WITH-PROFIT ANNUITIES

PURPOSE OF THIS GUIDE

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

- How With-Profit Annuities work
- How increases are declared
- What smoothing is and what its benefits are
- What the Bonus Smoothing Reserve is
- 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 Old Mutual Board and 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 month in which income increases are declared differs by product. The increase months are as follows and are applicable for the 12 month period following the increase date:

OptiPlus	1 January
OptiSelect	1 January

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

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 and 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. The pricing interest rate currently ranges from 3.0% to 6.0%. 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.

HOW WE DECLARE BONUSES

Although the fund is invested directly in the market, because of smoothing, the bonuses declared are not directly linked to the growth earned in the market. We decide on the level of the bonuses declared. Bonuses are not guaranteed and can be removed when markets deliver very poor growth.

How we declare the bonuses may change over time because of changes in the economy.

We declare bonuses after taking a number of factors into account, for example:

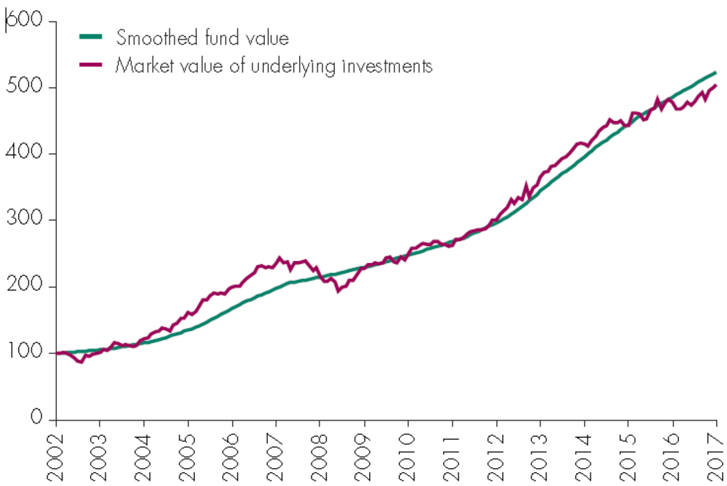
- The growth in the fund's investments.
- Bonuses declared in previous years.
- Market conditions (including inflation) and our view of them.

In February each year, an interim bonus for the year ahead and the final bonus for the past year are declared.

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.

The market value of the portfolio's underlying investments and its smoothed fund value will typically move in the following manner:



In addition, With-Profit Annuities offer a guarantee that once an increase has been granted, it cannot be removed. 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 investment returns and longevity profits attributable to With-Profit Annuity policyholders is paid into 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 funds - a long-term BSR and a short-term BSR. It is important to note that any funds in either of the two BSRs are used for the future benefit of policyholders. These funds are kept completely separate from Old Mutual's shareholders' assets.

The BSRs represent how much past investment returns earned have differed from their longer-term average. 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.

Part of the portfolio of assets backing the annuity payments under a With-Profit Annuity is invested in interest-bearing assets that are expected to provide income that matches the annuity payments made to policyholders. The long-term BSR represents the difference between the current market value of these interest- bearing assets and the future payments that are expected to be made from the With-Profit Annuity funds. The effect of the long-term BSR is that it absorbs changes in the market value of the interest-bearing assets over time and allows the increases allocated to policyholders to be fairly stable.

The short-term BSR is expected to average between 0% and 5% of the value of fund's backing the annuity over the longer-term, but it could in the shorter-term vary between -10% and +15%. There is no maximum for the long-term BSR, but the minimum would 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 MARKET RETURNS ARE LOW OR 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 Old Mutual 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 BSA levels at which particular management actions are automatically taken - this will depend on the specific circumstances at the time.

Management actions (taking the economic and investment environment into account at all times) are restricted to the declaration of low or zero increases.

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

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 Namibian 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 adopting too much risk.

WHERE CAN YOU 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 I or original quote should contain additional detail about your specific fund. 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.com.na).

Note that if there are any differences between this guide and the official PPFM, the official PPFM applies.

Please feel free to contact the Optiselect Helpdesk using the contact details provided below should you have any further questions regarding your With-Profit Annuity.

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