OLDMUTUAL

PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

How we manage Discretionary Participation Business

CORPORATE

DO GREAT THINGS EVERY DAY

PLEASE NOTE:	This Principles & Practices of Financial Management document does not form a part of your contract. It is intended merely as a high-level explanation of how a particular product in which you have invested works.

PURPOSE OF THIS GUIDE

This guide explains how Old Mutual manages the With-Profit Annuity products, including:

- How do With-Profit Annuities work
- How increases are declared
- What is smoothing and what are its benefits
- What is the Bonus Smoothing Reserve
- What happens if investment returns are low or if there is a market crash
- What investments are held for the benefit of policyholders

The principles and practices described in this document are important because, although the funds are directly invested in investment markets, income increases are not directly linked to the returns achieved. Policyholders must thus rely on the life company to ensure that the income increases declared are fair in relation to the underlying investment returns.

It is also important to note that these principles and practices may need to be adapted over time to take account of changing circumstances, for example in the business, economic, or regulatory environments. Approval of any change needs to be given by the Board of Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), its Committee for Customer Affairs and Head of Actuarial Function. Once approved, these changes will be communicated to affected policyholders.

HOW DO WITH-PROFIT ANNUITIES WORK

Policyholders with an Old Mutual With-Profit Annuity are allocated investment growth in the form of annual annuity increases.

The year during which declared income increases are applied differs by product. The starting dates for these years are as follows:

Platinum Pension 2003	1 April
Platinum Pension	1 April
Platinum Pension 2003 Multi-Manager (Alexander Forbes Investments)	1 September
Platinum Pension 2003 Multi-Manager (Old Mutual Multi-Managers)	1 September
Performance Pension	1 April
Pensions OptiPlus	1 January

Policyholders each have their own income increase month. For example, if a policyholder in the Platinum Pension 2003 product has an income increase month of July, they will receive the increase that was declared in the preceding April.

SETTING INCOME INCREASES

The main objective of Old Mutual's increase declaration policy is to declare as high as possible increases without compromising the future solvency of the product.

The following are the major aspects taken into account when setting the income increases:

- The overall net investment return earned on the assets backing the portfolio (after deducting the pricing interest rate and any applicable tax, charges and expenses) since the previous income increase declaration,
- The level of the Bonus Smoothing Reserve,
- Prevailing economic conditions, including the level of inflation,
- The ability of the portfolio backing the annuity to withstand adverse changes in investment conditions,
- The income increases declared by Old Mutual's main competitors.

The pricing interest rate is the minimum net investment return that has to be earned before any income increase can be declared. No income increase will be declared that would result in the ongoing viability of any annuity being knowingly threatened.

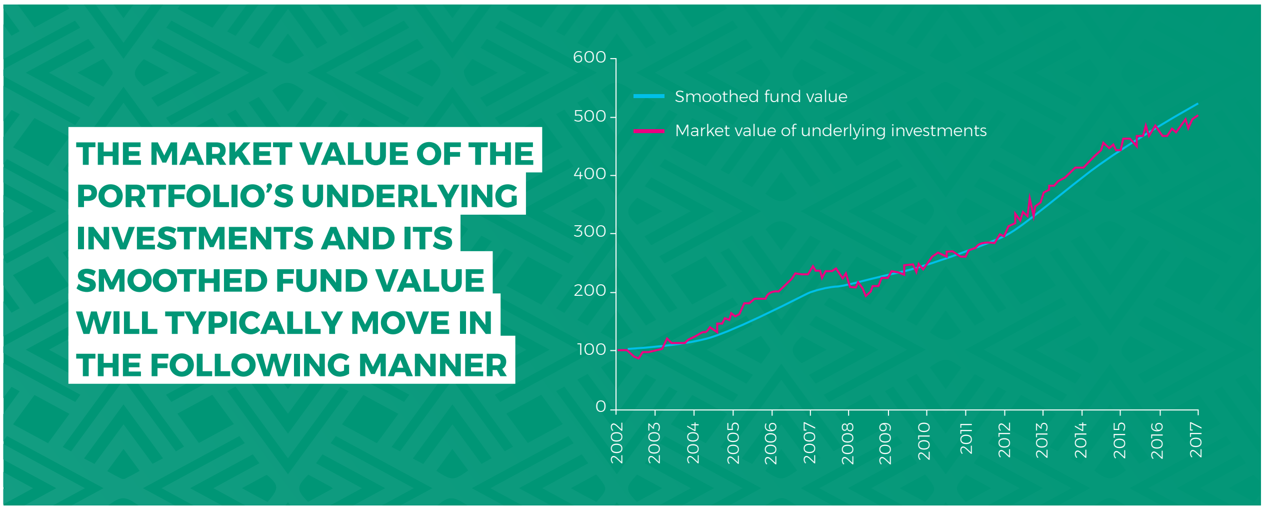
WHAT IS SMOOTHING AND WHAT ARE ITS BENEFITS

A secondary objective of Old Mutual's increase declaration policy is to grant increases in a way that reduces policyholders' exposure to market ups and downs.

This is known as "smoothing" of investment returns. During periods of relatively strong investment performance on the fund's investments, a portion of investment growth is not declared as an income increase. It is held back, so that in times of relatively poor investment performance, there are funds available to declare a higher income increase than would otherwise have been the case.

It is important to note that any funds held back in order to smooth investment returns will be used for the future benefit of policyholders within the specific product. These funds are kept completely separate from Old Mutual's shareholders' assets.

The benefits to policyholders of the smoothing of income increases include reduced exposure to the extreme ups and downs of the stock market in the short term while ensuring that the increases declared produce a broadly similar return to that of the portfolio's underlying investments over the long term.



In addition, With-Profit Annuities offer a guarantee. This guarantee is extremely valuable. It allows policyholders to have exposure to the market's growth potential, knowing that their income is guaranteed for life, and any increase, once granted, is also guaranteed for life.

WHAT IS THE BONUS SMOOTHING RESERVE

The surplus attributable to With-Profit Annuity policyholders accumulates in the Bonus Smoothing Reserve (BSR), from where increases are declared. The BSR is, in effect, the excess of the market value of assets over the total value of policyholders' policy benefits.

Old Mutual operates two Bonus Smoothing Reserves for its With-Profit Annuity products - a long-term BSR and a short-term BSR.

Part of the portfolio of assets backing the annuity payments under a With-Profit Annuity is invested in matched interest-bearing assets to provide stability to the portfolio. The long-term BSR represents the difference between the current market value of these matched interest-bearing assets and a smoothed value of those same interest-bearing assets. The effect of the long-term BSR is that support for annuity increases from the matched interest-bearing asset component of the assets emerges smoothly over the full expected lifetime of the policyholders, and is not affected by changes in the market value of the interest-bearing assets from time to time.

The short-term BSR represents the difference between the current market value of the portfolio of unmatched assets and the policyholders' policy benefits attributed to those assets.

It is important to note that any funds in either of the two BSRs will only be used for the future benefit of policyholders. Old Mutual's shareholders cannot access these funds.

The BSRs represent how much past investment returns earned have differed from past increases. The BSRs will be positive when past increases have been lower than the returns earned by the assets and can be negative when increases have been higher than the returns earned by the assets. Effectively, a positive BSR means that some good past returns have been held back, and can be paid out in future as income increases. A negative BSR means that more has previously been allocated to income increases than has been earned. This will need to be recovered in future by declaring income increases that are lower than the investment returns earned.

The short-term BSR is expected to average between 0% and 5% of the value of the product's liabilities over the longer term, but it could vary between -10% and +15% in the short term. There is no maximum for the long-term BSR, but the minimum should not be lower than -5%. Care is taken to ensure that neither BSR becomes too negative, as this would adversely affect future income increases.

WHAT HAPPENS IF INVESTMENT RETURNS ARE LOW OR IF THERE IS A MARKET CRASH

If investment conditions are extremely adverse (for example, there is a significant fall in investment values), management actions may need to be taken to ensure the ongoing viability of the With-Profits Annuity. The aim of these actions (which need to be approved by the OMLACSA Board) is to restore the level of the BSR to its longer-term target range in order that reasonable future increases can be declared.

While Old Mutual has internal guidelines, there is no absolute BSR level at which particular management actions are automatically taken - this will depend on the specific circumstances at the time. Therefore, taking the economic and investment environment into account at all times, management actions may include declaring low or zero increases and, if all other reasonable steps have been taken to reduce a product's deficit, then, on recommendation of the Head of Actuarial Function and approval by the OMLACSA Board, there shall be a transfer of assets from the shareholders to make good the deficit. Such transfers (and any investment returns earned thereon) will subsequently be returned to the shareholders if the position of the With-Profit Annuity product improves.

Guarantees provided by Old Mutual will be honoured at all times.

WHAT INVESTMENTS ARE HELD FOR THE BENEFIT OF POLICYHOLDERS

With-Profit Annuities aim to provide policyholders with smoothed income increases that offset some of the effects of inflation. To achieve this, the investments backing Old Mutual's annuities are invested in a balanced portfolio consisting primarily of bonds, but with a sizeable portion of equity, as well as smaller amounts invested in international assets and South African property. This is an appropriate holding for a pensioner-only asset portfolio.

These investments are actively managed to produce the best possible return for policyholders, without taking on too much risk.

WHERE YOU CAN FIND OUT MORE

This guide aims to provide a high-level explanation of how the With-Profit Annuities work. It only outlines the most important information.

If you are an existing policyholder, your policy documentation and/or original quote should contain additional detail about your specific product. Although every effort has been made to present information consistent with your contract, the terms and conditions in your contract will apply where these differ from this document.

A copy of Old Mutual's official Principles and Practices of Financial Management (PPFM) of Discretionary Participation Business, from which this guide is derived, is available on the Old Mutual website (www.oldmutual.co.za).

NOTE THAT IF THERE ARE ANY DIFFERENCES BETWEEN THIS GUIDE AND THE OFFICIAL PPFM, THE OFFICIAL PPFM APPLIES.

Please feel free to contact the Pencare Helpdesk on 0860 40 60 90 should you have any further questions regarding your With-Profit Annuity.

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