

**Old Mutual Life
Assurance Company
(South Africa) Limited**

***Annual Financial
Statements***

Registration no. 1999/004643/06

***Year ended
31 December 2000***



OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

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Corporate governance

The Board of Directors endorses the code of corporate practice and conduct recommended in the King Report on corporate governance and has satisfied itself that the Company has observed and applied the code consistently during the year under review.

The Company adopts international developments in corporate governance consistent with those of its ultimate holding company.

Financial statements

The directors are responsible for the overall co-ordination of the preparation and the approval of the annual financial statements. The independent auditors are responsible for auditing the annual financial statements and expressing an opinion thereon in the course of executing their statutory duties.

Appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements, which fairly present the state of affairs of the Company. In this process, appropriate accounting standards have been applied and adequate accounting records have been maintained.

The directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to use the going concern basis in preparing the annual financial statements.

Internal controls and risk management

The Company's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements, the management of critical risk areas and the safeguarding of its assets. These controls, 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 directors have not become aware of any material breakdown in the functioning of these controls, procedures and systems during the year under review.

The Board of Directors

The Board is constituted with an appropriate ratio of executive and non-executive directors who collectively determine major policies and strategies. The number and calibre of non-executive directors carry sufficient weight in the Board's deliberations and resolutions. Non-executive directors are independent and have no executive responsibilities within the Company. Their business experience enables them to evaluate strategy and act in the Company's best interest, thus acting as a balance to the executive directors. The Board meets regularly, at least six times per annum, to carry out its functions.

The Company has at its disposal the services of a company secretary who provides strong support to ensure the effective functioning of the Board and the proper administration of Board proceedings.

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Corporate governance *continued*

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities to safeguard the Company's assets, maintain adequate accounting records and develop and maintain effective systems of internal control. It also oversees the financial reporting process as well as compliance with Company policies, legal requirements and internal controls. The Audit Committee interacts with the external and internal auditors.

The Audit Committee, which meets at least three times a year, comprises six non-executive directors of the Board and is regulated by a specific mandate from the Board. It meets with senior management, which includes the managing director, senior executive management and the Chief Actuary. The external and internal auditors attend these meetings and have unrestricted access to the committee and its chairman.

Remuneration Committee

The Remuneration Committee, comprising four non-executive directors, is constituted as a committee of the Board and operates within terms of reference set by the Board. The responsibilities of the committee are, inter alia, to determine the remuneration and incentives in respect of the Company's executives.

Nomination Committee

The Nomination Committee, comprising three non-executive directors, is constituted as a committee of the Board and ensures that the structure, size and composition of the Board are regularly reviewed and maintained at levels which are deemed appropriate.

Internal Audit

The Company has an internal audit function. It has a specific mandate from the Audit Committee and independently appraises the Company's internal controls and accounting records, reporting its findings to management as well as the Audit 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 external auditors.

Actuarial Review Committee

The Actuarial Review Committee consists of non-executive directors, senior actuaries and executives and provides guidance to the Audit Committee of the Company. The independent auditors attend meetings of the committee. The purpose of the committee is to review, with the Chief Actuary of the Company, the suitability of the actuarial valuation basis and the accuracy of the published financial results.

Credit Committee

Credit risk is the risk of financial loss resulting from the failure of a counterparty to honour its obligations fully to the Company. 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 the asset management, legal, banking and corporate operations of the Old Mutual South Africa Group of Companies.

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 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 directors believe that the Company will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.

The annual financial statements for the year ended 31 December 2000 set out on pages 6 to 29 were approved by the Board of Directors on 22 February 2001 and are signed on its behalf by:

M J Levett
Chairman

G S van Niekerk
Managing Director

Report by the Company Secretary

I, JULIAN LAWRENCE COWBURN, in my capacity as Company Secretary of Old Mutual Life Assurance Company (South Africa) Limited, 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, and that all such returns are true, correct and up to date.

J L Cowburn
Company Secretary
22 February 2001

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Report of the independent auditors

To the member 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 6 to 29 for the year ended 31 December 2000. 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 2000 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.

KPMG Inc.

Chartered Accountants (SA)
Registered Accountants and Auditors
Cape Town

Per R M Fraser
Partner
22 February 2001

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

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 2000.

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 shareholder's 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.

Holding company

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

Subsidiaries

Details of the company's interest in principal subsidiaries are set out in note 20.

Dividends

Dividends amounting to R2 796 million (1999 - R1 366 million) were declared during the year. The income statement charge for the current year of R2 761 million includes an overprovision in the prior year of R35 million.

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Directors' report *continued*

Directors

The directors currently holding office are :

M J Levett (Chairman) ♦
W A M Clewlow (Deputy Chairman) ◇♦※
G S van Niekerk (Managing Director) *
R J A Sparks (Managing Director - Designate) *
P G de Beyer (Deputy Managing Director) *
M P Moyo (Deputy Managing Director) (Zimbabwean) *
G J Gerwel
P G Joubert ◇♦
D Konar ◇※
R C M Laubscher
C F Liebenberg◇♦
W A Mgoqi
M Morobe
J V F Roberts (British) ◇
J H Sutcliffe (British) ◇
A H van Wyk※

*Executive director

◇Members of the Audit Committee

♦Members of the Remuneration Committee

※Members of the Nomination Committee

Professor G J Gerwel and Mr M Morobe were appointed directors from 1 July 2000. Mr E E Anstee resigned on 14 September 2000 and on the same day Messrs P G de Beyer, M P Moyo, J V F Roberts and R J A Sparks were appointed directors. On 9 November 2000 Prof W L Nkuhlu resigned as a director.

Mr G S van Niekerk will retire as Managing Director effective 31 March 2001, but will continue as a non-executive director. Mr Sparks will become Managing Director from 1 March 2001. Messrs de Beyer and Moyo were appointed Deputy Managing Directors from 14 September 2000.

In terms of the Company's Articles of Association Prof G J Gerwel and Messrs W A M Clewlow, P G de Beyer, R C M Laubscher, C F Liebenberg, M Morobe, M P Moyo, J V F Roberts and R J A Sparks retire at the forthcoming Annual General Meeting but, being eligible, offer themselves for re-election.

Company secretary

Mr J L Cowburn is the company secretary.

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Cape Town
8000

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Report of the Chief Actuary

I have conducted an actuarial review of the Company as at 31 December 2000, 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 15 and 16.

Actuarial balance sheet

R million	2000	1999
Total assets per balance sheet	234 961	227 765
Provisions and current liabilities	(8 247)	(9 007)
Total assets net of provisions and current liabilities	226 714	218 758
Actuarial value of policy liabilities	(192 245)	(187 294)
Excess of assets over liabilities	34 469	31 464
The excess assets are represented by:		
Share capital and share premium	6 254	6 254
Non-distributable reserve	8 173	6 932
Distributable reserve	20 042	18 278
Total excess assets	34 469	31 464
Statutory capital adequacy requirements (included in excess of assets over liabilities)	11 378	10 580
The increase in the excess assets has arisen from the following main sources:		
Investment income on excess assets	1 771	1 403
Realised and unrealised gains/losses on excess assets	1 983	10 041
Operating profit after tax	2 127	2 122
Changes in valuation basis	(115)	(203)
Dividends	(2 761)	(1 366)
Total increase in excess assets	3 005	11 997

In my opinion, the Company is financially sound, and the actuarial balance sheet set out above, read together with the annual financial statements, fairly represents the financial position of the Company as at the valuation date.

G S PALSER

Chief Actuary

BBusSc (Hons), FIA, FASSA

Cape Town

22 February 2001

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Income statement

for the year ended 31 December 2000

R million	Notes	2000	1999
Net premium income	11.6.2	28 609	30 011
Operating profit	3	2 719	2 273
Other net expenses		(165)	(177)
		2 554	2 096
Investment return	4	2 513	4 512
Profit on ordinary activities before exceptional items and taxation		5 067	6 608
Exceptional items	5	-	650
Profit on ordinary activities before taxation		5 067	7 258
Taxation	6	(542)	(827)
Profit on ordinary activities for the year		4 525	6 431
Dividends		(2 761)	(1 366)
Retained profit for the year		1 764	5 065

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Balance sheet

at 31 December 2000

R million

Assets	Notes	2000	1999
Investments	7	229 094	220 751
Equity investments		154 411	154 974
Property investments		10 456	9 804
Interest bearing stocks, debentures and other loans		48 741	35 372
Deposits and money market securities		15 486	20 601
Fixed assets	8	291	370
Deferred tax	9	910	-
Current assets		4 666	6 644
Net outstanding premiums, accrued investment income and other debtors		3 763	5 212
Amounts due by group companies		299	98
Cash and cash equivalents		604	1 334
Total assets		234 961	227 765
Equity and liabilities			
Equity shareholder's fund		34 469	31 464
Share capital and premium	10	6 254	6 254
Non-distributable reserve		8 173	6 932
Distributable reserve		20 042	18 278
Policy liabilities	11	192 245	187 294
Deferred tax	9	-	623
Provisions	12	1 161	1 127
Current liabilities		7 086	7 257
Outstanding claims, policyholders' benefits and other creditors		4 247	6 097
Taxation		1 639	214
Shareholder for dividend		1 200	946
Total equity and liabilities		234 961	227 765

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED**Statement of changes in equity shareholder's fund***for the year ended 31 December 2000*

R million	Share capital and premium	Non Distributable reserve	Distributable reserve	Total
2000				
Equity shareholder's fund at beginning of year	6 254	6 932	18 278	31 464
Unrealised revaluation reserve		1 241		1 241
Retained profit for the year			1 764	1 764
Equity shareholder's fund at end of year	6 254	8 173	20 042	34 469
1999				
Equity shareholder's fund at beginning of year	6 254	-	13 213	19 467
Unrealised revaluation reserve		6 932		6 932
Retained profit for the year			5 065	5 065
Equity shareholder's fund at end of year	6 254	6 932	18 278	31 464

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED**Cash flow statement***for the year ended 31 December 2000*

R million	Note	2000	1999
Net cash inflow from operating activities		647	7 932
Cash generated by operations	13	4 220	8 602
Taxation paid		(1 066)	(250)
Dividends paid	14	(2 507)	(420)
Net cash outflow from investing activities		(1 377)	(6 598)
Equity investments		3 713	2 267
Property investments		(611)	(485)
Interest bearing stocks, debentures and other loans		(10 369)	(908)
Deposit and money market securities		5 890	(7 472)
Net cash flows from financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(730)	1 334
Cash and cash equivalents at beginning of year		1 334	
Cash and cash equivalents at end of year		604	1 334

Notes to the annual financial statements

for the year ended 31 December 2000

1 Accounting policies

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

1.1 Statement of compliance

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

1.2 Basis of preparation

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

1.3 Premium income and benefits paid

Premiums are recognised as income when they are receivable.

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

Premiums and benefits are shown net of reinsurance.

1.4 Investment income

Dividends receivable are recognised as income on the last date for registration. Interest is recorded on the effective yield basis and net rental income from property investments and investment expenses are recorded on an accruals basis.

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

1.5 Retirement benefit costs

Contributions to defined contribution pension schemes are charged to the income statement as incurred. Where the Company operates defined benefit pension schemes the cost of providing pensions is charged over the employees' expected working lives. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are charged against income where they relate to retired employees, and are spread over the remaining expected working lives of current employees.

1.6 Post retirement benefits other than pensions

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

1.7 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 2000

1.8 *Investments*

Investments are valued on the bases set out below. Market value is determined by the directors using, where appropriate, quoted prices or market related rates of return. Resulting gains and losses attributable to policyholders' interests are included in policyholders' funds. Realised investment gains and losses attributable to the shareholder's interests are included in the income statement. Unrealised gains or losses are included in non-distributable reserves.

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

Land and buildings are treated as investment properties and valued at a market valuation primarily by internal professional valuers. Properties are valued by independent external valuers on a cyclical basis such that the full portfolio will be covered within five years. No depreciation is provided on the properties as the directors consider that these properties are held for investment and to depreciate them would not give a true or fair view.

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

1.9 *Derivative instruments*

Derivative instruments are used to hedge against market and currency movements in the values of investment assets. Gains and losses on contracts entered into for the purpose of hedging are recognised in the income statement on the same basis and cover the same accounting period as those of the hedged items to which they relate.

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

1.10 *Scrip lending*

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

1.11 *Fixed assets*

Fixed assets are stated at cost less depreciation which is calculated to write-off the assets over their estimated useful lives.

1.12 *Policy liabilities*

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

1.13 *Foreign currency*

Foreign currency transactions

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 non-distributable reserves.

Foreign investments

Income statement items of foreign branches are translated at the appropriate weighted average exchange rates for the year. Balance sheet items are translated at the ruling exchange rates at the balance sheet dates. Translation gains and losses are disclosed as part of unrealised gains and losses on investments and included in non-distributable reserves.

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

1.14 *Deferred taxation*

Deferred taxation is calculated on the liability method on the comprehensive basis for temporary differences in the accounting and taxation treatment of items in the financial statements.

Deferred taxation debit balances arising from taxation losses are recognised to the extent that it is probable that future taxable profits will be available against which the taxation losses can be utilised.

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.

2 **Notes to the report of the chief actuary**

2.1 *Valuation basis*

The valuation was performed using the "Financial Soundness Valuation" method, in keeping with the applicable guidance notes 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 to ensure that profits are released appropriately over the term of each policy. The assets and liabilities have been valued on bases that are consistent with each other.

Valuation of assets

Investments have been valued on the bases set out in note 1.8.

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 unbundled policies (i.e. those where a portion of the premium is allocated to an accumulation account), liabilities were based on accumulation 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/accumulation account was based on the market value of assets attributable to these policies.
- For smoothed bonus policies, the account balance/accumulation account includes vested and non-vested bonuses declared to date, and provision for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) were added to ensure consistency of the value of liabilities with the value of assets.
- For conventional with-profit policies and with-profit annuities, liabilities were determined by calculating the present value of projected future benefits and expenses and, for conventional with-profit policies, deducting the present value of projected future premiums. Projected future benefits include future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves were added.
- For non-profit annuities, liabilities were determined by valuing expected future benefits and expenses at interest rates based on the bond yield curve at the valuation date.

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

2 Notes to the report of the chief actuary - continued

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
- Second-tier margins reflecting mainly the excess of capital charges over the prescribed investment margin of 0,25% for policies that are valued prospectively. These second-tier margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy.

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

Provision for expenses starts at a level consistent with the Company's recent experience and allows for a 11% escalation per annum thereafter.

The future gross investment return assumed for South African assurance business is 14% per annum.

2.2 Statutory capital adequacy requirements

The statutory capital adequacy requirements have been calculated in accordance with guidelines issued by the Actuarial Society of South Africa, and provide a buffer against future experience substantially worse than assumed in the financial soundness valuation. These requirements take account of management actions which, it is assumed, will be taken if the adverse experience occurs. These actions include the reduction in non-vested bonuses if investment markets fall substantially and do not recover within a reasonable period. The relevant actions have been discussed with and approved by the directors.

2.3 Changes to valuation assumptions

The valuation assumption changes relate primarily to a review of the valuation methodology for certain new products and resulted in an increase in liabilities of R115m.

2.4 Reconciliation of operating profit

The operating profit after tax in the report of the Chief Actuary (page 8) is reconciled with the profit on ordinary activities for the year in the income statement (page 9) as follows:

R million	2000	1999
Items in the Chief Actuary's Report		
Operating profit after tax	2 127	2 122
Changes in valuation basis	(115)	(203)
Profit after tax before investment return	2 012	1 919
Items in income statement		
Investment return	2 513	4 512
Profit on ordinary activities for the year	4 525	6 431

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million		
3	Operating profit	2000 1999
	<i>is arrived at after taking into account:</i>	
	Auditors' remuneration	11 6
	Audit fees	4 5
	Fees for other services	7 1
	Technical and professional fees	550 381
	Staff costs	914 1 106
	Depreciation	105 165
	Directors' emoluments	10 5
	For services as directors	1 1
	For other services	9 4
	Interest paid	136 146
	Retirement funding costs	37 70
	Regular cost	115 138
	Amortisation of pension fund surpluses	(78) (68)
	Post-retirement benefits charge	(56) (68)
4	Investment return: equity shareholder's fund	
	Investment income	1 771 1 403
	Dividends	1 667 1 358
	Interest received	104 45
	Net realised gains	742 3 109
		2 513 4 512
5	Exceptional items	
	Compensation from Old Mutual plc for demutualisation and listing costs	- 700
	Annuitant mortality provision no longer required	- 175
	Share placement fees	- (225)
		- 650

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

6 Taxation - equity shareholder's fund

South African taxation

	2000	1999
Normal income tax - current year	1 378	287
- prior year under/(over)provision	697	(83)
	2 075	204
Deferred taxation - current year	(1 187)	623
- prior year overprovision	(346)	-
	542	827

The current year's normal tax charge is net of tax recovered from policyholders.

The Company has Secondary Tax on Companies (STC) credits which have arisen as a result of dividends received being in excess of dividends paid in the amount of R336 million. Dividends to the value of this amount may be distributed without attracting STC.

Reconciliation of tax rate

The current year's charge as a percentage of profit before exceptional items and taxation is 10.6% (1999 : 12.5%). The main reasons for the difference between this rate and the standard rate of 30% are the underprovision in respect of the prior year, exempt investment returns and tax allowances which were previously not recognised as a deferred tax asset.

7 Investments

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

7.1 Analysis of investments

	Shareholder's fund	Policyholders' fund	Total	1999
South African	28 292	144 909	173 201	167 206
Equity investments	26 325	85 059	111 384	109 403
Nedcor Limited	14 553	1 077	15 630	12 509
Mutual and Federal Insurance Company Limited	1 896	-	1 896	1 752
Other - listed	9 305	83 202	92 507	93 833
- unlisted	571	780	1 351	1 309
Property investments	-	10 456	10 456	9 804
Interest bearing stocks, debentures and other loans	1 040	38 550	39 590	31 895
Deposits and money market securities	927	10 844	11 771	16 104
International	7 563	48 330	55 893	53 545
Equity investments	3 385	39 642	43 027	45 571
Interest bearing stocks, debentures and other loans	3 806	5 345	9 151	3 477
Deposits and money market securities	372	3 343	3 715	4 497
	35 855	193 239	229 094	220 751
Total investments				
Equity investments	29 710	124 701	154 411	154 974
Property investments	-	10 456	10 456	9 804
Interest bearing stocks, debentures and other loans	4 846	43 895	48 741	35 372
Deposits and money market securities	1 299	14 187	15 486	20 601
	35 855	193 239	229 094	220 751

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million		Shareholder's fund	Policyholders' fund	Total 2000	1999
7	Investments - continued				
7.2	Spread of investments in equities by sector				
	Mining producers and mining financial	1 956	13 275	15 231	22 097
	Banks, insurers and financial services	18 851	27 127	45 978	42 009
	Industrial	6 901	46 194	53 095	57 982
	Units, shares and participation in equity based trusts	1 288	33 884	35 172	32 519
	Other investments	727	5 298	6 025	1 666
	Preference share finance	(13)	(1 077)	(1 090)	(1 299)
		29 710	124 701	154 411	154 974

The Company's interest in its wholly owned investment subsidiaries has been apportioned across the above sectors according to the nature of the underlying assets and is disclosed gross of preference share finance.

7.3 Investments

The Company's most significant listed equity investments at 31 December 2000 are set out below and comprise in aggregate 32.6% (1999 : 32.5%) of the Company's total assets and 49.6% (1999 : 47.7%) of the Company's equity portfolio.

	2000		1999	
	Investments at market value	Percentage of total assets %	Investments at market value	Percentage of total assets %
Nedcor Ltd	15 630	6.7	12 509	5.5
Standard Bank Investment Corporation Ltd	9 297	3.9	7 685	3.3
Richemont Securities AG	7 760	3.3	7 873	3.5
Old Mutual plc	6 592	2.8	5 954	2.6
Anglo American Platinum Corporation Ltd	5 815	2.5	3 191	1.3
De Beers Consolidated Mines Ltd	4 332	1.8	3 622	1.6
Remgro Ltd	4 020	1.7	-	-
Anglo American plc	2 883	1.2	6 069	2.7
Dimension Data plc	2 826	1.2	2 457	1.1
SASOL Ltd	2 781	1.2	2 729	1.2
Imperial Holdings Ltd	2 555	1.1	2 572	1.1
South African Breweries plc	2 384	1.0	3 369	1.5
Barloworld Ltd	2 133	0.9	-	-
The Bidvest Group Ltd	2 033	0.9	2 532	1.1
Johnnic Ltd	2 010	0.9	1 719	0.8
Mutual & Federal Insurance Company Ltd	1 896	0.8	1 752	0.8
Datatec Ltd	1 212	0.5	3 114	1.4
Comparex Holdings Ltd	454	0.2	2 499	1.1
CG Smith Ltd (unbundled during the current year)	-	-	4 319	1.9
	76 613	32.6	73 965	32.5

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

7 Investments - *continued*

The Company's investment holdings are further analysed as follows. Group A comprises investments in Nedcor Ltd and Mutual & Federal Insurance Company Ltd. Group B comprises investments where the Company holds more than 20% of the voting rights and has nominated one or more directors to the board of those companies. Group C comprises all other investments. The market value of the Company's interest is the market value of all shares and loans to the relevant companies.

R million	2000		1999	
	Market value	Investment income	Market value	Investment income
Group A	17 526	765	14 261	1 124
Group B	3 824	185	8 431	679
Group C	207 744	10 157	198 059	8 417
Total	229 094	11 107	220 751	10 220

8 Fixed assets

	2000	1999
Cost	808	955
Accumulated depreciation	(517)	(585)
Carrying amount	291	370
Carrying amount at beginning of year	370	569
Additions	40	180
Disposals	(14)	(214)
Depreciation	(105)	(165)
Carrying amount at end of year	291	370

9 Deferred tax

Balance at beginning of year	623	-
Current	(1 187)	623
- utilisation of tax loss	(34)	-
- temporary differences	(1 153)	623
Prior year overprovision	(346)	-
Balance at end of year	(910)	623
Comprising:		
- transitional tax	-	1 113
- tax losses	(575)	(490)
- provisions	(384)	-
- foreign exchange gains	49	-
Deferred tax (asset)/liability at end of year	(910)	623

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million		
	2000	1999
10 Share capital and premium		
Authorised share capital 10 000 000 ordinary shares of R1 each	10	10
Issued share capital 8 000 000 ordinary shares of R1 each	8	8
Share premium	6 246	6 246
	6 254	6 254
Unissued shares		
Subject to the restrictions imposed by the Companies Act, 1973, the unissued shares are under the control of the directors, until the forthcoming annual general meeting.		
11 Policy liabilities		
11.1 Movements in policy liabilities		
Balance at beginning of year	187 294	138 040
Income	42 551	84 928
Net premium income (note 11.6.2)	28 609	30 011
Investment return (note 11.2)	13 832	54 880
Other income	110	37
Outgo	(35 321)	(33 202)
Claims and policy benefits (note 11.3)	(31 546)	(29 449)
Sales remuneration	(1 331)	(1 340)
Selling and marketing expenses	(386)	(514)
Administration expenses	(2 058)	(1 899)
Taxation (note 11.4)	(285)	(261)
Currency adjustment	725	62
Transfer of operating profits to income statement	(2 719)	(2 273)
Balance at end of year (note 11.5)	192 245	187 294
11.2 Investment return		
Investment income	9 336	8 817
Dividends	1 944	1 589
Interest received	6 706	6 518
Net rental income	686	710
Realised gains	6 141	14 976
Unrealised (losses)/gains	(1 645)	31 087
	13 832	54 880

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

11 Policy liabilities - *continued*

	2000	1999
11.3 Claims and policy benefits		
Individual business	17 243	14 882
Death and disability benefits	2 017	1 897
Maturity benefits	6 801	5 440
Annuities	3 405	3 298
Surrenders	5 020	4 247
Group business	14 303	14 567
Death and disability benefits	1 002	926
Pension commutations, maturity and withdrawal benefits	2 050	3 001
Annuities	1 792	1 632
Surrenders	9 459	9 008
	31 546	29 449
11.4 Taxation		
South African taxation	285	260
Normal income tax	26	1
Retirement fund tax	259	259
Overseas taxation	-	1
	285	261
11.5 Composition of policy liabilities		
Market related liabilities	53 550	50 182
Individual	40 192	36 227
Group	13 358	13 955
Non-market related liabilities	138 695	137 112
Individual	71 361	70 477
Group	67 334	66 635
	192 245	187 294
<i>Shareholder's fund as a percentage of:</i>		
Policy liabilities	18%	17%
Non-market related liabilities	25%	23%

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

11 Policy liabilities - *continued*

	South African operations	Overseas operations*	Total 2000	1999
11.6 Segmental analysis				
11.6.1 Long term - new business premium income				
Individual business	9 913	1 521	11 434	10 265
Single	8 027	1 512	9 539	8 438
Recurring	1 886	9	1 895	1 827
Group business	7 126	-	7 126	9 213
Single	6 624	-	6 624	8 992
Recurring	502	-	502	221
New business premium income	17 039	1 521	18 560	19 478
11.6.2 Long term - premium income				
Individual business	17 365	1 562	18 927	17 636
Single	8 027	1 512	9 539	8 438
Recurring	9 338	50	9 388	9 198
Group business	9 682	-	9 682	12 375
Single	6 624	-	6 624	8 993
Recurring	3 058	-	3 058	3 382
Premium income	27 047	1 562	28 609	30 011
11.6.3 Balance sheet (extracts)				
Investments	224 109	4 985	229 094	220 751
Equity investments	149 470	4 941	154 411	154 974
Property investments	10 456	-	10 456	9 804
Interest bearing stocks, debentures and other loans	48 741	-	48 741	35 372
Deposits and money market securities	15 442	44	15 486	20 601
Fixed assets	291	-	291	370
Deferred tax	910	-	910	-
Current assets	4 506	160	4 666	6 644
Total assets	229 816	5 145	234 961	227 765
Equity shareholder's fund	34 469	-	34 469	31 464
Policy liabilities	187 341	4 904	192 245	187 294
Deferred tax	-	-	-	623
Provisions	1 161	-	1 161	1 127
Current liabilities	6 845	241	7 086	7 257
Total equity and liabilities	229 816	5 145	234 961	227 765

* Comprises operations of Guernsey and Hong Kong branches.

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

12 Provisions	Restructuring and claims	Post retirement benefits	Pension fund	Other	Total
Balance at 1 January 2000	237	647	69	174	1 127
Amount utilised	(101)	-	-	(55)	(156)
Notional interest	-	78	13	18	109
Charge	96	(56)	115	4	159
Amortisation	-	-	(78)	-	(78)
Balance at 31 December 2000	232	669	119	141	1 161

Restructuring and claims

The company has recognised provisions totalling R232 million in relation to restructuring costs and potential claims arising in the ordinary course of business.

Post retirement benefits

The provision for post-retirement benefits represents the present value of accrued costs relating to the employer's medical aid contributions and mortgage bond subsidy in respect of current and future pensioners. Refer to note 15.2.

Pension fund

Refer to note 15.1.

Other provisions

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

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

	2000	1999
13 Cash generated by operations		
Earnings attributable to equity shareholder's fund per income statement	1 764	5 065
Transfer to policyholder's funds	6 240	18 117
Adjustments for:		
Depreciation	105	165
Capitalisation share awards	-	(214)
Loss/(profit) on sale of fixed assets	14	(15)
Realised gains attributable to shareholder	(742)	(3 109)
Realised gains attributable to policyholders	(6 141)	(14 976)
Taxation	827	1 087
Dividends	2 761	1 366
	4 828	7 486
Working capital changes:	(608)	1 116
Net outstanding premiums and other debtors	1 248	1 323
Outstanding claims, policyholders' benefits and other creditors	(1 816)	(343)
Fixed assets	(40)	136
Cash generated by operations	4 220	8 602
14 Dividends paid		
Dividends payable at beginning of year	(946)	-
Dividends as per income statement	(2 761)	(1 366)
Dividends payable at end of year	1 200	946
	(2 507)	(420)

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

15 Retirement benefit obligations

15.1 Retirement benefit costs

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 confirmed that the fund was in a sound financial position.

The actuarially determined surplus of the defined benefit and defined contribution plans amounted to R941 million at 1 July 1997. The projected unit method was used and the principal actuarial assumptions adopted were an investment return of 15%, salary increases of 14% and pensions in payment increases of 10.9%.

The costs of providing pension schemes operated for employees are charged to the income statement so as to spread the cost over the expected service lives of eligible employees of the Company. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a prepayment or provision in the balance sheet.

At 31 December 2000, the provision for pension contributions held in the Company's balance sheet amounted to R119 million (1999: R69 million). The charge to the income statement represents the regular pension cost, offset by the investment return on the surplus scheme assets, and variations from regular cost arising from the scheme's surplus being amortised on a straight line basis over the average expected remaining service lives of current employees. The amount so amortised in the current year amounted to R78 million (1999: R68 million).

15.2 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. A liability has been raised for the expected cost of these benefits in accordance with the advice of qualified actuaries and has been charged to the income statement accordingly.

16 Financial instruments and risk management

Effective risk management is integral to the Company's objective of consistently adding value to the business. The focus of risk management is on identifying, assessing, managing and monitoring risk. Exposure to currency, interest rate and credit risk arises in the normal course of the Company's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates.

The Company also uses derivatives in its portfolio management to hedge against market movements in the values of investment assets and as a means of effecting a change in the asset mix of its portfolios. Derivative financial instruments used include futures contracts, options, swaps and forward exchange contracts. Derivative instruments are purchased only from counterparties which have been approved by the Company's Credit Committee.

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

16.1 *Derivative financial instruments*

2000

1999

The principal or contract amounts of derivative financial instruments outstanding at the balance sheet date were:

Non-trading contracts

Notional principal

Over the counter options purchased	11 998	6 850
Over the counter options written	(41)	(68)
Futures	(628)	1 364
Options on futures	(25)	-
International futures	(1 992)	(273)
Warrants	3	-
	9 315	7 873

Net fair value

Over the counter options purchased	5 186	3 346
Over the counter options written	(6)	(5)
Futures	-	-
Options on futures	-	-
International futures	-	-
Warrants	1	-
	5 181	3 341

The maturity of principal or contract amounts and replacement cost of instruments was:

Equity based contracts	5 181	3 341
Under one year	238	95
One to five years	4 943	3 246

16.2 *Currency risk*

The Company's policy is to hedge against certain currency exposures where assets and matching or associated liabilities are in different currencies. Investments in foreign assets are made on behalf of policyholders and shareholders for the purpose of seeking desirable international diversification of investments.

16.3 *Interest rate risk*

The investment policies for the life and pensions business 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.

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

16 Financial instruments and risk management - *continued*

16.4 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 monitored by credit committees covering life and third party funds through a process of establishing limits for exposure and monitoring that exposure.

16.5 Liquidity risk

The Company has significant liquid resources and, through its subsidiary companies, has access to financing facilities.

16.6 Capital adequacy risk

Statutory capital adequacy requirements were covered approximately three times (1999 - three times).

16.7 Fair values

The fair values of all financial instruments are equal to carrying values reflected in the balance sheet, and have been determined by valuation against mid-market prices or by discounted forward cash flows.

16.8 Equity risk

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

17 Scrip lending

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

At 31 December 2000, 1% (1999 : 2%) of the market value of listed equities held and 0.3% (1999 : 6%) of the value of bonds held had been lent to third parties. Collateral security in the form of cash and bonds as well as guarantees had been received from third parties.

18 Related party transactions

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.

The principal subsidiaries of the Company are identified in note 20.

The directors are listed in the Directors' report.

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

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

19 Contingent liabilities

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

OLD MUTUAL LIFE ASSURANCE COMPANY (SOUTH AFRICA) LIMITED

Notes to the annual financial statements *continued*

for the year ended 31 December 2000

R million

20	Interest in subsidiary companies	Number of issued ordinary shares	Percentage held	Carrying value of shares	Due by/(to) subsidiaries
2000					
The Company's interest in subsidiary companies is as follows:					
Listed					
	Mutual & Federal Insurance Company Ltd	241 040 924	49%	1 896	(5)
Unlisted					
	Ashtree Investments Ltd	1 500 000	100%	6 805	99
	Barprop Ltd	46 599 200	100%	466	-
	Capital Securities Ltd	4 500 000	100%	5 667	2 166
	Old Mutual Technology Holdings Ltd	10 000	100%	76	(42)
	Old Mutual Bermuda Holdings (SA) Ltd	500 000	100%	9 318	256
	Rodina Investments Ltd	100 000	100%	1 542	(11)
	Other			201	(264)
				25 971	2 199

1999

The Company's interest in subsidiary companies is as follows:

Listed

Mutual & Federal Insurance Company Ltd	240 709 324	49%	1 752	(4)
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Unlisted

Ashtree Investments Ltd	1 500 000	100%	6 079	(1 456)
Barprop Ltd	46 599 200	100%	433	-
Capital Securities Ltd	4 500 000	100%	5 210	937
Old Mutual Bermuda Holdings (SA) Ltd	500 000	100%	9 096	165
Rodina Investments Ltd	100 000	100%	2 277	(69)
Other			330	48
			25 177	(379)

21 Share incentive scheme

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 funds.

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