G(d) of the Companies Act 1973, as amended, for the year ended 31 December 2004 and that all such returns are true, correct and up to date.



R F Foster
Company Secretary
16 February 2005

Report of the independent auditors

To the members of Old Mutual Life Assurance Company (South Africa) Limited

We have audited the annual financial statements of Old Mutual Life Assurance Company (South Africa) Limited set out on pages 14 to 48 for the year ended 31 December 2004. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

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



Per T H Bashall
Director
16 February 2005

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Limited have pleasure in submitting their report on the annual financial statements for the year ended 31 December 2004.

Business activities

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

Results of operations

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

Consolidated annual financial statements

Consolidated annual financial statements have not been prepared as the Company is a wholly-owned subsidiary of another South African company. The Company is ultimately wholly-owned by Old Mutual plc, which is itself registered in South Africa as an external company and produces consolidated financial statements which incorporate the results of the Company and its subsidiaries.

These consolidated financial statements can be obtained directly from Old Mutual plc, registered office, 5th floor, Old Mutual Place, 2 Lambeth Hill, London, EC4V 4GG, United Kingdom.

Holding company

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

Subsidiaries

Details of the Company's interest in its principal subsidiaries are set out in note 24.

Share capital

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

Dividends

Ordinary shares

Dividends on ordinary shares amounting to R1 323 million (2003 : R1 035 million) were declared during the year.

Preference shares

Dividends on preference shares amounting to R118 million (2003 : R959 million) were declared during the year.

Directors' report *(continued)*

Directors

Mr Liebenberg retired as a director on 2 October 2004, and on 27 August 2004, Mr Roberts resigned as a director. Prof Nkuhlu was appointed as a director on 1 January 2005.

The directors currently holding office are:

Non-executive directors

M J Levett (Chairman) * ✨
W A M Clewlow (Deputy Chairman) * ✨
J H Sutcliffe (British) * ✨
G S van Niekerk ✨

Executive directors

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

Independent non-executive directors

G J Gerwel ✨ ✨
D Konar ✨ ✨
A A Maule ✨ ✨ ✨
W A Mgoqi ✨
M Morobe ✨ ✨
P F Nhleko
W L Nkuhlu ✨
A H van Wyk ✨ ✨

✨ Member of the Audit, Risk and Compliance Committee
✨ Member of the Remuneration Committee
✨ Member of the Corporate Governance and Nomination Committee
✨ Member of the Environment Committee
* Director of Old Mutual plc

In terms of the Company's Articles of Association, Professors Nkuhlu and van Wyk, Dr Mgoqi, Ms Maule, Messrs Nhleko and van Niekerk retire at the forthcoming Annual General Meeting. With exception of Dr Mgoqi, all being eligible, and recommended by the Board, offer themselves for re-election.

Company Secretary

Mr R F Foster is the Company Secretary.

Business address: Mutualpark
Jan Smuts Drive
Pinelands
7405

Postal address: PO Box 66
Cape Town
8000

Report of the Statutory Actuary

I have conducted an actuarial review of the Company as at 31 December 2004, according to applicable guidelines issued by the Actuarial Society of South Africa. In particular, the valuation was performed using the Financial Soundness Valuation method, assets and liabilities have been valued on bases that are consistent with each other and policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in note 2 to the annual financial statements, which can be found on pages 26 to 29.

Actuarial balance sheet

R million	2004	2003
Total assets per balance sheet	273 294	245 818
Total value of liabilities	(236 876)	(216 756)
Actuarial value of policy liabilities	(228 624)	(210 960)
Provisions and current liabilities	(8 252)	(5 796)
Excess of assets over liabilities	36 418	29 062
Statutory capital adequacy requirements	10 993	12 136
Ratio of excess assets to statutory capital adequacy requirements	3.3	2.4
The change in the excess assets has arisen from the following main sources:		
Investment income on excess assets	517	1 235
Realised and unrealised gains and losses on excess assets	6 488	(3 959)
Operating profit before tax (excl. the effect of changes in the valuation basis)	3 287	3 516
Changes in valuation basis	168	(116)
Taxation	(1 439)	(1 070)
Deferred taxation - net capital gains	(224)	(212)
Total earnings	8 797	(606)
Dividends	(1 441)	(1 994)
Total increase/(decrease) in excess assets	7 356	(2 600)

Certification of financial position

I hereby certify that:

- the valuation of the Company as at 31 December 2004, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Note 104 and related Addendum;
- the valuation of liabilities includes reserves for Minimum Investment Return Guarantees in accordance with the Actuarial Society of South Africa's Professional Guidance Note 110;
- this Statutory Actuary's Report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note 103;
- this Statutory Actuary's report, read together with the annual financial statements, fairly presents the financial position of the Company as at the valuation date; and
- the Company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.



G S Palser

Statutory Actuary
BBusSc (Hons), FIA, FASSA
Cape Town
16 February 2005

Income statement

for the year ended 31 December 2004

R million	Notes	2004	2003
Revenue	13.2	16 982	18 519
Operating profit	3.1	3 514	3 243
Other shareholders income		(59)	157
Provision for payments to be made in respect of the Unclaimed Shares Trust	3.2	(190)	-
Other income		131	157
Operating profit before taxation and investment income	4	3 455	3 400
Investment income	5	2 458	385
Profit on ordinary activities before taxation		5 913	3 785
Taxation	6	(1 439)	(1 070)
Profit for the year		4 474	2 715

Balance sheet

at 31 December 2004

R million

Assets	Notes	2004	2003
Non-current assets			
Investments	7	260 559	233 975
Investments in group undertakings		22 598	14 283
Other financial investment assets		228 986	210 982
Investment property		8 975	8 710
Property, plant and equipment	8	359	364
Intangible assets	9	60	39
Reinsurer's share of liabilities in respect of contracts with policyholders	13.1	4 583	4 447
Deferred taxation asset	10	-	6
Current assets		7 733	6 987
Outstanding premiums, accrued investment income and other debtors		3 119	2 943
Amounts due by group companies	11	3 068	1 893
Cash and cash equivalents		1 546	2 151
Total assets		273 294	245 818
Equity and liabilities			
Equity shareholders' fund		36 418	29 062
Share capital and premium	12	6 254	6 254
Revaluation reserve		3 078	(1 245)
Distributable reserve		27 086	24 053
Non-current liabilities			
Liabilities in respect of contracts with policyholders	13	228 624	210 960
Insurance contracts		152 406	143 027
Investment contracts		76 218	67 933
Provisions	14	545	386
Deferred tax liability	10	57	-
Current liabilities		7 650	5 410
Outstanding claims, policyholders' benefits and other creditors		6 583	4 818
Amounts due to group companies	15	227	69
Shareholders for dividends		240	-
Taxation		600	523
Total equity and liabilities		273 294	245 818

Statement of changes in equity shareholders' fund

for the year ended 31 December 2004

R million

	Share capital and premium	Revaluation reserve	Distributable reserve	Total
2004				
Equity shareholders' fund at beginning of year	6 254	(1 245)	24 053	29 062
Unrealised revaluation reserve		4 547		4 547
Deferred taxation - net capital gains		(224)		(224)
Profit for the year			4 474	4 474
Dividends			(1 441)	(1 441)
Equity shareholders' fund at end of year	6 254	3 078	27 086	36 418
2003				
Equity shareholders' fund at beginning of year	6 254	2 076	23 332	31 662
Unrealised revaluation reserve		(3 109)		(3 109)
Deferred taxation - net capital gains		(212)		(212)
Profit for the year			2 715	2 715
Dividends			(1 994)	(1 994)
Equity shareholders' fund at end of year	6 254	(1 245)	24 053	29 062

Cash flow statement

for the year ended 31 December 2004

R million	Notes	2004	2003
Net cash outflow from operating activities		(6 806)	(1 146)
Cash (utilised)/generated by operations	16	(3 468)	2 305
Taxation paid	17	(2 137)	(1 457)
Dividends paid	18	(1 201)	(1 994)
Net cash inflow from investing activities		6 201	2 000
Investments in group undertakings		(4 624)	817
Other financial investment assets		10 540	820
Investment properties		285	363
Net (decrease)/increase in cash and cash equivalents		(605)	854
Cash and cash equivalents at beginning of year		2 151	1 297
Cash and cash equivalents at end of year		1 546	2 151

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

1 **Accounting policies** *(continued)*

1.6.2 *Post retirement benefits other than pensions (continued)*

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

1.6.3 *Actuarial gains and losses*

Actuarial gains and losses arising in respect of the defined benefit scheme and post-retirement benefit arrangements are included in the income statement in the year in which they arise.

1.7 *Financial instruments*

Recognition and de-recognition of financial instruments

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

Financial assets are de-recognised when, and only when, the Company loses control of the contractual rights that comprise the asset, for instance where those rights are realised, expire or are surrendered.

Financial liabilities are de-recognised when, and only when, the obligations under the contract are discharged, cancelled or expire.

All financial instruments are recognised and de-recognised using trade date accounting.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are valued on the bases set out below:

1.7.1 *Securities*

Marketable securities, including government, municipal and utility stocks, debentures, listed shares including shares in listed subsidiaries, unit trusts and derivatives are reflected at market value. Market value is determined by the Directors using, where appropriate, quoted ruling prices or market related rates of return.

Other securities, such as shares in unlisted subsidiaries and other companies, are recorded at Directors' valuation.

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

Cash and cash equivalents are recorded at fair value.

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

Securities that are held to support liabilities in respect of contracts with policyholders are designated as 'held for trading' financial assets. All gains and losses on those securities, whether realised or unrealised, are recorded in policyholders' funds in the year in which they arise.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

1 **Accounting policies** *(continued)*

1.7.2 *Derivative instruments*

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

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

All derivatives are held to support liabilities in respect of contracts with policyholders. All gains and losses, whether realised or unrealised, are recorded in policyholders' funds in the year in which they arise.

1.7.3 *Loans originated by the Company*

Loans originated by the Company, including those to policyholders and similar items, are measured at amortised cost.

1.7.4 *Investment contracts*

Investment contracts, which are contracts of insurance in legal form but which do not transfer significant insurance risk, are recorded at fair value. Fair value is determined by reference to the Addendum to PGN104 issued by the Actuarial Society of South Africa.

Investment contracts are treated as designated as held for trading financial liabilities. All gains and losses on those liabilities, whether realised or unrealised, are recorded in operating profit in the year in which they arise.

1.7.5 *Other financial assets and liabilities*

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

1.7.6 *Off-set of financial assets and liabilities*

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

1.7.7 *Scrip lending*

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

1.8 *Investment property*

Land and buildings, including that occupied by the Company, which is held to support liabilities in respect of contracts with policyholders, are accounted for as investment property and valued at a market valuation using the discounted cash flow method of valuation, primarily by internal professional valuers. All land and buildings are valued by external valuers on a three-year cyclical basis. All gains and losses on investment property, whether realised or unrealised, are recorded in policyholders' funds in the year in which they arise.

1.9 *Owner-occupied property, plant and equipment*

Plant and equipment is stated at cost less depreciation, which is calculated so as to write off the assets over their estimated useful lives.

Owner-occupied property held in equity shareholders' funds is stated at depreciated fair value and depreciated over its estimated useful life on a straight-line basis. Any fair value changes arising on the revaluation of other owner-occupied property are credited to a revaluation reserve in equity.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

1 **Accounting policies** *(continued)*

1.10 *Intangible assets*

Intangible assets, which comprise capitalised internally generated software development costs, are stated at cost less accumulated amortisation and impairment losses. The assets are amortised over their expected useful lives, not exceeding five years, on a straight line basis through the income statement, and are carried in the balance sheet at cost less accumulated amortisation and impairment losses.

1.11 *Reinsurance*

The Company cedes insurance in the normal course of business. Reinsurance assets principally include the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the balance sheet on a gross basis.

1.12 *Foreign currency*

Foreign currency transactions and balances

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

Foreign operations

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

1.13 *Liabilities in respect of insurance contracts*

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

1.14 *Taxation*

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

A deferred tax asset on temporary differences is recognised to the extent that it is probable that future taxable profits will be available against which the associated unutilised tax losses, credits in respect of secondary tax on companies and deductible temporary differences can be utilised.

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

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

Current taxation is provided on the amount expected to be paid to or (recovered from) taxation authorities on the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

1 **Accounting policies** *(continued)*

1.15 *Provisions*

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.16 *Comparative figures*

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

2 Notes to the report of the Statutory Actuary

2.1 Valuation basis

The valuation of insurance contracts and investment contracts with discretionary participation was performed using the 'Financial Soundness Valuation' method, in accordance with PGN 104 issued by the Actuarial Society of South Africa (ASSA). This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus prescribed margins for prudence and further 'second-tier' margins. The result of the valuation method and assumptions is that profits are released appropriately over the term of each policy, to avoid premature recognition of profits that may give rise to losses in later years. Liabilities under investment contracts without participation in profits have been valued at fair value, in accordance with the Addendum to PGN104. The assets and liabilities have been valued on methods and assumptions that are consistent with each other.

2.1.1 Valuation of assets

Securities and investment properties have been valued on the bases set out in note 1.7 and 1.8.

2.1.2 Valuation of liabilities

The major classes of business have been valued as follows:

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

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

Policyholder reasonable benefit expectations were provided for by assuming that future bonuses would be declared at levels supported by the future investment return assumed, adjusted for the balance in the bonus stabilisation reserves over the next three years. The future gross investment return assumed for South African assurance business is 11% per annum (December 2003: 11%).

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

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

2.1.2 Valuation of liabilities *(continued)*

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

- Our best-estimate of future experience, as described below, plus
- All the margins prescribed by the Actuarial Society of South Africa guidelines, plus
- Discretionary margins reflecting mainly the excess of capital charges over the prescribed investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy.
- Other discretionary margins, mainly held to cover:
 - mortality and investment return margins for Group Schemes funeral policies, because of the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,
 - expense margins in the pricing basis for Employee Benefits with-profit annuities,
 - profit margins in Employee Benefits with-profit annuities to ensure that profit is released over time,
 - mortality margins on Individual Business life policies, accidental death supplementary benefits, and disability supplementary benefits, because of uncertainty about future experience, and
 - interest margins on Individual Business non-profit annuities, because of the inability to fully match assets to liabilities due to the limited availability of long dated bonds.

Liabilities include provisions to meet financial options and guarantees, and make due allowance for potential lapses and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with Old Mutual's recent experience, or expected future experience if this would result in a higher liability. In particular, allowance has been made for the expected deterioration in assured lives experience due to AIDS, and for the expected improvement in annuitant mortality.

The provision for expenses (before allowing for margins) starts at a level consistent with the Company's recent experience and allows for an 8% per annum escalation thereafter in South Africa (December 2003: 8%).

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

<i>Business unit</i>	<i>Type of investigation</i>	<i>Period of investigation</i>
Individual business	Flexi business mortality	2001 to 2002
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2001 to 2002
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency	2003
Group Schemes	Mortality	2003
	Persistency	2004
Employee Benefits	Annuitant Mortality	July 1996 to June 2000
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

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

2.1.2 Valuation of liabilities *(continued)*

<i>Business unit</i>	<i>Type of investigation</i>	<i>Period of investigation</i>
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

In addition to these detailed experience investigations, the analysis of profit provides a measure of the aggregate experience in 2004. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions.

2.2 Statutory capital adequacy requirements

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

The Board has approved the management actions that would be taken in adverse investment conditions. These include reducing surrender values in accordance with underlying asset values, reducing interim bonuses (if necessary to zero), declaring low, or if necessary, zero bonuses, and if the circumstances warrant it, removing part or all of previously declared non-vested bonuses. The nature and extent of the action that would be taken will depend on the severity of the decline in asset values and the circumstances at that time.

The investment resilience CAR is the single most significant component of the Company's CAR. The calculation of this component is based on the adverse investment scenario specified in PGN 104 occurring at the valuation date, offset by the management actions that would be taken by the Company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 20% decline in international cash, a 15% decline in property values and a 3% increase in fixed-interest yields. The management action that is assumed to be taken is the minimum that the Company would be willing to take under such conditions, and in assuming this action, the Company does not limit itself to only taking this action under such circumstances.

The offsetting management actions that are assumed in calculating the CAR vary depending on circumstances at the valuation date. More extensive action is assumed under more adverse circumstances. In calculating the CAR as at 31 December 2004 it has been assumed that:

- an average of at least 38% of accrued non-vested bonuses as at the valuation date would have been removed (December 2003: 56%); and
- for fully vested products (with no non-vested bonuses), future bonuses would have been reduced by at least an average of 1.4% per year over the following 3 years (December 2003: 2.5%),

if asset values had declined as specified as at 31 December 2004, and had not subsequently recovered.

I certify that the off-setting management actions assumed above have been approved by specific resolution by the Board of directors, and that I am satisfied that actions of at least this extent would have been taken if the asset values had declined to the extent assumed at the valuation date and not subsequently recovered. The management actions assumed would have reduced liabilities as at 31 December 2004 by R10bn (December 2003: R15bn). This in turn reduced the capital requirement by R13bn (December 2003: R20bn).

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR*) to determine the ordinary capital adequacy requirements (OCAR*), it has been assumed that assets backing the capital adequacy requirements are invested 57% in equities, 23% international cash, and 20% local cash (December 2003: 80% equities and 20% international cash). This change reflects the change in the allocation of assets backing the CAR which was implemented in 2004.

The ordinary capital adequacy requirements (OCAR*) exceeded the termination capital adequacy requirement (TCAR*), and thus the capital adequacy requirements have been based on the OCAR*.

(* As defined by PGN 104)

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

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

2.3 Changes to valuation assumptions

There were various changes and refinements to valuation assumptions and methodology. These largely offset each other resulting in a net reduction in the value of liabilities of R168 million.

The main changes were as follows:

- Best estimate mortality assumptions for Flexi and Group Schemes were reduced to better reflect ongoing mortality experience.
- Certain Individual Life lapse assumptions were revised to more closely reflect actual and expected future experience.

These were largely offset by the following changes which increased the value of liabilities:

- Mortality second tier margins were increased by R819 million so that profit continues to emerge over the terms of these policies.
- Explicit provision has been made for Greenlight premium guarantees.
- Certain Individual business surrender assumptions were revised to more closely reflect actual experience.
- Certain Individual business morbidity assumptions were increased to better reflect actual experience.

2.4 Reconciliation of operating profit

The operating profit before tax in the report of the Statutory Actuary (page 16) is reconciled with the profit on ordinary activities for the year in the income statement (page 17) as follows:

R million	2004	2003
Items in the Statutory Actuary's Report		
Operating profit before tax	3 287	3 516
Changes in valuation basis	168	(116)
Operating profit before tax and investment income shown in the income statement and in note 4.	3 455	3 400

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
3	Operating profit	2004	2003
3.1	<i>is arrived at after taking into account:</i>		
	Amortisation of capitalised software	23	23
	Auditors' remuneration	9	8
	Audit fees	7	5
	Other audit related services	1	1
	Secondments of staff	-	1
	Other non-audit related services	1	1
	Depreciation	96	108
	Interest paid	39	76
	Impairments	-	72
	Operating lease charges - equipment	90	83
	Staff costs	1 828	1 704
	(Surplus)/loss on sale of property, plant and equipment	(1)	1
	Technical and professional fees	421	355
	Monthly average number of employees	11 300	11 347

3.2 *Provision for payments in respect of the Unclaimed Shares Trust:*

In July 2004 the Old Mutual Unclaimed Shares Trust was dissolved and unclaimed dividends and interest amounting to R190 million was distributed to Old Mutual plc in terms of the Trust Deed. As a consequence of this, it was agreed that the Company would pay a similar amount to the Old Mutual Foundation and/or a similar public benefit organisation.

4 **Analysis of operating profit**

Individual business	2 491	2 430
Group business	969	988
	3 460	3 418
Shareholder services	(5)	(18)
	3 455	3 400

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

5 Investment income - equity shareholders' fund	2004	2003
Dividends	337	1 068
- listed investments	274	987
- unlisted investments	63	81
Interest received	176	164
- unlisted investments	176	164
Net rental income	4	3
Net realised gains/(losses)	1 941	(850)
Market value fluctuation	1 924	(613)
- equities	1 924	(613)
Forex gains/(losses)	17	(237)
- equities	1	207
- interest bearing instruments	16	(444)
Included in income statement	2 458	385
Net unrealised gains/(losses)		
Market value fluctuation	5 313	(2 011)
- equities	5 313	(2 011)
Forex losses	(766)	(1 098)
- equities	(760)	(1 235)
- interest bearing instruments	(6)	137
Included in the revaluation reserve	4 547	(3 109)
Investment income/(losses) from subsidiaries (included in equity shareholders' fund)		
Dividends received	-	338
Unrealised gains/(losses)	1 790	(733)
	1 790	(395)

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
6	Taxation - equity shareholders' fund	2004	2003
South African taxation			
Normal income tax	- current year	1 432	1 229
	- prior year under/(over) provision	35	(54)
Deferred taxation	- current year	(162)	(164)
	- prior year under provision	1	71
		1 306	1 082
Capital gains tax	- current year	122	7
	- prior year under/(over) provision	11	(19)
		1 439	1 070

Reconciliation of taxation rate on profit on ordinary activities

	%	%
Standard rate of taxation	30.0	30.0
Adjusted for:		
Prior year under provision	0.8	2.8
Exempt income	(1.7)	(8.5)
Disallowed expenses	1.3	(0.2)
Capital gains tax - rate difference	(7.0)	2.5
Other	0.9	1.6
Effective tax rate	24.3	28.2

Notes to the annual financial statements (continued)

for the year ended 31 December 2004

R million

7 Investments

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

7.1 <i>Analysis of investments</i>	Available for sale	Designated as held for trading	Total	2003
South African	28 819	200 009	228 828	200 025
<i>Investments in group undertakings</i>	15 316	4 464	19 780	11 081
Nedcor Ltd	10 066	429	10 495	5 700
Mutual & Federal Insurance Company Ltd	5 274	-	5 274	2 112
Old Mutual plc	-	3 961	3 961	3 343
BoE Life Ltd	20	-	20	-
Net working capital in group undertakings	(44)	74	30	(74)
<i>Other financial investment assets</i>	13 498	186 575	200 073	180 234
Equity investments - listed	8 620	93 593	102 213	94 935
- unlisted	3 580	16 439	20 019	13 220
Interest bearing instruments	27	66 876	66 903	63 976
Deposits and money market securities	1 271	9 667	10 938	8 103
<i>Investment property</i>	5	8 970	8 975	8 710
International	5 340	26 391	31 731	33 950
<i>Investments in group undertakings</i>	2 831	(13)	2 818	3 202
Old Mutual plc Medium Term Notes	2 831	-	2 831	3 481
Net working capital in group undertakings	-	(13)	(13)	(279)
<i>Other financial investment assets</i>	2 509	26 404	28 913	30 748
Equity investments - listed	65	16 243	16 308	19 865
- unlisted	2 414	4 704	7 118	5 077
Interest bearing instruments	-	3 792	3 792	3 506
Deposits and money market securities	30	1 665	1 695	2 300
	34 159	226 400	260 559	233 975
Total investments				
<i>Investments in group undertakings</i>	18 147	4 451	22 598	14 283
<i>Other financial investment assets</i>	16 007	212 979	228 986	210 982
<i>Investment property</i>	5	8 970	8 975	8 710
	34 159	226 400	260 559	233 975

Included in other financial investment assets designated as held for trading are funds amounting to R6 821 million (2003 : R6 862 million) placed with group undertakings.

In 2004, the accounting policy with respect to zero-interest policy loans has been changed so as to treat loans granted as disinvestments. The effect of this change has been a reduction in assets and policyholders' liabilities of R4 405 million (2003 : R3 746 million). There is no impact on operating profit or taxation as a result of this change.

7.2 Spread of investments in equities by sector

Resources	2 318	27 811	30 129	34 358
Basic and general industrials	1 000	10 979	11 979	10 586
Cyclical and non-cyclical consumer goods	798	9 509	10 307	9 332
Cyclical and non-cyclical services	2 355	19 248	21 603	16 140
Financials	17 531	30 287	47 818	35 835
Information technology	22	628	650	682
Unlisted shares	3 591	4 450	8 041	5 273
Unit trusts	2 424	32 457	34 881	32 046
	30 039	135 369	165 408	144 252

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

7 Investments *(continued)*

7.3 Investment properties

	2004	2003
Carrying amount at beginning of year	8 710	8 833
Additions	240	195
Disposals	(530)	(552)
Net gains from fair value adjustments	555	234
Carrying amount at end of year	8 975	8 710

8 Property, plant and equipment

Office equipment and other tangible assets

Cost	703	738
Accumulated depreciation	(462)	(481)
Carrying amount	241	257
Carrying amount at beginning of year	257	279
Additions	194	199
Disposals	(116)	(115)
Depreciation	(94)	(106)
Carrying amount at end of year	241	257

Owner-occupied property

Cost	118	109
Accumulated depreciation	-	(2)
Carrying amount	118	107
Carrying amount at beginning of year	107	95
Additions	1	5
Net gains from fair value adjustments	12	9
Depreciation	(2)	(2)
Carrying amount at end of year	118	107

Total property, plant and equipment

	359	364
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Included in the cost of owner-occupied property is land valued at R26 million (2003 : R26 million), which is not depreciated.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
9	Intangible assets	2004	2003
	<i>Capitalised software and development cost</i>		
	Cost	214	161
	Accumulated amortisation	(154)	(122)
	Carrying amount	60	39
	Carrying amount at beginning of year	39	90
	Additions	44	44
	Amortisation	(23)	(23)
	Impairments	-	(72)
	Carrying amount at end of year	60	39
10	Deferred taxation asset		
	Deferred taxation asset at beginning of year	6	125
	Current year (accrual)/release	(78)	59
	- income tax losses	60	(34)
	- STC credits	53	-
	- provisions	49	193
	- CFC deferred income	-	5
	- unrealised capital gains	(240)	(105)
	Prior year under/(over) provision	15	(178)
	Deferred taxation (liability)/asset at end of year	(57)	6
	Comprising:		
	- income tax loss	60	-
	- STC credits	53	-
	- provisions	155	106
	- unrealised capital gains	(325)	(100)
		(57)	6
11	Amounts due by group companies		
	Old Mutual South Africa Share Trust	811	811
	Old Mutual Group Achievements Limited	509	365
	Global Edge technologies (Proprietary) Limited	25	24
	Old Mutual Healthcare (Proprietary) Limited	29	38
	Old Mutual (South Africa) Limited	-	185
	Old Mutual Portfolio Holdings Limited	1 048	101
	Old Mutual Properties (Proprietary) Limited	-	22
	Old Mutual Life Assurance Company (Namibia) Limited	6	9
	Old Mutual plc	94	57
	Old Mutual Finance (Proprietary) Limited	450	250
	Other	96	31
		3 068	1 893

The loans due by group companies above are unsecured, interest free and are not subject to fixed terms of repayment.

The Company has subordinated its loans to Old Mutual South Africa Share Trust and Global Edge technologies (Proprietary) Limited for the benefit of the respective entities' creditors until such time as the assets, fairly valued, exceed the entities' liabilities.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
12	Share capital and premium	2004	2003
	Authorised share capital		
	10 000 000 ordinary shares of R1 each	10	10
	10 redeemable preference shares of R1 each	-	-
	Issued share capital		
	8 000 000 ordinary shares of R1 each	8	8
	1 redeemable preference share of R1	-	-
	Share premium	6 246	6 246
		6 254	6 254

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

The preference shares may be redeemed by the Company by giving 30 days written notice to the holder. The preference shareholder has the right to receive a dividend of R100 per share or an additional amount at the discretion of the Company's directors. The preference shareholder has full voting rights.

13 Liabilities in respect of contracts with policyholders

13.1	<i>Composition of liabilities in respect of contracts with policyholders</i>		
	Insurance contracts	152 406	143 027
	Individual	75 947	70 504
	Group	76 459	72 523
	Investment contracts	76 218	67 933
	Individual	52 922	46 607
	Group	23 296	21 326
	Liabilities in respect of contracts with policyholders per balance sheet	228 624	210 960
	Reinsurer's share of liabilities in respect of contracts with policyholders	(4 583)	(4 447)
	Net liabilities in respect of contracts with policyholders	224 041	206 513

Zero-interest loans were previously included under investments (refer to note 7.1). During the current year, the Company changed its accounting policy and now treats these as divestments. The effect of the adjustment is reflected in note 13.2 below.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
13	Liabilities in respect of contracts with policyholders		
		2004	2003
13.2	Movement in net liabilities in respect of contracts with policyholders		
	Balance at beginning of year	206 513	196 627
	Adjustment in respect of prior years	-	(935)
	Change in accounting policy for zero-interest loans	-	(3 017)
	Inflows	63 448	56 119
	Premium income	16 982	18 519
	Amounts received on investment contracts	9 436	10 467
	Investment income	36 602	26 836
	Other income	428	297
	Outgo	(45 261)	(41 552)
	Claims and policy benefits	(35 801)	(32 771)
	Operating expenses	(4 954)	(4 689)
	Currency translation loss	(30)	(51)
	Other charges and transfers	(348)	(363)
	Taxation	(614)	(435)
	Transfer to operating profit	(3 514)	(3 243)
		224 700	207 242
	Adjustment for the movement in zero-interest loans made to policyholders	(659)	(729)
	Balance at end of year	224 041	206 513
	Comprising:		
	Liabilities in respects of contracts with policyholders per balance sheet	228 624	210 960
	Reinsurer's share of liabilities in respect of contracts with policyholders	(4 583)	(4 447)
		224 041	206 513
13.3	Premium income and amounts received on investment contracts		
		South African operations	* Overseas operations
			Total 2004
			2003
	Individual business	17 778	32
	Single	7 122	4
	Recurring	10 656	28
	Group business	8 608	-
	Single	5 116	-
	Recurring	3 492	-
	Total premium income and amounts received on investment contracts	26 386	32
	Comprising:		
	Premium income	16 980	2
	Amounts received on investment contracts	9 406	30
		26 386	32
		26 418	28 986

* Comprises operations of Guernsey and Hong Kong branches. Premium income for the Guernsey branch is disclosed net of reinsurance premium.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million					
13	Liabilities in respect of contracts with policyholders	South African operations	* Overseas operations	Total 2004	2003
13.4	<i>New business on insurance and investment contracts</i>				
	<i>Life business - direct</i>				
	Individual business	8 017	10	8 027	7 511
	Single	6 207	4	6 211	5 606
	Recurring	1 810	6	1 816	1 905
	Group business	2 581	-	2 581	6 026
	Single	2 399	-	2 399	5 799
	Recurring	182	-	182	227
	Total life business - direct	10 598	10	10 608	13 537
	<i>Other life licence business - single</i>				
	Individual business	915	-	915	970
	Group business	2 717	-	2 717	3 026
	Total life licence business	3 632	-	3 632	3 996
	Total new business	14 230	10	14 240	17 533

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

13.5	<i>Investment income (included in policyholders' funds)</i>	2004	2003
	Dividends	2 667	2 818
	- listed investments	2 306	2 586
	- unlisted investments	361	232
	Interest received	7 038	7 493
	- listed investments	5 001	4 665
	- unlisted investments	2 037	2 828
	Net rental income	600	598
	Net realised and unrealised gains	26 297	15 927
	- derivative instruments	(535)	(179)
	- other	26 832	16 106
		36 602	26 836

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million			
13.5	<i>Investment income from subsidiaries (included in policyholders' funds)</i>	2004	2003
	Dividends received	141	149
	Interest received	-	18
	Realised gains	107	-
	Unrealised gains	2 694	1 124
		2 942	1 291
13.6	<i>Claims and policy benefits on insurance and investment contracts</i>		
	Individual business	17 537	17 581
	Death and disability benefits	1 931	1 917
	Maturity benefits	5 561	7 270
	Annuities	3 068	3 284
	Surrenders	6 977	5 110
	Group business	18 264	15 190
	Death and disability benefits	1 498	1 371
	Pension commutations, maturity and withdrawal benefits	1 625	1 745
	Annuities	2 647	2 428
	Surrenders	12 494	9 646
		35 801	32 771
13.7	<i>Operating expenses</i>		
	Sales remuneration	1 363	1 490
	Selling and marketing expenses	726	599
	Administration expenses	2 865	2 600
		4 954	4 689
13.8	<i>Taxation</i>		
	South African taxation		
	<i>Current</i>	612	434
	Normal income tax	161	188
	Capital gains tax	205	(103)
	Retirement fund tax	246	349
	Foreign taxation	2	1
		614	435

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

13.9 <i>Capital adequacy and ratios</i>	2004	2003
Statutory capital adequacy requirements (SCAR)	10 993	12 136
Shareholders' funds	36 418	29 062
Times SCAR covered by shareholders' funds	3.3	2.4
Shareholders' fund as a percentage of:		
Liabilities in respect of contracts with policyholders	16%	14%
Insurance contracts	24%	20%

13.10 <i>Balance sheet (extracts)</i>	South African operations	* Overseas operations	Total 2004	2003
Investments	260 188	371	260 559	233 975
Property, plant and equipment	359	-	359	364
Intangible assets	60	-	60	39
Reinsurer's share of liabilities in respect of contracts with policyholders	-	4 583	4 583	4 447
Deferred taxation asset	-	-	-	6
Current assets	7 703	30	7 733	6 987
Total assets	268 310	4 984	273 294	245 818
Equity shareholders' fund	36 402	16	36 418	29 062
Liabilities in respect of contracts with policyholders	223 747	4 877	228 624	210 960
Provisions	545	-	545	386
Deferred taxation liability	57	-	57	-
Current liabilities	7 559	91	7 650	5 410
Total equity and liabilities	268 310	4 984	273 294	245 818

* Comprises operations of Guernsey and Hong Kong branches.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

14 Provisions	Unclaimed shares	Restructuring and claims	Post-retirement benefits	Other	Total
Balance at beginning of year	-	224	17	145	386
Amount utilised	-	(15)	(2)	(48)	(65)
Notional interest	-	-	3	11	14
Released	-	(17)	28	(6)	5
Charge/(credit)	190	19	(57)	53	205
Balance at end of year	190	211	(11)	155	545

Unclaimed shares

Provision for payments to be made in respect of the Unclaimed Shares Trust (refer to note 3.2).

Restructuring and claims

The Company has recognised provisions totalling R211 million (2003 : R224 million) in relation to restructuring costs and potential claims arising in the ordinary course of business.

Post-retirement benefits

The provision for post-retirement benefits represents the present value of accrued costs relating to the employer's medical aid contributions and mortgage bond subsidy in respect of pensioners and qualifying staff members, less the fair value of applicable plan assets.

Other

Other provisions relate mainly to expenditure in connection with the discharge of responsibilities arising from undertakings made at the time of demutualisation in May 1999, and an anticipated loss relating to the matching of assets and liabilities associated with the Company's share incentive schemes.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

15	Amounts due to group companies	2004	2003
	Old Mutual Asset Managers (South Africa) Limited	22	-
	Old Mutual (South Africa) Limited	140	-
	Other	3	-
	The loans due to group companies above are unsecured, interest free and are not subject to fixed terms of repayment.		
	Subordinated loans		
	Old Mutual plc	46	51
	The loan of £4.25 million (2003 : £4.25 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.		
	Old Mutual International (Guernsey) Limited	16	18
	The loan of £1.5 million (2003 : £1.5 million) is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.		
		227	69
16	Cash (utilised)/generated by operations		
	Earnings attributable to equity shareholders' fund per income statement	4 474	2 715
	Transfer to policyholders' funds	(423)	4 757
	Adjustments for:		
	Depreciation and amortisation	119	203
	(Profit)/loss on sale of property, plant and equipment	(1)	1
	Realised gains	(10 287)	(6 202)
	Charges to/(releases from) provisions	159	(651)
	Current taxation	2 214	1 598
	Deferred taxation	(161)	(93)
		(3 906)	2 328
	Working capital changes:	572	120
	Net outstanding premiums and other debtors	(1 351)	(305)
	Outstanding claims, policyholders' benefits and other creditors	1 923	425
	Changes in other assets:	(134)	(143)
	Property, plant and equipment	(90)	(98)
	Intangible assets	(44)	(45)
	Cash (utilised)/generated by operations	(3 468)	2 305
17	Taxation paid		
	Taxation payable at beginning of year	(523)	(382)
	Taxation as per income statement and movement in policy liabilities	(2 214)	(1 598)
	Taxation payable at end of year	600	523
		(2 137)	(1 457)
18	Dividends paid		
	Dividends payable at beginning of year	-	-
	Dividends as per statement of changes in equity shareholders' fund	(1 441)	(1 994)
	Dividends payable at end of year	240	-
		(1 201)	(1 994)

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

19 Employee benefits

19.1 Pension benefits

Defined benefit and defined contribution plans, registered in terms of the relevant retirement fund legislation, provide retirement benefits for the Company's permanent employees. In terms of the Pension Funds Act, 1956 as amended, the defined benefit fund is actuarially valued every three years. The most recent valuation done in July 2003 confirmed that the fund was in a sound financial position.

19.2 Post-retirements benefits other than pensions

The Company subsidises medical aid contributions and provides mortgage bond benefits to qualifying employees beyond the date of retirement.

R million

19.3 Retirement benefit obligations - defined benefit pension plan	2004	2003
Present value of obligations	(110)	(110)
Fair value of plan assets	110	151
Net asset not recognised in the balance sheet	-	41

The net asset of R41 million in 2003 on the defined benefit scheme was not recognised on the balance sheet of the Company due to uncertainty regarding the final outcome of a Surplus Apportionment Exercise which was being carried out in terms of the Pension Fund Amendment Act of 2001. The Surplus Apportionment Exercise is still in progress and the latest indications are that the present value of the fund's obligations will be equal to the fair value of plan assets.

19.4 Post-retirement benefit obligations	2004		2003	
	Medical aid benefits	Mortgage bond subsidy	Medical aid benefits	Mortgage bond subsidy
Present value of obligations	(720)	(21)	(671)	(20)
Unrecognised actuarial losses	-	-	-	-
Fair value of plan assets	752	-	674	-
Net asset/(liability) in balance sheet	32	(21)	3	(20)

19.5 Principal actuarial assumptions at the balance sheet date

Retirement benefit obligations - defined benefit pension plan	2004	2003
Discount rate	9.0%	9.0%
Expected rate of return on plan assets	9.0%	10.0%
Expected rate of salary increases	6.0%	5.5%

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

19 Employee benefits *(continued)*

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

	2004		2003	
	Medical aid benefits	Mortgage bond subsidy	Medical aid benefits	Mortgage bond subsidy
<i>Post-retirement benefit obligations</i>				
Discount rate	9.0%	9.0%	9.0%	9.0%
Expected rate of salary increases	6.0%	n/a	5.5%	n/a
Expected rate of return on plan assets	9.0%	n/a	9.0%	n/a
Expected rate of medical inflation	9.0%	n/a	9.0%	n/a

19.6 Amounts recognised in the income statement

	2004	2003
<i>Retirement benefit obligations - defined benefit pension plan</i>		
Current service cost	3	6
Interest cost	10	10
Expected return on plan assets	(13)	(14)
Net actuarial loss recognised in year	4	(2)
Additional contribution	-	84
	4	84

	2004		2003	
	Medical aid benefits	Mortgage bond subsidy	Medical aid benefits	Mortgage bond subsidy
<i>Post-retirement benefits</i>				
Current service cost	28	-	28	-
Interest cost	1	2	67	2
Net actuarial (gain)/loss recognised in year	(37)	-	(152)	3
	(8)	2	(57)	5

20 Financial instruments and risk management

Effective risk management is integral to the Company's objective of consistently adding value to shareholders and policyholders. The focus of risk management is on identifying, assessing, managing and monitoring risk. Exposure to market risk and credit risk arises in the normal course of the Company's business.

20.1 Currency risk

The Company's policy is to hedge against certain currency exposures where assets and matching or associated liabilities are in different currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts, currency options and currency swap agreements. Investments in foreign assets are made on behalf of policyholders and shareholders for the purpose of seeking desirable international diversification of investments.

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

20 Financial instruments and risk management *(continued)*

20.2 Interest rate risk

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

The following shareholders and policyholders investments, which are held at fair value, will be directly impacted by changes in market interest rates:

R million	2004	2003
Shareholders		
Government, municipal, corporate and utility stocks	2 859	3 417
Deposits and money market securities including interest bearing unit trusts	3 636	3 249
	6 495	6 666
Policyholders		
Government, municipal, corporate and utility stocks	64 925	61 128
Debentures	333	332
Loans	6 227	2 781
Deposits and money market securities including interest bearing unit trusts	17 887	16 843
	89 372	81 084

20.3 Derivatives

Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. The Company also uses derivatives in its portfolio management to hedge against market movements in the values of investment assets and as a means of effecting a change in the asset mix of its portfolios.

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

Nominal value of derivative contracts

Non-trading contracts	Behavioural analysis				Total fair value of amounts
	Under one year	One to five years	Over five years	Total notional amounts	
R million					
2004					
<i>Equity products</i>					
Over the counter options purchased	1 857	(1 173)	-	684	2 256
Over the counter options written	(922)	(1 588)	-	(2 510)	(918)
Futures	631	76	-	707	-
Listed options	(309)	-	-	(309)	-
	1 257	(2 685)	-	(1 428)	1 338

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

R million

20 Financial instruments and risk management *(continued)*

20.3 Derivatives *(continued)*

Nominal value of derivative contracts

Non-trading contracts	Behavioural analysis			Total notional amounts	Total fair value of amounts
	Under one year	One to five years	Over five years		
2003					
<i>Equity products</i>					
Over the counter options purchased	2 416	(1 261)	-	1 155	3 455
Over the counter options written	(2 647)	(1 576)	-	(4 223)	(1 365)
Futures	(656)	-	-	(656)	(7)
	(887)	(2 837)	-	(3 724)	2 083

20.4 Counterparty analysis

Notional principal of derivatives

	2004	2003
Financial institutions	(1 825)	(3 068)
Safex	398	(656)
	(1 427)	(3 724)

20.5 Credit risk

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

The Company conducts scrip lending activities in respect of listed local equities and interest bearing instruments.

At 31 December 2004, 3.7% (2003 : 3.9%) of the market value of listed local equities held and 2.3% (2003 : 8.3%) of the value of interest bearing investments held had been lent to third parties and group undertakings.

20.6 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. All policyholders' funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that their funds will be available to pay out benefits as required by the policy contract.

20.7 Capital adequacy risk

Statutory capital adequacy requirements were covered approximately 3.3 times (2003 - 2.4 times).

20.8 Market risk

The stock selection and investment analysis process is supported by a well-developed research function. Shareholders and policyholders investments in all listed shares and unit trusts are valued at market value and are therefore susceptible to market fluctuations. Shareholders operating profit is also impacted by the effect of equity market movements on changes to policyholders. Investments subject to market risk are analysed in note 7.

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

21 **Related parties**

Transactions

Other than amounts owing to/by group companies, all transactions with group companies are conducted at arms length.

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

Holding company

The Company's immediate holding company is Old Mutual Life Holdings (South Africa) Limited, incorporated in South Africa, which holds 100% of the Company's ordinary shares. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

Subsidiaries

The principal subsidiaries of the Company are identified in note 24.

Fellow subsidiaries

The Company has reinsured substantially all of the liabilities in respect of contracts with policyholders of its Guernsey branch with a fellow subsidiary, Old Mutual International Guernsey Limited. The liabilities in respect of contracts with policyholders subject to the reinsurance agreement amounted to R4 583 million (2003 : R4 447 million).

The Company has taken out a Term Certain Linked Annuity Policy with BoE Life Assurance Company Limited (BoE) in terms of which it is an annuitant and BoE is the insurer. The policy, which involved a lump sum payment of R5 billion, was in operation from 23 July 2004 to 30 September 2008. In terms of the policy the Company will receive annuity payments as from 30 September 2003 to 30 September 2008 based on the market value of the financial instruments underlying the policy. To date annuity payments amounting to R2 billion have been received.

The Company transacts with Old Mutual Specialised Finance (Proprietary) Limited (OMSFIN) in the normal course of its investing activities subject to an approved credit limit which takes into account the nature of OMSFIN's activities. The total exposure of the Company to OMSFIN at 31 December 2004 amounts to R12 billion (2003 : R11 billion).

Directors

The directors are listed in the Directors' report.

22 **Contingent liabilities**

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

23 **Share incentive schemes**

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

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December 2004

24 Interest in principal subsidiaries	Number of issued ordinary shares	%	Carrying value of shares	Due by/(to) subsidiaries
			R million	R million
2004				
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	247 414 424	87%	5 274	8
Unlisted				
Barprop Limited	465 992	100%	(8)	23
Millstream Limited	115 000 000	100%	175	-
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	12 408	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	2 998	-
Old Mutual Technology Holdings Limited	10 000	100%	(138)	339
Omibon (No. 13) (Proprietary) Limited	100	100%	-	116
Rodina Investments Limited	100 000	100%	2 770	(1 773)
Just Now Investments (Proprietary) Limited	20 000	100%	-	179
2003				
The Company's interest in its principal subsidiary companies is as follows:				
Listed				
Mutual & Federal Insurance Company Limited	245 180 824	50%	2 112	-
Unlisted				
Barprop Limited	465 992	100%	(22)	-
Millstream Limited	115 000 000	100%	155	-
Old Mutual Fund Holdings (Bermuda) Limited	12 000	100%	10 578	-
Old Mutual Holdings (Bahamas) Limited	502 783 750	100%	3 520	-
Old Mutual Technology Holdings Limited	10 000	100%	(138)	338
Omibon (No. 13) (Proprietary) Limited	100	100%	-	113
Rodina Investments Limited	100 000	100%	2 110	(467)
Just Now Investments (Proprietary) Limited	20 000	100%	-	208