Old Mutual Life Assurance Company (Namibia) Ltd

Principles and Practices of Financial Management (PPFM)

April 2021

Version Control

Version	Description	Date	Author
1.0	Document created based on OMSA and OMZ PPFM.	April 2018	Carmen Forster
2.0	Document updated to include Core Growth	April 2021	Carmen Forster

Old Mutual Life Assurance Company (Namibia) Principles and Practices of Financial Management of Discretionary and participation Business

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1. Introduction

1.1 Purpose of the *Principles* and *Practices* of Financial Management

Old Mutual Life Assurance Company (Namibia) Limited (OMLACNAM) sets out to define and publicise the *principles* and *practices* of financial management (PPFM) that are applied in the management of its *discretionary* and *participation* business.

The purpose of this document is to define the *principles* and *practices* of financial management that will apply to *discretionary* and *participation* business that remained in force after demutualisation in 1999 as well as current business that was entered into after demutualisation.

The *principles* and *practices* described in this document are intended to be consistent with those that govern contracts that existed at demutualisation as detailed in the document "Principles of Financial Management" (hereinafter, referred to as the Demutualisation PPFM). The Demutualisation PPFM remains applicable to those policies that were in existence at the time of demutualisation, and will apply should there be any inconsistency between the Demutualisation PPFM and the principles and practices stated herein.

In managing its *discretionary* and *participation* business, *OMLACNAM* is bound in the first instance by the terms of its policy contracts and by applicable legal and regulatory requirements. However, *OMLACNAM* is also entitled to use discretion, particularly in the way policyholder funds are invested and in the declaration of bonuses. In using this discretion, *OMLACNAM* considers the reasonable expectations of *discretionary* and *participation* policyholders (informed by – amongst others - *OMLACNAM*'s past practice, industry practice and any communications *OMLACNAM* has made to these policyholders) as well as the objective of treating *discretionary* and *participation* policyholders fairly.

OMLACNAM is committed to assisting customers to understand how its *discretionary* and *participation* business is managed. The purpose of this document is therefore:

- to define the *principles* and *practices* of financial management that are currently applied in the management of *OMLACNAM's discretionary* and *participation* business; and
- to disclose the nature and extent of discretion used, and the parameters within which it will be used.

This document is not intended to cover every aspect of the operation of *discretionary* and *participation* business, or every issue that may affect a particular *discretionary* or *participation* policy. Furthermore, although OMLACNAM exercises discretion in the management of *discretionary* and *participation* business with the intention of achieving the objectives set out in this document, it cannot guarantee these objectives will be met in all circumstances.

The Appointed Actuary (which in this document implies the actuary to whom the Board assigns primary responsibility for reporting on the financial condition of OMLACNAM) will be responsible for satisfying himself/herself that the terms of this document are observed, and must confirm his/her satisfaction or otherwise in writing to the Board of OMLACNAM at least annually.

This document is not intended to alter the contractual rights and obligations which OMLACNAM or its *discretionary* and *participation* policyholders have under policies which OMLACNAM has issued or acquired. Should there be any conflict between this document and the policy contracts, the latter will prevail.

The specific provisions of this document may be departed from, under the following conditions:

- The Appointed Actuary may recommend a departure to the Board, after having satisfied himself/herself that the benefits that affected policyholders may reasonably expect to receive, will not be reduced as a result of the departure.
- If extraordinary circumstances arise that make it clearly inappropriate to comply with the terms of this document, the Appointed Actuary may recommend departure therefrom to the Board.

In each case, the departure must be reported to the Board of Directors.

The *discretionary* and *participation* business covered by the PPFM described in this document is listed in Appendix 1.

The *principles* and *practices* employed in managing *customised business* follow those contained in this document as far as possible, but may differ in some respects as a result of the non-standard features of that business.

1.2 *Principles* and *Practices*

Principles are enduring statements of the overarching standards which *OMLACNAM* currently adopts in managing *discretionary* and *participation* business. They describe the framework used by *OMLACNAM* for managing the discretionary aspects of its *discretionary* and *participation* business, and for responding to longer-term changes in the business and economic environment. *Principles* are not expected to change frequently.

Practices describe *OMLACNAM*'s current approach to managing *discretionary* and *participation* business and responding to changes in the business and economic environment in the shorter-term. These are intended to enable a knowledgeable observer to understand the possible risks and rewards in effecting a *discretionary and participation* policy with *OMLACNAM*. *Practices* could be altered more frequently than *principles*.

1.3 Governance arrangements

Ultimate responsibility for the governance of *discretionary* and *participation* business lies with the Board of *OMLACNAM*. *OMLACNAM* strives to manage this business in line with the PPFM. The Board of Directors considers the interests of *discretionary* and *participation* policyholders when reviewing key decisions and recommendations affecting the interests of these policyholders and they review an assessment of compliance with the PPFM submitted by the Appointed Actuary on an annual basis.

1.4 Amendments to the PPFM

The PPFM will be amended in future as the circumstances of *OMLACNAM* change or as the business or economic environments alter. Any change to a *principle* or *practice* is required to be approved by the Board, after discussion with *OMLACNAM's* Appointed Actuary. If there is a change to a *principle*, *OMLACNAM* will take reasonable steps to inform the relevant policyholders and the Regulator at least three months in advance of the effective date of the proposed change. If there is a change to a *practice*, *OMLACNAM* will take reasonable steps to inform the relevant policyholders within a reasonable period after the effective date of any such change.

2. Policyholder and Shareholder Funds

2.1 Background

Upon demutualisation the policyholder funds and corporate capital were clearly demarcated. This demarcation provided the basis on which assets and profits were divided between policyholders and shareholders. Policyholder funds included the asset portfolios backing *discretionary* and *participation* business. Corporate capital was designated as shareholder funds.

Shareholder funds represent the *required capital* in the business as well as any excess capital. The *required capital* is the minimum amount of capital that has to be retained in shareholder funds in order to make good losses that could be incurred within policyholder funds (and therefore ensure that benefit obligations to policyholders would be met) in foreseeable adverse conditions. Excess capital refers to any additional capital in the business over and above the *required capital*.

Maximum levels for capital charges were specified at demutualisation, and an undertaking was given to the then current *discretionary* and *participation* policyholders that capital charges would not be increased beyond those levels, unless the Appointed Actuary was satisfied that the benefits that affected policyholders may reasonably expect to receive would not be reduced as a result thereof or unless extraordinary circumstances arose that made it clearly inappropriate to comply with the Demutualisation PPFM.

Capital charges are calculated to provide shareholders with an appropriate return on the *required capital* held in respect of *OMLACNAM*'s *discretionary* and *participation* business.

2.2 *Principles*

Policyholder and shareholder funds are clearly demarcated and managed separately.

Policyholder funds do not participate in any *surplus*es or losses from shareholder funds, except where shareholder funds are used to support policy guarantees. Policyholder funds are charged by shareholder funds for the capital support provided to them.

2.3 *Practices*

The assets within the shareholder and policyholder funds are separately managed according to different investment mandates. The *Old Mutual Investment Group* manages most of the policyholder portfolios backing *discretionary and participation* business.

Regular capital charges are deducted from policyholder funds in return for the capital support provided by shareholder funds.

Current capital charges in respect of the various categories of discretionary participation business are set out in Appendix 2.

3. Manner in which Risks and *Surplus*es are shared

3.1 Background

The *surplus* arising in respect of a *discretionary* and/or *participation* fund in any given period is defined as the difference between the change in the value of the assets of that fund and the change in the value of the *actuarial liabilities* of *OMLACNAM* in relation to that fund over that period, including the effect of any changes in *actuarial valuation bases*. In this context, the term *surplus* includes the possibility that it may be negative; participation in *surplus* therefore implies the bearing of risk.

Specific *surplus* allocation rules were drawn up as part of the capital management framework for the mutual society in 1993. These were left substantially unchanged when the company demutualised, and continue to apply now. These rules are set out below.

3.2 *Principles*

Discretionary and *participation* policyholder funds participate in the investment *surplus* arising from the assets backing them. Certain *discretionary* and *participation* funds also participate in other elements of *surplus*, as specified in the *practices* below. All other *surplus*es are attributable to shareholder funds. The transfer of *surplus*es from policyholder funds to shareholder funds is subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities.

3.3 *Practices*

The fund for each *class* of *smoothed bonus* and *Performance Profits* business is credited with the *net* investment return arising from the assets backing it. These assets include *Bonus Smoothing Account* (*BSA*) balances (where applicable), but exclude any amounts transferred from shareholder funds as a result of a deficit arising in the policyholder fund.

Where *discretionary* and *participation* policies have clearly identifiable *non-profit rider*s (which do not form part of the *discretionary* and *participation* fund), the investment return attributable to the *rider* is not credited to the *discretionary* and *participation* fund.

With-profit annuity funds receive the *mortality surplus* and *new business profits* that is attributable to them, in addition to the *net* investment return.

All other *surplus* (e.g. in respect of expenses, mortality, disability, *termination*s, etc.) is attributable to shareholders, and may be transferred from policyholder funds to shareholder funds on the recommendation of the Appointed Actuary, following the production of interim and year-end financial results.

The arrangements in place for the sharing of surplus are shown in the table below:

Type of *Surplus*	**Ownership of *Surplus***
Investment *surplus*	All *discretionary* and *participating* funds' policyholders
Mortality profits and mortality basis change profits on *with-profits annuities*	*With-profit annuity* policyholders
Other surplus, (e.g. expenses, mortality, disability, terminations, etc.) of other *discretionary* and *participation* business	Shareholders

If following an actuarial valuation a policyholder fund is in deficit, and if all other reasonable steps (such as the removal of non-guaranteed policy balances) have been taken to reduce the deficit, then on recommendation of the Appointed Actuary and approval by the Board, there shall be a transfer of assets from the shareholder fund to the policyholder fund to make good the deficit. Such transfers (and investment returns earned thereon) will subsequently be returned to shareholder funds if and when the position of the policyholder fund improves.

The allocation of the effects of any changes in the *actuarial valuation basis* follows the above-mentioned *practices*. Generally this means that basis changes will be for the account/benefit of shareholders. The exception relates to *with-profit annuities*, where policyholder funds carry the effect of any mortality assumption changes. Any such changes require the approval of the Appointed Actuary, who should be satisfied that the changes are necessary and appropriate.

The investment return earned on assets not attributable to policyholder funds is attributable to shareholders.

4. Investment Policies

4.1 Background

Asset allocation between different asset classes (i.e. equities, bonds, property, cash and alternative assets; that are invested both locally and internationally) is expected to have a significant effect on investment return earned and therefore on benefits paid in respect of *discretionary* and *participation* business (both smoothed and market-related). Asset allocation between different asset classes also significantly affects the investment risk borne by and therefore the volatility of investment returns earned by *discretionary* and *participation* funds.

Certain of the Flexi *Performance Profits* funds are predominantly single asset class funds (i.e. World Wide Equity and Stable). In regard to such funds *OMLACNAM's* discretion in respect of asset allocation is limited to the specified asset classes. For other funds (i.e. *Performance Profits* Balanced and *smoothed bonus* funds), *OMLACNAM* has greater discretion over the asset allocation between different asset classes.

Where investment guarantees are provided to policyholders, the underlying assets can be invested in such a way as to match these guarantees, and/or shareholder capital can be held to cover the cost of these guarantees to shareholders under foreseeable adverse conditions. These two approaches are typically used in conjunction with one another. Where such shareholder capital is provided, a capital charge applies.

In order to enhance policyholder investment returns, there is likely to be some mismatch between the investment guarantees provided and the asset allocation. For a given investment guarantee, a more aggressive asset allocation (e.g. higher equity exposure) would typically result in a higher shareholder capital requirement and a higher capital charge. Similarly, a more conservative asset allocation (e.g. lower equity exposure) would typically result in a lower shareholder capital requirement and a lower capital charge.

4.2 *Principles*

The investment policy in respect of portfolios backing *discretionary* and *participation* business is aimed at maximising *net* longer-term investment returns and as far as possible providing inflation beating returns for policyholders in accordance with the risk/return profile selected by the policyholder, subject to:

- having regard to the nature of the liabilities (including investment guarantees and asset-liability matching requirements);
- compliance with prevailing legislative and regulatory requirements and industry agreements;
- holding a diversified portfolio of assets (within an asset class as well as between asset classes (where applicable)); and
- the availability of suitable assets.

4.3 *Practices*

4.3.1 Asset allocation and mandates

The underlying assets within the policyholder fund for a particular *class* of *discretionary* and *participation* business are invested in a portfolio constituted specifically for that *class*. The assets are selected by asset managers who invest in accordance with a mandate provided by *OMLACNAM*, which specifies asset allocation limits. The mandates allow asset managers limited flexibility to depart from the specified asset allocation, based on their view of the markets and where they expect to earn higher returns. Mandates are also provided to specify the investment strategy and risk limits within asset classes.

The asset allocations of Flexi *Performance Profits* funds and *smoothed bonus* funds are influenced by the level of investment guarantees provided as well as the targeted risk profile. These funds generally comprise a mix of local and international assets in a range of asset classes such as listed equities, interest-bearing assets (e.g. bonds), direct property and alternative assets (such as private equity).

Asset-liability modelling techniques, and other methods for asset classes not easily modelled, are used to assess risk and return, and therefore to set the investment mandates, which aim to balance the reasonable expectations of policyholders with the capital considerations arising out of the investment guarantees provided. *OMLACNAM* has sourced the services of a function that is responsible for setting and reviewing investment mandates in consultation with the asset manager and in doing so to consider the interests of policyholders. A designated *OMLACNAM* management committee approves their recommendations, including changes in asset allocations and benchmarks.

Investment mandates are considered for review at least annually. Although the mandates are not expected to change frequently, *OMLACNAM* may adjust these if changes occur in the regulatory, economic or investment environment, or if a change occurs in the standards of capital management (whether these be *OMLACNAM*'s internal standards or external standards set in legislation, regulations or professional guidance). For example, a significant longer-term structural reduction in the levels of inflation and interest rates would be sufficient reason to reduce equity exposure, as this would affect asset-liability matching.

The current investment objectives and mandates of the various discretionary participation funds are set out in Appendix 3.

At any given time, due to market conditions and availability of assets *OMLACNAM* may deviate from the set investment mandate provided approval has been obtained from the Appointed Actuary and the Board. The long term aim will be to invest in accordance with the investment mandate.

4.3.2 Portfolio management

The asset managers responsible for policyholder funds are instructed that all investment decisions taken with respect to policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of the specified investment mandates.

All potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders have an interest must be disclosed to the Appointed Actuary (who will report these to the Board). If the potential conflict of interest is material, approval by the Board is required. Any such transactions are conducted on arms-length terms and only when the asset manager is satisfied that such investments are in the interest of policyholders.

Physical restrictions as well as procedures relating to the control and management of information are in place:

- to prevent information in one part of the *Old Mutual Group* being used in another part of the group in contravention of *Insider Trading* legislation, and
- to prevent possible conflicts of interest arising in the investment decisions taken by *the Old Mutual Investment Group*.

4.3.3 Investment in related parties

Major investments in and loans to *Old Mutual Group* companies are conducted on arms-length terms and only when the asset manager is satisfied that such investments are in the interests of the policyholders.

4.3.4 Derivatives

Derivatives may be used to hedge exposure in portfolios backing *discretionary and participation* business. Derivative instruments can only be used for the purpose of reducing certain types of investment risk, efficient portfolio allocation and yield enhancement. Derivatives may not be used to speculate.

4.3.5 Return enhancement strategies

OMLACNAM may from time to time engage in strategies (such as *scrip lending* and the *sale of dividend rights*) to enhance returns for *discretionary* and *participation* policies without exposing them to undue risk. This is done in a way that does not impact on the asset manager's ability to manage the relevant *discretionary* and *participation* funds. The relevant *discretionary* and *participation* policies receive the return earned from the return enhancement strategy, net of the fee charged by *OMLACNAM*'s agent. The fee arrangement is reviewed by *OMLACNAM*'s Board and is approved by the Board if it is satisfied that the arrangement compares well with market benchmarks.

4.3.6 Credit and concentration risk

OMLACNAM is required to comply with credit policies and procedures, and management committee structures are in place to provide credit oversight, governance and monitoring. Investment mandates for *discretionary* and *participation* portfolios contain explicit limits on credit and concentration risk.

Exposure to counterparties and aggregate exposures are monitored by the designated *OMLACNAM* management committee referred to in Section 4.3.1 on an ongoing basis to ensure compliance with mandates and all requirements set by *OMLACNAM*. Where excessive concentration risk exists, this will be fed back to the asset managers, steps to correct the excessive concentration will be recommended and, where necessary, investment mandates will be amended accordingly so that exposure is reduced.

The credit review process is ongoing and market information is analysed in order to assess and report a possible change in credit quality that may have an impact on the original credit risk assessment.

4.3.7 Liquidity risk

Investments may include assets which have limited liquidity. *OMLACNAM* monitors and assesses the liquidity risk associated with such investments, including in relation to the expected and stress-tested cash flow experience of policyholder portfolios.

5. *Smoothed Bonus* Declarations and *Smoothed Bonus* Management

5.1 Background

The *surplus* attributable to each *class* of *smoothed bonus* policy is credited to the *Bonus Smoothing Account* (*BSA*) for that *class*, from which bonuses may be declared. Bonuses declared usually differ from the *net* investment return earned in a period, so as to reduce the impact of shorter-term volatility on policyholders. In periods when above average investment returns are earned, the bonus declared tends to be lower than the *net* investment return earned, and in periods when below average investment returns are earned, the bonus declared tends to exceed the *net* investment return earned. The nature of *smoothed bonus* business is such that there may be cross-subsidies between different generations of policies within a *class* of this type of business.

A positive *BSA* balance represents *surplus* attributable to *smoothed bonus* policies that has not yet been declared as bonuses. It is available to support subsequent bonus declarations. A negative *BSA* balance means that more has been declared as bonuses to policies than has been earned to that date (as a consequence of the smoothing process). The deficit will be recovered from future *net* investment returns (i.e. future bonuses will be less than the *net* return earned). *BSA* balances are part of policyholder funds and cannot therefore be accessed by shareholders. Policyholders, in turn, have no entitlement to share in *BSA* balances other than through the bonus declaration process.

Bonuses can be declared in vested form (which is guaranteed), in non-vested form (which is not guaranteed), or in a combination of vested and non-vested form, depending on the product. Once declared, vested bonuses form part of the guaranteed benefits of the *smoothed bonus* policy and cannot be removed from normal contractual benefit payments (e.g. upon death or maturity). However, vested bonuses may be removed on early *termination* or on *alteration* of the policy. Non-vested bonuses (which are also known as *final bonuses*, claim bonuses or capital bonuses – depending on the product) are not guaranteed and may be removed wholly or in part to ensure the *solvency* of the policyholder fund in adverse circumstances. Declaring part of the bonus in non-vested form enables *OMLACNAM* to give policyholders the benefit of higher exposure to more volatile growth assets (such as equities and property), which in the longer-term are expected to earn higher returns than interest bearing assets.

5.2 *Principles*

The main objective of *OMLACNAM's* bonus declaration policy for *smoothed bonus* business is to distribute over time to each *class* of *smoothed bonus* business the *net surplus* attributable to that *class*, while significantly reducing the shorter-term fluctuations in bonuses which would be experienced if bonus declarations followed volatile market returns.

Bonuses are declared such that for each *class* of *smoothed bonus* business:

- *BSA* balances remain within acceptable limits under prevailing economic and market conditions after the bonus declaration;
- an appropriate proportion of total *policy value*s is held in non-vested form, where applicable; and
- the returns provided to policyholders are competitive (subject to the above).

No bonus will be declared that would result in the ongoing viability of a *class* of *smoothed bonus* business being knowingly threatened.

Where a policy contract entitles *OMLACNAM* to declare a portion of the bonus in non-vested form, *OMLACNAM* will determine an appropriate portion to declare in that form.

The impact of smoothing bonuses is borne by each *class* of *smoothed bonus* policies.

For certain *class*es of *smoothed bonus* business where investment guarantees are given to policyholders (specified in Appendix 1) in the normal course of events the cost of such guarantees will be carried by the relevant *class* of policies. An example of such a guarantee is the guaranteed return of contributions. Shareholders carry the cost of investment guarantees if the *BSA* becomes unacceptably negative and remains so after appropriate management actions have been taken. For other *class*es of *smoothed bonus* business (identified by an asterisk in Appendix 1), the cost of investment guarantees will be carried entirely by shareholders. Shareholders carry the cost of other guarantees.

5.3 *Practices*

5.3.1 *Bonus Smoothing Account*s (*BSA*s)

*BSA*s are maintained for each *class* of *smoothed bonus* business. This ensures that the *net* investment returns earned on each *class* of *smoothed bonus* business are earmarked to provide bonuses for that *class*.

*BSA*s for certain *classes* of business may be combined, provided there are clear links between the bonus rates, the *surplus* participation *practices* are consistent with each other, and equity is achieved between the *classes* that are being combined.

The *BSA* of each *class* of *smoothed bonus* business is credited with the *surplus* or deficit that is attributable to that *class* as described in section 3, and is debited with the cost of bonuses declared, the part of the cost of any investment guarantees that applies to that *class*, the cost of *interim bonus*es (which apply to benefit payments between bonus declaration dates), and any other applicable charges.

A transfer between the *BSA*s of different *class*es of *smoothed bonus* business is not precluded, but will only happen in limited circumstances. This could, for example, occur:

- where a policyholder transfers from one *class* of *smoothed bonus* business to another;
- where one *class* of *smoothed bonus* business is merged with another (as described in section 9.3.4); or
- where the last policyholder exits a *class* of *smoothed bonus* business, leaving a residual *BSA* available for transfer to another *class*.

5.3.2 Bonus declarations

Bonuses are declared periodically at the discretion of the Board. These bonuses are recommended by the Appointed Actuary and are reviewed by the designated *OMLACNAM* management committee. The bonus accrual period depends on the *class* of business, and varies from three-yearly to monthly.

The current bonus accrual periods for different *classes*, together with the effective dates of increases, are set out in Appendix 4. Bonuses for *classes* that have monthly bonus accruals and those for certain minor *classes* (specified in the same document) are approved by the Appointed Actuary and are reported to the Board at least annually for noting.

The average *BSA* (expressed as a percentage of total vested and non-vested liabilities, other than the *BSA* itself) for all *smoothed bonus* business is expected to be between 0% and +5%

in the longer-term. Due to market volatility, shorter-term movements of *BSA*s within the range of -15% to +20% would not be unexpected. There is, however, no guarantee that movements outside of this range could not occur in extreme circumstances.

OMLACNAM's practice is to ensure that the *BSA* after a bonus declaration is at a level that appropriately reflects the extent to which cumulative investment returns earned by the *smoothed bonus* fund differ from their longer-term average. The *BSA* should thus be more positive when cumulative investment returns are greater than their longer-term average, and can be negative when cumulative investment returns are less than their longer-term average. Care is taken to ensure that the *BSA* does not become too negative, as this would adversely affect future bonuses for remaining policyholders. The *BSA* is regarded as unacceptably negative if the Appointed Actuary is unable to justify treating it as a negative liability in the light of current reserving standards to which he or she is subject.

Policies must have a non-zero positive balance in the relevant *smoothed bonus* fund on the date that the bonus is credited to policies, in order to receive a declared bonus.

Special considerations for specific products

Absolute Growth Portfolios

Three options are available, with different bonus targets and capital guarantees. Bonus rates are calculated according to a formula specified in the contract. OMLACNAM does, however, reserve the right to depart from the formula and to use discretion, where appropriate. OMLACNAM only expects to use its discretion to depart from the formula if following the formula would have resulted in the BSA being inappropriately negative or positive. If and when OMLACNAM departs from the formula, this fact and the reasons for doing so will be disclosed.

Core Growth Portfolios

Two options are available, with different bonus targets and capital guarantees. Bonus rates are calculated according to a formula specified in the contract. OMLACNAM does, however, reserve the right to depart from the formula and to use discretion, where appropriate. OMLACNAM only expects to use its discretion to depart from the formula if following the formula would have resulted in the BSA being inappropriately negative or positive. If and when OMLACNAM departs from the formula, this fact and the reasons for doing so will be disclosed.

With-profit annuities

Different categories of with-profit annuities are priced at different interest rates (for example, 3.5% or 6%). The pricing interest rate is deducted from the *net* investment return earned in determining the surplus available for bonuses, as this interest rate has already been considered in determining the annuity instalments.

Two *BSA*s are maintained for with-profit annuities – a long-term *BSA* and a short-term *BSA*. Part of the asset portfolio backing with-profit annuities is invested in matched bonds to ensure that cash flow is available over the full period for which annuities are expected to be paid. The long-term *BSA* represents the difference between the current market value and the amortised value of the matched bonds.

Special considerations for specific products (continued)

The effect of the long-term BSA is that support for bonuses from the matched bonds emerges smoothly over the full period for which annuities are expected to be paid, and is not affected by changes in the market value of the bonds from time to time. The short-term BSA represents the remaining difference between the market value of the assets (i.e. excluding the long-term BSA) and the value of the annuity liabilities, and largely represents the effect of shorter-term equity volatility. The short-term BSA (expressed as a percentage of liabilities) is expected to average between 0% and +5% over time. In the shorter-term, due to market volatility, movements in the short-term BSA within the range of -10% to +15% would not be unexpected. The level of the long-term BSA depends on interest rate movements, and there are no specified limits.

Conventional *Reversionary Bonus* business

The *reversionary bonus* rates on this business determine the guaranteed portion of the total pay-out, and are not normally changed from one bonus declaration date to the next, unless there is a significant change in circumstances (such as a significant fall in asset values, a significant longer-term structural reduction in interest rates, or a significant change in the applicable tax rate or basis). When such a change occurs, *reversionary bonus* rates are reviewed, considering the future after-tax investment return expected to be earned on the underlying assets in the longer-term, such that the targeted proportion of guaranteed benefits remains similar to what it would have been before the change.

The *final bonus* rates, which determine the non-guaranteed portion of the total payout and are set for each year of commencement, are based on a smoothed *asset share* (net of charges) for policies maturing at that time. A smoothed *asset share* is calculated for each year of commencement for a policy about to mature by accumulating net premiums from commencement. The accumulation is at a smoothed investment return equal to the Flexi *Smoothed Bonus* rate for the corresponding tax class plus 0.5% p.a., reflecting the difference in policy charges between the two portfolios. The *final bonus* rate is based on the difference between the smoothed *asset share* and the guaranteed benefits for each year of commencement.

5.3.3 Vested and non-vested bonuses

Where *OMLACNAM* is entitled to declare a portion of bonus in non-vested form, the following are major considerations in determining the portion of the declared bonus that is vested:

- The investment income portion of the total return earned (net of applicable charges and costs) by the *smoothed bonus* business over the relevant period.
- The level of accrued vested balances relative to the corresponding liabilities (both before and after the proposed bonus declaration), which drives the ability of the *smoothed bonus* fund to withstand adverse changes in investment conditions.
- The economic outlook, including its uncertainty.
- The asset mix and potential fall in asset values of the underlying *smoothed bonus* portfolio.

The portion of the declared bonus that is non-vested is the difference between the total declared bonus (determined as described in section 5.3.2) and the vested portion of the bonus.

The target level of non-vested liabilities, expressed as a percentage of the corresponding total liabilities (excluding the *BSA*), would normally be 25% to 35% for open portfolios under conditions of relatively high (more than 50%) equity exposure and/or volatile economic conditions. For portfolios closed to new business the proportion of non-vested bonuses can be higher than for open portfolios. There is, however, no guarantee that movements outside this range could not occur in extreme market circumstances.

Non-vested balances will be removed wholly or in part by the Board, on recommendation of the Appointed Actuary, and added back to the *BSA*, if the *BSA* becomes unacceptably negative and in the opinion of the Board there is no reasonable prospect of otherwise restoring the *BSA* to an acceptable level within the ensuing three years. The level of *BSA* is regarded as unacceptably negative if the Appointed Actuary is unable to justify treating it as a negative liability in the light of current reserving standards to which he or she is subject. Once the significant step of removing non-vested balances is required, enough will be removed (if possible) to bring the *BSA* back to a level close to zero.

Should conditions improve sufficiently within a short period (such as six months) following the removal of non-vested balances, these balances will be added back (wholly or in part) to policy accounts, considering any bonuses declared in the interim. If conditions do not improve sufficiently within such a short period, the removal of non-vested balances will become permanent and any subsequent improvement will be reflected in normal bonus rates.

Special considerations for specific products

Absolute Growth Portfolios

Depending on the guarantee option chosen under this product, 50%, 80% or 100% of policy balances are vested.

Core Growth Portfolios

Depending on the guarantee option chosen under this product, 90% or 100% of policy balances are vested.

Retail Affluent Market New Generation Smoothed Bonus Policy

The policy balance for the Retail Affluent Market *Smoothed Bonus* Fund is 70% vested.

With-profit annuities

With-profit annuity bonus rates are fully vested.

Retail Mass Market Savings

Bonuses for the Retail Mass Market Savings series launched in July 2005 are all non-vested.

5.3.4 3Interim bonuses payable on claim or *termination*

Interim bonus rates, where applicable, apply for the period from the most recent bonus declaration date to the date of claim or *termination*, where this occurs before the next bonus declaration.

The following aspects are considered when setting *interim bonus* rates:

- If the *BSA* is at or above its longer-term average, the *interim bonus* should provide (as far as possible) a reasonable return compared with inflation, in respect of the period from the last bonus declaration date, for policies that become claims or that terminate before the next bonus declaration date. If the *BSA* is below its longer-term average, the *interim bonus* would be reduced accordingly.

- *Interim bonus* rates are reviewed at least quarterly and may be changed at any time between bonus declaration dates in the light of investment returns actually earned and the level of the *BSA*.
- *Interim bonus* rates are set prudently to minimise the possibility that *interim bonus* rates are reduced before the bonus declaration, or that declared bonuses are lower than *interim bonuses*.

5.3.5 Management actions in adverse conditions

In adverse conditions, management actions (as approved by the Board) will be taken to ensure the ongoing viability of *smoothed bonus* business. The aim of these actions is to restore the level of the *BSA* to its longer-term target range. Adverse conditions include adverse investment conditions (such as a significant fall in asset values) and, in the case of *with-profit annuities*, a significant improvement in mortality (i.e. annuitants living considerably longer than expected). While *OMLACNAM* has internal guidelines, there are no absolute *BSA* threshold levels at which particular actions are automatically taken to restore the *BSA* to its longer-term target range, as this will depend on the specific circumstances at the time.

If the *BSA* becomes increasingly negative, the extent of management action will become more pronounced, and will include some or all of the following remedial steps, taking due account of the economic and investment environment:

- *Termination* values will be reduced by the application of *market value adjustment*s when the *BSA* is negative (as described in section 7.3.1).
- *Interim bonus*es may be reduced.
- Low or zero bonuses may be declared.
- The non-vested portion of a policy (or part thereof) may be removed (as described in section 0), or a negative bonus may be declared (where allowed in terms of the policy contract).
- If after the removal of non-vested balances, the Board does not consider it possible to restore the level of the *BSA* to zero during the ensuing three years, shareholder capital will be used to provide support to the relevant policyholder funds for as long as this is necessary. If and when the *BSA* position improves, the capital provided will be returned to shareholder funds with any returns earned on that capital.

6. Bonus Declarations on Flexi *Performance Profits* Business

6.1 Background

Flexi *Performance Profits* policies are *discretionary and participation* policies, where bonuses are declared monthly, and where these bonuses closely follow (but do not necessarily equal) underlying investment returns net of applicable costs and charges. These monthly bonuses can be positive or negative. Some policies in certain investment portfolios provide minimum guaranteed values on claim (e.g. maturity or death). The investment return attributable to each *class* of Flexi *Performance Profits* policies is credited to the bonus account for that *class*, from which bonuses may be declared.

6.2 *Principles*

The main objective of *Old Mutual's* bonus declaration policy for Flexi *Performance Profits* business is to declare monthly bonuses for each *class* of Flexi *Performance Profits* business similar to the *net surplus* attributable to that *class*, without removing the impact of shorter-term market volatility.

Where investment guarantees are given to *Performance Profits* policyholders, in the normal course of events the cost of such guarantees will be carried by the relevant *class* of policies through the monthly bonus declaration process. Shareholders carry the cost of investment guarantees if the bonus account becomes unacceptably negative and remains so after appropriate actions have been taken to ensure the ongoing viability of that *class* of business. Shareholders also carry the cost of non-investment guarantees.

6.3 *Practices*

6.3.1 Bonus accounts

Bonus accounts are maintained for each *class* of Flexi *Performance Profits* business. This ensures that the *net* investment returns earned on each *class* of Flexi *Performance Profits* business are earmarked to provide bonuses for that *class*.

The bonus account of each *class* of Flexi *Performance Profits* business is credited with the *net* investment return that is attributable to that *class*, and is debited with the cost of bonuses declared, the part of the cost of any investment guarantees that applies to that *class*, and any other applicable charges.

A transfer between the bonus accounts of different *class*es of Flexi *Performance Profits* business is not precluded, but will only happen in limited circumstances. This could, for example, occur where a policyholder transfers from one *class* of Flexi *Performance Profits* business to another.

Should the bonus account for any *class* of Flexi *Performance Profits* business become unacceptably negative, consideration will be given to the most appropriate way to restore the bonus account to an acceptable level, considering the circumstances that led to the negative position. This could include transfers between *class*es of Flexi *Performance Profits* business or a transfer from shareholder funds. The level of the bonus account is regarded as unacceptably negative if the Appointed Actuary is unable to justify treating it as a negative liability in the light of current reserving standards to which he or she is subject.

6.3.2 Bonus declarations

Market-related bonuses are declared on a monthly basis, based on the level of the bonus account shortly before the end of each month. Therefore, although the bonuses declared reflect the *net* returns earned on the underlying assets, there may be some differences between the *net* returns earned in a particular month and the bonuses declared on this business in that month.

7. *Termination*s and *Alteration*s

7.1 Background

Certain contracts (particularly certain older contracts) do not specify how the benefit payable on *termination* of the contract will be determined, nor do they specify how benefits will be adjusted when a policy contract is amended. In such cases, *OMLACNAM* usually has discretion in determining *termination* values or adjusted benefits, as the case may be.

If a policyholder terminates a *smoothed bonus* policy at a time when the *BSA* for the *class* of business is negative, a *market value adjustment* is applied to the *book value* to provide a *termination* value consistent with the *market value* of the policy.

If a policyholder terminates a Flexi *Performance Profits* policy at a time when the market value of the underlying assets in which the fund is invested is lower than the liabilities of the fund, a *market value adjustment* is applied to provide a *termination* value consistent with the *market value* of the policy.

It may be necessary to apply a *market value adjustment* to ensure that neither the security of nor the return to continuing policies is adversely affected by paying *termination* values significantly in excess of the market value of the underlying assets. The size of any *market value adjustment* applying to *termination*s will vary as the value of the underlying assets changes.

7.2 *Principles*

OMLACNAM aims to provide *termination*, *paid-up* and other *alteration* values that provide reasonable values to affected policyholders, without prejudicing other policyholders who continue to meet their contractual obligations, subject to any regulatory or legal constraints.

7.3 *Practices*

7.3.1 *Market value adjustments*

Smoothed bonus business

*Market value adjustment*s are applied on *termination* of *smoothed bonus* business if the *BSA* is negative. They are set by reference to the value of the underlying assets in which the fund is invested. If *termination* values are adjusted downwards because of depressed asset values, the consequent reduction in *termination* values paid out will be credited to the *BSA*. The *market value adjustment* will not apply for risk benefits, maturity benefits, and any other scheduled benefits.

For group business, an underlying *market value* is maintained in respect of each policy. Some group business contracts refer to a cash value rather than *market value*, with the calculation of the cash value specifically defined in these contracts. The *termination* value is the lower of the underlying *market value* (or cash value) and the policy's *book value*. The *market value adjustment* thus takes place automatically. The *book value* may be paid even if it is higher than the *market value* (or cash value) at that time in the following circumstance:

- For group *with-profit annuity* business, *OMLACNAM* may elect to pay the *book value*, with payments spread evenly over 10 years, where the contract so specifies. The policy continues to participate in normal bonuses during the 10-year payment period.

For individual business, *market value adjustments* are made with reference to the aggregate *BSA* for *related classes* of business. Changes to the *market value adjustment* are made in steps of 5%, with reference to the aggregate level of the *BSA*, to avoid daily changes and to minimise differences between *termination* values quoted shortly before *termination* and actual values subsequently paid. This means that the amounts paid could be higher or lower than the market value of the underlying assets.

Flexi *Performance Profits* business

Since bonuses for Flexi *Performance Profits* business are declared monthly, *market value adjustment*s are applied on *termination* of this business during a month where the value of the underlying assets in which the fund is invested is lower than the value of liabilities. Changes to the *market value adjustment* are made in steps of 5% or 10%, with reference to the level of the asset shortfall, to avoid daily changes and to minimise differences between *termination* values quoted shortly before *termination* and actual values subsequently paid. This means that the amounts paid could be higher or lower than the *market value* of the underlying assets.

7.3.2 ***Termination*s**

Where *termination* values are determined at the discretion of *OMLACNAM*, these are determined in accordance with the provisions of the *Long-term Insurance Act* and the Regulations under the *Long-term Insurance Act*. These *termination* values consider:

- the recovery of unamortised initial expenses (where relevant);
- any disinvestment charge or *termination* administration fee payable; and
- any *market value adjustment* applicable.

It must be noted that there are products covered by this PPFM where terminations are not allowed, such as OptiPlus and OptiSelect.

7.3.3 ***Alteration*s**

Where *policy values* following policy *alterations* are determined at the discretion of *OMLACNAM*, these are determined in accordance with the provisions of the *Long-term Insurance Act* and the Regulations under the *Long-term Insurance Act*.

*Policy value*s following policy *alterations* (including making a policy *paid-up* and increasing or reducing the sum assured or premiums payable under the policy) are calculated:

- to be supportable by the market value of the assets underlying the policy at the *alteration* date on the basis of expected future experience;
- to consider the recovery of unamortised initial expenses (where relevant); and
- to allow for an *alteration* fee;

and, as far as possible:

- to be consistent with projected maturity values, for policies that are close to maturity; and
- to result in *termination* values immediately before and after the *alteration* being similar (i.e. to result in *termination* values not changing materially due to the *alteration*).

8. Charges

8.1 Background

This section discusses those charges that *OMLACNAM* has the discretion to set or vary.

Capital charges are calculated to provide shareholders with an appropriate return on the *required capital* in respect of *OMLACNAM*'s *discretionary* and *participation* business.

Certain policy contracts permit charges for expenses and insurance cover to be amended at the discretion of *OMLACNAM*.

OMLACNAM has discretion as to how the tax payable is recovered from policyholder funds. Tax application will change if the tax laws of the country change.

The principles agreed upon at demutualisation allowed for tax to be allocated to then current policyholders on the same basis as prior to demutualisation, with any balance of tax being attributed to shareholders. These principles further allowed the Appointed Actuary to recommend a fair basis of allocation in the event that the tax rate or basis changed.

8.2 *Principles*

Where *OMLACNAM* has the discretion to set or vary charges, it will do so on the basis of the following *principles*:

- Capital charges will only be amended if the benefits that affected policyholders may reasonably expect to receive will not be reduced as a result of the amendment, or if extraordinary circumstances arise. (Extraordinary circumstances usually refer to a significant fall in investment markets.)
- Expense and insurance charges will be set to cover expected costs plus a margin. The size of the margin will depend on competitive pricing considerations.
- Namibian Dollar-based expense charges will be increased in line with inflation.
- Beyond this, expense and insurance charges will only be increased if actual experience in respect of expenses or insurance claims deteriorates. The wish to increase shareholder profit is not sufficient reason to increase charges.
- Investment fees paid to asset managers will be market-related.
- Tax charges and tax credits will be applied separately in respect of the different components of the tax formula, such that the overall effect is consistent with the expected tax payable in respect of policyholder funds.

8.3 *Practices*

8.3.1 Expense and insurance charges

Certain policy contracts permit charges for expenses and insurance to be amended periodically. Investigations into the actual cost of expenses incurred and cost of death, disability or other such benefits paid are conducted on a regular basis. These costs are compared with the current level of policy charges in respect of expenses and risk. If the charges are found to be insufficient, the charges may be increased. This is subject to the Appointed Actuary being satisfied as to the reasonableness of such adjustments in the light of actual past and expected future experience.

Furthermore, expense charges expressed as a Namibian Dollar amount are amended annually (where policy contracts permit this) with reference to the rate of inflation. For the new generation products, this is linked to the Namibian Consumer Price Index, as published by the Namibian Statistics Agency. For historic reasons the increase applied to the expense charges of older products are linked to the South African inflation rate.

8.3.2 Allocation of expenses

The Appointed Actuary should be satisfied with the allocation of expenses between classes of policy.

8.3.3 Investment fees and expenses

Fees in respect of the management of policyholder funds are deducted from the investment returns earned on these funds. As the asset management is mostly carried out by the *Old Mutual Investment Group*, the level of the fee reflects what *OMLACNAM* believes would be charged by an external asset manager, based on available market information.

Where a performance-related fee is introduced, it is set such that the level of the fee at expected future investment returns is similar to that charged assuming no performance-related fee was introduced.

Certain expenses incurred externally as part of the asset management process (including but not limited to brokerage, taxes, levies, audit charges, bank charges and custodian charges) are also deducted from the investment return earned.

8.3.4 Tax

The tax base of Namibian Life Companies is determined by the investment income earned in the form of interest, dividends and property rentals earned on taxable investment portfolios. Taxable income is determined at a rate of 40% of this investment income which is then taxed by applying the corporate tax rate of 32%. Untaxed portfolios are comprised of pension and retirement fund assets.

In the event of changes to tax formulae or new taxes being imposed, the Appointed Actuary shall recommend to the Board a revised basis of allocation of tax charges to policies.

9. New Business

9.1 Background

By writing new business, *OMLACNAM* is able to maintain economies of scale and thereby keep renewal expenses and therefore charges in check, and avoid introducing progressively more restrictive investment policies, which would ultimately result in lower policyholder bonuses.

There is, however, a possibility that new business could be written on terms and conditions that adversely affect existing business, for example through creating capital strain or unfairly affecting bonus prospects for existing policyholders.

9.2 *Principles*

New business will be written on terms and conditions that are financially sound. Reasonable care will also be taken to ensure that there is sufficient capital to support the volumes of new business sold. Where the inclusion of new business in a *class* could reasonably be expected to affect the bonus prospects of existing business in that *class* unfairly, a new *class* will be established for the new business.

9.3 *Practices*

9.3.1 Limits on new business

A business plan is prepared annually and updated periodically: setting out the volumes and mix of new business *OMLACNAM* expects to write. The financial impact of the forecast volumes is investigated. *OMLACNAM* may place limits on new business, particularly in relation to types of *discretionary* and *participation* business that have high capital requirements.

9.3.2 Impact on existing business

Attention is paid to the level of new *smoothed bonus* business growth, as it is recognised that when a bonus is declared, all the policyholders of the bonus *class* participate in that bonus, irrespective of when their policy was issued. New policyholders effectively share in a positive or negative *BSA*. This is particularly so for single premium policies. *OMLACNAM* seeks to keep policyholder funds open to new business as far as possible, recognising that *BSA* balances fluctuate over time, that the very nature of *smoothed bonus* business involves a pooling of investment risks, and that the timing of both premium and benefit payments is an important consideration when examining equity between new and existing policyholders.

9.3.3 Closure of *class* to new business / opening new *class*

Notwithstanding section 9.3.2, consideration will be given to closing existing *classes* of *discretionary* and *participation* business to new business and possibly opening a new *class* in the following circumstances:

- if the volume of new business declines to a negligible level (due to lack of demand) and there is no apparent prospect of the volume recovering;
- if the *BSA* for existing business becomes too negative (less than –15%) and is unlikely to recover in the short-term;

- if the *BSA* for existing business increases above the upper bound of the normal range (more than +20%), is expected to remain at such levels for the foreseeable future and substantial new single premium business is expected;
- if economic or environmental conditions change significantly in a way that would materially affect the future bonus prospects of new *discretionary* and *participation* policies relative to existing policies;
- when a substitute product with significantly different features is launched; or
- if any other situation arises that prevents reasonable equity from being maintained between existing and potential new policyholders.

In addition, because the bonus earning potential of *with-profit annuities* is sensitive to yields on fixed interest investments, if a substantial and permanent change in these yields is believed to have occurred, an existing *class* of *with-profit annuities* may be closed to new business and a new *class* opened.

9.3.4 ***Class* merger**

As a mature *class* diminishes in size over time, *OMLACNAM* may consider it to be in the best interests of policyholders for the mature *class* to be combined with a larger *class* with a corresponding transfer of funds (including *BSA*). The *class*es would only be combined if there were clear links between the bonus rates, the *surplus* allocation rules were consistent with each other, and equity was achieved between the *class*es that were being combined.

9.3.5 **Equity between *classes* of policies**

Appropriate measures will continue to be taken to ensure that equity is achieved between different classes and generations of with-profit policies. This specifically includes:

- Keeping separate *BSA*s where experience, product structure or asset structures are materially different; and
- Ensuring that there is a fair process of allocating assets between classes of policy.

ANNEXURE – Glossary

Actuarial liabilities:	The liabilities of a long-term insurer in respect of a policy or policies, as required by the *Long-term Insurance Act*.
Actuarial valuation basis:	The set of methods and assumptions that is used to determine the *actuarial liabilities*.
Alteration:	A contractual change to a policy, such as an increase in premium, an extension of term or a part *termination*.
Asset share:	The theoretical amount that would be accumulated in respect of a policy if *net* investment returns and other applicable *surplus* were allocated to a policy on an individual basis.
Associated company:	A company which, in relation to a long-term insurer, is a subsidiary, holding company or any other subsidiary or holding company thereof, as defined in the Long-Term Insurance Act.
Bonus Smoothing Account (BSA):	An amount reflecting the difference between the market value of the assets in the underlying portfolio and the total value of policies (i.e. the value allowing for bonuses declared, net of charges and tax, and, for *with-profit annuities*, assumed future bonuses and mortality.). It represents the difference between *surplus* earned and bonuses declared. The *BSA* is also sometimes referred to as a Bonus Smoothing Reserve (BSR).
Book value:	In the context of *smoothed bonus* business, the total value of the policy benefits, allowing for bonuses declared, net of charges and tax, and, for *with-profit annuities*, assumed future bonuses and mortality. In general terms, for a *linked policy*, the *book value* and the *market value* would be the same, whereas for a *smoothed bonus* policy, the *book value* would differ from the *market value*, the difference being the portion of the *Bonus Smoothing Account* attributable to the policy.
Class:	A set of similar *discretionary and participation* policies, as determined by *OMLACNAM* from time to time, which are combined for the purpose of determining the bonus to be declared on those policies. A list of the *class*es of *discretionary* and *participation* business currently managed by *OMLACNAM* can be found in Appendix 5.
Closed period:	A period during which certain shareholders who are privy to certain financial information that could affect the company share price if such information were publicly available, may not trade in the shares of the company. This occurs, for example, around the time that financial results are being prepared for external reporting and during merger/acquisition discussions.
Concentration risk:	The risk of loss as a result of excessive investment exposure to a single counterparty, group of related counterparties, counterparties in the same industry, counterparties in the same geographical region or counterparties in the same asset class.

Credit risk:	The risk of loss as a result of default by counterparties or a reduction in asset values as a consequence of the credit impairment of a counterparty.
Customised business:	Specific *discretionary* and *participation* products with non-standard terms and conditions developed for specific policyholders.
Discretionary business :	A description used for contracts where *OMLACNAM* management exercises significant discretion as to the amount and timing of *surplus* that is added to a policy.
Final bonus:	One component of a *Reversionary Bonus business* bonus declaration. (A *reversionary bonus* is the other component.) A *final bonus* is not guaranteed and may be removed by the insurer in part or in full in particularly adverse investment conditions.
Interim bonus:	For many *classes*, bonuses are only declared annually. To enable some investment *surplus* to be paid out when processing a claim between the dates of annual bonus declarations, an *interim bonus* rate is used. The *interim bonus* rate tends to be set at a conservative level, and may be changed at any time.
Investment risk:	The risk of low or negative investment returns.
Linked policy:	A policy where the *net* investment returns earned (whether positive or negative) are passed on to the policyholder directly. It is distinguished from a *discretionary* and *participation* policy.
Long-term Insurance Act:	The Long-term Insurance Act 5 of 1998 (as amended).
Market value:	For group *with-profit annuity* business, the *book value* of a policy plus the portion of the *Bonus Smoothing Account* attributable to the policy. For other *smoothed bonus* business, the portion of total asset value attributable to a policy, based on the actual investment return earned in respect of the policy, net of applicable charges and tax. In general terms, for a *linked policy*, the *book value* and the *market value* would be the same, whereas for a *smoothed bonus* policy, the *book value* would differ from the *market value*, the difference being the portion of the *Bonus Smoothing Account* attributable to the policy. Some group business contracts refer to a cash value rather than *market value*, with the calculation of the cash value specifically defined in these contracts.
Market value adjustment:	If a policyholder terminates a *smoothed bonus* policy at a time when the *Bonus Smoothing Account* for the *class* of business is negative, a *market value adjustment* is applied to the *book value* to provide a *termination* value equivalent to the *market value* of the policy. This adjustment is credited to the *Bonus Smoothing Account* and as such serves to protect the remaining policyholders. If a policyholder terminates a *Performance Profits* policy at a time when the market value of the underlying assets in which the fund is invested is lower than the liabilities of the fund, a *market value adjustment* is applied to provide a *termination* value that approximates the *market value* of the policy.
Mortality risk:	The risk that *surplus* is impacted by more or fewer policyholder deaths than expected occurring.

Mortality surplus:	*Surplus* that arises as a result of more or fewer policyholder deaths than expected occurring. For example, if more deaths than expected occur within a *with-profit annuity* portfolio, a positive *mortality surplus* arises, while if fewer deaths than expected occur, a negative *mortality surplus* (i.e. a deficit) arises.
Net (investment return/surplus):	In this context "*net*" means that deductions are made (where applicable) for product management charges, capital charges, investment fees, investment expenses, pricing interest rates and attributable tax.
Non-profit:	A life assurance contract is *non-profit*, or without profit, if the life insurance company has no discretion over the amount of benefit payable, i.e. the policy document will specify at the outset either the amount of the benefits under the contract or how they will be calculated.
OMLACNAM:	Old Mutual Life Assurance Company (Namibia) Ltd.
Old Mutual Group:	Old Mutual plc and all the companies of which it is the ultimate holding company.
Old Mutual Investment Group:	The asset management businesses of all companies that are wholly owned by the *Old Mutual Group*.
Paid-up:	The status of a policy where a policyholder stops paying the contractual premiums towards the policy, e.g. through no longer being able to afford to continue to pay premiums. The benefits of the policy may be adjusted as a result.
Participation business	Business where policyholders have a share of the *surplus* and risk associated with a product.
Performance Profits:	A type of *discretionary* and *participation* business, where bonuses are declared monthly, and where these bonuses closely follow (but do not necessarily equal) underlying investment returns net of applicable costs and charges. Bonuses for this business thus track actual investment returns more closely in the shorter-term than for *smoothed bonus* business.
Policy value:	The total of the vested and non-vested liabilities (excluding the *BSA*) of a policy.
Practices:	Descriptions of *OMLACNAM*'s current approach to managing *discretionary* and *participation* business and responding to changes in the business and economic environment in the shorter-term. These are intended to enable a knowledgeable observer to understand the possible risks and rewards in effecting a *discretionary* and *participation* policy with *OMLACNAM*.
Principles:	Enduring statements of the overarching standards which *OMLACNAM* currently adopts in managing *discretionary* and *participation* business. They describe the framework used by *OMLACNAM* for managing the discretionary aspects of its *discretionary* and *participation* business and for responding to longer-term changes in the business and economic environment.

Related (*class*):	An adjective describing the relationship between *classes* of business. Where *class*es of business are *related*, the combined *BSA* for these *class*es is considered when determining bonuses and the level of any *market value adjustment* that may apply. The same *market value adjustment* is applied to *related class*es of business. *Related classes* of business are specified in Appendix 5.
Required capital:	The minimum amount of capital that has to be retained in shareholder funds in order to make good losses that could be incurred within policyholder funds (and therefore ensure that benefit obligations to policyholders would be met) in foreseeable adverse conditions.
Reserve:	A provision established for meeting future claims and expenses, net of future premiums.
Reversionary bonus:	One component of a *Reversionary Bonus business* bonus declaration. (A *final bonus* is the other component.) A *reversionary bonus* is guaranteed once it has been declared, and can thus never be taken away even in adverse investment conditions.
Reversionary Bonus business:	A type of *smoothed bonus* product where part of the bonus declared is called a *reversionary bonus*, which is declared as a percentage of the sum assured and previously declared bonuses. (The other part of the bonus is called a *final bonus*.)
Rider	A supplemental contract attached to and made a part of a policy.
Sale of dividend right:	The sale of the right to receive a dividend on an owned share.
Scrip lending:	The practice of lending shares and bonds.
Smoothed bonus:	A type of *discretionary* and *participation* business where the bonuses declared usually differ from the *net* investment return earned in a period, so as to reduce the impact of shorter-term market volatility on policyholders.
Solvency:	The extent to which the insurer has sufficient assets to meet its liabilities and *required capital*. Within a particular policyholder fund, this refers to that fund having sufficient assets to meet its actuarial liabilities.
Surplus:	The difference between the change in the value of the assets of a *discretionary* and *participation* fund over a period and the change in the value of the *actuarial liabilities* of *OMLACNAM* in relation to that fund over the period, including the effect of any changes in actuarial valuation methods and assumptions.
Termination:	The cancellation by a policyholder of their policy. For group business, termination refers to cancellation of the group policy, not the withdrawal of individual members of the group.
With-profit annuity:	A *discretionary* and *participation* annuity, where the regular annuity payments increase with bonuses declared.