

CUSTOMER FOCUSED

ANNUAL REPORT AND ACCOUNTS 2010

OLD MUTUAL

INSURANCE • INVESTMENT • SAVINGS • BANKING

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WHAT'S ONLINE

Annual Report:
www.oldmutual.com/ar2010.oldmutual.com

Corporate site:
www.oldmutual.com

The directors' report of Old Mutual plc for the year ended 31 December 2010 is set out on pages 1 to 151 and includes the sections of the Annual Report referred to in these pages.

FAST READ

WELCOME

Our strategy is to build a long-term savings, protection and investment group by leveraging the strength of our people and capabilities in South Africa and around the world. We will focus, drive and optimise our businesses to enhance value for shareholders and customers.

Our vision is to be our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals.

OUR VALUES:

- INTEGRITY
- RESPECT
- ACCOUNTABILITY
- PUSHING BEYOND BOUNDARIES

FAST READ

OUR BUSINESS AT A GLANCE

Below is a high-level summary of the Group and our four principal business units

GROUP

Old Mutual is an international long-term savings, protection and investment Group.

Adjusted operating profit (AOP) 2010

£1,481m

2009: £1,133m

Funds under management 2010

£309.3bn

2009: £275.4bn

Number of employees

55,730[1]

2009: 53,706

Primary locations

- Long-Term Savings – southern Africa, Europe, Colombia, Mexico, India and China
- US Asset Management – US
- Banking – southern Africa
- Short-term insurance – southern Africa

Operational highlights

- Profits up in each business unit, with Group Return on Equity (RoE) of 12.2%
- Earnings per Share (EPS) constant currency growth of 20%
- Capital position strengthened: FGD (Financial Groups Directive) surplus increased from £1.5 billion to £2.1 billion
- Total dividend for year increased from 1.5p to 4.0p
- Good progress towards delivering the 2012 financial targets

For more information see page 32

LONG-TERM SAVINGS (LTS)

We provide investment management and innovative life assurance-based solutions which address both protection and retirement savings needs.

Adjusted operating profit (AOP) 2010

£897m

2009: £636m

Funds under management 2010

£131.8bn

2009: £105.5bn

Number of employees

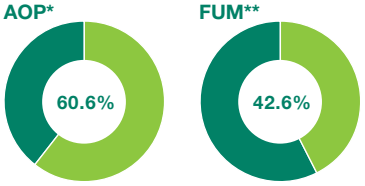
24,044

2009: 22,269

Operational highlights

- Strong sales and earnings momentum
- Annual Premium Equivalent (APE) margin improvement to 13%, improved product mix with better margins
- Unit trust sales up 28% on a constant currency basis to £8.8 billion with strong performance from Wealth Management and Emerging Markets
- Net Client Cash Flow (NCCF) doubled during the year to £5 billion, with positive contribution from Emerging Markets

Contribution to Group



For more information see page 44

[1] This includes: US Life, Bermuda and Group Head Office

*Pre-tax AOP of core operating segments less finance and other corporate costs.

**FUM of core operating segments

BANKING

We have a majority shareholding in Nedbank, one of South Africa's leading banks, which also has banking interests in other countries in southern Africa.

For more information see page 66

Adjusted operating profit (AOP) 2010

£601m

2009: £470m

Tier 1 adequacy ratio 2010

11.7%

2009: 11.5%

Number of employees

27,525

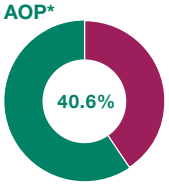
2009: 27,047.

Operational highlights

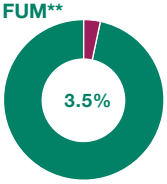
- Headline earnings growth of 15%
- Improved credit loss ratio from 1.52% to 1.36%
- Capital adequacy ratios above targets, liquidity remains sound
- On track to meet medium- to long-term financial targets in 2013

Contribution to Group

AOP*



FUM**



SHORT-TERM INSURANCE

We provide short-term insurance solutions in southern Africa through Mutual & Federal.

For more information see page 74

Adjusted operating profit (AOP) 2010

£103m

2009: £70m

Combined ratio 2010

92.4%

2009: 98.0%

Number of employees

2,222

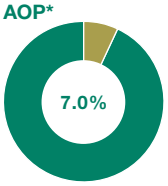
2009: 2,115

Operational highlights

- Strong performance following renewed focus
- Better claims experience, resulting in good underwriting result
- Solvency strengthened
- Step Change Programme implemented
- Launch of iWYZE direct insurance

Contribution to Group

AOP*



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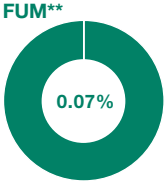


US ASSET MANAGEMENT

Old Mutual Asset Management, a multi-boutique investment organisation consisting of 18 distinct asset managers, serves individual and institutional investors around the world.

For more information see page 78

Adjusted operating profit (AOP) 2010

£87m

2009: £83m

Funds under management 2010

£166.6bn

2009: 161.5bn

Number of employees

1,537

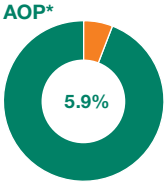
2009: 1,544

Operational highlights

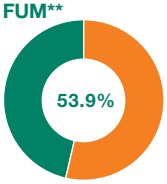
- Profits up 4%
- Funds Under Management (FUM) up 3% with market movement and inflows more than offsetting outflows
- New affiliate: Echo Point Investment Management

Contribution to Group

AOP*



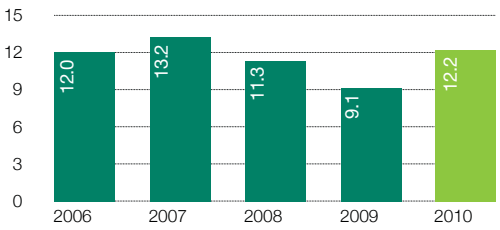
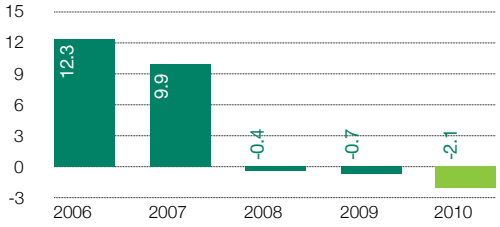
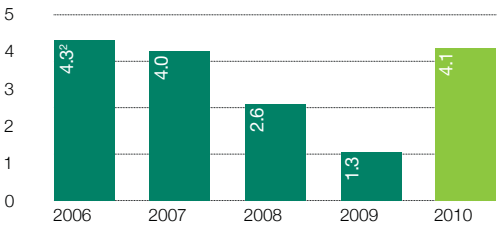
FUM**



FAST READ

KEY PERFORMANCE INDICATORS (KPIs)

Set out below are the KPIs that we used to monitor the performance of the business.

Financial KPI Definition	Relevance	
Return on Equity (RoE)% A relative measure expressed as a percentage, calculated by dividing IFRS[3] Adjusted Operating Profit (AOP) (post-tax and minority interests) by the average capital tied up in the business, where capital is defined as shareholder equity excluding hybrid capital.	Return on Equity is an indicator of our profitability and efficiency, demonstrating how much profit has been generated given the resources provided by our shareholders.	**RoE%[1]** 
Net Client Cash Flow (NCCF)/ Opening Funds under Management % This measure indicates the extent to which client funds are either retained or lost during the year. Inflows are driven by premiums, deposits and investments, whereas outflows are driven by claims, surrenders, withdrawals, benefits and maturities.	NCCF/Opening Funds Under Management (FUM) measures our success in attracting new business and retaining existing customers, and provides a good indication of investor confidence in our ability to effectively manage their funds.	**NCCF/Opening Funds under Management %[1]**  The LTS businesses achieved positive NCCF of £5bn in 2010. The USAM business had outflows of £11.7bn. For more discussion please see the Finance Director's Report on page 32.
Group Value Creation % (Long-Term Savings only) Calculated as the Market Consistent Embedded Value (MCEV) value of new business plus the MCEV experience variances divided by the opening MCEV balance, expressed as a percentage.	Group Value Creation for the Long-Term Savings covered business measures the contribution to Return on Embedded Value from management actions of writing profitable new business, and managing expense, persistency, risk and other experience compared with that which was assumed.	**Group Value Creation %[1]** 

Notes
1 Numbers are as reported and historical figures have not been restated to make consistent with 2010/2009.
2 EEV basis
3 IFRS–International Financial Reporting Standards

Financial

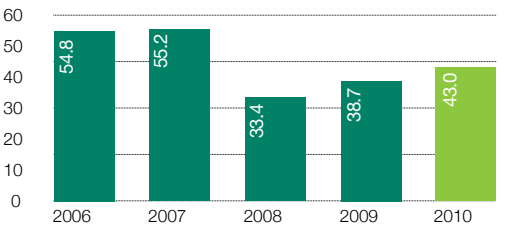
IFRS Operating profit margin (basis points)

Calculated as pre-tax adjusted operating profit divided by the average funds under management for the period, expressed in basis points.

Relevance

IFRS Operating profit margin measures the profit margin we have earned on the funds we manage. An improved basis point margin is an indicator of the success a company is having in growing its revenue at a greater rate than its expenses.

IFRS Operating profit margin (basis points)[1]

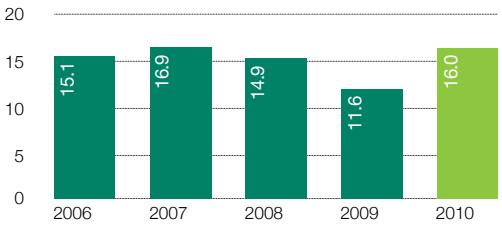


Adjusted Operating Earnings per Share (pence)

Calculated as post-tax adjusted operating profit divided by the adjusted weighted average number of shares (WANS), held by our investors.

Adjusted Operating Earnings per Share (EPS) is an indicator of our profitability that measures how much we earn for each share held. The trend in the movement of EPS demonstrates our rate of growth.

Adjusted Operating Earnings per Share (pence)[1]



Non-Financial

Engagement Survey

Measured by the average percentage of positive responses gathered via employee survey to two questions measuring Intent to Stay, and three questions measuring Discretionary Effort.

In 2011 we will replace the Engagement Survey with a Culture Survey which will facilitate the tracking of the overall health of our culture.

Relevance

Intent to Stay is a lead indicator of retention and Discretionary Effort is a lead indicator of performance. These two factors correlate with business performance and total shareholder return.

Employee Intent to Stay and Discretionary Effort %



In 2011 we will be reporting on customer KPIs

FAST READ

DELIVERING ON OUR STRATEGY

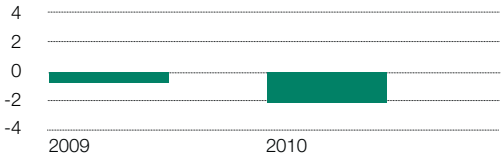
Our strategy is to build a long-term savings, protection and investment group by leveraging the strength of our people and capabilities in South Africa and around the world.

Our strategic priorities	Progress 2010
1. Develop the customer proposition and experience We are passionate about developing the best proposition for our customers, by building on our history of innovation and resolute customer focus. This includes expanding our product range, developing our advice capability which is a fundamental part of the value we provide to our customers and endeavour to treat customers fairly everywhere.	■ Conducted strategic reviews to identify core competencies and best market opportunities for growth ■ Board agreed a set of customer metrics across the business ■ Started to close product gaps and developed a clear path for more product sharing ■ Begun to close distribution gaps (launched iWYZE: a direct short-term insurance offer between Mutual & Federal (M&F) and Old Mutual (SA), and opened 117 Old Mutual Finance branches in South Africa over the last 2 years)
2. Deliver high performance in all business units To ensure that we provide value to shareholders and customers, we need to drive high performance in our businesses by delivering profitable growth, operational efficiency, and by optimising risk and return.	■ All BUs achieved and exceeded their profitability targets (with the exception of US Asset Management) ■ On target to achieve cost reduction & RoE targets ■ Business units continue to deliver their improvement programmes (e.g. M&F step-change, Wealth Management transformation) ■ Improved relationships with key stake holders (Financial Service Authority (FSA), Reserve Bank, South African Government & Reserve Bank and governing bodies in Sweden) ■ Old Mutual (SA) achieved and Nedbank maintained Broad-Based Black Economic Empowerment level 2 status; M&F achieved level 3 status and Nedbank recognised as the most sustainable bank in Africa
3. Share skills and experience across the Group We will use our capabilities in South Africa and around the world to drive revenue and cost improvements across the Group, by leveraging policy administration capabilities in South Africa, driving global IT and procurement synergies and sharing product development ideas.	■ Key appointments made to drive sharing of skills (Heads of IT, Product & Distribution in Long-Term Savings (LTS)) ■ Clear implementation plan developed for sharing product across LTS ■ LTS IT synergy plan ready for implementation ■ Created IT and administration jobs in South Africa to support the Retail Europe business unit
4. Build a culture of excellence A key to our success is that we demand and reward excellence in leadership, teamwork and delivery of results – for all our people. This includes defining and embedding a high-performance leadership model, against which we can assess, develop and remunerate our leaders.	■ Launched the Group Vision and Strategy ■ Implemented the Group Operating Model (GOM)-see page 135 ■ Launched our ACT NOW! Leadership actions-see page 125 ■ Agreed consistent performance management across the Group and implemented consistent incentivisation across LTS
5. Simplify our structure to unlock value To deliver the full value of the Group to shareholders we need to optimise our structure. This means that we will exit non-core and sub-scale businesses, reduce exposure to businesses that fall outside our Group risk appetite, run-off non-disposable assets for value and optimise our structure for strategic, regulatory, capital and governance purposes.	■ Substantially improved FGD (Financial Group Directive) surplus ■ US Life sale close to completion ■ Stabilised the Bermuda business ■ Commenced exploring an IPO (Initial Public Offering) for US Asset Management

We will focus, drive and optimise our businesses to enhance value for customers and shareholders.

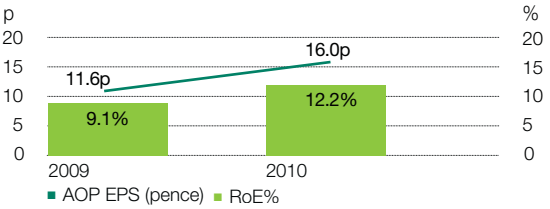
2010 Trend

NCCF % (NCCF/Opening FUM)

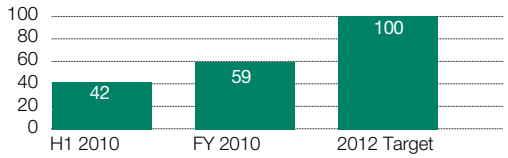


The LTS businesses achieved positive NCCF of £5bn in 2010. The USAM business had outflows of £11.7bn. For more discussion please see the Finance Director's Report on page 32.

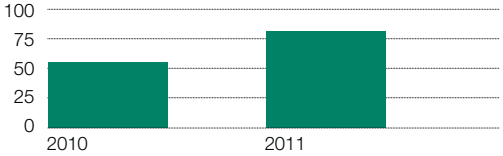
AOP EPS and RoE performance



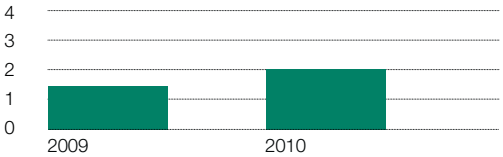
Cost savings (£m) run-rate achieved in 2010 and 2012 target



LTS employees with a common performance measure



FGD £bn



2011 Priorities

- Improve the customer experience across all markets
- Expand and improve the product proposition
- Expand and improve our distribution capability
- Develop and use meaningful customer information to better serve our customers
- Continue to build and strengthen the Old Mutual brands

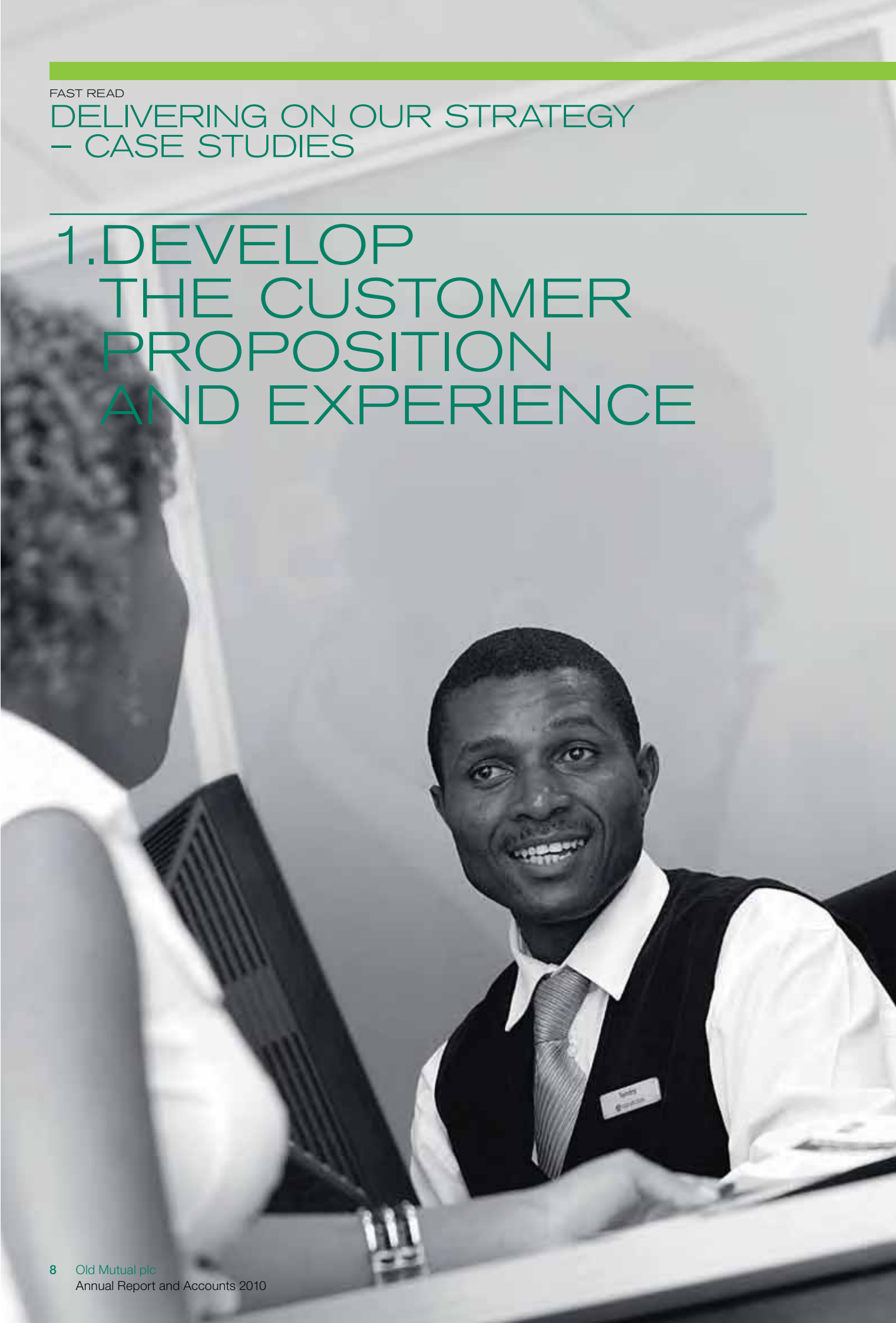
- Deliver 2011 business plan
- Secure plans to pay off £1.5bn of net debt
- Continue to drive strategic transformation in our business units
- Continue to drive profitable growth
- Build an Investment Management business leveraging our existing capabilities

- Deliver the Long-Term Savings IT plan and continue to improve operational efficiency across the Group
- Build strong functional communities across the Group
- Deliver the Group Intranet
- Implement a framework to increase international mobility for employees

- Continue to build strong executive teams in all our business units and develop the next generation of young leadership potential
- Align executive performance management and remuneration across the Group
- Measure the shift towards our ACT NOW! Leadership actions by implementing the Old Mutual Group Culture Survey
- Embed risk management as a value driver across the Group

- Complete the sale of US Life
- Explore the partial IPO for the US Asset Management business unit
- Continue to manage the run-off of the Bermuda business to reduce risk to the Group
- Hold business units accountable against operational targets and risk appetite

1. DEVELOP THE CUSTOMER PROPOSITION AND EXPERIENCE



INNOVATIONS THAT GIVE CUSTOMERS MORE WAYS TO INTERACT WITH US





Time invested in the customer

In South Africa, Old Mutual Finance has broadened its customer value proposition, expanded service reach and engaged face to face with target customers through a retail branch network.

In November 2008 it introduced a debt consolidation lending product called *My Money Plan* which is now a market leader. What makes it special is that it educates customers and helps them to look at their finances holistically during a 45 minute consultation. As a result they are asking us how Old Mutual can help them achieve their other financial goals.

Positive customer feedback

In the two years since the launch the business has built 117* new branches offering Old Mutual life assurance products, loans and customer service. It has hired and trained 960 staff; and grown a lending book of R2.7 billion. It is now serving over 30,000 customers a month through its branches.

Customers are clearly feeling the benefit: their feedback indicates that the business has been very well received in the marketplace. Annual insurance sales from the branches reached R100 million; and Old Mutual Finance achieved a profit of R80 million in 2010.

Accessing insurance through different channels

Customers can now buy short-term insurance from us directly – through iWYZE, a collaboration between Mutual & Federal and Old Mutual. It enables Old Mutual to offer a new product to its customer base while allowing M&F to expand its customer channel capability and reach.

We launched iWYZE in just eight months with relatively low capital spend. In the eight months since the public launch the business has grown to over 150 staff members with close to 5,000 active policies and R36 million* of annualised premium income. Besides using Old Mutual's distribution channels, iWYZE taps into all our traditional and emerging digital marketing channels to drive business. Thanks to the Old Mutual brand, market insight and distribution capabilities, and state-of-the-art systems and processes, iWYZE is already competing effectively with longer-established direct players in South Africa – and is very well positioned to capture a significant part of this emerging market.

Notes
* As at December 2010

Main photograph: Sydney Mathebula (Old Mutual Finance)
Top left: Busi Ntsokota (Branch Manager, Old Mutual Finance) and Lwana David Monareng (Customer)
Top right: Adam Sekgabi and Sadiki Thingahangwi (iWYSE Call Centre)



2. DELIVER HIGH PERFORMANCE IN ALL BUSINESS UNITS

ATTENTION TO DETAIL IS THE KEY TO DRIVING HIGH PERFORMANCE





Transforming Wealth Management

We are intent on creating a single Wealth Management business that is lean, cost competitive, growing profitably, and operating on its 12-15% RoE target.

Our initial goal is to reduce Wealth Management's overall cost base by £45 million, from 2012. This will enable it to meet its part of Old Mutual's commitment to shareholders while allowing it to reinvest for profitable growth.

In 2010 the business made great progress, delivering run rate savings worth £35 million. That is 35% of the Old Mutual target and over 75% of the demanding Wealth Management target. A number of initiatives that will deliver the remaining c.£10 million are in place. Most of these are already well advanced and we hope to hit the run rate savings target earlier than our 2012 deadline.

Audits of the programme by KPMG and Group Internal Audit in 2010 have given it a green light. Even better, they have recommended rolling out its approach and processes as best practice for other Old Mutual cost efficiency programmes.

Meanwhile, the Wealth Management business has not been neglecting growth. In 2010, Skandia UK's sales reached £6 billion – taking its share of the life, pension and investment market to a record 7%[1] for the first three quarters of the year.

Measuring risk with precision

In 2009 Nedbank Business Banking launched a capital optimisation initiative focused on cleaning-up risk data. To help track and monitor progress we developed our own Risk Data Accuracy Measure (RDAM). This aims to quantify risk so that it can be monitored and managed right down to the lowest level. By summarising all the elements of risk data, it allows us to track progress on our various capital optimisation initiatives.

Including RDAM on credit performance scorecards drove the desired behaviour around the input measures. All credit staff could see exactly which inputs were included in their final score. By changing the inputs and the weight they carried in the final score, we could focus employees on the areas that required closest attention.

Using performance ladders to include the RDAM in the monthly internal business communication raised awareness of the importance of risk data accuracy. This instilled a healthy competitive spirit among credit employees to achieve the number one ranking.

Since we launched the RDAM, the quality of Nedbank's Business Banking's risk data has improved significantly. We see it as one of the key contributors to our success in cutting our capital requirements by more than 20% over the last two years.

1 Source: Skandia sales divided by combined total of ABI (traditional) and Lipper (platform).

Main photograph: Sarah Andrews and Liz Hamilton (part of the Wealth Management Transformation team)
Top left: Siobhan Lee, Liz Hamilton, Sarah Andrews and Sally Stephens (part of the Wealth Management transformation team)
Top right: Marko Campher and Phemelo Mekoma (Nedbank Business Banking)



3. SHARE SKILLS AND EXPERIENCE ACROSS THE GROUP

MAKING BEST USE OF OUR WORLD OF EXPERTISE





Serving Austria, Germany and Poland from Cape Town

The IT and business know-how of our South African employees is enabling us to achieve economies of scale by establishing common workflow systems across the business. At the end of last year Old Mutual South Africa (OMSA) began handling policy administration and IT processes for the Retail Europe markets from Cape Town. OMSA's consistently award-winning customer service makes it a leader in its field, this along with its experience, lower cost base and scale will help Retail Europe prepare for future market growth.

"We needed harmonised processes for both customer service and IT," says Johannes Friedrich, deputy CEO of Skandia Retail Europe, "so we decided to use our South African businesses' capacities and infrastructure. We have trained Polish and German speakers in South Africa, to establish a Cape Town based customer service and IT team to deliver the world-class service our customers are used to." The transition to Cape Town will be complete in Autumn 2011.

Sharing knowledge and ideas

One of the best ways to share knowledge and experience is to move people around the Group. Key transfers in the past year included Katie Murray's move from Group Head Office to become Finance Director of Old Mutual South Africa and Emerging Markets.

Steven Levin transferred in the opposite direction: his experience of launching successful products in South Africa will help us expand our product range across the Long-Term Savings businesses.

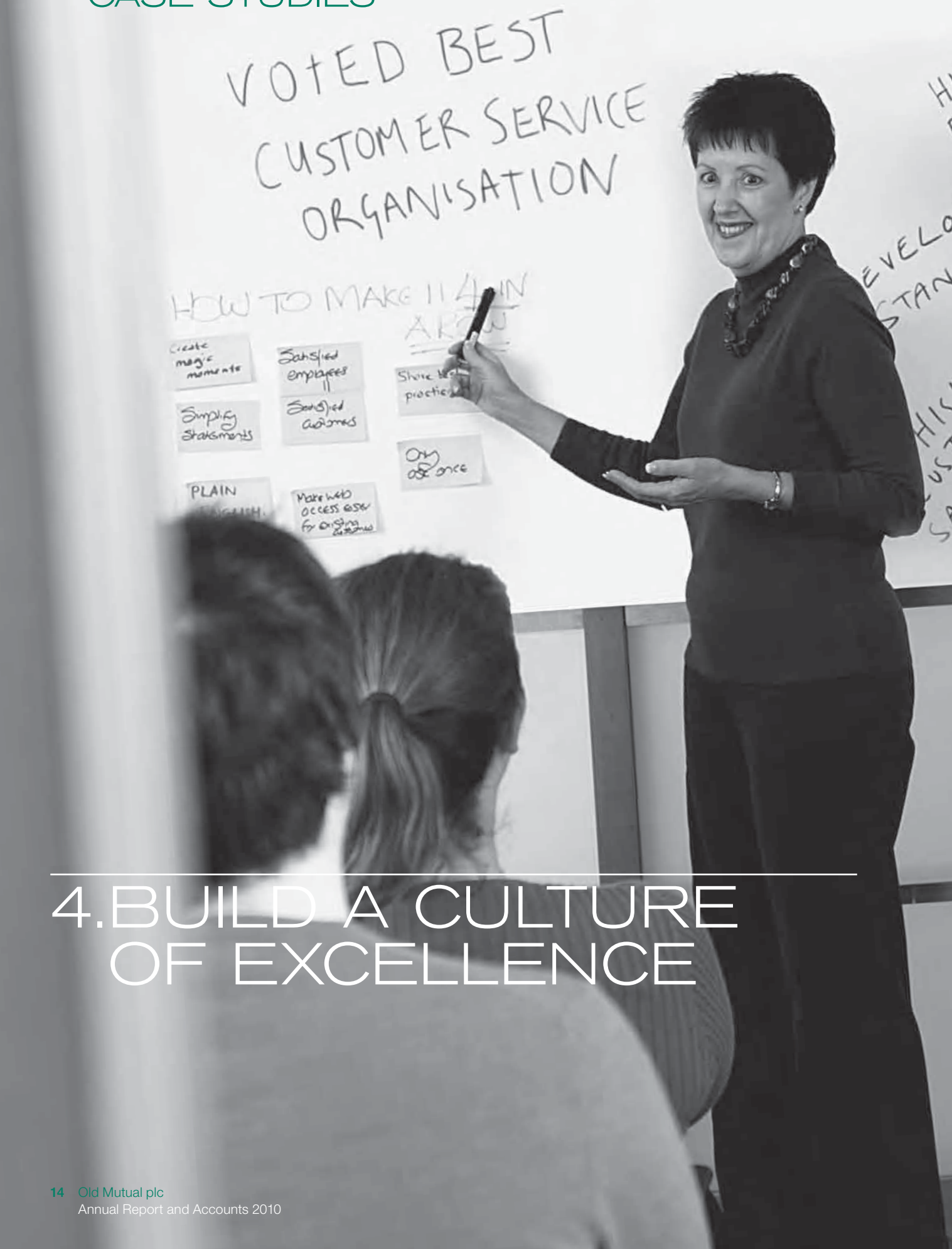
During 2010, the CEO of Skandia Investment Group, Nils Bolmstrand moved to rejoin the Nordic business as Head of Product.

The Nordic business is also benefiting from the extensive experience of Mårten Andersson, who was appointed CEO. Mårten brings valuable expertise, gained in the successful turnaround of Skandia Mexico and later Skandia Italy (part of Wealth Management), to the Nordic business.

Main photograph: Beata Woolfrey (Team leader, Polish Team)
Top left: Sarah Guering (German Team) and Marian Dudler-Petoors (Austrian Team)
Top right: Katie Murray (OMSA and Emerging Markets Finance Director)

FAST READ

DELIVERING ON OUR STRATEGY – CASE STUDIES



4. BUILD A CULTURE OF EXCELLENCE

EXCELLENCE COMES FROM GREAT PEOPLE, GREAT LEADERSHIP AND HIGH STANDARDS





A team approach to better service

The LEAN approach, is a way of thinking at every level about what adds value to the customer, and eliminating what doesn't. It's about empowering employees to own and continuously improve their processes – and that can only be good for our customers.

Rose Keanly and her team at Old Mutual Service, Technology and Administration (OMSTA) in South Africa have made this kind of LEAN thinking part of their culture. Since 2007 they have reduced costs by around R660 million, with another R231 million to come over the next three years. Yet customer and intermediary service levels have gone from strength to strength – Old Mutual recently won its third successive Orange Ask Afrika award for best customer service in the South African long-term savings industry. So LEAN is helping us keep both customers and shareholders happy. And this success is satisfying for our people, too: since OMSTA's LEAN initiative began, staff morale has improved significantly.

This LEAN approach to thinking about delivery to customers, and running a business to achieve excellence, is now being explored across the whole Long-Term Savings business with support from Rose and her team in South Africa.

Top investment team picks Old Mutual

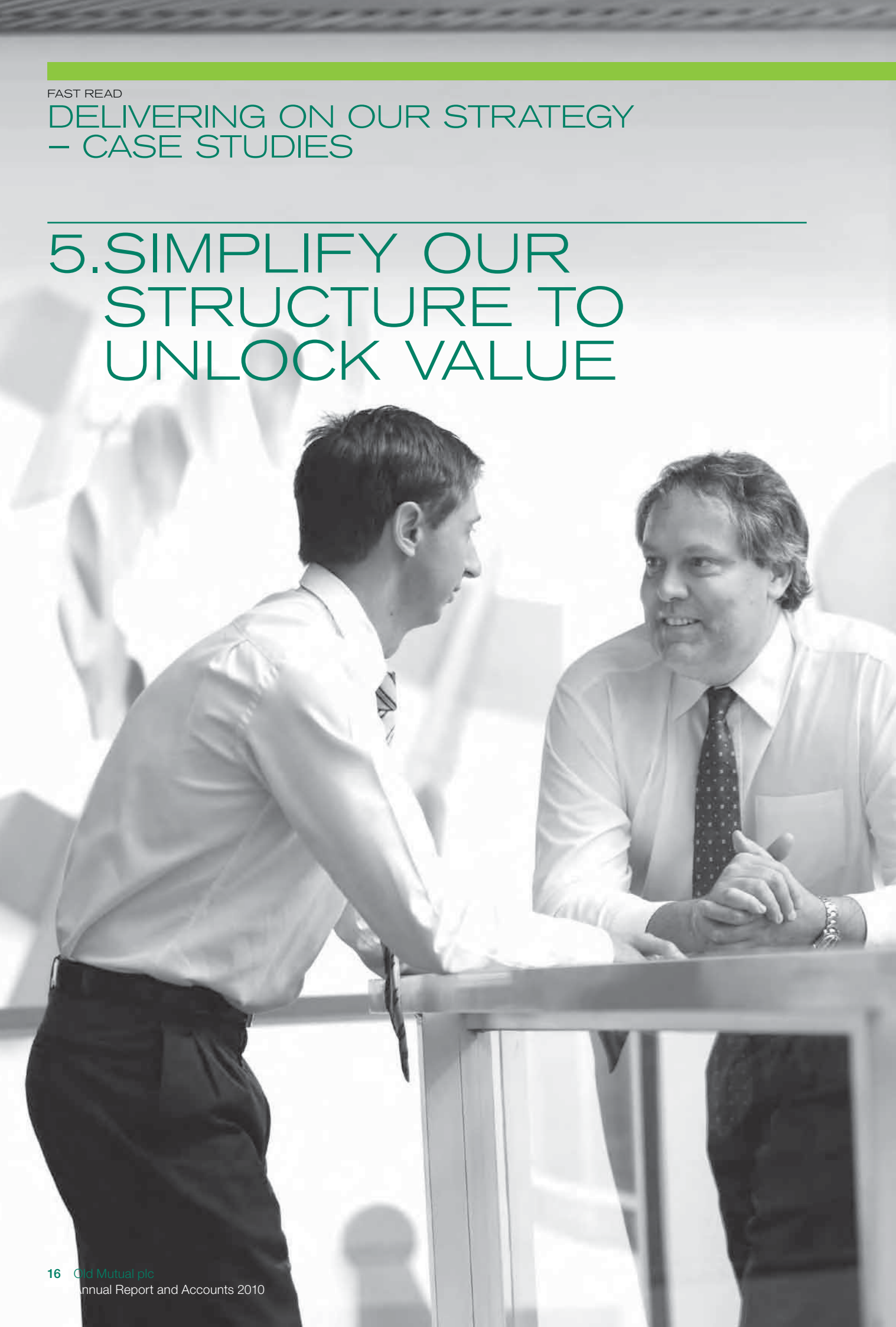
Our US Asset Management business formed Echo Point Investment Management in 2010 with a newly-acquired team led by veteran portfolio manager Hans van den Berg. The entire team joined us after building a strong 15-year track record at 1838 Investment Advisors and Morgan Stanley Investment Management. Echo Point launched with $1.6 billion in assets under management.

Van den Berg's team sought clients' views before finding a new home. "Their clear preference was to see the team operate in a stable environment supported by world-class infrastructure and strong capital backing. And we must have cultural alignment, which includes investment autonomy."

From over a dozen firms they picked Old Mutual Asset Management (OMAM) for the quality of its people, investment autonomy for affiliates, marketing support, and opportunity for joint ownership. "OMAM provides the infrastructure and non-investment support we need to focus on continuing to meet or exceed long-term performance and risk targets for our clients, and develop relevant product extensions to meet demands in the market place," says Van den Berg.

Main photograph: Rose Keanly (MD OMSTA and Head of LEAN, Long-Term Savings)
Top left: Rose Keanly
Top right: David Sugimoto, Brian Arcese, Hans van den Berg, Ben Falcone, Erin Perkins (Echo Point Investment team)

5. SIMPLIFY OUR STRUCTURE TO UNLOCK VALUE



THE BEST IDEAS ARE SIMPLE, CLEAR AND INSPIRING





Simplifying ownership

In 2010 we bought out the minority shareholders in Mutual & Federal (M&F) and delisted it from the Johannesburg Stock Exchange.

Full ownership has removed the potential conflicts associated with minority interests and was the catalyst for M&F's Step Change programme which is already delivering improved performance.

M&F's new vision and strategic objectives are aligned with the Group's customer-centred approach. Peter Todd was appointed Managing Director in December 2010. As well as delivering good results for 2010, it has partnered with OMSA Retail Mass Foundation cluster, to launch its new iWYZE direct short-term insurance channel, and with underwriting management agencies to widen its product offering.

Integrating operations

We simplified operations in Nedbank by buying out Imperial Holdings' share of Imperial Bank and integrating it fully into Nedbank. This terminated an onerous funding arrangement and enabled us to rationalise two vehicle asset finance infrastructures into one stronger business. This gave us full control of Imperial Bank's vehicle finance brand (Motor Finance Corporation) which is well known in the car dealer market and allowed Nedbank to cross-sell to Imperial's customer base.

We avoided redundancies by redeploying some 460 people within Nedbank's 27,500-strong workforce: this was not only good for morale but also enabled us to focus on maintaining business momentum, so there has been no loss of market share.

Main photograph: Barry Groenewald and Chris Kuhn (OMSA Corporate Finance)
Top left: Chris Kuhn (GM Corporate Finance)
Top right: Candice-Lee Perry (Business Banking) and Gail Sharp (Nedbank Retail)

FAST READ

KEY FEATURES

Below are some of the key features of the business that support the delivery of our vision to our customers.

Old Mutual Group

0.92%

of pre-tax profit invested in community programmes

US Asset Management

29%

of client base located outside the US
2009: 25%

Banking

7.4%

Growth in number of customers who hold primary accounts with Nedbank

LTS Nordic

Skandiabanken awarded most prominent brand and best reputation in Norway

Source: RepTrak Pulse survey in 2010



LTS Emerging Markets



R13.7 billion (£1.2bn) invested in infrastructure funds and R8.5 billion (£0.8bn) in housing funds

LTS Emerging Markets

Old Mutual (SA) awarded best customer service, in the Ask Afrika Orange Service Excellence Awards (Long-Term insurance) for the third year in a row.



LTS Wealth Management

Winner

Best UK platform.
Source: Professional Adviser Awards



LTS Wealth Management

£5.7 billion

Single premiums up 34% to £5.7 billion and mutual funds sales up 56% to £3.3 billion

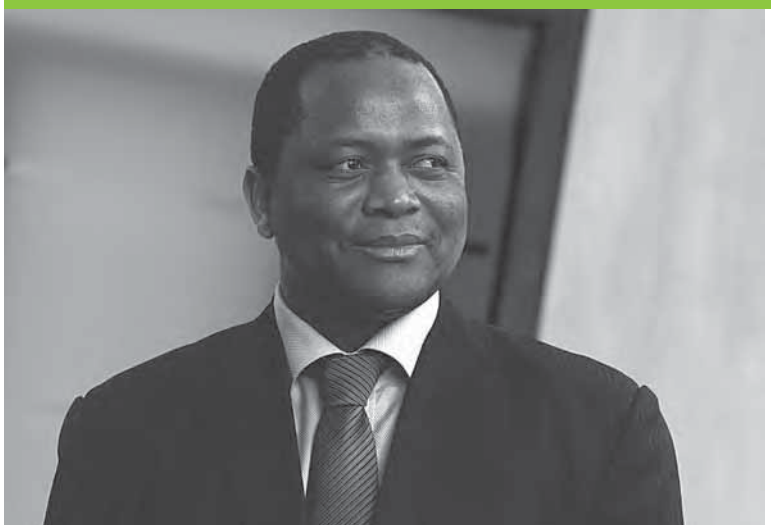


UK and South Africa

Top 10%

Old Mutual ranked in the top 10% of UK and SA companies reporting to the Carbon Disclosure Project

South Africa



Level 2

Old Mutual (SA) and Nedbank rated Level 2, BBBEE (Broad-Based Black Economic Empowerment), Mutual & Federal rated Level 3.

Old Mutual Group

More than £10 billion of mutual funds sold in the Group

FAST READ

RESPONSIBLE BUSINESS

Our approach to Responsible Business is a vital enabler of our corporate vision of becoming our customers' most trusted partner.

What being a Responsible Business means to us

Focusing on the issues that matter to our stakeholders

During 2010, we conducted a significant piece of stakeholder research which helped us identify nine material issue areas that will form the basis of our approach to Responsible Business for the future. These material issue areas are:

- Governance and risk systems
- Responsible marketing and selling
- Customer service
- Our employees
- Indirect impact of investments
- Supply chain
- Financial crime
- Community impact
- Direct environmental impact

Responsible Business highlights from 2010

- First full year of operation of the Responsible Business Committee which oversaw:
  - Responsible Business Policy rolled out across the Group
  - Responsible Investment taskforce set up
- Conducted stakeholder research into responsible business issues
- £13.6 million invested in our local communities focusing on financial education, enterprise development and sustainable community development. For example:
  - £4.6m through the Masisizane Fund including micro-finance
  - £2.7m spent through the five Old Mutual Foundations.

The diagram below summarises our evolving approach to Responsible Business and shows the nine material issue areas discussed in the Responsible Business section.



More detail on our approach to Responsible Business can be found in the Risk and Responsibility section on pages 118 to 129.

FAST READ

CORPORATE GOVERNANCE

Our approach to governance is underpinned by our values of integrity, respect, accountability and pushing beyond boundaries.

Our approach to Corporate Governance

The Board of Directors as a whole is responsible to the Company's shareholders for corporate governance and is committed to achieving high standards in this area through an appropriate mix of checks and balances. This takes due account of the UK Corporate Governance Code and other external expectations, such as the guidelines issued by institutional investors and their representative bodies.

During 2010, we have rolled out our new Group Operating Model, which seeks to clarify and enhance our governance processes within the context of a strategic controller model of oversight of our various operations around the world. This has replaced the more decentralised system of governance under which the Group previously operated and establishes clear principles of delegation and escalation that are designed to provide appropriate levels of assurance about the control environment, while retaining flexibility for our businesses to operate efficiently.

Our approach to governance is underpinned by the Group's values of integrity, respect, accountability and pushing beyond boundaries.

How our approach to governance is guided by our values

Integrity	We require integrity of the Group's businesses in all their activities, including the way in which their boards of directors operate and report upwards.
Respect	Respect is reflected in the dynamics between the centre and the operating units and the manner in which problems, when they do arise, are dealt with.
Accountability	Accountability lies at the heart of all good governance systems and is vital for the prompt escalation of matters and how they are then addressed.
Pushing beyond boundaries	We aim to empower our operating units to push beyond boundaries and to be responsive and innovative to serve customers' needs without entangling them in unnecessary red tape.

More detail on our approach to Corporate Governance can be found in the Directors' Report on Corporate Governance and Other Matters section on pages 132 to 151.

CHAIRMAN'S STATEMENT

In 2010 we started to deliver on our promises, and we remain firmly focused on achieving our goals.

Overview of 2010

The Board's focus in 2010 was on restructuring the Group, reducing debt and improving financial performance. I am pleased to be able to report substantial progress towards our short-term performance goals and a good start towards attainment of our medium-term restructuring targets.

The Company achieved adjusted operating earnings per share on an IFRS basis of 16.0p for the year, a very satisfactory 38% increase over the 11.6p for 2009 (as restated). The results reflect management's determination to improve underlying performance in our various businesses while setting industry-leading risk management standards in our operations.

The sale of our US Life business, expected to complete soon, will improve the Group's overall risk profile significantly. We have taken a write-down of £827m in the value of US Life, based on the agreed sale transaction terms, leading to a loss from discontinued operations of £713m and an overall Group basic IFRS loss for the year of £24m.

Building on our leading presence in South African markets, we are making progress in transforming our Long-Term Savings business – not only in Emerging Markets, but also in those developed markets of Europe where we have or can build sustainable competitive advantage. Although we were disappointed that negotiations to sell our controlling stake in Nedbank fell through during the year for reasons beyond our control, we remain very satisfied with the earnings stream from this investment and continue to see the bank as a key contributor to the Group. The Group is committed to achieving its target, announced in March 2010, of reducing debt by an aggregate £1.5 billion by the end of 2012.

Board developments

At the start of my chairmanship, I committed to a gradual restructuring of the Board. This process is well under way. Richard Pym retired from the Board in August 2010 at the end of his first three-year term because of the pressure of other commitments. He was replaced by Roger Marshall, who joined as an independent non-executive director and succeeded Richard as chairman of our Group Audit Committee. Alan Gillespie joined as an independent non-executive director in November 2010. He will succeed Rudi Bogni as our Senior Independent Director when Rudi retires at the 2011 AGM. Nigel Andrews also retires at this year's AGM. We were delighted to announce the appointment of our first female director at plc level, Eva Castillo, in February 2011.

I would like to extend my thanks to Richard, Rudi, Nigel and the other non-executive directors for their wisdom and contribution during my first year in the chair and their willingness to commit their knowledge and experience in helping reshape our strategy. In formally welcoming Eva, Roger and Alan, I know we have a Board which can face up to the challenges of strategy implementation and future growth. We continue to look to renew and refresh the Board's mix of skills and experience from a broad stakeholder point of view.

On behalf of my Board colleagues, I would also like to express our sincere appreciation for the continued dedication and efforts of the Group's employees during 2010 – especially to our colleagues at Nedbank, for their focus on delivering improved results during a period of significant uncertainty.

Dividend

The Board is recommending an increased final dividend for the year ended 31 December 2010 of 2.9p per share (or its equivalent in other applicable currencies). It will be paid on 31 May 2011, subject to approval by shareholders at this year's AGM. Together with the interim dividend of 1.1p per share paid in November 2010, this makes a total of 4.0p for the year. The Board has confirmed its commitment to a progressive dividend policy for the future.

Following the successful launch of our scrip dividend scheme last year, we are again offering eligible shareholders the opportunity to increase their shareholdings in the Company by receiving new shares instead of the cash dividend. Further details of how to participate in the scheme are available on the Company's website.



Annual General Meeting

This year's AGM will again be webcast from our offices in London, where it will take place on Thursday 12 May 2011. There will be an opportunity for shareholders to submit questions in advance, if they wish, to be dealt with during the AGM. The AGM circular enclosed with this report includes further details of the webcast, the resolutions to be proposed and the procedure for submitting questions ahead of the meeting.

Future

In 2010 we started to deliver on our promises, and we remain firmly focused on achieving our remaining goals.

This Group has an illustrious past, which has been tarnished by some poor strategic decisions during the past 11 years. We have begun reshaping and improving our businesses and financial structure so that the next decade will see us delivering real shareholder value and playing our full part in the continued development of the markets in which we operate, while recognising the opportunities and commitments that come with our position in South Africa.

Patrick O'Sullivan
Chairman
8 March 2011

"The Board's focus in 2010 was on restructuring the Group, reducing debt and improving financial performance. I am pleased to be able to report substantial progress towards our short-term performance goals and a good start towards attainment of our medium-term restructuring targets."

GROUP CHIEF EXECUTIVE'S STATEMENT



Introduction

Our operating results for 2010 are significantly ahead of the prior year results as reported with profits up in each of our businesses. This excellent performance was largely due to strong growth in new business sales, our continued focus on cost control, improved persistency and favourable exchange rates.

In addition to strong financial performance, we also focused on delivering our strategy and have made good progress in 2010. We have agreed to sell US Life, a business that was outside our Group risk and return profile, for $350 million, resulting in an IFRS charge of £713 million. We are awaiting regulatory approval, and expect the transaction to close at or around the end of the first quarter of 2011. The next two years will see a continued single-minded focus to meet our strategic objectives.

The Group is in sound financial shape. At 31 December 2010 our FGD surplus was £2.1 billion and we had total liquidity headroom of £1.4 billion.

Strategy Update

In 2010, we set out a new strategy for the Group. Our strategy is to build a long-term savings, protection and investment group by leveraging the strength of our people and capabilities in South Africa and around the world. Through the delivery of this strategy, we will drive our businesses to enhance value for both our customers and shareholders, increasing our international cash earnings and overall return on equity. During the year, we entered into exclusive negotiations to sell our shareholding in Nedbank, but these discussions did not conclude with a formal offer being made. In 2011, we will continue to work with Nedbank to build shareholder value.

We are now one year into a three-year process to deliver this strategy and are making significant operational progress. We are rationalising our activities over time, reducing the complexity of the Group and improving our structure as we manage our business with a disciplined approach to risk management, governance and allocation of capital. We have taken steps to simplify our Group by selling the US Life business, subject to regulatory clearance, and will continue to maintain our strict criteria for keeping businesses within the Group:

they must meet our capital and risk targets; be capable of achieving a 15% return on equity; add value to other parts of the Group; and be capable of creating future value for shareholders.

We have previously said that we will explore the possibility of listing a minority of the US Asset Management business and this remains our intention. The timing of the IPO will be dependent on margin progression, investment performance and growth.

We have set challenging group-wide performance targets for the end of 2012: reducing costs by £100 million; improving return on equity for our Long-Term Savings (LTS) business to between 16% - 18%; and reducing debt by £1.5 billion through proceeds of rationalisation and retained earnings. We have already delivered £59 million of run-rate savings and are committed to deliver our debt reduction target. Return on equity for the LTS business was 18.5% at the year-end, as we benefited from positive, non-recurring items in both the Nordic and Wealth Management businesses. Plans are in place to ensure this performance is sustained within the target range.

We have implemented a new, more effective, governance and control system giving our businesses local autonomy but ensuring that they work within Group structures and disciplines, particularly on risk and product underwriting standards. This new approach has been implemented effectively and has resulted in the level of one-off operational losses reducing significantly across the Group in 2010. We continue to manage risk effectively and have tightly managed the US Life bond portfolio and our business in Bermuda.

We continue to assemble a strong management team, and recently appointed Peter Bain as CEO of US Asset Management, and Peter Todd as Managing Director of Mutual & Federal. These are key roles for the Group as we look to drive the growth of these businesses.

We are clear on our strategy and are committed to delivering it.

"We are now one year into a three-year process to deliver this strategy and are making significant operational progress"

Julian Roberts
Group Chief Executive

Long-Term Savings (LTS)

Our LTS division delivered very strong results for the year with operating profits up 26% on a constant currency basis. This was driven by strong profit performance by all of the businesses within LTS. Life sales for the year were up 7% and unit trust sales were up 28% on a constant currency basis. Funds under management (FUM) increased and margins improved.

We continued to strengthen the LTS management team and we appointed new CEOs to the Nordic business and the investment business in South Africa (OMIGSA) as well as new heads of Product and IT, roles which are critical to leveraging our capability and delivering the strategy.

£1,481m

Adjusted Operating Profit

We made significant strides in implementing the LTS strategy in 2010. The business delivered run-rate savings of £44 million, against the targeted cost reduction of £75 million. This was primarily driven by Wealth Management which removed £35 million of costs in 2010 against its stated target of £45 million by 2012. We are seeking to leverage our IT and administration capabilities in South Africa to drive economies of scale and in December we opened a new office in Cape Town to provide customer service processing and IT support for Retail Europe's customers in Germany, Poland and Austria. Launching new and innovative products through easily accessible distribution channels is key to our aim of becoming our customers' most trusted partner. Whilst this work is still at an early stage, we introduced a number of new initiatives in 2010. Old Mutual South Africa (OMSA) and Mutual & Federal jointly developed a new short-term insurance product iWYZE for the retail mass market in South Africa. This product is distributed through traditional mass market models but also through digital channels and in the nine months since it launched, has already attracted nearly 5,000 customers. To date, iWYZE has also created approximately 150 new jobs in South Africa, primarily for young people.

GROUP CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Through our joint venture in India, Kotak Mahindra Old Mutual Life Insurance, we launched an online portal allowing customers to buy term insurance at a cheaper rate than through normal distribution channels. In Mexico, a unit-linked product was redesigned in conjunction with our team in South Africa and has since proved a key driver of our increased sales in the country. We also introduced a new Mass Retail distribution team into Mexico in December.

LTS: Emerging Markets

In South Africa, our business delivered a strong performance with life sales up 7% and unit trust sales up 17%. There was a noticeable improvement in sales in the second half as interest rates were cut and as the economic environment in South Africa stabilised. We saw good sales growth in both the Retail Affluent and Mass Foundation segments, with a particular focus on savings products. The latest economic data is encouraging for the performance of the business in 2011.

We launched the Futuregrowth *Agri-Fund* focusing on responsible equity investments in agricultural land, agri-businesses and farming infrastructure. OMIGSA attracted more than R8 billion into social infrastructure investment. Responsible funds are an important part of our commitment to helping build South African infrastructure and increase jobs for all parts of society.

Mexico saw growth of 36% due to the introduction of a regular premium savings product in the first half of the year. In China, our joint venture with Guodian had a strong year with APE sales up 77% to CNY163 million in 2010, following a new channel diversification strategy.

We have set a target for our profits from our rest of African insurance operations to be the equivalent of 10% of our South African profits by 2012, and 15% by 2015. To do this, we will leverage our experience and knowledge of the mass market sector in South Africa to grow our distribution channels through tied-agents and bancassurance and drive product development. We will also look to exploit new channels as they are established. For example, in Kenya we have seen initial success in distribution through mobile phones.

We see other opportunities for growth in Africa, but remain mindful of our strict criteria for investment and any expansion must be within appropriate risk-adjusted returns.

We have a solid foundation in South Africa from which we can drive growth in other emerging markets, and we are adapting our senior management structures, roles and responsibilities to achieve this. Our priorities for 2011 include growing our sales force; designing and adapting products for a wide range of customers; making it easier for our customers to access financial services and promoting a savings culture in the markets in which we operate. We have confidence in the underlying business and are well-positioned to exploit business opportunities as the economies of the Emerging Markets grow.

LTS: Nordic

The Nordic economies experienced positive GDP growth in 2010 and our Nordic business also had a good year, delivering a 66% uplift in profit. Life sales were down 21% on the prior year, in line with management expectations, following the closure of an unprofitable business line in 2009. Our Danish business grew strongly. FUM was up 14% on the prior year, mainly due to improved equity markets, which also contributed to strong growth in mutual funds, up 37%.

During 2010, the Nordic business focused on building distribution and product offerings, increasing efficiency and optimising its structures and risk frameworks. The management team was strengthened and a new CEO appointed.

2011 is a critical year for Nordic as it focuses on delivering its cost savings target of £10 million per annum. The cost of delivering these savings is likely to have a negative impact on the profitability of the business in the coming year. The management will continue to focus on driving sales, increasing margins and delivering an improved distribution and product offering for the future development of the businesses in a rapidly changing marketplace. The economic outlook for the year is positive across all the geographies and we expect the Nordic savings markets to grow, albeit in a more competitive and fragmented market environment.

LTS: Retail Europe

Retail Europe delivered a very positive performance in 2010, in the context of GDP growth in all its markets. Equity markets were up, with the DAX showing a 16% gain for the year. Profits for Retail Europe were up 140% on the prior year, with APE sales up 7% and mutual funds flat. FUM was up 23%.

Retail Europe continued to focus on building an integrated organisation and reducing operating costs. As part of the focus on costs, IT and client administration services for Retail Europe are being transferred to South Africa. One-off costs associated with the transfer will impact profitability in 2011, before the benefits start to come through in 2012.

The uplift in sales was driven by new product launches in Germany, Poland and Switzerland. We also improved our marketing and sales drives to customers and built strong, more fruitful relationships with our distributors in 2010 and these proved to be significant drivers of the business's improved profits.

4.0p

Total dividend for 2010 (1.5p in 2009)

Macro-economic factors will continue to influence the business in 2011. Positive equity and bond market performances will raise consumer confidence although we expect there to be continued concern over unemployment levels. We have a programme of product innovation for the markets in Germany and Poland which should underpin growth in these attractive markets.

LTS: Wealth Management

This has been a significant year for Wealth Management. APE sales were up 19%, and it delivered an 86% growth in profit, driven by delivery of £35 million of run-rate savings, against its 2012 target of £45 million.

Investor confidence was boosted by the return to growth in equity markets which led to increased funds under management in all of our businesses. In the UK, we saw a continuation of the trend of IFAs converting to platform sales, for both wrapped and unwrapped sales. This was particularly noticeable in the first half as IFAs moved large blocks of business on to our platform ahead of the tax year-end. Skandia's market share in the UK continued to grow, and at the end of the third quarter we had captured 7.4% of all industry channels, versus 6.4% in the fourth quarter in 2009. Skandia Investment Group's (SIG) *Spectrum* risk-targeted funds had a successful year with funds under management at more than £750 million with the funds now available on all the major IFA platforms in the UK. SIG also provided the technical expertise to allow the Nordic business to launch its own risk-targeted funds, based on the *Spectrum* concept, into Sweden.

During 2011, Wealth Management will continue to focus on cost reduction, improving efficiency and meeting its 2012 targets, increasing risk controls and improving the functionality of the platform and the richness of the product offering. We are seeing an increasing demand from customers for products and services that are focused on their needs, are easy to understand and do not rely on heavy up-front commission to drive sales and with the forthcoming Retail Distribution Review, governments having to roll-back state retirement provision and the corresponding need for personal retirement savings, our Wealth Management business is well placed to meet customer demand. We plan for the platform to add to the profits of the Wealth Management business in 2012.

Nedbank

Household finances improved in South Africa as debt started to reduce and interest rates eased to the lowest levels in 36 years. The recovery in the credit cycle has proved to be more modest compared to previous cycles. The ratio of household debt to disposable income reduced marginally and at the same time debt service levels decreased to 7.5% and are now at a level that is more conducive to improving economic growth in the consumer sector. In the corporate sector, excess capacity and uncertainty over the sustainability of the local and global recovery limited spending.

Nedbank showed solid earnings growth in a challenging economic environment. Headline earnings increased by 15% to R4,900 million, and non-interest revenue increased 11% to R13.2 billion. Net interest income increased 2% to R16.6 billion.

GROUP CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Nedbank's credit loss ratio improved to 1.36% for 2010, its liquidity position remains sound and its capital ratios remain above target levels. The Tier 1 capital adequacy ratio of 11.7% marginally improved from that at 31 December 2009, and the total capital adequacy ratio ended the period at 15.0%.

Nedbank is a strongly performing business and a significant contributor to the Group. We have a clear strategy for growth with the key thrusts being the repositioning of Nedbank retail, growing non-interest revenue, focusing on areas that yield higher economic profit and increased focus on the rest of Africa.

20%

EPS up 20% (constant currency basis)

Mutual & Federal

2010 was a good year for Mutual & Federal with profits up 27% and a strong underwriting performance following the cancellation of unprofitable business, a relatively benign claims environment and a greater focus on claims cost control.

During 2010, we introduced the step-change programme at M&F. Peter Todd has been appointed as Managing Director of M&F and will drive the delivery of the step-change programme over the next three years. The objectives of the programme are to embed profitable and sound underwriting; to develop better products; to be more customer-focused; grow our customer base by offering the right distribution models; and improve efficiency. As part of the step-change programme, we aim to improve profitability through growth in the direct and broker channels and through the reduction of claims costs and expenses. During the year, we entered the direct insurance channel via iWYZE, the joint initiative with OMSA. This is the first step in extracting greater value from M&F's position within the Old Mutual Group following the buy-out of minorities.

With its strong balance sheet and increased focus on alternative distribution channels, we are confident that we can grow revenue while improving our expense ratios.

US Asset Management (USAM)

USAM profits improved 4% over 2009 due primarily to higher average FUM. We saw net inflows into fixed income products, which were offset by outflows from equity, alternative and stable value products leading to an overall negative NCCF of $18.0 billion. During the recent market dislocation, a number of our affiliates underperformed in certain of their strategies, but we are confident that they will deliver outperformance in time. Echo Point began operating as a USAM affiliate in October launching with $1.7 billion funds under management in international growth equities.

Non-US clients represented more than a quarter of total funds under management and a key objective for us is to grow and diversify this base. We have expanded our global distribution through the hiring of new staff and we are expanding our distribution presence in the Middle East, resulting in US Asset Management now operating out of 13 countries. Growing the international element for US Asset Management is a priority for the business and we continue to work toward improving our margin with a target of 25-30% by the end of 2012 and improving investment performance.

Peter Bain has been appointed CEO of US Asset Management. Peter has a proven track record in growing a boutique asset management company and his appointment is a key milestone for the US Asset Management business as we look to grow the business.

We believe in our boutique model, with its 18 affiliates and 160 investment strategies. As investor confidence improves, and with our extensive diversified product portfolio including non-US equity exposure, we believe we have the opportunity to capture a share of these flows.

We continue to explore the possibility of a partial IPO by the end of 2012.

Dividend

The Board has considered the position in respect of a final dividend for year ended 31 December 2010, and is recommending a final dividend of 2.9p per share (or its equivalent in other currencies). This makes a total dividend payment for the year of 4.0p compared to 1.5p in the previous year. A scrip alternative will be offered to eligible shareholders.

South African Empowerment

In South Africa in 2010, OMSA achieved and Nedbank maintained a Level 2 rating status and Mutual & Federal a Level 3 rating status as BBBEE contributors.

Outlook

We have made some significant operational progress and we expect 2011 to be a year of further delivery. We are committed to our three-year strategy and meeting our stated operational targets.

Julian Roberts
Group Chief Executive
8 March 2011

GROUP CHIEF EXECUTIVE'S Q&A'S

Julian Roberts answers a range of questions on how Old Mutual is delivering its strategy – and what lies ahead for the Group.

1

It has been a year now since you unveiled your strategic review. How much progress have you made?

Our strategy is to build a long-term savings, protection and investment group. One year into a three-year process, we have made significant operational progress.

When we announced our strategy, we said we would streamline and simplify the Group where we could create shareholder value. We have set some criteria to test this, which are:

- Does the business meet or can it meet our RoE target?
- Does the business contribute to or can it contribute to other parts of the Group?
- Can it become meaningful in the context of the Group's earnings?

As a result of applying these criteria, we have agreed to sell our US Life business for US$350 million.

We are making good progress in achieving the operational targets we set. We have delivered £59 million of run-rate savings against our target of £100 million. For our Long-Term Savings business, we set a return on equity target of 16-18%: last year, its RoE was 18.5% and we aim to ensure that this is sustained. We remain committed to reducing our debt by £1.5 billion by 2012.

In addition, we have implemented a new, more effective governance and control system. This is already working well, with the number of one-off operational losses reducing significantly during 2010. We have strengthened our management team with new CEOs in Nordic, US Asset Management, Mutual & Federal (M&F) and OMIGSA.

So we have made a good start to meeting our strategic objectives – though we recognise we still have a lot of work to do over the next two years.

2

What are the major challenges and opportunities for the Group in 2011?

We have achieved a lot in 2010. The challenge now is to ensure we maintain that rate of progress.

We saw good profit growth last year, and sustaining that momentum is crucial. While the global outlook remains somewhat volatile, we believe that, as long as we maintain what we have been doing, we can continue to grow our sales and profits.

This year we must deliver further on our strategy. We need to continue to deliver cost savings, reduce our debt and work on leveraging our strengths across the Long-Term Savings division.

In Emerging Markets, we will focus on designing new products for our customers and ensuring we have the right methods of selling to them. We are excited by the opportunities we see in Emerging Markets and the potential for expanding our footprint in sub-Saharan Africa.

Our restructuring programme in Nordic is intended to reduce its costs and increase its profitability. Retail Europe is rolling out a suite of new products and Wealth Management will continue reducing costs and improving efficiency.

We have a new CEO at US Asset Management, whose declared priorities are maintaining investment discipline to improve performance and net client cash flow, driving growth and improving margins. We are continuing to explore a partial IPO of this business.

At Mutual & Federal, our new MD will be driving its Step Change Programme, which is necessary to refocus and grow the business. And Nedbank has a clear strategy for growing its retail business and non-interest revenue.

3

How are you putting the customer at the centre of everything you do?

Putting the customer at the centre requires us to understand what our customers need, offering them the right products through the right distribution channels in each of our markets, while providing unrivalled customer service. This will create long-term, sustainable competitive advantage.

We have to develop specific products, distribution systems and processes to meet the needs of customers in two distinct types of market: developed countries and emerging markets.

In the UK, for example, we offer flexible, transparent products primarily through our Skandia platform. Evidence of the development of the platform business can be found through our growing share of the UK savings market: by the end of the third quarter of 2010 we had achieved a 7.4% share, up from 6.4% at the end of 2009.

In Emerging Markets, we have a wider product set, often centred on regular-premium protection products and distributed through the channels that suit our customers. We focus on delivering value – making sure that our products are transparent, our fees are clear and our customers get what they want and need.

4

How would you judge Old Mutual's performance last year?

I am very pleased with our performance in 2010 and would say it has been a year of substantial improvement. Our adjusted operating profit was up 14%, adjusted earnings per share were up 20% and Group return on equity was up from 9.1% to 12.2%. In light of these strong results, our Board has recommended an increased final dividend of 2.9p, making a total of 4.0p for the year.

Our funds under management increased during the year to £309 billion and our financial position remains robust.

Looking at our performance in more detail, we saw 7% growth in life sales on an APE basis and 28% growth in unit trust sales in Long-Term Savings. Each of our Long-Term Savings businesses grew its profits during the year. Our Wealth Management business had a particularly good year, with profits up 86%, and the UK platform attracted gross inflows of £5.2 billion. Nordic grew its profits by 66% and Emerging Markets also achieved good sales and profit growth.

Our short-term insurance business, Mutual & Federal, had one of its best underwriting performances to date. And Nedbank reduced impairments, increased non-interest revenue and grew headline earnings by 15%.

So we achieved a good performance overall, with all our businesses delivering progress. Our focus going forward will be on keeping up the good work.

GROUP FINANCE DIRECTOR'S STATEMENT



"... a very strong improvement in results compared to the prior year... AOP earnings per share were 16.0p and return on equity grew to 12.2%..."

Philip Broadley
Group Finance Director

During the year to 31 December 2010 ("the year") Old Mutual showed a very strong improvement in results compared to the prior year. Adjusted Operating Profit (AOP) earnings per share were 16.0p for 2010 compared to 11.6p for 2009. This was driven by improved operational performance across the Group and positive currency movements. Funds under management (core and continuing businesses) grew by 12% compared to the prior year, largely due to improved market conditions. Return on equity grew to 12.2%, primarily as a result of improved margins and favourable foreign exchange movements.

IFRS AOP on a pre-tax basis of £1,481 million for the year was £348 million higher than in the prior year. This was made up of £181 million (52%) due to improvement in trading results, and £167 million (48%) from the positive benefit of currency movements. On a constant currency basis, the AOP for 2009 was £1,300 million. Strong growth in new business sales, lower credit losses in banking, a close focus on overall cost control, improved persistency and higher profits in our general insurance business drove the underlying performance.

Net client cash flows (NCCF) doubled in LTS to £5 billion, and were positive in all our European businesses and in our Retail South African businesses. This was offset by outflows in the Corporate and OMIGSA businesses in South Africa, and in certain affiliates of USAM. The NCCF contribution from Wealth Management was particularly strong, increasing by 56% to £3.9 billion largely from the UK Platform and Italy.

Funds under management increased to £309 billion (core and continuing businesses) although there were periods of substantial market movements in the year. Across all our principal equity markets, second quarter falls more than eclipsed first quarter rises. Markets steadily rose from August onwards, all recording their 2010 highs in the last week of the year. The JSE All Share index rose by 16% in the year, the FTSE rose by 9%, the S&P-500 by 13% and the Swedish SAX:OMX by 23%.

Management Discussion and Analysis of Results for 2010

The principal businesses of the Group are the LTS division, Nedbank, Mutual & Federal and US Asset Management. During the period, Old Mutual owned on average 54% of Nedbank. At 31 December 2010 the market capitalisation of Nedbank was £6.2 billion. The results for each of the LTS businesses, Nedbank, Mutual & Federal and US Asset Management are discussed separately in the Business Review which follows this Report.

FINANCE DIRECTORS FROM AROUND THE GROUP



Iain Pearce
Group Head Office



Katie Murray
Emerging Markets



Marek Rydén
Nordic



Markus Deimel
Retail Europe



Mark Satchel
Wealth Management



Raisibe Morathi
Nedbank



Debbie Loxton
Mutual & Federal



Matt Berger
US Asset Management



Barry Ward
US Life



Michael Sakoulas
Bermuda

Summarised Financial Information

	£m 2010	£m 2009	% Change
IFRS results			
Adjusted operating profit (IFRS basis, pre-tax)[1]	**1,481**	1,133	31%
Adjusted operating earnings per share (IFRS basis)[1]	**16.0p**	11.6p	38%
Basic loss per share	**(6.5p)**	(7.8p)	17%
IFRS profit/(loss) after tax	**(24)**	(118)	80%
Sales statistics			
Life assurance sales – APE basis	**1,583**	1,381	15%
Life assurance sales – PVNBP basis	**12,155**	10,217	19%
Value of new business	**172**	167	3%
Unit trust/mutual fund sales	**10,305**	7,567	36%
MCEV results			
Adjusted Group MCEV (£bn)	**11.0**	9.0	22%
Adjusted Group MCEV per share	**202.2p**	171.0p	18%
Adjusted operating profit Group MCEV earnings (post-tax and non-controlling interests)	**830**	562	48%
Adjusted operating Group MCEV earnings per share	**15.5p**	10.7p	45%
Financial metrics			
Return on equity[1, 2]	**12.2%**	9.1%	
Return on Group MCEV	**10.9%**	10.7%	
Net client cash flows (£bn)	**(6.2)**	(2.7)	(130%)
Funds under management (£bn)	**322.8**	285.0	13%
Interim dividend	**1.1p**	–	–
Final dividend	**2.9p**	1.5p	93%
FGD (£bn)	**2.1**	1.5	40%

1 The year ended 31 December 2009 has been restated to reflect US Life as discontinued.
2 ROE is calculated as IFRS AOP (post-tax) divided by average shareholders' equity of core businesses (excluding the perpetual preferred callable securities).

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

Summary adjusted operating profit statement

£m	Year ended 31 December 2010	Year ended 31 December 2009[1]	% Change
Revenue			
Net earned premiums	**3,278**	2,746	19%
Investment return (non-banking)	**10,585**	10,903	(3%)
Banking interest and similar income	**4,082**	3,989	2%
Fees & commissions	**3,160**	2,538	25%
Other revenue	**298**	311	(4%)
Total revenues	**21,403**	20,487	4%
Expenses			
Net claims and benefits incurred	**(4,564)**	(3,126)	46%
Change in investment contract liabilities	**(6,899)**	(8,341)	(17%)
Bank interest	**(2,500)**	(2,627)	(5%)
Other expenses	**(5,966)**	(5,262)	13%
Total expenses	**(19,929)**	(19,356)	3%
Share of associated undertakings profit/(loss) after tax	**7**	2	250%
Adjusted operating profit/(loss) before tax and non-controlling interests	**1,481**	1,133	31%

1 The year ended 31 December 2009 has been restated to reflect US Life as discontinued.

The improvement in our AOP earnings was principally driven by increased income from rising markets, better underwriting performance in all our insurance businesses, growth in Nedbank's non-interest revenue stream, and the benefit of positive currency movements.

The 19% increase in net earned premiums reflected the growth in new business sales, most notably, in Emerging Markets, Mutual & Federal and Wealth Management. The majority of the fee and commission income growth arose in Wealth Management, largely attributable to the increase in FUM over the period, and in Nedbank, reflecting a growing customer base. Investment return is driven by dividend and interest income, and gains and losses on the fair value of investments and securities, a large proportion of which are held attributable to investment contract holders. The decline in investment return in the year broadly matches the corresponding movement in investment contract liabilities in Wealth Management and Nordic given the investment nature of the contracts written in those businesses. However, in Emerging Markets the increase in investment return is not closely matched by a similar change in investment contract liabilities due to its larger proportion of insurance type products, and because substantial shareholder capital is held in South Africa. Other expenses grew by 13% over the period, reflecting increased levels of new business written, FX movements (primarily the strengthening of the rand) and increased remuneration costs in South Africa.

Group net margin (measured as net profits earned on average assets) increased by 4.3 basis points over the period from 38.7 basis points to 43.0 basis points. Of this, the European LTS businesses generated 3.9 basis points as the uplift in profits significantly exceeded their average asset growth, and 0.3 basis points came from Emerging Markets, where AOP grew at a marginally higher rate than growth in average assets, resulting in a small increase. The increase in profit from the non-LTS businesses resulted in a further 1.6 basis points increase, and the reduced LTIR contribution resulted in a decrease of 1.5 basis points.

	Net Margin (bps)	
	2010	2009
LTS	**72.2**	64.8
Nedbank	**98.8**	95.4
USAM	**5.5**	5.8
TOTAL[1]	**43.0**	38.7

1. Includes M&F and corporate costs. Margins are calculated on the average balance of funds under management and banking assets during the year

Operating profit analysis

Finance costs increased mainly as a result of inclusion of a full-year interest charge on the £500 million seven-year 7.125% fixed rate senior bond placed in October 2009. The interest payable to non-core operations reflects the interest payable on the loan note arrangement between Bermuda and Group following a change to the terms of the arrangement. The decline in other net income and expenses is mainly attributable to a stamp duty reserve tax refund received in the first half of the year (£16 million) and higher dividend income (£5 million). Group costs for 2010 were £60 million (2009: £70 million).

Operating profit analysis

£m	Year ended 31 December 2010	Year ended 31 December 2009 (constant currency)	% Change	Year ended 31 December 2009[1] (as reported)	% Change
Long-Term Savings	**897**	713	26%	636	41%
Nedbank	**601**	548	10%	470	28%
Mutual & Federal	**103**	81	27%	70	47%
US Asset Management	**87**	84	4%	83	5%
Finance costs	**(128)**	(104)	23%	(104)	23%
LTIR on excess assets	**31**	91	(66%)	91	(66%)
Interest payable to non-core operations	**(55)**	(40)	38%	(40)	38%
Interest receivable from non-core operations	**16**	12	33%	12	33%
Other net income and expenses	**(71)**	(85)	(16%)	(85)	(16%)
Adjusted operating profit	**1,481**	1,300	14%	1,133	31%

1 The year ended 31 December 2009 has been restated to reflect US Life as discontinued.

As anticipated, the LTIR on the shareholder assets decreased from £91 million to £31 million. This was a result of the 390 basis point reduction to 9.4% in the rate applied to shareholder assets within Emerging Markets. This reflected the expected return from the asset allocation of 25% equities and 75% cash in 2010. The LTIR rate in Mutual & Federal was similarly reduced by 390 basis points in 2010. The LTIR rate for Emerging Markets and Mutual & Federal has been further reduced in 2011 to 8.4% to reflect the prevailing low interest rate environment in South Africa.

Reconciliation of Group AOP and IFRS profits

The key adjusting items between our AOP and IFRS profits for the year are deductions of £214 million in respect of acquisition accounting (mainly the amortisation of acquired present value of in-force business), £83 million for short-term fluctuations in investment return (of which £71 million relates to the smoothing of previous years' deferred tax assets), and £203 million in respect of the impact of marking-to-market of Group debt, as the improvement in the external valuation of Group debt in the year negatively impacted profit after tax

Reconciliation of Group AOP and IFRS profits

	Year ended 31 December 2010 (£m)	Year ended 31 December 2009[1] (£m)
Adjusted operating profit	**1,481**	1,133
Adjusting items	**(482)**	(973)
Non-core operations – Bermuda	**(3)**	1
Profit before tax (net of policyholder tax)	**996**	161
Income tax attributable to policyholder returns	**149**	192
Profit before tax	**1,145**	353
Total income tax	**(456)**	(400)
Profit/(loss) from continuing operations after tax	**689**	(47)
Profit/(loss) from discontinued operations after tax	**(713)**	(71)
Profit/(loss) after tax for the financial year	**(24)**	(118)
Other comprehensive income for the financial period	**1,151**	1,228
Total comprehensive income for the financial period	**1,127**	1,110
Attributable to		
Equity holders of the parent	**594**	709
Non-controlling interests		
Ordinary shares	**428**	334
Preferred securities	**105**	67
Total comprehensive income for the financial period	**1,127**	1,110

1 The year ended 31 December 2009 has been restated to reflect US Life as discontinued.

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

for the year. This reverses previous years' mark-to-market gains on Group debt. Other adjustments net to £18 million.

As previously reported, the prior year AOP results benefited from the structural tax efficiency applicable to UK companies writing unit-linked business in the UK, together with the smoothing of previous years' deferred tax assets. These assets arose during the significant market volatility of the preceding two years where falls in the value of policyholder assets resulted in the recognition of significant deferred tax assets in the IFRS income statement, which were spread forward under AOP. The pre-tax smoothing for 2010 gave rise to a profit of £71 million, a similar amount to 2009. For 2011, the pre-tax impact will be a profit of £27 million, falling to nil thereafter.

The profit on continuing operations of £689 million was offset by a loss on discontinued operations of £713 million, resulting from the impairment of the US Life business in anticipation of its sale at the terms agreed with the purchaser. The Group produced a loss after tax of £24 million on an IFRS basis. In addition to this the Group generated other comprehensive income of £1,151 million largely from favourable currency movements. There was therefore an increase in net assets of £1,127 million in the period.

Group cost savings and ROE and margin targets

At the 2009 Preliminary Results and Strategy Update, the Group introduced three-year cost saving and return on equity targets. The improvement in RoE has been driven by the achieved cost savings, and increased FUM resulting from strong growth in new business sales and positive market levels.

We are in the process of delivering the reduction in the cost base of our businesses as announced in March 2010. Wealth Management has made good progress with £35 million of run-rate savings achieved to date against the 2012 target of £45 million. Retail Europe has achieved £6 million of run-rate savings as a result of reduced staff costs and centralisation of functions in Berlin. US Asset Management delivered around £15 million of actual savings in the year as a result of restructuring in 2009, and therefore on a run-rate basis, the business is already exceeding its target. Costs to achieve this in 2010 totalled £45 million. Our focus in 2011 and 2012 will be on continued execution, particularly in Wealth Management, Nordic and Retail Europe, while maintaining the reductions we have achieved to date. The costs of executing the cost reduction process will restrict 2011 profits from these businesses. Nordic restructuring costs are anticipated to be approximately £30 million in 2011.

Progress against ROE and margin targets

	2010	2009	2012 Target
Long-Term Savings[1]			
Emerging Markets	**25%**	23%[2]	20%-25%
Nordic	**11%**	12%	12%-15%
Retail Europe	**20%**	9%	15%-18%
Wealth Management	**14%**	8%	12%-15%
LTS Total	**18.5%**	14.8%[3]	16%-18%
USAM Operating Margin	**18%**	18%	25%-30%

1 ROE is calculated as IFRS AOP (post tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles.
2 Within Emerging Markets, OMSA is calculated as return on allocated capital. Full year 2009 has been adjusted to the 2010 LTIR rate.
3 Long-Term Savings 2009 restated from 14.9%.

Progress against 2012 cost reduction targets

£m	**2010**[1]	Cost to achieve in 2010	2012 Target
Long-Term Savings			
Emerging Markets	**–**	–	5
Nordic	**3**	5	10
Retail Europe	**6**	5	15
Wealth Management	**35**	27	45
LTS Total	**44**	**37**	**75**
USAM	**15**	8	10
Group-wide corporate costs	**–**	–	15
Total	**59**	**45**	**100**

1. Run-rate savings delivered to date.

Summary MCEV results

	p
Adjusted Group MCEV per share at 31 December 2009	**171.0**
Adjusted operating Group MCEV earnings per share	**15.5**
Covered business	11.0
Non-covered business	4.5
Below the line effects	**15.7**
Economic variances and other	11.2
Foreign exchange movements	15.9
Dividends to shareholders	(2.7)
Nedbank market value adjustment	1.7
M&F dilution	(7.1)
BEE and ESOP adjustment	1.1
Marking debt to market value	(4.4)
Adjusted Group MCEV per share at 31 December 2010	**202.2**

Summary MCEV results

The adjusted Group MCEV increased 22% from £9.0 billion at 31 December 2009 to £11.0 billion at 31 December 2010. The adjusted Group MCEV per share increased by 18% (or 31.2p) from 171.0p to 202.2p over the same period.

The adjusted operating Group MCEV earnings per share increased by 4.8p from 10.7p for 2009 to 15.5p for 2010.

Non-covered business operating earnings per share, at 4.5p, were 3.2p higher for 2010 compared to the 2009 result of 1.3p, as a result of:

- Higher profits in the asset management businesses, arising from higher funds under management, and
- Higher sterling profits in the banking business due to greater fee income and lower bad debt charges.

Covered business operating MCEV earnings of 11.0p were 1.6p higher in 2010 compared to 9.4p in 2009 as a result of:

- A strong turn-around in the contribution from experience variances, due to improved persistency experience relative to the assumption changes made at December 2009, and improved expense experience;
- Lower contribution from operating assumption changes, particularly for persistency and expenses; offset by
- A lower expected existing business contribution, mainly resulting from a reduction from the contribution made by US Life due to lower yields on the corporate bond portfolio at the start of 2010 compared to the start of 2009; and
- An adverse contribution from methodology changes and error corrections, (reflected as part of other operating variances).

The net risk-free return from investment in new business in LTS (calculated as VNB based on the risk-free return, divided by the free surplus invested in new business) has increased from 35p per £1 in 2009 to 48p per £1 in 2010, with all LTS businesses contributing to the improvement.

A substantial component of the increase in adjusted Group MCEV per share during 2010 was due to significant foreign exchange gains as a result of the strengthening of the rand, dollar and krona to sterling. The balance of the increase was due to the impact of economic variances (the increase in the equity markets and reductions in interest rates), and the expected existing business contribution from covered business. This is partially offset by the dilutionary effect of the Mutual & Federal (M&F) acquisition of minorities and the adjustment to mark the debt to market value.

The M&F minority interests were acquired on 8 February 2010, in consideration for 147 million Old Mutual plc shares. This transaction diluted the adjusted Group MCEV per share by 7.1p as a result of a change of the basis of valuation of M&F as an unlisted entity (reduction of 2.5p), and the additional shares issued as consideration to the M&F minorities (reduction of 4.6p). M&F is now incorporated in the adjusted Group MCEV at the IFRS net asset value (31 December 2010: £409 million). Previously it was included at the Group's share of the market value (31 December 2009: £448 million), which was higher than IFRS net asset value (31 December 2009: £265 million).

The MCEV methodology does not capitalise returns on assets in excess of the adjusted risk-free reference rates. For the US Life business, we have estimated that the present value of credit spreads not valued at December 2010 amounted to £593 million, compared to £571 million at December 2009.

GROUP FINANCE DIRECTOR'S STATEMENT
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Taking this into account, we estimate that the value of US Life including an appropriate allowance for additional credit spreads (a proxy to the European Embedded Value basis) was £404 million at December 2010 compared to £253 million at December 2009.

Risk management using Economic Capital and Market Consistent Embedded Value

The Group's current internal Economic Capital models form the basis of the Risk Appetite and limit-setting framework, which is applied on the basis of Market Consistent valuation methodologies and assumption setting processes. In this way the Group is able to ensure that Risk Appetite and exposures are derived with respect to a risk-neutral benchmark, which adds value by ensuring that the Group makes explicit decisions regarding risk assumption inherent in New Business and management of the in-force book. We believe that this disciplined approach facilitated better decision-making around risk assumption over the past year. The new Solvency II internal model builds on the work done under the current Economic Capital model, and will be used in future to generate benefit in respect of making decisions which formally quantify potential investment and market risk exposures, hence support better informed decision-making.

Free surplus generation

The Group generated £759 million of free surplus in the period (2009: £434 million), of which £503 million (2009: £581 million) was generated by the LTS division. £519 million (2009: £249 million) of the £759 million was generated from covered business (which includes US Life and Bermuda). We anticipate that the value of our in-force business will generate £3 billion of free surplus from the covered business over the next five years. Free surplus generated from the in-force business is used to cover investment in new business, to pay dividends, and to provide free cashflow to the Group.

Sources and uses of free surplus

Gross inflows from core and continuing operations were £1,016 million (2009: £1,064 million), and new business spend was £419 million (2009: £438 million). Total net free surplus generated of £645 million was lower than the £782 million in 2009 due to cash costs of restructuring in 2010 and the acceleration of cash flow in respect of the VIF financing for Skandia International in 2009.

Capital, liquidity and leverage Capital

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive, at 31 December 2010 was £2.1 billion. The Group followed the FSA's requirements, and gave it six months advance notice of its right to call a £300 million Lower Tier 2 instrument at the first call date of 21 January 2011. The bond was subsequently called on this date. As a result of that notice, the Lower Tier 2 instrument had been excluded from the regulatory capital surplus calculations as at 31 December 2010. On a like-for-like basis, the regulatory capital surplus at 31 December 2010 was £2.4 billion (31 December 2009: £1.5 billion). The FGD of £2.1 billion represented a coverage ratio of 146%, compared to 135% at 31 December 2009. The increase in the coverage ratio since 31 December 2009 comprises statutory profits in LTS (Emerging Markets and UK) and Nedbank, reduced resilience risk capital requirement in Bermuda due to hedging and a reduction in Nedbank's capital requirement reflecting a change to the "capital floor" regime operated by the South African Reserve Bank. These positive changes have been partially offset by increased capital requirements in Emerging Markets, deduction of intangible assets in Nedbank for the first time and by the payment of Group ordinary and preferred dividends. On completion of the US Life transaction, and as previously announced, we would anticipate a reduction in FGD surplus of approximately £100 million.

Our Group regulatory capital, calculated in line with the FSA's prudential guidelines, is structured in the following way as noted in the table below:

Capital

£m

	2010	%	2009[1]	%
Ordinary Equity	**5,168**	**77**	4,171	71
Other Tier 1 Equity	**653**	**10**	611	10
Tier 1 Capital	**5,821**	**87**	4,782	81
Tier 2	**2,363**	**35**	2,562	44
Deductions from total capital	**(1,439)**	**(22)**	(1,497)	(25)
Total Capital	**6,745**	**100**	5,848	100

1 2009 restated to reflect actual FSA submission.

Subsidiary businesses' local statutory capital cover

Business unit	At 31 December 2010 Ratio	At 31 December 2009 Ratio
OMLAC(SA)	**3.9x**	4.1x
Mutual & Federal	**2.02x**	1.53x
US Life	**350%**	312%
Nordic	**9.8x**	10.8x
UK	**2.8x**	2.9x
Nedbank[1]	**Core Tier 1: 10.1%** **Tier 1: 11.7%** **Total: 15.0%**	Core Tier 1: 9.9% Tier 1: 11.5% Total: 14.9%

1 This includes unappropriated profits.

Tier 1 Capital includes £203 million of hybrid debt capital reported for accounting purposes as minority interests and Tier 2 includes £338 million of capital hybrid debt, which is reported as Group preference shares.

The Group's FGD surplus is calculated using a method called "deduction and aggregation", and is the Group's capital resources less the Group's capital resources requirement. Group capital resources is the sum of the business unit net capital resources, which is calculated as its stand-alone capital resources less the book value of the Group's investment; the Group capital resources requirement is the sum of each business unit's capital requirement.

The contribution made by each business unit to the Group's regulatory surplus will, therefore, be different from its locally reported surplus since the latter is determined without the deduction for the book value of the Group's investment. Thus, although all our major business units have robust local solvency surpluses, a number of them do not make a positive contribution to the Group's FGD position. The corollary of this is that a disposal of a business unit at a value equal to or greater than its net asset value will normally have the effect of increasing the Group's FGD surplus.

We have set a target to reduce the Group's debt by at least £1.5 billion on a cash basis by the end of 2012, whilst ensuring also that the Group's balance sheet and the holding company's liquidity continues to be prudently managed against our internal targets. In 2010 the holding company repaid £97 million of Old Mutual senior debt and on 21 January 2011 the Group repaid its £300 million Lower Tier 2 security.

Liquidity

As a Group we continue to maintain effective dialogue and strong commercial relationships with our banks and credit investors. As of 31 December 2010, the Group has available cash and committed facilities of £1.4 billion (31 December 2009: £1.2 billion). Of this cash on hand at the holding company was £0.4 billion (31 December 2009: £0.4 billion).

In addition to the cash and available resources referred to above at the holding company level, each of the individual businesses also maintains liquidity to support their normal trading operations.

Net inflows from businesses less expenses increased compared to 2009 and included a net remittance from US Life of £51 million. The holding company made ordinary dividend payments in the period of £65 million and offered a scrip dividend

Holding company net debt

	£m	
	2010	2009
Opening net debt	**(2,273)**	(2,263)
Inflows from businesses	**433**	529
Outflows to businesses and expenses	**(201)**	(339)
Debt and equity movements:		
Ordinary dividends paid (net of scrip dividend elections)	**(65)**	–
Equity issuance	**4**	–
Other movements	**(334)**	(200)
Closing net debt	**(2,436)**	(2,273)
Net decrease/(increase) in debt	**(163)**	(10)

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

election. Of the total other movements of £334 million, £183 million is in respect of the revaluation of the fair value of Group bonds relating to improved credit spreads and the balance is foreign exchange movements and other net flows.

Dividend

Dividend policy

The Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time.

Final dividend for 2010

The Board has carefully considered the position in respect of a final dividend for 2010, and is recommending the payment of a final 2010 dividend of 2.9p per share (or its equivalent in other applicable currencies). A scrip option is also being offered.

Corporate disposals and acquisitions and related party transactions

As set out in the Strategy Update in March 2010, the Group continues to simplify its structure and reduce its spread of businesses to focus on areas of key competence and competitive strength, and drive operational improvements.

On 6 August 2010, the Group announced the disposal of the US Life operations to Harbinger Capital Partners. In February 2011, we agreed to enter into an amended SPA with an affiliate of Harbinger Capital Partners LLC. The Board of Harbinger Group Inc. – a public company listed on the NYSE – has recently agreed to acquire this affiliate. We await regulatory approval for the transaction, and closing is expected at or around the end of the first quarter of 2011. The US Life business has been classified as a non-core discontinued operation, and as such its profits are excluded from the Group's IFRS adjusted operating profit. US Life made a trading profit of £51 million before the deduction of inter-company interest paid to Group. In accordance with IFRS 5, the assets and liabilities of US Life have been classified as held for sale in the statement of financial position for the current year. The amount recognised as the impairment on remeasuring the business to fair value (less the costs to sell) was £827 million. The loss after tax on the sale was £713 million. A summarised review of the operating performance of US Life is set out in the Review of Non-core and Discontinued Business Operations which follows the core operating Divisions.

Solvency II, Risk Allocation and iCRaFT and Financial Controls Initiative project update

Our integrated Capital, Risk and Finance Transformation ("iCRaFT") project is progressing well. The Group has entered the FSA's internal model approval process, and is on track to deliver all requirements for Solvency II compliance. We were the first major UK retail group to submit our Group QIS5 results and the Self Assessment Questionnaire in respect of the internal model to the FSA. In 2011, we will enter the "Use Test" phase, during which we will demonstrate the extent to which we have embedded the new tools and processes, and will hold dry runs of selected Solvency II processes. We expect to be ready to make our full internal model application at the earliest date that the FSA is ready to accept such submissions.

In the LTS showcase presented on 13 October 2010, we published the Group's target risk profile versus current risk profile, along with a range of risk preferences, which considered the trade-offs between capital required to back different classes of liabilities, the risk assumed when underwriting these liabilities, and the margins available from doing so. The work that we have done is focused on ensuring that we deploy capital to underwrite risks that increase shareholder value, within a framework that fully protects promises made to policyholders. The Business Planning process requires business units to define and adopt their risk strategies, indicating how they intend to manage their existing liabilities and which products they wish to offer in future, within the framework of applying capital to these risks in order to create value at the BU level. We are satisfied that we are making good progress with this activity, and that we are achieving our objective to delivering better outcomes, within a stronger risk, capital and value framework.

In 2010, we completed the implementation of our Financial Controls Initiative project putting in place an internal certification framework across all the Group's financial reporting processes to a standard broadly equivalent to the US Sarbanes-Oxley requirements.

Tax and non-controlling interests

The effective tax rate on adjusted operating profits was 23% (2009: 25%). The effective rate reduced as an increased proportion of profits were earned on low-taxed dividends and capital profits, utilisation of group relief against taxable UK income in appreciating markets, and the benefit of secondary tax on companies (STC) credits in OMSA. This was partially offset by increased provisions and deferred tax assets not being

recognised on losses arising in the UK. Looking forward, and depending on profit mix, we would anticipate the long term effective tax rate on AOP returning to the 25% to 28% range.

The non-controlling interests' share of adjusted operating profit increased by £34 million reflecting the minority share of higher Nedbank earnings, supported by the strengthening of the rand.

Risks and Uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's performance and cause actual results to differ materially from expected and historical results.

Whilst world economic conditions have improved from a year ago a number of other factors could impact the Group's ability to create value. Increasingly, governments are recognising the need for effective retirement provision, which provides future opportunities. At the same time, the regulatory environment is moving towards more transparency and providing consumers with more choice, protection and better value for money. Whilst we believe that many of our products align with this requirement, increased consumerism could lead to adverse reputational outcomes across the industry, which may have an impact on our business even though our products may not be the ones leading to such outcomes. Regulatory developments are also impacting on commission structures. The increased regulatory activity may increase the cost of doing business and drive margins down, resulting in a more competitive environment and competition for customers is increasing from both traditional and new players in all markets.

Continued economic uncertainty has contributed to lower consumer confidence, and may influence product preferences to lower risk investment products and affect termination experience in respect of existing and new business. There is also an increased drive from consumers for products with increased capital protection rather than complexity. Movements in asset prices lead to changes in funds under management and the fees that the Group earns from those funds. In instances where these lead to reduced fund values and fees, such movements will have an adverse impact on earnings.

The Group monitors these uncertainties, takes appropriate actions wherever possible, and continues to meet Group and individual entity capital requirements and day to day liquidity needs. Progress has been made with the US Life sale, effective management of Bermuda Variable Annuity guarantee risks and initial activity to explore the US Asset Management IPO.

The implementation of the new operating model is almost complete. Changes designed to implement the "strategic controller" model at the Group level through revision of the governance structure and processes, clarifying roles and responsibilities of Group and business units, and increasing Group presence on business unit Boards and Committees are progressing. Risks remain and may arise from the implementation of cost reduction programmes, streamlining of businesses and processes and other strategic initiatives. Business Performance Executives were appointed in 2010 and form a key part of the Operating Model, increasing engagement and understanding between the Group Head Office and Business Units, focusing on strategic delivery and informing the appropriate decisions.

The Group continues to strengthen and embed its risk management framework, with increasing importance placed upon ensuring business decisions are within Risk Appetite, and that risk exposures are monitored against Appetite, allocated limits and budgets. Risk Appetite limit allocation is now a key part of the Business Planning Process and the Group is progressing in embedding the Risk Appetite process by increased challenge on risks and management actions, as part of the Quarterly Business Reviews.

The Board of Directors has the expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements contained in this document.

Philip Broadley
Group Finance Director
8 March 2011

GROUP EXECUTIVE COMMITTEE





Julian Roberts (53), B.A., F.C.A., M.C.T.
Group Chief Executive
Julian has been Group Chief Executive of Old Mutual plc since September 2008. He is also a non-executive Director of Nedbank Group Limited, Nedbank Limited and Old Mutual Life Assurance Company (South Africa) Limited. He joined Old Mutual in August 2000 as Group Finance Director, moving on to become CEO of Skandia following its purchase by Old Mutual in February 2006. Prior to joining Old Mutual, he was Group Finance Director of Sun Life & Provincial Holdings plc and, before that, Chief Financial Officer of Aon UK Holdings Limited.

Philip Broadley (50), M.A., F.C.A.
Group Finance Director
Philip has been Group Finance Director since November 2008. He was previously Group Finance Director of Prudential plc from May 2000 until March 2008. Prior to joining Prudential, he was a partner in Arthur Andersen from 1993 to 2000. He has been Chairman of the 100 Group of Finance Directors, a founding member and trustee of the CFO Forum of European Insurance Company Finance Directors, and a member of the IASB's Insurance Working Group. He is a member of the Code Committee of the Takeover Panel.

Peter Bain (52), B.A., J.D.
President and Chief Executive Officer, Old Mutual Asset Management (US)
Peter is President and Chief Executive Officer of Old Mutual Asset Management, the US based global asset management business of Old Mutual plc. He has more than two decades of experience leading and advising firms in the investment management industry. Previously he was a Senior Executive Vice President at Legg Mason, Inc, where he held leadership positions from 2000 to 2009. Most recently he served as Head of Affiliate Management and Corporate Strategy, with responsibility for overseeing the firm's investment managers. Prior to that, he was Chief Administrative Officer, responsible for the firm's overall administration and operations.

Andrew Birrell (41), B.Bus. Sc (Hons), FASSA, FFA, ASA, CERA
Group Risk and Actuarial Director
Andrew has been Group Risk and Actuarial Director since March 2009. He joined Old Mutual South Africa in August 2007 as Chief Risk Officer and was appointed Group Chief Actuary at Old Mutual plc in July 2008. Previously he was Chief Operating Officer and Chief Financial Officer at Investec Securities. Prior to that, he was Chief Financial Officer at Capital Alliance Holdings. His early career was at Metropolitan Life.

Mike Brown (44), BCom, Dip Acc, CA (SA), AMP
Chief Executive, Nedbank Group
Mike Brown has been Chief Executive of Nedbank Group Limited since March 2010. He was previously the Chief Financial Officer of Nedbank Group and Nedbank Limited from November 2004. Prior to that, he headed Property Finance at Nedbank and before that he was an executive director of BoE Limited.

Paul Hanratty (49), B.Bus Sc. (Hons), FIA
Chief Executive Officer, Long-Term Savings and Chairman, Old Mutual South Africa
Paul was appointed Head of Long-Term Savings in March 2009 and Chairman of Old Mutual South Africa in September 2009. He has been with Old Mutual South Africa (OMSA) since 1984. He is a fellow of the Institute of Actuaries and has held a number of roles at Old Mutual. These included Head of Product Development, General Manager, Finance and Actuarial and Head of the Retail business of OMSA. He joined the Board of the OMSA life business in 2003 and became Managing Director of OMSA in 2006.

Don Hope (54)
Head of Strategy Development
Don was appointed Head of Strategy Development at Old Mutual in March 2009. He joined Old Mutual as Group Treasurer in May 1999, with responsibility for developing the Group's international treasury function. He is Chairman of Old Mutual (Bermuda) Limited and a non-executive director of Nedbank Group Limited and Nedbank Limited.

Don Schneider (53), B.A., M.A.
Group Human Resources Director
Don joined Old Mutual in May 2009 from Merrill Lynch, where he was Senior Vice President and Head of Human Resources for their Global Wealth Management Division. Prior to that, he headed HR for their Global Markets and Investment Banking Division. Don originally joined Merrill Lynch in 1997 as Head of International Human Resources, based in London, where he was responsible for all HR activities outside the US. Prior to that, Don worked for Morgan Stanley for 13 years and he held a variety of senior HR roles in both New York and London. Don started his career as a consultant in human resources.

From the left:
Peter Bain, Don Hope, Mike Brown, Julian Roberts, Andrew Birrell, Don Schneider, Philip Broadley, Paul Hanratty.

LONG-TERM SAVINGS

KEY FINANCIAL HIGHLIGHTS

Adjusted operating profit (pre-tax)

£897m

2009: £636m

Number of employees

24,044

2009: 22,269

Funds under management

£131.8bn

2009: £105.5bn

Some of our brands

OLD MUTUAL

OLD MUTUAL investment Group

MARRIOTT

skandia

skandia investment group

Futuregrowth

SYMMETRY

Return on equity (RoE) %



Net Client Cash Flow (NCCF)/Funds Under Management (FUM) %



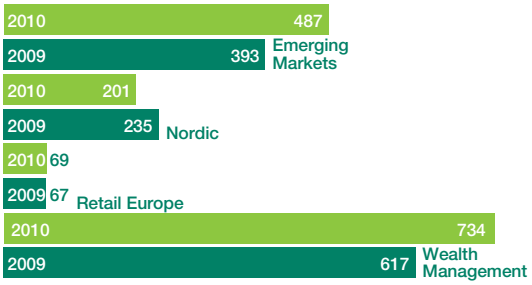
Unit trust sales (£m)



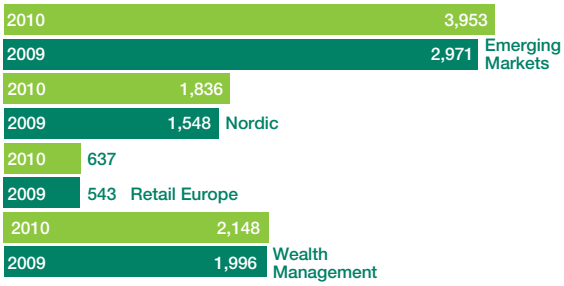
Value added (VNB + Experience Variance)/MCEV %



APE sales (£m)



MCEV (£m)



LTS EXECUTIVE COMMITTEE[1]



Kuseni Dlamini CEO
OMSA & Emerging Markets



Mårten Andersson CEO
Nordic



Jonas Jonsson CEO
Retail Europe



Bob Head CEO
Wealth Management



Richard Boynett
CIO Long-Term Savings



Steven Levin
Director Group Product



Rose Keanly
Managing Director OMSTA and Head of LEAN, LTS



Mike Harper
Managing Director Customer Solutions

1 Andrew Birrell, Don Hope and Don Schneider, members of the Group Executive Committee, are also on the LTS Executive Committee.

The Long-Term Savings (LTS) division offers life assurance, pensions and investment products and operates through four main business units: Emerging Markets, Nordic, Retail Europe and Wealth Management.

Overview

In each of these markets our vision is to be "our customers' most trusted partner, passionate about helping them achieve their lifetime financial goals". Our strategy to achieve this vision is to build a cohesive long-term savings, protection and investment division through leveraging the strength of our people and capabilities both in South Africa and around the world.

Business units:

Emerging Markets: Old Mutual South Africa (OMSA) is one of the largest and longest-established financial services provider in South Africa, providing individuals, businesses, corporates and institutions with long-term savings, protection and investment solutions. Because we are now leveraging the business into other high growth economies, we have combined it with our Latin American, Asian and African businesses.

Nordic: Operating in Sweden, Norway and Denmark under the Skandia brand, we offer banking and insurance services for individuals and corporates.

Retail Europe: Operating in Austria, Germany, Poland and Switzerland under the Skandia brand, we are one of the leading unit-linked providers – offering innovative and flexible products and strong investment knowledge.

Wealth Management: Operating mainly under the Skandia brand with businesses in the UK, Italy, France and in our offshore International bases. Our offer is based on open and guided architecture accessed through unit-linked life insurance, pensions and mutual funds.

Strategy

Within LTS we have three different types of businesses which together provide high returns combined with high growth:

- **High returns on equity (RoE) and high cash generation businesses**
- **High revenue growth potential businesses** but which are not operationally efficient at this stage. Because of their product design and structure these businesses are very capital-efficient and new business is self-financing
- Businesses in emerging markets, which we have the **opportunity to grow**. These will require funding for a number of years but in the long run will produce growth and value for shareholders.

The funding needs of the latter two business types are modest in relation to the rest of the portfolio, so in combination the three different categories provide an excellent mixture of high RoE and good growth potential, in both the medium and longer term.

Our strategy aims to:

- complement our strong, highly profitable and mature OMSA business by leveraging our South African capabilities to grow and develop our businesses in selected African, Latin American and Asian markets
- operate capital-efficient, fast-growth businesses in selected UK and European markets
- exploite capital, cost and revenue synergies between the various businesses.

The strategy is underpinned by building a culture of customer focus and value creation internationally.



Paul Hanratty
CEO Long-Term Savings and Chaiman, Old Mutual South Africa

"Our key strengths are our knowledge of managing distribution, product design and controls and efficient administration. Our challenge is to develop this across all of our LTS businesses."

LONG-TERM SAVINGS
CONTINUED

The LTS portfolio provides high returns combined with high growth

High RoE/High cash generation	High revenue growth potential	Opportunity to grow
■ Slow growth ■ Large market share ■ Generate high cash returns that fund new business, allow for acquisitions and Group dividend	■ Low profit generation relative to enterprise value ■ High cost bases ■ Potential for rapid profit growth on restructuring / efficiency gains ■ Largely self funding in terms of new business and growth ■ New business tends to be cash demanding	■ Require funding of business at least until breakeven ■ Rapid growth of sales ■ New business tends to be capital intensive ■ Potential to grow embedded / enterprise value rapidly ■ Cash generation is far out
■ **OMSA** ■ **Namibia** ■ **Colombia**	■ **Wealth Management** ■ **Nordic**	■ **Retail Europe** ■ **Africa** ■ **Asia** ■ **Mexico**

By identifying where customer needs are not being met, we are able to exploit synergies across LTS, for example by taking proven retail products from OMSA's mass foundation cluster to other markets where product penetration levels are low and where economic growth will happen over time. We are applying strong risk capital management and performance management frameworks with strong local management teams. In addition we have developed LTS-wide roles to ensure we exploit synergies and establish centres of excellence. These roles – covering IT, product, LEAN methodology and distribution – will help us to gain competitive advantage by delivering appropriate products and services efficiently.

In South Africa we already have scale and exceptional levels of quality, straight-through processing and low unit costs. We are experienced in developing products for sophisticated markets as well as in developing simple products for middle-income markets and we have experience in pricing diverse risks. We run multiple distribution channels and have a comprehensive understanding of different types of distribution. We already have experience in leveraging these capabilities into high-growth markets such as India. Our approach to leveraging our skillset in South Africa to the rest of Emerging Markets is based on sharing product experience, people and professional skills, systems and processes, and distribution knowledge.

Through our Skandia businesses we have built excellent market positions as capital-efficient businesses in Europe and in the UK. These have a history of innovation and are very well positioned because of the customer value that they deliver, exploiting opportunities to take market share from more traditional, less customer-orientated competitors. We aim to grow their revenues while constraining costs and ultimately driving up operating performance by adopting LEAN methodology.

While we are primarily focused on leveraging our capabilities in South Africa into emerging markets and improving the operational performance of our European businesses, there are also opportunities to achieve synergies between them. Our businesses connect at a capital level and are well resourced for future growth. At the same time, there are opportunities for cost and revenue synergies. The cost synergies lie primarily in the IT area and in outsourcing some work to South Africa. The revenue opportunities lie in sharing product knowledge and ideas as well as what we know about building distribution channels.

The recent financial crisis highlighted the need for the financial industry to operate more efficient businesses in order to compete for market share among more financially-conscious customers. We have introduced a number of efficiency programmes in four basic categories:

1. **Transforming Wealth Management:** implementing shared services models to reduce costs by taking out expensive layers of overhead and management and producing simplified management information.
2. **Transferring Retail Europe back-office to South Africa:** outsourcing to lower-cost geographies, where we can achieve process efficiencies and scale.
3. **Reviewing Wealth Management and Nordics:** driving LEAN methodology thinking across the businesses.
4. **Transforming IT:** we are optimising outsourcing, shared computing and IT sharing applications. We are enabling business efficiency and innovation for both local and international competitive advantage through one IT partnership.

Achieving our LTS targets

	Implementation	Measures
Driving revenue growth	■ Exploit growth opportunities in emerging markets ■ Position for sweet spot in Europe	■ (VNB + Exp Var) / MCEV ■ NCCF / FUM
Reducing cost	■ Specific efficiency programmes in each business	■ Administration expenses
Synergies	■ Adopt LEAN methodology across all businesses ■ Potential IT synergies, particularly in outsourcing ■ Product lines extended to other markets	■ Expenses ■ APE
Capital efficiency	■ Focus on capital light products ■ Diversification benefits	■ Equity (E)

Achieving our LTS targets

We are focusing on four main areas to create shareholder value. Each has associated measures to track the result. These are set out in the table above.

We are gradually rolling out a common approach to creating shareholder value across all our business units. This focuses on the creation of economic profit – generating profits that exceed the risk-adjusted cost of the capital that these businesses absorb. The economic profit framework is beginning to shape all our capital allocation decisions and we are extending it to assess business performance and determine management reward.

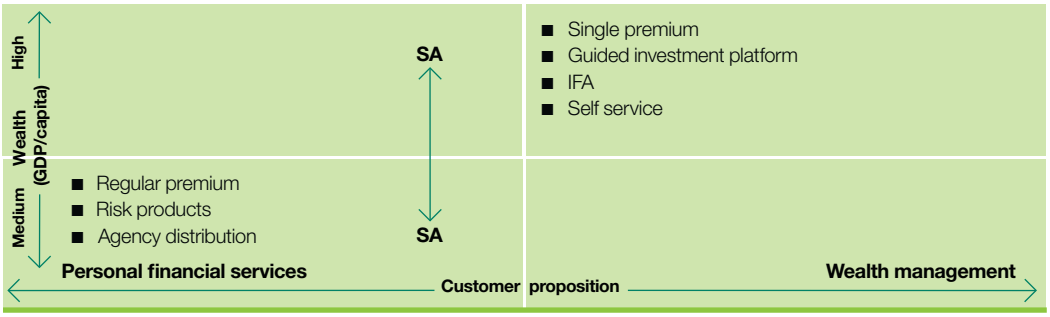
We recognise that many of our investors favour embedded value as a measure of enterprise value. So we monitor very closely the value added by management, through the sale of profitable new business and the control of experience relative to assumptions, in adding to embedded value returns (ie (VNB +experience variance)/MCEV)). We have a large and growing part of our non-life or non-covered business and we apply these measures equally to both.

Current products and product development

We are creating long-term, sustainable competitive advantage by putting the customer at the centre of everything we do. As shown in the table below, we work in two different kinds of markets: developed countries and emerging markets. Emerging market countries generally enjoy fast GDP growth but have low average GDP per capita, whereas more mature markets such as Sweden, Germany, the UK and France offer opportunities to penetrate into wealthier customer segments. The improving demographics of the emerging market economies are likely to support economic growth through for example, larger pools of labour. As emerging economies' manufacturing exports grow, we expect corresponding growth in their labour markets and evolution of their consumer segments. By contrast, we do not anticipate such shifts in the existing wealth of the UK and European economies. Our offerings in the South African market span across the wealth divide.

In Emerging Markets we have developed a wider product set. This applies also to our business in Germany, Austria and Poland. We focus on regular premiums and delivering product value to customers – making sure that our products are transparent, that fees are clear and that customers receive the solution that best meets their needs.

Putting the customer at the centre



LONG-TERM SAVINGS
CONTINUED

Product development structure decisions



Source: NMG Consulting, Old Mutual.

Our LTS product offering aims to meet customers' needs for savings, investments, pensions and annuities as well as protection. In some of our businesses we also address their healthcare and transactional needs. While local market differences exist, the solutions our customers require in different regions are, in our experience, very similar. Essentially, customers everywhere have the same basic financial needs. What is more, products are distributed via the same distribution channels and regulatory regimes are increasingly convergent. As a result we believe we have an increasing opportunity to leverage our product knowledge and expertise across the different markets in which we operate.

Before the creation of LTS, Old Mutual and Skandia businesses around the world operated independently in a federal model within the Group. Group control was insufficient and few synergies were realised between regions. After the global financial crisis and the operational losses we incurred in Old Mutual Bermuda, we implemented stronger Group controls and risk management. As can be seen in the chart above, we are now driving an LTS product view across all our markets and we are actively leveraging capabilities from one market to another to exploit synergies.

Old Mutual and Skandia's products and propositions are generally regarded by customers, intermediaries and competitors as market-leading. Our businesses have recognised track records of innovation and we have won numerous awards in several markets for the quality of our product offering, the fund ranges we offer on our platforms, our tools for advisers and our interactive websites.

We are determined to maintain leadership in product innovation and we are implementing new techniques and processes that have successfully stimulated innovation in other industries.

In OMSA and Nordic, our product ranges are extremely comprehensive, covering almost all the financial needs of our customers. By contrast, in some of our other markets our current product offering addresses a relatively narrow spectrum of customer needs: our Wealth Management business, for example, has market-leading platform offerings but a very limited offering in the decumulation (annuity) and protection markets. Similarly, in our Retail Europe business we have good regular savings products but no meaningful decumulation, protection or lump-sum offerings. We therefore see great opportunities to expand our product offering in these and other markets by leveraging our product expertise, designs and structures and our IT platforms from markets such as South Africa and Sweden. We have already begun executing projects to do this.

In the developed countries served by our UK, French, Italian, Nordic and International businesses, we are focused mainly on the mass affluent segment. Our proposition, including products, distribution and processes, is built around that segment and is orientated to customer needs. The flexibility and transparency of our products, and the value that we deliver, place us in a good position in those markets. South Africa also has a vibrant wealth management industry, so we present a very similar offering there to the mass affluent market. Notwithstanding the platform business in the UK operates a version of the technology we developed in South Africa for the South African market.

Above and beyond the continuous enhancements we make to our product ranges every year, we will pay particular attention over the next few years to:

- Expanding our protection offering into emerging markets outside South Africa, and into our European businesses
- Enhancing the range of downside-protected, structured products or guaranteed investment offerings available on our investment platforms across most of our markets
- Developing appropriate decumulation offerings to capture the investment proceeds of customers reaching retirement age.

Current product portfolio

Customer needs:	Savings and Investments		Pensions		Protection	Healthcare	Transactional and Lending
Products:	Life Wrapped	Non-Life Wrapped	Accumulation	Decumulation			
South Africa	○	○	○	○	○	○	◔
Nordic[1]	○	○	○	◔	○	○	○
Emerging Markets	◔	◔	◔	●	◔	●	●
Wealth Management UK	◔	◔	◔	◔	◔	●	●
Wealth Management Non-UK	◔	◔	◔	●	●	●	●
Retail Europe	◔	◔	◔	●	◔	●	●

Spectrum of LTS product capability:
■ Limited or no product capability ■ Comprehensive product capability

1 Certain products are packaged jointly with Skandia Liv, who provide the guarantees.

Development of distribution strategy

Distribution in Emerging Markets is affected by both financial and non-financial drivers. Financial drivers such as relative wealth, money transmission mechanisms and the availability of state social support influence the types and distribution of products. Non-financial drivers such as literacy, life expectancy and respect for legal title affect pricing, product complexity, and communication techniques and content. Countries with lower average customer income need simple, cost-effective products. Here, the educational aspect of selling the product is critical.

The mature markets allow for more effective leveraging of existing relationships and capabilities, and development of new distribution channels such as the internet. Skandiabanken is an example of innovative distribution using the internet as a gateway.

The factors outlined above influence the way we think about the retail consumer in our various markets. We are carrying out detailed work to understand the evolution of customer segmentation in the new retail markets that we are targeting. And we maintain ongoing research on the framework within which customers buy or get access to financial services in their particular markets.

In bringing together the LTS division, Old Mutual is managing distribution channels across its life markets more strategically. We are intent on understanding how and what organic growth opportunities can be better leveraged to achieve growth in our various markets – and in particular on leveraging our achievements in South Africa, Namibia, Sweden, the UK and Colombia. We manage distribution country by country, using local market experts resident in those countries.

LTS will invest in the channels that are most likely to increase effective distribution. Channels are most effective where they are directed to the appropriate consumer segment and offer us the greatest control. The principal detractors from channel performance are poor persistency and poor agent productivity. Using our own agents (employed advisers) can be more expensive, but there are long-term benefits: their closeness to the customer enhances loyalty and customer retention.

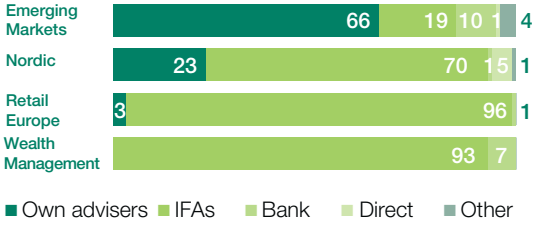
The current size and projected growth of the emerging market countries where LTS operates suggest that more investment is needed in distribution to capture the growth opportunities.

LONG-TERM SAVINGS
CONTINUED

Our current approach to enhancing distribution has four broad aspects:

1. **Growing advisers organically.** Tied agency forces are critical – particularly in Emerging Markets, where they remain the dominant form of distribution.
2. **Strengthening efficiencies.** An inefficient sales force incurs large overhead costs which may lead to acquiring poor-quality customers and delivering poor-quality advice to customers.
3. **Strengthening bancassurance.** Several of our retail markets have large, dominant retail banks.
4. **Adding new channels selectively** in relevant markets such as Retail Europe, Latin America and Asia.

Total contribution to APE by business, split by distribution channel (%)



Our distribution channels and their mix differ by market maturity and by country. The chart above shows the mix by business across all LTS markets. Tied or employed agency forces (own advisers) are dominant in Emerging Markets while independent financial advisers (IFAs) are the main distribution channel for us in Europe and the UK. The differences in distribution mix between Emerging Markets, Europe and the UK are mainly due to factors such as financial services sector development and maturity, and the relative expense of having own sales force versus the use of independent financial advisers.

There are some differences in the terminology used internationally to describe distribution channels. We use the term 'tied agency' for distribution channels contractually tied to the product provider or employed agents, or worksite marketing. The term 'IFA' is used more broadly here to include independent brokers and independent insurance advisers. Tied agency distribution gives us more control and can be targeted more accurately at the relevant consumer segments. In mature markets life companies have access to and can use independent advisers or brokers as well as retail bank or bancassurance advisers. In some mature markets, and in Asia, the fast-developing internet model offers a completely new means of accessing consumers. While we acknowledge its potential, we believe the internet's role as an effective distribution channel within a country is largely dependent on the development and widespread roll-out of broadband technology as, for example, in the Nordics.

Old Mutual has a long history in southern Africa of establishing and growing new distribution channels. OMSA established independent insurance brokers or IFAs in the late 1970s and established mass market worksites shortly thereafter. Skandia has been effective at establishing IFA networks and channels. Tied agency and worksite marketing is very effective in reaching the mass market and middle market consumers, while IFAs are very effective at penetrating and developing the wealth markets of UK, Europe, China and southern Africa.

Regulatory Developments

The range of regulatory issues affecting distribution design and control is fairly consistent across our LTS division countries. Regulators in all our LTS markets have become more effective and consistent in dealing with market abuse and tightening up the approach to regulation. Regulatory enhancements are good for consumers and new regulation creates opportunities for life companies to build better, more mature, high quality sales forces and face-to-face advisory businesses.

EMPLOYEE WELLNESS WEEK AT OUR PROPERTY BUSINESS

"It was a great success. Very well attended and well received, especially by the younger members of staff who were not aware that they faced certain health risks. It also demonstrated our concern for the wellbeing of our staff, and we received very appreciative feedback."

Adelah Malick, Human Resources Manager (OMIGPI)

This year, to coincide with Aids Awareness Day on 1 December, we held a hugely successful Employee Wellness Week to get us all thinking about our health. Professional nurses visited our head office and our main regional offices in South Africa to invite employees to have their blood pressure, cholesterol, glucose levels and body mass index checked. Over 250 employees took part. The nurses also answered employees' health questions and raised awareness of the support that the company offers to people with disabilities.

LEAN administration and IT

Each LTS regional organisation currently has its own administration and IT structure, but these share many common products, processes, IT platforms and customer/intermediary interfaces. Our strategy is to actively seek cost synergies, drive LEAN methodology and achieve a quality service culture across all our IT provision.

LEAN administration

Our OMSA business has run its LEAN programme for four years. LEAN is about building an organisation culture that starts with the customer, identifies duplication or over-engineering of procedures across processes and then streamlines those processes using extensive standardisation and simplification. By doing this sustainably and continually, we reduce unit costs and improve customer service quality. In OMSA we have driven down unit costs year-on-year across our retail and corporate products and will continue to do so.

OMSA's unit costs compare favourably with those of our South African competitors, due mainly to our scale in South Africa and the extent to which we have used LEAN. OMSA's unit costs are also significantly lower than those of other businesses in LTS because of scale, LEAN and labour arbitrage within the business – which offers some opportunities for LTS.

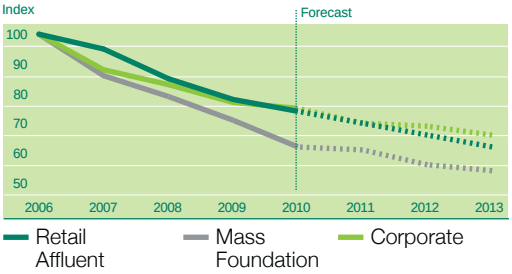
LEAN methodology is allowing us to combine lower unit costs with improved service. Research shows that we have improved our customer and intermediary service year-on-year; and we have won our industry's national Best Provider of Customer Service award in South Africa three years running.

We see a number of opportunities to enhance administration across LTS:

- Potential to move administration from other parts of LTS to South Africa, using the capability and scale we have there to improve capabilities and unit costs. We are currently moving processes and IT from Retail Europe (Germany, Poland and Austria) to South Africa, which will give us a capability that we can exploit further in LTS
- In businesses where it does not make sense to move administration to South Africa, we will apply LEAN principles to streamline processes, reduce unit costs, improve our service and provide a very strong foundation for future growth
- Applying LEAN principles beyond the servicing and operations area to reduce businesses' overheads, streamline IT and even improve sales processes.

As the chart shows, we have an established history of driving down unit costs and improving service in OMSA with LEAN. We are now sharing this expertise across the LTS division.

Maintenance cost index per policy/member



IT

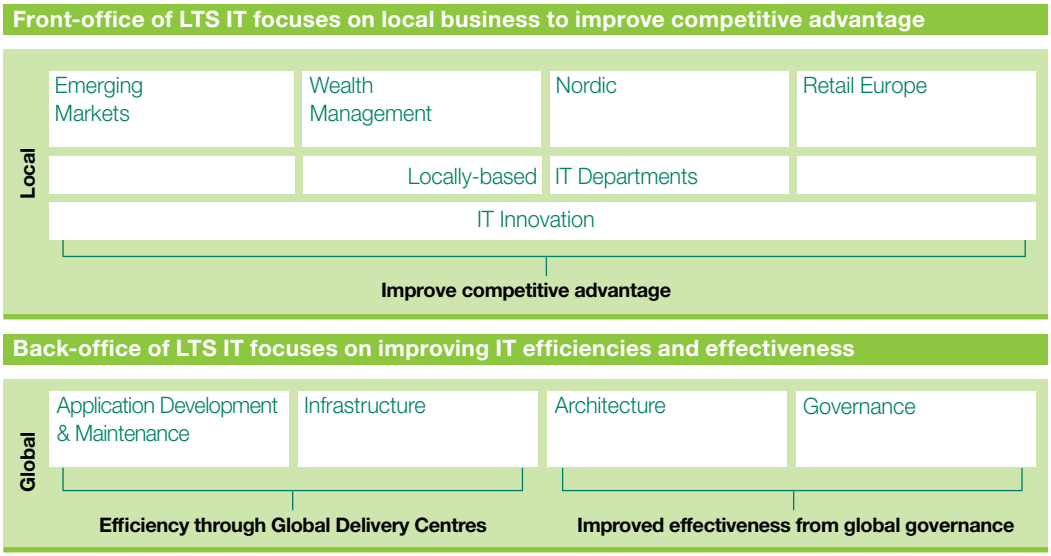
Our IT mission is to enable business efficiency and innovation for both local and international competitive advantage, through one world-class IT partnership. These potentially contradictory aims form the core strategy for running IT across LTS. IT needs to be an efficient, well-governed, common function without sacrificing the speed-to-market and innovation needed in our local markets.

LTS IT will now provide all IT services, to LTS and to the local businesses. The IT 'front-office' – the LTS-run local IT departments – will continue to manage projects and generate requirements for the local business. Free of managing IT commodity work, the local IT department will improve their focus delivering the technology that underpins the local business needs and strategy. These teams have the greatest opportunity to drive business results through harnessing the innovative use of technology.

The LTS IT back-office is focused on two goals: the Global Delivery Centres for Infrastructure and Applications will leverage the economies of scale across LTS to deliver IT more cost-effectively and more consistently across the division. The Governance and Architecture functions within the LTS IT back-office are then responsible for ensuring that LTS is well governed from an architectural, financial, risk and control perspective.

This hybrid operating model for LTS IT will comply with regulatory requirements, ensuring local accountability and control, but leveraging common governance, efficiencies and economies of scale from a modern IT function in a global business.

LONG-TERM SAVINGS
CONTINUED



In transforming LTS IT, we see a number of synergy opportunities across LTS to help reduce cost, support the business strategy and drive innovation. These fall into three categories:

- **Reviewing the existing LTS IT environment** Each business or geography currently has its own set of data centres, networks and bespoke systems. To a large degree, we can consolidate these so that we can reduce costs while also improving disaster recovery and business continuity, and enabling significant business change. We have world-class platforms in some areas of LTS. Working closely with our local businesses we are aiming to share and extend the capability across the division. We are leveraging our scale and our willingness to partner with the best companies in the industry to create a lower, total cost of IT.
- **Internal partnerships with our back-office business functions.** This involves working together to get value from LEAN processes to reduce errors as well as complexity and IT support costs.
- **Working cohesively across LTS as well as working in close partnership with our local businesses.** This means creating economies of scale and improved delivery of IT solutions through a common IT back-office function and mutually beneficial external partnerships. This includes a consistent governance framework that will ensure correct management of IT finances, project control and improved control of IT-related risk, security and audit items. If it is possible to do that in one place, we will be more effective and efficient. More importantly, our partnerships with the local businesses improves our ability to use technology to create solutions and capability that enable new and innovative business strategies.

Review of Results 2010

LTS AOP earnings benefited from higher fees generated from positive net client cash flows particularly in Wealth Management, rising funds under management and the strengthening of the rand and Swedish krona against sterling. On a constant currency basis, earnings were up 26%.

The Emerging Markets business accounts for 60% of the LTS IFRS AOP earnings, 43% of LTS FUM, and 33% of LTS APE sales. This compares to 70% of restated AOP, 41% of FUM, and 30% of APE sales in 2009.

APE sales increased by 14% for the LTS division as a whole, with the growth coming largely from the regular premium products in the Retail businesses of Emerging Markets, and Wealth Management single premium products, notably in the UK and Italy. A managed shift in business mix in Nordic was executed with sales decreasing from prior year levels. There was encouraging growth in both single and recurring premiums in Retail Europe. Sales for the second half of 2010 were ahead of the first half for Emerging Markets and Retail Europe, and evenly spread across the year in Nordic. Wealth Management sales were slightly higher in the first half of the year than the second given the usual seasonal weighting to the first quarter of the year, and the benefit of the short-term Italian tax shield.

Mutual fund sales were up by £2,387 million, with strong performance in Wealth Management and Emerging Markets particularly in the second half of the year.

Long-Term Savings

Key performance statistics for the LTS division are as follows:

£m

2010	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total
Life assurance sales (APE)	**487**	**201**	**69**	**734**	**1,491**
PVNBP	**3,269**	**1,104**	**513**	**6,380**	**11,266**
Value of new business	**86**	**41**	**7**	**66**	**200**
Unit trust/mutual fund sales	**3,668**	**581**	**23**	**4,507**	**8,779**
NCCF (£bn)	**–**	**0.7**	**0.4**	**3.9**	**5.0**
FUM (£bn)	**57**	**14**	**5**	**56**	**132**
Adjusted operating profit (IFRS basis, pre-tax)	**539**	**110**	**51**	**197**	**897**
Operating MCEV earnings (covered business, post-tax)	**344**	**45**	**66**	**112**	**567**
(VNB + Exp Var)/MCEV (covered business)	**4.7%**	**4.7%**	**2.2%**	**3.1%**	**4.1%**

£m

2009 (as reported[1])	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total
Life assurance sales (APE)	393	235	67	617	1,312
PVNBP	2,834	1,150	537	5,042	9,563
Value of new business	65	44	(5)	49	153
Unit trust/mutual fund sales	2,765	393	24	3,210	6,392
NCCF (£bn)	(1.6)	1.0	0.5	2.5	2.4
FUM (£bn)	44	11	4	47	106
Adjusted operating profit (IFRS basis, pre-tax)	446	62	22	106	636
Operating MCEV earnings (covered business, post-tax)	212	81	(44)	(4)	245
(VNB + Exp Var)/MCEV (covered business)	0.5%	7.5%	(5.1%)	0.6%	1.3%

1 The year ended 31 December 2009 has been restated to reflect US Life as discontinued

Across LTS as a whole, new business APE margins improved to 13% for 2010 (2009: 12%). This reflects the focus on selling more profitable products with better margins, notably in Nordic, and increased sales of a higher margin product in the first half of the year in Emerging Markets. The APE margin in Emerging Markets increased from 16% to 18%. In Nordic, the APE margin has increased from 19% to 21%, benefiting from the managed reduction of low margin product sales such as *Link regular*. In Retail Europe, the APE margin has improved considerably to 11% from a negative position in the comparative period. Across Wealth Management, the APE margin increased from 8% to 9%, with the UK increasing from 2% to 3%, and International from 18% to 19%. The most significant increase in APE margin was in respect of the Continental European markets, which increased from 3% to 8% as result of the increase in volumes in Italy. Sales of mutual funds, which make up the bulk of Wealth Management's sales, are not included in the APE margin. The IFRS operating margin rose to 38bps from 25bps for Wealth Management as a whole. For LTS as a whole the PVNBP margin improved to 1.8% (2009: 1.6%).

The market-consistent value of new business (VNB) improved for all of our LTS businesses, with the exception of Nordic, where although the underlying margins of the business improved, the absolute value of new business fell as a result of the decline in new business volumes (due to the cessation of sales of an unprofitable recurring premium product) and changes in assumptions.

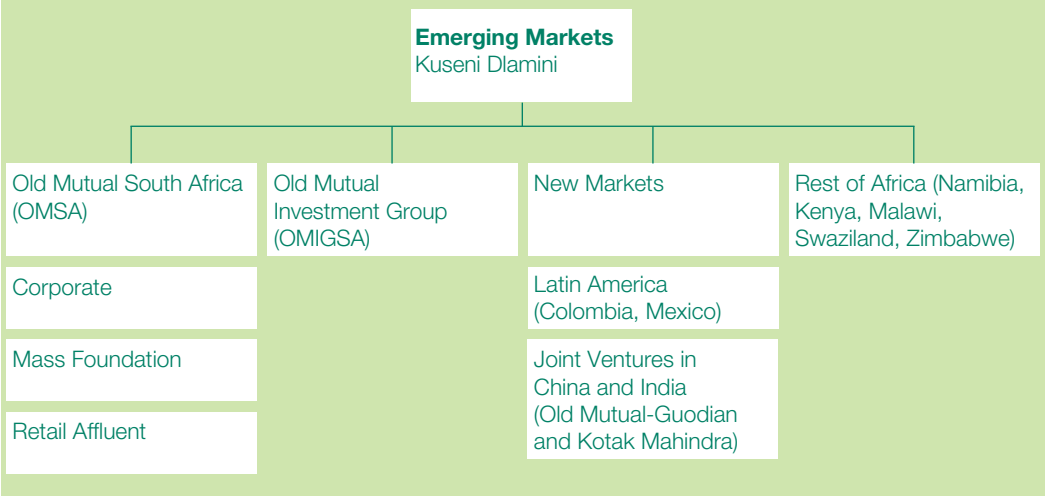
The LTS net client cash flows more than doubled as improvements in Wealth Management and Emerging Markets more than outweighed the lower net flows in Nordic given lower sales volumes. Funds under management for LTS at 31 December 2010 increased by 25% to £131.8 billion (31 December 2009: £105.5 billion) although there were periods of substantial market movements during the year, with notable falls in the second quarter and increases towards the end of the year.

The rand started the year at 11.92 against sterling, strengthening to 11.45 at 30 June 2010, and to 10.28 by 31 December 2010. The US dollar and Swedish krona also strengthened, although to a lesser degree, appreciating 4% and 10% respectively in the year. The average exchange rates to sterling over the year were 11.31 (2009: 13.17), 1.55 (2009: 1.57) and 11.14 (2009: 11.97) for the rand, US dollar and Swedish krona respectively. The cumulative effect of foreign exchange movements for LTS was an increase of £77 million on IFRS profitability.

LONG-TERM SAVINGS
CONTINUED

EMERGING MARKETS

Emerging Markets



Good results combined with strong growth in regular premium sales

Highlights (Rm, unless otherwise stated)	2010	2009	% Change
Adjusted operating profit (IFRS basis, pre-tax)	**6,099**	5,879	4%
Return on local equity	**25%**	25%	
Return on allocated capital (OMSA only)	**25%**	26%	
Life assurance sales (APE)	**5,505**	5,178	6%
Unit trust/mutual fund sales	**41,488**	36,421	14%
PVNBP	**36,975**	37,339	(1%)
Value of new business	**972**	853	14%
APE margin	**18%**	16%	
PVNBP margin	**2.6%**	2.3%	
Operating MCEV earnings (covered business, post-tax)	**3,877**	2,794	39%
Return on embedded value (covered business, post-tax)	**13.2%**	9.8%	
Net client cash flows (Rbn)	**0.2**	(20.5)	101%
Funds under management (Rbn)	**585.7**	518.4	13%

Overview

Equity markets in the Emerging Markets have enjoyed a strong year, with the JSE increasing by 16%. The South African rand appreciated 13% against the US dollar and 14% against sterling. Low inflation contributed to interest rate cuts in South Africa from 10.5% to 9%.

We continue to focus on innovation and product improvements which will benefit our customers. In South Africa we developed and launched a new direct short-term insurance product, iWYZE, in conjunction with Mutual & Federal – and its success has exceeded expectations. Old Mutual Corporate launched *Old Mutual SuperFund*, the largest multi-employer or umbrella fund in South Africa with over 300,000 members, to provide a simple, affordable and strictly-governed platform enabling employees to save for their retirement. We launched the *Futuregrowth Agri-Fund* in March 2010, focusing on responsible equity investments in agricultural land, agri-businesses and farming infrastructure. As a Socially Responsible Investment fund, it seeks long-term returns and tangible social and developmental impacts.

We are integrating social, environmental and economic principles into our core business. OMSA achieved Level 2 Broad-Based Black Economic Empowerment (BBBEE) status in October 2010. Furthermore, OMIGSA attracted more than R8 billion from institutional investors into social infrastructure investment.

Our sales improved in the year, notably in the second half. This resulted in a 6% increase in APE sales compared to 2009, and we benefited from improved persistency. Our NCCF improved significantly, and we saw increasing contributions from new markets, with non-South African NCCF higher than South African NCCF (excluding flows relating to the Public Investment Corporation of South Africa).

IFRS AOP results

IFRS AOP (pre-tax) increased by 4% from R5,879 million to R6,099 million, with strong asset management profits (up 62% to R1,550 million), partially offset by lower long-term investment return (R1,221 million compared to R1,658 million in 2009).

Rm	**2010**	2009	% Change
Long-term business AOP	**3,328**	3,263	2%
Asset management AOP	**1,550**	**958**	**62%**
Long-term investment return (LTIR)	**1,221**	1,658	(26%)
AOP (IFRS basis, pre-tax)	**6,099**	5,879	4%

The growth in long-term business profits is mainly due to the significant improvement in Retail persistency in 2010 following the significant strengthening of the basis in 2009 as well as continued business effort to improve retention experience. Good investment performance in the annuity and permanent health insurance (PHI) portfolios and increased asset-based fees due to higher equity market levels also contributed to profit growth. The comparable 2009 life profits benefited from a number of large non-recurring items, including the impact of assumption changes and profits from the Nedbank joint ventures in the first five months of 2009. Excluding these items, underlying life profits increased by 37% over the comparative period.

Asset management profits grew significantly as a result of higher fees being earned from higher FUM, stronger performance fees in OMIGSA, a first full-year contribution from ACSIS (acquired in the second half of 2009), a higher contribution from OMF due to growth in the business, and mark-to-market profits in Old Mutual Specialised Finance (OMSFIN). These were partially offset by lower transactional income.

The LTIR decreased by 26% to R1,221 million in 2010 reflecting the reduced rate applied to OMLAC(SA) assets due to the implementation of a higher ratio of cash to equity in the asset portfolio backing the Capital Adequacy Requirement.

Life APE sales summary

APE sales increased by 6% from R5,178 million to R5,505 million, driven largely by strong growth in regular premium sales across the majority of our Emerging Markets businesses.

PROTECTING CONSUMERS IN SOUTH AFRICA AGAINST FRAUD

"It was a groundbreaking campaign and an extremely important step towards creating a more informed public. We're very pleased to see this Old Mutual initiative being supported by other major life insurers, which demonstrates the industry's commitment to educating consumers."

Kurt Magnet – Senior Forensic Services Manager (Old Mutual South Africa)

This year we initiated an anti-fraud campaign that was taken up by the South African life insurance industry. The campaign aimed to educate consumers about how to protect themselves against fictitious insurance policies.

It included adverts in daily newspapers providing detailed explanations of what a fictitious policy is, where they originate from, why customers might be targeted and practical tips on preventing fraud.

LONG-TERM SAVINGS
CONTINUED

By Cluster:

New business (Rm)	Gross single premiums 2010	2009	+/-%	Gross regular premiums 2010	2009	+/-%	Total APE 2010	2009	+/-%	Total PVNBP 2010	2009	+/-%
OMSA												
Mass Foundation[1]	**14**	16	(13%)	**1,571**	1,452	8%	**1,572**	1,454	8%	**6,994**	6,767	3%
Retail Affluent	**9,620**	8,751	10%	**1,381**	1,213	14%	**2,343**	2,088	12%	**16,345**	15,413	6%
Institutional[2]	**7,892**	9,205	(14%)	**454**	360	26%	**1,244**	1,281	(3%)	**11,788**	12,831	(8%)
Total OMSA	**17,526**	17,972	(2%)	**3,406**	3,025	13%	**5,159**	4,823	7%	**35,127**	35,011	0%
Rest of Africa[3]	**475**	528	(10%)	**196**	195	1%	**244**	247	(1%)	**1,363**	1,653	(18%)
Total New Markets[4]	**231**	432	(47%)	**79**	64	23%	**102**	108	(6%)	**485**	675	(28%)
Total Emerging Markets	**18,232**	18,932	(4%)	**3,681**	3,284	12%	**5,505**	5,178	6%	**36,975**	37,339	(1%)

By Product:

New business (Rm)	2010	2009	+/-%	2010	2009	+/-%	2010	2009	+/-%	2010	2009	+/-%
OMSA												
Savings	**14,062**	13,874	1%	**1,654**	1,390	19%	**3,060**	2,773	10%	**22,441**	21,785	3%
Protection	**6**	2		**1,752**	1,635	7%	**1,753**	1,639	7%	**9,228**	9,132	1%
Annuity	**3,458**	4,096	(16%)	**–**	–		**346**	411	(16%)	**3,458**	4,094	(16%)
Total OMSA	**17,526**	17,972	(2%)	**3,406**	3,025	13%	**5,159**	4,823	7%	**35,127**	35,011	0%
Rest of Africa[3]	**475**	528	(10%)	**196**	195	1%	**244**	247	(1%)	**1,363**	1,653	(18%)
Total New Markets[4]	**231**	432	(47%)	**79**	64	23%	**102**	108	(6%)	**485**	675	(28%)
Total Emerging Markets	**18,232**	18,932	(4%)	**3,681**	3,284	12%	**5,505**	5,178	6%	**36,975**	37,339	(1%)

1 Previously described as Retail Mass
2 Institutional sales include Corporate and OMIGSA life sales
3 Rest of Africa represents Namibia only
4 New Markets represents Latin America only

OMSA

Regular premium sales

Regular premium sales grew by 13% compared to 2009 and by 25% in the second half of 2010 compared to the first half, with particularly strong growth in savings sales in the second half in the Mass Foundation Cluster which benefited from lower overall cancellation rates, higher average premiums, improved adviser productivity and significant improvement in the direct channel sales performance.

Retail Affluent sales growth was driven by *Max Investments* savings products, experiencing 21% and 31% growth for Life and LISP wrappers respectively in 2010, following the stabilisation of the economic outlook. *Greenlight* experienced a lower than expected growth of 6% over 2009 in some measure due to increased turnover of the Retail Affluent sales force. Corporate sales increased by 26% in 2010 – driven primarily by savings sales in the umbrella market, where the *Evergreen* umbrella fund grew its membership by two thirds to just over 56,000. Corporate risk sales grew strongly due to our success in selling a number of new policies to large schemes in this highly competitive market. Corporate sales have more than doubled since 2008 due to innovative product introductions.

Single premium sales

Single premium sales decreased by 2% relative to 2009, due mainly to lower institutional flows. Retail Affluent achieved strong *Investment Frontiers Fixed Bond* sales in the first half and an increase in new contracts issued to clients with unclaimed maturities. Annuity sales declined by 16%, driven by lower CPI-linked annuity sales in the Corporate segment as very few annuity tenders floated in 2010 were concluded. With-profit annuity sales did show a marked improvement, increasing by 48% as we continued to lead in this market segment. Retail Affluent annuity sales stabilised in the fourth quarter, following improvements in annuity rates, to end marginally below the 2009 level.

Rest of Emerging Markets

Namibian regular premium sales in the Retail Mass and Retail Affluent segments increased by 6% and 5% respectively, mainly as a result of solid sales growth from tied agents despite difficult economic conditions. Corporate segment regular premium sales decreased by 14% due to lower Orion sales volumes. Single premium sales decreased by 10%, with lower new business inflows from both Retail Affluent and Corporate businesses.

Sales growth of 36% in Mexico was largely driven by the introduction of a minimum premium for the regular premium savings product in the first half of 2010, implemented as a consequence of working closely with South Africa. We introduced a Retail Mass distribution team in December. We will continue to grow this team in the coming months and its pipeline is very promising. Included in the 2009 comparative is R28 million APE relating to the Chilean business which was sold in 2009.

APE sales in China increased by 77% from CNY92 million in 2009 to CNY163 million in 2010, despite poor sales during the first half. The significant improvement in the second half is mainly due to increased management focus on sales, supported by execution of our joint venture's product and channel diversification strategy (new bank, broker and telemarketing products were launched during the second half). The reopening of the Bank of China distribution channel in Beijing (with the assistance of our JV partner), following a three-month suspension of sales during the first half of 2010, further contributed to this improvement. Sales at our Indian joint venture, Kotak Mahindra Old Mutual Life Insurance, increased by 6% compared to 2009.

A more detailed analysis of sales by segment is included in the Financial Disclosure Supplement, available at www.oldmutual.com.

Unit trust / mutual fund sales summary

Rm	**2010**	2009	+/-%
OMSA	**21,452**	18,384	17%
Rest of Africa	**5,360**	4,546	18%
New Markets	**14,676**	13,491	9%
Total Emerging Markets	**41,488**	36,421	14%

In South Africa, unit trust sales recovered in the second half of 2010 following a weak first half. We achieved growth of 17% from the 2009 level, mainly due to significant flows into Old Mutual Unit Trust money market funds during the third quarter and improved flows into OMIGSA's Marriott affiliate following revised asset allocations.

We have made progress towards our goal of becoming our customers' most trusted partner, evidenced by the number of awards received during the year – including our third Ask Afrika Orange Index award for service excellence in the long-term insurance business category, and the number one position in South Africa's 500 best managed companies.

In the rest of Emerging Markets, unit trust sales also performed well. Namibian sales increased by 18% to R5.4 billion following strong inflows from institutional and corporate clients as a result of more competitive investment returns. Unit trust sales in Mexico and Colombia (COLMEX) were 9% ahead of the prior year in rand (25% in US dollars), with strong growth in Colombia resulting from a successful marketing campaign and stronger relationships with corporate and institutional customers. We increased productivity, with greater sales from fewer advisers. Mexico benefited from a large scheme acquired in September 2010 and improved performance in both fixed income and equity portfolios.

Value of new business and margins

The value of new business increased by 14% to R972 million, with a strengthening performance during the course of the year. The APE margin increased from 16% to 18% due to a higher proportion of sales of higher-margin smoothed-bonus and with-profit annuities in OMSA's Corporate business and *Investment Frontier Fixed Bonds* in Retail Affluent.

MCEV results

Operating MCEV earnings (post-tax) increased by 39% from the 2009 level. This was mainly due to positive experience variances and operating assumption changes in 2010, compared to negative variances in 2009. The improvement in experience variances is mainly due to an improvement in persistency, partly due to the 2009 assumption changes, and partly because management actions improved persistency. These were partially offset by a significant decrease in the expected existing business contribution due to the reduction in one year swap yields during 2009.

In addition to the effects above, other significant movements affecting the closing MCEV include a large positive impact from economic variances due to a combination of better than assumed equity returns and the effect of the changes in the shape of the swap yield curve. This was partially offset by modelling enhancements to the economic scenario generator used to calculate the investment guarantee reserve, which caused a decrease in the margin (buffer) held to protect against future market volatility, resulting in less value being released as profits in the future. The net impact of these resulted in a growth in MCEV of 16% over 2010.

We made good progress towards implementation of Solvency II as part of the overall Group programme, and also in respect of the South African equivalent framework known as SAM (Solvency Assessment and Management), launched in 2010 by the South African regulator.

LONG-TERM SAVINGS
CONTINUED

Net client cash flow
NCCF for the year was R0.2 billion, a significant improvement on 2009 outflows of R20.5 billion.

South African NCCF benefited from significantly lower PIC outflows of R5.1 billion (R16.2 billion in 2009), improved inflows across a number of OMIGSA boutiques (mainly Electus and Futuregrowth), improved net flows in retail businesses and lower outflows in Corporate. Excluding PIC outflows, OMSA's NCCF for the second half of 2010 was positive R1.8 billion compared to negative R6.3 billion in the second half of 2009. Further PIC outflows are expected in 2011.

The rest of our Emerging Markets business delivered R7.6 billion in NCCF. In Colombia and Mexico NCCF increased by 12% from R4.3 billion in 2009 to R4.8 billion in 2010. The Colombian business attracted new customers within targeted segments, experiencing lower surrenders on core products and improved sales of Retail voluntary products. In Namibia, NCCF increased by R1.0 billion to R1.4 billion due to improved unit trust inflows and R672 million inflows from the rebalancing of the Government Institutions Pension Fund portfolios.

Funds under management
FUM increased by 13% to R586 billion as a result of higher market levels and overall neutral NCCF for the year. Of the total, R498 billion (2009: R449 billion) is in South Africa.

Overall, OMIGSA investment performance (over three years) was average, with satisfactory performance in specialist areas contrasted against mixed performance in our balanced capabilities.

Outlook
We have confidence in the underlying performance of the business, despite the low investment return assumptions in 2011 and mark-to-market gains recorded in the asset management results in 2010. We will continue to strive for a balance that combines strong risk management and governance with a culture that encourages innovation, across our four main strategic themes:

- Continuing to invest in our Emerging Market business
- Improving OMIGSA's investment performance and value creation for customers
- Putting the customer at the centre of our business
- Enhancing our high-performance culture and further developing our Emerging Markets management team.

DREAMFIELDS



"Our partnership with Dreamfields is about making a difference in the everyday lives of ordinary South Africans"

Kuseni Dlamini, CEO OMSA & Emerging Markets

We understand sport has a great potential to transform the lives of young people. That's why we're a Founding Partner of Dreamfields – a groundbreaking 'sport for development' charity in South Africa. This year we've continued our support by funding the development of sports fields, donating DreamBags of sports kit to schools, supporting events, and watching the improving confidence, life skills and sense of unity among the young people taking part.

Growing our sales force remains a priority, as does promoting a savings culture in Emerging Markets, designing and adapting products that are relevant to a wide range of customers, and providing easier access to financial services for our customers across our businesses.

With these strategies in place we are well positioned to optimise business opportunities in 2011 and further strengthen a highly successful Emerging Markets business.

NORDIC

Nordic



Improved profitability, higher funds under management and strong APE margin

Highlights (SEKm, unless otherwise stated)	2010	2009	% Change
Adjusted operating profit (IFRS basis, pre-tax)	**1,227**	737	66%
Return on local equity[1]	**11%**	12%	
Life assurance sales (APE)	**2,238**	2,819	(21%)
Unit trust/mutual fund sales	**6,466**	4,708	37%
PVNBP	**12,292**	13,774	(11%)
Value of new business	**460**	526	(13%)
APE margin	**21%**	19%	
PVNBP margin	**3.7%**	3.8%	
Operating MCEV earnings (covered business, post-tax)	**503**	965	(48%)
Return on embedded value (covered business, post-tax)	**3.3%**	8.1%	
Net client cash flows (SEKbn)	**7.4**	11.6	(36%)
Funds under management (SEKbn)	**145.4**	127.2	14%

1 Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

Overview

The economies in the Nordic countries experienced a strong recovery in 2010, with positive GDP growth (estimated at 5.6% in Sweden, 2.0% in Denmark and 2.2% in Norway). The Swedish equity market grew by 23% in 2010. The Nordic business delivered a strong IFRS AOP result in 2010. With changes in the management team, including a new CEO Mårten Andersson, we are delivering on our key priorities of strengthening distribution power and product offerings, stimulating future NCCF growth, increasing operational efficiency to secure profitable growth, and optimising structures and risk frameworks to unlock value. However, we face a challenging year of change for the business in delivering our 2011 operating sales, efficiency and profitability targets in a rapidly changing business environment.

Life sales summary

APE sales at SEK2,238 million were down by 21% compared to 2009, following management action in the Swedish Retail segment to close the unprofitable *Link Regular* product in late 2009. The APE of the Corporate business decreased by 14%, mainly due to slower sales of the highly competitive *TPS Regular* product. Denmark performed strongly, with product success in the unit-linked and healthcare markets. APE grew by 22% to SEK514 million.

	Gross single premiums			Gross regular premiums			Total APE			Total PVNBP		
New business (SEKm)	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%
Sweden												
Corporate	**1,429**	1,471	(3%)	**1,033**	1,221	(15%)	**1,176**	1,368	(14%)			
Retail	**3,672**	4,288	(14%)	**181**	601	(70%)	**548**	1,030	(47%)			
Total Sweden	**5,101**	**5,759**	**(11%)**	**1,214**	**1,822**	**(33%)**	**1,724**	**2,398**	**(28%)**	**9,001**	**11,260**	**(20%)**
Denmark												
Total Denmark	**1,280**	**547**	**134%**	**386**	**366**	**5%**	**514**	**421**	**22%**	**3,291**	**2,514**	**31%**
Total Nordic	**6,381**	**6,306**	**1%**	**1,600**	**2,188**	**(27%)**	**2,238**	**2,819**	**(21%)**	**12,292**	**13,774**	**(11%)**

LONG-TERM SAVINGS
CONTINUED

Unit trust / mutual fund sales summary

Mutual fund sales of SEK6,466 million were up 37% on 2009. This was driven by improved retail investment activity spurred by rising global equity markets. However, fourth quarter sales showed a decrease compared to the same period in 2009 due to changing product demand and customer behaviour in Skandiabanken.

SEKm	2010	2009	+/-%
Skandiafonder	**2,431**	1,510	61%
Skandiabanken	**4,035**	3,198	26%
Total Nordic	**6,466**	4,708	37%

IFRS AOP results

The IFRS AOP (pre-tax) increased by 66% to SEK1,227 million compared to 2009. The key driver behind the improvement was higher client funds, which increased fund-based fees and rebates in the long-term business. In particular the unit-linked business performed strongly in the second half. A gain realised from divestment of a private equity holding in the first half contributed profit of SEK126 million.

SEKm	2010	2009	% Change
Long-term business AOP	**1,016**	502	102%
Banking business AOP	**181**	193	(6%)
Asset management AOP	**30**	42	(29%)
AOP (IFRS basis, pre-tax)	**1,227**	737	66%

The Healthcare business showed a strong turnaround in 2010 as pricing and product changes and underwriting discipline helped stabilise claims costs in the Lifeline business – which delivered AOP of SEK26 million compared to a negative SEK42 million in 2009. The 2010 figure includes divestment costs of SEK20 million for the Lifeline branch in Norway.

Skandiabanken's results were below 2009 levels, due mainly to lower net interest income and increased development costs. Skandiabanken Sweden suffered from the exceptionally low base interest rate during the first half, although this increased towards the end of the year. Credit losses remained very low (0.09% in 2010 compared to 0.14% in 2009), reflecting the traditionally low-risk nature of our lending business. Skandiabanken Norway grew its profits, due mainly to higher net interest income.

Value of new business and margins

The value of new business decreased compared to 2009, driven by lower new sales, negative operating assumption changes for anticipated price pressure in the Corporate segment, and expectations of more adverse persistency in the future. The APE margin increased from 19% to 21% due to a more profitable business mix resulting from a higher proportion of TPS business sales in Sweden and Match product sales in Denmark.

MCEV results

Operating MCEV earnings after tax declined to SEK503 million, due to the negative assumption changes driving the decline in the value of new business. However, total MCEV increased over the year, due mainly to positive client fund performance.

The Nordic business is making good progress towards the implementation of Solvency II, as a component of the overall Group Solvency II initiative.

Net client cash flow

NCCF for the year was SEK7.4 billion, a decrease of 36% compared to 2009. This was driven by a combination of higher surrenders (because of higher fund value and an increase in partial surrenders), lower single premium sales and higher paid-ups in the occupational pension business.

Funds under management

FUM were SEK145.4 billion at 31 December 2010, up 14% from the previous year. The increase is mainly due to the positive movement of equity markets.

The investment performance in the Swedish unit-linked portfolio was good in the fourth quarter, and our average client enjoyed investment performance of 6.2% for the quarter and 10.9% for the year. Clients have generally increased their risk exposure, with the majority of all net investments being allocated to Swedish, Asian and Emerging Markets equity funds. Fund performance has been strong over the 12-month period, with 63% of our funds performing above average compared to their peers.

Outlook

The economic outlook for 2011 is positive, with forecast GDP growth of over 3% in Sweden and Norway and around 2% in Denmark, and public spending is under control. We believe household incomes will increase, that the debate over credit expansion is turning the emphasis towards savings, and increased activity in the equity market is attracting inflows. As a result of this, the Nordic savings market is expected to grow despite some ongoing concerns around the continued high level of unemployment. The competitive environment will continue to be challenging, with competition pushing down fee levels. The market is heading towards further fragmentation into two main segments: the advised market, with high levels of added value from financial advisers, and the 'self-service' market.

Management action continues to focus on improved sales, healthy margins over the long-term, reductions in the cost base, and improvement of the distribution and product offerings to enhance NCCF. We delivered cost savings of £2.5 million in 2010. In 2011, cost reduction activity will increase and we estimate restructuring costs of £30 million in the year.

RETAIL EUROPE

Retail Europe



Foundations laid for further development of the business

Highlights (€m, unless otherwise stated)	2010	2009	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**60**	25	140%
Return on local equity[1]	**20%**	9%	
Life assurance sales (APE)	**80**	75	7%
Unit trust/mutual fund sales	**27**	27	–
PVNBP	**597**	603	(1%)
Value of new business	**9**	(6)	150%
APE margin	**11%**	(8%)	–
PVNBP margin	**1.4%**	(1.0%)	
Operating MCEV earnings (covered business, post-tax)	**77**	(49)	157%
Return on embedded value (covered business, post-tax)	**12.8%**	(7.9%)	
Net client cash flows (€bn)	**0.5**	0.6	(17%)
Funds under management (€bn)	**5.8**	4.7	23%

1 Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

Overview

GDP growth improved in all our markets throughout 2010 following government stimulus packages and better conditions in export markets. Although labour markets improved in Germany and Switzerland, unemployment in Austria and Poland increased slightly. Equity markets rebounded from their 2009 lows, with the German DAX index posting a 2010 gain of 16%. Our customers continued to demand primarily guaranteed products and IFAs still view unit-linked policies with caution, preferring traditional life policies.

In the light of these challenges, Retail Europe's performance in 2010 has been very positive. Our sales improved on 2009 levels, primarily driven by Germany and Poland, we continued the formation of the Retail Europe organisation, and we reduced operating costs.

In addition to our sales and marketing activities, which were focused on the end customer, we also developed initiatives to maintain and grow relationships with our existing distribution partners. These initiatives, underpinned by strong cost containment, ensured significant improvement in our IFRS, MCEV and value of new business, with IFRS profits more than doubling. The transfer of our IT and client administration functions to South Africa continues, and our office in South Africa was officially opened in December 2010.

Life sales summary

APE sales reached €80 million, an increase of 7% compared to 2009. Sales in Poland increased markedly, while Austria and Switzerland showed a slight decline. Although the unit-linked market in Germany has declined slightly, we increased our share of this market from 1.9% in the fourth quarter of 2009 to 2.2% in the fourth quarter of 2010.

LONG-TERM SAVINGS
CONTINUED

	Gross Single Premiums			Gross Regular Premiums			Total APE			Total PVNBP		
New business (€m)	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%
Germany	**31**	24	29%	**29**	27	7%	**32**	30	7%	**278**	260	7%
Poland	**21**	14	50%	**18**	12	50%	**20**	14	43%	**114**	87	31%
Austria	**7**	6	17%	**17**	19	(11%)	**18**	19	(5%)	**109**	142	(23%)
Switzerland	**14**	15	(7%)	**9**	11	(18%)	**10**	12	(17%)	**96**	114	(16%)
Total Retail Europe	**73**	59	24%	**73**	69	6%	**80**	75	7%	**597**	603	(1%)

The main driver of increased sales was new product launches. In Germany we launched the new single premium *Investmentpolice* product towards the end of the year, combining the tax benefits of a unit-linked contract with the transparency of a pure investment contract. In Poland we launched a new regular premium product, and in Switzerland we launched *Easy Combi*. All these launches were successful and we expect their impact to continue in 2011. We also made concerted efforts to improve our distributor relationships through marketing campaigns designed to support our partners during these difficult times.

IFRS AOP results
IFRS AOP has increased significantly to €60 million, due to improved results in all countries. The main factors were lower administration expenses and higher fees – driven by higher fund-based fees resulting from improved equity markets.

Net client cash flow
NCCF was €465 million for the year. The decline of €86 million on 2009 reflected the increase in fund values of surrenders due to positive equity markets, although persistency levels were broadly stable year-on-year.

Funds under management
FUM of €5.8 billion at 31 December 2010 reflected a rise of 23% compared to 2009, largely driven by positive stock market performance.

Value of new business and margins
The value of new business increased by €15 million to €9 million, with a PVNBP margin for the year of 1.4% and an APE margin of 11%. The main reasons for the improvement were higher new sales and successful expense management.

MCEV results
The operating MCEV earnings after tax increased by over €100 million to €77 million compared to 2009, driven by positive experience variances and positive assumption changes for rebates and persistency.

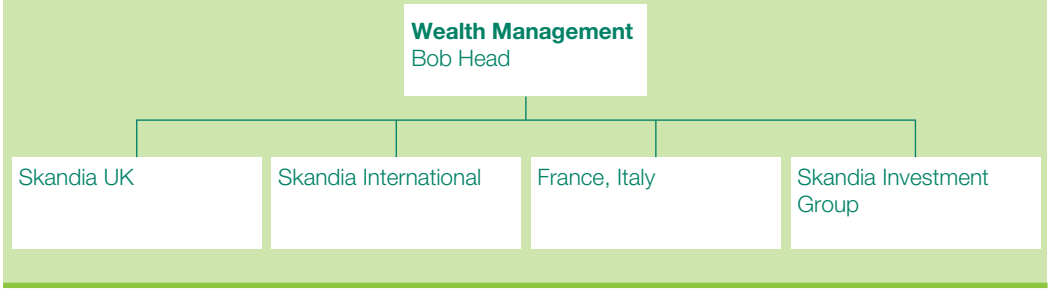
Although the Retail Europe business expects to be a Standard Formula entity under Solvency II, we have made excellent progress as part of the Group iCRaFT programme in ensuring that all of our processes and governance structures will be Solvency II compliant.

Outlook
We anticipate that macro-economic factors will continue to have a significant impact on our markets in 2011. The development of equity and bond markets will continue to be the key to restoring consumer confidence after the financial crisis. Our customers will also be impacted by unemployment levels and their own sense of job security. Ongoing Solvency II developments and the low interest rate environment will also provide challenges for traditional insurers. While this should be positive for the unit-linked market, it may intensify competition.

Our focus in 2011 is to extend our product range and distribution through growth initiatives in Germany and Poland. At the same time we will maintain our focus on capital efficiency and cost containment through our consolidated base in Berlin and our operations in South Africa. We will incur further implementation costs for outsourcing the administration and IT support teams to South Africa but will gain scope for operational leverage in due course.

WEALTH MANAGEMENT

Wealth Management



A very positive year for Wealth Management

Highlights (€m, unless otherwise stated)	2010	2009	% Change
Adjusted operating profit (IFRS basis, pre-tax)	**197**	106	86%
Return on local equity[1]	**14%**	8%	
Life assurance sales (APE)	**734**	617	19%
Unit trust/mutual fund sales	**4,507**	3,210	40%
PVNBP	**6,380**	5,042	27%
Value of new business (post-tax)	**66**	49	35%
APE margin	**9%**	8%	
PVNBP margin	**1.0%**	1.0%	
Operating MCEV earnings (covered business, post-tax)	**112**	(4)	
Return on embedded value (covered business, post-tax)	**6.1%**	(0.3%)	
Net client cash flows (£bn)	**3.9**	2.5	56%
Funds under management (£bn)	**55.9**	46.9	19%

1 Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

Overview

Wealth Management enjoyed a very positive year in 2010. We achieved significant year-on-year sales growth, margins improved and the cost reduction programme delivered £35 million of run-rate savings which contributed to improved profitability. The FTSE100 grew by 9% during the year, contributing to continued positive investor sentiment which in turn led to strong growth in FUM across our markets.

Sales grew across the business, particularly in the UK and Continental Europe. We continue to see a rapid shift in the UK towards both platform business with an insurance wrapper and mutual fund products. Although we do not target growth in market share as a KPI, Skandia UK's market share continued to grow in the third quarter of 2010, to 7.4% across all industry channels compared to 6.4% in the fourth quarter of 2009, suggesting the increased importance of the platform model. This is a record for Skandia in the UK and compares to a range of 3.5% to 5.5% over 2001-2007. The scale of our UK Platform, and our investment to deliver reliability and flexibility, position us ideally to lead and benefit from this industry shift; we are actively looking at how to further enhance our platform offering and rationalise our suite of products over the coming year. We are making good progress in building the Wealth Management operations and systems on a single operating model.

Throughout 2010, Skandia Investment Group's (SIG's) highly successful *Spectrum* range of risk-targeted funds has been launched on all the UK's major financial adviser platforms. The FUM of *Spectrum* exceeded the £750 million mark, and this range has now been successfully exported to Sweden as the *Skala* range.

Life covered sales summary

APE sales were £734 million, a 19% increase on 2009. This is mainly attributable to sales in the UK and in Continental Europe, which improved by 28% (£76 million) and 50% (£52 million) respectively compared to 2009.

LONG-TERM SAVINGS
CONTINUED

	Gross single premiums			Gross regular premiums			Total APE			Total PVNBP		
New business (£m)	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%	**2010**	2009	+/-%
UK												
Pensions	**2,021**	1,452	39%	**71**	70	1%	**273**	216	26%			
Bonds	**597**	473	26%	**–**	–		**60**	47	28%			
Protection	**–**	–		**10**	8	25%	**10**	8	25%			
Savings	**–**	–		**9**	5	80%	**9**	5	80%			
Total UK	**2,618**	1,925	36%	**90**	83	8%	**352**	276	28%	**3,023**	2,289	32%
International												
Unit-linked	**324**	190	71%	**44**	63	(30%)	**77**	83	(7%)			
Bonds	**1,253**	1,154	9%	**23**	39	(41%)	**148**	153	(3%)			
Total International	**1,577**	1,344	17%	**67**	102	(34%)	**225**	236	(5%)	**1,826**	1,741	5%
Continental Europe												
Unit-linked	**1,490**	971	53%	**9**	6	50%	**157**	105	50%	**1,531**	1,012	51%
Total Wealth Management	**5,685**	4,240	34%	**166**	191	(13%)	**734**	617	19%	**6,380**	5,042	27%

Unit trust / mutual fund sales summary

£m	**2010**	2009	+/-%
UK	**3,256**	2,090	56%
International	**1,228**	1,100	12%
Continental Europe	**23**	20	15%
Total Wealth Management	**4,507**	3,210	40%

The strong UK platform performance reflects the continued conversion of IFAs to platform business and particularly strong sales during the first half in the lead-up to the end of the tax year. APE sales of £239 million were up £100 million on 2009. Second half volume growth decreased, with re-registering activity slowing and a greater impact from the UK holiday season. The majority of the mutual fund sales growth was from the platform, where buoyant markets and increased ISA allowances made positive contributions in 2010 and late 2009. Gross inflows onto the platform were £5.2 billion in 2010 (2009:£3.3 billion) – an indicator of our proposition's success.

Continental Europe APE sales volumes of £157 million were strongly ahead of 2009's £105 million. Italy has been the main contributor to increased Europe sales, with very high sales earlier in the year partially driven by changes in tax legislation. The period covered by these tax changes has now expired, and volume growth has returned to normal levels as we continue to make progress through good distributor relationships.

APE sales volumes of £225 million in the offshore International market were 5% lower than the £236 million achieved in 2009, impacted by a managed decline in regular premium sales in Finland as a result of legislation changes in 2009.

The UK Legacy business APE sales volumes of £113 million were down by £24 million compared to 2009, due to a shift in market sentiment towards platform offers. Following a review of the legacy products, we decided to close some legacy products to new business.

IFRS AOP results

IFRS AOP (pre-tax) increased by 86% to £197 million, primarily due to higher FUM, which provided a healthy boost to returns on equity because of the operating leverage in the business. FUM growth remains strongly positive, driven by NCCF and market growth.

As previously reported, the prior year AOP results benefited from the structural tax efficiency applicable to UK companies writing unit-linked business in the UK, together with the smoothing of previous years' deferred tax assets. These assets arose during the significant market volatility of the preceding two years where falls in the value of policyholder assets resulted in the recognition of significant deferred tax assets in the IFRS income statement, which were spread forward under AOP. The pre-tax smoothing for 2010 gave rise to a profit of £71 million, a similar amount to 2009. For 2011, the pre-tax impact will be a profit of £27 million, falling to nil thereafter. Within the MCEV earnings, these profits are recognised as they arise as investment variances.

With continued equity and bond market growth, the UK Life Companies have moved into a full XSI tax position. This raises the effective tax rate because it means that only a relatively small proportion of the Life dividend income is treated as belonging to the shareholder. This has increased the overall effective tax rate for Wealth Management to 22% in 2010 (2009: 19%).

SKANDIA UK: GETTING THE FACTS TO OUR CUSTOMERS

"Increasingly the web is becoming the critical medium for any business and it's essential we embrace it. The new Skandia website provides a vital channel for communication with our end customers and financial advisers."

Jeremy Mugridge, Platform Specialist, Skandia UK

As research shows the growing importance of the internet to customers for accessing financial information, Skandia UK has launched a brand new website as a hub for all online activity. We carried out customer research to ensure that the structure, navigation and functionality of the new website would be as user-friendly and engaging as possible, and we have linked the site to our existing systems to enable rapid updates to news and data – getting the facts to our customers faster.

Value of new business and margins

The value of new business increased by £17 million to £66 million due to strong sales in UK platform and Continental Europe combined with operating assumption changes at year-end 2010 across all markets in Wealth Management. This was partially offset by economic assumption changes in UK and Continental Europe (as a result of decreased assumed growth rates and increased future inflation) and the shift from UK Legacy to UK Platform offerings.

2010 PVNBP margin was level with 2009 at 1.0%, as growth in volumes and cost reductions were fully offset by the shift to the UK platform offering, the decline in regular premium business sales and higher acquisition expenses in International.

MCEV results

Covered business adjusted operating MCEV post-tax earnings increased by £116 million to £112 million. 2009 was significantly impacted by operating assumption changes reflecting surrender experience in International and UK Legacy. In 2010 VNB was higher and overall we saw a significant improvement in experience effects, especially persistency and rebates. However, persistency has worsened on the UK Legacy pension business as the market anticipates the implementation of the Retail Distribution Review. This has resulted in some product closures and consequently the MCEV assumptions have been strengthened. Planned return on MCEV was lower than in 2009 as a result of the reduction in the one-year yield on risk-free investments.

We have made excellent progress in implementing our Solvency II readiness programme, in conjunction with the Group-led iCRaFT initiative.

Net client cash flow

NCCF for the year was £3.9 billion, up 56% on 2009, driven by strong contributions from the UK platform and Italy, which outweighed surrenders in the UK Legacy book.

Funds under management

FUM grew 19% to £55.9 billion, driven by strong NCCF and the positive market movements.

Outlook

Our outlook for 2011 is optimistic, based on continuing positive investor sentiment. So far 2011 sales are in line with our expectations but below those of the prior year which included the one-off positive impact of the Italian tax shield and particularly significant UK platform sales in the build up to the 2010 tax year-end. These were helped by April 2010 changes in pension rules coupled with rising investor confidence at the time of the 2010 ISA season.

We anticipate continued strong support for the platform model in all our markets and the shift in the UK market towards a simplified investment and pension product suite. Following the closure of a number of our UK Legacy products during 2010, we have put retention strategies in place for this part of the business – anticipating that we will continue to see net client outflows from this book of business in the build-up to implementation in 2013 of the changes resulting from the Retail Distribution Review (RDR). We expect final clarification of the review in a Policy Statement during the first half of 2011. We believe that we are well-placed for the RDR changes since a large proportion of our new business is already written on the basis of client-agreed adviser remuneration. In addition, we are considering plans to introduce a fully unbundled charging structure, under which we will pass on rebates to the customer in advance of December 2012.

Our focus on cost reduction will continue and we remain confident that we will meet our 2012 expense and RoE targets.

£6 billion

Skandia UK's gross sales reached £6 billion in 2010

BANKING

KEY FACTS

Nedbank Group is South Africa's fourth largest banking group measured by assets, with a strong deposit franchise and the second largest retail deposit base. Old Mutual owned on average 54% of Nedbank Group during 2010. Nedbank is listed on the Johannesburg and Namibian Stock Exchanges. As at 31 December 2010, its market capitalisation was £6.2bn.

Adjusted operating profit (pre-tax and minorities)

£601m

2009: £470m

Number of employees

27,525

2009: 27,047

Total Assets

£58.9bn

2009: £47.7bn

Some of our brands

NEDBANK

fairbairn PRIVATE BANK

BoE PRIVATE CLIENTS

Return on equity (ROE) %

2010	11.8
2009	11.8

Core Tier 1 ratio %

2010	10.1
2009	9.9

Net interest income £m

2010	1,468
2009	1,238

Net interest margin %

2010	3.35
2009	3.39

Overview

Nedbank Group provides a wide range of wholesale and retail banking services and a growing insurance, asset management and wealth management offering through five main business clusters, namely Nedbank Capital, Nedbank Corporate, Nedbank Business Banking, Nedbank Retail and Nedbank Wealth.

Focused on southern Africa, but with an aspiration to grow its business reach across the whole of the African continent, Nedbank Group is positioned as a bank for all – from both a retail and a wholesale banking perspective.

Acknowledged for its sustainability leadership, Nedbank Group is the first and only carbon-neutral financial services organisation in Africa.



Mike Brown
Chief Executive, Nedbank

Business profile

Nedbank Capital	Provides comprehensive investment banking solutions to institutional and corporate clients. Has offices in South Africa and London and a representative office in Angola.	The cluster comprises: ■ Investment Banking ■ Global Markets ■ Treasury.
Nedbank Corporate	Provides full-service corporate banking to large corporates with an annual turnover in excess of R400 million, including commercial, industrial, retail and residential property finance solutions, and Nedbank Africa, comprising operations servicing both retail and corporate market segments in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe.	The cluster comprises: ■ Corporate Banking ■ Property Finance ■ Nedbank Africa ■ Transactional Banking ■ Corporate Shared Services.
Nedbank Business Banking	Provides commercial banking solutions to small- to medium-sized businesses with an annual turnover of between R7.5 million and R400 million.	The cluster comprises: ■ Four geographically decentralised client-facing business units ■ A strategic business unit, including Specialised Finance, Debtor Management and Client Value Propositions ■ Specialist services, including Investment Management, Transactional Banking Sales, Finance and Business Intelligence/Client Value Management.
Nedbank Retail	Serves the financial needs of individuals and small businesses with up to R7.5 million in annual turnover. Provides transactional, card, lending and investment products and services. The Nedbank Retail Cluster also services merchants and large corporates in respect of card-acquiring services.	The cluster comprises: ■ Secured Lending, including mortgages and motor finance ■ Retail Relationship Banking, which combines Private Banking and Small-Business Services and offers products in a client-centric value proposition ■ Consumer Banking, which consists of channels, personal loans, deposits, transactional banking, client value management and mass tailored offerings based on client insights ■ Card Issuing and Acquiring.
Nedbank Wealth	Comprises three divisions, namely Insurance, Asset Management and Wealth Management, with offices in South Africa and London and on the Isle of Man, Jersey and Guernsey.	The cluster comprises: ■ Insurance includes short-term insurance, life insurance and insurance broking ■ Asset Management offers a range of local and international 'best of breed' unit trusts, private client asset management and multimanagement solutions ■ Wealth Management includes private banking and fiduciary services locally and internationally as well as stockbroking and financial planning.

Nedbank Group's headquarters are in Sandton, Johannesburg, while it has large operational centres in Durban and Cape Town, complemented by a regional branch network throughout South Africa and facilities in other southern African countries. These facilities are operated through Nedbank Group's eight affiliated banks and subsidiaries, as well as through branches and representative offices in certain key global financial centres that serve to meet international banking requirements of Nedbank Group's South Africa-based multinational clients.

Strategy

During 2010 Nedbank Group's vision was refined to: 'Building Africa's most admired bank by our staff, clients, shareholders, regulators and communities'.

This represents a significant enhancement to Nedbank Group's vision and highlights the increasing focus by Nedbank Group on growing its business reach across the African continent not just in South Africa. However, the Nedbank Group recognises that, to become the most admired bank in Africa, it must achieve this in South Africa first, which is why its primary focus during 2010 was on developing more competitive domestic strategies for each of its front-line businesses.

Nedbank Group assessment of strategic operating environment

Identified trend	Nedbank Group will …
Bank returns are structurally declining.	… respond through active portfolio management and 'tilting' of its portfolio of businesses to optimise sustainable profitability, utilise capital and liquidity judiciously, invest to exploit new growth opportunities, and build a lean operating model.
The SA financial services' economic profit pool is large, but higher growth is expected in the rest of Africa in the longer term.	… focus domestically, but continue to explore expansion opportunities in Africa.
SA prospects continue to be driven by infrastructural investment (mostly government) and a wealthier consumer.	… ensure that it benefits from the opportunities created through infrastructure development, increase its focus on wholesale banking, and improve its retail proposition to capture disposable income shifts. Nedbank Group will also continue to bring more people into the formal banking system through innovative and affordable products such as *M-PESA*.
There is high growth from bandwidth, electronic, internet, mobile and new technology developments.	… leverage new technologies and then lead in these high-growth markets and banking markets linked to these, such as mobile banking.
SA demographic shifts are enabling consumer opportunities.	… target large and growing segment opportunities such as the underbanked, youth, small and medium enterprise and senior citizen markets. A differentiated approach is essential to service such new markets in a cost-efficient manner.
The voice of and focus on the client are increasing.	… meet the need for simplicity, convenience, choice, affordability, advice, and trust from clients. Client centricity will remain a core focus, with the aim to increase direct engagement with clients.
Non-banking solutions are growing faster than banking, but deposits have become a key priority.	… seek out add-on growth solutions while improving transactional banking capabilities, such as cross-sell, primary clients, and functionality.
Demand for talent is greater than growth of the talent pool.	… develop unique ways to retain, develop and grow the staff talent pool, especially in businesses that will be targeting higher growth.
Pressure on natural resources is increasing.	… continue to reduce and neutralise its own operational impact, consider environmental impacts in its lending activities and actively support its clients in their endeavours to reposition their businesses accordingly.

Nedbank Group's vision continues to be supported by its long-term objectives, which are referred to internally as Deep Green aspirations.

These are:

- to become a great place to work, a great place to bank and a great place to invest
- to be world class at managing risk
- to create a community of leaders
- to have the most respected and aspirational financial services brand
- to be recognised for being highly involved in the community and environment
- to lead in transformation
- to be great at collaboration
- to live its values.

Portfolio approach to capital allocation

A portfolio approach has been adopted for sustainably optimising returns in an environment where resources, capital and liquidity are scarce commodities. The Nedbank Group must be more judicious in selecting strategic business opportunities that will allow better alignment of risk and returns, taking into account liquidity, capital and credit risks. Doing so will allow a transition from some of the existing portfolios, such as retail home loans (where the economic returns continue to be poor), while growing low-capital-intensive businesses. The Nedbank Group will, however, continue to take a long-term sustainable view of its products, client needs and its societal impact.

Against this strategic backdrop the business plan for 2011 to 2013 will see Nedbank Group focus on:

- building enduring primary banking relationships with more retail and wholesale clients in South Africa
- improving its primary banking positioning across all businesses
- becoming the leader in business banking for South Africa
- becoming the public sector bank of choice
- continuing as one of the top two wholesale banks
- ramping up the wealth and asset management, and insurance businesses
- leveraging the Imperial Bank integration
- becoming the leader in client service delivery
- building on its position as a leader in, and influencer of, integrated sustainability.

The Nedbank Group will also continue to evolve its strategy of building Africa's most admired bank by:

- implementing its three-tier strategy to grow its physical network in the southern African Development Community
- leveraging boutique investment banking opportunities
- leveraging the Ecobank Nedbank Alliance to provide clients with access to a Pan-African network
- evaluating selective investment opportunities.

Solid earnings growth

Highlights (Rm)	2010	2009	% Change
Adjusted operating profit (IFRS basis, pre-tax)	**6,799**	6,192	10%
Headline earnings[1]	**4,900**	4,277	15%
Net interest income[1]	**16,608**	16,306	2%
Non-interest revenue[1]	**13,215**	11,906	11%
Net interest margin[1]	**3.35%**	3.39%	
Credit loss ratio[1]	**1.36%**	1.52%	
Cost to income ratio[1]	**55.7%**	53.5%	
RoE[1]	**11.8%**	11.8%	
RoE (excluding goodwill)[1]	**13.4%**	13.4%	
Core Tier 1 ratio	**10.1%**	9.9%	
Adjusted operating profit (IFRS basis, pre-tax) (£m)	**601**	470	28%

1 As reported by Nedbank Group in its report to shareholders as at 31 December 2010
Certain of the Nedbank Group's reporting ratio calculations have been adjusted. The ratios for RoE have been restated with the denominator changing from simple average to daily average for equity and total asset values, respectively. The calculation of the credit loss ratio has been changed from simple-average advances to daily-average banking advances (thereby excluding trading advances from the calculation). Comparatives have been restated accordingly.

The current strong capital position of the Nedbank Group, combined with these strategic focus areas, places it in a position for sustainable growth.

The full text of Nedbank Group's results for the year ended 31 December 2010, released on 28 February 2011, can be accessed on Nedbank Group's website http://www.nedbankgroup.co.za/financial/2010AnnualResults/downloads/NedbankGroup.pdf.

Banking environment

Real gross domestic product (GDP) in South Africa grew by 2.8% in 2010 compared with a decline of 1.7% in 2009. The local economy had a strong start to the year, primarily driven by improved global demand for commodities and a rebound in manufacturing production off the depressed levels of 2009.

Economic activity was also boosted by strong infrastructural spending ahead of the FIFA 2010 World Cup and by the event itself, with consumer spending rising steadily for most of the year. However, fixed investment by the private sector contracted for the second year off the elevated levels seen in 2008.

Growth in both the emerging and some parts of the developed world surprised on the upside, underpinned by China's economic strength and continued demand for commodities and capital goods. Massive liquidity injections by major central banks and historically low interest rates helped to stimulate economic growth further, particularly in emerging economies. In contrast, the underlying economic and financial environment remained fragile in the developed world, with fiscal difficulties in parts of Europe and America, continued weakness in credit markets, limited employment growth and inflationary concerns returning in emerging economies.

Household finances improved in South Africa as debt started to decrease and interest rates eased to the lowest levels in 36 years. The recovery in the credit cycle has proved to be more modest compared with previous cycles. Household demand for credit was contained by the consumer debt burden remaining relatively high, increased regulatory requirements, policy uncertainty and employment growth only resuming late in the year. Against this background the ratio of household debt to disposable income declined marginally to 78.2% from just over 80% at the end of 2009. At the same time debt service costs decreased to 7.5%, the lowest level since June 2006, and are now at a level that is more conducive to improving economic growth in the consumer sector.

In the corporate sector excess capacity and uncertainty over the sustainability of the local and global recovery limited spending. Government fixed-investment spending, although continuing to contract, emerged as the main foundation for growth.

Review of results

Nedbank showed solid earnings growth in a challenging economic environment. After a strong fourth quarter Nedbank finished the year with earnings marginally ahead of management's expectations set out in the third-quarter trading update. Headline earnings increased by 14.6% from R4,277 million to R4,900 million. Diluted headline earnings per share increased by 8.7% from 983 cents to 1,069 cents, slightly above the forecast range of 0% to 8% provided in the third-quarter trading update. Diluted earnings per share (DEPS) decreased by 5.3% from 1,109 cents to 1,050 cents. As previously reported, 2009 DEPS included a once-off International Financial Reporting Standards (IFRS) revaluation gain of R547 million (after taxation) from the acquisition and consolidation of the Nedbank Wealth joint ventures.

Nedbank recorded a return on average ordinary shareholders' equity (RoE), excluding goodwill, of 13.4% and a RoE of 11.8%.

Nedbank maintained its well-capitalised balance sheet with core Tier 1 capital at 10.1% (2009: 9.9%), while advances grew by 5.5%, with market share gains in most lending classes aside from home loans.

The net asset value per share grew by 8.0% from 9,100 cents in December 2009 to 9,831 cents in December 2010. This is a pleasing result given the increase in the average number of shares in issue following the acquisition of the joint ventures from Old Mutual and scrip dividend distributions last year.

Financial performance

Net interest income (NII)

NII increased by 1.9% to R16,608 million (2009: R16,306 million) and Nedbank's net interest margin held up well at 3.35% (2009: 3.39%), despite the impact of lower interest rates. Average interest-earning banking assets increased by 3.0% (2009 growth: 9.0%).

Margin compression was less than expected. Margin pressure primarily resulted from a smaller endowment from lower average interest rates and the cost of lengthening the funding profile. This was partially offset by the widening of margins from asset pricing and a change in asset mix, including strong growth in Nedbank's retail motor finance and personal loans businesses, a relative prime/Johannesburg Interbank Agreed Rate (JIBAR) reset benefit as a result of less aggressive interest rate cuts during 2010 compared with 2009, and a decline in the market cost of term liquidity during the last quarter of the year.

Impairments charge on loans and advances

The credit loss ratio on the banking book improved to 1.36% for the period (2009: 1.52% (restated)).

The reduction in the impairments charge was driven mostly by Nedbank Retail, particularly in the secured portfolios that had lagged the recovery in the unsecured portfolios. Lower interest rates and the stabilising of job losses contributed to the retail credit loss ratio improving significantly from 3.17% in 2009 to 2.67%. Nedbank further strengthened its provisioning by reducing certain security assumptions in specific impairments, increasing levels of portfolio provisioning on debt restructures of R97 million and lengthening the bad debt emergence period assumptions within Nedbank Retail home loans at an additional cost of R114 million within portfolio impairments.

The credit portfolios in Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth are of high quality and credit loss ratios remained within or below the respective clusters' through-the-cycle levels. Nedbank Capital impairments increased in the higher-risk private equity portfolio.

Defaulted advances declined by 1.04% to R26,765 million (2009: R27,045 million). Defaulted advances to total advances decreased from its peak of 6.01% in June 2010 to 5.63%. Total impairment provisions increased by 14.6% to R11,226 million (2009: R9,798 million) resulting in strengthened coverage ratios.

Non-interest revenue (NIR)

Nedbank's focus on NIR generated growth across all the clusters. NIR increased 11.0% to R13,215 million (2009: R11,906 million). On a comparable basis NIR growth was 10.5% after adjusting for the acquisitions in 2009 of the Nedbank Wealth joint ventures and before fair-value adjustments. The ratio of NIR to expenses improved to 79.6% (2009: 78.8%).

Core fee and commission income grew strongly by 13.7% (like-for-like growth of 11.2%, adjusting for the Nedbank Wealth joint ventures) through volume growth, new products and new client acquisitions. Nedbank reduced its retail transactional banking charges in 2006 and 2007. Since then price increases have been modest, with 2010 increases in line with inflation, resulting in current banking charges being similar to 2005 levels.

Insurance income grew 39.8% (18.4% on a like-for-like basis, adjusting for the Nedbank Wealth joint ventures) primarily as a result of the provision of insurance on a fast-growing personal loans book as well as the introduction of new products and improved levels of cross-selling.

Trading income increased by 13.9% to R2,096 million (2009: R1,841 million). In 2009 interest rates decreased at a rapid pace and created favourable trading conditions. Low volatility in the first half of 2010 resulted in difficult conditions for global markets and continued pressure on foreign exchange volumes and margins. This was offset by improved equity trading in the second half of the year.

Private equity markets remained constrained throughout the year. Listed-property private equity investments showed some modest gains. Overall NIR from the private equity portfolios decreased by 25.0%.

NIR was negatively impacted by R213 million (2009: R6 million profit) over the period as a result of the adverse fair-value adjustments of Nedbank's subordinated debt resulting from the narrowing of credit spreads. Nedbank Corporate also reflected a negative fair-value adjustment of R55 million (2009: R72 million profit) due to a downward movement in the yield curve and related convexity in the fixed-rate advances book and associated interest rate swaps.

Expenses
Nedbank has maintained a strong cost discipline over an extended period, resulting in the increase in expenses remaining below the market guidance given at the beginning of 2010. Expenses grew by 9.9% to R16,598 million (2009: R15,100 million). The increase was partly due to the acquisition of the Nedbank Wealth joint ventures and the consolidation of Merchant Bank of Central Africa. Expenses increased by 8.5% on a comparable basis.

Taxation
The taxation charge (excluding taxation on non-trading and capital items) increased by 10.9% to R1,366 million (2009: R1,232 million) arising from profit growth adjusted for dividend income as a proportion of total income being lower than in 2009, the lower provision for secondary tax on companies, owing to an increase of shareholders (81.5%) who elected to take scrip for the 2009 final dividend distribution (2008 final dividend distribution: 32.0%), and the reduced accounting effect from structured finance transactions that continued to unwind.

The effective tax rate increased marginally from 20.2% to 20.7%.

Non-trading income
Income after taxation from non-trading and capital items decreased to a R89 million loss from a R549 million profit in 2009. The main component of this was an anticipated R34 million writedown on Imperial Bank computer software following the acquisition. The 2009 profit arose from the accounting-related revaluation of BoE (Pty) Limited and Nedgroup Life Assurance Company Limited on the acquisition of the remaining shares in the joint ventures.

Capital
Nedbank's capital adequacy ratios remain well above its internal targets and marginally ahead of December 2009. This resulted from ongoing capital and risk-weighted asset optimisation, a strategic focus on 'managing for value' and a 0.6% increase in capital from higher levels of scrip takeup and other share issues for staff incentives and black economic empowerment (BEE) structures. This growth was offset by the approximately 1.3% negative impact on Nedbank's capital adequacy ratios from the cash acquisition of 49.9% of Imperial Bank and the treatment of capitalised software as an intangible asset rather than as a fixed asset for capital adequacy purposes.

Liquidity
Nedbank's liquidity position remains sound. Nedbank continues to focus on diversifying its funding base, lengthening its funding profile and maintaining appropriate liquidity buffers. Nedbank increased its long-term funding ratio from increased capital market issuances under the domestic medium-term note programme (R6.23 billion) and also increased the duration in the money market book. Nedbank's liquidity position is further supported by a strong loan-to-deposit ratio of 97% and a low reliance on interbank and foreign currency funding. Nedbank is able to leverage off its favourable retail, commercial and wholesale deposit mix, which compares well with domestic industry averages.

Loans and advances
Nedbank continued to make good progress in improving asset quality, and active management of the bank's portfolios towards higher-economic-profit businesses resulted in slower asset growth in selected areas. Nedbank grew advances ahead of the industry at 5.5% to R475 billion (2009: R450 billion).

Deposits
Deposits increased by 4.5% to R490 billion (2009: R469 billion). Optimising the mix of the deposit book remains a key focus in reducing the high cost of longer-term and professional funding. This is critical as banks compete more aggressively for lower-cost deposit pools with longer behavioural duration and as they start to take cognisance of the possible Basel III liquidity ratios. Low interest rates, coupled with low domestic savings levels and the deleveraging of consumers, led to modest growth in retail deposits during 2010. Relatively higher deposit growth in the wholesale sector indicated increasing working capital and available capacity among corporates. Throughout the year demand for higher-yielding negotiable certificates of deposit remained strong within the professional funds and corporate markets.

Capital adequacy	**2010 ratio**	2009 ratio	Target range	Regulatory minimum
Core Tier 1 ratio	**10.1%**	9.9%	7.5% to 9.0%	5.25%
Tier 1 ratio	**11.7%**	11.5%	8.5% to 10.0%	7.00%
Total capital ratio	**15.0%**	14.9%	11.5% to 13.0%	9.75%

Capital adequacy ratios include unappropriated profit

Outlook

Lower domestic interest rates and rising levels of income should boost consumer spending. Together with improving global demand, this is expected to increase confidence levels and lead to better consumer demand and capital formation in 2011 and further momentum in 2012.

Retail banking credit growth should fare better as household credit demand improves, house prices edge higher and impairments moderate. Corporate markets are expected to show modest improvement, while the small and medium enterprise (SME) market is likely to remain under pressure until fixed-investment activity improves.

Government spending should continue to underpin growth, although this is expected to be limited by the reduction in fiscal deficits over the medium term. Government's stronger focus on job creation is also positive and much will depend on the ability to create a more enabling environment for business growth. Key to this will be improvements in the building of infrastructure and a more conducive and certain regulatory and policy environment to reduce the medium-term constraints on economic growth.

Nedbank is well placed for earnings growth in 2011 and remains on track to meet its medium- to long-term financial targets in 2013. Nedbank will continue to invest to generate sustainable revenue growth, underpinned by ongoing cost optimisation and efficiency improvements. Growing the bank's overall franchise and maintaining momentum on the turnaround in the Retail Cluster, supported by a liquid and well-capitalised balance sheet, are key to delivering sustainable growth.

Margins should widen slightly, given that interest rates are expected to remain unchanged, and hence the negative effect of assets repricing quicker than liabilities out to three months will decrease. In addition, the cost of term liquidity is expected to decline as more expensive deposits mature and as below-trend economic growth continues, albeit at higher levels than last year. Overall advances growth is expected to be in the mid to upper single digits.

Impairments are expected to continue reducing in line with the improved quality of assets supported by asset pricing on new advances that appropriately reflects risk and the related cost of funds. The credit loss ratio is currently expected to decrease but to remain above Nedbank's target range in 2011.

Transactional volumes are expected to increase as the economy improves and Nedbank's focus on growing primary clients is maintained.

Nedbank's medium-term targets remain unchanged.

Nedbank Group's medium- to long-term targets

Metric	2010 Performance	Medium- to long-term target	2011 Outlook
ROE (excl goodwill) improving, impairments charge	13.4%	5% above monthly weighted average cost of ordinary shareholders' equity	Improving, remaining below target
Growth in diluted headline earnings per share (EPS)	8.7%	At least consumer price index + GDP growth + 5%	Forecast to exceed target
Impairments charge (credit loss ratio)	1.36%	Between 0.6% and 1.0% of average banking advances	Improving, remaining above target
NIR:expenses ratio	79.6%	> 85%	Improving, remaining below target
Efficiency ratio	55.7%[1]	< 50.0%	Improving, remaining above target
Basel II core Tier 1 capital adequacy ratio	10.1%	7.5% to 9.0%	Improving, remaining above top end of target range
Basel II Tier 1 capital adequacy ratio	11.7%	8.5% to 10.0%	Improving, remaining above top end of target range
Basel II total capital adequacy ratio	15.0%	11.5% to 13.0%	Improving, remaining above top end of target range
Economic capital	Capitalised to 99.93% confidence interval on economic capital basis (target debt rating A including 10% buffer)		
Dividend cover policy	2.30%	2.25 to 2.75 times	2.25 to 2.75 times

1 Actual efficiency ratio is 55.7% including BEE costs

SHORT-TERM INSURANCE

KEY FACTS

Mutual & Federal (M&F) is the second-largest short-term insurer in South Africa, with operations in Namibia, Botswana and Zimbabwe. It provides a full range of short-term insurance products to commercial and domestic customers in five principal portfolios: Commercial including Agriculture, Corporate, Personal, Risk Finance, and Credit.

Adjusted operating profit (pre-tax)

£103m

2009: £70m

Number of employees

2,222

2009: 2,115

Combined ratio

92.4%

2009: 98.0%

Our brands

Underwriting result (£m)



Gross premiums (£m)



Overview

In 2009, Old Mutual plc announced its intention to buy out the minority stake in M&F, making it a wholly-owned subsidiary. On completion of the transaction in 2010, M&F delisted from the Johannesburg Stock Exchange and developed a three-to-five-year strategic programme to deliver a real step change for the company. To drive delivery of the programme, Peter Todd was appointed as Managing Director in December 2010, following Keith Kennedy's decision to retire in 2011.

Strategy

M&F's new vision and strategic objectives are aligned with Old Mutual Group's theme of customer-centricity. The strategy aims to deliver the desired shareholder outcomes by identifying key market segments and providing them with relevant and suitably priced product solutions and efficient services through appropriate channels. The new vision, strategy and five strategic thrusts will be delivered through the Step Change Programme.

Our vision is to become the short-term insurer of choice, trusted by our customers to provide innovative solutions to protect them financially in the event of a loss.

Our strategy is to deliver strong underwriting profit and revenue growth by building a multi-channel business focused on delivering value for the customer and fostering close relationships with our strategic business partners.

The five strategic thrusts are:

1. Embed profitable and sound underwriting processes
2. Develop compelling and innovative offerings for targeted customer and broker segments
3. Grow our customer base by servicing them through their channel of choice
4. Deliver value through efficient and customer-centric processes
5. Transform our business to benefit our people and other stakeholders.

Over the next three years, M&F will continue focusing on implementation of the Step Change Programme to build a leadership position in the South African short-term insurance market.



Peter Todd
Managing Director
Appointed, December 2010

Business profile	
Commercial	The Commercial portfolio is the largest, with a broad spectrum of customers ranging from small businesses to large corporations. It covers primarily property, accident, motor, engineering, marine and crop insurance risks.
Corporate	The Corporate portfolio focuses on corporate clients, from mid-size companies to large multi-nationals. Corporate offerings include protection, fire policies, accident policies and motor fleet insurance. This portfolio is staffed with specialists in corporate insurance, supporting the major brokers in this sphere, with expertise in mining, engineering, chemical production, motor vehicle manufacture and other major sectors.
Personal	The Personal portfolio provides domestic household, motor and all-risk short-term insurance products to domestic customers of all ages and various financial groups. It offers white-labelled intermediary-branded products and an inhouse branded product, *Allsure*, which provides comprehensive cover. It also includes a hospital cash plan and personal accident policies as well as low-cost products covering livestock and informal dwellings.
Risk Finance	The Risk Finance portfolio, comprising alternative risk transfer products, is provided by a highly capable team which is well regarded in the industry as one of South Africa's largest suppliers of risk financing solutions, primarily to medium-sized commercial customers.
Credit	The Credit portfolio is underwritten by a subsidiary of M&F and is offered within a market segment where it dominates the market.

SHORT-TERM INSURANCE
CONTINUED

Strong performance following renewed focus

Highlights (Rm)	2010	2009	% Change
Underwriting result	**519**	140	271%
Long-term investment return (LTIR)	**639**	791	(19%)
Restructuring costs	**(8)**	(13)	38%
Income from associates	**12**	–	–
Adjusted operating profit (IFRS basis, pre-tax)	**1,162**	918	27%
Gross premiums	**8,442**	8,456	–
Earned premiums	**6,859**	6,874	–
Claims ratio	**63.8%**	68.7%	
Combined ratio	**92.4%**	98.0%	
Solvency ratio	**73%**	56%	
Return on equity	**19.0%**	21.2%	
Adjusted operating profit (IFRS basis, pre-tax) (£m)	**103**	70	47%

Market context

In 2010, although market conditions had improved compared to 2009, tough economic conditions prevailed for consumers, and spending was constrained.

The improvement in market conditions resulted from several factors – including successive interest rate cuts during the year, which reduced the cost of debt; consumer inflation declining and remaining within the target range, and improved customer confidence. GDP grew at the expected rate of 3.0% by the end of 2010, a turnaround from the 1.8% decline in 2009. Car sales increased as a result of car rental company purchases for the 2010 Soccer World Cup, and consumers bought motor vehicles in anticipation of the new CO_2 emissions tax. Lastly, there was growth in the short-term industry market – particularly in the mass market area, where penetration is still low.

On the other hand, challenges were presented by debt-income ratios and unemployment that remained high, constraining spending, particularly retail expenditure. Market competition has intensified with the entry and growth of direct businesses, aggregators and banks in the short-term insurance space. In addition, the short-term insurance industry has had to face increased legislation such as the Financial Advisory and Intermediary Services Act (FAIS) Amendment to the General Code of Conduct enacted in October 2010.

Review of results 2010

Mutual & Federal delivered a very strong underwriting result in 2010, with exceptional performance from the commercial, corporate and credit insurance portfolios assisted by a relatively benign claims environment. As a result of seasonal weather factors our performance in the second half is traditionally stronger than the first half, which is affected by heavy rains. This was particularly marked in 2010, when our performance steadily improved throughout the year after a weak first quarter, also helped by the absence of significant fire claims.

We were pleased to record an improvement in client service in 2010. This was confirmed when we took second place in the Ask Afrika Orange survey on short-term insurance, which assesses customer service standards. The year also marked our first entry into the direct insurance market, with the launch of our iWYZE initiative in May. This has progressed extremely well, although it will continue to require investment in the near term. We are also making good progress in our preparation for Solvency II and its equivalent in South Africa, which is known as Solvency Assessment and Management (or SAM).

BOOSTING FINANCIAL LITERACY

"By investing in financial literacy, we're not only benefiting the communities we operate in but also increasing the potential for new customers in the future."

Michael McCann, Regional Sales Manager, Mutual & Federal

692,000

Over the last three years we have reached over 692,000 children

Managing Your Money is one of our financial literacy programmes run by Mutual & Federal. It helps teachers in South Africa to prepare effective and relevant mathematics literacy lessons by providing free training workshops and printed and multimedia resources that are fully aligned with the school curriculum.

The programme is helping hundreds of thousands of young people to set out on the path to financial independence, and demonstrating our commitment to membership of the South African Insurance Association and the Financial Sector Charter.

Underwriting and IFRS AOP results

Premiums remained flat on 2009 levels, largely as a result of the cancellation in late 2009 and early 2010 of some unprofitable portfolios that had consistently run at claims ratios above 80%. Our claims ratio decreased from 68.7% to 63.8% due to the favourable trading environment and focused management of claims costs.

The improving quality of our book of business, combined with a focus in 2010 on claims costs and improved pricing, allowed the business to deliver an underwriting result of 7.6%. Our operations in Namibia and Botswana continued to generate about 11% of our underwriting result between them.

Our expenses increased by 13% – primarily driven by inflation and profit-related pay, given the improved underwriting result.

Solvency margin

There has been a pleasing improvement in the solvency ratio (the ratio of net assets to net premiums) from 56% to 73%. This reflects the capital generated from the much-improved underwriting result and investment income.

Outlook

In 2011 we will continue to see the benefits of increased collaboration with OMSA, both in further growth of the iWYZE initiative, and as we identify opportunities for capital optimisation. Under our new Managing Director, Peter Todd, we have begun delivering our three-year strategic Step Change Programme. This aims to enhance profitability by focusing on growth while improving operating efficiencies across the business. However, the benign local claims environment in 2010 is likely to see a softening in rates in 2011, which will put some pressure on underwriting margins.

While we will continue to maintain our focus on the broker market and look to grow our share of this channel through improved systems and service, 2011 will see a growing contribution from alternative channels. Besides the expected growth from iWYZE, we will increase our focus on niche businesses through alternative channels.

Following the successful buy-out of minorities in 2010, the business is well positioned to extract more value from full membership of the Old Mutual Group. Coupled with a strong balance sheet and a greater focus on building new distribution channels, this should see us grow revenue while improving our expense ratios.

US ASSET MANAGEMENT

KEY FACTS

Trading as Old Mutual Asset Management (OMAM) and based in Boston, US Asset Management (USAM) is a global multi-boutique investment organisation serving institutional and individual investors around the world. Our 18 boutique firms specialise in active investment management, offering more than 160 investment strategies that span an array of asset classes and investment solutions.

Adjusted operating profit (pre-tax)

£87m

2009: £83m

Number of employees

1,537

2009: 1,544

Funds under management

£166.6bn

2009: £161.5bn

Selected affiliates

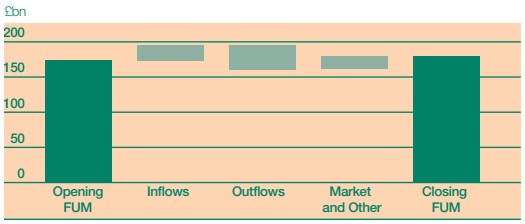
ROGGE

DWIGHT ASSET MANAGEMENT COMPANY

ACADIAN

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.

Net client cash flows



US ASSET MANAGEMENT



Linda Gibson
Executive Vice President,
Chief Operating Officer
Acting CEO in 2010

USAM affiliate capabilities

Over 160 investment strategies across a wide array of categories

US Equities	Global & Non-US Equities	Fixed Income	Alternatives
■ Large, Mid, Small, Micro, All-Cap ■ Growth, Value, Core ■ Fundamental, Quantitative	■ Global, International, Regional, Country Specific ■ Large, Small, All-Cap ■ Developed, Emerging, Frontier Markets	■ Long Duration, Intermediate, Short-Term ■ Core, Core Plus, High Yield ■ Stable Value ■ Liquidity Management, Money Market ■ TIPS ■ Global, International, Emerging Markets	■ 130/30 ■ Long/Short Variable Bias ■ Market Neutral ■ Absolute Return ■ Global Tactical Asset Allocation ■ Portable Alpha ■ Hedge Fund Seeding ■ Hedge Fund Emerging Managers ■ Options Overlay ■ Managed Futures ■ Volatility Management ■ Currency Management ■ Real Estate (Public, Private, Global) ■ Timber

Full offering of investment vehicles

■ Mutual Funds ■ Separate Accounts	■ Commingled Funds ■ Collective Trusts	■ Hedge Funds ■ Fund of Hedge Funds

Designed to meet investor needs

■ High Net Worth ■ Individual Investors ■ Sub-Advisory	■ Plan Sponsors (Private & Public) ■ Endowments & Foundations ■ Corporations	■ Defined Benefit ■ Defined Contribution ■ Taft-Hartley

Not all strategies are offered in all vehicles.



Peter Bain
President and Chief Executive Officer
Appointed February 2011

Markets and strategy overview

The investment environment in 2010 was characterised by a continued rebound in equity markets globally, although investors remained cautious in the wake of the global financial crisis. As a result, fixed income and alternative strategies remained in high demand among both individual and institutional investors while equity strategies (excluding emerging markets) broadly experienced outflows.

US ASSET MANAGEMENT
CONTINUED

Profits up 4% on higher average FUM, improving investment performance as markets began returning to fundamentals

Highlights ($m, unless otherwise stated)	2010	2009	% Change
Adjusted operating profit (IFRS basis, pre-tax)	**135**	130	4%
Return on Capital	**4.2%**	4.1%	
Operating margin	**18%**	18%	
Net client cash flows ($bn)	**(18.0)**	(7.1)	(254%)
Funds under management ($bn)	**259**	261	(1%)
Adjusted operating profit (IFRS basis, pre-tax) (£m)	**87**	83	5%

USAM seeks to become the leading multi-boutique investment organisation globally, with several sources of competitive advantage:

- A proven model for multi-boutique management. Over the past 10 years, USAM has demonstrated the ability to manage and develop a diverse portfolio of investment firms successfully. Our boutiques enjoy investment autonomy and equity incentives that attract and retain talented investors and promote business continuity. We enhance our boutiques' growth and profitability through central services, including distribution, product development, capital support, strategic planning, risk management and a scaled shared services platform.
- Investment-focused and broadly diversified. As boutique investment managers singularly focused on asset management, our firms succeed when our clients succeed. Our boutiques invest with conviction and discipline, employing rigorous and consistent investment processes focused on delivering long-term results. Our firms serve institutional and individual investors around the world and benefit from the insights gained through a global client base.
- Well-positioned for profitable growth. Our boutiques offer sought-after traditional and alternative products with significant FUM capacity. Capital investments offer the potential to accelerate growth by funding acquisitions and lift-outs, seeding new products, and making operating investments. With access to the breadth and depth of a large international financial services company like Old Mutual, USAM is well-positioned to continue its expansion outside the US.

USAM represents an attractive business partner for talented investment managers. The business continues to invest in growth by expanding investment capabilities and growing its global client base through international distribution.

Review of results 2010

FUM across all affiliates totalled $259 billion, of which $217 billion (84%) was in long-term investment products and $42 billion (16%) was in short-term products. Long-term investment products were broadly diversified across equities ($127 billion, 49%), fixed income ($60 billion, 23%) and alternative investments ($29 billion, 11%). Short-term products comprised stable value funds ($41 billion, 16%) and cash ($1 billion, <1%).

USAM profits improved 4% over 2009 due primarily to higher average FUM, although year-end FUM were flat versus 2009. Gains from market appreciation and net inflows into fixed income products were offset by net outflows from equity, alternative and stable value products.

In February 2011, we announced the appointment of Peter Bain as USAM's new Chief Executive Officer. Peter has over two decades of experience in leading and advising asset management firms, and his appointment is a key milestone in the firm's growth plans.

Investment performance

Investment performance improved during the year across global equity, non-US equity and fixed income products. US equity strategies underperformed for the year as a whole, but showed improvement in the fourth quarter as the return to fundamentals began in US markets. Stable value products underperformed due to the impact of prior years' underperformance in current-year returns.

In aggregate, 51% of FUM across all strategies outperformed their respective benchmarks for the year, while 38% and 67% of FUM outperformed over three- and five-year time periods. This compared to 51%, 58% and 61% in 2009. Excluding short-term products, 60%, 45% and 60% of long-term assets outperformed over one-, three- and five-year periods. Management remains confident that its multi-boutique model, which encourages investment conviction and retention of investment talent, will deliver investment outperformance over full market cycles.

IFRS AOP results

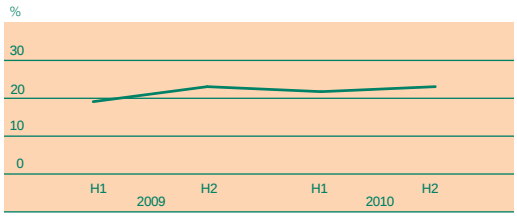
IFRS adjusted operating profit increased 4% or $5 million to $135 million in 2010, benefiting from higher average FUM. Management fees were up $50 million or 8%, while other revenues were flat. Performance fees increased during the second half compared to the second half of 2009, reflecting recent improvements in investment performance.

Operating margin and cost management

Our operating margin of 18% was consistent with 2009, although we realised annual expense savings of $23 million through restructuring actions undertaken in 2009.

Total expenses were 8% or $46 million higher than 2009. The increase was driven by higher variable compensation, in line with revenue growth, one-time charges associated with acceleration of the DAC write-off given net client cash outflows in 2010, and equity plan implementations.

Margin



Net client cash flows

Net client cash outflows totalled $18.0 billion (2009: $7.1 billion) as net inflows into fixed income products were offset by outflows in equity, alternative and stable value products. Similar trends were observed in our US peer group. Net outflows were primarily driven by rebalancing-related withdrawals from continuing clients as both institutions and individuals continued to favour fixed income over equity investments during the year. The bulk of the net outflows was concentrated in three affiliates and was weighted towards the second half, traditionally a peak period for mandate changes. Gross inflows from new accounts exceeded $10 billion as all 18 USAM affiliates won new business during the year, with fixed income and international equity products attracting the bulk of new investment.

Funds under management

FUM were $259 billion at the year-end (2009: $261 billion). The USAM business is broadly diversified, with, for example, international and global equity products accounting for 22% of the FUM. Non-US clients accounted for 29% of FUM. The addition of Echo Point Investment Management in October 2010 brought $1.6 billion in FUM, while the sale of Thomson Horstmann & Bryant reduced FUM by $1.7 billion. The restructuring of the discontinued US Life business portfolio resulted in the transfer of $5.4 billion of FUM from USAM during the year.

Affiliate developments

Echo Point Investment Management began operation as a USAM affiliate on 1 October 2010, launching with $1.6 billion in FUM in international growth equities. During the fourth quarter the firm received additional investment commitments from two current clients as it demonstrated its ability to operate effectively in a multi-boutique structure.

Product and distribution developments

Barrow, Hanley, Mewhinney & Strauss surpassed $1.9 billion FUM in its international value product as investors bought into this non-US equity application of the firm's proven expertise in value investing. The firm also launched a global equity product in the fourth quarter, and with a mandate from Old Mutual's South African business, the product now has $1.0 billion in FUM.

US ASSET MANAGEMENT
CONTINUED

USAM boutique investment managers

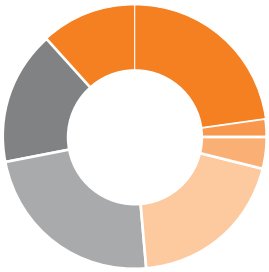
Affiliate	Established	Investment style	Funds under management 31 December 2010
300	1951	Fundamental US growth manager	$0.5bn
2100 Xenon	2005	Quantitative commodity trading adviser of managed futures portfolios	$0.2bn
ACADIAN	1986	Quantitative US, global & international equity manager	$49.0bn
Analytic Investors	1970	Quantitative equity & fixed income manager	$6.3bn
Ashfield Capital Partners	1973	Fundamental US growth manager	$4.0bn
[illegible]	1979	Fundamental US global & international value equity & US fixed income manager	$60.3bn
The Campbell Group	1981	Second-largest timber investment management company in the US	$5.7bn
Copper Rock Capital Partners	2005	Fundamental US small/SMID growth & global equity manager	$1.7bn
Dwight Asset Management Company	1983	US fixed income manager	$47.3bn
Echo Point Investment Management	2010	Fundamental international growth equity manager	$1.6bn
Heitman	1966	Public and private real estate, real estate debt manager	$16.9bn
ICM	1972	Fundamental US value equity manager	$2.4bn
Larch Lane Advisors LLC	1999	Multi-strategy fund of hedge funds manager & hedge fund seeding specialist	$1.5bn
Lincluden	1982	Fundamental global value equity and fixed income manager	$2.9bn
OMCAP investors	2009	Fundamental concentrated US equity manager	$0.7bn
Old Mutual Asset Managers	1986	Fundamental & quantitative global and fixed income manager	$7.1bn
ROGGE	1981	Fundamental global fixed income manager	$42.8bn
TSAM	1969	Fundamental US/international value equity & fixed income manager	$8.0bn

Larch Lane Advisors launched the Alpha Evolution Fund, a fund of hedge funds that leverages the firm's expertise in early-stage hedge funds by identifying and investing in smaller and/or newer funds. Target investors for Alpha Evolution are primarily institutions that are unable to commit to a long lock-up of their capital because of liquidity guidelines, but want the potential benefits of an investment in early-stage hedge funds.

USAM affiliates launched several new UCITS vehicles in 2010 to tap global investors' growing preference for registered pooled vehicles. Rogge Global Partners (Global High Yield), Acadian Asset Management (Emerging Market Equities) and Heitman (Global REIT) each introduced new UCITS products that expand the global marketability of their respective investment capabilities.

Our global distribution continued to expand, with the addition of new staff and the opening of an office in the Middle East. We continue to focus our US retail distribution efforts on professional buyer channels that value the institutional orientation of USAM affiliates.

US Asset Management: fund mix



	2010	2009
US Value	**59**	56
US Growth	**6**	7
US Core	**10**	12
Non-US	**51**	45
Fixed Income	**61**	59
Stable value/cash	**42**	47
Alternative/Real Estate/ Cash Collateral	**30**	35

Outlook

During the recent period of market dislocation, investors and their advisers increased their focus on macro investment performance rather than investing on a fundamentals basis. Many USAM affiliates found it challenging to deliver superior performance in these conditions, and this contributed to net client cash outflows. However, 2010 saw the beginning of a return to fundamentals-based investing and our investment performance improved as a result. If US markets maintain this trend in 2011, we are well positioned to achieve further improvements in investment performance and, over time, a reversal of net client cash outflows. In an environment where investors begin to increase their risk appetite and migrate towards equities, our extensive equity product portfolio is positioned to capture its share of growing flows. The growing attractiveness of non-US equity exposure in both investment allocation and equity management should favour the USAM business model and strategy.

NON-CORE AND DISCONTINUED BUSINESS OPERATIONS

US Life

Life sales summary

APE sales at $143 million increased by 34% relative to the comparative period. Fixed indexed annuities, which represent more than half of the total APE, increased 30% in 2010 compared to 2009. The increase was driven by product revisions and competitive annuity rates. The sales levels are within the range set for the business and reflect the approach to managing capital within the business. Our top 10 annuity distribution partners who have represented an average of 60% of our total sales volume over the past five years grew sales collectively by 62% in 2010.

IFRS results

The IFRS pre-tax profit for the year for the US Life business was $50 million (2009: loss of $195 million), with financial performance benefiting from lower impairment losses and the reversal of prior impairments, partially offset by higher deferred policy acquisition costs amortisation as a result of higher gross profits.

Value of new business

The value of new business decreased by $66 million relative to the comparative period. The decrease in VNB was mainly due to the extended low yield environment and a lower assumed liquidity premium. The negative VNB position is largely the result of the MCEV basis used, where credit spreads in addition to the liquidity premium are not valued in the determination of MCEV, but shown as earnings when earned. Although we believe that the VNB is positive on an EEV basis, the negative figure on the MCEV basis quantifies the extent to which the business would rely on earning credit spreads in order to provide the guarantees underwritten. Management actions taken during the period included lowering commission rates and increasing bonus on certain products, which improved consumer value.

MCEV results

The 2010 operating MCEV earnings after tax of $72 million decreased significantly relative to the comparative period. This was mainly due to the 2009 expected returns being based off higher asset yields, higher credit spreads and a very depressed starting position. The persistency assumption changes of Universal Life insurance plans (UL) and Return of Premium term insurance plans (ROP) also contributed to the lower MCEV operating earnings. Operating experience variances were higher than 2009. Fixed Indexed Annuity (FIA) contributed most to the favourable result in 2010. The positive variance of FIA was primarily due to higher than expected surrenders of FIA contracts that are unprofitable on an MCEV basis, while in 2009, the positive impact from higher than expected surrenders were more than offset by the negative impact from lower than expected interest margins.

MCEV increased by $220 million over the year. In addition to the effects above, other significant movements affecting the closing MCEV were the variances related to the change in economic conditions, largely due to reduced risk-free rates and lower credit spreads, partially offset by the liquidity premium reducing from 100 bps to 75 bps.

Funds under management

Funds under management ended the year at $17.2 billion, up $0.5 billion from the opening position, primarily due to a $0.8 billion increase in the market value of the investment portfolio for the year and increased net investment income. Net client cash flows improved by 47% in 2010 compared to 2009 primarily due to lower surrender activity and higher sales in 2010. Net cash and short term holdings at 31 December 2010 were $630 million.

Investment portfolio

The net unrealised position on the fixed income security portfolio improved to a net gain of $309 million at 31 December 2010 ($497 million net unrealised loss at 31 December 2009 and $138 million net unrealised gain at 30 June 2010). Although the increase in Treasury yields during the fourth quarter of 2010 negatively affected the net unrealised position, as credit spreads were tighter overall on a year-on-year basis, the unrealised position improved compared to the prior year. In addition, management undertook selective de-risking of the investment portfolio. As at 31 December 2010, $546 million of the total $551 million of the specified securities in the stock purchase agreement with Harbinger Capital Partners had been sold at terms better than those expected on signing of the sale agreement. The remaining $5 million of specified securities have been sold since the year end.

The quality of the investment portfolio improved throughout the year and 92% of the total portfolio had a market-to-book value ratio greater than 90% at the end of 2010. The market to book value ratio of the fixed income portfolio improved from 97% at the beginning of the year to 102% at 31 December 2010.

There were no defaults in 2010. Net realised gains in 2010 of $19 million include $22 million of trading gains on previously impaired securities that had recovered in fair value and $70 million of losses realised on the sale of securities in anticipation of the sale of the company. US Life also generated $64 million of net gains on de-risking trades during favourable market conditions. Expected cash flows on certain previously impaired structured securities improved significantly in 2010, resulting in $54 million of revaluation gains. These revaluation gains were partially offset by impairments.

During 2010, IFRS impairments were $50 million, generally in line with our long-term assumption of $48 million, and compared to $389 million in 2009. The 2010 impairments on 42 securities related primarily to structured securities, with the losses due to adverse changes in expected cash flows, or the likelihood of diminished loss coverage from distressed monoline insurers that guaranteed the performance of the security. The impairment losses were primarily in RMBS ($30 million), ABS ($8 million), and CMBS ($6 million).

Capital

OM Financial Life's risk-based capital ratio increased from 312% as at 31 December 2009 to 350% as at 31 December 2010. Regulatory capital grew $83 million during 2010 driven by strong statutory operating earnings. OM Financial Life's required capital decreased (at the targeted 300% level) primarily due to a lower risk investment portfolio offset by capital required for new business growth. The US Life Group distributed a total of $109 million to Old Mutual plc in 2010 comprising of $59 million from OM Financial Life Insurance Company and $50 million from OM Re.

Bermuda

As disclosed in our Preliminary Results in March 2010, Bermuda remains a non-core business, and as such its profits are therefore excluded from the Group's IFRS adjusted operating profit. A review of the operating performance of Bermuda is set out below:

Overview

The business continued to perform well against its strategy with significant enhancements delivered in 2010 including business service improvements, further enhancements to liability management and to management information to improve the dynamic management of exposures and further de-risk the Guaranteed Minimum Accumulation Benefits (GMABs) attached to certain of the in-force variable annuities.

Surrender activity in 2010 occurred largely in respect of variable annuity contracts without GMABs, with the business instituting a focused conservation strategy supported by high customer interaction in order to retain as much of this profitable business as possible. Surrender behaviour with respect to variable annuity contracts with GMABs is directly influenced by the differential between the value of the underlying funds and the nominal level of the guarantee, as well as the financial circumstances of the policyholder. The recovery across global equity markets, particularly in the fourth-quarter in 2010, resulted in an increase in the number of contracts where the underlying fund values were greater than the level of the guarantee. This resulted in a sharp increase in the levels of contracts with GMABs surrendering in the fourth quarter of 2010, with overall surrender activity across GMAB contracts for the year at close to double 2009 levels (2010: 1,211 policies; 2009: 638 policies). Further gains across global equity markets in 2011 would be expected to result in increased levels of surrenders across variable annuity contracts with GMABs, accelerating the run-off of these contracts. Ultimately, surrender activity will determine the speed of the run-off and the extent and timing of any associated capital, or cash release for this business. In February 2011, the business launched an offer to account holders with non-Hong Kong UGO contracts permitting them to surrender their contracts without incurring penalties. The special offer increased the rate and number of surrenders across this book, further de-risking the business. The take-up rate was 6.2% at 4 March 2011. Management will continue to assess demand for similar such offers in the future.

IFRS Results

The IFRS pre-tax profit for the year for the Bermuda business was $34 million (2009: $34 million), with financial performance benefiting from lower guarantee losses as a result of the improved effectiveness of the hedging programme, improved basis risk management, favourable equity markets and currency movements. The impact of the dynamic hedging programme over the course of 2010 was also beneficial in reducing losses in respect of GMABs and favourable equity markets over the course of the year further resulted in lower GMAB reserve requirements at the end of the year.

NON-CORE AND DISCONTINUED BUSINESS OPERATIONS
CONTINUED

MCEV results
The 2010 operating MCEV earnings resulted in a loss after tax of $36 million, a marginal decrease relative to the comparative period. Operating earnings include negative corrections and modelling changes in 2010 compared to significant positive corrections and modelling changes in 2009. This is however partially offset by much improved persistency experience variances in 2010 and large negative persistency assumption changes in 2009 that were not repeated.

In addition to the effects above, other significant movements affecting the closing MCEV related to the movement in GMAB reserve requirements due to market performance and changes in economic conditions, net of the effects of hedging guarantees. Performance benefited from favourable equity and currency markets, with improved basis risk management and effectiveness of the hedging programme. This was dampened by reductions in interest rates as hedges were lifted early on in the year.

Reserves
Of total insurance liabilities of $6,106 million (2009: $6,741 million), $4,495 million (2009: $4,688 million) is held in the separate account, relating to variable annuity investments where all risk is borne by policyholders. The remaining reserves amount to $1,611 million (2009: $2,053 million), which is split into $672 million (2009: $766 million) in respect of GMAB / GMDB liabilities on the variable annuity business, and $939 million (2009: $1,290 million) in respect of policyholder liabilities which are supported by the fixed income portfolio (these liabilities include deferred and fixed indexed annuity business as well as variable annuity fixed interest investments). Non-separate account reserves are calculated on a policy-by-policy basis, updated frequently and verified independently.

GMAB / GMDB reserve calculations rely on the mapping of policyholder investment funds to hedgeable indices to determine market-consistent assumptions. Fund mapping updates are performed at least quarterly, the results of which better allocate exposures to Asian and other emerging markets (which require higher levels of reserving given their higher inherent volatility) thereby improving the accuracy of the reserve calculations. Overall, this market-consistent valuation methodology is guided by the fund mapping process. Throughout the year, the business continued to maintain a very significant statutory capital surplus against its minimum required capital of $250,000, ending the year with statutory surplus capital of $625 million (2009: $586 million).

Investment portfolio
No defaults or impairments were recorded during 2010 (2009: $20 million). The net unrealised position improved to a gain of $31 million as at 31 December 2010 ($29 million loss as at 31 December 2009) as a result of de-risking efforts within the portfolio through the sale of a number of holdings offsetting gains and losses and the narrowing of corporate spreads. The book value of the portfolio reduced from $1.0 billion at the end of 2009 to $0.8 billion as at 31 December 2010, largely as investments were sold to meet surrender activity and withdrawals. The fixed income portfolio remained at an average credit quality of A2 (Moody's rating scale), with investment grade quality holdings continuing to represent more than 90% of the portfolio. As at 31 December 2010, the book value of the investment portfolio with a market value to book value ratio of 80% or less was $3 million (compared to $71 million at 31 December 2009).

Management of hedging
Over the course of 2010, the business continued to dynamically manage the underlying economics of the hedging programme in order to strike a balance between the potential changes in the income statement, available cash, liquidity and transactional costs arising from movements in market levels. A number of adjustments to the hedging programme were made over the course of 2010 as a result of turbulent market conditions, with the business ending the year approximately 57% hedged against adverse equity and foreign exchange market movements. The accumulated unrealised profit or loss, as measured by the stop-loss metric from the time the current hedge framework was implemented on 17 September 2009 was a gain of $145 million by 31 December 2010 (2009: $104 million). The hedging team evaluates the hedging strategy, including the most appropriate level of hedges on a continuing basis, with any proposed changes to the strategy subject to strict oversight. The stop-loss protocol established in September 2009 remains in place, and continues to be monitored daily by Group to ensure that a common understanding of the resultant impact on capital, cash and profit and loss on a timely basis.

Outlook

Whilst turbulent market conditions could have a material impact, the business has performed credibly over the past year, with the key priorities for 2011 focused on continuing this momentum through continued efforts to de-risk the GMAB exposure in the variable annuity book, through a range of measures. These include execution against the stated dynamic hedging strategy to contain key risk exposures; continued implementation of the conservation strategy to better retain profitable non-guaranteed business, supported by enhanced customer and service offerings; ongoing prudent management of capital and liquidity; ongoing evaluation of risk management and key business decision-making processes across the business to align with Group's Enterprise Risk Management framework; and maintenance of cost discipline, with a focus on delivering further planned expense reductions.

RISK AND CAPITAL MANAGEMENT

Embedding a risk and value management culture

"We view risk not only as a threat or uncertainty, but also as an opportunity to grow and develop the business, within the context of our risk appetite."

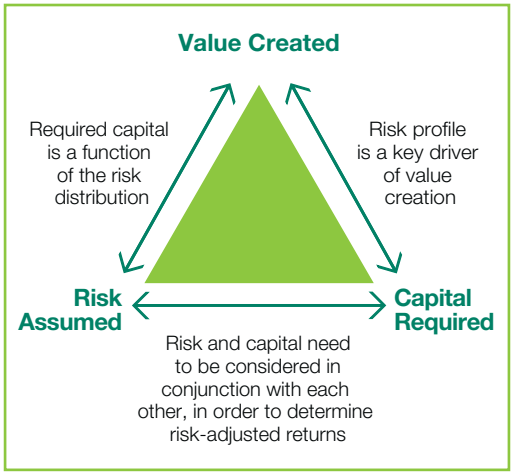
Andrew Birrell
Group Risk and Actuarial Director

One of our major strategic objectives for 2010 was to align capital management more closely with our risk profile at both Group and business unit level, thus enhancing our capability to create value within a clearly defined risk appetite. Our revised operating model, in conjunction with a more robust risk management framework, has enabled us to make more informed decisions to take risks in areas where we:



Andrew Birrell
Group Risk and Actuarial Director

Risk and Capital Drive Value



- Understand the nature of the risks we are taking and the consequences of those risks
- Demonstrate the ability to accurately determine the capital required to assume these risks
- Model and validate the range of returns that we can earn on the capital required to back these risks
- Optimise the risk adjusted rate of return we can earn by reducing the range of adverse outcomes and increasing the range of acceptable return.

We have made significant progress in implementing a model framework where risk, capital and value are fully aligned with commercial objectives and the new European Solvency II regulations taking effect from 1 January 2013. This

has been driven by our integrated Capital, Risk and Financial Transformation (iCRaFT) programme, which will deliver significant benefits to the business – including compliance with the Solvency II requirements. Our progress was recognised in August 2010 when the Financial Services Authority accepted us into its Internal Model Approval Process, enabling us to give both shareholders and stakeholders assurance of our capability to deliver Solvency II readiness in line with corporate objectives.

This section of the report describes the progress made by our Group during 2010 in developing our risk and capital modelling frameworks. Risk management is integral to the Group's corporate vision and is an expression of how we consider potential downside outcomes and upside value-creating opportunity in the context of sustainable, high-quality returns on capital utilised, to deliver financial value for our shareholders and peace of mind to our customers. We have strengthened operational, strategic and financial risk processes to ensure that where we accept risk we do so within an appetite and control environment supported by a clearly defined 'three lines of defence' model:

First line of defence: day-to-day management of risk is the responsibility of senior management in our businesses and plays an integral part in their decision-making process.

Second line of defence: risk oversight is provided by the Group and business unit Chief Risk Officers and Board and Management Risk Committees, whose role is to provide robust challenge to the management teams based on quantitative and qualitative metrics. These committees are supported by the specialist risk management and compliance functions across the Group.

Third line of defence: independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework is provided by the Group and business unit Internal Audit teams.

The pursuit of value requires us to balance risk assumed with capital required – aiming to provide higher certainty of risk-adjusted returns within an acceptable level of risk assumed and capital required, without exposing ourselves to unacceptably high risk of capital depletion in the event of adverse outcomes. In 2010 we completed one of the key steps towards achieving this objective and bringing risk 'alive' by defining a clear risk strategy. This outlines the risks that we believe give the Group the appropriate risk/capital balance; it is aligned with the Group's objectives and will be reviewed annually. The integration of risk with performance and business strategy will build long-term value and ensure that we avoid following short-term gain with later disappointments.

We continually strive to enhance risk and capital management methodologies by quantifying risk more consistently to identify threats, uncertainties and opportunities and in turn develop mitigation and management strategies that achieve optimal outcomes.

Within our model, the Group's capital is quantified according to the metrics described on page 100. Businesses plan their capital consumption using internally agreed targets, which have been set to ensure that strategic objectives can be delivered under a wide range of market and trading conditions. Business units need to consider these capital requirements against the potential margin that can be earned from their activities, and the resulting risk exposures are assessed on the basis of the expected variance in key metrics in response to specific risk events, covering the full range of risks to which the Group is exposed.

Risk management forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. It provides a group-wide overview that links all business units within a single framework. This process enhances the Group's capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks.

We view risk not only as a threat or uncertainty, but also as an opportunity to grow and develop the business, within the context of our risk appetite. So our approach to risk management is not limited to considering downside impacts or risk avoidance; it also encompasses taking risk knowingly for competitive advantage. Solvency II will require companies to consider their approach to risk, capital and value management more robustly, and we believe that our initiatives to date fit well with this.

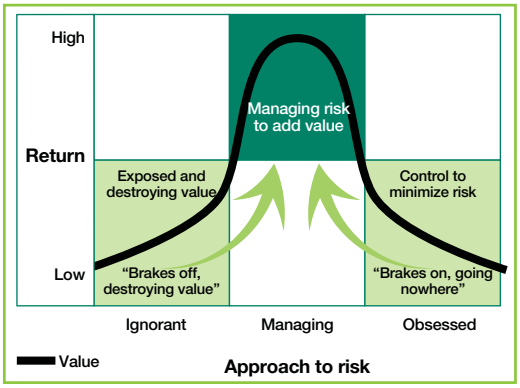
RISK AND CAPITAL MANAGEMENT
CONTINUED

Risk management is integral to the Group's decision-making and management processes. The Group's ambition, which we continue to embed through iCRaFT, is to make effective risk management part of all our day-to-day roles, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions. This has to be driven from the top of our organisation, and we made significant progress in 2010 by starting the cultural change process through extensive education and training sessions across our businesses at all levels, including at Board level. This was aided in 2010 by the Group Remuneration Committee, which requested explicit reports on the extent to which risk exposures have linked into results delivered, and whether these risk exposures have complied with the agreed risk appetite. This information has been used as a factor in determining incentive payments.

I believe we have continued to make great strides in 2010 on our journey towards achieving and embedding best practice standards in risk management – and applying and integrating them with governance, capital, financial and performance management. I believe the activities outlined in this report will give you a better understanding of the progress we have made, provide insight into how we intend to continue our journey towards better outcomes, and ensure we fulfil the requirements of Solvency II.

Andrew Birrell
Group Risk and Actuarial Director

A pragmatic, balanced approach



Optimising the upside and managing the downside

Risk management is an integral part of our management's decision-making process, enabling us to manage adverse impacts by helping to ensure that:

- Risk-taking is a consciously chosen strategic decision and not accidental
- Risk management is optimal and capital is effectively employed
- The frequency and severity of surprises are reduced by timely measurement, mitigation and control.

Successful risk management does not mean that downside events will never occur, but that they happen infrequently and with low severity.

The Group also manages upside risk by exploring and exploiting risk opportunities, while ensuring that risks associated with these opportunities are fully understood and acceptable. This allows the Group:

- Greater flexibility for reallocation of capital and risk capacity when opportunities arise
- Competitive advantage through greater understanding of risk types, pricing and management.

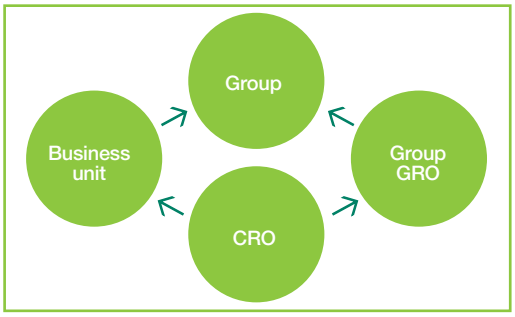
Achievements in 2010 and objectives for the future

The following section sets out the progress we made in 2010 and our objectives for the future, as we instil risk management techniques to generate value.

Achievements in 2010

During the last 12 months we made significant progress towards embedding the 'strategic controller' operating model across the Group by revising the governance structure and processes, clarifying roles and responsibilities of Group and business units, and increasing the Group presence on business unit Boards and committees. We introduced revised governance committees and mandates in line with the recommendations made by the Walker Review of corporate governance. We set up dedicated Board Risk Committees in the major subsidiaries by separating the risk component from the previously combined Audit and Risk Committees. Heads of control functions in business units have an additional reporting line to their equivalent Group function head. Any concerns or issues raised by a business unit Chief Risk Officer will also be addressed at equivalent Group level.

Group Operating Model



In June 2010 the new Old Mutual Group Risk Strategy was completed and ratified by the Group Board. This is an integral part of the business planning process in which business units are required to ensure that plans align with strategy and reflect risk appetite limits. Over the past 12 months we made significant progress in developing and rolling out the tools that will help embed risk management more deeply during 2011 – including a system to monitor and to report on risks, issues and controls and their management, and a system for monitoring counterparty credit exposures.

Learning from any previous errors and issues is vital in the continuing development of risk frameworks and management. The reduction in operational losses, compared with the previous year, reflects how well this was embedded throughout the organisation in 2010. We will continue striving to reduce these losses further throughout 2011.

Our consistent group-wide 'three lines of defence' approach has enabled us to quantify exposures and, where appropriate, implement strategies to mitigate levels of risk deemed to be beyond our appetite. Where risk exposures are higher than our determined appetite we have implemented arrangements that allow us to monitor exposures continuously, implement proactive measures and ensure that they do not increase further.

Risk management system

We firmly believe that robust IT is a vital aid to embedding risk management in the Group. We have moved to implement our long-term strategy for a Group risk assessment and modelling tool in light of Solvency II and the iCRaFT vision. This tool has been designed to record qualitative data for all risk types and help calculate the capital required for operational risk. A centrally-hosted version has been piloted and will be embedded across the Group in 2011, providing a consistent group-wide platform for rapid collation and analysis of risks.

We have developed risk and control self-assessment, loss event and key risk indicator functionality, which will be implemented across the business by Q3 2011. All business units will be trained on the new system and methodology refinements. In the longer term we expect the risk tool to enable us to align our methodologies for risk management and financial controls. As the system can only be as good as the data in it, we are paying particular attention to reviewing and cleansing all risk data before moving it to the new system. In the first half of the year we will introduce the ability to calculate the capital required for the operational risks we have in the business; and this system will align with the capital modelling tool for all risks which is also due for completion in H1 2011.

Objectives for the year ahead

We are committed to building on our accomplishments in risk management to date in order to ensure best practice standards in our risk management framework. The iCRaFT programme is key to our aim of embedding a culture of 'managing for value'. We began it in April 2008 and it remains on target to be fully delivered by the end of 2012. As a business owned initiative, rather than a risk and actuarial programme, it will deliver positive benefits to the Group – including, we believe, full compliance with Solvency II requirements.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Our focus in 2011 is on embedding a consistent risk framework in the business units' first line of defence, with increased emphasis on risk considerations in strategic decision making through business planning, to obtain better outcomes in terms of returns, capital and risk exposure. This will be achieved through education and cultural change, using the tools developed in the iCRaFT programme.

Integrated Capital, Risk and Financial Transformation (iCRaFT) programme and Solvency II

The group-wide iCRaFT business change programme is designed to deliver the tools and processes that support management in achieving its key objectives by improving risk management standards and capital modelling techniques, and integrating them with strategic business performance management. By linking risk to business performance and capital management, the iCRaFT programme will deliver a platform that enables business units to maximise long-term value, and evidence Solvency II compliance, by January 2013.

Over the past 12 months the iCRaFT programme has focused on developing an internal model capable of meeting these key business requirements:

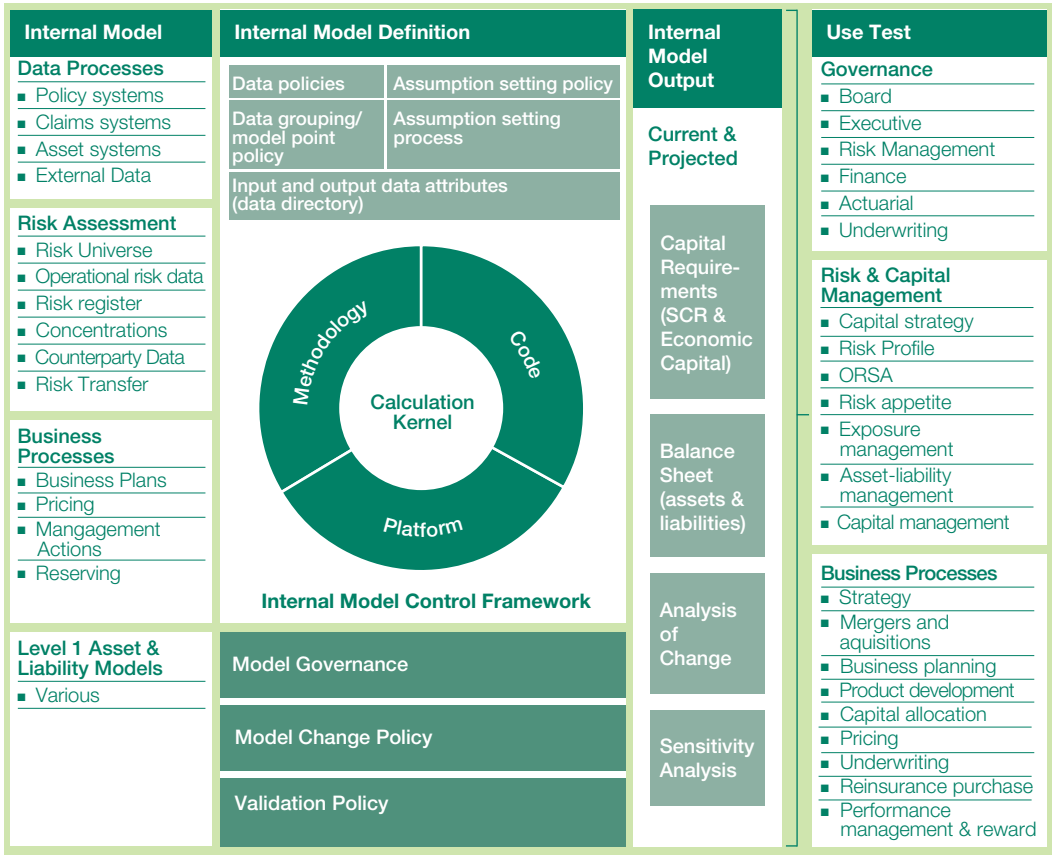
Strategic planning and capital management

- The calculation of a Solvency Capital Requirement (SCR) that accurately reflects the risk profile of the business at legal entity level
- The completion of an Own Risk and Solvency Assessment (ORSA) that accurately reflects the risks in the business and the economic capital required to deliver the Group's strategic objectives
- A capital control framework aimed at allocating capital more effectively within the Group, which is capable of responding dynamically to changing capital needs.

Capital modelling

- Measurement, projection, reporting and scenario testing capability for solvency and economic capital.

The internal model is a key concept in Solvency II



Improved oversight and governance

- An embedded risk and control self-assessment process giving us the capability to monitor all risks and associated events across all risk categories
- Defined key risk indicators (KRIs)
- Strong asset and liability management incorporating embedded risk escalation mechanisms.

Risk Appetite

- The ability to monitor risk limits against risk appetite by risk type at business unit and Group level
- An embedded credit and investment concentration risk process capable of delivering accurate group-wide credit and counterparty data and a combined credit and concentration risk exposure across the Group.

Risk optimisation

- Enhanced ability to optimise risk positions.

Management information

- Timely, consistent quantitative measurement and reporting of risks across the Group.

Business planning

- An economic profit metric which reflects risk-adjusted business performance and is embedded into all Group reporting, planning and incentive targets.

Product design, pricing and underwriting

- Forecasting risk-adjusted profitability and portfolio effects in product design and profitability
- A risk/reward balance in product design that minimises unwanted risks
- Risk-adjusted technical pricing and primary profitability metrics.

Training

- Education and training materials around the iCRaFT concepts, tools and management information process
- An iCRaFT 'simulator', demonstrating how risk-adjusted metrics will be used to support decision-making, to facilitate learning and participation at all levels of the organisation.

External communications

- Capability to meet Pillar 3 (public) minimum disclosure requirements
- Clear, consistent and proportional risk and capital disclosures to inform external stakeholder understanding.

We believe our investment in iCRaFT will bring a new level of maturity and robustness to our risk management processes and internal controls. Once complete, it will give the Board and other management bodies enhanced tools for meeting their responsibilities to shareholders and customers by ensuring that the Group is always operating to its target best-practice standards. 'Managing for value' is at the heart of what iCRaFT is trying to achieve. It will show that whilst we must be prepared to take on risks, we will manage them in an integrated and consistent way with proper care for our customers, shareholders and staff.

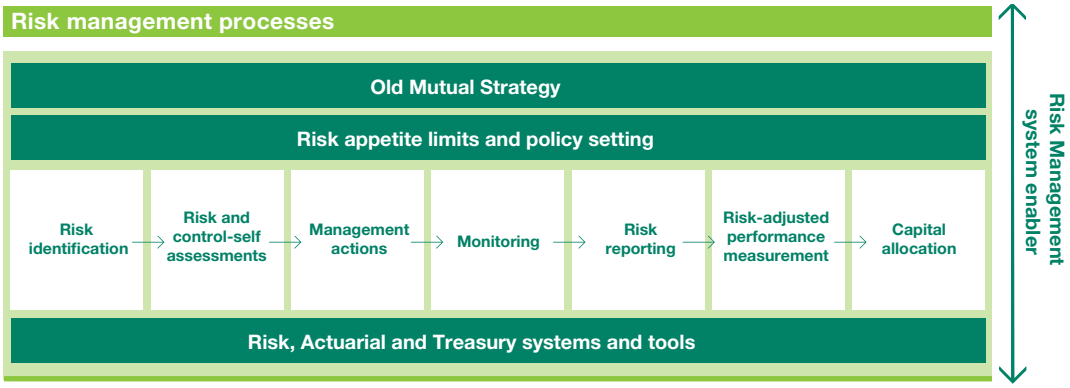
Robust, evolving Enterprise Risk Management

During the past 12 months we have strengthened our risk management framework, embedding a risk appetite process into the first line of defence and increasing challenge on risks and management actions. We have developed a process and accompanying dashboards to assess the effectiveness of the embedded framework in business units. We have reviewed and revised the Group top risks to better reflect the risk profile and developed processes for continuous review.

We continually review our risk management framework, including risk assessment and modelling tools, against Solvency II and longer term requirements. We have aligned our risk categorisation model with our internal capital model framework and developed key risk indicators for the Group's top risks. A clearly defined escalation process for all risk-related matters is now firmly embedded in business units.

We have enhanced our operational loss data collection and analysis processes, enabling business units to focus on action to prevent recurrences as well as remediation. We have put thresholds in place for reporting losses to appropriate committees, and a greater emphasis on analysing losses by category has enabled us to take more streamlined action. The enhanced risk reporting framework provides better quality management information and the introduction of standard risk reports has ensured consistency of reporting to committees. Snapshot reporting outlines key risk information in each business unit and supports the Executive Committee's decision making processes. Policies will be amended in line with the revised strategic controller model, risk management categories and Solvency II.

RISK AND CAPITAL MANAGEMENT
CONTINUED



The following sections set out our risk management framework, illustrating how each layer of tools and systems gives us assurance to manage the upside of risks better by maximising opportunities while minimising the downsides or threats. In this context, this section covers:

- Risk management governance
- Group oversight, including
  - Strategy and business planning
  - Risk appetite
  - Stress and scenario testing
  - Policy setting
- The risk framework employed by each of our business units to provide consistent information.

Risk management governance

We strengthened our risk governance framework in 2010 with the introduction of clearly defined risk appetite reporting, which allows us to rapidly identify and respond to changes in risk exposure. Developments expected in Q2 2011 will enable Group Risk and business units to model a number of different scenarios against risk appetite and align these scenarios with investment decisions. Focus will now move towards more active risk-based steering of the business.

We consolidated our 'three lines of defence' approach to provide greater clarity within each of the lines. Changes included:

- Reviewing and enhancing the Group's risk governance structure by strengthening the mandate of the risk committees
- Dual reporting of business unit Chief Risk Officers to line management and the Group Risk and Actuarial Director
- Segregation of the Board Risk Committee and Board Audit Committee in accordance with the recommendations in the Walker Report
- Adoption of a 'strategic controller' model.

The governance framework is designed to align the risk/reward balance with corporate governance objectives and ensure it promotes effective risk management. The framework includes a remuneration policy for determining risk tolerances that do not encourage risk taking outside the Group's risk appetite. The remuneration policy has been designed to eliminate conflicts of interest and support business strategy, objectives, values, and the long-term interests of the Group.

The policy is overseen by a Remuneration Committee which is appointed by the Board and consists of at least three non-executive directors with relevant experience and a good knowledge of the Company and the environment in which it operates. This enables the committee to exercise competent judgement on compensation policies and the incentives for managing risk, value and capital in line with stakeholders' expectations.

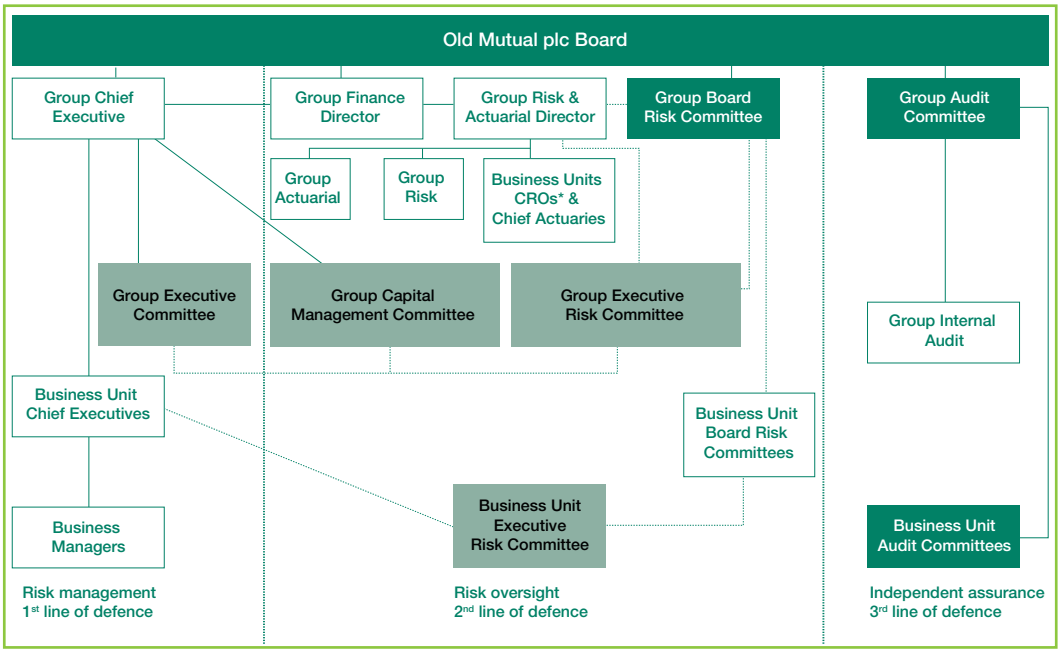
In this report, we focus on the responsibilities of the second line of defence committees: Board Risk Committee, Group Executive Risk Committee and Group Capital Management Committee. The responsibilities and remit of the first- and third-line forums can be found in the governance report (See page 130 of this annual report).

Group Board Risk Committee

This committee's primary purpose is to review, on behalf of the Board, managements' recommendations on risk in relation to the structure and implementation of the Group's risk framework. This includes the quality and effectiveness of the internal controls, risk appetite limits, risk profile and capital management processes.

The committee reports to the Board any significant risks to the Group where it considers actions or improvements are needed, and makes recommendations as to the adequacy of the risk mitigation plans. The committee works closely with the Group Audit Committee in assessing the effectiveness of risk managements systems and

Board and Committees



* CRO- Chief Risk Officer

internal controls. Additionally, the committee provides advice to the Board and Remuneration Committee on the appropriate targets for risk adjusted performance measures and relationship between performance objectives, remuneration decisions and risk profile. The committee meets at least four times a year and otherwise as required, to review any significant issues that occur outside its scheduled meetings.

The committee monitors, reviews and provides advice to the Board on the following key areas:

- The effectiveness of the Group's risk framework and the risk and regulatory operating plans
- Alignment of the risk appetite to the Group's strategy, including approving actions plans to bring risk exposures within appetite
- Optimisation of risk by reviewing, monitoring and challenging the Group's risk profile in terms of risk exposures, risk trends, risk concentration and performance versus appetite
- The impact and management of significant issues and losses to the Group
- Proposed strategic acquisitions and disposals of assets
- Allocation of capital within the Group and within businesses to ensure compliance with regulatory requirements and consistency with risk appetite limits
- The Group's resilience to unforeseen economic and other shocks, as evidenced via stress and scenario testing exercises
- Regulatory compliance processes including changes to the regulatory environment and the adequacy of management actions to correct regulatory breaches
- Effectiveness of the Group's policy suite and any changes necessary to evidence compliance with the Group's minimum standards.

The committee also provides advice to the Board on a number of inherent risks within the business and is required to act independently to investigate any activity within its terms of reference. The committee is authorised by the Board to obtain external legal, accounting or other independent professional advice it considers necessary. In addition to an internal reporting line to the Group Finance Director, the Group Risk and Actuarial Director has a reporting line to the committee, with direct access to the Chairman on a regular basis.

The committee, including its chairman, is appointed by the Board and includes the Group Finance Director and independent non-executive directors, at least one of whom must have recent and relevant risk experience.

Group Executive Risk Committee (GERC)

This committee provides support and assurance to the Group Risk and Actuarial Director on the implementation of the Group's risk framework including the quality and effectiveness of internal controls, risk appetite, risk profiles and capital modelling processes. The committee forms part of the second line of defence at Group level and is not responsible for any first line activities.

The committee comprises senior Group executives from Risk, Actuarial, Capital, Compliance, and Internal and External Audit. Its main responsibility is to support the Group Executive Committee in

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understanding and overseeing the implementation of the Group's risk framework, including risk appetite and capital management.

The committee's other key responsibilities are:

- Monitoring and reviewing the Group's risk profile including losses and control breakdowns
- Proposing risk appetite limits for approval by the Group Board Risk Committee, allocating these to the Group's respective business units to optimise results
- Providing assurance that effective risk optimisation is being fully achieved both within business units and across the Group
- Providing oversight of capital management to ensure allocation is consistent with risk appetite limits.

The committee receives reports from Group Risk and Actuarial, Group Finance, Treasury and iCRaFT. It provides input to the Group Executive Committee and the Group Audit and Risk Committees. It also works closely with the Group Capital Management Committee.

Group Capital Management Committee

This committee ensures that the Group's capital is managed in a consistent manner, aligned to the expectations of our shareholders, and that this capital is provided on an appropriate risk/return basis, as identified by the GERC. It is the mechanism by which the Group ensures that capital is allocated to business units in line with Group strategy, and that appropriate return rates are set and monitored. If necessary it will reallocate capital for greater reward.

The committee comprises senior Group executives, including the Group Chief Executive, Group Finance Director and Group Risk and Actuarial Director, and representatives from Capital, Treasury, Strategy and Compliance.

The committee's key responsibilities are:

- Recommending to the Board the Group's capital allocation and structure and investment strategy
- Setting an appropriate framework for managing capital
- Issuing guidelines and/or recommending targets to ensure the appropriate management of capital within the agreed risk appetite limits.

Group risk profile

The Group risk profile is defined by the level of each risk type and the balance between them inherent in the business. Corporate guidance is provided to senior management to set clear parameters and balance capital and value on a forward-looking risk-sensitive basis.

These parameters determine our risk appetite and provide a basis for business units to plan and control business activities by setting clearly defined boundaries, aligning capital, risk and return on a basis proportionate to stakeholder expectations. They are a critical path within our policy framework which supports the Group's corporate objectives by providing a consistent high-level approach to managing the risks that we face.

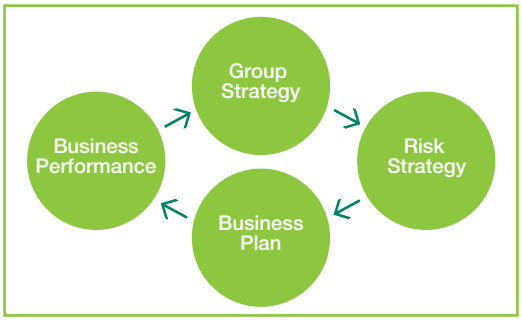
Risk strategy

A project to formalise the Group's risk strategy was completed in May 2010. It identified five key elements for strategic management of risk in the Group:

- Risk philosophy
- Approach to measuring and managing risk
- Risk and return preferences
- Current risk profile
- Target risk profile for the future.

Business unit risk strategies have now been formalised as part of 2011-13 business planning process. Quarterly business reports provide a check that limits are embedded within the business process following formal implementation. Old Mutual's Group risk strategy is intended to have a lifespan of three to five years and is aligned with Group strategic targets.

Strategy process



Risk philosophy

Our Group risk strategy starts by considering the type of business that we are, our business strategy and its implications for the way we think about risk.

We are a risk intermediary, in the business of taking on (and in most cases repackaging) risks and capital market solutions for customers where we can manage them efficiently, through diversification, access to markets and economies of scale. We will accept the risks implicit in this, where we are rewarded for doing so and where we have the skills to manage these risks. However, we will not take on other significant risks on our own account, or risks that would threaten our future ability to act as a risk intermediary.

We will focus on risks where we believe we can provide value to policyholders and depositors, and for which they are willing to pay us the correct amount to protect them. These risks primarily relate to liability, business, investment and operational risks in respect of insurance entities, business risk in respect of asset management entities and credit (loan), business and operational risks in respect of banking entities in the Group. We will not take on pure market risk on our own account, nor exposure to significant catastrophe risk, which we have neither the skills nor the capital to manage.

We will take a group-wide perspective on risk when making decisions. This is aligned with our shareholders' view: they invest in Old Mutual as a Group and so we should think and act as a Group. In line with the Group operating model, the Group functions will achieve this through discussion and the right of veto, in particular through the business planning process, rather than centralised control.

Business units will be required to hold and manage to local capital standards and we will not operate a 'group support' system that takes account of diversification between business units. This avoids any potential concerns over contagion and gives Group and business units maximum freedom to manage their businesses without constraints. However, the Group functions will monitor risks group-wide and encourage mitigation at a level appropriate for the Group as a whole rather than for individual business units. Group functions will facilitate intra-group risk transfers and mitigation, and the efficient use of available financial resources across and between Group entities to the extent allowed by the Board and regulatory considerations. In particular, Group functions will facilitate the use of financial resources around the Group to support risks wherever they may occur, and will take advantage of group diversification to obtain maximum flexibility in capital raising and management.

In designing products, making investments and deciding the business strategy, **the Group and each business unit will seek to optimise the risk/return/capital trade-off** (as opposed to taking a purely loss-minimisation approach). Risk should be considered in terms of both the potential reward it brings and the threat it presents. In particular, the risk must be appropriately rewarded, allowing for all its characteristics, for the expected return and the relative upside and downside it brings. The expected reward for the opportunity must at a minimum exceed the return available to shareholders directly for exposure to similar risks through other means, having fully allowed for all costs of management and risk capital. We need to ensure that we earn the required minimum return on the capital that we put at risk (usually the capital required in order to underwrite the risks) and that we at all times have adequate capital to cover the requirements from business activities.

We recognise that business units have the choice of whether or not to take on only certain risks – a product exposes the Group to a bundle of risks, and it may not be possible to price them all at a profit or even to know the split of charges made by risk. However, business units must be clear that overall their business is profitable, understand what risks they are exposed to, and be clear on the cost of providing specific features, regarding the reasons, implications of and benefits gained should the price charged to the customer be below cost. These questions should be explicitly considered in pricing, product design and business planning. This extends to lines of business that are supported by cross-selling or renewals. Such products may appear unprofitable on a standalone basis but be value-adding in total. However, in writing such business it is necessary to be clear as to where such cross-subsidies exist, and how they are managed to ensure that business which provides subsidies is sustained over time.

The risks in any business must be well understood and we need to have the appropriate skills and systems to manage them. To the extent that this is not the case, we will limit exposure to such risks until we have developed appropriate expertise.

As an overarching principle, **risks accepted must not fundamentally threaten the Group's ability to continue writing new business freely,** since we are in the business of providing risk intermediation and repackaging, not of taking off-strategy bets with our capital.

We consider the risk assumed, capital required and value created in the business from a market consistent economic perspective, recognising that regulatory and accounting systems can impose additional constraints. While seeking to

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mitigate these constraints we will not make decisions that are fundamentally uneconomic. This means that business and pricing decisions will be made on a 'market-consistent' basis, fully allowing for the additional costs of holding risk and regulatory capital. This view is aligned with best practice in the financial services industry and also the Basel II regulations for banks and Solvency II regulations for EEC insurance companies due to be introduced in January 2013.

Our approach to measuring and managing risk

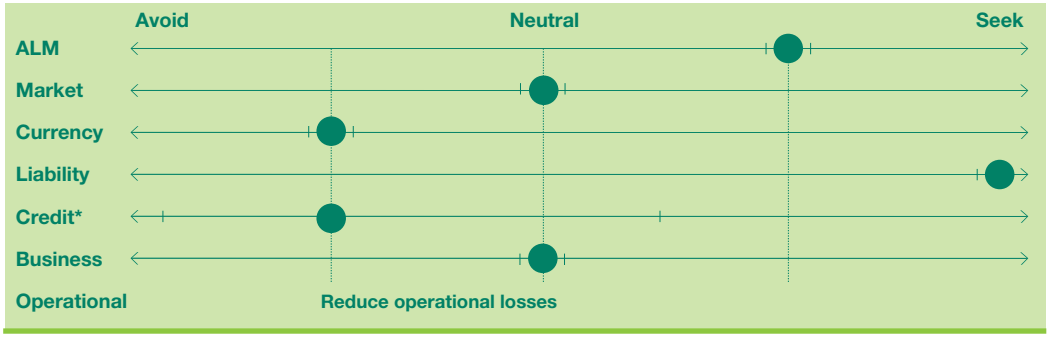
We will continue to measure and manage risk using the same risk metrics that we currently use: earnings at risk, economic capital at risk and cash flow at risk. As Solvency II becomes a reality, economic capital at risk is likely to become the dominant measure. In addition, we closely track operational losses as an indicator of operational risk, to ensure that there are no repeatedly-occurring inherent weaknesses in systems and controls.

However, we will refine the way that we set risk limits around these targets. In particular, we will make limit-setting an iterative part of the business planning process, and ensure that local risk limits are an output of this process, reflecting local business plans rather than set in a purely top-down fashion. As part of this we will set risk limits by risk type at both Group and business unit level.

Group risk preferences

As a Group we want to accept risks that we are rewarded for assuming, and which we have the skills to manage. We wish to avoid risks where we earn less than our cost of capital (after allowing for all costs) or where we expose ourselves to very volatile or extreme potential outcomes, which would threaten our ability to continue acting as a risk intermediary. Finally, we wish to write business which diversifies well against our current book. By acting in accordance with these preferences we will enhance overall capital efficiency and returns, and will hence maximise economic profit and value creation for all stakeholders (see page 105 onwards for definitions on the different risk types).

Group risk preferences



*We seek well managed banking credit risk in Nedbank

Risk type	Old Mutual risk preference	Marginal impact of extra exposure on economic capital at Group level	Expected return relative to target*
Liability (insurance underwriting)	Strongly for	11%	Excellent
Asset liability management (policyholder)	For	86%	Excellent
Business	Neutral	47%	Good
Credit	Against **	64%	Neutral
Market (shareholder)	Against	78%	Poor
Currency	Against	81%	Poor
Operational	Strongly against	42%	Very poor

* Assumes risk is correctly priced,
** Unless taken in the form of well governed and managed banking related credit risk

Marginal contribution to Group economic capital: for every £100 of economic capital that a business unit has to set aside to underwrite a risk type, the Group has to set aside the percentage in brackets per risk type: so for every £100 of additional economic capital for liability risk, the Group needs to hold £11 on a diversified basis, and for every £100 of asset liability management-related economic capital risk in a business unit, the Group needs to set aside £86 on a diversified basis. Thus when we consider economic profit (see below for definition), if we are earning a given IFRS-adjusted operating profit (AOP), and have a given cost of capital, we can maximise economic profit by minimising economic capital. Hence we have certain preferences for activities that will maximise AOP, yet minimise economic capital on a Group diversified basis.

Economic profit = AOP – (cost of capital x allocated capital)

Risk profile – current and target

In order to better align the Group's risk profile with our stated risk preferences and to ensure the Group achieves a good level of diversification, we have defined a target risk profile based on economic capital exposure without any allowance for diversification benefit. We will steer the business towards this profile over the next three to five years. This target profile is preferred to the current profile as it better matches our risk preferences and is also well diversified across risk types. The current and target profiles are shown below.

We aim to increase liability risk by increasing the volume of protection products written and to reduce operational risk. The anticipated disposal of US Life will significantly reduce the Group's credit risk exposure and hence assist with the move towards the target risk profile. This will provide capacity to take on additional ALM risk, in markets where we believe we can earn acceptable risk-adjusted returns on the capital invested in such products.

Current Risk Profile



ALM	26%
Business	24%
Credit Nedbank	7%
Credit Other	15%
Currency	4%
Liability	8%
Market	4%
Operational	12%

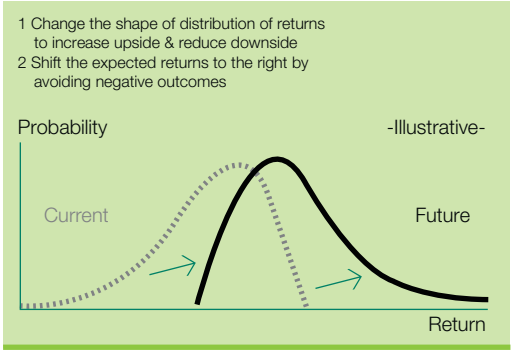
Target Risk Profile



ALM	35%
Business	24%
Credit Other	6%
Currency	5%
Liability	17%
Market	3%
Operational	10%

Note: The current risk profile is based on the Group's present structure, prior to any disposals, and since it is expressed on a standalone basis, ignores diversification between risks and between business units. Later tables refer to post diversification exposures.

Group return preference



Risk appetite

We continue to develop our risk appetite methodology to ensure that there is a seamless transition of economic capital at risk into a Solvency II compliant internal model calculation, which will include:

- Moving away from the use of market consistent embedded value as a proxy to estimate changes in assets and liabilities in stress scenarios, towards a direct calculation of the results of these stresses
- Redefining hard available financial resources to be compliant with a Solvency II market-value balance sheet calculation
- Reviewing risk-factor stress assumptions and the approach to modelling diversification benefits, with methodology changes required to ensure a statistically robust approach
- Internal model initiatives will transition to business as usual reporting during Q3 2011, to show that they are used in decision-making within our business.

Throughout the year, business units calculate their risk exposures against the appetite set by the Group. The five quantitative measures we use to express our risk appetite limits and exposures are:

- Economic capital at risk (ECaR)
- Financial Group Directive (FGD) surplus capital at risk (FCaR)
- Earnings at risk (EaR)
- Cash flow at risk (CFaR)
- Operational risk (OpRisk)

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Risk appetite results

	Total Group Results		Effect of US Life Disposal on June 2010
	Jun-10	Dec-09	
AFR*	8,692	8,258	8,719
ECaR (7-10,000)	6,869	6,849	5,452
Solvency Ratio	127%	121%	160%
EaR (1-in-10)	807	872	703
CFaR (1-in10)	613	726	513
OpRisk (1-in-10)	165	162	162
FGD Surplus	1,953	1,504	1,892
Post stress FGD Surplus (1-10)	1,232	751	1,247

*AFR – Available Financial Resources that can be used to cover the Economic Capital requirement

Economic capital at risk (ECaR)
ECaR is defined as the reduction in post-tax economic value (broadly defined as market consistent embedded value for life companies and IFRS equity for non-life companies) over a one-year forward-looking time horizon that should only be exceeded seven times in 10,000 years (99.93% confidence level).

ECaR helps us to optimise risk-based decisions. The stress tests underlying ECaR allow us to monitor our exposures and deepen our understanding of where the business could further improve its capital allocation.

We have set risk appetite limits for economic capital based on the ratio of available financial resources to economic capital. The Group risk appetite is for this ratio not to fall below 100%.

This is an economic measure of capital requirements similar to the Solvency Capital Requirement measure in Solvency II and has been calculated and reported within the Group for more than five years.

FGD surplus capital at risk (FCaR)
FCaR is defined as the reduction in Financial groups directive surplus over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level).

We recognise that FGD is a key regulatory measure which is particularly important to monitor in volatile economic conditions where our policyholder and shareholder assets can significantly impact our position – particularly since we hold these assets in a variety of currencies.

We have set risk appetite limits for FGD surplus capital based on the minimum surplus capital that the Group would tolerate. The Group risk appetite for this metric, given the current composition of the Group, is that the FGD surplus should not fall below £1 billion more than once in 10 years.

For further details on our FGD position throughout the year see page 278.

Earnings at risk (EaR)
EaR is defined as the reduction in pre-tax IFRS adjusted operating profit (AOP) over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level).

We have set risk appetite limits for EaR as a percentage of pre-tax AOP. The Group risk appetite is for this percentage not to rise above 30% of planned earnings over the next year.

Cash flow at risk (CFaR)
CFaR is defined as the reduction in the cash portion of earnings over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level).

We have set risk appetite limits for CFaR based on the maximum reduction in cash earnings that the Group would tolerate. The Group risk appetite is that this reduction should not exceed £500 million.

Operational risk (Op Risk)
The operational risk metric is defined as the reduction in post-tax economic value due to one-in-10 unexpected operational loss events (90% confidence level) and expected day-to-day losses, including reputational risk impacts.

We have set risk appetite limits for this metric as a percentage of pre-tax AOP. The Group risk appetite is for this percentage not to rise above 10% of planned earnings over the next year.

In addition to quantitative risk appetite limits, we also use qualitative risk appetite principles and statements to provide guidance to our business units and help to improve the clarity of our risk strategy in line with the Group's appetite for risk. During 2010 we continued to refine the basis under which limits are set and developed the link between operational risk loss data through the alignment of key risk indicators and risk appetite limits. We continually strive to refine the models and assumptions we use to increase the robustness of these calculations. Risk appetite limits are now fully integrated into our strategic decision making process and support the

business planning and quarterly business review process including the robustness and governance of the action plans to reduce risk exposure.

The embedding of our risk appetite methodology is a cornerstone of our risk analysis capability. Using the economic capital at risk metric as an example, our economic capital calculations provide a long-term view of the risks in the business and oversight of the key threats facing the Group if an extreme event occurs.

The internal risk and control profile of the business is effective and continues to improve. Credit risk has reduced significantly as the investment portfolio continues to be de-risked on a capital neutral basis. Although exposure to corporate bonds still exceeds our risk appetite, we have continued to improve the investment grade of the portfolio in line with our target operating model. Market yields have improved, enabling better matching of new assets to sales. Yields are still below desired levels and continue to place pressure on long-term guarantees. Surrenders and lapses in excess of pricing assumptions adversely affect our ability to achieve target profit margins and recover expenses.

Stress and scenario testing

The Group performs ongoing stress and scenario testing and sensitivity analysis to monitor the robustness of our regulatory and economic capital position. These assessments help to inform management understanding of the capital that would be required in the event of any of the scenarios crystallising. The outputs of these tests help management to prepare for significant changes in the environment and protect shareholders and investors from unexpected loss.

The Group's current economic capital framework is a stress test calculated at the 99.93% confidence level, based on shocks calibrated to a 7 in 10,000 severity. Shock calculations are performed every six months: they are modelled as occurring instantaneously at the beginning of a period, with the impact assessed at the end of the period. Thus there is a high level of prudence built into the shocks. Allowances are made for diversification benefits, since not all shocks occur simultaneously, although the level of independence of shocks varies according to the factors.

Tests are performed to model the aggregation of impacts on:

- Business risk (primarily related to expense and persistency risks)
- Asset/liability management risk (the interaction of changes in markets on policyholder assets and liabilities)
- Operational risk (risks related to people, systems and processes and changes in the environment)
- Credit risk (non-payment on credit instruments and counterparty concentration risk)
- Liability risk (related to underwriting insurance risks such as mortality)
- Market risk (shocks to shareholder assets)
- Currency risk (risks related to our reporting currency).

Risk appetite in action

Example 1

Old Mutual South Africa (OMSA) has in recent years leveraged investments in carefully chosen credit assets with the capability of delivering more attractive returns to clients, based on market trends. Ongoing analysis of the risk of overexposure to credit risk, in light of the recent economic crisis, identified the need to limit the amount of new exposure to credit risk from annuity and guaranteed products. The new limits look at the contribution of credit risk to overall OMSA risk exposure and economic capital and also at the exposure to credit risk from new business volumes.

Example 2

A business unit recently proposed to launch a new product with guarantees. In line with the Group product approval policy, this had to be signed off by the Group Chief Actuary. Analysis revealed that the maturity guarantee risk for one of the variants was excessive, and there were surrender guarantees that had not been properly considered. The profile was not compliant with the Group risk appetite and approval for this variant was denied. The business unit acknowledged this was the correct decision and the product was launched without the variant concerned.

Example 3

The US Life business was exposed to credit risk as a result of significant holdings of corporate bonds. Although improvements were made to the quality of the investment portfolio the overall Group exposure to credit risk exceeded the Group risk appetite. A strategic decision to divest our interests in US Life (expected to close in March 2011) will bring Group credit risk exposure within the determined risk appetite limits and in line with Group operating model objectives.

Conclusion

Setting risk appetite limits across the business has proved a valuable management tool and will ensure that going forward we grow our exposure in a controlled manner.

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The Group's risk appetite is tested twice annually on the same basis as economic capital described above, in terms of impacts to earnings, FGD surplus, cash flow and operational risk, at a 90% (1-in-10) confidence level.

Management uses these calculations to determine whether the business is resilient to a 1-in-10 and 7-in-10,000 instantaneous shock, and the impact of management actions on the risk appetite framework of the business (to ensure that the business remains within the chosen risk appetite). We have developed the capability of our suite of tools to regularly test the Group's resilience to a 1980's V-shaped single-dip recession and recovery and the more recent regulatory recommended reverse stress test (testing to completely deplete regulatory capital).

Information on stress testing is reported to the Board Risk Committee and to management so that decision making is based on an understanding of potential impacts.

Solvency II Quantitative Impact Study 5 (QIS5)

Old Mutual successfully participated in the fifth Quantitative Impact Study (QIS5), as part of the ongoing Solvency II industry consultation led by the Committee of European Insurance and Occupational Pension Scheme Supervisors (CEIOPS). This was based on our 31 December 2009 balance sheet and involved an assessment of the Group's solvency position under technical specifications to test assumptions and dependency structures underlying Solvency II proposals.

We discussed our economic capital methodology in the previous section. As part of the iCRaFT programme we are implementing a new Internal Capital Model, which will give us the ability to calculate and aggregate group-wide shocks more rapidly. This model will be rolled out across the Group by Q3 2011. The QIS5 results were in line with our FGD Solvency I ratio and the results from our current economic capital internal model when equivalently calibrated to a 99.5% confidence level. Notwithstanding this, we believe that the QIS5 calibration is not completely appropriate for our business and so we will be seeking approval of our internal capital model before Solvency II begins, to ensure that the most appropriate model is in place to describe our risks, accurately calibrated for the markets we operate in.

A number of technical industry issues have been raised with the European Insurance and Occupational Pension Scheme Authority (EIOPA, prevously CEIOPS) and the European Commission. Clarification on these issues – which include contract boundaries, treatment of expected profits on future premiums and grandfathering of hybrid debt – needs to be provided before the final impact of Solvency II can be understood.

Old Mutual's strategy has already considered the likely impact of the current Solvency II proposals on our Group and we do not presently anticipate that we would be required to raise additional capital as a consequence.

Policy setting

The policy framework supports our corporate purpose by providing a consistent high level approach to managing the risks we face in pursuit of our strategic objectives. Group risk policy statements set out the minimum standards that must be applied consistently across the Group. Their purpose is to ensure that risks are managed in line with the risk appetite and that businesses operate effectively and efficiently, in compliance with all applicable laws and regulations.

Business units ensure that their local policies and procedures are aligned to the Group Policy Suite. In many cases business unit policies include requirements beyond the Group's mandatory minimum requirements and incorporate applicable local regulations. Policies are subject to regular review to reflect changes in circumstances and the Group risk appetite. Group policies in place cover a range of topics, including liquidity risk, market risk, new product and business approval, capital and treasury risk and business continuity.

These policies are agreed by the GERC and approved by the Board Risk Committee. The Group policies are mapped to our risk categorisation model and form a key part of our governance framework. Their implementation allows the Group to establish a common framework of control across the business units.

For further information on Group policies, see the Governance section of this report page 130.

Consistent business unit risk methodology

During 2010 we made a number of changes to the risk governance framework. One of the core requirements was further streamlining of techniques and tools to identify, monitor and mitigate risk in accordance with the Group's risk appetite. OpenPages was chosen as the designated risk management and reporting tool employed across the Group to ensure consistency of the risk management process and the determination of operational risk capital requirements.

The creation of a central data store for all risk information is a key part in transfering accountability for risk management into the first line of defence. The use of this tool will:

- Provide greater insight and transparency of risk within the business units and at an overall Group level
- Show where risk exposures lie in relation to risk appetites across the Group
- Provide relevant management information more efficiently and improve the consistency of risk trends and the development of appropriate controls
- Provide a more consistent way of continuously identifying, monitoring and measuring risk across the first line in all business units
- Support the escalation of issues within business units and Group
- Support risk-based business decisions by management
- Link risk indicators to events and management actions in order to reduce the likelihood of risks occurring in the future
- Calculate the capital required to offset operational risk and feed into the internal capital model.

Extensive training of the risk tool began in 2010. By the end of December 2010 most business units had been trained to use the tool, including the risk methodology, and one was actively using it. The roll out of a further release of OpenPages functionality (which will include the operational risk capital modelling capability), is planned to be completed at the end of Q2 2011. We have attached great importance to importing cleansed data into OpenPages and business unit senior management, Chief Risk Officers and Group Risk will be required to sign-off the data being migrated to the system.

Product development process

Risk assumption starts with the product development process, where new products are designed, priced, implemented on administration systems and sold to customers. Following our experience with guarantees in the Old Mutual Bermuda business, the Board implemented, in 2008, a centralised approval process for all products which may have implicit or explicit guarantees requiring sign-off from the Group Chief Actuary. The new process aims to ensure that product design is better understood and for aspects such as pricing, administration arrangements, marketing material and investment requirements to be rigorously challenged by an independent party, particularly in order to ensure that we fully understand product and capital consequences in the event of substantial product and market shocks.

Risk categorisation

Risk categorisation has promoted the consistent use of a common risk language across the Group, allowing meaningful aggregation and comparison of risks and issues and enhanced risk reporting to the Audit and Risk Committees and data sharing between business units. Risk categorisation will be used to introduce commonality of risk events within both the risk and control self-assessment and capital modelling processes.

Risk and control self-assessment (RCSA)

This industry standard approach to identifying, assessing and controlling risk is used by our business units to consider all risks consistently. Each business unit completes RCSAs regularly and escalates any significant new risks or issues to senior management immediately. This gives Group management an up-to-date view of risks and ensures that decision-makers are aware of areas of concern promptly so that appropriate action can be taken.

The RCSA process incorporates:

- Ongoing identification of risks that threaten the achievement of objectives
- Assessing these risks in terms of financial and qualitative impacts such as reputational, regulatory or customer
- Determining whether the level of risk being taken is acceptable
- Determining and implementing management action plans to bring risk exposures to an acceptable level if required
- Ongoing monitoring and reporting of risks, control effectiveness and actions.

RCSA has strengthened our Group oversight and enhanced the flow of information, resulting in increased transparency, timely identification of risk trends across the Group and control improvements. The improved consistency of risk assessments in business units has enabled aggregation at a Group level to gain a much better informed picture of the overall Group profile.

Monitoring

Operational risk event data

We have successfully improved transparency and data sharing by rolling out the formal loss data collection standards developed in 2008 for the operational and strategic risk categories and embedding them across the Group. Standardisation of loss information across the Group has facilitated early identification of trends leading to control improvements, enhanced risk mitigation and improved aggregation of losses.

Our aim is to mitigate further operational risk events that lead to losses, within reasonable expectations, and to learn from all losses to improve processes and prevent recurrence.

RISK AND CAPITAL MANAGEMENT
CONTINUED

The Group has subscribed to a database outlining significant operational losses in other companies. Data from this source helps us to take mitigating actions proactively, to avoid incurring similar losses.

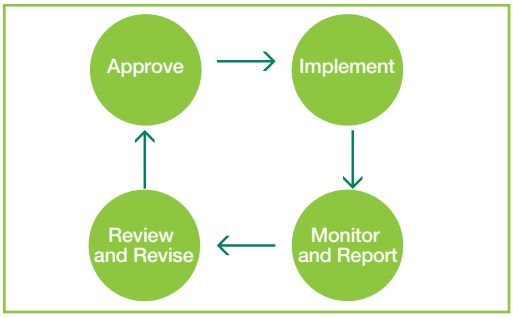
Loss data collection has provided us with excellent ways to improve our customer experience. For example, during 2009 we observed a number of operational losses resulting from simple process errors. By collecting data systematically and consistently we have been able to pinpoint repetitive process failures and actively improve controls in these areas. This is an area that we are now focusing on, to make changes that will provide a better customer experience and reduce unexpected costs.

Key risk indicators (KRIs)
KRIs provide data on whether a risk is trending up, down, or is stable, both now and in the future. This acts as an early warning system, enabling management to take action to prevent the risk materialising.

During 2010 we identified KRIs against each of the Group's top risks. We see KRIs as a vital step forward in making risk information more transparent, and have begun data collection from the business units. In 2011 we will continue to enhance these processes through trend analysis and threshold setting.

Market consistent embedded value (MCEV)
In addition to the other tools described here, we use MCEV extensively for forward-looking assessment and monitoring of risk in the Group's life insurance companies. By analysing the source of MCEV operating earnings we can assess where emerging experience is significantly different from expectations. This allows senior management to identify emerging risks and trends quickly and take remedial action where necessary. The MCEV sensitivities allow us to understand the impact of changes in economic, demographic and operating conditions on the Group's embedded value. Finally, the market consistent value of new business provides information on the extent of investment risk that is embedded in new products. For further details, see the MCEV supplementary information in this report.

Risk Monitoring/Control Cycle



Understanding and identifying significant risks to Old Mutual
Old Mutual has previously experienced downside surprises due to a combination of imprudent lending decisions, insufficient reserving for claims and complex financial products. We have sought to learn from our experiences to ensure they do not recur. All financial service organisations are required to act quickly in tough environments and the recent financial crisis, aftershocks of which are still being felt, has brought many shortcomings to light. The consequence is that it is even more critical for organisations to ensure they fully understand the risks they are taking on – and the interdependencies between them – in order to hold sufficient capital and liquidity to cover a combination of risks occurring at once.

These are some of the most significant risks the Group faced during 2010:

Examples of identified KRIs

KRI	Risk type addressed	What it tells us
Expense levels – actual v forecast	Business risk	If trending up, Group's costs will be higher than planned, which if not compensated by a rise an income will mean profits will be lower than forecast. This trend will also show an increased exposure to business risk. The indicator allows proactive analysis to identify the reasons for the increase in expenses and guide appropriate management action.
Level (%) of voluntary turnover in key jobs	Operational risk	If trending up, this indicator can highlight a failure to retain top talent, which could drive recruitment costs higher than planned and prevent the Company from delivering on business plans. The exposure for the risk increases with the time key jobs are left vacant. The indicator allows analysis of the reasons people leave and guides corrective action.
Assets in excess of local regulatory capital requirements	Solvency risk	If trending up, this indicates that the Group's solvency position is worsening and the risk of regulatory intervention is increasing. The reasons for the reduction in surplus assets can be identified and strategic decisions considered to ensure the trend does not continue.

Significant risks to Old Mutual

Risk type	Risk as a threat and uncertainty	Mitigating actions and opportunities
Business risk	We operate in a highly competitive environment. If we are not able to compete successfully there is a risk of reduced market share, revenues or profitability. Business risks arise where business performance falls below projections as a result of negative variances in new business volumes, margin, lapse experience and expenses. The profitability of our businesses could be adversely affected by a worsening of economic conditions. Changes to the distribution environment (for example through regulation or failure of distribution providers) could have an impact on our business.	We offer innovative products to suit different clients and needs, enabling us to find opportunities even in challenging market conditions. Business units pay great attention to product strategy, with increased focus on product profitability and improved persistency. We closely monitor lapse rates and persistency information, adapting our business approach as necessary. Old Mutual is diversified across geographies and product lines, minimising the impact of sector- or territory-specific economic downturns. We monitor developments in the distribution sectors across all geographies and our strategic planning and research teams help position us to reduce this risk.
Credit risk	The Group is exposed to the risk of credit defaults. This includes counterparty risk where an asset (in the form of a monetary claim against counterparty) is not repaid in accordance with the terms of the contract. Credit risk also encompasses lending risk (for example within our banking businesses), where a borrower may be unable to repay amounts owed. Credit risk also arises from financial guarantees that the banking businesses have to act on where clients default on their obligations with respect to the financial guarantees.	The Group has adopted a policy of only dealing with approved counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the financial loss from defaults. We continuously monitor the Group's exposure and the credit ratings of counterparties. As part of getting ready for Solvency II regulations, developments are underway to enable reporting on and analysing credit exposure holistically across the Group.
Market risk	The risk that adverse changes in market values of assets and liabilities negatively impact future earnings. Market volatility is a specific concern for us insofar as the Group may be unprepared in conditions of extreme market volatility resulting in unexpected capital calls and stressed liquidity. Some of our life assurance businesses contain investment guarantees and options. A reduction in interest rates and equity markets can cause more of these to be in-the-money, with a potentially adverse impact on profit.	The upside presented by market risk is evident when equity values rise or interest rates move favourably. Then the Group is well positioned to gain over and above the benchmark, particularly in retail and institutional asset management products and activities, since fee income will rise faster than associated expenses. Business units exposed to downside market risk as a consequence of the liabilities they have underwritten are required to take account of the structure of their asset and liability portfolios as well as the local regulatory environment and Group policy requirements. Actions used by individual business units to manage market risk include asset-liability matching, interest rate swaps and hedges to manage interest rate risk, equity hedges to manage equity risk and currency swaps, currency borrowings and forward foreign exchange contracts to mitigate currency risk.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Significant risks to Old Mutual continued

Risk type	Risk as a threat and uncertainty	Mitigating actions and opportunities
Liquidity risk	Liquidity risk for the Group could materialise where we are unable to sell assets in an illiquid market – leading to potential asset liability matching problems and depleting capital. Liquidity risk could also pose potential losses where the Group is unable to meet its obligations as they fall due (as a result of counterparties providing short-term funding or where they withdraw or do not roll-over the funding).	We aim to maintain a prudent level of liquidity consistent with regulatory expectations. Our group-wide liquidity policy sets out the parameters within which all business units must operate in order to identify, measure and manage liquidity risk. The Group Capital Management function reviews capital and liquidity positions, with the Group Executive Risk Committee providing additional oversight and challenge. By monitoring our liquidity position prudently, we are well positioned to identify surplus liquid assets available. Liquidity headroom is a key risk indicator and control for managing Group liquidity risk. It ensures we have sufficient liquidity to cover both asset liquidity risk and finding liquidity risk.
Operational risk	The risk arising from operational activities, for example a failure of a major system, or losses incurred as a consequence of people and or process failures, including external events. Specific examples include the ability to attract and retain key staff with the necessary skills to help the Group meet its objectives, and adequate protection of people, premises and data (including IT sustainability and infrastructure).	Taking greater operational risk rarely gives the Group greater reward and therefore we aim to minimise our operational risk exposure across the Group. The Group has developed OpenPages as its strategic risk management system which is currently being rolled out and embedded across the various business units. This will increase our understanding of the operational risks in the business and facilitate improvement in the controls to reduce losses. Operational risk is one of the metrics in our risk appetite framework: it is continuously monitored and we take action if it approaches the limit.
Liability risk	Liability risk for long-term insurance business arises through exposure to unfavourable claims experience on life assurance, critical illness and other protection business. For general insurance it also includes the risk of loss from fire, accident or other claim sources. This is the risk that there are more claims than expected or claims are more severe than expected. Liability risk includes underwriting risk, which is the misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss. The business units which incur significant liability risk are Emerging Markets, which provides long-term insurance, and M&F, which provides short-term insurance.	Liability risk is managed by: ■ Maintenance and use of sophisticated management information systems which provide current data on the risks to which we are exposed ■ Use of actuarial models to calculate premiums and monitor claims patterns using past experience and statistical methods ■ Guidelines for concluding insurance contracts and assuming liability risks – such as underwriting principles and product pricing procedures ■ Reinsurance to limit our exposure to large single claims and catastrophes ■ An effective mix of assets that back insurance liabilities based on the nature and term of these liabilities.
Strategic risk	The risk that discretionary decisions will adversely affect future earnings and the sustainability of the business. Specific exposures include the ability of the Group to successfully implement the current levels of change experienced. Another possible risk could be from external constraints imposed by regulatory or government bodies impacting on our ability to deliver our strategy.	We actively monitor our strategic implementation portfolio for any material changes. Progress and activities are co-ordinated with the Group strategy to ensure that the 2011 strategy can be tracked. This includes actively working with the different business units and Group Executive Committee on change capability development.

The term 'insurance risks' in the notes to the accounts on pages 260-274 is defined, for accounting purposes, as the risks other than financial risk that influence the insurance liabilities associated with insurance contracts. For the long-term insurance businesses these arise through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. For general insurance it also includes the risk of loss from fire, accident or other claim sources. These risks are included within the liability risk and business risk categories described on page 105 and 106.

Group risk profile

The table below shows the significant risks to the Group, in order of importance. These figures are stated after allowing for the benefit of diversification between risk types and between business units. The overall diversification benefit gives rise to a reduction of 38% in the risk exposures when compared to the standalone exposures, since the correlation between risk types and different geographies is less than 100%, which limits the likelihood of multiple risks occurring simultaneously.

Credit risk

Business units are responsible for establishing appropriate systems and governance structures to ensure that they actively monitor credit risk in a manner consistent with Group policies and principles. Business units are responsible for ensuring that their credit risk exposures remain within the appetite limits set by the Group. As part of our plans to enhance the Group's credit risk management framework, we are reviewing the Group's credit risk policy, limits, and reporting systems. We are introducing improvements to allow the Group to adopt a more dynamic and timely approach to identifying and managing credit risk exposures. The Group Executive Risk Committee monitors and challenges large exposure concentrations across the Group.

Group Credit Exposures by Sector 31 December 2010



Banks & Financial Services	39.67%
National & Local Government	14.58%
Real Estate	7.52%
Telecommunications Services	5.27%
Mining	3.79%
Insurance	3.17%
Oil & Gas	3.13%
Electricity	2.53%
General Retailers	2.33%
Other	18.01%

The top five exposures by sector remain unchanged from 2009, although there has been an increase in our total exposure to banks and financial services, offset by a reduction in exposure to national and local government. This mirrors the shift in credit risk to sovereigns from the financial sector throughout 2010. Most of the exposure to the banks and financial services sector stems from the non-banking book, while the banking book accounts for the largest portion of the national and local government sector. This is driven by the substantial amount of South African government debt which Nedbank is required to hold as a minimum reserve requirement.

Significant risk exposures by business unit and risk type

	Long-term savings	Banking	US Life	Legacy	Short-term insurance (M&F)	US Asset Management	GHO
1. Asset liability management risk (policyholder)	19%	0%	6%	6%	0%	0%	0%
2. Credit risk	3%	8%	14%	1%	0%	0%	0%
3. Business risk	18%	3%	0%	0%	0%	1%	0%
4. Operational risk	4%	1%	0%	0%	0%	1%	1%
5. Currency risk	0%	0%	0%	0%	0%	0%	7%
6. Market risk (shareholder)	2%	3%	0%	0%	1%	0%	0%
7. Liability risk	1%	0%	0%	0%	0%	0%	0%

RISK AND CAPITAL MANAGEMENT
CONTINUED

The Group's exposure to the European peripheral economies is not deemed significant and is primarily to highly-rated institutions. As at the date of writing, the Group had less than £10m of exposure to the sovereign debt of European peripheral economies. We intend to maintain our exposures at low levels and to continue to monitor further developments in this region. Looking ahead, the planned disposal of US Life in 2011 is expected to reduce the Group's credit risk exposure significantly, particularly in the banks and financial services sector.

Market risk

We define market risk as the risk of changes in the value of our financial assets or liabilities arising from changes in equity, bond and real estate prices, interest rates and foreign exchange rates, in the way they impact on shareholder assets. The impact of such movements on policyholder assets and liabilities are defined under ALM-related risks, which can cover mismatches of assets relative to liabilities, and also the impact of a change in fund related management fees earned from client portfolios as a consequence of movements in asset markets.

Market risk arises differently across the Group's businesses, depending on the types of financial assets and liabilities held.

Market equity risk is the most significant market risk type across the Group. We monitor our market exposures for early identification and management of these risks (see the Risk appetite in action box on page 101 for details). We conduct separate analyses to understand the impacts on both shareholder and policyholder assets.

In respect of the investment of shareholders' funds, equity price risks are addressed in the Group's various investment policies, which tightly limit the opportunity for business units to invest their own capital in equities or equity funds. As a result, the shareholder assets invested to back the statutory capital requirements across the Group are typically invested in sovereign bonds and cash. There is some remaining shareholder exposure to equity markets within OMSA. To mitigate the risk of falling equity markets adversely impacting the shareholder capital position, we use extensive equity hedging. We regularly evaluate the value and protection offered by the hedges that we operate in order to decide the appropriate level.

Sensitivities to adverse impacts of changes in market prices arising in our insurance operations are set out in the Old Mutual market consistent embedded value supplementary information section of this Annual Report. For our insurance operations, equity and property price risk and interest rate risk are modelled in accordance with the Group's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow us to manage significant exposures in line with the Group risk appetite.

Each of the Group's business units has its own policies, principles and governance to manage its market risk in accordance with local regulatory requirements. These are supplemented by group-level monitoring as part of the risk appetite framework. The impacts of changes in market risk are monitored and managed using sensitivity analyses, through the business units' own regulatory processes, with reference to the Group's risk appetite framework, and by other means. This work is complemented by the Group's reporting processes, which include assessments of the sensitivity of our capital position and embedded value to various market changes.

Business risk

A significant component of the monthly management information communicated at Group level relates to ongoing measurement of the level of sales of each business, the level of expenses in that business against those planned and in previous years, as well as the level of surrender activity.

All new life assurance product developments with financial guarantees within the Group are subject to a rigorous approval process, culminating in the Group Risk and Actuarial Director either approving or rejecting the product before launch. In all cases a series of product development committees and stringent requirements must be passed before the new product can proceed to launch. This has been supplemented during 2010 with the establishment of the Long-Term Savings (LTS) product team, who are responsible for reviewing all product proposals from the LTS business units as well as leveraging synergies across product developments within the Group. This provides additional mitigation against the risk of poor product performance and design.

Many of these additional requirements have been introduced following experience relating to the Old Mutual Bermuda UGO Variable Annuity product. All potential risks to the Group as a result of writing the new product are considered before the product is escalated to the Group Risk and Actuarial Director for approval. These risks include, but are not limited to: investment, expense, surrender, mortality and operational risk (including reputational effects). An assessment of the cost of offering the financial guarantee is also included. Extensive scenario and stress testing is undertaken for all new product developments, so that the new business margin and market-consistent value of new business can be assessed under a range of different adverse scenarios, including a worst-case scenario as well as the base case. We also evaluate all new product developments in light of our commitment to treat customers fairly.

Quarterly group-led business reviews with each of the businesses ensure regular dialogue and oversight of business performance. At each meeting, business risk is monitored and, where appropriate, actions are agreed to mitigate negative trends. We make particular use of MCEV to monitor experience as it emerges.

Liability (insurance underwriting) risk

The Group assumes liability (also referred to as insurance underwriting risk) risk by issuing insurance contracts under which it agrees to compensate the policyholder or other beneficiary if a specified uncertain future event affecting the policyholder occurs. This risk includes mortality and morbidity risk in the LTS business units and a risk of loss from fire, accident and other sources in M&F, our short-term insurance business unit.

Our liability risk exposure is relatively low as we manage it effectively through:

- The relatively weak correlation of liability risk with our other risk types, which reduces our exposure after diversification over several insurance classes and a number of geographical segments
- Maintenance and use of sophisticated management information systems which provide current data on the risks to which we are exposed
- Use of actuarial models to calculate premiums and monitor claims patterns using past experience and statistical methods
- Guidelines for concluding insurance contracts and assuming liability risks, such as underwriting principles and product pricing procedures
- Reinsurance to limit our exposure to large single claims and catastrophes
- An effective mix of assets that back insurance liabilities based on the nature and term of those liabilities.

Long-term insurance

The table below shows our key liability risks associated with long-term insurance, along with risk management actions within the LTS business units:

Risk	Definition	Risk management
Underwriting risk	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
HIV/AIDS risk	Impact of HIV/AIDS on mortality rates and critical illness cover	Wherever possible we write products that allow for regular repricing or are priced to allow for the expected effects of HIV/AIDS. We require tests for HIV/AIDS and other tests for lives insured above certain values: a negative test result is a pre-requisite for acceptance at standard rates.
Medical developments (longevity) risk	Possible increase in annuity costs due to policyholders living longer	For non-profit annuities, improvements to mortality are allowed for in pricing and valuation. Experience is closely monitored. For with-profit annuity business, the mortality risk is carried by policyholders and any mortality profit or loss is reflected in the bonuses declared.
Catastrophe risk	Natural and non-natural disasters, including war and terrorism, could result in increased mortality risk and pay-outs on policies	We have a catastrophe stop loss and excess of loss reinsurance treaty in place which covers claims from one incident occurring within a specified period between a range of limits.

RISK AND CAPITAL MANAGEMENT
CONTINUED

General insurance

Reinsurance plays an extremely important role in the management of liability risk and exposure at M&F. The Group makes use of a combination of proportional and non-proportional reinsurance to limit the impact of both individual and event losses and to provide insurance capacity.

The majority of the Group's general insurance contracts are classified as 'short-tailed', meaning that any claim is settled within a year after the loss date. This contrasts with 'long-tailed' classes where claims costs take longer to materialise and settle. Our long-tailed business is generally limited to personal accident, third-party motor liability and some engineering classes; in total it comprises less than 5% of an average year's claim costs.

Operational risk

The Group's size and complexity mean that operational risk represents a significant proportion of our risk profile (approximately 12%, with a target of 10%). This risk could result in losses from internal failures relating to processing, systems and people as well as losses relating to external triggers such as external fraud or retrospective changes in legislation. By its nature, operational risk is difficult to eliminate entirely. But we aim to keep it to a minimum and certainly within our risk appetite as we are unlikely to gain significant reward from taking operational risk. That is why operational risk is one of the metrics in our risk appetite framework.

Our operational risk exposures for M&F and Old Mutual Bermuda are above appetite. M&F has increased exposure as a result of processing errors and losses and Old Mutual Bermuda is exposed to trade execution errors and outsourcing failures. All other divisions and business units are currently within their operational risk appetite.

The Group RCSA process places responsibility directly onto line management for identifying, monitoring and managing operational risk within each business unit. We further enhanced the RCSA process in 2010 by beginning the roll out of our OpenPages strategic risk management system which records, consolidates and reports risks, controls and losses at business unit and Group level. The improvement in the quality of data generated will facilitate identification of areas where controls need to be more robust. Identifying the level of losses in relation to a particular risk will start to help us assess more accurately the potential impact of any further occurrences and improve the accuracy of the RCSA assessment. Our management of risk will only be effective if the RCSA and loss event recording drives management action, often in the area of process re-engineering, to minimise the scope for recurrence.

The RCSA process remains the key driver to assess, escalate and prioritise significant operational risks across the Group. These risks are then reassessed and monitored by the GERC and the Group Executive on at least a quarterly basis.

The principal operational risks Old Mutual faces are listed in the table below.

Risk description	2010 trend	2010 commentary	Key mitigating actions
Regulatory risk Regulatory requirements and changes are increasing, and are likely to continue to do so over the time ahead. Compliance with the new Solvency II requirements is due at the beginning of 2013. If we do not correctly assess the impact of these changes or implement them in a timely manner a fine, penalty or regulatory censure could result.	↑	The regulatory environment is increasing in intensity, particularly in the areas of customer protection in developing markets, and information security/privacy. While banking and asset management related regulation was already very intense, there has been further tightening in the wake of the financial crisis. Many of the new requirements are still evolving. In addition, Solvency II will create a step change for insurance prudential regulation, with its focus on internal risk and capital management and the more proactive nature of Group supervision under the internal model approval process	Old Mutual is well positioned to meet increased regulatory expectations. Dedicated Group and business unit compliance teams closely monitor new and changing regulatory developments and liaise regularly with their local regulators. The Group provides a co-ordination role in relation to the FSA, which is the lead regulatory authority for Old Mutual plc under the Financial Groups Directive. The iCRaFT project is designed to deliver all Solvency II requirements, as a minimum. It has been progressing well during 2010 and project deliverables are on target.
Processing risk Our businesses rely on their systems, operational processes and infrastructure to help process numerous transactions daily across various different markets. With a large number of such processes comes significant operational risk arising from process breakdowns, human error or IT systems issues.	↔	The roll-out of the Group Risk Strategy during 2010 highlighted the need for improved processes and reporting on operational losses.	We have established a number of Group strategic implementation programmes to review, evaluate and document key business processes, facilitating a thorough understanding of the relationships between these processes and highlighting areas where process or control improvements are required. The new risk management framework and tool has been developed and is being rolled out across the Group. This provides an opportunity to embed the ERM processes which should lead to greater consistency of assessment and assumptions applied across all business units. This should also enable effective comparison and challenge of the operational risk capital derived by business units.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Risk description	2010 trend	2010 commentary	Key mitigating actions
IT and data security IT sustainability and infrastructure is a concern across the Group, particularly in Skandia UK and M&F. There is a risk that if these issues are not resolved within an appropriate timescale we could experience problems with the current IT systems.	↔	An LTS Chief Information Officer has been appointed in the drive to consolidate and enhance IT infrastructure and exploit IT synergies. Physical and information security are areas of increasing risk and regulatory focus – particularly in relation to information security, where the UK and Europe have seen increasing intensity in fines and enforcement activity. New privacy and consumer protection laws have also been introduced in South Africa, although the practical regulatory enforcement bodies are still evolving.	We have established a Group strategic implementation programme to address these issues and identify and implement IT synergies across the Group. This will be further supported by the iCRaFT initiative, and will be tested on the risk management system as one of the initial group-wide IT roll outs. Work has started and is co-ordinated with the LTS Chief Information Officer to embed Information Security within LTS IT strategy, including adoption and embedding of Group standards and benchmarking of business units against those standards. Group information security standards are based on good practice and data privacy obligations.
HR risk The lack of leadership and talent throughout the organisation at the levels required to deliver the business strategy and achieve the necessary culture change.	↔	The year saw changes in the regulatory requirements surrounding remuneration policy. Turnover among the key leadership roles reduced for the second consecutive year. During 2010 a number of initiatives were delivered to improve senior talent attraction, retention and development. New CEOs started in Nordic in 2010, and M&F and USAM in early 2011. This increased the risk of staff turnover increasing and initiatives slowing until the new CEOs were firmly established. However, no material increases in turnover occurred in those businesses in the interim periods.	New long-term incentive plans for Group senior executives were implemented together with consistent approaches to short-term (annual) incentive structures across business units. To support governance requirements revised remuneration principles have been implemented across the Group. A set of required leadership actions was introduced and leadership programmes were modified to target development needs. The year ahead will see more focus on the behavioural changes required to ensure our culture is aligned to the business strategy and reflects what matters most to our employees.

Capital modelling for operational risk

Maintaining a strong capital position is critical to the Group's ability to conduct business and withstand losses resulting from inadequate or failed internal processes, people and systems or from external events. The determined operational risk capital requirement should be sufficient to satisfy the Board's risk appetite across all operational risks faced by the Group. We are nearing the completion of a new operational risk capital model which will enable a much more robust assessment of the capital requirement.

Other risks impacting the Group risk profile

Liquidity risk

Our liquidity position remains sound at both Group holding company and business unit level. The Group holding company is funded through a combination of internal cash resources and undrawn bank credit facilities. Business units' liquidity needs are met from their own internal resources and, where appropriate, either locally arranged external lines or funding lines from the holding company.

In aggregate the holding company has £1.4 billion of cash and undrawn committed facilities as at 31 December 2010.

RISK PROFILES BY SEGMENT

Long-Term Savings (LTS)

Our LTS businesses represent a significant part of the Group's earnings and capital (see the segmental disclosures in this report) and the aggregation of the primary risks to Old Mutual is naturally greatest within this segment. The most significant risks in LTS overall are market (equity and interest) and business risk (see table on page 114). During 2010 LTS has defined its risk strategy for the next three years. This is aligned to the Group strategy and aims to optimise the trade-off between risk assumed, capital required and volatility of return. These are LTS's risk preferences:

LTS ALM risk

ALM risk is the risk that adverse changes in the market value of policyholder assets and liabilities will negatively impact LTS future earnings. The key factors that could lead to negative variances include asset prices, their volatility, interest rates and currency.

Risk management strategies designed to mitigate market risk are dependent on the type of contracts held by policyholders. Where contracts are related purely to longevity, mortality and morbidity risk, there is typically no sharing of better-than-expected or required investment returns. Under unit-linked and/or market-linked contracts, policyholders receive the full investment return on the underlying assets, less any applicable fees, and the only residual market risk relates to the fluctuation in asset-based fees as a result of fluctuations in the underlying assets.

In most other classes of investment-related contracts, investment returns are attributed to, or shared with, policyholders, in the form of vesting and/or non-vesting bonuses. Non-vesting bonuses offer an option for management action, as they can be withheld in adverse circumstances.

Smooth bonus products constitute a significant proportion of South African business. We pay particular attention to declaring bonuses in a responsible manner, retaining sufficient reserves to meet our promise to clients that returns will be less volatile over time than purely market-linked returns. Investment returns not distributed after deducting charges are credited to bonus-smoothing reserves, which are used to support subsequent bonus declarations.

For discretionary participating business underwritten in South Africa, there are well established management actions. Principles and Practices of Financial Management clearly sets out how risks and surpluses are shared, how bonuses are declared, and how these classes of businesses are managed – including the management actions that will be taken in adverse conditions. These actions are sanctioned and signed-off by the Old Mutual South Africa Board and are disclosed to the Financial Services Board of South Africa, Old Mutual South Africa's regulator.

In South Africa the stock selection and investment analysis process is supported by a well developed research function. For fixed annuities, we manage market risks where possible by investing in fixed-interest securities with a duration closely corresponding to those liabilities. Market risk on policies that include specific guarantees and where shareholders carry the investment risk resides principally in the South African guaranteed non-profit annuity book, which is closely matched with fixed interest securities. Other non-profit policies are also suitably matched, based on comprehensive investment guidelines. Market risk on with-profit policies, where investment risk is shared with investors, is mitigated by appropriate bonus declaration practices and the use of hedging.

Within Old Mutual South Africa, reductions in interest rates can lead to an increase in the value of investment guarantees and options given to policyholders, causing a reduction in earnings and shareholder capital. We hold investment guarantee resources and undertake regular and ongoing activity related to interest rate and equity hedging to mitigate this risk.

LTS business risk

Business risk is the risk that the LTS business performance will be below plan and therefore negatively impact on earnings and capital. The drivers that could result in this include negative variances in new business volumes, new business margins, lapse experience and expenses.

Lapse risk includes the risk that policyholders surrender their policies earlier than expected, resulting in loss of value. If large numbers of policies lapse, the business is exposed to losses on up-front expenses and commissions that cannot be recouped, and also to per-policy maintenance costs increasing above pricing assumptions, resulting in losses as remaining policyholder charges fail to cover the ongoing costs of maintenance. Early surrender of policies can also crystallise unrealised losses for portfolios where market values are trading below book values.

Within the Group, we examine the impact on earnings and capital by stress testing both increased and decreased lapse rates in order to understand these impacts. We also take steps to manage lapse risk in case it varies from assumption. During 2010, customer retention was a key risk to the business. Significant focus and effort from the business, coupled with improved economic and social outlook, resulted in improved persistency during the year and this trend is expected to continue into 2011.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Lower than anticipated new business volumes can lead to acquisition expense overruns, resulting in reduced earnings and shareholder capital. By contrast, significantly higher than expected new business volumes can consume large amounts of capital and may cause capital strain. Within the Group, we examine the impact on earnings and capital by stress testing both increased and decreased new business volumes in order to understand these impacts.

Business risk is particularly significant, as a proportion of total risk, in respect of the Group's unit-linked and asset management businesses, where there are few other significant risks relating to market, credit or insurance risk. Hence these risks comprise a large proportion of total risk in Wealth Management, Nordic and Retail Europe. While these risks are important in Emerging Markets, they represent a lower proportion of overall risk.

LTS credit risk
During 2010 we have made significant progress in enhancing the aggregation of credit exposures across the Group as part of the iCRaFT programme. In 2011 this will be complemented by a review and update of the credit risk policy and limits. The top five exposures by sector remain unchanged from 2009, although there has been an increase in our total exposure to banks and financial services, offset by a reduction in exposure to national and local government. This mirrors the shift in credit risk to sovereigns from the financial sector throughout 2010.

The Group's exposure to the European peripheral economies is not deemed significant and it is primarily to highly rated institutions. We intend to maintain our exposures at low levels and continue to monitor further developments in this region.

LTS operational risk
LTS's operational risk profile is similar to the Group operational risk profile on page 110.

Banking
Banking credit risk
As our primary banking business, Nedbank carries the majority of our credit risk through its lending and other financing activities. Nedbank's financing activities contribute to its significant credit risk exposure. We expect impairment levels to remain stable or even start to reduce during 2011. This is due to a number of factors including a slowdown in lending, the introduction of tighter lending criteria and the stabilisation of economic conditions.

Nedbank manages credit risk exposures through its credit risk management framework, which encompasses comprehensive credit policies, limits, governance structures and internal risk models that are fully Basel II compliant and in line with Group policies and practices. To address the changing conditions impacting on credit risk this year, Nedbank has:

LTS risk preferences

Liability (insurance underwriting) risk	Market risk	Credit risk
Life – Catastrophe	Shareholder equity risk	Corporate bonds spread widening, default and migration
Life – Disability	Policyholder equity risk	
Life – Longevity	Currency – at Group level	Counterparty default (reinsurance)
Life – Mortality	Inflation	
Liquidity	Shareholder interest rate risk	Concentration risk
	Hedgeable policyholder interest rate risk	
	Property	

- Strongly avoid
- Tend to avoid
- Neutral (indifferent)
- Tend to seek
- Strongly seek

LTS exposures as a percentage of overall Group risk exposure (stated post diversification)

	Emerging Markets %	Wealth Management %	Nordic %	Retail Europe %
1 ALM risk (policyholder)	7.5	5.2	5.3	0.7
2 Business risk	5.7	5.4	5.2	1.3
3 Operational risk	1.9	1.5	0.6	0.1
4 Credit risk	1.2	0.8	0.9	0.1
5 Market (shareholder) equity	2.1	0.0	0.0	0.0
6 Liability (insurance underwriting) risk	0.6	0.0	0.0	0.0

Note: Ranked in order of importance to the Group based on economic capital figures as at June 2010.

- Closely monitored credit risk loss ratios and other key indicators through its credit risk monitoring committees
- Tightened credit granting criteria – for example, on home loans it has tightened loan-to-value criteria, increased acceptance standards and where appropriate restructured credit risk agreements
- Tightened controls over large payments to and from global banks
- Increased staff to administer collections.

Banking market risk

The principal market risks in the Group's banking operations arise from:

- Trading risk in Nedbank Capital
- Banking book interest rate risk from repricing and/or maturity mismatches between on- and off-balance sheet components in all banking businesses.

We use a comprehensive market risk framework to ensure that market risks are understood and managed. Governance structures are in place to achieve effective independent monitoring and management of market risk.

Trading risk

We measure market risk exposures from trading activities at Nedbank Capital using value-at-risk (VaR), supplemented by sensitivity analysis and stress-scenario analysis, and set limit structures accordingly.

The VaR measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The methodology is a statistically-defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by Nedbank represents the overnight loss that has less than a 1% chance of occurring under normal market conditions. By its nature, VaR is only a single measure and cannot be relied upon as a means of measuring and managing risk on its own.

Banking book interest rate risk

This arises at Nedbank because:

- The bank writes a large quantum of prime-linked assets and raises fewer prime-linked deposits
- Funding is prudently raised across the curve at fixed-term deposit rates that reprice only on maturity
- Short-term demand-funding products reprice to different short-end base rates
- Certain ambiguous maturity accounts are non-rate-sensitive
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds, that do not reprice for interest rate changes
- Nedbank uses standard analytical techniques to measure interest rate sensitivity within its banking book. This includes static reprice gap analysis and point-in-time interest income stress testing for parallel interest rate moves over a forward looking 12-month period.

Liquidity risk

There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Nedbank Group will be unable to meet its payment obligations as they fall due. These payment obligations could arise from depositor withdrawals, the inability to roll-over maturing debt or contractual commitments to lend.

Market liquidity risk is the risk that the Nedbank Group will be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus of the Nedbank Group.

We maintain a portfolio of marketable and highly liquid assets which could be liquidated to meet unforeseen or unexpected funding requirements. The market liquidity by asset type (and for a continuum of plausible stress scenarios) is considered as part of the internal stress testing and scenario analysis process. The quantum of unencumbered assets available as collateral for stress funding is measured and monitored on an ongoing basis.

The Basel Committee on Banking Supervision issued new liquidity standards on 16 December 2010. Many of the key principles are already encapsulated in Nedbank's Liquidity Risk Management Framework. However, in order to meet the requirements of the liquidity coverage ratio by 2015 and the net stable funding ratio by 2018, Nedbank and the other South African banks are working closely with SARB and National Treasury to address the structural challenges of compliance for the local banking industry, while at the same time considering the unintended economic consequences which may arise from the proposed liquidity standards.

Nedbank's securitisation activities

Nedbank Group uses securitisation primarily as a funding diversification tool. However, these securitisation activities, which are mostly restricted to low-risk and non-complex transactions, are not significant relative to the overall Nedbank Group risk profile.

RISK AND CAPITAL MANAGEMENT
CONTINUED

It is important to note that the Nedbank Group is fully integrated into the Old Mutual Group economic capital and risk appetite framework, which is based on a more conservative approach to calculating capital requirements. All securitisation transactions are subject to Nedbank Group Risk Committee oversight and the stringent SA Regulatory Securitisation Framework.

Business risk
Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility, owing to factors such as macro-economic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

The fluctuations in earnings captured in business risk are those not attributable to the influence of other risk types. The major driver or input used in the earnings-at-risk methodology is a time series of historical profit and loss, cleansed of the effects of other risk types. The volatility of this time series of historical profits and losses becomes the basis for the measurement of business risk.

Nedbank Group actively manages business risk through the various management structures, as set out in the Enterprise Risk Management framework, and an earnings-at-risk methodology similar to the Group's risk appetite metrics.

Operational risk
Nedbank's operational risk profile is similar to the Group operational risk profile on page 110.

Mutual & Federal (M&F)
The decision to acquire the minority interests and delist M&F was a key step in our strategy to rationalise and consolidate our Group structure into a focused long-term savings, protection and investment business . The delisting of M&F enabled local management to focus on stabilising the operating platform during 2010 and responding to changes in the market to continue to offer growth, profitability and value to clients.

M&F is South Africa's second largest short-term insurer and also conducts business in Botswana, Namibia and Zimbabwe. It has developed a five-year strategic programme to profitably grow its market share while introducing innovative products and entering new market segments. In 2010 it focused on the basics with the launch of new initiatives designed to stabilise the business. Early positive results include the recent move to second place for service in the Ask Africa Orange Index, from fourth a year earlier. The benefits of action plans implemented throughout 2010, which include changes to top management, should materialise in the 2011-13 planning period.

M&F's primary concern is underwriting risk, the risk that insurance products are incorrectly measured and priced. Adverse weather patterns and large numbers of commercial fires impacted our underwriting profitability in H1 2010. However, management actions taken to clean up the book, improve underwriting discipline and better manage claims costs resulted in improved underwriting results. This focus on the fundamental soundness of M&F's portfolios, diligence in rate setting and continuing adherence to responsible underwriting standards will continue into 2011.

US Asset Management
For USAM, as an asset management business, market volatility presents the greatest risk. Since we conduct our asset management activities in an agency capacity, clients take both the upside and downside risk in their portfolios. As a consequence we characterise the resulting risk as an ALM risk, the risk that expected fees are not earned due to lower asset levels than anticipated. USAM asset management affiliates are exposed to a second-order risk in respect of their asset-based management fees and performance-related fees. Over the year, we continued to feel the impact of the financial crisis in a lower level of asset-based fees and substantially lower performance fees resulting from net cash outflows and lower asset values.

USAM's investigation of a possible partial Initial Public Offering includes multiple detailed work streams that holding company management is currently completing. While certain aspects of these IPO related activities represent business as usual activities, adding IPO related activities to management's regular daily operations raises a resource bandwidth concern.

US Life
The internal risk and control profile of the business is effective, and continues to improve. Credit risk has reduced significantly as the investment portfolio continues to be de-risked on a capital neutral basis. Although exposure to corporate bonds still exceeds our risk appetite we have continued to improve the investment grade of the portfolio in line with our target operating model. Market yields have improved – enabling better matching of new assets to sales but lowering the unrealised gain position. Yields are still below desired levels and continue to place pressure on long-term guarantees. Surrenders and lapses in excess of pricing assumptions adversely affect our ability to achieve target profit margins and recover expenses.

The exposure to US Life credit risk has been one of the significant metrics driving the divestment of US Life from the Group – see Group risk profile on pages 107 and 108. The planned disposal is expected to reduce the Group's credit risk exposure significantly, particularly in the banks and financial services sector.

Old Mutual Bermuda (legacy business)

In Old Mutual Bermuda, reductions in interest rates can cause more of the investment guarantees and options within its life assurance businesses to be in-the-money, reducing earnings and shareholder capital. We maintain regular interest rate hedging activity to mitigate this risk.

The guaranteed returns provided under equity-indexed annuities are hedged to ensure a close matching of option or futures pay-offs to any liability growth. Hedging is largely static, with minimal trading. For variable annuities, the guaranteed returns provided are dynamically hedged. We review hedging positions daily to readjust them as necessary. We include an assessment of our ability to hedge market movements and the effectiveness of these hedging programmes. Hedge ineffectiveness risk is the risk of hedge assets underperforming in comparison with the associated liabilities. This can arise from less than complete hedging, such as failure to hedge higher-order derivative measures and from non-hedgeable items such as basis risk.

Old Mutual Bermuda remains outside our Group risk appetite and is being actively managed to mitigate losses. For further details of the action we are taking to mitigate risk in Old Mutual Bermuda, please see page 85.

Businesses outside Group risk appetite: M&F, Old Mutual Bermuda and US Life

Measured against the risk appetite limits set by the Group Executive Risk Committee and ratified by the Executive Committee and Board, all the Group's businesses are within the Group's appetite except M&F, Old Mutual Bermuda and US Life. It is worth noting that:

- M&F and Old Mutual Bermuda are managing their positions to reduce the risk in their business gradually, within their capabilities and minimising loss of value
- We have entered into a transaction to dispose of US Life
- We established oversight committees for Old Mutual Bermuda and US Life in 2009, and both of these bodies are still in force. The committees monitor risk exposures, help optimise risk-taking within the businesses and track progress – fortnightly in US Life, and monthly in Old Mutual Bermuda. The committee members include the Group Risk and Actuarial Director, the Group Finance Director and relevant executives from the business units
- Asset liability management has also been improved, with significant effort being spent on identifying the assets appropriate to different product lines and ensuring investment strategies match the profile of those liabilities. The oversight committees have also been directly involved in making decisions relating to the closure of unprofitable product lines and those deemed to be excessively risky relative to the Group's risk appetite
- The Group monitors Old Mutual Bermuda's hedging and related risks daily, and the company has been closed to new business to prevent any increase in risk exposures brought on by growing the book through selling contracts with inappropriately designed and priced product structures. Over time we expect exposures to reduce significantly as policies terminate or mature and exit the book. Within the business, we continue to monitor hedging activity closely: hedging effectiveness has increased significantly as a result
- Weekly liquidity reporting has been instigated, which includes stress-sensitivity scenarios
- Monthly liquidity/ cash flow forecasting has been introduced, consisting of projections which include consideration of:
  - All anticipated Old Mutual Bermuda needs and sources of cash flow
  - The specific timing of cash flows required to settle expected policyholder benefits
  - The impact of market changes on the need for and timing of cash flows
  - An assessment of the optimal asset strategy to ensure appropriate liquidity at all times
- Old Mutual Bermuda's operational risk exposure is expected to increase over the period 2010-12 due to migration of transformation initiatives related to valuation systems and processes combined with recruitment of new staff
- M&F's operational risk remains above risk appetite in 2010-11, due mainly to the uncertainty surrounding certain regulatory and legislative requirements. We expect that exposure is to reduce and fall within appetite over the plan period.

Summary

Old Mutual continued in 2010 to focus on and progress to effectively manage risk and capital in order to create value. Our progress is due to the continued emphasis the Board places on risk management through our Big Five priorities and the iCRaFT programme. The risk environment will continue to evolve: we are now focusing on embedding the use of tools that will drive the collection of data and information on integrated risk and capital management.

The Board believes that current capital and liquidity levels are adequate for a Group of our size and nature. It also confirms that the Group's internal systems of control, risk management and governance have operated as intended during 2010 and are therefore effective.

RESPONSIBLE BUSINESS INTRODUCTION

FOUNDATIONS FOR THE FUTURE

"I am very proud this year of the way we have listened to our stakeholders and developed a group-wide approach to responsible business which lays the foundations for a sustainable future as a company and as an investor. This approach is designed to ensure we actively address the issues that matter most to our stakeholders and will help us realise our vision of becoming our customers' most trusted partner."

Don Schneider
Group Human Resources Director and Chairman
of the Responsible Business Committee

Responsible Business highlights from 2010

- First full year of operation of the Responsible Business Committee which oversaw:
  - Responsible Business Policy rolled out across the Group
  - Responsible Investment taskforce set up
- Conducted stakeholder research into responsible business issues
- £13.6 million invested in our local communities focusing on financial education, enterprise development and sustainable community development. For example:
  - £4.6m through the Masisizane Fund including micro-finance
  - £2.7m spent through the five Old Mutual Foundations.

Responsible Business is central to our corporate strategy

Being a responsible business lies at the heart of building trust, an issue that has become ever more important for any financial services company since the recent financial crisis. In order to obtain their trust, our stakeholders must believe that we are taking our responsibilities as a business seriously, and are actively managing the most important issues we face from a social, environmental and ethical perspective. Our approach to responsible business is therefore a vital enabler of our corporate vision of becoming our customers' most trusted partner.

Developing our approach in 2010

During 2010, we have laid the foundations for the future of responsible business at Old Mutual.

We conducted research with our stakeholders, who included:

- customers
- shareholders
- employees
- industry experts
- non-governmental organisations
- corporate responsibility experts
- the media.

We used this research to identify and explore which issues our stakeholders felt were most important for a financial services company to address. And we have used the findings of this research to develop a group-wide approach to responsible business. We will roll this out in 2011 to ensure that we are addressing these priority issues in a systematic, structured and strategic way. The diagram on the following page summarises our evolving approach to responsible business and shows the nine 'material issue' areas, identified in our stakeholder research, which we discuss in the following sections. We believe this approach leaves us well placed to build on the progress made by individual business units in recent years and to ensure we all work together to deliver responsible business consistently across all our operations in the future.

Metrics and more

We want to be accountable when it comes to responsible business. So we are working to develop a series of key metrics and performance indicators. We believe it is vital to have these quantifiable markers of our approach, but we also believe that responsible business is much more than this. It is how all of our employees approach every decision they make on a day-to-day basis. It is the way we communicate with our customers. The way we ensure that we understand them and their needs. And how we make sure they understand what we are doing and why we are doing it.

Looking forward

In the following pages we set out details of the progress we have made on each of these issues. We also set out our plans for the future and outline the key initiatives planned for 2011. Our goal is to be able to report back, a year from now, on all that has been achieved. And for this ongoing activity to begin to come together to tell a bigger story about us as a business, and our progress towards building people's trust in us to help them achieve their lifetime financial goals.

Don Schneider
Group Human Resources Director



Don Schneider
Group Human Resources Director

OUR APPROACH TO RESPONSIBLE BUSINESS

BUILDING TRUST BY MAKING SURE WE ADDRESS OUR STAKEHOLDERS' KEY ISSUES

The diagram below summarises our evolving approach to responsible business and shows the nine 'material issue' areas, discussed in the following sections, which were identified in our stakeholder research.

MATERIAL ISSUES AND IMPACT AREAS



GOVERNANCE & RISK

"Good governance and risk systems help us understand and manage our impacts in a clear and consistent way. For us, this means being able not only to minimise potential threats effectively, but also to seize opportunities when they arise."

Andrew Birrell
Group Risk and Actuarial Director, Old Mutual

Risk management is central to how we manage our capital. This puts it at the heart of how we do business. Understanding the nature of the risks we take, and their implications, is critical to building trust among our customers and, ultimately, to making our business successful. This drives us to analyse our risks rigorously and regularly. We incorporate social and environmental risks and opportunities into this analysis, and build stakeholder perspectives into our business strategy. This is fundamental to understanding our risk profile, and building a sustainable and successful business.

Highlights from 2010

- We completed the first full year of the Responsible Business Committees co-ordination of our management approach towards social and environmental issues
- We rolled out our Responsible Business Policy across the Group
- We are developing a series of group-wide social and environmental metrics, against which we will report in 2011
- We conducted our own stakeholder research on our responsible business approach
- We participated in the Carbon Disclosure Project and continued to be a member of the JSE SRI and FTSE4Good Indices
- We received external recognition for our progress in 2010. A full list can be found on our website. Examples include:
  - Old Mutual South Africa (OMSA) was commended in the Life Insurance category of the Top 500 Survey for South Africa's Best Managed Companies
  - Commended by the Financial Services Authority for our Risk and Governance Reporting in our 2009 Annual Report
  - Highly commended in PricewaterhouseCooper's Building Public Trust Awards for our Executive Remuneration Reporting in our Annual Report.

Our future plans

- We plan to roll out our group-wide responsible business metrics and to continue building on our established governance and risk systems to manage our social and environmental impacts.

EMBEDDING VALUES THROUGH EXPEDITION SKANDIA



Expedition Skandia employee game

"We're a values-driven organisation and I believe this benefits our customers and they appreciate it. In Expedition Skandia, we all embarked on a journey aiming to understand our brand promise and how that connects to our DNA and core values."

Marie Agren, Interim Human Resources Director, Skandia Nordic

81%
Employee participation in Skandia Expedition

Expedition Skandia was an innovative employee engagement project to build a solid understanding of and commitment to Skandia Nordic's brand promises and company values. The project was structured as a journey through five stages exploring the business, history and goals of the company, using team tasks such as storytelling, dilemma games and knowledge tests. It was a huge success, inspiring an 81% participation rate, extremely positive feedback and improved team spirit.

RESPONSIBLE BUSINESS
CONTINUED

RESPONSIBLE MARKETING AND SELLING

"One of the most important issues is to help improve financial education – to help more people understand our products, as well as providing access to those products."

Employee
Old Mutual Stakeholder research 2010

The importance of marketing and selling financial products and services in a responsible way has been reinforced by the turmoil of the past few years. It is absolutely vital that we provide clear and transparent information on our products and services which is easy for our customers to understand, and that we do everything we can to ensure our customers not only have access to, but also choose, the product or service that best fits their financial situation and their needs. This is the best path to customer satisfaction and one of the most important ways in which we can build trust with our customers.

Highlights for 2010

- We delivered training for employees across many of our business units on how to improve the clarity of our customer communication
- We continued to review the approval process, at a business unit level, that all our marketing material must go through – including legal, actuarial and marketing screening
- We delivered initiatives to help build financial understanding. For example:
  - Skandia Germany and Skandia Poland offer comprehensive support for distributors including information packs, video podcasts, an extranet for brokers, and workshops about products and services
  - Old Mutual South Africa (OMSA) has focused on changing the way it assesses financial advisors to focus on customer relationships rather than only on number and value of policies sold
  - Skandia UK launched an online video to explain its fund platforms and how to manage investments
  - *My Money Plan* in South Africa provides advice and help with debt consolidation (see page 9 for a more detailed case study)
- We helped more people access our financial products and services. For example:
  - A mobile money-transfer service, *M-Pesa*, introduced by Nedbank and Vodacom in South Africa
  - Across South Africa we continued to expand access for low-income individuals and community groups by using supermarkets and post offices as distribution points.

Our future plans

- Responsible marketing and selling will continue to be a focus area for us across all our business units throughout 2011 and beyond.

CUSTOMER SERVICE

"Good customer service is about doing what we said we would do, or more. And doing it when we said we would do it, or sooner. And at the price we set, or better."

Rose Keanly, MD Old Mutual Services, Technology and Administration (OMSTA)
Head of LEAN, Old Mutual Long-Term Savings

We want to be our customers' most trusted partner. We can only achieve this if they believe we are committed to providing a good service to them in all their dealings with us. Good service stems from understanding our customers' needs and giving them good advice and suitable products. It means being transparent and accountable in our discussions with them. And always delivering what we say we will.

Highlights from 2010

- We launched new initiatives designed to improve our customer communications. For example:
  - Skandiabanken and Retail Europe now use online social media channels to gather customers' opinions and reach new customers
  - Old Mutual Wealth Management's UK business has launched a new customer website and a centralised system for emails from customers
- We continued to deliver customer service training across the Group – such as Skandia France's programme on meeting customers' expectations, which includes seminars and workshops on technical and behavioural training
- We recognised outstanding examples of customer service through initiatives such as OMSA's Workplace Heroes competition
- More business units now monitor and track complaints and customer satisfaction. For example, Nedbank has developed a Client Complaints Tracker system to improve its approach to resolving customer complaints
- We received a number of awards for customer service, including:
  - Skandiabanken Norway won the Norsk Kundbarometer 2010 award for 'Most Satisfied Customers' for the ninth year in a row
  - Skandia UK won five-star awards for both the Investment and Life and Pension categories in the FTAdvisor.com Online Service Awards
  - OMSA won the annual Ask Afrika Orange Index for Service Excellence in the long-term insurance category.

Our future plans

- We plan to adopt a further customer advocacy metric to measure customer satisfaction across the Group and help improve the service we deliver to our customers.

SHARING OUR CUSTOMERS' INTERESTS



"Clients can have peace of mind knowing that Old Mutual Investment Group's fund managers invest their own money in the funds they manage, alongside that of their clients. This ensures that every investment decision is made with a view to achieving longer-term outperformance."

Diane Radley, CEO, Old Mutual Investment Group South Africa (OMIGSA)

84%
of all deferred (bonus) pay of our investment professionals was invested in OMIGSA's funds in 2010

We are committed to acting in the best interests of our customers, while operating a sustainable and profitable business. That is why we have clear safeguards in place to avoid conflicts of interest. For example, most boutique investment managers and senior executives at OMIGSA have a significant proportion of their variable pay invested into the funds that they manage for customers. This co-investment establishes a client-agent shared interest in the performance of the fund, providing an additional layer of security below our Code of Ethics.

RESPONSIBLE BUSINESS
CONTINUED

OUR EMPLOYEES

"Employees are key to excellent delivery and we work hard to provide the conditions under which they can excel and deliver on our promises to our customers."

Basetsana Magano
Human Resources Director, Mutual & Federal

Treating our employees well is one of our most important priorities. We have 55,730 employees in 34 countries, who will help us reach our vision of becoming our customers' most trusted partner. Leveraging the strength of our people and making the most of their capabilities is fundamental to our future. It is essential that we work with our people in a way that enables them to perform to the fullest extent of their abilities and that shows that we believe in them, and want them to succeed.

Highlights from 2010

- We launched our ActNow! Leadership Actions, translating values into actions and behaviours (see opposite page)
- We made our new Group Vision and Strategy accessible to employees via a special workbook edition of our employee magazine *intouch*, translated into five languages
- In a World Cup year, we showcased our South African heritage and united our employees through our Old Mutual Group Football Tournament
- We renewed our commitment to the UN Global Compact, which is focused on promoting diversity, human rights and labour rights
- We introduced new development initiatives including leadership assessments and redesigned our leadership development programmes
- We delivered wellness at work initiatives across the Group, such as Skandia Colombia's week-long programme providing health, sports and recreational activities for employees and their families
- We won external recognition for our employee relations, which included:
  - Skandia UK was awarded Gold Investor in People status
  - Nedbank won 'Best Training Programme' at the Achiever Awards in South Africa
  - OMSA achieved, and Nedbank maintained, a level 2 rating status and Mutual & Federal (M&F) a level 3 status as Broad-Based Black Economic Empowerment Contributors.

Our future plans

- We plan to integrate our ActNow! Leadership Actions into all aspects of how we evaluate and develop our employees, introduce a new employee culture survey to explore gaps between our current culture and where we would like to be, and update our mobility practices to encourage knowledge transfer around the Group.

DEVELOPING OUR PEOPLE



"In-house training gave me the chance to study at a pace and time that suited me. It's given me a recognised qualification and it has built my confidence at work."

Bevan Manchest, Business Development Consultant, Central Gauteng Regional Office

1,935
employees trained through Mutual & Federal's in-house training programme

Building the skills of employees is an important part of our approach to responsible business. Mutual & Federal's (M&F) in-house training programme, run by our accredited training provider, enables employees to gain credits towards the National Short-term Insurance Level 4 qualification. This programme is a long-term strategy to build M&F's internal skills base – offering personal development, benefiting the company and tackling the skills shortage facing the South African economy.

INDIRECT INVESTMENT IMPACT

"From the perspective of an asset manager, the indirect impacts of investments have become much more important."

Shareholder
Stakeholder Research 2010

We recognise that our investment decisions have significant impacts on the environment and society, and on the communities where our investments are based. We encourage our fund managers to think about these impacts – and how they may influence financial returns – when they make these decisions, subject to client mandates. We also recognise that many of our customers want environmental, social and governance (ESG) factors to be incorporated explicitly into the investment-making process in a structured way. We aim to offer our customers a choice of products that include an ethical perspective or can be tailored to include one.

Highlights from 2010

- We established the Responsible Investment Taskforce with representatives from Group Head Office and business units, to explore how we could embed responsible investment principles across the business
- We had over £2.8 billion of funds under management in specifically social, environmental and transformation related-investments, including Old Mutual Investment Group (SA)'s Futuregrowth Fund, the African Infrastructure Investment Managers Fund, and Skandia's Ideas For Life Fund
- Futuregrowth (£7 billion funds under management) and Acadian Asset Management (over £31.6 billion funds under management) remained signatories to the UN Principles for Responsible Investment
- Skandia Denmark and Skandia Investment Group drew up plans to put expanded agreements in place with external fund managers that include social and environmental criteria for 2011
- In South Africa we continued to focus particularly on investments that are central to the transformation of the South African economy – for example, Old Mutual Investment Group (SA) created the country's first Housing Impact Fund, providing over £700 million to help redress South Africa's huge shortfall in affordable housing.

Our future plans

- During 2011, the Responsible Investment Taskforce will continue working on group-wide policies and frameworks on responsible investment, as well as helping individual business units to refine their approach and increase the range of responsible investment products we offer.

THE ACTNOW! LEADERSHIP ACTIONS

A im high and take your team with you
C ustomer first – they're the reason we're here
T reat the business like it's your own
N eed to listen carefully and talk honestly
O wn our decisions – decide and deliver
W in together – help others succeed

FINANCIAL CRIME

"Companies have to have systems in place that help prevent financial crime and reduce the probability of it occurring."

Shareholder
Stakeholder research 2010

Maintaining our customers' trust by delivering both strong financial returns and high levels of service to our customers requires the effective management of financial crime risks (including fraud, money laundering, bribery and threats to customer data security). Part of this includes giving our employees effective frameworks and training so that they can make the right decisions for our customers in different jurisdictions. In the process of managing these risks, we seek to ensure that customer protection is balanced with customers' need to access our services easily and quickly.

Highlights from 2010

- We began a group-wide anti-bribery risk and control assessment in relation to the requirements of the new UK Bribery Act in readiness for its implementation during 2011
- We reviewed our Group Code of Conduct to make sure that it provides a clear statement of what we expect from employees in relation to our business practices and financial crime. The Code will add to the framework of controls helping our employees to make the right decisions for our customers, and will form part of our approach to Bribery Act compliance when it is issued to business units in 2011
- We continued to work closely with regulators, law enforcement agencies and trade associations to share good practice both inside and outside the Group. For example:
  - Skandia Nordic's Financial Crime Prevention Team shared knowledge and experience with the Swedish Finance Police on both anti-money laundering and fraud prevention measures
  - Nedbank is working closely with Department of Home Affairs and the South African Banking Risk Information Centre to use biometric data to help reduce identity theft.

Our future plans

- We intend to continue our work to ensure that appropriate financial crime controls, such as completion of our anti-bribery risk and control assessment and our new Group Code of Conduct, are embedded in employee behaviour.

SUPPLY CHAIN

"The people who have been impacted the most by the financial crisis and are still trying hard to meet our requirements are our suppliers."

Shareholder
Stakeholder research 2010

We procure goods and services from a broad range of suppliers. By engaging them in our vision and approach to responsible business, we will be in a better position to meet our objectives. Through our procurement policies, we also have the opportunity to play a vital role in helping build local economies in the markets where we operate. Our choice of suppliers reflects our values and has a direct impact on the places where we operate.

Highlights from 2010

- All business units signed up to our new Responsible Business Policy, which includes commitments to factor into their procurement decisions, where practical, the environmental and social impact of our suppliers and to work with suppliers to create awareness and promote understanding of their social and environmental impact
- Across the Group our business units have continued to develop systems and policies that deliver against this policy. For example:
  - Nedbank has developed a nine-point procurement scorecard as a requirement for prospective suppliers
  - Skandia UK now includes a requirement in all Requests for Proposals that suppliers have a corporate responsibility policy that matches or exceeds the Group policy
- These policies have helped us deliver supplier initiatives such as Skandia Nordic's policy of sourcing environmentally friendly new office furniture, textiles, flooring and cleaning services for its offices
- In South Africa we maintained our commitment to help in the transformation agenda through our supply chain. For example in 2010:
  - Old Mutual Investment Group Property Investments (OMIGPI) ran a series of roadshows in which we explained our policy and helped smaller suppliers to get accredited to the Broad-Based Black Economic Empowerment strategy (BBBEE).

Our future plans

- We plan to share best practice on green procurement across the Group, and in our South African business units we will continue to practise preferential procurement in line with the requirements of BBBEE.

BLACK ECONOMIC EMPOWERMENT THROUGH OUR SUPPLY CHAIN



"The construction and planning team for our new Head Office at Mutual Place consists of 26 different companies. It is a very large and diverse team who are tasked with delivering a flagship investment for Old Mutual. The power of the team lies in its diversity."

Brent Wiltshire, Property Development Executive, OMIGPI

£17.8m
BBBEE procurement from all suppliers (R201m based on exchange rate of 11.3095)

We are committed to promoting Broad-Based Black Economic Empowerment (BBBEE) through all avenues, including our supply chain. This year, Old Mutual Investment Group Property Investments (OMIGPI) ran a series of roadshows to explain our procurement policy to smaller suppliers, and to help them achieve BBBEE accreditation. We also continued to train employees and engage larger suppliers on the issues. We are already seeing the results: for example, Mutual Place in Johannesburg is using professional suppliers from uniquely diverse backgrounds.

RESPONSIBLE BUSINESS INTRODUCTION
CONTINUED

COMMUNITY IMPACT

"There are broader issues in South Africa, to do with creating jobs, investing in local housing and infrastructure, and also recognising that financial services cannot exist as an island of prosperity in a sea of poverty."

Employee
Stakeholder Research 2010

Our support for communities in all the countries in which we operate is not just about giving money to good causes, but also about making real and sustainable positive impacts. It is in our interests to build a stronger society by supporting communities effectively, especially in the emerging markets where we operate. So where appropriate, we work with others to deliver programmes that reach further and wider. This view is reflected in 'responsible to all stakeholders' being one of the three building blocks of our Group strategy.

Highlights from 2010

- In 2010 we invested £13.6 million in our local communities
- We delivered financial education to our customers and other groups, aimed at giving them the knowledge and skills to make informed choices about their finances. For example:
  - Group Head Office continued our support of financial education in London through the Young Enterprise Personal Economics Programme
  - In OMSA we continued to deliver activity through the financial wellbeing programme, the Financial Sector Charter programme and our Masisizane Fund
- We continued to help develop the economic infrastructure in the countries where we operate. For example:
  - In Namibia we supported Women's Action for Development, helping develop basic vocational and business skills for marginalised women
  - Skandia's businesses in Mexico and Colombia continued an employee mentoring programme to help orphaned children develop life skills
- We continued to work with local communities to deliver real social change through our business units, our five Old Mutual Foundations and the Nedbank Foundation. For example:
  - Nedbank Group's 'Caring for our Communities and Saving our World' programme, which reached 23 schools
  - The Bulungula Incubator in South Africa, helping rural communities through developing education, health, basic services and sustainable livelihoods.

Our future plans

- We will continue to focus on financial education, enterprise development and community development. We will share best practice and extend the policies for employee volunteering across the Group.

MASISIZANE: FINANCING DEVELOPMENT IN SOUTH AFRICA



"After the drought I was devastated – I didn't know what my animals would eat or drink. But with the loan, I was able to revive old boreholes, buy machinery and expand and feed the herd. Now my business is booming."

Mrs Nduzulwana, Masisizane recipient

£1,496,659
invested through the Masisizane Fund in 2010 (R16.9m based on exchange rate of 11.3095)

Masisizane is a non-profit organisation set up by Old Mutual which provides financial support to enterprise and community development initiatives in South Africa. Funding has been granted to diverse development projects – from community financial education and skills programmes to micro-finance for rural women, youth and people with disabilities. Its main aim is to be a catalyst for sustainable employment creation. So far over 1,000 people, have benefited from Masisizane. Including Mrs Nduzulwana, pictured here, who was named 2010 female farmer of the year in the Eastern Cape.

DIRECT ENVIRONMENTAL IMPACT

"Through initiatives such as the Carbon Disclosure Project, companies are already making a lot of progress towards helping address the impacts of climate change; however, we want to help encourage these companies to do more."

Non-Governmental Organisation
Stakeholder research 2010

We recognise that we, like other businesses, have a duty to do what we can to minimise the risks created by the direct environmental impacts of our operations. Our focus on putting the right systems in place and building a coherent approach across the Group means we are now better positioned than in the past to manage these impacts appropriately.

Highlights from 2010

- We have developed a Group Climate Change Strategy, which aims to:
  - Improve the completeness and accuracy of our emissions data
  - Set a Group target for carbon reductions
  - Create initiatives to engage all our stakeholders
- We increased the proportion of business units accurately reporting energy consumption to just over 80% and we work directly with the remainder to calculate estimated consumption
- We decreased scope 1 and 2 emissions * intensity to 2.32 tonnes of CO_2e per employee (2009: 2.33) but recorded an increase in emissions intensity in our South African property portfolio to 0.17 tonnes CO_2e/m^2 (2009: 0.16)**
- We continued to improve the environmental performance of our buildings by refitting existing buildings and building or leasing more environmentally-friendly buildings. For example: Skandia Nordic has recently relocated four of its largest workplaces – including its headquarters – to new, highly energy-efficient office buildings
- We completed our fourth public submission to the Carbon Disclosure Project (CDP) and maintained our place in the CDP leadership index
- We have continued to work with our employees to inspire them to reduce our environmental impact. For example:
  - Old Mutual Swaziland ran a workshop helping employees reduce their carbon footprints
  - Skandia's businesses in Colombia and Mexico ran an employee communication campaign on Skandia Green Year for 2010
- We continued to support a number of international climate change forums, including the Cancun Communiqué and (through Nedbank) the Prince's Rainforest Project.

Our future plans

- We will develop tools, frameworks and metrics to help our business units deliver our Group Climate Change Strategy, and will expand our data collection processes across our business units.

* Categorisation as per GHG Protocol Corporate Standard methodology.
** 2009 figures have been restated in light of improved data collection in 2010.

BOARD OF DIRECTORS

1. Patrick O'Sullivan (61)[3] B.B.S., F.C.A. (Ireland), M.Sc.
Chairman
Patrick O'Sullivan joined the Board as Chairman on 1 January 2010. He also chairs the Nomination Committee. From 2007 until 2009, he was Vice Chairman of Zurich Financial Services, where he had specific responsibility for its international businesses including those in South Africa. He had previously held roles at Zurich as Group Finance Director and CEO, General Insurance and Banking, of its UKISA division. Qualified as a chartered accountant, his prior experience includes positions at Bank of America, Goldman Sachs, Financial Guaranty Insurance Company (a subsidiary of GE Capital), Barclays/BZW and Eagle Star Insurance Company. He is also a non-executive director of COFRA Group in Switzerland, Man Group plc and Bank of Ireland.

2. Julian Roberts (53)[3] B.A., F.C.A., M.C.T.
Group Chief Executive
Julian Roberts has been Group Chief Executive of Old Mutual plc since September 2008. He is also a non-executive Director of Nedbank Group Limited, Nedbank Limited and Old Mutual Life Assurance Company (South Africa) Limited. He joined Old Mutual in August 2000 as Group Finance Director, moving on to become CEO of Skandia following its purchase by Old Mutual in February 2006. Prior to joining Old Mutual, he was Group Finance Director of Sun Life & Provincial Holdings plc and, before that, Chief Financial Officer of Aon UK Holdings Limited.

3. Philip Broadley (50)[2] M.A., F.C.A.
Group Finance Director
Philip Broadley has been Group Finance Director since November 2008. He was previously Group Finance Director of Prudential plc from May 2000 until March 2008. Prior to joining Prudential, he was a partner in Arthur Andersen from 1993 to 2000. He has been Chairman of the 100 Group of Finance Directors, a founding member and trustee of the CFO Forum of European Insurance Company Finance Directors, and a member of the IASB's Insurance Working Group. He is a member of the Code Committee of the Takeover Panel.

4. Nigel Andrews (63)[2, 3, 4] B.Sc., M.B.A.
Independent non-executive director
Nigel Andrews has been an independent non-executive director of the Company since June 2002. He is also non-executive Chairman of the Company's principal US holding company, Old Mutual (US) Holdings, Inc. He is a governor of the London Business School and a trustee of the Victory Funds. Previously he was an Executive Vice President and member of the office of the CEO of GE Capital, having spent 13 years with The General Electric Company, Inc.

5. Mike Arnold (63)[1,2,3] B.Sc., F.I.A.
Independent non-executive director
Mike Arnold has been an independent non-executive director of the Company since September 2009 and chairs the Board Risk Committee. He is a qualified actuary and was formerly Principal Consulting Actuary and Head of Life practice at the consulting actuarial firm Milliman from 2002 to 2009. Prior to that, he had been the senior partner at the practice from 1995, having joined one of its predecessor organisations as a recently qualified actuary in 1971. He is a past Member of Council and Vice Chairman of the Institute of Actuaries, past Chairman of the International Association of Consulting Actuaries and past member of the Board of Actuarial Standards. He is also a non-executive director of Marine and General Mutual Life Assurance Society, Financial Information Technology Limited and the Scottish Equitable Policyholders Trust.

6. Rudi Bogni (63)[1,3,4] D.Econ. (Bocconi)
Senior independent non-executive director
Rudi Bogni has been the senior independent non-executive director of the Company since May 2008, having served on the Board since February 2002. He chairs the Remuneration Committee. He is also Chairman of Medinvest International SCA, Luxembourg, a director of the LGT Foundation, Moody's UK, French and German businesses, Common Purpose CT, Steadfast Advisory Services Limited and Kedge Capital HJ, and a member of The Governing Council of the Centre for the Study of Financial Innovation, of The International Council for Capital Formation and of the Advisory Board of Oxford Analytica. He served previously as a member of the Executive Board and Chief Executive, Private Banking, of UBS AG and, before that, he was Group Treasurer and a member of the Executive Committee of Midland Bank plc.

7. Eva Castillo (48)[2,3,4] B.A.s in Business and Law
Independent non-executive director
Eva Castillo was appointed as an independent non-executive director of the Company on 4 February 2011. She led the Global Wealth Management business of Bank of America Merrill Lynch in Europe, Middle East and Africa (EMEA) from 2006 to 2009, having held a number of other senior positions in Merrill Lynch from 1997, including as head of Global Markets and Investment Banking in Iberia and President of Merrill Lynch Spain and, before that, as Chief Operating Officer for Merrill Lynch EMEA Equity Markets. Previously she had worked for the International Equities division of Goldman Sachs in London between 1992 and 1997. She has been a non-executive director of Telefonica SA since the beginning of 2008.



8. Russell Edey (68)[1,3,4] F.C.A.
Independent non-executive director
Russell Edey has been an independent non-executive director of the Company since June 2004. He is Chairman of Avocet Mining Plc, a member of the Conseil de Surveillance of Paris-Orléans, SA and a non-executive director of a number of companies in the Rothschild Group. He retired from the chair of Anglogold Ashanti Limited in May 2010, having served on its board for 12 years. Previously he had also served on the boards of English China Clays plc, Wassall plc, Northern Foods plc, Associated British Ports plc and Express Dairies plc. His career began in the Finance Division of the Anglo American Corporation of South Africa Limited in Johannesburg. In the 1970s he was General Manager - Corporate Finance of Capel Court Corporation in Melbourne. He joined Rothschild in 1977 and was Head of Corporate Finance from 1991 to 1996.

9. Alan Gillespie (60)[1,3,4] B.A., M.A., Ph.D., CBE
Independent non-executive director
Alan Gillespie was appointed as an independent non-executive director of the Company on 3 November 2010. His background is in investment banking and financial services. His banking career began at Citibank, where he spent 10 years from 1976 to 1986. He joined Goldman Sachs in New York in 1986 and was made a partner of the firm in 1990, with responsibility for corporate finance and mergers and acquisitions in the UK and Ireland. He jointly led the firm's financial services practice in Europe and in 1996 established Goldman Sachs' presence in South Africa. After retiring from Goldman Sachs in 1999, he became Chief Executive of the Commonwealth Development Corporation in the UK. In 2001 he became Chairman of Ulster Bank, a subsidiary of Royal Bank of Scotland plc. He is also currently Senior Independent Director of United Business Media Limited and Chairman of the Economic & Social Research Council and of the International Finance Facility for Immunization (IFFIm).

10. Reuel Khoza (60)[2,3] Eng.D., M.A.
Non-executive director
Reuel Khoza has been a non-executive director of the Company since January 2006 and Chairman of Nedbank Group since May 2006. He is Chairman of Aka Capital, which is 25% owned by Old Mutual (South Africa) and the single largest participant in Nedbank's Corporate Client Scheme established as part of its BEE ownership arrangements. He is also a non-executive director of Nampak Limited, Protea Hospitality Holdings Limited and Corobrik (Pty) Limited. His previous appointments include Chairmanship of Eskom Holdings Limited and non-executive directorships of Glaxo Wellcome SA, IBM SA, Vodacom, the JSE, JCI, Standard Bank Group and Liberty Life. He is currently a Fellow and President of the Institute of Directors of South Africa.

11. Roger Marshall (62)[1,2,3] B.Sc. (Econ.), F.C.A.
Independent non-executive director
Roger Marshall was appointed as an independent non-executive director of the Company on 5 August 2010 and became Chairman of the Group Audit Committee at the end of that month. He was formerly an audit partner in PricewaterhouseCoopers, where he led the audit of a number of major groups, including Zurich Financial Services and Lloyds TSB. Outside appointments included six years as a member of the Accounting Standards Board. He is currently Interim Chairman of the Accounting Standards Board, a Director of the Financial Reporting Council and a non-executive director of Genworth Financial's European insurance companies.

12. Bongani Nqwababa (44)[1,3,4] B.Acc., C.A., M.B.A.
Independent non-executive director
Bongani Nqwababa has been an independent non-executive director of the Company since April 2007. He has been Chief Financial Officer of the South African mining group, Anglo Platinum Limited, since 2009, having previously been Finance Director of the South African electricity utility group, Eskom Holdings Limited, from 2004. Prior to joining Eskom, he had been Treasurer and CFO of Shell Southern Africa. He is currently Chairman of the South African Revenue Services (Receiver of Revenue) Audit Committee.

13. Lars Otterbeck (68)[2,3,4] Dr. Econ.
Independent non-executive director
Lars Otterbeck has been an independent non-executive director of the Company since November 2006. Prior to joining the Board he had held various senior business positions in Sweden, including as President and CEO of the Swedish mutual pension insurance company, Alecta, from 2000 to 2004. He is also Deputy Chairman of Skandia Insurance Company Limited and a non-executive director of Skandia Liv. His outside positions include being Chairman of Hakon Invest AB and Näringslivets Börskommitté (Industry and Commerce Stock Exchange Committee) and Deputy Chairman of the Swedish Corporate Governance Board.

Key
1. Member of the Group Audit Committee
2. Member of the Board Risk Committee
3. Member of the Nomination Committee
4. Member of the Remuneration Committee



CHAIRMAN'S INTRODUCTION

Corporate governance – the bedrock for a successful Group

We have made good progress during 2010 in improving the governance of Old Mutual to reflect the changing business and regulatory environment.

Patrick O'Sullivan
Chairman

Achievements during 2010

- Roll-out of our new Group Operating Model
- Separation of the functions of the Group Audit and Risk Committee into two Board-level committees
- Addressing other recommendations in the Walker Review
- Board succession and renewal

Priorities for 2011

- Further Board training on Solvency II
- Focus on customer matters
- More Board engagement with the businesses and their key employees and relationships
- Continued emphasis on delivery of our strategic objectives

We have made good progress in a number of areas relating to the Group's governance during 2010. The roll-out of our Group Operating Model, which is designed to provide greater assurance about the effectiveness of the Company's strategic control over the Group's businesses, moved successfully from project mode into business as usual.

At Board level, we established a separate Board Risk Committee alongside the Group Audit Committee in line with recommendations contained in the Walker Review. This new committee has made a sound start and has enabled more time and focus to be dedicated to risk-specific issues, thereby contributing to the Board's own discussions of risk appetite and related issues in the run-up to the implementation of Solvency II. We have also during 2010 widened the membership of the Board's standing committees so that all of the non-executive directors now each serve on at least two such committees.

We have been pleased to appoint three new non-executive directors to our Board. Roger Marshall joined us in August, succeeding Richard Pym as Chairman of the Group Audit Committee. Alan Gillespie was appointed as an independent non-executive director in November and will replace Rudi Bogni as our Senior Independent Director when Rudi retires at the 2011 AGM. Since the year end, we have been delighted to welcome Eva Castillo, the first woman to join the Board, as a director and as a member of various Board Committees. Nigel Andrews will leave the Board when he, too, retires as planned at the forthcoming AGM. Further details of the new directors are contained in the Board of Directors section earlier in this Annual Report.

As we implement our medium-term strategy, we have a newly invigorated view of our core businesses and market strengths and an increased commitment to strengthening our links with Government, regulators and other stakeholders, especially in South Africa.

The Board has been actively engaged in monitoring and guiding progress against the various targets that the Company has set itself for delivery by the end of 2012. We remain committed to seeing these through to a successful conclusion and the effectiveness of our governance arrangements is a key foundation for achieving them.

Patrick O'Sullivan
Chairman
8 March 2011



Patrick O'Sulivan
Chairman

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

In this section, we describe how the Company's governance operated during 2010

Martin Murray
Group Company Secretary

Approach to governance

Old Mutual views good governance as a vital ingredient of operating a successful business, so that we can provide assurance to shareholders, customers and regulators that the Group's businesses are being properly managed and controlled.

During 2010, the Group completed its transition from a highly decentralised federal model of group governance to a more centralised "strategic controller" model steered from our head office, facilitated by the roll-out of our new Group Operating Model.

The new Model establishes clear principles of delegation and escalation that are designed to provide appropriate levels of assurance about the control environment, while retaining flexibility for our businesses to operate efficiently.

Compliance with the UK Corporate Governance Code

As the Company's primary listing (now known in the UK as a premium listing) is on the London Stock Exchange, this report mainly addresses the matters covered by the UK Corporate Governance Code, but the Company also has regard to governance expectations in the four other territories where its shares are listed (South Africa, Malawi, Namibia and Zimbabwe). The Company's major South African subsidiaries are also subject to applicable local governance expectations, including those contained in King III and, in the case of Nedbank Group Limited, the Listings Requirements of the JSE Limited.



Martin Murray
Group Company Secretary

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

CONTINUED

Throughout the year ended 31 December 2010 and in the preparation of this Annual Report and these Accounts, the Company has complied with the main and supporting principles and provisions set out in the UK Corporate Governance Code as described in the following sections of this Report save in respect of the matter discussed below under the heading "rotation and re-election of directors". The Company's compliance with UK Corporate Governance Code provisions C1.1, C2.1, C3.1 to C3.7, and the statement relating to the going concern basis adopted in preparing the financial statements set out at the end of this section of this report, have been reviewed by the Company's auditors, KPMG Audit Plc, in accordance with guidance published by the Auditing Practices Board.

Board of Directors

Membership

The Old Mutual Board currently has 13 members, two of whom are executive and eleven of whom are non-executive directors. All of the current directors, except for Roger Marshall (who was appointed to the Board on 5 August 2010), Alan Gillespie (who was appointed to the Board on 3 November 2010) and Eva Castillo (who was appointed to the Board on 2 February 2011), served throughout the year ended 31 December 2010. Richard Pym resigned from the Board at the end of his first three-year term in August 2010 because of the pressure of his other commitments.

Responsibilities of the Board

The Board's role is to exercise stewardship of the Company within a framework of prudent and effective controls that enables risk to be assessed and managed. The Board sets the Company's strategic aims, reviews whether the necessary financial and human resources are in place for it to meet its objectives and monitors management performance. It is kept informed about major developments affecting the Group through the Group Chief Executive's monthly reports and also holds one or more strategy sessions each year at which high-level strategic matters are debated.

The Board has overall authority for the conduct of the business of the Group and there are a number of matters that have been specifically reserved for the Board to decide, including:

- Approval of financial reporting, such as interim and annual results, the Annual Report and Accounts of the Group, payment of dividends and accounting policies;
- Monitoring of the cash and capital resources, and overall liquidity, of the Group and authorising any significant acquisitions, disposals of core businesses, investments, capital expenditure or other material projects or transactions;
- Monitoring and managing of the relationships between the Group and its regulators;
- Reviewing and implementing of effective systems of delegation and internal control, and the carrying out of an annual review of their effectiveness;
- Overall review and approval of Group strategy and the setting of long-term objectives and/or changes in strategic direction; and
- Monitoring of the overall performance of the Group in relation to its objectives, plans, targets and the implementation of projects and decisions.

2010 operations

Board meetings were held regularly during 2010. Scheduled meetings were coordinated with the Company's reporting calendar to allow for detailed consideration of interim and final results and interim management statements. Sessions were also devoted to strategy and business planning and the Board met ad hoc, as required, to deal with specific matters requiring its consideration. In all, 19 Board meetings (of which eight were scheduled and 11 convened ad hoc) were held during 2010.

Monthly management accounts were circulated to each member of the Board within three weeks of the month end, containing detailed analysis of the businesses' financial performance, including comparisons against budget. Any issues arising from these are addressed at Board meetings or can be raised directly with management.

The Board calendar ensures that all key matters are scheduled for attention over the course of the year, including presentations on the Group's major businesses. During 2010, the Board held meetings at the Group's South African, Wealth Management and Nordic businesses' premises.

In addition to its normal agenda items, the Board also addressed the following matters, among others, during the year:

- Approval of the Group's strategic targets for the end of 2012 that were announced in March 2010 and review of progress against those targets. The Board also held various follow-up discussions about strategy for the Group as a whole and for particular business units;
- Oversight of the sale process for the US Life business and of negotiations for a possible sale of the Group's stake in Nedbank;
- Approval of the introduction of a scrip dividend alternative scheme for future dividends;
- Monitoring progress of the iCRaFT project, which is designed to prepare the Group for the introduction of Solvency II;

- Updates on the embedding of the new Group Operating Model; and
- Consideration of scenario-planning for the Old Mutual Bermuda business.

In addition, the Board received briefings on a number of topics from internal and external experts during the year, as part of its continuing training, including risk in the financial services industry, compliance procedures required for the new UK Bribery Act 2010, and the role of models in bridging risk and capital.

New directors received induction upon their appointment to the Board, including information about matters of immediate importance to the Group, such as the current strategy and operating performance. During 2010, these induction arrangements were put on to a more formal footing, with an extensive list of briefing sessions about the Group's businesses being made available to new appointees in conjunction with other directors, members of senior management and external advisers (such as the auditors).

All directors have access to the Group Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

Facilities are available for the directors to take independent professional advice at the Company's expense for the furtherance of their duties, whether as members of the Board or of any of its committees.

The Company maintains directors' and officers' liability insurance in respect of legal action against its directors and senior managers.

Delegation of certain responsibilities

The Board has delegated its executive powers to the Group Chief Executive, with power to sub-delegate, and to the Approvals Committee. In his coordination and stewardship of the Group, the Group Chief Executive is advised by the Group Executive Committee, a consultative management committee. In addition to the executive directors of the Company (Julian Roberts and Philip Broadley), the other current members of the Group Executive Committee are: Peter Bain (President and Chief Executive Officer of US Asset Management), Andrew Birrell (Group Risk and Actuarial Director), Mike Brown (Chief Executive of Nedbank Group), Paul Hanratty (Chief Executive Officer of the Long-Term Savings division), Don Hope (Head of Strategy Development) and Don Schneider (Group Human Resources Director). Additional details of members of the Group Executive Committee accompany their photographs on pages 42 and 43 of this Annual Report.

The Board has also delegated specific responsibilities for certain matters to Board committees. The principal Board committees have responsibility for Nomination, Remuneration, Group Audit and Board Risk matters, subject to their respective terms of reference. The Board receives reports from these committees on the subjects that they have covered. The matters addressed by the principal Board committees in 2010 are outlined below under the heading 'Board Committees' and, for the Remuneration Committee, in the Remuneration Report.

Group Operating Model

The objectives of the Group Operating Model are:

- To establish a clear and comprehensive governance framework, with appropriate procedures, systems and controls, facilitating the satisfactory discharge of the duties and obligations of regulated firms, directors and employees within the Group;
- To provide a clear articulation of Old Mutual plc's expectations (as shareholder) of business unit boards when exercising their powers as set out in their respective constitutions as in force from time to time;
- To take due account of the regulatory requirement that boards of regulated entities maintain proper controls over the affairs of their respective businesses; and
- To protect the interests of the Group's various stakeholders including its shareholders, creditors, policyholders and customers.

The governance relationship with the Group's majority-owned subsidiary, Nedbank Group Limited, recognises the latter's own governance expectations as a separately-listed entity on the JSE Limited and the fact that it has minority shareholders. The Company entered into a relationship agreement with Nedbank Group Limited in February 2004 setting out the Company's requirements and expectations as its majority shareholder. The full text of that relationship agreement is available on the Company's website. Nedbank has also now adopted the Group Operating Model, subject to certain waivers in acknowledgement of its separately-listed and regulated status, which sits alongside that letter.

Rotation and re-election of directors

The Articles of Association of the Company require that any newly-appointed directors should be subject to election at the next following AGM and also that the Chairman, along with at least one third of the directors (excluding those appointed by the Board during the year), should retire by rotation each year.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

CONTINUED

Accordingly, at the Annual General Meeting (AGM) to be held on 12 May 2011, shareholders will be asked to approve the election of Eva Castillo, Alan Gillespie and Roger Marshall, and the re-election of Patrick O'Sullivan and Russell Edey. Nigel Andrews and Rudi Bogni, having completed nine years on the Board, will retire at the AGM and will not seek re-election. The Board, having reviewed the performance of the directors who are to be proposed for election or re-election and the contributions that they each respectively have made, recommends that they each be elected or re-elected as directors at the AGM. Biographical details of all of the directors are contained in the Board of Directors section of this Annual Report.

In view of the many changes that have taken place in the composition of the Board over the last two years, the fact that the Company is just over one year into a three-year strategic plan and the onerous clearance procedures which new directors of UK financial institutions now have to undergo with the Financial Services Authority, the Company believes that it is not currently appropriate to instigate annual re-election of all directors as recommended by the UK Corporate Governance Code. The Company will, however, keep this matter under review as investors' views and market practice on the subject become clearer and will reconsider its position annually.

Skills, experience and review

Plans for refreshing and renewing the Board's composition are managed proactively by the Nomination Committee so as to ensure that changes take place without undue disruption and that there is an appropriate balance of experience and length of service. That committee also considers, in making recommendations, the independence of candidates and their suitability and willingness to serve on other committees of the Board. All of these aspects are currently believed by the Nomination Committee to be suitable for the requirements of the Group's business. However, such matters will be kept actively under review, having regard to scheduled retirements of non-executive directors and the Group's developing strategy.

Board performance review

The Board conducts a review of its performance on an annual basis. The review is designed to ensure, among other things, that each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties). The results of the review are considered by the Board and appropriate actions taken, if necessary.

The 2010 review was conducted through an internal survey and interview process under the auspices of the Group Human Resources Director, the results of which were then shared with the Chairman and the Senior Independent Director. The Board also received input during the year from an external consultancy, Engage for Change, who made various recommendations about how Board engagement could be improved and time at Board meetings used to maximum benefit. A plan to address recommendations arising from the annual review and input received from Engage for Change over the coming year has been agreed by the Board.

The Board's performance review is now externally facilitated at least every three years in line with the UK Corporate Governance Code, with the last such externally facilitated review having taken place in 2009.

Executive and non-executive roles

While there are currently only two executive directors, all members of the Board have regular contact with the other senior executive management (including the most senior executives of the main business units of the Group) through their periodic participation in Board meetings, other briefing sessions by the senior executives and Board visits to the locations where the Group's main businesses are based.

The executive element of the Board is balanced by an independent group of non-executive directors. The Board as a whole approves the strategic direction of the Group, scrutinises the performance of management in meeting agreed goals and objectives, and monitors the reporting of performance. Procedures are in place to enable Board members to satisfy themselves about the integrity of the Group's financial information and to ensure that financial controls and systems of risk management are robust and sustainable. Non-executive directors on the Remuneration Committee are responsible for determining appropriate levels of remuneration for the executive directors. Members of the Nomination Committee have a primary role in recommending the appointment and, where necessary, removal of executive directors.

Separately from the formal Board meeting schedule, the Chairman holds meetings with the other non-executive directors, without any executives being present, to provide a forum for any issues to be raised. He also conducts a formal annual one-to-one performance evaluation of each of the other non-executive directors, with any resulting action points being reported to the Nomination Committee. These procedures were refreshed during 2010 in line with recommendations contained in the Board effectiveness review conducted during 2009.

Informal meetings among the non-executive directors, without the Chairman or any executive being present, are also facilitated by the Company. Among the activities carried out at such meetings is the annual review of the Chairman's own performance under the aegis of the Senior Independent Director, who also obtains such input as he considers appropriate from the executive and other non-executive directors.

The assignment of responsibilities between the Chairman, Patrick O'Sullivan, and the Group Chief Executive, Julian Roberts, is documented so as to ensure that there is a clear division between the running of the Board and executive responsibility for running the Company's business. The responsibilities of Patrick O'Sullivan as Chairman include those contained in the Supporting Principle to paragraph A.3 of the UK Corporate Governance Code, namely leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda; ensuring that adequate time is available for discussion of all agenda items (in particular strategic issues), ensuring that the directors receive accurate, timely and clear information; ensuring effective communication with shareholders; promoting a culture of openness and debate by facilitating the effective contribution to the Board of non-executive directors in particular; and ensuring constructive relationships between the executive and non-executive directors.

The Board has determined that, in the absence of exceptional circumstances, non-executive directors should serve a maximum of nine years in office. The renewal of non-executive directors' terms for successive three-year cycles is not automatic and the continued suitability of each non-executive director is assessed by the Nomination Committee before renewal of his appointment takes place. The section of the Remuneration Report entitled 'Non-Executive Directors' Terms of Engagement' describes the current position of each of the non-executive directors with respect to the duration of their office and how the extension process has been applied to them.

Independence of non-executive directors

Nine of the ten current non-executive directors other than the Chairman (Nigel Andrews, Mike Arnold, Rudi Bogni, Eva Castillo, Russell Edey, Alan Gillespie, Roger Marshall, Bongani Nqwababa and Lars Otterbeck) are considered by the Board to be independent within the meaning of, and having regard to the criteria set out in, paragraph B.1.1 of the UK Corporate Governance Code – i.e. independent in character and judgment and with no relationships or circumstances which are likely to affect, or could appear to affect, their judgment. The other non-executive director, Reuel Khoza, is not considered independent because of his chairmanship of the Group's majority-owned subsidiary, Nedbank Group Limited, and the business relationships between Aka Capital, in which he owns a stake, and Nedbank.

The terms and conditions of engagement of each of the non-executive directors are available in the corporate governance section of the Company's website. These include details of the expected time commitment involved (which each of the non-executive directors has accepted). Other significant commitments of potential appointees are considered by the Nomination Committee as part of the selection process and are disclosed to the Board when recommendation of an appointment is submitted. Non-executive directors are also required to inform the Board of any subsequent changes to such commitments, which must be pre-cleared with the Chairman if material.

Senior Independent Director

Rudi Bogni is the Senior Independent Director and will be succeeded in this role after he retires at the 2011 AGM by Alan Gillespie. The Senior Independent Director is available to shareholders if they have concerns that are unresolved after contact through the normal channels of the Chairman, Group Chief Executive or Group Finance Director or where such contact would not be appropriate. The Senior Independent Director's contact details can be obtained from the Group Company Secretary *(martin.murray@omg.co.uk)*.

Directors' interests

Details of the directors' interests (including interests of their connected persons) in the share capital of the Company and its quoted subsidiary, Nedbank Group Limited, at the beginning and end of the year under review are set out in the following tables, while their interests in share options and restricted share awards are described in the section of the Remuneration Report entitled 'Directors' interests under employee share plans'. There have been no changes to any of these interests between 31 December 2010 and 7 March 2011.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

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	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 31 December 2010		
Nigel Andrews	7,000	–
Mike Arnold	12,725	–
Rudi Bogni	19,000	–
Philip Broadley	55,353[1]	–
Russell Edey	25,000	2,604
Alan Gillespie	–	–
Reuel Khoza	–	2,062[2]
Roger Marshall	20,000	–
Bongani Nqwababa	–	–
Patrick O'Sullivan	100,000	–
Lars Otterbeck	–	–
Julian Roberts	1,591,644[1]	–

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 1 January 2010 (or date of appointment as a director, if later)		
Nigel Andrews	7,000	–
Mike Arnold	12,725	–
Rudi Bogni	19,000	–
Philip Broadley	50,625[1]	–
Russell Edey	25,000	2,604
Alan Gillespie (appointed 3 November 2010)	–	–
Reuel Khoza	–	2,062[2]
Roger Marshall (appointed 5 August 2010)	–	–
Bongani Nqwababa		–
Patrick O'Sullivan	–	–
Lars Otterbeck	–	–
Julian Roberts	1,500,832[1]	–
Former director (at 1 January 2010 and date of resignation)		–
Richard Pym (ceased to be a director on 31 August 2010)	40,000	–

1 These figures do not include rights to restricted shares that have not yet vested, which are described in the Remuneration Report.
2 This figure does not include shares in the Aka-Nedbank Eyethu Trust, one of Nedbank's Eyethu BEE trusts.

Directors' conflicts of interest

Processes are in place for any potential conflicts of interest to be disclosed and for directors to avoid participation in any decisions where they may have any such conflict or potential conflict. The Company's procedures for dealing with directors' conflicts of interest have operated effectively during 2010.

No director had a material interest in any significant contract with the Company or any of its subsidiaries during the year. Additional details of various non-material transactions between the directors and the Group are reported on an aggregated basis, along with other transactions by senior managers of the Group, in Note G3 to the Accounts.

The executive directors are permitted to hold and retain for their own benefit fees from one external (non-Group) non-executive directorship (but not a chairmanship) of another listed company, subject to prior clearance by the Board and the directorship concerned not being in conflict or potential conflict with any of the Group's businesses. Neither Julian Roberts nor Philip Broadley currently holds any external non-executive directorships of other publicly quoted companies.

Board Committees

The Board has a number of committees to which various matters are delegated in accordance with their respective terms of reference. The Board also establishes committees on an ad hoc basis to deal with particular matters. In doing so, it specifies a remit, quorum and appropriate mix of executive and non-executive participation. Further information on the principal standing committees of the Board is set out below.

Group Audit Committee

Members and years of appointment to the committee (or its predecessor committee, the Group Audit and Risk Committee): Roger Marshall (Chairman) (2010), Mike Arnold (2009), Rudi Bogni (2002), Russell Edey (2004), Alan Gillespie (2010), Bongani Nqwababa (2007). Other member during part of the year: Richard Pym (2007). Secretary and year of appointment: Martin Murray (1999).

All members of the Group Audit Committee are independent non-executive directors. The Chairman, Roger Marshall, is a chartered accountant with a wide range of recent and relevant financial experience, having previously been an audit partner in PricewaterhouseCoopers, where he led the audit of a number of major groups including Zurich Financial Services and Lloyds TSB. All members of the committee are expected to be financially literate and to have relevant financial experience. The terms of reference of the committee, which specify its responsibilities, are available on the Company's website.

Roger Marshall has submitted the following report on behalf of the committee:

"I took over from Richard Pym as Chairman of the Group Audit Committee (the Committee) at the end of August and I would like to thank Richard for all his hard work and dedication as the previous Chairman of the Committee.

During our seven meetings in 2010, the Committee focused on:

- The significant accounting and actuarial issues affecting the IFRS and MCEV financial statements. The Committee has reviewed the accounting policies adopted by the Group and considered the approach to, and valuation of, assets and liabilities, including the key actuarial assumptions underpinning the insurance liabilities. The Committee considers the most significant areas of judgement in preparing the 2010 accounts were:
  - the provision for Bermuda guarantees (see Note E8 to the Accounts). The Committee has reviewed, and is comfortable with, the process for determining the provision. Recommendations arising from an independent review by a leading firm of actuaries of the stochastic methodology underlying the process, which was carried out in 2009, were implemented during 2010 without material effect. The eventual liability under the guarantees will depend on future events, most significantly market developments, policyholder behaviour and the level of hedging undertaken. Note E8 to the Accounts highlights the wide range of possible outcomes;
  - the carrying value of US Asset Management goodwill (see Note F1 to the Accounts). The Committee has reviewed the assumptions underlying the impairment testing and is comfortable with them. It noted that the cushion before an impairment provision will be necessary has reduced this year;
  - loan impairment provisions in Nedbank (see Note E2 to the Accounts). A number of refinements to the detailed incurred loss methodologies were made this year by the Nedbank Board, resulting in strengthening of the provisions. The Committee noted that an independent review performed on behalf of Nedbank management supported management's expectations of loan losses in the portfolio;
  - the treatment of US Life as held for sale (see Note H2 to the Accounts). The Committee continued to monitor the bond portfolio of this business, but this became of less significance as its value moved to an unrealised profit during the year;
- Reports received from the internal audit function, including the results of key audits and other significant findings relating to the Group's control environment, and the adequacy of management's responses and the timeliness of resolution. The Committee was satisfied that management was taking sufficient action to address the issues identified by internal audit within an appropriate timescale;
- The operation of the Group's external audit, including: audit plans for the year, key audit risks identified by external audit, changes in key external audit staff, arrangements for day-to-day management of the audit relationship, the auditors' arrangements to identify, report and manage any conflicts of interest, the nature and overall extent of non-audit services provided by the external auditors, the external auditors' engagement letter for the year and fee proposal, and any major issues that arose during the course of the audit and their resolution. As in prior years, the Committee received an evaluation of the auditors' effectiveness after the audit for 2009 had been completed, with input from the business units as well as from stakeholders at Old Mutual plc itself;
- The Group's preparations for Solvency II, including through the iCRaFT project;
- The potential impact on the Group of possible changes to IFRS accounting for insurance business and the Company's proposed response to the consultations about these;
- Any significant findings or control issues of which the Committee became aware, including progress with the Financial Controls Initiative;

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- Tax, litigation and contingent liabilities affecting the Group.

We received and considered specific reports or presentations on:

- The activities of subsidiary audit committees on a regular basis. A number of audit or audit and risk committees operated during 2010 at subsidiary level, including at Old Mutual Life Assurance Company (South Africa) Limited, Old Mutual (US) Holdings, Inc., Old Mutual US Life Holdings Inc., Old Mutual Wealth Management, Skandia Nordic, Retail Europe, Nedbank Group Limited and Mutual & Federal Insurance Company Limited, with terms of reference broadly equivalent to those of the Committee. After Mutual & Federal Insurance Company Limited became wholly-owned by the Group, its Audit Committee's reporting line changed to Old Mutual Life Assurance Company (South Africa) Limited; and
- A summary of any significant findings of Internal Review Committees through which Group Finance reviews in detail the results of the major businesses half-yearly with their Finance Directors, including, where applicable, the actuarial aspects of the results of the life businesses around the Group.

A Governance and Control Planning meeting was held in December 2010 for the Group's major businesses in the southern hemisphere to coordinate their audit and risk committees' activities for 2011. A similar meeting for the Group's northern hemisphere businesses will take place in March 2011. The December 2010 meeting was hosted jointly by the Chairmen of the Group Audit Committee and the Board Risk Committee. The Chairmen of the respective committees in Old Mutual Life Assurance (South Africa) Limited, Nedbank Group Limited and Mutual & Federal Insurance Company Limited participated, together with the Group Risk and Actuarial Director, the Group Internal Audit Director and representatives from the risk and internal audit functions of those three businesses, along with representatives from the external auditors.

In addition, I sit on the Board Risk Committee, while the Chairman of that Committee also sits on the Group Audit Committee, so that the activities of the two committees can be closely coordinated. I also liaise as appropriate with the Chairman of the Remuneration Committee so as to ensure that I am able to draw to his attention any aspects of the Group's results that the Group Audit Committee feels ought to be taken into account in setting levels of remuneration for the executive directors and other senior executives.

The Committee also reviewed the Group's whistleblowing arrangements. These enable employees of the Group and others to report complaints on accounting, risk issues, internal controls, auditing issues and related matters. They can do this in confidence, using a dedicated hotline operated by an independent firm of accountants. Any reports are investigated and escalated to the Committee as appropriate. Efforts are made to educate staff around the Group about the existence of the whistleblowing facility and to help them detect the signs of possible fraudulent or improper activity.

The section later in this Report headed 'Auditors' contains information on our policy on auditor independence and non-audit fees and the Committee's recommendation that KPMG Audit Plc should be reappointed as the Company's auditors for 2011.

As a Committee, we hold private meetings with the external auditors once a year (or more often, if requested by the auditors) to review key issues. As Chairman of the Committee, I also have regular interaction with the external auditors and the Group Internal Audit Director, as well as with the Chairmen of subsidiary audit committees and the Group Finance Director, and I have a continuing programme of visits to the Group's major subsidiaries arranged, so that I can remain abreast of issues as they arise during the year.

The Committee can confirm that it has received sufficient, reliable and timely information from management during the year to enable it to fulfil its responsibilities."

Board Risk Committee

Members and years of appointment to the committee: Mike Arnold (Chairman) (2010), Nigel Andrews (2010), Philip Broadley (2010), Reuel Khoza (2010), Roger Marshall (2010), Lars Otterbeck (2010). Other member during part of the year: Richard Pym (2010). Additional member appointed since the year end: Eva Castillo (2011). Secretary and year of appointment: Martin Murray (2010).

The terms of reference of the committee, which specify its responsibilities, are available on the Company's website.

Mike Arnold has submitted the following report on behalf of the committee:

"In April 2010, the Company implemented one of the main recommendations of the Walker Review by establishing a separate Board Risk Committee, splitting the terms of reference for the former Group Audit and Risk Committee between

the Group Audit Committee and the Board Risk Committee.

Apart from myself as Chairman, four other non-executive director colleagues (including the Chairman of the Group Audit Committee), together with the Group Finance Director, served on the Board Risk Committee (the Committee) during 2010. The Group Risk and Actuarial Director attended each meeting, and the Group Compliance Officer and Group Internal Audit Director attended as appropriate. The external auditors were invited to attend the December meeting.

The Committee's initial meeting focused on its terms of reference and its relationships with other Board committees and risk, or audit and risk, committees at subsidiary companies. Nedbank had already implemented a separate risk committee structure in accordance with the requirements of the Banks Act in South Africa. Several of the Group's other major subsidiaries – Old Mutual Life Assurance Company (South Africa), Mutual & Federal Insurance Company, Old Mutual Wealth Management and Skandia Nordic – were asked to adopt a similar risk governance structure by separating their existing audit and risk committees into audit committees and risk committees.

By the end of the year, all these companies had established a separate risk committee, with the exception of Mutual & Federal, where the risk committee met with a separate agenda for the first time in February 2011. I am satisfied that, for the time being, Old Mutual Asset Managers (US), Old Mutual Financial Life Insurance (US Life), Old Mutual Bermuda and the Skandia Retail Europe operations should retain combined audit and risk committees.

The Board Risk Committee received a report at each of its meetings during 2010 from the Group Risk and Actuarial Director in which any changes to the Group's risk profile were identified and discussed. We also reviewed the risk appetite metrics operated by the Group and recommended to the Board a revised set of criteria that were used by the business units for their business planning over the three-year period 2011-2013.

In addition, during our five meetings in 2010 we focused on:

- The Group's preparations for Solvency II, in particular through the integrated Capital, Risk and Financial Transformation (iCRaFT) programme. Under this programme, the Company is implementing:
  - A revised Group-wide internal capital model compliant with Solvency II requirements;
  - A Group-wide risk reporting system which facilitates easier aggregation and escalation of risks from business unit management to the Group Risk department;
  - Risk-adjusted performance metrics linked to incentive arrangements;
  - An own risk and solvency assessment; and
  - Suitable education and training activities to ensure that these disciplines are well embedded and used across the organisation;
- The management of risks in Old Mutual Bermuda, in particular through the hedging programme which it has established to manage the interplay between the Guaranteed Minimum Accumulation Benefit liability under certain contracts with the asset allocations selected under those contracts, and the resulting market and liquidity risks that arise from various hedging strategies;
- The Company's response to the FSA in relation to the risk mitigation programme it requested after its ARROW II visit in 2009;
- Regulatory risks arising as a result of business activities, in particular the Group's regulatory environment and compliance status;
- Stress and scenario testing, in particular the consideration of particular economic and business scenarios and their potential impact on the Group's finances;
- Any risks arising from material corporate transactions being considered by the Group.

At the end of the year the Committee produced a report for the Remuneration Committee commenting on the compliance of the results of management actions in 2010 with the risk appetite metrics agreed by the Board.

As Roger Marshall has indicated in his report on the activities of the Group Audit Committee, I also sit on the Group Audit Committee and am therefore able to raise matters at either committee as appropriate.

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During 2011, in addition to its regular meetings, the Board Risk Committee will be holding two full-day workshops to enable discussions on a wide range of issues relating to the risk management of the Group. I shall continue to have regular interaction with the Group Risk and Actuarial Director and the Group Compliance Officer and will attend some risk committee meetings of the Group's major subsidiaries. In this way I will remain close to any major risk issues that may arise during the year."

Remuneration Committee

Members and years of appointment to the committee: Rudi Bogni (Chairman) (2005), Nigel Andrews (2002), Russell Edey (2007), Alan Gillespie (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010). Other member for part of the year: Richard Pym (2008). Additional member appointed since the year end: Eva Castillo (2011). Secretary and year of appointment: Martin Murray (1999).

Details of the role and activities of the Remuneration Committee and how it has applied the main and supporting principles and the Code Provisions in Section D of the UK Corporate Governance Code relating to remuneration matters are provided in the Remuneration Report. The terms of reference of the Remuneration Committee, which specify its responsibilities, are available on the Company's website.

Nomination Committee

Members and years of appointment to the committee: Patrick O'Sullivan (Chairman) (2010), Nigel Andrews (2005), Mike Arnold (2010), Rudi Bogni (2003), Russell Edey (2005), Alan Gillespie (2010), Reuel Khoza (2010), Roger Marshall (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010), Julian Roberts (2008). Other member for part of the year: Richard Pym (2008). Additional member appointed since the year end: Eva Castillo (2011). Secretary and year of appointment: Martin Murray (1999).

The Nomination Committee makes recommendations to the Board in relation to the appointment of directors, the structure of the Board and membership of the Board's main standing committees. It also reviews development and succession plans for the most senior executive management of the Group and proposed appointments to the boards and standing committees of principal subsidiaries in line with the new Group Operating Model. It is chaired by the Chairman of the Board, Patrick O'Sullivan, and a majority of its members (nine out of twelve) are independent non-executive directors.

The terms of reference of the Nomination Committee, which specify its responsibilities, are available on the Company's website.

The Nomination Committee seeks to ensure that its process for identifying candidates for recommendation to the Board as new directors is formal, rigorous and transparent. Vacancies generally arise in the context of either planned renewal of the Board, replacing directors who are due to retire, or adjusting the Board's balance of knowledge, skills or independence. In identifying candidates, appropriate regard is paid to ensuring that they will have sufficient time available in the light of their other commitments to discharge their duties as directors of the Company.

During 2010, the committee oversaw the process for identifying and recruiting, in conjunction with external recruitment consultants in each case, three new non-executive directors for the Board, firstly to replace Richard Pym as Chairman of the Group Audit Committee and then by way of advance planning to replace Nigel Andrews and Rudi Bogni, who are due to retire at the 2011 AGM. It also considered and approved proposed changes made to the membership of a number of subsidiary boards, oversaw the implementation of various recommendations about Board effectiveness that had arisen from the previous year's Board effectiveness review, discussed succession plans for the executive directors of the Company and for various other senior positions around the Group, and supervised the process by which the Company appointed Business Performance Executives at Old Mutual plc level with oversight responsibilities for the Group's businesses.

Other committees

There are a number of executive committees which assist the Group Chief Executive with the day-to-day management of the Group. These include the Group Executive Committee mentioned earlier in this report, the Group Executive Risk Committee, whose responsibilities are described in the Risk and Capital Management report earlier in this document; and the Group Capital Management Committee, whose role is, inter alia, to agree capital allocations within certain limits (or make recommendations to the Board regarding any allocations beyond such limits) and to approve the capital plan of the Group as part of the annual business-planning process.

Attendance record

The table below sets out the number of meetings held and individual directors' attendance at meetings of the Board and its principal committees (based on membership of those committees, rather than attendance as an invitee) during 2010.

	Board (scheduled and ad hoc)	Group Audit & Board Risk	Group Audit	Board Risk	Remuneration Committee	Nomination Committee
Number of meetings held:	**19**	**2**	**5**	**5**	**8**	**6**
Nigel Andrews	19/19	2/2	–	5/5	8/8	6/6
Mike Arnold	15/19	1/2	5/5	5/5	–	4/4
Rudi Bogni	18/19	2/2	5/5	–	8/8	6/6
Philip Broadley	19/19	–	–	5/5	–	–
Russell Edey	17/19	2/2	5/5	–	8/8	6/6
Alan Gillespie	2/2	–	0/1[1]	–	0/1[1]	1/1
Reuel Khoza	14/19[2]	–	–	3/5[2]	–	3/4
Roger Marshall	6/6	–	2/2	2/2	–	2/2
Bongani Nqwababa	18/19	2/2	5/5	–	5/6	4/4
Patrick O'Sullivan	19/19	–	–	–	–	6/6
Lars Otterbeck	17/19	–	–	5/5	6/6	4/4
Julian Roberts	17/19[3]	–	–	–	–	6/6
Former director						
Richard Pym	12/15	2/2	3/3	3/3	2/2	4/4

1 The dates for these meetings had been set before Alan Gillespie joined the Board and he was unable to rearrange prior commitments to attend them.
2 Reuel Khoza did not participate in four Board meetings (and two associated meetings of the Board Risk Committee) during the year because of potential conflicts of interest arising from his position as Chairman of Nedbank Group Limited while the Company was in active negotiations about a possible sale of the Group's stake in that company.
3 Julian Roberts was prevented by illness from attending two Board meetings during the year.
4 A number of Board meetings were held ad hoc at short notice, which prevented some directors from being able to attend them. In such cases, the Chairman consulted those who could not attend about the business to be conducted at the meeting.

The Chairman and the Group Finance Director attended all, and the Group Chief Executive attended all but two, of the Group Audit and Risk Committee, Group Audit Committee and Board Risk Committee meetings held during the year at the invitation of the Chairmen of those committees (but members of management were absent for the private session in March between members of the Group Audit and Risk Committee and the auditors). The Group Chief Executive also attended all but two and the Chairman attended all but three of the Remuneration Committee meetings at the invitation of the Chairman of that committee, but absented themselves for any matters relating to their own respective remuneration arrangements. Attendance at committee meetings by persons other than the members is always at the invitation of the Chairman of the committee concerned.

Auditors

During the year ended 31 December 2010, fees paid by the Group to KPMG Audit Plc, the Group's auditors, and its associates totalled £13.6 million for statutory audit services (2009: £11.9 million), £0.5 million for other audit and assurance services relating to Old Mutual Market Consistent Embedded Value reporting (2009: £0.5 million), and £6.0 million for tax and other services (2009: £2.8 million). In addition to the above, Nedbank Group paid a further £4.3 million (2009: £2.9 million) to Deloitte in respect of joint audit arrangements.

The following guidelines have been approved by the Group Audit Committee as part of the Group's policy on non-audit services:

Before accepting a proposed engagement to provide a non-audit service to the Group, the lead audit engagement partner and management will assess the threats to objectivity and independence and consider safeguards to be applied. Such assessment will be repeated whenever the scope and objectives of the non-audit service change significantly. Before accepting a proposed engagement to provide a non-audit service to the Group, the audit engagement partner and management will:

- Consider whether it is probable that a reasonable and informed third party would regard the proposed engagement as being inconsistent with the objectives of the audit of the financial statements;
- Identify and assess the significance of any related threats to the firm's objectivity, including any perceived loss of independence; and
- Identify and assess the effectiveness of the available safeguards to eliminate or reduce threats to an acceptable level.

Where it is felt probable that an informed party would regard the proposed service as being inconsistent with the objectives of the firm as auditors, the firm will not be permitted to undertake the non-audit service. The Company and its auditors have agreed that they will not directly or

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indirectly solicit the employment of key senior staff and management of each other's respective organisations without prior written mutual consent. Partners and directors of the audit firm who have acted as lead partner or as a key audit partner for the Group will not be permitted to join any company in the Old Mutual Group as a director or in a senior management position until at least two years after the partner or director concerned ceased to be associated with the audit.

In addition, the following process governs the provision of non-audit services by the auditors:

- There is a schedule of non-audit services which need to be approved in principle on an annual basis and are reported, as and when provided, on a regular basis. This is in line with the SEC's guidelines on auditor independence;
- All non-audit work costing less than £50,000 placed with the external auditors is to be approved by the Head of Group Finance or the business unit's Chief Financial Officer;
- All non-audit work costing over £50,000 placed with the external auditors is to be agreed by the Group Finance Director or his designate;
- All non-audit work costing over £400,000 placed with the external auditors is to be subject to competitive tender and agreed by the Group Finance Director and the Group Chief Executive;
- All non-audit work costing over £1 million placed with external auditors is to be approved by the Group Audit Committee;
- Cumulative fees for non-audit services in any financial quarter should not exceed £500,000 without approval of the Group Audit Committee or its Chairman; and
- Cumulative fees for non-audit work for the Group should not exceed total statutory audit and audit-related fees in any year without the approval of the Group Audit Committee.

KPMG Audit Plc have expressed their willingness to continue in office as auditors to the Company and, following a recommendation by the Group Audit Committee to the Board, a resolution proposing their reappointment will be put to the AGM. In reaching its decision to recommend the reappointment of KPMG Audit Plc as auditors, the Board took into account the fact that the firm had been the Company's auditors since the Group demutualised in 1999 and that appropriate arrangements are in place for the rotation and renewal of key audit personnel. The Company has not entered into any contractual restriction preventing it from considering a change of auditors and the choice of auditors is kept under review by the Board from year to year, taking into account appropriate benchmarking data.

Arrangements have been made, in conjunction with KPMG Audit Plc, for appropriate audit partner or director rotation in accordance with the requirements of the UK Auditing Practices Board. The current audit engagement director in the UK, Alastair Barbour, joined the audit team as a key audit director in 2005 and succeeded to his current role in 2008. During 2011, he will be succeeded in this position by Philip Smart.

Internal control environment

Responsibility for internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, while the implementation of internal control systems is the responsibility of management. Executive management has implemented an internal control system designed to help ensure:

- The effective and efficient operation of the Group and its business units by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;
- The safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- The quality of internal and external reporting; and
- Compliance with applicable laws and regulations, and with internal policies on the conduct of business.

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

Assessment of the system of internal control

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place for the year ended 31 December 2010 and up to the date of approval of this Report. The process accords with the Turnbull guidance set out in 'Internal Control: Revised Guidance for Directors on the Combined Code' (the Combined Code being the previous version of the UK Corporate Governance Code) and is regularly reviewed by the Board.

The Group's actions to review the effectiveness of the system of internal control include:

- An annual review of the risk assessment procedures, control environment considerations, information and communication and monitoring procedures at Group level and within each business unit. This review covers all material controls, including financial, operational and compliance controls and the risk management systems;
- A certification process, under which all business units are required to confirm that they have undertaken risk management in accordance with the Group risk framework, that they have reviewed the effectiveness of the system of internal controls, that internal policies have been complied with and that no significant risks or issues are known which have not been reported in accordance with policy; and
- Regular reviews of the effectiveness of the system of internal control by the Group Audit Committee, which receives reports from Group Internal Audit. The Committee also receives reports from the external auditors, KPMG Audit Plc, which include details of significant internal control matters that they have identified during the course of their work.

These activities are in addition to the regular risk management activities which are performed on an ongoing basis (as described in more detail in the Risk and Capital Management report elsewhere in this document).

The certification process described above does not apply to certain joint ventures where the Group does not exercise full management control. In these cases, Old Mutual monitors the internal control environment and the potential impact on the Group through representation on the board of the entity concerned.

The Board reviewed the effectiveness of the system of internal control during and at the end of the year. Our annual internal control assessment has not highlighted any material failings. We remain committed to having a robust internal control environment across the Group.

Group Internal Audit

Group Internal Audit (GIA) is responsible for providing independent, objective assurance on the adequacy and effectiveness of Old Mutual's systems of governance, risk management and internal control to the Board and executive management and, in doing so, helps enhance the controls culture within the Group. The work of GIA is focused on the areas of greatest risk, both current and emerging, to Old Mutual as determined by a comprehensive, risk-based planning process. The Group Audit Committee approves the annual internal audit plan and any subsequent amendments.

There are internal audit teams in each of our major businesses. The heads of internal audit in the Group's wholly-owned subsidiaries report directly to the Group Internal Audit Director (GIAD). The GIAD reports functionally to the Chairman of the Group Audit Committee and administratively to the Group Finance Director. The GIAD attends all meetings of the Group Audit Committee, and has unrestricted access to the Group Chief Executive and to the Chairman of the Board, as well as open invitations to attend any meetings of the business unit Audit Committees, the Board Risk Committee and the Group Executive Risk Committee.

Internal audit teams across Old Mutual use a single audit methodology which meets the standards set by the Institute of Internal Auditors. Issues raised by internal audit during the course of its work are discussed with management, who are responsible for implementing agreed actions to address the issues identified within an appropriate and agreed timeframe.

Formal reports are submitted by the GIAD to each meeting of the Group Audit Committee, summarising the results of internal audit activity, management's progress in addressing issues and other significant matters.

An assessment of the effectiveness of GIA is carried out periodically by external advisers.

Other Directors' Report matters

Relations with shareholders and analysts

The Company gives high priority to regular, clear and direct communication with its shareholders, institutional investors and sell-side analysts by means of a proactive Investor Relations (IR) programme. The programme aims to facilitate communication with the global investment community, both equity and debt, and to keep investors updated on the Company's performance, within the constraints of the Listing, Prospectus and Disclosure and Transparency Rules.

The Company has a dedicated IR team which runs its IR programme. Old Mutual continued to increase its communication and engagement with the investment community during 2010. A total of 244 meetings were held during the year with investors and analysts in the UK, South Africa, North America and continental Europe, comprising 193 individual institutions. This compared with a total of 227 meetings held in 2009. The majority of meetings involved the Group Chief Executive, the Group Finance Director or another member of the senior management team, although greater use

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

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was made of group meetings in order to improve efficiency and provide more institutions with access to management and also to increase the efficient use of management's own time. The Company continued to target smaller institutional investors and those who manage funds for high net worth retail clients and charities in both Europe and South Africa with a view to diversifying its shareholder base.

In addition, the Company presented at a number of major investor conferences around the world and held a showcase for institutional investors and analysts on businesses within the Group's Long-Term Savings division. The Company also hosted the South African Minister of Finance at its London office for a meeting with investors and analysts to discuss the South African economy and outlook. Copies of all presentations and, where appropriate, transcripts are posted on the Company's website so that they are accessible to shareholders generally.

Currently 13 sell-side analysts from Europe and South Africa actively publish research on the Company. Other sell-side analysts are encouraged to cover the Company to help investors assess the Group's valuation, its performance and the business environment in which it operates, and also to make meaningful comparisons with peers.

The Chairman makes contact with major investors and meets them as required. The Senior Independent Director is also available for interaction with shareholders.

The Board is updated regularly by the IR team on issues arising from communication with the investment community. In addition to this, an independent survey is commissioned regularly which provides the Board with the views of major investors on the Company's management and performance.

General Meetings

The Board uses the AGM to comment on the Group's trading performance during the first quarter of the year. Shareholders also have the opportunity to ask questions of the Board. A record of the AGM proceedings is made available on the Company's website shortly after the end of the meeting. All items of formal business at the AGM are conducted on a poll, rather than by a show of hands. The Company's registrars, Computershare Investor Services, ensure that all validly submitted proxy votes are counted, and a senior member of Computershare's staff acts as scrutineer to ensure that votes cast are properly received and recorded.

Each substantially separate issue at the AGM is dealt with by a separate resolution and the business of the AGM always includes a resolution relating to the receipt and adoption of the Report and Accounts. The Chairmen of the Group Audit, Board Risk, Remuneration and Nomination Committees are available at the AGM to answer any questions on the matters covered by those committees. All the directors in office at the date of the meeting attended the AGM in 2010.

The notice of AGM and related materials contained in the Report and Accounts or Summary Financial Statements are sent out to shareholders in time to arrive in the ordinary course of the post at least 20 working days before the date of the AGM.

Directors' shareholdings and share dealings

The Remuneration Committee has established guidelines on shareholdings by executive directors of the Company. Under these, the Group Chief Executive is expected to build up a holding of shares in the Company equal in value to at least 150% of his annual base salary within five years of appointment; the equivalent figure for other executive directors is 100% of their annual base salary. Further details of the executive directors' shareholdings are set out under 'Directors' Interests' earlier in this report and of their interests in awards under the Company's employee share plans are contained in the Remuneration Report. The Board has considered whether to adopt a shareholding requirement for non-executive directors, but does not consider this to be appropriate.

Directors' indemnities

The Company has entered into formal deeds of indemnity in favour of each of the directors. A specimen copy of the indemnities is available in the corporate governance section of the Company's website.

Supplier payment policy

In most cases, suppliers of goods or services to the Group do so under standard terms of contract that lay down terms of payment. In other cases, specific terms are agreed to beforehand. It is the Group's policy to ensure that terms of payment are notified in advance and adhered to. The Company has signed the Better Payment Practice Code, an initiative promoted by the Department for Business, Innovation and Skills in the UK to encourage prompt settlement of invoices.

The total outstanding indebtedness of the Company (and its service company subsidiary, Old Mutual Business Services Limited) to trade creditors at 31 December 2010 amounted to £6,533,000, corresponding to 48 days' payments when averaged over 2010.

Charitable contributions
The Group made a wide range of significant donations to charitable causes and social development projects during 2010, as described in more detail in the Responsible Business section of this document. The Company, its subsidiaries in the UK, and the Old Mutual Bermuda Foundation collectively made charitable donations of £191,000 during the year (2009: £195,000).

Environmental matters
A description of the Group's environmental impact and management during 2010 is contained in the Responsible Business section of this document.

Employment policy
The Group's employment policies reflect our belief that motivated and talented individuals are critical to our ability to achieve our business objectives. We recognise the value that a diverse workforce brings and believe that it should reflect the diversity of the markets in which we operate. We promote the fair and consistent treatment of all our employees and encourage equal opportunities and diversity across the Group.

While local employment policies and procedures are developed by each business according to its own circumstances, employees are recruited, retained, developed and rewarded solely on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability (whether in existence at the commencement of employment or developing subsequently), subject always to employment equity considerations in South Africa. Further information on employee matters is set out in the Responsible Business section of this document.

Political donations
The Group made no EU or other political donations during the year.

Dividend policy
The Board is recommending the payment of a final dividend for the year ended 31 December 2010 of 2.9p per share (or its equivalent in other relevant currencies). A scrip dividend alternative will also be available for eligible shareholders in relation to this dividend, details of which can be found on the Company's website.

The Board intends to pursue a progressive dividend policy consistent with the Group's strategy and having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time.

Share capital
The Company has a single class of share capital, which is divided into Ordinary Shares of 10 pence each. The Company's issued share capital at 31 December 2010 was £569,522,432.60 divided into 5,695,224,326 Ordinary Shares of 10 pence each (2009: £551,825,295 divided into 5,518,252,950 Ordinary Shares of 10 pence each). During the year ended 31 December 2010, 5,450,520 shares were issued under the Company's employee share option schemes at an average price of 75.19 pence each, 13,674,225 shares were issued under the scrip dividend alternative for the final dividend for the year ended 31 December 2009 at an effective price of £1.1338 (or its equivalent in other currencies) each, 10,533,182 shares were issued under the scrip dividend alternative for the interim dividend for the six months ended 30 June 2010 at an effective price of £1.3822 (or its equivalent in other currencies) each, and 147,313,449 shares were issued in February 2010 at an effective price of R12.6878 each, in connection with the acquisition of the minority shareholdings in Mutual & Federal Insurance Company Limited.

At 31 December 2010, shareholder authorities were in force enabling the Company to make market purchases of, and/or to purchase pursuant to contingent purchase contracts relating to each of the overseas exchanges on which the Company's shares are listed, its own shares up to an aggregate of 542,733,000 shares. No shares were bought back by the Company during 2010.

Out of the 5,695,224,326 shares in issue at 31 December 2010:

- 239,434,888 shares were held by the Company in treasury; and
- 200,880,214 shares were held by African life and asset management subsidiaries of the Company. Under UK company law, these shares cannot be voted while they are beneficially owned by subsidiaries of Old Mutual plc.

The total number of voting rights in the Company's issued ordinary share capital at 31 December 2010 (which excludes the 239,434,888 shares held in treasury, but includes the shares held by the African life and asset management subsidiaries) was 5,455,789,438.

In the period 1 January to 7 March 2011, 1,048,183 further shares were issued by the Company under its employee share schemes at an average price of 68.37p each. No shares were bought back during that period. As a result, the Company's issued share capital at 7 March 2011 had increased to £569,627,250.90 divided into 5,696,272,509 Ordinary Shares of 10 pence each and the total number of voting rights at that date, after deducting the 239,434,888 treasury shares, was 5,456,837,621.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

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Rights and obligations attaching to shares

The following description summarises certain provisions of the Company's current Articles of Association (the Articles) and applicable English law concerning companies (now mainly enshrined in the Companies Act 2006 (the Act)). This is a summary only: for further information, please see the relevant provisions of the Act or the Articles.

Issue of shares

Subject to the Act and the Articles, shares may be issued with such rights and restrictions as the Company may by ordinary resolution approve or as the directors may decide. At each AGM the Company seeks authority from shareholders for the directors to allot up to a certain amount of shares.

Whenever shares are issued for cash, the Company must offer shares to all shareholders pro rata to their holdings, unless it has been given authority by shareholders to issue shares without applying such pre-emption rights. The Company seeks authority from its shareholders on an annual basis to issue up to 5% of its issued share capital without observing pre-emption rights, in line with relevant regulations and best practice. Save for those shares issued pursuant to employee share schemes, no shares were issued for cash in 2010 on a non pre-emptive basis, and the total number of shares issued for cash on a non pre-emptive basis by the Company over the last three years amounted to less than 7.5% of the Company's issued share capital over that period.

The Company's existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's AGM, but an ordinary resolution and a special resolution to approve the renewal of these authorities respectively will be put to shareholders at the 2011 AGM.

Voting

Every member attending a general meeting in person has one vote in a show of hands. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of votes of the other joint shareholders: seniority will be determined by the order in which the joint holders' names are listed in the register. Under the Act, members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting.

A member may appoint more than one proxy in relation to a general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. Proxies may vote in a poll or a show of hands.

A member who is a corporation may appoint one or more individuals to act on its behalf at a general meeting as a corporate representative. Where more than one corporate representative has been appointed, any one of them is entitled to vote and exercise other powers on behalf of the member at a general meeting or class meeting.

There are currently no restrictions on the voting rights of any member of the Company.

The Articles provide a deadline for submission of proxy forms by members of not less than 48 hours before the relevant general meeting (not excluding non-working days).

Dividends and distributions

Subject to the provisions of the Act, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. The Board may pay dividends, and also any fixed rate dividend, whenever the financial position of the Company justifies its payment, in the Board's opinion. If the Board acts in good faith, it is not liable to holders of shares with preferred or pari passu rights for losses arising from the payment of interim or fixed dividends on other shares.

Transfer of shares

Any shares in the Company may be held in uncertificated form and title to uncertificated shares may be transferred by means of a relevant system. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations (as defined in the Articles) and where, in case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Any member may transfer all or any of their certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer must be executed by or on behalf of the transferor. The Board may decline to register a transfer of a certificated share unless the instrument of transfer:

- Is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and accompanied by the relevant share certificate and such other evidence of the right to transfer it as the Board may reasonably require;
- Is in respect of only one class of share;
- If to joint transferees, is in favour of not more than four such transferees.

Repurchase of shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought may be held as treasury shares or else must be cancelled immediately the purchase is completed, so reducing the amount of the Company's issued share capital. No shares were repurchased by the Company during 2010 or 2011 up to 7 March 2011.

Amendments to the Articles

Any amendments to the Articles of the Company may be made in accordance with the provisions of the Act by way of a special resolution. New Articles of Association, reflecting changes arising from the full implementation of the Act and other company law changes, were adopted at the AGM in 2010.

Appointment and replacement of directors

Under the Articles, directors must be at least four and not more than 16 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next following AGM and is then eligible for election by the shareholders.

The Company may by special resolution remove any director before the expiration of his or her term of office. Directors shall also vacate their office in certain customary circumstances specified in the Articles, including voluntary resignation in writing, ill health or that director becoming bankrupt.

Powers of the directors

Subject to the Articles, any legislation and any directions given by special resolution, the business of the Company will be managed by the directors, who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities and give security for any debt, liability or obligation of the Company to any third party.

Shares held in employee benefit trusts

The shareholdings in the Company of the Group's employee benefit trusts and the policies of those trusts on voting those shares are described in the section of the Remuneration Report entitled 'Employee share ownership trusts'.

Significant agreements

The following significant agreements to which the Company is a party contain provisions entitling counterparties to exercise termination or other rights in the event of a change of control of the Company:

- £1,250 million Revolving Credit Facility (the Facility) dated 2 September 2005 (of which £1,232 million remains available) between the Company, various syndicate banks (the Banks) and Lloyds TSB Bank plc as agent (the Agent). If a person or group of persons acting in concert gains control of the Company, the Company must notify the Agent. The Agent and the Company will negotiate with a view to agreeing terms and conditions acceptable to the Company and all of the Banks for continuing the Facility. If such negotiations fail within 30 days of the original notification to the Agent by the Company, the Banks become entitled to declare any outstanding indebtedness repayable by giving notice to the Agent within 15 days of the 30 day period mentioned above. On receiving notice for payment from the Agent, the Company shall pay the outstanding sums within three business days to the relevant Bank(s).
- Old Mutual Capital Funding L.P. (the Issuer) $750 million 8% Guaranteed Cumulative Perpetual Preferred Securities (the Preferred Securities) guaranteed on a subordinated basis by the Company. Under the terms of the Preferred Securities, the Issuer is required to give notice to the holders of such securities (the Holders) in the event of a change of control of the Company. In such case the Issuer and the Company agree, to the extent that such action is within their reasonable control, to vary the terms of the Preferred Securities and the Company's guarantee (and to use all reasonable endeavours to ensure that the entity that has acquired control of the Company (the Acquirer) gives such undertakings as are necessary) in order to preserve the rights of the Holders. The Issuer and the Company shall also take such steps as are in their reasonable control to ensure that the economic interests of the Holders are not adversely affected by the actions of the Acquirer following the change of control.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

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Substantial interests in voting rights

At 7 March 2011, the following substantial interests in voting rights had been declared to the Company in accordance with the Disclosure and Transparency Rules:

	Number of voting rights	% of voting rights
Cevian Capital	317,789,951	5.82
BlackRock	309,952,983	5.68
Public Investment Corporation of the Republic of South Africa	307,212,664	5.62
Alliance Bernstein/AXA	271,993,778	4.98
Sanlam Investment Management (Pty) Limited	264,235,775	4.84
Legal & General Group Plc	192,471,495	3.53
Old Mutual Life Assurance Company (South Africa) Limited	186,205,999	3.41

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review. The Business Review also explains the basis on which the Group generates and preserves value over the longer term and the strategy for delivering the objectives of the Group. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Statement. In addition, Note E11 to the Accounts includes the Group's objectives, policies and processes for managing its capital and set out details of the risks related to financial instruments and insurance risks taken on by the Group.

The Group continues to meet group and individual entity capital requirements and day-to-day liquidity needs through its available free cash and credit facilities. The Company's primary existing revolving credit facility of £1,232 million does not mature until September 2012. Additionally, during December 2010, the Company put in place further committed facilities of £275 million to support the Group's liquidity headroom target. These additional facilities mature in June 2012, but will fall away upon completion of the US Life sale. The Company also had significant cash holdings, totalling £438 million, at the year end.

A number of factors, including the levels of world equity markets, defaults in corporate bond portfolios, currency fluctuations, demand for the Group's products and other economic factors, are considered individually and in combination in the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and economic conditions in the markets in which the Group operates. The results show that the Group should be able to operate within the level of available credit facilities and with an adequate level of capital, both at a Group level and within each of its major regulated entities. To the extent that changes in trading performance and economic conditions prove to be more severe than thought reasonably possible, the Group has evaluated and concluded on feasible management actions that would be possible in such circumstances so as to ensure that adequate levels of liquid and capital resources are maintained.

After making enquiries, the Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report on Corporate Governance and Other Matters confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Governing law

The Group Chief Executive's Statement, the Risk and Capital Management report, the Business Review, the Group Finance Director's Statement, the Responsible Business Report and this Directors' Report on Corporate Governance and Other Matters collectively comprise the 'directors' report' for the purposes of section 463(1)(a) of the Companies Act 2006. The Remuneration Report set out in this Annual Report is the directors' remuneration report for the purposes of section 463(1)(b) of that Act. English law governs the disclosures contained in and liability for the directors' report and the directors' remuneration report.

By order of the Board

Martin Murray
Group Company Secretary
8 March 2011

REMUNERATION REPORT

In this section, we describe the Company's remuneration practices during 2010 and its policies for 2011 and future years. The following introduction is by Rudi Bogni, Chairman of the Remuneration Committee (the Committee).

I am pleased to present the annual Remuneration Report, and would like to comment briefly on what is covered. This report has been designed to provide stakeholders with a good understanding of the Group's remuneration philosophy and practices, with particular emphasis on the remuneration arrangements for the executive directors.

Since 2009, our strategic direction has been focused on a turnaround of the Group and in 2010 we communicated a number of transformational changes which management intend to execute by the end of 2012. To create a direct alignment between the executive directors and our strategy, we introduced a new long-term strategic incentive plan (OMSIP) for 2010 and 2011, which was approved by shareholders at the AGM in May 2010.

This was done after consultation with a number of major shareholders, whose views were taken into account to ensure that the plan, in conjunction with other aspects of remuneration, was clearly aligned with the strategy and delivery of long-term value to shareholders. The Committee continues to welcome such feedback from institutional investors.

This is my last year as a member and Chairman of the Committee as, after nine years on the Board and six years as Chairman of the Committee, I will be retiring at the Company's Annual General Meeting in May. I wish my successor, Russell Edey, well in taking over responsibility for chairing the Committee.

Rudi Bogni
Chairman of the Remuneration Committee
8 March 2011



Rudi Bogni
Chairman of the Remuneration Committee

This report has been prepared by the Committee and approved by the Board. The figures included in the sections of this report headed 'Directors' emoluments for 2009 and 2010' on page 159 and 'Directors' interests under employee share plans' on page 166 have been audited by KPMG Audit Plc as required by the Large & Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008. Their audit report is set out on page 171. The information in the remainder of this report has not been audited.

Remuneration Committee

The Committee is a committee of the Board. Its full terms of reference are published on the Company's website. The Committee is responsible for:

- Determining the remuneration, incentive arrangements, benefits and any compensation payments of the executive directors;
- Determining the remuneration of the Chairman of the Board;
- Monitoring and approving the level and structure of remuneration of the executive directors of the Company and its principal operating subsidiaries, the Group Company Secretary, senior executive employees (as identified by the Board) and those who perform a significant influence function or whose activities have, or could have, a material impact on the risk profile of the Company or as defined for compliance with regulations in accordance with the policy; and
- Reviewing, monitoring and approving, or recommending for approval, the Company's share incentive arrangements and awards.

Membership and meetings of the Committee during 2010

The Committee Chairman has access to and regular contact with Group HR independently of the executive directors. During 2010, the Committee met eight times. The Board accepted the recommendations made by the Committee during the year without amendment. The Group Company Secretary, Martin Murray, acted as Secretary to the Committee. The following, all of whom are or were at the relevant time independent non-executive directors of the Company, served as members of the Committee during the year:

Name of non-executive director	Position	Period on the Committee	Attendance at meetings
Rudi Bogni	Chairman	May 2005 to date	8/8
Nigel Andrews	Member	November 2002 to date	8/8
Russell Edey	Member	June 2007 to date	8/8
Alan Gillespie	Member	November 2010 to date	0/1*
Bongani Nqwababa	Member	April 2010 to date	5/6
Lars Otterbeck	Member	April 2010 to date	6/6
Richard Pym	Member	May 2008 to August 2010	2/2

* The date for this meeting had been set before Alan Gillespie joined the Board and he was unable to rearrange prior commitments to attend it.

Other attendees at Committee meetings to which they were respectively invited during 2010 were as follows:

Name	Position	Attendance at meetings
Philip Broadley*	Group Finance Director	1/1
Tom Gosling	PricewaterhouseCoopers	2/2
Alan Judes	Independent Adviser	7/7
Patrick O'Sullivan*	Chairman of the Board	5/7
Julian Roberts*	Group Chief Executive	6/7
Don Schneider*	Group HR Director	7/7
Kevin Stacey	Head of Remuneration	7/7

* Other than when their own remuneration was being discussed.

The Committee renewed the appointment of Alan Judes as its independent adviser for 2010, through his consultancy Strategic Remuneration, and has also done so for 2011. A copy of his letter of engagement is on the Company's website. Any work that the Company wishes Alan Judes to do on its behalf, rather than for the Committee, is pre-cleared with the Committee Chairman with a view to avoiding conflicts of interest. Work undertaken by Alan Judes for the Committee included attending meetings of the Committee and advising the Committee in connection with benchmarking of the total reward packages for the executive directors and other senior members of staff, the design of short-term incentive and long-term incentive arrangements, advising on issues arising from changes to UK pensions legislation, updating the Committee on trends in compensation and governance matters and accompanying the Chairman of the Committee to meetings with shareholder representatives to discuss proposed remuneration structures. No work was performed by Alan Judes for the Company, as distinct from the Committee, during 2010. His consultancy company's fees for 2010 totalled £84,000, excluding VAT (2009 £72,000, excluding VAT).

Don Schneider and Kevin Stacey of Group HR assisted the Committee during the year. Group HR provided supporting materials for matters that came before the Committee, including comparative data and justifications for proposed salary, benefit, annual incentive plan and share awards and criteria for performance targets and appraisals against those targets. It used the services of external advisers (including PricewaterhouseCoopers) as necessary.

REMUNERATION REPORT

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The Management Remuneration Committee (MRC)

The MRC oversees governance of executive remuneration at the tiers immediately below director and Group Executive Committee level, provided such executives fall outside the designated group of employees reviewed individually under the Committee's terms of reference. The MRC reviews and approves, as appropriate, remuneration arrangements and pay review decisions recommended by subsidiary remuneration committees. It is chaired by the Group Chief Executive and includes the Group Finance Director and two other members of the Group Executive Committee. It is supported by Group HR, which supplies supporting materials and analysis in a similar format to those supplied to the Committee. All minutes of MRC meetings are noted at the Committee and the MRC can escalate matters for decision by the Committee as appropriate. The MRC has adopted the following detailed remuneration policies to ensure that the policies agreed by the Committee are properly implemented at the Group's main subsidiaries:

- Remuneration must be viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour;
- Remuneration must support the business drivers, corporate vision, strategy and strategic priorities;
- Incentives should align the interests of employees with shareholders;
- Incentives should be performance-related and effectively linked to success in delivering the chosen strategy;
- Pay should be set at levels that are both competitive and sustainably affordable;
- Remuneration should not encourage risk that exceeds the Company's risk tolerance;
- All pay must be compliant with local legislation; and
- Underperformance should be dealt with formally according to local policies.

Terms of engagement of the executive directors

The terms of engagement of the executive directors are considered by the Committee to provide a proper balance of responsibilities and security between the parties. The following is a summary of the main provisions:

Provision	Service contract
Contract dates	■ Julian Roberts – 23 January 2009 ■ Philip Broadley – 10 November 2008
Retirement Age*	■ 65
Date current appointment terminates*	■ Julian Roberts – 7 June 2022 ■ Philip Broadley – 31 January 2026
Notice Period	■ 12 months by either the Company or the director
Compensation for loss of office	■ Tailored to reflect the Company's contractual obligations and the obligation on the part of the employee to mitigate loss
Compensation payable on early termination	■ No contractual provision
Remuneration	■ Salary ■ Cash benefit allowance ■ Short-term incentive (50% cash and 50% deferred into Company shares) ■ Long-term incentive ■ Other benefits – Life cover of £1,000,000 and disability cover capped at £140,000 per annum

* The retirement age provision is in the process of being removed from the service contracts of the executive directors to reflect the removal of the default retirement age under UK law with effect from 1 October 2011.

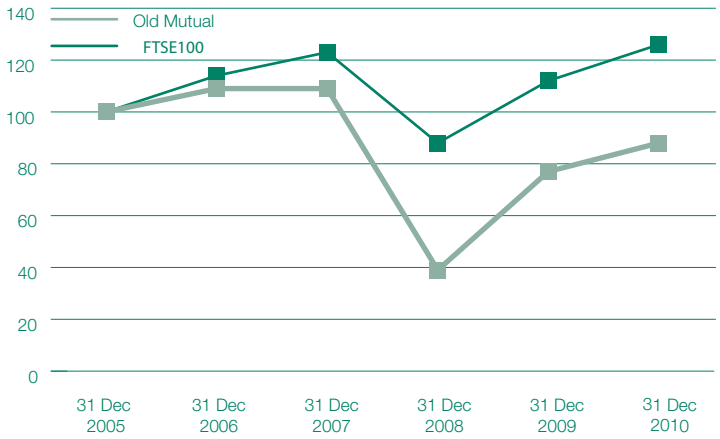
Alignment with strategy and shareholders

The graph on the next page shows the total shareholder return to 31 December 2010 on £100 invested in shares in Old Mutual plc on 31 December 2005 compared with £100 invested in the FTSE100 Index. The other points are the comparative returns at the intervening financial year ends.

In the opinion of the directors, the FTSE100 Index is the most appropriate index against which to measure the Company's total shareholder return, as it is an index of which Old Mutual plc is a member and is located where the Company has its primary listing.

In reviewing performance, the Committee also considers a variety of other sector-specific comparators.

Old Mutual plc TSR Performance: five-year performance to 31 December 2010



Remuneration policy for executive directors

The Company embraces the principles of the UK Corporate Governance Code relating to directors' remuneration and complies with its provisions. These are the guiding principles that the Committee has applied during 2010 and intends to apply during 2011:

- To take account of appropriate benchmarks, while using such comparisons with caution and recognising the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance. Members of the UK FTSE100 Index provide the benchmark for UK-based executive directors, with particular reference to subsets of that data within the financial sector and by market capitalisation;
- To be sensitive in determining, reviewing, monitoring and approving matters under its remit in relation to pay and employment conditions around the Group, where relevant;
- To make a significant percentage of total maximum potential rewards in the form of share-based incentives in order to align the executive directors' interests closely with those of shareholders;
- To provide an opportunity for remuneration packages to be in the upper quartile of the comparator group through payments under short-term and long-term incentive schemes if superior performance is delivered;
- To focus attention on the main drivers of shareholder value by linking performance-related remuneration to clearly defined objectives and measurable targets; and
- To design remuneration arrangements that will attract, retain and motivate individuals of the exceptional calibre needed to lead the Group's development.

The Committee has regard to risk-related metrics in reviewing the executive directors' short-term performance and it received and considered a report from the Group Risk and Actuarial Director, which had been approved by the Board Risk Committee, in evaluating the short-term performance outcome for 2010. It also has discretion to consider corporate performance on environmental, social and governance (ESG) issues when setting their remuneration. It aims to ensure that the incentive structures for executive directors do not raise ESG risks by inadvertently motivating irresponsible behaviour. It ensures regulatory requirements relating to remuneration matters are met and that remuneration policies are consistent with, and promote, effective risk management.

The Committee's policy is influenced by the need to be competitive with other international financial services groups, while avoiding any excess. This includes its approach to setting the fixed elements of remuneration at or below appropriate median levels. It reviews this policy regularly and continues to consider it to be appropriate.

REMUNERATION REPORT

CONTINUED

Executive directors' remuneration during 2010

The Committee reviews the structure of the executive directors' remuneration packages annually to satisfy itself that the balance between fixed and variable remuneration and short-term and long-term incentives and rewards remains appropriate. The overall make-up of the remuneration packages for the executive directors in 2010 was as follows:

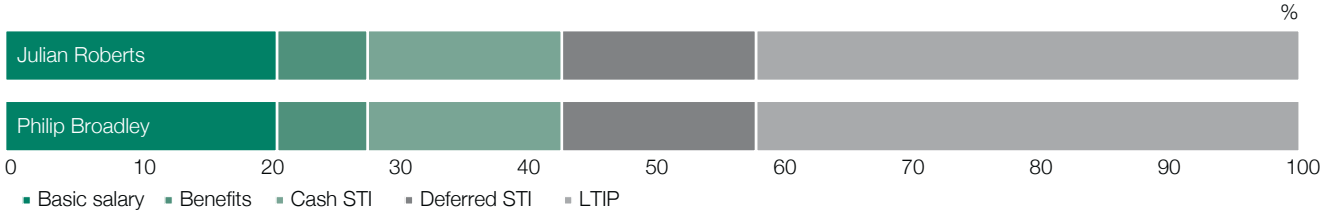
Julian Roberts, Group Chief Executive

Element	Quantum	Additional information
Basic salary	£830,000	Paid monthly in cash. Reviewed with effect from 1 January each year, taking into account market benchmarks.
Benefit allowance	£280,640	Paid monthly in cash – 35% of basic salary less pension contributions.
Pension contribution	£9,860	Paid in lieu of a monthly cash payment under the benefit allowance (now ceased).
Short-term incentive	£1,220,100	147% of a maximum of 150% of basic salary, to be paid half in cash and half deferred for three years under the Old Mutual plc Share Reward Plan. The short-term incentive for 2010 was based on achievement of Group financial targets, as well as delivery of individually agreed objectives.
Long-term incentive	£1,660,000	Annualised expected value of the 2010 award after discounting by 40% for the impact of performance targets, as described in the section of this report titled 'Performance targets applicable to share incentives'. This includes the value of one third of the one-off award granted under the OMSIP in 2010.
Other benefits	£1,933	Life cover of £1,000,000 and disability cover capped at £140,000 a year.
Restricted share release	£110,473, based on the market value of the shares at date of release	On 30 March 2010, Julian Roberts received a release of 90,812 shares held under the deferred short-term incentive restricted share award originally granted in 2007. He retained all of the shares, paying the associated income tax and employee's National Insurance costs.

Philip Broadley, Group Finance Director

Element	Quantum	Additional information
Basic salary	£550,000	Paid monthly in cash. Reviewed with effect from 1 January each year, taking into account market benchmarks.
Benefit allowance	£192,500	Paid monthly in cash – 35% of basic salary.
Short-term incentive	£775,500	141% of a maximum of 150% of basic salary to be paid half in cash and half deferred for three years under the Old Mutual plc Share Reward Plan. The short-term incentive for 2010 was based on achievement of Group financial targets, as well as delivery of individually agreed objectives.
Long-term incentive	£1,100,000	Annualised expected value of the 2010 award after discounting by 40% for the impact of performance targets, as described in the section of this report titled 'Performance targets applicable to share incentives'. This includes the value of one third of the one-off award granted under the OMSIP in 2010.
Other benefits	£1,933	Life cover of £1,000,000 and disability cover capped at £140,000 a year.

The following diagrams show the breakdown of the executive directors' total remuneration arrangements during 2010 (excluding restricted share award releases):



Short-term incentive targets for performance year 2010

The payment of short-term incentives is subject to the achievement of pre-determined financial targets and personal objectives based on the key deliverables for each executive director, as reviewed and approved each year by the Committee. Details of the structure and outcomes of the metrics for Julian Roberts' and Philip Broadley's short-term incentives for 2010 are set out in the following table:

	Julian Roberts		Philip Broadley	
	Potential	Achieved	Potential	Achieved
Group targets as % of salary	112.5	112.5	75	75
Personal targets as % of salary	37.5	34.5	75	66
Total (as % of salary)	150	147	150	141
£000 incentive for period	1,245	1,220	825	775
Achieved incentive as % of maximum		98		94

Performance targets applicable to share incentives

2008 – Share Options and Bonus-Matching Restricted Share Awards

Target 1	Target 2	Target 3
For bonus-matching restricted share awards and tier 1 of share option awards (up to 100% of base salary)	For tier 2 of share option awards (between 100% and 200% of base salary)	For tier 3 of share option awards (above 200% of base salary)
Growth in IFRS EPS must exceed growth in UK RPI by at least 9% over the three-year vesting period	Growth in IFRS EPS must exceed growth in UK RPI by at least 12% over the three-year vesting period	Growth in IFRS EPS must exceed growth in UK RPI by at least 15% over the three-year vesting period

The IFRS EPS-based targets attached to the share options and the bonus-matching restricted share awards granted in 2008 were not met and the options and restricted share awards therefore lapsed on 8 March 2011.

2009 – Bonus-Matching and Joining Restricted Share Awards

One third of each award vests on attainment of the Return on Average Equity (RoAE) and real growth in adjusted operating profit IFRS earnings per share (EPS) targets at each tier as set out below, with pro-rata vesting between tiers, after tier one has been attained. Targets are tested on a once-only basis after three years from the year prior to the grant and any award or part thereof that does not vest then lapses.

The targets are set out in the table below:

RoAE

	Tier 1	Tier 2	Tier 3
RoAE required	10%	11%	12%

EPS

	Growth Factor above UK RPI		
Stock Market growth*	Tier 1	Tier 2	Tier 3
50% +	9%	12%	15%
0%	0%	3%	6%

* Growth will be calculated by the value of £100 invested as follows:

- £33.33 in the FTSE100 index – average price over Q4 2008
- £66.67 in the JSE ALSI index – average price over Q4 2008

against the value of that investment in £ calculated by reference to the average price (converted into £, in the case of the JSE ALSI component, by reference to the average daily exchange rates for the period) on the respective indices over Q4 2011. The choice of criteria was intended to reflect the principal stock markets with which the Group's results are substantially correlated.

2010 – OMSIP

OMSIP replaced the long-term incentive awards for the executive directors and certain other senior members of management in 2010, following its approval by shareholders at the 2010 AGM.

Accordingly, the 2010 OMSIP award was made in two parts. The first part is based on rationalising objectives and the second on key financial objectives in relation to the restructuring of the Group. The targets for these awards are set out below:

Rationalising Objectives

Component	Objective	Measurements
Significant rationalising initiatives	Rationalise the Group by achieving strategic initiatives in accordance with the Group's strategy statement to streamline the Group, unlock value and reduce debt	Based on Committee evaluation of the following three factors: 1. Total value released relative to available benchmark transactions 2. Quality of execution including risk, reputation and other non-financial impacts 3. Amount available to reduce debt from the proceeds of rationalisation

At the end of the three-year measurement period, the Committee will assess the sum of the evaluations of the individual initiatives when determining total achievement of this component and may exercise its discretion to reduce the vesting level of the award when factoring in total achievement toward debt reduction and any new information arising which suggests a different performance assessment.

The Committee believes that these measures provide a balanced approach to assessing the success of implementing the strategic plan, underlying financial performance of the future business, and delivery of shareholder value. The Committee also believes that these measures give it the time and discretion to judge performance with the benefit of additional information emerging during the whole of the performance period.

Following the sale of the US Life business, which is currently expected to take place shortly after the date of this report, the Committee will carry out a full review and calculation of the impact of that transaction for the purposes of the related OMSIP rationalising objective and details of its conclusions will be disclosed in next year's Remuneration Report.

Financial Objectives

This part of the award relates to key financial goals of restructuring, split equally between the financial performance of the Company's Long-Term Savings business post-restructuring and absolute Total Shareholder Return (TSR) targets, as set out below:

Long-Term Savings business (50%)

	Vesting %	Cumulative growth in IFRS AOP[1]	Return on Equity[2]	Ratio of NCCF/ AUM[3]
Weighting		40%	40%	20%
Below Threshold	Nil	Below 30%	Below 15%	Below 2% pa
Threshold	20%	30%	15%	2% pa
Threshold to Maximum	├──────────Interpolated──────────┤			
Maximum	100%	70%	18%	6% pa

1 Growth in Adjusted Operating Profit (AOP) excluding Long-Term Investment Return on a constant currency basis over the three-year performance period
2 IFRS AOP over aggregate equity allocated to the Long-Term Savings business for 2012
3 The ratio of the Net Client Cash Flow (NCCF) over Assets under Management (AUM) will be calculated on a simple average basis over the full three years

Absolute TSR (50%)

TSR will be measured on an absolute basis, 50% in Rand and 50% in £, and will be averaged at the start (Q4 2009) and end (Q4 2012) of the three-year performance periods. Old Mutual's TSR growth will then be compared with the vesting schedule set out below to determine the outcome:

	Vesting percentage	Absolute TSR growth p.a.
Below threshold	0%	Less than 10%
Threshold	20%	10%
Threshold to Maximum	Interpolated	10% to 20%
Maximum	100%	20%

The Committee must be satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the period. Threshold performance is aligned with Old Mutual's cost of equity and the maximum is aligned with performance in excess of the historic upper quartile performance within the insurance sector.

The Committee obtains external audit sign-off as part of its oversight procedures. The Company undertakes the performance measurement for each specific award and obtains agreement to the calculations from KPMG Audit Plc.

The Old Mutual Staff Pension Fund

The Old Mutual Staff Pension Fund (OMSPF), established in 1979, is a hybrid scheme which has a defined benefit section that was closed to new members in 1998 and a defined contribution section established in 1997 that was closed to new members in June 2010. The total membership of the OMSPF, including active, deferred and pensioner members (both sections) across the Group, reported in the most recent Annual Report and Accounts of the scheme at 31 December 2009 was 1,389.

Julian Roberts is a deferred member of the defined contribution section of the OMSPF and, during 2010, the Company contributed a total of £9,860 to the scheme in lieu of an equivalent cash payment under his benefit allowance. The accumulated value of Julian Roberts' funds in the OMSPF was £294,700 at 31 December 2010 (£247,400 at 31 December 2009). From 1 July 2010, the Company ceased making contributions on behalf of Julian Roberts to any employer-provided pension scheme.

Philip Broadley does not participate in any employer-provided pension scheme of the Group.

Directors' emoluments for 2009 and 2010

Remuneration for the year ended 31 December 2010 and the preceding financial year, including in each case remuneration from offices held with the Company's subsidiaries, Old Mutual (US) Holdings, Inc. (OMUSH), Old Mutual US Life Holdings Inc. (US Life), Nedbank Group Limited (Nedbank), Skandia Insurance Company Limited, Skandia Liv and SkandiaBanken (Skandia), and Old Mutual Life Assurance Company (South Africa) Limited where relevant, was as follows:

	Salary and Fees		Short-term Incentive[1]		Benefits and benefit allowance[2]		Pension		Total	
	£000 2010	£000 2009	**£000 2010**	£000 2009	**£000 2010**	£000 2009	**£000 2010**	£000 2009	**£000 2010**	£000 2009
Chairman										
Patrick O'Sullivan	**350**	–	**–**	–	**–**	–	**–**	–	**350**	–
Executive directors										
Philip Broadley	**550**	550	**775**	660	**193**	193	**–**	–	**1,518**	1,403
Julian Roberts	**830**	830	**1,220**	952	**319**	303	**10[3]**	20[3]	**2,379**	2,105
Non-executive directors										
Nigel Andrews	**113[4]**	111[4]	**–**	–	**–**	–	**–**	–	**113**	111
Mike Arnold	**86**	22	**–**	–	**–**	–	**–**	–	**86**	22
Rudi Bogni	**94**	80	**–**	–	**–**	–	**–**	–	**94**	80
Russell Edey	**73**	69	**–**	–	**–**	–	**–**	–	**73**	69
Alan Gillespie	**12**	–	**–**	–	**–**	–	**–**	–	**12**	–
Reuel Khoza	**367[5]**	305[5]	**–**	–	**–**	–	**–**	–	**367**	305
Roger Marshall	**38**	–	**–**	–	**–**	–	**–**	–	**38**	–
Bongani Nqwababa	**72**	65	**–**	–	**–**	–	**–**	–	**72**	65
Lars Otterbeck	**227[6]**	176[6]	**–**	–	**–**	–	**–**	–	**227**	176
Former non-executive director										
Richard Pym	**62**	89	**–**	–	**–**	–	**–**	–	**62**	89
Total emoluments	**2,874**	2,297	**1,995**	1,612	**512**	496	**10**	20	**5,391[7]**	4,425

1 The total short-term incentives for the 2009 and 2010 performance years were payable half in cash and half in the form of forfeitable shares awards.
2 Benefits include cash allowances payable to the executive directors, as well as travel costs for directors' spouses to accompany them to certain Board meetings or other corporate events of the Company and its major subsidiaries. The amount of this expenditure is reported to and considered by the Committee, and procedures are in place for such costs to be authorised. The Committee is satisfied that such expenditure is reasonable and in the interests of the Company.
3 The Company made pension contributions in lieu of an equivalent cash payment under Julian Roberts' benefit allowance.
4 Includes fees of £42,000 (2010) and £41,000 (2009) from OMUSH and US Life.
5 Includes fees of £304,000 (2010) and £250,000 (2009) from Nedbank.
6 Includes fees of £159,000 (2010) and £121,000 (2009) from Skandia.
7 The prior-year comparative number as published in the Remuneration Report for 2009 was £4,722,000, which included £297,000 paid to the former Chairman, Chris Collins.

The executive directors were required to waive fees for non-executive directorships held in subsidiary companies totalling £30,400 during the year ended 31 December 2010 (2009: £2,000) in favour of the Company or its subsidiaries. These waivers are expected to remain in force in the future.

Executive directors' remuneration in 2011

With effect from 1 January 2011, Julian Roberts' basic salary was increased by 2.4%, from £830,000 to £850,000, and Philip Broadley's basic salary was increased by 2.7%, from £550,000 to £565,000. This was in line with the expected inflationary rise of 3% for senior executives of other companies in the FTSE100 index and compares with similar inflationary increases for other employees across the Group, ranging from 3% for staff in the UK, Europe and the US to in excess of 5% in South Africa, in line with the local market. Before making the decision on the increase for executive directors, the Committee reviewed the salary increases for the Group as set out above, and had regard to those increases.

The overall make-up of the remuneration packages of the executive directors for 2011 is as follows:

Julian Roberts, Group Chief Executive

Element	Quantum	Additional information
Basic salary	£850,000 p.a.	Paid monthly in cash.
Benefit allowance	£297,500 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Short-term incentive	£1,275,000 (maximum)	Maximum of 150% of basic salary payable half in cash and half deferred for three years under the Old Mutual plc Share Reward Plan. The short-term incentive for 2011 will be based on the achievement of Group financial targets as well as delivery of individually agreed objectives.
Long-term incentive	£1,275,000*	Expected value of the maximum OMSIP award, after discounting by 40% for the impact of performance targets, as set out in the section of this report titled 'Performance targets applicable to share incentives'.

Philip Broadley, Group Finance Director

Element	Quantum	Additional information
Basic salary	£565,000 p.a.	Paid monthly in cash.
Benefit allowance	£197,750 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Short-term incentive	£847,500 (maximum)	Maximum of 150% of basic salary payable half in cash and half deferred for three years under the Old Mutual plc Share Reward Plan. The short-term incentive for 2011 will be based on the achievement of Group financial targets as well as delivery of individually agreed objectives.
Long-term incentive	£847,500*	Expected value of the maximum OMSIP award, after discounting by 40% for the impact of performance targets, as set out in the section of this report titled 'Performance targets applicable to share incentives'.

* Excludes annualised value of a one-off award granted under the OMSIP in 2010.

Short-term incentive targets for performance year 2011

The respective weightings attached to the Group metrics and personal objectives, shown as a percentage of basic salary, for the executive directors' short-term incentives for 2011 are as follows:

Metric	Julian Roberts Group %	Philip Broadley Group %
IFRS earnings (Adjusted Operating Profit) per share	56.25	37.5
Return on Equity	56.25	37.5
Subtotal	112.5	75
Personal objectives	37.5	75

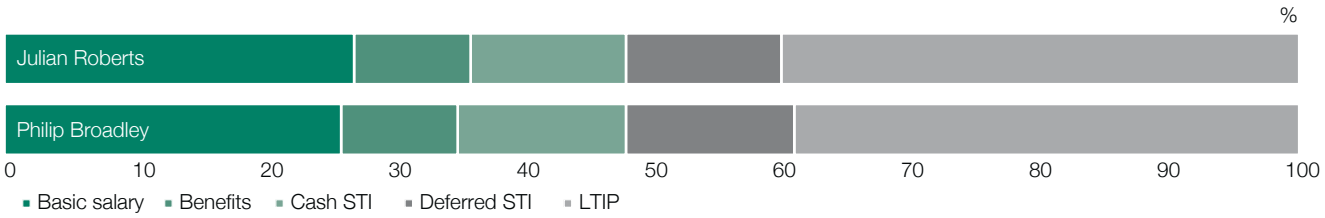
In his role as Group Finance Director, Philip Broadley is responsible to the Board for all financial matters, including management control over the internal audit, group compliance and risk functions. The financial elements of his annual incentive therefore have a lower weighting than line management executives as more emphasis is placed on personal objectives.

2011 – OMSIP

The awards to be made to the executive directors under the OMSIP in 2011 will have a face value of 250% of basic salary. The awards will be subject to the achievement of key financial goals of restructuring, split equally between the financial performance of the Company's Long-Term Savings business post-restructuring and absolute TSR targets. The basis for these targets was determined in 2010 (as set out in the section of this report titled 'Performance targets applicable to share incentives'), with the financial performance of the Company's Long-Term Savings business being measured over a three-year performance period between 2011 and 2013 and with TSR being measured on an absolute basis, 50% in Rand and 50% in £, averaged at the start (Q4 2010) and end (Q4 2013) of the three-year performance period.

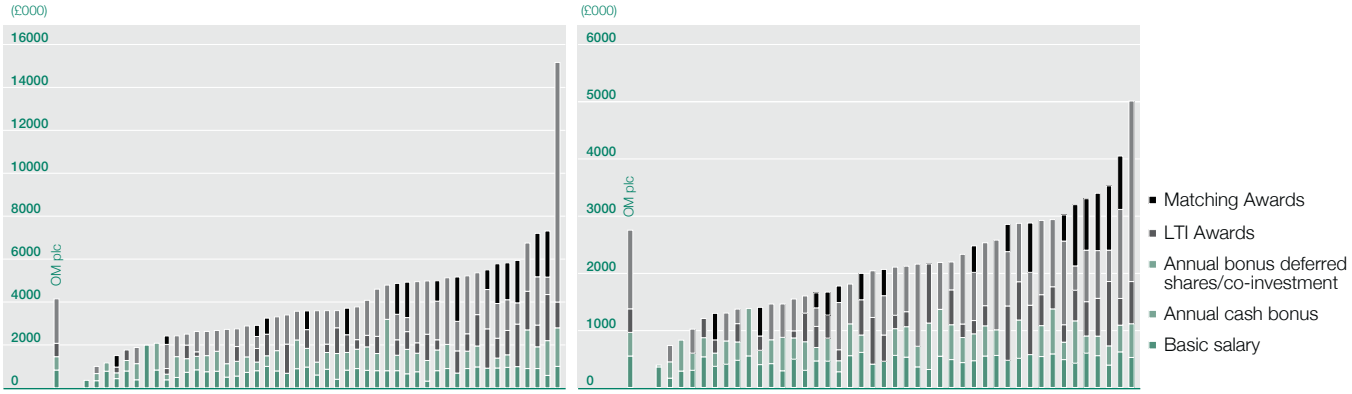
2011 Executive directors' remuneration split

The following chart depicts the overall make-up of the executive directors' respective remuneration packages for 2011, assuming on-target (rather than maximum) delivery on short-term incentives and an expected value for long-term incentives:



2011 Executive directors' market benchmarks

The following charts depict the comparison of Julian Roberts' and Philip Broadley's respective remuneration packages for 2011, based on the total value of guaranteed remuneration and the maximum face value of short-term and long-term incentive awards for the year, against a similar analysis of the FTSE 26-75 companies by market capitalisation:



Total direct remuneration is made up of basic salary, short-term incentives and long-term incentives (excluding the value of benefits).
FTSE 26-75 by Market Capitalisation as supplied by PricewaterhouseCoopers.

Employee share plans

The following is a summary of the employee share plans currently operated by the Company and its wholly-owned subsidiaries:

Name of Plan	Description	Shares under award or option at 31 December 2010
Performance Share Plan – Share Options and Restricted Shares (PSP)[1]	The PSP was originally used to grant long-term incentive (LTI) awards to qualifying senior employees under a bonus-matching arrangement, under which the awards would lapse on a pro-rata basis if an employee disposed of any of the personal shares to which the matching award related. The PSP is currently being used to grant OMSIP awards and other LTI awards, which can take the form of market value share options, nil-cost options, forfeitable shares or conditional shares.	27,941,716
Share Reward Plan – Share Options and Restricted Shares (SRP)[1, 2]	The SRP is used to grant deferred short-term incentive (DSTI) awards or joining awards to qualifying senior employees. Awards can take the form of market value share options, nil-cost options, forfeitable shares or conditional shares. DSTI awards are phased annually so that no undue incentive arises in any year of maturity.	23,558,460
2008 Sharesave Plan (SAYE)[1]	SAYE provides a savings and investment opportunity for employees of the Group's participating businesses in the UK, Guernsey, Jersey and the Isle of Man, encouraging share ownership at all levels. Options are granted for three- or five-year periods at a discount of 20% of the average market price of Old Mutual plc shares over a three-day reference period shortly before the date of grant.	29,886,479
Share Option and Deferred Delivery Plan (SOP)[1]	The SOP (which is now closed to new awards) was used to make annual grants of share options with performance targets as DSTI or LTI or as joining awards to qualifying senior employees.	13,891,357
Restricted Share Plan (RSP)[1, 2]	The RSP (which is now closed to new awards) was used to make annual grants of restricted shares, with or without performance targets, as DSTI or LTI or as joining awards to qualifying senior employees. DSTI and LTI awards were phased annually so that no undue incentive arose in relation to any year of maturity.	3,694,808
UK Sharesave Plan (Sharesave)[1]	Sharesave (which is now closed to new awards) was the predecessor to the SAYE described above and operated in the same way.	457,662
The OMSA Broad-Based Employee Share Plan[2, 3]	The OMSA Broad-Based Employee Share Plan was designed in the context of the Group's plans to promote black economic empowerment (BEE) in its wholly-owned South African and Namibian businesses by means of an opportunity of ownership of Old Mutual plc shares for all permanent staff of those businesses that were not in any of the Company's other share schemes, through a one-off award of shares. Restricted share awards were granted in October 2005 in connection with the South African BEE transactions and in April 2007 in connection with the Namibian BEE transactions. There is currently no intention for further awards to be made under this plan.	1,699,698
The OMSA Senior Black Management Share Plan (SBP)[2, 3, 4]	The purpose of the SBP is to help Old Mutual South Africa and Old Mutual Namibia to attract and retain qualifying senior black managers in light of the increased competition for talented and experienced black management. It provides for the award of restricted shares or share options and awards are made in addition to the normal annual allocations under the OMSA Management Incentive Share Plan described below. Participants may only take delivery of the shares after four years (one third), five years (one third) and six years (one third).	18,185,126
The OMSA Management Incentive Share Plan (MISP)[2, 3, 4]	The purpose of the MISP is to attract, retain and reward qualifying senior employees at Old Mutual South Africa and Old Mutual Namibia. It provides for DSTI or LTI or joining or promotion awards in the form of either restricted shares or share options, on similar terms to the SRP, SOP and RSP.	105,530,014

Name of Plan	Description	Shares under award or option at 31 December 2010
The Mutual & Federal Broad-Based Scheme and the Mutual & Federal Namibia Broad-Based Scheme[2, 3]	The Mutual & Federal Broad-Based Scheme and the Mutual & Federal Namibia Broad-Based Scheme operate in the context of plans to promote BEE for the benefit of employees of Mutual & Federal and Mutual & Federal Namibia who do not participate in the Mutual & Federal Management Incentive Share Scheme, the Mutual & Federal Senior Black Management Scheme, the Mutual & Federal Namibia Management Incentive Scheme or the Mutual & Federal Namibia Senior Black Management Scheme. Restricted share awards were granted in 2005 in connection with the South African BEE transactions and in 2006 in connection with the Namibian BEE transactions.	289,605
The Mutual & Federal Senior Black Management Scheme and the Mutual & Federal Namibia Senior Black Management Scheme[2, 3, 4]	The Mutual & Federal Senior Black Management Scheme and the Mutual & Federal Namibia Senior Black Management Scheme operate for the benefit of qualifying senior black management of Mutual & Federal and Mutual & Federal Namibia. Allocations are made in addition to the normal annual allocations under the Mutual & Federal Management Incentive Share Scheme and the Mutual & Federal Namibia Management Incentive Share Scheme described below. The trustees allocate restricted shares for retention and attraction purposes that are not subject to corporate performance targets and vest immediately, subject to the condition that the participant remains in employment for a period of time. Participants may only take delivery of the shares after four years (one third), five years (one third) and six years (one third).	764,681
The Mutual & Federal Management Incentive Share Scheme and the Mutual & Federal Namibia Management Incentive Share Scheme[2, 3, 4]	The purpose of the Mutual & Federal Management Incentive Share Scheme and the Mutual & Federal Namibia Management Incentive Share Scheme is to attract, reward and retain qualifying senior employees of Mutual & Federal and Mutual & Federal Namibia. Existing allocations are a combination of restricted shares and share options with future allocations limited to restricted shares. The restricted shares are not subject to performance targets and vest immediately, subject to the condition that the employee remains in employment for a period of time.	4,412,817
The Mutual & Federal Share Option Plan and the Mutual & Federal Namibia Share Option Plan[1]	The purpose of the Mutual & Federal Share Option Plan and the Mutual & Federal Namibia Share Option Plan (which are now closed to new awards) was to grant share options as an incentive to qualifying senior employees of Mutual & Federal and Mutual & Federal Namibia. All share options relating to this scheme have vested and the exercise period was extended following the acquisition of the Mutual & Federal minority shareholding by Old Mutual plc.	842,510
Total shares held under award or option at 31 December 2010		**231,154,933**

The following conditions apply, as indicated by the respective superscript notes above, to awards under the above employee share plans:

1. Shares held under option or award cannot be transferred, assigned, charged or otherwise disposed of prior to exercise or vesting except on death, and the options and awards would lapse on any attempt to do so.
2. Participants holding restricted share or forfeitable shares awards without performance targets are paid dividends and are entitled to exercise the voting rights in respect of the underlying Old Mutual plc shares.
3. During the restricted period, a participant may not dispose of or transfer any of his restricted shares or any interest in them.
4. A participant may not dispose of or transfer his rights to the option or the shares related to it without the directors' written consent and any attempt to do so would result in the option lapsing.

Change of control

Under the rules of the respective schemes, in the event of a change of control of Old Mutual plc:

- Restricted shares and options granted under the SRP would vest in full;
- Performance shares and options granted under the PSP would vest: (i) to the extent that the performance criteria to which such options are subject have been met; and (ii) on a pro-rata basis to reflect the reduction in the length of the original performance period, although the Committee does have discretion to disapply the length of service pro-rating for compassionate reasons;
- Options granted under the SOP, the Mutual & Federal Share Option Plan and the Mutual & Federal Namibia Share Option Plan, and awards granted under the RSP would vest in full;
- Options granted under the MISP, the Mutual & Federal Management Incentive Share Plan and the Mutual & Federal Namibia Management Incentive Share Plan would vest: (i) to the extent that the performance criteria to which such options are subject have been met; and (ii) on a pro-rata basis to reflect the reduction in the length of the original performance period;
- Restricted share awards granted under the MISP, the Mutual & Federal Mangement Incentive Share Plan, the Mutual & Federal Namibia Management Incentive Share Plan, the OMSA Broad-Based Employee Share Plan, the Mutual & Federal Broad-Based Scheme and the Mutual & Federal Namibia Broad-Based Scheme would vest in full;
- Options and restricted share awards granted under the SBP, the Mutual & Federal Senior Black Managment Scheme and the Mutual & Federal Namibia Senior Black Management Scheme would vest in full; and
- Options granted under the SAYE and Sharesave would become exercisable to the extent of the savings accumulated.

The Committee has reviewed the operation of the share incentive schemes, including how discretion is exercised and the grant levels currently applicable, and considers these to be appropriate to the Company's circumstances and prospects.

Employee Share Ownership Trusts

The Group operates a number of Employee Share Ownership Trusts (ESOTs) through which it collateralises some of its obligations under employee share schemes.

At 31 December 2010, the following shares in the Company were held in ESOTs:

Trust	Country	Old Mutual plc shares held in trust
Capital Growth Investment Trust[1]	Zimbabwe	1,414,930
Mutual & Federal Broad-Based Trust[2]	South Africa	248,267
Mutual & Federal Management Incentive Trust[2]	South Africa	26,045,139
Mutual & Federal Senior Black Management Trust[2]	South Africa	5,019,860
Mutual & Federal Namibia Broad-Based Trust[3]	Namibia	41,391
Mutual & Federal Namibia Management Incentive Trust[3]	Namibia	311,875
Mutual & Federal Namibia Senior Black Management Trust[3]	Namibia	173,221
Old Mutual plc Employee Share Trust[4]	Guernsey	31,469,665
OMN Broad-Based Employee Share Trust[5]	Namibia	904,223
OMN Management Incentive Trust[5]	Namibia	2,234,800
OMSA Broad-Based Employee Share Trust[6]	South Africa	22,169,975
OMSA Management Incentive Trust[6]	South Africa	81,258,520
OMSA Share Trust[6]	South Africa	31,249,063
Total		202,540,929

1 The Capital Growth Investment Trust is used to satisfy restricted share awards or Deferred Delivery Shares in Zimbabwe under a locally run scheme. Any surplus shares held in trust because of non-vesting are taken into account when purchasing shares in respect of future grants.
2 The Mutual & Federal Broad-Based Trust, the Mutual & Federal Management Incentive Trust and the Mutual & Federal Senior Black Management Trust were established during 2005 to subscribe for and hold shares in connection with its South African BEE ownership transactions. The strategy has historically been to ensure that sufficient shares were acquired to match future obligations.
3 The Mutual & Federal Namibia Broad-Based Trust, the Mutual & Federal Namibia Management Incentive Trust and the Mutual & Federal Namibia Senior Black Management Trust were established during 2006 to subscribe for and hold shares in connection with its Namibian BEE ownership transactions. The strategy has historically been to ensure that sufficient shares were acquired to match future obligations.
4 The Old Mutual plc Employee Share Trust is used to satisfy awards under the RSP, SRP and PSP (excluding South Africa, Namibia and Zimbabwe). Its strategy is to hold shares approximately equal to the number of shares awarded, but not yet vested, at any time. Any surplus shares held in trust because of non-vesting are taken into account when purchasing shares in respect of future awards.
5 The OMN Broad-Based Employee Share Trust and the OMN Management Incentive Trust were established during 2006 to subscribe for and hold shares in the Company in connection with its Namibian BEE ownership transactions. The OMN Broad-Based Employee Share Trust holds shares for the purposes of the Namibian awards under both the OMSA Broad-Based Employee Share Plan and the SBP, while the OMN Management Incentive Trust holds shares for Namibian awards under the MISP. Awards to white employees in Namibia under the MISP are settled by the OMSA Share Trust.
6 The OMSA Broad-Based Employee Share Trust and the OMSA Management Incentive Trust were established during 2005 to subscribe for and hold shares in the Company in connection with its South African BEE ownership transactions. The OMSA Broad-Based Employee Share Trust holds shares for the purposes of both the OMSA Broad-Based Employee Share Plan and the SBP, while the OMSA Management Incentive Trust holds shares for the MISP. Awards to white employees under the MISP and all awards that have been granted to South African and Namibian employees under the RSP and SOP are settled by the OMSA Share Trust. The strategy has historically been to ensure that sufficient shares were acquired to match at least 90 percent of the obligations of each share incentive grant. However, as a result of the requirements of the Company's BEE transactions in South Africa and Namibia, it was necessary to place shares allotted as part of the transactions in the relevant BEE employee share trusts immediately, in order to cover the total annual share grant allocations likely to be made to black participants in terms of the BEE transactions up to 2014 and 2016 respectively.

The general practice of the ESOTs shown in the table above (save for the BEE-related trusts) is not to vote the shares held at shareholder meetings, although beneficiaries of restricted shares may in principle give directions for those shares to be voted. However, with respect to the OMSA Broad-Based Employee Share Trust, the OMSA Management Incentive Trust, the OMN Broad-Based Employee Share Trust, the OMN Management Incentive Trust, the Mutual & Federal Management Incentive Trust, the Mutual & Federal Senior Black Management Trust, the Mutual & Federal Broad-Based Trust, the Mutual & Federal Namibia Management Incentive Trust, the Mutual & Federal Namibia Senior Black Management Trust and the Mutual & Federal Namibia Broad-Based Trust, the Trustees may, because of BEE considerations, vote any unallocated shares held in these trusts as well as those shares held in respect of any unexercised share options. The beneficiaries of any restricted shares allocated by these BEE employee share trusts are entitled to vote their relevant shares.

Options (excluding nil-cost options) granted under the SOP (for employees outside South Africa and Namibia), Sharesave, SRP, PSP and SAYE are currently intended to be settled by the issue of new shares rather than using shares held in an ESOT.

Dilution limits

For the purposes of calculating dilution limits, any awards that are satisfied by transfer of pre-existing issued shares (such as shares acquired by market purchase through ESOTs) and any shares comprised in any option that has lapsed are disregarded. The Company has complied with these limits at all times.

At 31 December 2010, the Company had 2.41% of share capital available under the 5%-in-five-years limit applicable to discretionary share incentive schemes and 6.56% of share capital available under the 10%-in-10-years limit applicable to all share incentive schemes. The issued share capital figures used for these calculations have not been reduced to reflect shares bought back into treasury by the Company.

Listed subsidiary's share incentive schemes

The Company's separately-listed subsidiary, Nedbank Group Limited, has its own share incentive schemes, which are under the control of the Remuneration Committee of its board and are not further addressed in this report. Neither of the executive directors of the Company has any interest under any such subsidiary share incentive schemes.

Directors' interests under employee share plans

The following options and rights over shares in the Company were outstanding at 1 January and 31 December 2010 in favour of the executive directors under the employee share schemes described in the 'Employee share plans' section above. Those granted during 2010 are highlighted in bold and those vested, released, exercised or lapsed during 2010 are shown in italics:

Award type and plan	Reason for award	Performance targets to be met	Grant Date	At 1 Jan 10	Granted	Excercised, Released, Lapsed	Notes	At 31 Dec 10	Exercise price per share (p)	Share price at date of exercise/ release (p)	Gain made on exercise/ release	Exercised or released or from which exercisable or releasable	Expiry or vesting date
Philip Broadley													
Option (SRP)	Joining	No	10-Nov-08	1,315,789	–	–		1,315,789	57.0	–	–	10-Nov-11	10-Nov-14
Total				**1,315,789**	**–**			**1,315,789**					
Shares (SRP)	DSTI	No	08-Apr-09	44,235	–	–	1, 3	44,235	–	–	–	08-Apr-12	08-Apr-12
	DSTI	**No**	**23-Mar-10**	**–**	**262,530**	**–**	**2, 3, 4**	**262,530**	**–**	**–**	**–**	**23-Mar-13**	**23-Mar-13**
Total				**44,235**	**262,530**			**306,765**					
Option (PSP)	Match	Yes	08-Apr-09	442,357	–	–	1, 5	442,357	54.1	–	–	08-Apr-12	08-Apr-15
Total				**442,357**	**–**			**442,357**					
Shares (PSP)	Match	Yes	08-Apr-09	85,805	–	–	5, 6	85,805	–	–	–	08-Apr-12	08-Apr-12
	Joining	Yes	08-Apr-09	739,372	–	–	1, 5	739,372	–	–	–	08-Apr-12	08-Apr-12
Total				**825,177**	**–**			**825,177**					
Nil cost options OMSIP (PSP)	**Rationalising objectives**	**Yes**	**13-May-10**	**–**	**577,732**	**–**	**4, 7, 8**	**577,732**	**–**	**–**	**–**	**13-May-13**	**12-May-20**
	Rationalising objectives	**Yes**	**13-May-10**	**–**	**577,731**	**–**	**4, 7, 8**	**577,731**	**–**	**–**	**–**	**13-May-14**	**12-May-20**
	Financial Objectives	**Yes**	**13-May-10**	**–**	**577,732**	**–**	**4,7, 9**	**577,732**	**–**	**–**	**–**	**13-May-13**	**12-May-20**
	Financial Objectives	**Yes**	**13-May-10**	**–**	**577,731**	**–**	**4,7,9**	**577,731**	**–**	**–**	**–**	**13-May-14**	**12-May-20**
Total				**–**	**2,310,926**			**2,310,926**					
Julian Roberts													
Shares (SRP)	DSTI	No	08-Apr-09	301,594	–	–	1, 3	301,594	–	–	–	08-Apr-12	08-Apr-12
	DSTI	**No**	**23-Mar-10**	**–**	**378,849**	**–**	**2, 3 , 4**	**378,849**	**–**	**–**	**–**	**23-Mar-13**	**23-Mar-13**
Total				**301,594**	**378,849**			**680,443**					
Option (PSP)	Match	Yes	08-Apr-09	4,436,229		–	1, 5	4,436,229	54.1	–	–	08-Apr-12	08-Apr-15
Total				**4,436,229**				**4,436,229**					
Shares (PSP)	Match	Yes	08-Apr-09	860,508		–	5, 6	860,508	–	–	–	08-Apr-12	08-Apr-12
Total				**860,508**				**860,508**					
Nil cost options OMSIP (PSP)	**Rationalising objectives**	**Yes**	**13-May-10**	**–**	**871,849**	**–**	**4, 7, 8**	**871,849**	**–**	**–**	**–**	**13-May-13**	**12-May-20**
	Rationalising objectives	**Yes**	**13-May-10**	**–**	**871,849**	**–**	**4, 7, 8**	**871,849**	**–**	**–**	**–**	**13-May-14**	**12-May-20**
	Financial Objectives	**Yes**	**13-May-10**	**–**	**871,849**	**–**	**4, 7, 9**	**871,849**	**–**	**–**	**–**	**13-May-13**	**12-May-20**
	Financial Objectives	**Yes**	**13-May-10**	**–**	**871,849**	**–**	**4, 7, 9**	**871,849**	**–**	**–**	**–**	**13-May-14**	**12-May-20**
Total				**–**	**3,487,396**		**–**	**3,487,396**					
(SOP)	LTI	Yes	26-Apr-05	304,348	–	–		304,348	126.5	–	–	26-Apr-08	26-Apr-11
	LTI	*Yes*	*30-Mar-07*	*307,504*	–	*307,504*	*10*	–	*162.6*	–	–		
	LTI	Yes	03-Apr-08	426,137	–	–	11	426,137	123.2	–	–	03-Apr-11	03-Apr-14
Total				**1,037,989**	**–**	**307,504**		**730,485**					
Shares (RSP)	*DSTI*	*No*	*30-Mar-07*	*90,812*	–	*90,812*	*3,12*	–	–	*121.65*	*110,473*	*30-Mar-10*	
	Match	*Yes*	*30-Mar-07*	*143,766*	–	*143,766*	*10*	–	–	–	–		
	DSTI	No	03-Apr-08	93,104	–	–	*3*	93,104	–	–	–	03-Apr-11	03-Apr-11
	Match	Yes	03-Apr-08	186,661	–	–	11	186,661	–	–	–	03-Apr-11	03-Apr-11
Total				**514,343**	**–**	**234,578**		**279,765**			**110,473**		
Option SAYE		No	09-Apr-09	48,906	–	–	13	48,906	32.0	–	–	01-Jun-14	30-Nov-14
Total				**48,906**				**48,906**					

1 Options and awards under the PSP and the SRP granted on 8 April 2009 were based on the closing middle-market price of the Company's shares on the London Stock Exchange on 7 April 2009, namely 54.1p.
2 Awards under the SRP granted on 23 March 2010 were based on the closing middle-market price of the Company's shares on the London Stock Exchange on 22 March 2010, namely 125.7p.
3 Dividends are paid and the directors can vote the shares during the vesting period.
4 Awards are subject to a claw-back provision under which the Committee may reduce the number of shares under option or award if financial results or business performance for which the director is responsible is found to have been materially incorrect or misleading or if undue risk was taken, resulting in financial loss to the Company.
5 Subject to the fulfilment of performance targets prescribed by the Committee, under which bonus-matching options and restricted share awards granted in 2009 are subject to targets relating to the Company's IFRS EPS and RoAE.
6 The number of shares awarded under the bonus match on 8 April 2009 was calculated by reference to a price of 55.781p per share, being the price at which the matching shares were acquired by the Old Mutual plc Employee Share Trust.
7 Nil-cost options under the PSP granted on 13 May 2010 were based on the closing middle-market price of the Company's shares on the London Stock Exchange on 12 May 2010, namely 119p.
8 Subject to the achievement of certain initiatives relating to the restructuring of the Group.
9 Subject to the fulfilment of performance targets prescribed by the Committee, under which 50% of the award would be subject to the financial performance of the Company's Long-Term Savings business post restructuring and 50% of the award would be subject to absolute total shareholder return.
10 As a result of the IFRS EPS-based performance targets not being met, the options and bonus-matching restricted share awards granted on 30 March 2007 lapsed on 11 March 2010.
11 As a result of the IFRS EPS-based performance targets not being met, the options and bonus-matching restricted share awards granted on 3 April 2008 lapsed on 8 March 2011.
12 On 30 March 2010, 90,812 shares were released to Mr Roberts in respect of the 2007 deferred short-term incentive restricted share award. Mr Roberts retained all of these shares.
13 The SAYE option price was determined as 20 percent below the average of the Company's share price between 16 and 18 March 2009. The Company's share price at the date of grant (9 April 2009) was 63.3p.

Company share price performance

The market price of the Company's shares was 123.1p at 31 December 2010 and ranged from a low of 97.3p to a high of 145.2p during 2010.

Executive directors' shareholding requirements

The Committee has established guidelines on shareholdings by the executive directors of the Company. Under these, the Group Chief Executive is expected to build up a holding of shares in the Company equal in value to at least 150 percent of his annual basic salary within five years of appointment and the equivalent figure for other executive directors is 100 percent of their annual basic salary. For the purposes of the calculations, unvested options and restricted share awards are excluded.

The following table shows Old Mutual plc shares held by the executive directors at 31 December 2010 (including holdings by their connected persons) compared to the shareholding requirements prescribed by these guidelines:

	Minimum number of shares required to be held[1]	Personal shares held at 31 December 2010	Personal shares held at 31 December 2010 as a percentage of base salary	Date by which holding must be achieved
Julian Roberts	1,011,373	1,591,644	236%	September 2013
Philip Broadley	446,791	55,353	12%	November 2013

1 The minimum number of shares required to be held has been calculated using the market price of Old Mutual plc shares on 31 December 2010, namely 123.1p and the basic salaries of the executive directors at 31 December 2010.

Current exposure

The current exposure of the executive directors to the Company's share price is shown in the table below. This includes shares owned outright (including holdings by connected persons) as well as restricted share awards that are not subject to performance targets. It excludes unvested share options and vested share options that were underwater at 31 December 2010, as well as restricted share awards that are subject to performance targets.

	Personal shares held	Total value of personal shares £	Total restricted shares held (not subject to performance targets)	Total value of restricted shares £	Total share options held (above water and not subject to performance targets)	Total value of share options held (above water and not subject to performance targets) £	Total exposure £	Total exposure as a percentage of base salary
Julian Roberts	1,591,644	1,959,314	773,547	952,236	–	–	2,911,550	351%
Philip Broadley	55,353	68,140	306,765	377,628	1,315,789	869,737	1,315,504	239%

The Board has considered whether to adopt a shareholding requirement for non-executive directors, but does not consider this to be appropriate.

Terms of engagement – Chairman and non-executive directors

Patrick O'Sullivan entered into an engagement letter with the Company in August 2009 setting out the terms applicable to his role as Chairman from January 2010. Under these terms, subject to: (a) 12 months' notice at any time given by either the Company or Patrick O'Sullivan, (b) his being duly re-elected at Annual General Meetings, and (c) the provisions of the Company's Articles of Association relating to the removal of directors, his appointment may continue until his 70th birthday, namely 15 April 2019.

The other non-executive directors are engaged on terms that may be terminated by either side without notice. However, it is envisaged that they will remain in place on a three-year cycle, in order to provide assurance to both the Company and the non-executive director concerned that the appointment is likely to continue. The renewal of non-executive directors' terms for successive three-year cycles is not automatic, with the continued suitability of each non-executive director being assessed by the Nomination Committee. In the absence of exceptional circumstances, the Board has determined that non-executive directors' engagements will not be extended beyond the end of their third three-year cycle.

The original dates of appointment and the dates when the current appointments of the non-executive directors are due to terminate are as follows:

	Date of original appointment	Date of current appointment	Current term as director	Date current appointment terminates
Nigel Andrews	1 Jun 2002	1 Jun 2008	3rd	12 May 2011
Mike Arnold	1 Sep 2009	1 Sep 2009	1st	1 Sep 2012
Rudi Bogni	1 Feb 2002	1 Feb 2008	3rd	12 May 2011
Eva Castillo	2 Feb 2011	2 Feb 2011	1st	2 Feb 2014
Russell Edey	24 Jun 2004	24 Jun 2010	3rd	24 Jun 2013
Alan Gillespie	3 Nov 2010	3 Nov 2010	1st	3 Nov 2013
Reuel Khoza	27 Jan 2006	27 Jan 2009	2nd	27 Jan 2012
Roger Marshall	5 Aug 2010	5 Aug 2010	1st	5 Aug 2013
Bongani Nqwababa	1 Apr 2007	1 Apr 2010	2nd	1 Apr 2013
Lars Otterbeck	14 Nov 2006	14 Nov 2009	2nd	14 Nov 2012

Remuneration – Chairman and non-executive directors

The Company's policy on remuneration for non-executive directors is that this should be:

- Fee-based;
- Market-related (having regard to fees paid and time commitments of non-executive directors of other members of the FTSE100 Index); and
- Not linked to share price or Company performance.

The annual fees for the Chairman and for other non-executive roles for both 2010 (effective from 1 April 2010) and 2011 are set out below. Neither the Chairman nor the other non-executive directors received a fee increase for 2011.

	£
Chairman	350,000
Non-executive directors	
- Base Fee	55,000
- Senior independent director additional fee	10,000
Additional fees payable for Committees	
Board Risk Committee	
- Chairman	25,000
- Member	8,000
Group Audit Committee	
- Chairman	30,000
- Member	10,000
Nomination Committee	
- Member	3,000
Remuneration Committee	
- Chairman	20,000
- Member	6,000

None of the non-executive directors of the Company (including the Chairman) contributed to any Group pension fund during 2010 or had any accrued pension fund benefits in any Group pension fund at 31 December 2010.

Shareholder approval of the Remuneration Report

An advisory vote on the Remuneration Report will be put to shareholders at the AGM on 12 May 2011.

Rudi Bogni
Chairman of the Remuneration Committee,
On behalf of the Board
8 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Julian Roberts
Group Chief Executive
8 March 2011

Philip Broadley
Group Finance Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OLD MUTUAL PLC

For the year ended 31 December 2010

We have audited the financial statements of Old Mutual plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes which include the Reconciliation of adjusted operating profit to profit after tax. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 170, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 170, in relation to going concern;
- The part of the Corporate Governance Statement on pages 133 to 134 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

Alastair W S Barbour (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
8 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

£m

	Notes	Year ended 31 December 2010	Year ended 31 December 2009*
Revenue			
Gross earned premiums	B3	**3,582**	3,020
Outward reinsurance		**(305)**	(267)
Net earned premiums		**3,277**	2,753
Investment return (non-banking)	D2	**10,791**	11,112
Banking interest and similar income	D3	**4,082**	3,989
Banking trading, investment and similar income	D4	**204**	168
Fee and commission income, and income from service activities	D5	**3,061**	2,422
Other income		**159**	196
Total revenues		**21,574**	20,640
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(5,039)**	(3,786)
Reinsurance recoveries		**227**	200
Net claims and benefits incurred		**(4,812)**	(3,586)
Change in investment contract liabilities		**(6,899)**	(8,345)
Losses on loans and advances		**(552)**	(511)
Finance costs	D6	**(269)**	(322)
Banking interest payable and similar expenses	D7	**(2,519)**	(2,627)
Fee and commission expenses, and other acquisition costs	D8	**(963)**	(728)
Other operating and administrative expenses	D9	**(3,714)**	(3,072)
Goodwill impairment	C1(b)	**(1)**	(266)
Change in third-party interest in consolidated funds		**(388)**	(470)
Amortisation of PVIF and other acquired intangibles	C1(b)	**(297)**	(312)
Total expenses		**(20,414)**	(20,239)
Share of associated undertakings' and joint ventures' profit/(loss) after tax	G5(b)	**7**	2
Loss on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(22)**	(50)
Profit before tax		**1,145**	353
Income tax expense	D1(a)	**(456)**	(400)
Profit/(loss) from continuing operations after tax		**689**	(47)
Discontinued operations			
Loss from discontinued operations after tax	H1	**(713)**	(71)
Loss after tax for the financial year		**(24)**	(118)
Attributable to			
Equity holders of the parent		**(282)**	(340)
Non-controlling interests			
Ordinary shares	F11(a)	**196**	158
Preferred securities	F11(a)	**62**	64
Loss after tax for the financial year		**(24)**	(118)
Earnings per share			
Basic earnings per share based on profit/(loss) from continuing operations (pence)		**8.2**	(6.3)
Basic earnings per share based on loss from discontinued operations (pence)		**(14.7)**	(1.5)
Basic earnings per ordinary share (pence)	C3(a)	**(6.5)**	(7.8)
Diluted earnings per share based on profit/(loss) from continuing operations (pence)		**7.4**	(6.3)
Diluted earnings per share based on loss from discontinued operations (pence)		**(13.5)**	(1.5)
Diluted earnings per ordinary share (pence)	C3(a)	**(6.1)**	(7.8)
Weighted average number of shares – millions	C3(a)	**4,859**	4,758

* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010	Year ended 31 December 2009*
			£m
Loss after tax for the financial year		**(24)**	(118)
Other comprehensive income for the financial year			
Fair value gains/(losses)			
Property revaluation		**26**	(10)
Net investment hedge		**(87)**	(41)
Available-for-sale investments			
Fair value gains/(losses)		**32**	112
Recycled to the income statement		**–**	13
Shadow accounting		**(15)**	36
Currency translation differences/exchange differences on translating foreign operations		**1,039**	334
Other movements		**31**	21
Income tax relating to components of other comprehensive income	D1(c)	**13**	13
Total other comprehensive income for the financial year from continuing operations		**1,039**	478
Total other comprehensive income for the financial year from discontinued operations		**112**	750
Total other comprehensive income for the financial year		**1,151**	1,228
Total comprehensive income for the financial year		**1,127**	1,110
Attributable to			
Equity holders of the parent		**594**	709
Non-controlling interests			
Ordinary shares		**428**	334
Preferred securities		**105**	67
Total comprehensive income for the financial year		**1,127**	1,110

* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO PROFIT AFTER TAX

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010	Year ended 31 December 2009*
			£m
Core operations			
Long-Term Savings	B2	**897**	636
Nedbank	B2	**601**	470
M&F	B2	**103**	70
USAM	B2	**87**	83
		1,688	1,259
Finance costs		**(128)**	(104)
Long-term investment return on excess assets		**31**	91
Interest payable to non-core operations – Bermuda		**(55)**	(40)
Interest receivable from non-core operations – US Life		**16**	12
Other shareholders' expenses		**(71)**	(85)
Adjusted operating profit		**1,481**	1,133
Adjusting items	C1(a)	**(482)**	(973)
Non-core operations	B2	**(3)**	1
Profit before tax (net of policyholder tax)		**996**	161
Income tax attributable to policyholder returns	B2	**149**	192
Profit before tax		**1,145**	353
Total income tax expense	D1(a)	**(456)**	(400)
Profit/(loss) from continuing operations after tax		**689**	(47)
Loss from discontinued operations after tax	H1	**(713)**	(71)
Loss after tax for the financial year		**(24)**	(118)

Adjusted operating profit after tax attributable to ordinary equity holders of the parent

	Notes	Year ended 31 December 2010	Year ended 31 December 2009*
			£m
Adjusted operating profit		**1,481**	1,133
Tax on adjusted operating profit	D1(d)	**(347)**	(283)
Adjusted operating profit after tax		**1,134**	850
Non-controlling interests – ordinary shares	F11(a)	**(217)**	(181)
Non-controlling interests – preferred securities	F11(a)	**(62)**	(64)
Adjusted operating profit after tax attributable to ordinary equity holders of the parent		**855**	605
Adjusted weighted average number of shares – (millions)	C3(a)	**5,359**	5,229
Adjusted operating earnings per share – (pence)	C3(b)	**16.0**	11.6

* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

Basis of preparation

The reconciliation of adjusted operating profit has been prepared so as to reflect the directors' view of the underlying long-term performance of the Group. The statement reconciles adjusted operating profit to profit after tax as reported under IFRS as adopted by the EU.

For core life assurance and general insurance businesses, adjusted operating profit is based on a long-term investment return, including investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all core businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value profits/(losses) on certain Group debt movements. Bermuda and US Life, which are non-core, are not included in adjusted operating profit.

Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	At 31 December 2010	At 31 December 2009
			£m
Assets			
Goodwill and other intangible assets	F1	**4,965**	5,159
Mandatory reserve deposits with central banks		**1,079**	882
Property, plant and equipment	F2	**1,015**	828
Investment property	F3	**2,040**	1,759
Deferred tax assets	F8 (a)	**416**	570
Investments in associated undertakings and joint ventures	G5	**162**	135
Deferred acquisition costs	F4	**1,534**	3,138
Reinsurers' share of life assurance policyholder liabilities	E8	**982**	1,296
Reinsurers' share of general insurance liabilities	E8	**122**	120
Deposits held with reinsurers	E8	**2**	146
Loans and advances	E3	**51,778**	42,393
Investments and securities	E4	**106,153**	98,461
Current tax receivable		**156**	169
Client indebtedness for acceptances		**190**	170
Trade, other receivables and other assets	F5	**3,932**	3,051
Derivative financial instruments – assets	E6	**2,503**	2,546
Cash and cash equivalents		**4,132**	2,982
Non-current assets held for sale	H2	**12,391**	1
Total assets		**193,552**	163,806
Liabilities			
Life assurance policyholder liabilities	E8	**98,631**	93,876
General insurance liabilities	E8	**397**	372
Third-party interests in consolidated funds		**3,584**	2,906
Borrowed funds	E9	**4,204**	3,309
Provisions	F6	**260**	263
Deferred revenue	F7	**730**	654
Deferred tax liabilities	F8 (b)	**858**	905
Current tax payable		**238**	210
Trade, other payables and other liabilities	F9	**5,661**	4,305
Liabilities under acceptances		**190**	170
Amounts owed to bank depositors	E10	**53,236**	44,135
Derivative financial instruments – liabilities	E6	**1,870**	1,990
Non-current liabilities held for sale	H2	**12,219**	–
Total liabilities		**182,078**	153,095
Net assets		**11,474**	10,711
Shareholders' equity			
Equity attributable to equity holders of the parent	F10	**8,951**	8,464
Non-controlling interests			
Ordinary shares	F11(b)	**1,763**	1,537
Preferred securities	F11(b)	**760**	710
Total non-controlling interests		**2,523**	2,247
Total equity		**11,474**	10,711

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009*
Cash flows from operating activities – continuing operations		
Profit before tax	**1,145**	353
Capital (gains)/losses included in investment income	**(8,837)**	(9,988)
(Profit)/loss on disposal of property, plant and equipment	**(2)**	1
Depreciation of property, plant and equipment	**103**	85
Amortisation and impairment of goodwill and other intangible assets	**378**	628
Impairment of loans and receivables	**552**	770
Share-based payment expense	**13**	21
Share of associated undertakings' (profit)/loss after tax	**(7)**	(2)
Loss/(profit) arising on disposal of subsidiaries, associated undertakings and strategic investments	**22**	50
Other non-cash amounts in profit	**380**	(408)
Non-cash movements in profit before tax	**(7,398)**	(8,843)
Reinsurers' share of life assurance policyholder liabilities	**(155)**	(129)
Reinsurers' share of general insurance liabilities	**17**	(5)
Deferred acquisition costs	**(11)**	31
Loans and advances	**(3,484)**	(6,590)
Insurance liabilities	**374**	(277)
Investment contracts	**10,326**	13,200
Amounts owed to bank depositors	**2,345**	5,964
Other operating assets and liabilities	**817**	(2,069)
Changes in working capital	**10,229**	10,125
Taxation paid	**(413)**	(367)
Net cash inflow from operating activities – continuing operations	**3,563**	1,268
Cash flows from investing activities		
Net acquisitions of financial investments	**(2,222)**	(2,821)
Acquisition of investment properties	**(162)**	(82)
Proceeds from disposal of investment properties	**272**	57
Acquisition of property, plant and equipment	**(152)**	(138)
Proceeds from disposal of property, plant and equipment	**–**	29
Acquisition of intangible assets	**(78)**	(43)
Acquisition of interests in subsidiaries	**(75)**	(5)
Capital funding of discontinued operations	**–**	(136)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**(16)**	40
Net cash outflow from investing activities – continuing operations	**(2,433)**	(3,099)
Cash flows from financing activities		
Dividends paid to		
Ordinary equity holders of the Company	**(102)**	–
Non-controlling interests and preferred security interests	**(196)**	(190)
Interest paid (excluding banking interest paid)	**(79)**	(57)
Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)	**5**	100
Net (acquisition)/sale of treasury shares	**(25)**	38
Issue of subordinated and other debt	**492**	1,049
Subordinated and other debt repaid	**(104)**	(441)
Net cash (outflow)/inflow from financing activities – continuing operations	**(9)**	499

* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009*
Net increase/(decrease) in cash and cash equivalents – continuing operations	**1,121**	(1,332)
Net increase/(decrease) in cash and cash equivalents – discontinued operations	**(104)**	(47)
Effects of exchange rate changes on cash and cash equivalents	**376**	160
Cash and cash equivalents at beginning of the year	**4,761**	5,980
Cash and cash equivalents at end of the year	**6,154**	4,761
Consisting of		
Coins and bank notes	**328**	263
Money at call and short notice	**3,526**	2,412
Balances with central banks (other than mandatory reserve deposits)	**278**	307
Cash and cash equivalents in the statement of financial position	**4,132**	2,982
Mandatory reserve deposits with central banks	**1,079**	882
Short-term cash balances held in policyholder funds	**522**	897
Cash and cash equivalents included in assets held for sale	**421**	–
Total	**6,154**	4,761
Other supplementary cash flow disclosures		
Interest income received (including banking interest)	**5,391**	5,394
Dividend income received	**383**	335
Interest paid (including banking interest)	**2,262**	2,544

Cash flows presented in this statement include all cash flows relating to policyholders' funds for life assurance.

Except for mandatory reserve deposits with central banks of £1,079 million (2009: £882 million), short-term cash business held in policyholder funds of £522 million (2009: £897 million) and cash and cash equivalents subject to consolidation of funds of £689 million (2009: £717 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations. Mandatory reserve deposits are, however, included in cash and cash equivalents for the purposes of the cash flow statement in line with market practice in South Africa.

* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

Year ended 31 December 2010	Notes	Millions Number of shares issued and fully paid	£m Attributable to equity holders of the parent	Total non-controlling interests	Total equity
Shareholders' equity at beginning of the year		**5,518**	**8,464**	**2,247**	**10,711**
(Loss)/profit after tax for the financial year		**–**	**(282)**	**258**	**(24)**
Other comprehensive income					
Fair value gains/(losses)					
Property revaluation		**–**	**21**	**5**	**26**
Net investment hedge		**–**	**(87)**	**–**	**(87)**
Available-for-sale investments					
Fair value gains		**–**	**562**	**–**	**562**
Recycled to the income statement		**–**	**(12)**	**–**	**(12)**
Shadow accounting		**–**	**(349)**	**–**	**(349)**
Currency translation differences/exchange differences on translating foreign operations		**–**	**794**	**274**	**1,068**
Other movements		**–**	**1**	**(4)**	**(3)**
Income tax relating to components of other comprehensive income	D1(c)	**–**	**(54)**	**–**	**(54)**
Total comprehensive income for the financial year		**–**	**594**	**533**	**1,127**
Dividends for the year	C4	**–**	**(175)**	**(152)**	**(327)**
Net acquisition of treasury shares		**–**	**(25)**	**–**	**(25)**
Acquisition of non-controlling interest in Mutual & Federal	F11	**147**	**51**	**(51)**	**–**
Change in participation in other subsidiaries	F11	**–**	**–**	**(57)**	**(57)**
Shares issued in lieu of cash dividend		**24**	**30**	**–**	**30**
Exercise of share options		**6**	**5**	**–**	**5**
Other issues of ordinary share capital by the Company		**–**	**3**	**–**	**3**
Change in share-based payments reserve		**–**	**4**	**3**	**7**
Transactions with shareholders		**177**	**(107)**	**(257)**	**(364)**
Shareholders' equity at end of the year		**5,695**	**8,951**	**2,523**	**11,474**

£m

Year ended 31 December 2010	Notes	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total
Attributable to equity holders of the parent at beginning of the year		**552**	**771**	**3,087**	**469**	**2,897**	**688**	**8,464**
Profit/(loss) for the financial year attributable to equity holders of the parent		**–**	**–**	**–**	**–**	**(314)**	**32**	**(282)**
Other comprehensive income								
Fair value gains/(losses)								
Property revaluation		**–**	**–**	**21**	**–**	**–**	**–**	**21**
Net investment hedge		**–**	**–**	**–**	**(87)**	**–**	**–**	**(87)**
Available-for-sale investments								
Fair value gains		**–**	**–**	**562**	**–**	**–**	**–**	**562**
Recycled to income statement		**–**	**–**	**(12)**	**–**	**–**	**–**	**(12)**
Shadow accounting		**–**	**–**	**(349)**	**–**	**–**	**–**	**(349)**
Currency translation differences/exchange differences on translating foreign operations		**–**	**–**	**–**	**794**	**–**	**–**	**794**
Other movements		**–**	**–**	**15**	**–**	**(14)**	**–**	**1**
Income tax relating to components of other comprehensive income		**–**	**–**	**(66)**	**–**	**–**	**12**	**(54)**
Total comprehensive income for the financial year		**–**	**–**	**171**	**707**	**(328)**	**44**	**594**
Dividends for the year	C4	**–**	**–**	**–**	**–**	**(131)**	**(44)**	**(175)**
Net acquisition of treasury shares		**–**	**–**	**–**	**–**	**(25)**	**–**	**(25)**
Acquisition of non-controlling interest in Mutual & Federal	F11	**15**	**–**	**129**	**–**	**(93)**	**–**	**51**
Shares issued in lieu of cash dividends		**2**	**17**	**–**	**–**	**11**	**–**	**30**
Exercise of share options		**1**	**4**	**–**	**–**	**–**	**–**	**5**
Other issues of ordinary share capital by the Company		**–**	**3**	**–**	**–**	**–**	**–**	**3**
Change in share-based payments reserve		**–**	**–**	**4**	**–**	**–**	**–**	**4**
Transactions with shareholders		**18**	**24**	**133**	**–**	**(238)**	**(44)**	**(107)**
Attributable to equity holders of the parent at end of the year	F10	**570**	**795**	**3,391**	**1,176**	**2,331**	**688**	**8,951**

£m

Other reserves attributable to equity holders of the parent	Notes	Merger reserve	Available-for-sale reserve	Property revaluation reserve	Share-based payments reserve	Other reserves	Total
At beginning of the year		**2,716**	**82**	**87**	**191**	**11**	**3,087**
Fair value gains/(losses)							
Property revaluation		**–**	**–**	**21**	**–**	**–**	**21**
Available-for-sale investments							
Fair value gains		**–**	**562**	**–**	**–**	**–**	**562**
Recycled to income statement		**–**	**(12)**	**–**	**–**	**–**	**(12)**
Shadow accounting		**–**	**(343)**	**(6)**	**–**	**–**	**(349)**
Other movements		**–**	**2**	**(1)**	**20**	**(6)**	**15**
Income tax relating to components of other comprehensive income		**–**	**(66)**	**–**	**–**	**–**	**(66)**
Acquisition of non-controlling interest in M&F	F11	**129**	**–**	**–**	**–**	**–**	**129**
Change in share-based payments reserve		**–**	**–**	**–**	**4**	**–**	**4**
At end of the year		**2,845**	**225**	**101**	**215**	**5**	**3,391**

Retained earnings were reduced by £478 million at 31 December 2010 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010 continued

Year ended 31 December 2009	Notes	Millions Number of shares issued and fully paid	£m Attributable to equity holders of the parent	Total non-controlling interests	Total equity
Shareholders' equity at beginning of the year		5,516	7,737	1,840	9,577
(Loss)/profit after tax for the financial year		–	(340)	222	(118)
Other comprehensive income					
Fair value gains/(losses)					
Property revaluation		–	(12)	2	(10)
Net investment hedge		–	(41)	–	(41)
Available-for-sale investments					
Fair value gains		–	1,087	–	1,087
Recycled to the income statement		–	239	–	239
Shadow accounting		–	27	–	27
Currency translation differences/exchange differences on translating foreign operations		–	124	178	302
Other movements		–	22	(1)	21
Income tax relating to components of other comprehensive income	D1(c)	–	(397)	–	(397)
Total comprehensive income for the financial year		–	709	401	1,110
Dividends for the year	C4	–	(45)	(145)	(190)
Net sale of treasury shares		–	39	–	39
Issue of ordinary share capital by the Company		–	2	–	2
Change in participation in subsidiaries		–	–	150	150
Exercise of share options		2	3	–	3
Change in share-based payments reserve		–	19	1	20
Transactions with shareholders		2	18	6	24
Shareholders' equity at end of the year		5,518	8,464	2,247	10,711

£m

Year ended 31 December 2009	Notes	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total
Attributable to equity holders of the parent at beginning of the year		552	766	2,130	386	3,215	688	7,737
(Loss)/profit for the financial year attributable to equity holders of the parent		–	–	–	–	(372)	32	(340)
Other comprehensive income								
Fair value gains/(losses)								
Property revaluation		–	–	(12)	–	–	–	(12)
Net investment hedge		–	–	–	(41)	–	–	(41)
Available-for-sale investments								
Fair value gains		–	–	1,087	–	–	–	1,087
Recycled to income statement		–	–	239	–	–	–	239
Shadow accounting		–	–	27	–	–	–	27
Currency translation differences/exchange differences on translating foreign operations		–	–	–	124	–	–	124
Other movements		–	–	7	–	15	–	22
Income tax relating to components of other comprehensive income		–	–	(410)	–	–	13	(397)
Total comprehensive income for the financial year		–	–	938	83	(357)	45	709
Dividends for the year	C4	–	–	–	–	–	(45)	(45)
Net sale of treasury shares		–	–	–	–	39	–	39
Issue of ordinary share capital by the Company		–	2	–	–	–	–	2
Exercise of share options		–	3	–	–	–	–	3
Change in share-based payments reserve		–	–	19	–	–	–	19
Transactions with shareholders		–	5	19	–	39	(45)	18
Attributable to equity holders of the parent at end of the year	F10	552	771	3,087	469	2,897	688	8,464

£m

Other reserves attributable to equity holders of the parent	Merger reserve	Available-for-sale reserve	Property revaluation reserve	Share-based payments reserve	Other reserves	Total
At beginning of the year	2,716	(844)	85	171	2	2,130
Fair value gains/(losses)						
Property revaluation	–	–	(12)	–	–	(12)
Available-for-sale investments						
Fair value gains	–	1,087	–	–	–	1,087
Recycled to income statement	–	239	–	–	–	239
Shadow accounting	–	9	18	–	–	27
Other movements	–	1	(4)	1	9	7
Income tax relating to components of other comprehensive income	–	(410)	–	–	–	(410)
Change in share-based payments reserve	–	–	–	19	–	19
At end of the year	2,716	82	87	191	11	3,087

Retained earnings were reduced by £379 million at 31 December 2009 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

A: Accounting policies

A1: Basis of preparation

Statement of compliance

Old Mutual plc (the Company) is a company incorporated in England and Wales.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and jointly controlled entities (other than those held by life assurance funds which are accounted for as investments). The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs and IFRICs'). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Details of standards, amendments to standards, and interpretations adopted in the 2010 annual financial statements are described in section A24 and in the individual sub-sections.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and liabilities designated as fair value through the income statement or as available-for-sale, owner-occupied property and investment property. Non-current assets and disposal groups held for sale are stated at the lower of the previous carrying amount and the fair value less costs to sell.

The Parent Company financial statements are prepared in accordance with these accounting policies, other than for investments in subsidiary undertakings and associates, which are stated at cost less impairments see note A6(n), in accordance with IAS 27.

The Company and Group financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points as set out in the Directors' Report in the section headed Going concern.

Judgements made by the directors in the applications of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note A3.

At 31 December 2010 the Group was in advanced stage negotiations for the disposal of its life assurance operations in the United States, which represent almost the entirety of the US Life operating segment. As a result of this, the assets and liabilities of the US Life disposal group have been classified as held for sale in the statement of financial position for the current year in accordance with IFRS 5. This sale will present the Group's exit from the life assurance market in the United States and therefore meets the criteria of a discontinued operation. Consequently the comparative information in the income statement, statement of comprehensive income, statement of cash flows and the related notes has been restated where applicable to reflect this. For the purposes of adjusted operating profit, US Life has been reclassified as a non-core operation for the year ended 31 December 2010 with the comparative information restated accordingly.

The disposal is expected to be completed in the first half of 2011 and further details of the impact are provided in notes H1 and H2.

A2: Foreign currency translation

(a) Foreign currency transactions

The Group's presentation currency is pounds sterling (£). The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. The Parent Company functional currency is pounds sterling (£).

Transactions in foreign currencies are converted into the relevant functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently retranslated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in the income statement. Exchange differences for non-monetary items are recognised in the consolidated statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the consolidated statement of other comprehensive income, and in the income statement if the changes in fair value of the non-monetary item are recognised in the income statement.

(b) Foreign investments

The assets and liabilities of foreign operations are translated from their respective functional currencies into the Group's presentation currency using the year end exchange rates, and their income and expenses using the average exchange rates. Other than in respect of cumulative translation gains and losses up to 1 January 2004, cumulative unrealised gains or losses resulting from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. Upon the disposal of subsidiaries the cumulative amount of exchange differences deferred in shareholders' equity, net of attributable amounts in relation to net investments, is recognised in the income statement. Cumulative translation gains and losses up to 1 January 2004 were reset to zero.

A3: Critical accounting estimates and judgements

In the preparation of the financial statements the Group is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of financial position, other primary statements and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments, with estimates based on knowledge of the current situation and circumstances and assumptions based on that knowledge and predictions of future events and actions. The areas of the Group's business that typically require such estimates and the relevant accounting policies and notes are as follows:

Area	Accounting policy	Note
Life insurance contract provisions	A5	E8
Deferred acquisition costs	A5	F4
Fair value for financial assets and liabilities	A6	E1
Deferred taxes	A7	F8
Intangible assets	A8	F1
Bermuda guarantees	See below	
Classification of US Life as held for sale	A1	H1 and H2
Non consolidation of wholly owned mutual life insurance undertaking	A4(a)	G4

Bermuda guarantees

Old Mutual Bermuda, which is closed to new business, previously offered variable annuity products with a number of these remaining in place. For variable annuity contracts with guaranteed minimum accumulation benefits (GMABs) there are risks to the Group, with significant volatility in financial results possible due to changes in key market and economic variables, as well as unexpected policyholder behaviour. The variable annuity guarantee reserve, including allowance for minimum death benefit guarantees (GMDBs) was £433 million at 31 December 2010 (2009: £474 million).

Bermuda is continuing its run-off strategy, with attention to the adequacy of the hedging strategy, focusing on market segments that are considered vulnerable, whilst conserving liquidity by removing hedges on stronger market segments. A number of adjustments to the hedging programme were made over the course of 2010 as a result of turbulent market conditions. The hedging programme is dynamically managed and this strategy meant the business ended the year approximately 57% hedged against adverse equity and foreign exchange market movements. The hedging team continues to evaluate the hedging strategy, including the most appropriate level of hedges on a continuing basis, with any proposed changes to the strategy subject to strict oversight. The stop-loss protocol established in September 2009 remains in place, and continues to be monitored daily by Group and local management to ensure that a common understanding of the resultant impact on capital, cash and profit and loss on a timely basis.

GMAB and GMDB reserve calculations rely on the mapping of policyholder investment funds to hedgeable indices to determine market-consistent assumptions. Regular fund mapping updates are performed at least quarterly, and better allocate exposures to Asian and other emerging markets (which require higher levels of reserving given their higher inherent volatility) thereby improving the accuracy of the reserves. Overall, this market-consistent valuation methodology is guided by the fund mapping process. Throughout the year, the business continued to maintain a very significant statutory capital surplus against its minimum required capital.

Liquidity risk is a key area of management focus. Liquidity risk arises in relation to the GMABs, product top-ups will be required in 2012 and 2013. The top-ups relate to an 'automatic exercise' feature of the product whereby Bermuda needs to top-up universal guarantee option (UGO) contracts on the fifth anniversary if they have an account value of less than 105% of the original premium. Surrender behaviour is a significant determinant of the Group's potential exposure to liquidity risk.

Bermuda's current estimate of future guarantee claim costs, calculated as the average of 5,000 scenarios as at 31 December 2010, is £681 million which has been provided, with this to be partially met with liquid assets, future fee income and derivative flows and the balance covered through a loan agreement with Group. In the 25% best case scenarios, average claims reduce to £292 million (including losses from the hedging programme). In the 10% worst case scenarios, average claims rise to £1,416 million.

Surrender behaviour with respect to variable annuity contracts with GMABs is directly influenced by the differential between the value of the underlying funds and the nominal level of the guarantee, as well as the financial circumstances of the policyholder. The recovery

across global equity markets, particularly in the fourth-quarter in 2010, resulted in an increase in the number of contracts where the underlying fund values were greater than the level of guarantees. This resulted in a sharp increase in the levels of contracts with UGO riders surrendering in the fourth quarter of 2010, with overall surrender activity across GMAB contracts for the year at close to double 2009 levels. Ultimately, surrender activity will determine the speed of the run-off and the extent and timing of any associated capital, or cash release for this business. Group and local management actively monitor and manage surrender behaviour and liquidity risk.

A4: Group accounting

(a) Subsidiary undertakings (including special purpose entities)

Subsidiary undertakings are those entities controlled by the Group. Subsidiary undertakings include special purpose entities created to accomplish a narrow, well-defined objective, which may take the form of a corporation, trust, partnership or unincorporated entities, and where the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company considers the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has control. Special purpose entities that the Company controls by virtue of the Company retaining the majority of risks or benefits, for example interests in open-ended investment companies, unit trusts, mutual funds and similar entities, are also included in the consolidated financial statements.

The Group consolidates certain of its interests in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles (collectively 'funds') in the event that the Group has power to govern the operations of a fund so as to obtain benefits from that fund, or for special purpose entities where the majority of benefits arising in a particular fund accrue to the Group. The latter condition is typically regarded as the case when the Group owns (through a Group subsidiary's direct investment in a fund) more than 50% of the shares or units in that fund.

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The amounts due to the balance of the investors in these funds are reported as a liability under the balance sheet caption 'Third-party interests in consolidated funds'. Such interests are not recorded as non-controlling interests as they meet the liability classification requirement set out in paragraph 18 of IAS 32, 'Financial Instruments: Presentation'. As stated in note A22, these liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

The Group financial statements include the assets, liabilities and results of the Company and subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal or control ceasing.

The consolidated financial statements do not include the wholly owned company Livförsäkringsaktiebolaget Skandia (Skandia Liv) and its subsidiaries. Skandia Liv's business is a mutual life assurance company that is highly regulated within a strict legal framework for mutual life assurance companies in Sweden, particularly in relation to its relationship with its holding company. The Group does not have the power to control Skandia Liv in such a way as to access the benefits usually associated with share ownership due to the legal and regulatory restrictions. Those benefits accrue to the policyholders of Skandia Liv. Consequently, Skandia Liv is not consolidated. The shares in Skandia Liv are accounted for in accordance with the accounting policies for equity financial instruments.

Intra-group balances and transactions, income and expenses and all profits and losses arising from intra-group transactions, are eliminated in preparing the Group financial statements. Unrealised losses are not eliminated to the extent that they provide evidence of impairment.

(b) Business combinations

Business combinations are accounted for using the purchase method. Business combinations are accounted for at the date that control is achieved (the acquisition date). The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For all transactions subsequent to 31 December 2008 acquisition-related costs are recognised in the income statement as incurred. Prior to this date all acquisition-related costs were included in the cost of the acquisition.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRS. Changes in the fair value of contingent consideration that have been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the date of acquisition date, with the following exceptions:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income Taxes'.
- Assets and liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 19 'Employee Benefits'.

- Liabilities or equity instruments that relate to the replacement, by the Group, of an acquiree's share-based payment awards are measured in accordance with IFRS 2 'Share-based Payment'.
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised, to reflect any new information obtained about the facts and circumstances that existed as of the date of acquisition date that, if known, would have affected the amounts recognised as on that date.

The measurement period for initial accounting for a business combination is the period from the date of acquisition to the date the Group receives complete information about the facts and circumstances that existed as at the acquisition date, subject to a maximum period of one year.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the date that control is achieved (the acquisition date) and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the income statement, where such treatment would be appropriate if the interest were disposed of.

Non-controlling interests in the net assets of consolidated subsidiary undertakings are identified and recorded separately from the Group's equity. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis for the initial measurement of the non-controlling interest is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests comprise the amount attributed to such interests at initial recognition together with the non-controlling interest's share of changes in equity since the date of acquisition. For acquisitions prior to 31 December 2008, non-controlling interests were recorded at the proportionate share of the acquiree's identifiable net assets.

The difference between the proceeds from the disposal of a subsidiary undertaking and its carrying amount as at the date of disposal, including the cumulative amount of any related exchange differences that are recognised in equity, is recognised in the Group income statement as the gain or loss on the disposal of the subsidiary undertaking.

Changes in the Group's interest in a subsidiary undertaking that do not result in a loss of control are accounted for as transactions with equity holders (as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised in equity and attributed to the Group. Prior to 31 December 2008, such a difference would have been accounted for as an addition to goodwill.

In accordance with the exemptions permitted under IFRS 1 'First-Time Adoption of International Financial Reporting Standards', business combinations that took place prior to 1 January 2004 have not been restated for either the provisions of the original (2003) or revised (2008) versions of IFRS 3 'Business Combinations'. In accordance with the transitional provisions of IFRS 3 'Business Combinations' (revised 2008) and corresponding provisions of IAS 27 'Separate and Consolidated Financial Statements' (revised 2008) business combinations that took place prior to 1 January 2009 have not been restated.

(c) Associates and jointly controlled operations

An associate is an entity, including an unincorporated entity such as a partnership, over which the Group has significant influence but not control, through participation in the financial and operating policy decisions of the investee (and that is neither a subsidiary nor an investment in a joint venture). This is generally demonstrated by the Group holding in excess of 20%, but less than 50%, of the voting rights.

A jointly controlled operation is a joint venture operated through a corporation, partnership or other entity in which each venturer has an interest. A joint venture is a contractual arrangement, whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the activity. Joint control exists when the strategic financial and operating decisions relating to the activity require unanimous consent of the parties sharing control.

The results, assets and liabilities of associates and jointly controlled operations are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a Group enterprise transacts with an associate or jointly controlled operation of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate or jointly controlled operation. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in associates and jointly controlled operations that are held with a view to subsequent resale are accounted for as non-current assets held for sale, and those held by policyholder life assurance funds are accounted for as financial assets fair valued through the income statement.

A5: Insurance and investment contracts

Life assurance

(a) Classification of contracts

Contracts sold as life assurance (with the exception of unit-linked assurance contracts) are categorised into insurance contracts, contracts with a discretionary participation feature or investment contracts in accordance with the classification criteria set out in the following paragraphs.

For the Group's unit-linked assurance business, contracts are separated into an insurance component and an investment component (known as 'unbundling'), and each unbundled component is accounted for separately in accordance with the accounting policy for that component. Unit-linked assurance contracts are savings contracts with a small or insignificant component of insurance risk.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts. Such contracts include savings and/or investment contracts sold without life assurance protection.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Contracts accounted for as insurance contracts include life assurance contracts and savings contracts providing more than an insignificant amount of life assurance protection.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, security index, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Group's discretion, represent a significant portion of the total contractual payments and are contractually based on (1) the performance of a specified pool of contracts or a specified type of contract, (2) realised and/or unrealised investment returns on a specified pool of assets held by the Group or (3) the profit or loss of the Group. Investment contracts with discretionary participating features, which have no life assurance protection in the policy terms, are accounted for in the same manner as insurance contracts.

(b) Premiums on life assurance

Premiums and annuity considerations receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums in respect of linked insurance contracts are recognised when the liability is established. Premiums in respect of other insurance contracts and investment contracts with a discretionary participation feature are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature and unit-linked assurance contracts are recorded as deposits and credited directly to investment contract liabilities.

(c) Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management service contracts in our asset management businesses are also recognised on this basis.

(d) Claims paid on life assurance

Claims paid under insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, death and disability payments.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature and unit-linked assurance contracts are recorded as deductions from investment contract liabilities.

(e) Insurance contract provisions

Insurance contract provisions for African businesses have been computed using a gross premium valuation method. Provisions in respect of African business have been made in accordance with the Financial Soundness Valuation basis as set out in the guidelines

issued by the Actuarial Society of South Africa in Professional Guidance Note (PGN) 104 (2001). Under this guideline, provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also computed using the gross premium valuation method in accordance with the Financial Soundness Valuation basis. Surplus allocated to policyholders but not yet distributed related to these contracts is included as part of life assurance policyholder liabilities.

For the US business, the insurance contract provisions are calculated using the net premium method, based on assumptions as to investment yields, mortality, withdrawals and policyholder dividends. For the term life products, the assumptions are set at the time the contracts are issued, whereas the assumptions are updated annually, based on experience for the annuity products.

Universal life and deferred annuity reserves are computed on the retrospective deposit method, which produces reserves equal to the cash value of the contracts.

Reserves on immediate annuities and guaranteed payments are computed on the prospective deposit method, which produces reserves equal to the present value of future benefit payments.

For other territories, the valuation bases adopted are in accordance with local actuarial practices and methodologies.

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. In this case the entire contract is measured as described above.

The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and intangible assets) is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability at discount rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur.

Whilst the directors consider that the gross insurance contract provisions and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.

The Group applies shadow accounting in relation to certain insurance contract provisions in the South Africa life assurance, and DAC and PVIF assets in the United States life assurance, in respect of owner-occupied properties or available-for-sale financial assets, in order for recognised unrealised gains or losses on those assets to affect the measurement of the insurance contract provisions, DAC or PVIF assets in the same way that recognised realised gains or losses do.

In respect of the South Africa life assurance, shadow accounting is applied to insurance contract provisions where the underlying measurement of the policyholder liability depends directly on the value of owner-occupied property and the unrealised gains and losses on such property, which are recognised in other comprehensive income. The shadow accounting adjustment to insurance contract provisions is recognised in other comprehensive income to the extent that the unrealised gains or losses on owner-occupied property backing insurance contract provisions are also recognised directly in other comprehensive income.

In respect of the United States life assurance, shadow accounting adjustments are made to the amortisation of DAC and PVIF assets in respect of unrealised gains and losses on available-for-sale financial assets to the extent that those unrealised gains and losses would impact the calculation of DAC or PVIF amortisation were they recognised in income. The shadow DAC and PVIF amortisation charge is recognised in other comprehensive income in line with the unrealised gains and losses on the relevant financial assets until such time as those assets are sold or otherwise disposed of, at which point the accumulated amortisation recognised in other comprehensive income is recycled to the income statement in the same way as the unrealised gains or losses on those financial assets.

Financial guarantee contracts are recognised as insurance contracts. Liability adequacy testing is performed to ensure that the carrying amount of the liability for financial guarantee contracts is sufficient.

(f) Investment contract liabilities

Investment contract liabilities in respect of the Group's non-linked business are recorded at amortised cost unless they are designated at fair value through the income statement in order to eliminate or significantly reduce a measurement or recognition inconsistency, for example where the corresponding assets are recorded at fair value through the income statement.

Investment contract liabilities in respect of the Group's linked business are recorded at fair value. For such liabilities, including the deposit component of unbundled unit-linked assurance contracts, fair value is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the bid price of the assets in the underlying fund (adjusted for tax).

Investment contract liabilities measured at fair value are subject to a 'deposit floor' such that the liability established cannot be less than the amount repayable on demand.

(g) Acquisition costs

Acquisition costs for insurance contracts comprise all direct and indirect costs arising from the sale of insurance contracts.

As the gross premium valuation method used in African territories to determine insurance contract provisions makes implicit allowance for the deferral of acquisition costs, no explicit deferred acquisition cost asset is recognised in the statement of financial position for the contracts issued in these areas.

For the US life insurance business, an explicit deferred acquisition cost asset is established in the statement of financial position. Deferred acquisition costs are amortised over the period that profits on the related insurance policies are expected to emerge. Acquisition costs are deferred to the extent that they are deemed recoverable from available future profit margins.

Deferral of costs on insurance business in other territories is limited to the extent that they are deemed recoverable from available future margins.

(h) Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset if they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs represent the contractual right to benefit from providing investment management services and are amortised as the related revenue is recognised. Costs attributable to investment management service contracts in the asset management businesses are also recognised on this basis.

General insurance

All classes of general insurance business are accounted for on an annual basis.

(i) Premiums on general insurance

Premiums stated gross of commissions exclude taxes and levies and are accounted for in the period in which the risk commences. The proportion of the premiums written relating to periods of risk after the reporting date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

(j) Claims on general insurance

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the accounting period, whether reported or not.

Outstanding claims do not include any provision for possible future claims where the claims arise under contracts not in existence at the reporting date.

The Group performs liability adequacy testing on its claim liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and the unearned premium reserve) is sufficient in view of estimated future cash flows.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used and estimates made are reviewed regularly.

(k) Acquisition costs on general insurance

Acquisition costs, which represent commission and other related expenses, are deferred and amortised over the period in which the related premiums are earned.

(l) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts. Any difference between the premium due to the reinsurer and the reinsurance asset recognised is included in the income statement in the period in which the reinsurance premium is due.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

A6: Financial instruments

(a) Recognition and de-recognition

A financial asset or liability is recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

The Group de-recognises a financial asset when, and only when:

- The contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Group; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It no longer controls the financial asset nor retains substantially all the risks and rewards of ownership, regardless of whether it has transferred the asset.

A financial liability is de-recognised when, and only when, the liability is extinguished, that is, when the obligation specified in the contract is discharged, assigned, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration received, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs. Loans and receivables are recognised (at fair value plus attributable transaction costs) when cash is advanced to borrowers.

(b) Initial measurement

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through the income statement, transaction costs that are directly attributable to the acquisition or issue of the financial asset of financial liability.

(c) Derivative financial instruments

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives not designated as hedges for hedge accounting purposes are included in investment income or finance costs as appropriate.

(d) Hedge accounting

Qualifying hedging instruments must either be derivative financial instruments or non derivative financial instruments used to hedge the risk of changes in foreign currency exchange rates, changes in fair value or changes in cash flows. Changes in the value of the financial instrument should be expected to offset changes in the fair value or cash flows of the underlying hedged item.

The Group designates certain qualifying hedging instruments as either (1) a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (fair value hedge); (2) a hedge of a future cash flow attributable to a recognised asset or liability, or a forecasted transaction, and could affect profit or loss (cash flow hedge); or, (3) a hedge of a net investment in a foreign operation. Hedge accounting is used for qualifying hedging instruments designated in this way provided certain criteria are met.

The Group's criteria for a qualifying hedging instrument to be accounted for as a hedge include:

- Upfront formal documentation of the hedging instrument, hedged item or transaction, risk management objective and strategy, the nature of the risk being hedged and the effectiveness measurement methodology that will be applied is prepared before hedge accounting is adopted.
- The hedge is documented showing that it is expected to be highly effective in offsetting the changes in the fair value or cash flows attributable to the hedged risk, consistent with the risk management and strategy detailed in the upfront hedge documentation.
- The effectiveness of the hedge can be reliably measured.
- The hedge is assessed and determined to have been highly effective on an ongoing basis.
- For cash flow hedges of a forecast transaction, an assessment that it is highly probable that the hedged transaction will occur and will carry profit and loss risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges or hedges of a net investment in a foreign operation and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any previous adjustment to the carrying amount of a hedged interest-bearing financial instrument carried at amortised cost (as a result of previous hedge accounting) is amortised in the income statement from the date hedge accounting ceases to the maturity date of the financial instrument, based on the effective interest method.

For hedges of a net investment in a foreign operation, any cumulative gains or losses in equity are recognised in the income statement on disposal of the foreign operation.

(e) Embedded derivatives

Certain derivatives embedded in financial and non-financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives and recognised as such on a stand alone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the income statement. If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as fair value through the income statement and measured at fair value.

(f) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position, with the exception of those relating to hedges, which are disclosed in accordance with the income statement effect of the hedged item.

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(g) Interest income and expense

Interest income and expense in relation to financial instruments carried at amortised cost or held as available-for-sale is recognised in the income statement using the effective interest method taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Interest income and expense on financial instruments carried at fair value through the income statement is presented as part of interest income or expense.

(h) Non-interest revenue

Non-interest revenue in respect of financial instruments principally comprises fees and commission and other operating income. These are accounted for as set out below.

Fees and commission income

Loan origination fees for loans that are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Other

Revenue other than interest, fees and commission (including fees and insurance premiums), which includes exchange and securities trading income, dividends from investments and net gains on the sale of banking assets, is recognised in the income statement when the amount of revenue from the transaction or service can be measured reliably and it is probable that the economic benefits of the transaction or service will flow to the Group.

(i) Financial assets

Non-derivative financial assets are recorded as held-for-trading, designated as fair value through the income statement, loans and receivables, held-to-maturity or available-for-sale. An analysis of the Group's statement of financial position, showing the categorisation of financial assets, together with financial liabilities is set out in note E1(a).

Held-for-trading financial assets

Held-for-trading financial assets are those that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists, or are derivatives that are not designated as effective hedging instruments.

Financial assets designated as fair value through the income statement

Financial assets that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis (for instance with respect to financial assets supporting insurance contract provisions) or are managed, evaluated and reported using a fair value basis (for instance financial assets supporting shareholder's funds).

All financial assets carried at fair value through the income statement, whether held-for-trading or designated, are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices. If such price information is not available for these instruments, the Group uses other valuation techniques, including internal models, to measure such instruments. These techniques use market observable inputs where available, derived from similar assets and liabilities in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Group estimates the non-market observable inputs used in its valuation models. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Fair values of certain financial instruments, such as over-the-counter (OTC) derivative instruments, are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads and volatility factors.

Realised and unrealised fair value gains and losses on all financial assets carried at fair value through the income statement are included in Investment return (non-banking) or in Banking trading, investment and similar income as appropriate.

Interest earned whilst holding financial assets at fair value through the income statement is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, when a dividend is declared.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as fair value through income statement or available-for-sale. Loans and receivables are carried at amortised cost less any impairment write-downs. Third-party expenses such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

Held-to-maturity financial assets

Financial assets with fixed maturity dates which are quoted in an active market and where management has both the intent and the ability to hold the asset to maturity are classified as held-to-maturity. These assets are carried at amortised cost less any impairment write-downs. Interest earned on held-to-maturity financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate.

Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices other than those designated fair value through income statement or as loans and receivables, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale financial assets are measured at fair value based on quoted bid prices. If quoted bid prices are unavailable or determined to be unreliable, the fair value of the financial asset is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on observable market data where available at the reporting date.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When available-for-sale financial assets are disposed the related accumulated fair value adjustments are included in the income statement as gains and losses from available-for-sale financial assets. When available-for-sale assets are impaired the resulting loss is shown separately in the income statement as an impairment charge.

Interest earned on available-for-sale financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, as appropriate when a dividend is declared.

(j) Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements as appropriate when considering the de-recognition criteria contained within IAS 39. The securities that are retained in the financial statements are reflected as trading or investment securities and the counterparty liability is included in amounts owed to other depositors, deposits from other banks, or other money market deposits, as appropriate. Securities purchased under agreements to resell at a pre-determined price are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the lives of agreements using the effective interest method.

Securities lent to counterparties are retained in the financial statements and any interest earned recognised in the income statement using the effective interest method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(k) Impairments of financial assets

Indicators of impairment

A provision for impairment is established if there is objective evidence that the Group will not be able to recover all amounts relating to the financial asset. Observable data that could come to the attention of the Group that could lead to a provision for impairment to be made includes:

- Significant financial difficulty of the counterparty.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Group, for economic or legal reasons relating to the counterparty's financial difficulty, grants to the counterparty a concession that the Group would not otherwise consider.
- It becoming probable that the counterparty will enter bankruptcy or other financial reorganisation.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
  - adverse changes in the payment status of counterparties in the group of financial assets; or
  - national or local economic conditions that correlate with defaults on the assets in the group of financial assets.

In addition, for an available-for-sale financial asset, a significant or prolonged decline in the fair value below its cost is also objective evidence of impairment.

Financial assets at amortised cost

The amount of the impairment of a financial asset held at amortised cost is the difference between the carrying amount and the recoverable amount, being the value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate at initial recognition. In estimating expected cash flows the Group looks at the contractual cash flows of the assets and adjusts these contractual cash flows for historical loss experience of assets with similar credit risks, with this adjusted to reflect any additional conditions that are expected to arise or to account for those which no longer exist.

The impairment provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the reporting date, but these components have not yet been specifically identified. When a loan is uncollectable, it is written-off against the related impairment provision.

If the amount of impairment subsequently decreases due to an event occurring after the write-down, the release of the impairment provision is credited to the income statement. Impairment reversals are limited to what the carrying amount would have been, had no impairment losses been recognised.

Interest income on impaired loans and receivables is recognised on the impaired amount using the original effective interest rate before the impairment.

Available-for-sale financial assets

The amount of the impairment loss of an available-for-sale financial asset is the cumulative loss that has been recognised in other comprehensive income, being the difference between the acquisition cost and the asset's current fair value, less any impairment loss on that asset previously recognised in the income statement. For available-for-sale debt securities, fair value is determined as is the present value of expected future cash flows discounted at the current market rate of interest.

All such impairments are recognised in the income statement. The release of an impairment allowance in respect of a debt instrument categorised as available-for-sale is credited to the income statement, the release in respect of an equity instrument categorised as available-for-sale is credited to the available-for-sale reserve within equity.

(l) Financial liabilities (other than investment contracts and derivatives)

Non-derivative financial liabilities, including borrowed funds, amounts owed to depositors and liabilities under acceptances, are recorded as held-for-trading, designated as fair value through the income statement or as financial liabilities at amortised cost.

Liabilities that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis and are managed, evaluated and reported using a fair value basis.

For financial liabilities recorded at fair value and which contain a demand feature, the fair value of the liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Financial liabilities categorised at amortised cost are recognised initially at fair value, which is normally represented by the transaction price, less directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Conversion options included within financial liabilities are recorded separately in shareholders' equity. The Group does not recognise any change in the value of this option in subsequent periods. The remaining obligation to make future payments of principal and interest to bondholders is calculated using a market interest rate for an equivalent non-convertible bond and is presented on the amortised cost basis in other borrowed funds until extinguished on conversion or maturity of the bonds.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other income.

(m) Reclassifications of financial assets

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was required to be categorised as held-for-trading (on the basis that it was held for the purpose of selling or repurchasing in the near term) may under exceptional circumstances be reclassified out of the fair value through income statement category if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

Other non-derivative financial assets that were required to be categorised as held-for-trading at initial recognition may be reclassified out of the fair value through income statement category in rare circumstances. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. Measurement of the asset after reclassification depends on the subsequent categorisation.

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was designated as available-for-sale may under exceptional circumstances be reclassified out of the available-for-sale category to the loans and receivables category if it meets the loans and receivables definition at the date of reclassification and if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable. In the case of a financial asset with a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is amortised to profit or loss over the remaining life using the effective interest method together with any difference between the new amortised cost and the maturity amount. In the case of a financial asset that does not have a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is recognised in profit or loss when the financial asset is sold or otherwise disposed of.

In accordance with the transitional provisions of the amendments, issued in October 2008 to IAS 39 'Financial Instruments: Recognition and Measurement' relating to the reclassification of financial assets, certain qualifying financial assets held by the Group during the period up to and including 1 July 2008 were reclassified as of that date and based on the fair value at that date.

Details of all reclassifications of financial assets in accordance with the above accounting policies are shown in note E1(a).

(n) Parent Company investments in subsidiary undertakings and associates

Parent Company investments in subsidiary undertakings and associates are recorded at cost. Impairments of Parent Company investments in subsidiary undertakings and associates are accounted for in the same way as impairments of other non-financial assets (see section A9).

A7: Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is correspondingly recognised in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(b) Deferred tax

Deferred taxation is provided using the temporary difference method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in other comprehensive income, or a business combination that is an acquisition. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available, against which the unutilised tax losses and deductible temporary differences can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination, and at the time of their occurrence affect neither accounting or taxable profit. Note F8 includes further detail of circumstances in which the Group does not recognise temporary differences.

A8: Intangible assets

(a) Goodwill and goodwill impairment

Goodwill arising on the acquisition of a subsidiary undertaking is recognised as an asset at the date that control is achieved (the acquisition date). Goodwill is measured as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), this excess is recognised immediately in the income statement as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least once annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On loss of control of a subsidiary undertaking, any attributable goodwill is included in the determination of any profit or loss on disposal.

Goodwill is allocated to one or more cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The directors annually test for impairment of each CGU or group of CGUs containing goodwill and intangible assets with indefinite useful lives, at a level that is no larger than that of the Group's identified operating segments for the purposes of segmental reporting. An impairment loss is recognised whenever the carrying amount of an asset or its CGU or group of CGUs exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses relating to goodwill are not reversed.

(b) Present value of acquired in-force for insurance and investment contract business
The present value of acquired in-force for insurance and investment contract business is capitalised in the consolidated statement of financial position as an intangible asset.

The capitalised value is the present value of cash flows anticipated in the future from the relevant book of insurance and investment contract policies acquired. This is calculated by performing a cash flow projection of the associated life assurance fund and book of in-force policies in order to estimate future after tax profits attributable to shareholders. The valuation is based on actuarial principles taking into account future premium income, mortality, disease and surrender probabilities, together with future costs and investment returns on the assets supporting the fund. These profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. The key assumptions impacting the valuation are discount rate, future investment returns and the rate at which policies discontinue.

The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts.

The amortisation charge is stated net of any unwind in the discount rate used to calculate the asset.

The recoverable amount of the asset is re-calculated at each reporting date and any impairment losses recognised accordingly.

(c) Other intangible assets acquired as part of a business combination
Contractual banking and asset management customer relationships, relationships with distribution channels and similar intangible assets, acquired as a part of a business combination, are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition.

Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition such acquired intangible assets are amortised on a straight-line basis over their estimated useful lives as set out below:

- Distribution channels 10 years
- Customer relationships 10 years
- Brand 15 – 20 years

The estimated life is re-evaluated on a regular basis.

(d) Internally developed software
Internally developed software is amortised over its estimated useful life. Such assets are stated at cost less accumulated amortisation and impairment losses. Software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed whereas costs incurred in the development phase are capitalised subject to meeting specific criteria, set out in the relevant accounting guidance. The main criteria being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the relevant software, which range between two and five years.

(e) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

A9: Impairment (all assets other than goodwill, deferred tax assets and financial assets)

The Group assesses all assets (other than goodwill, deferred tax assets and financial assets) on an ongoing basis for indications of impairment or whether a previously recognised impairment loss should be reversed. If such indicators are found to exist, then detailed impairment testing is carried out. Impairments (where the carrying value of the asset exceeds its recoverable amount) and the reversal of previously recognised impairments are recognised in the income statement.

A10: Property, plant and equipment

(a) Owned assets

Owner-occupied property is stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Plant and equipment, principally computer equipment, motor vehicles, fixtures and furniture, is stated at cost less accumulated depreciation and impairment losses.

In accordance with the exemptions permitted under IFRS 1 'First-time Adoption of International Financial Reporting Standards', individual terms of property, plant and equipment held at 1 January 2004 were measured at fair value, which was deemed to be their cost at that date.

(b) Subsequent expenditure

Subsequent expenditure is capitalised when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a separate component of an item of owner-occupied property, plant and equipment is capitalised to the cost of the item of owner-occupied property, plant and equipment and the component replaced is de-recognised. All other expenditure is recognised in the income statement as an expense when incurred.

(c) Revaluation of owner-occupied property

Owner-occupied property is valued on the same basis as investment property.

When an individual property is revalued, any increase in its carrying amount (as a result of the revaluation) is transferred to a revaluation reserve, except to the extent that it reverses a revaluation decrease of the same property previously recognised as an expense in the income statement.

When the value of an individual property is decreased as a result of a revaluation, the decrease is charged against any related credit balance in the revaluation reserve in respect of that property. However, to the extent that it exceeds any surplus, it is recognised as an expense in the income statement.

(d) De-recognition

On de-recognition of an owner-occupied property or item of plant and equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement in the period of the de-recognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

(e) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of owner-occupied property, plant and equipment that are accounted for separately.

In the case of owner-occupied property, any accumulated depreciation at revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated.

The maximum estimated useful lives are as follows:

- Computer equipment 5 years
- Computer software 3 years
- Motor vehicles 6 years
- Fixtures and furniture 10 years
- Leasehold property 20 years
- Freehold property 50 years

(f) Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases

Lease agreements where the Group substantially accepts the risks and rewards of the ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding balance of the liability.

Finance lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period according to the effective interest method. Where applicable, assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Where assets are leased out under a finance lease arrangement, the present value of the lease payments is recognised as a receivable. Initial direct costs are included in the initial measurement of the receivable. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased under operating leases

Assets leased out under operating leases are included under property, plant and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

A11: Investment properties

Investment property is real estate held to earn rentals or for capital appreciation. It does not include real estate held for use in the production or supply of goods or services or for administrative purposes.

Investment properties are stated at fair value. Internal professional valuers perform valuations annually. For practical reasons, valuations are carried out on a cyclical basis over a 12 month period due to the large number of properties involved. External valuations are obtained once every three years on a cyclical basis. In the event of a material change in market conditions between the valuation date and reporting date an internal valuation is performed and adjustments made to reflect any material changes in value.

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

Surpluses and deficits arising from changes in fair value are reflected in the income statement.

For properties reclassified during the year from property, plant and equipment to investment properties, any revaluation gain arising is initially recognised in the income statement to the extent that impairment losses were previously recognised. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in the income statement.

Investment properties that are reclassified to owner-occupied property are revalued at the date of transfer, with any difference being taken to the income statement.

A12: Finance costs

Finance costs relate to the Group's borrowed funds that are directly controlled by, or managed on behalf of, Old Mutual plc. These include interest payable, and gains and losses on revaluation of these funds and on those derivative instruments which are used to hedge these funds.

A13: Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Where the proceeds of disposal are expected to exceed the book value of the related net assets no impairment loss is recognised on the reclassifications of assets as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

A discontinued operation is defined as a component of an entity that either has been disposed of, or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

When a non-current asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale the income statement and cash flows of the comparative period are restated to show that line of business as a continuing operation.

A14: Pension plans and retirement benefits

Defined benefit and defined contribution schemes have been established for eligible employees of the Group with the assets held in separate trustee administered funds.

The projected unit credit method is used to determine the defined benefit obligations based on actuarial assessments, which incorporate not only the pension obligations known on the reporting date but also information relevant to their expected future development. The discount rates used are determined based on the yields for investment grade corporate bonds that have maturity dates approximating to the terms of the Group's obligations.

Actuarial gains or losses arising subsequent to 1 January 2004 are recognised in the income statement over a period of time to the extent that the net cumulative unrecognised gains and losses at the end of the previous financial year exceed 10% of the greater of

the fair value of the plan assets or 10% of the present value of the gross defined benefit obligations before deducting plan assets in the scheme at that date. Such actuarial gains and losses are recognised over the expected average remaining working lives of the employees participating in the scheme. Cumulative actuarial gains and losses at 1 January 2004 were recognised in equity at that date.

Where the corridor calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Contributions in respect of defined contribution schemes are recognised as an expense in the income statement as incurred.

Where applicable, Group companies make provision for post retirement medical and housing benefits for eligible employees. Non-pension post retirement benefits are accounted for according to their nature, either as defined contribution or defined benefit plans. The expected costs of post retirement benefits that are defined benefit plans in nature are accounted for in the same manner as for defined benefit pension plans.

A15: Share-based payments

(a) Equity-settled share-based payment transactions with employees

The services received in an equity-settled transaction with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and the employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognised in full on grant date in the income statement for the period, with a corresponding increase reflected directly in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. These services are accounted for in the income statement as they are rendered during the vesting period, with a corresponding increase recognised directly in equity.

In the Parent Company, the fair value of equity instruments granted by the Company to the employees of subsidiary undertakings is recorded as an additional investment in the relevant subsidiary with 'credit' recorded in equity.

(b) Cash-settled share-based payment transactions with employees

The services received in cash-settled transactions with employees and the liability to pay for those services, are recognised at fair value as the employee renders services. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in the income statement for the period.

(c) Measurement of fair value of equity instruments granted

The equity instruments granted by the Group are measured at fair value at the measurement date using standard option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments, and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

As permitted under IFRS 1, the provisions of this accounting policy have not been applied to equity-settled grants made on or before 7 November 2002, or awards granted after that date but which had vested prior to 1 January 2005.

A16: Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and highly liquid short-term funds, mandatory reserve deposits held with central banks, cash held in investment portfolios awaiting reinvestment and cash and cash equivalents subject to the consolidation of funds.

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For the year ended 31 December 2010 continued

A17: Other provisions

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

Specific policies:

- A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.
- A provision for restructuring is recognised only if the Group has approved a detailed formal plan and raised a valid expectation among those parties directly affected, that the plan will be carried out either by having begun implementation or by publicly announcing the plan's main features.
- No provision is made for future operating costs or losses.

A18: Segment reporting

The Group's results are analysed and reported consistent with the way that management and the Board of Directors considers information when making operating decisions and the basis on which resources are allocated and performance assessed by management and the Board of Directors, covering both core and non-core operations. The core operating segments are Emerging Markets, Nordic, Retail Europe and Wealth Management (collectively being Long-Term Savings) plus Nedbank, Mutual & Federal (M&F), US Asset Management and Other operations (which includes the Group head office functions). The non-core operating segment includes US Life and the Bermuda segments. The above reported segments have been revised during the year to reflect the reclassification of US Life as non-core and discontinued, with the comparative information having been revised to report on a consistent basis to the amended structure.

There are four principal business activities from which the Group generates revenues. These are life assurance (premium income), asset management business (fee and commission income), banking (banking interest receivable) and general insurance (premium income). The revenues generated in each reported segment can be seen in the analysis of profits and losses in note B.

The information reflected in note B reflects the measures of profit and loss, assets and liabilities for each operating segment as regularly provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the segment revenues and expenses and the Group's revenues and expenses is shown in note B.

In line with internal reporting, assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where appropriate and where there is a reasonable basis for doing so. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

Reclassifications of comparative segment information have been made to align segment information to the Group's revised management reporting structure described above. There was no impact on net profit or net assets.

A19: Treasury shares

Upon consolidation, the statement of financial position and income statement are adjusted for own shares held in policyholder funds, Employee Share Ownership Trusts (ESOPs), and Black Economic Empowerment Trusts consolidated within the Group's financial statements.

Own shares are deducted from equity. On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any proceeds from the sale or cancellation of own equity instruments are recognised in equity.

Income in relation to own shares, both dividends received and unrealised gains and losses, are eliminated before stating the profit for the year.

In calculating basic earnings per share, the exclusion of income in respect of own shares from the income statement requires the corresponding exclusion of own shares from the weighted average number of shares. When calculating diluted earnings per share, the number of shares included in the weighted average reflects the potential issue in respect of the own shares held.

A20: Share capital
Ordinary and preference share capital (including perpetual preferred callable securities) is classified as equity if it is non-redeemable by the shareholder and any dividends are discretionary and coupon payments are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Coupon payments thereon are recognised in the income statement as interest expense.

A21: Dividends
Dividends payable to holders of equity instruments are recognised in the period in which they are authorised or approved. Interim dividends payable to holders of the Group's ordinary share capital are authorised by the directors of the Parent Company, the final dividend typically requires shareholder approval.

A22: Liquidity analysis of the statement of financial position
The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 'Presentation of Financial Statements'. In order to satisfy the requirements of IAS 1, the following analysis is given to describe how statement of financial position lines are categorised between current and non-current balances, applying the principles laid out in IAS 1.

The following statement of financial position captions are generally classified as current – cash and cash equivalents, non-current assets held for sale, client indebtedness for acceptances, current tax receivable, third-party interests in the consolidation of funds, current tax payable, liabilities under acceptances and non-current liabilities held for sale. The following balances are generally classified as non-current – goodwill and other intangible assets, mandatory reserve deposits with central banks, property, plant and equipment, investment property, deferred tax assets, investments in associated undertakings and jointly controlled operations, deferred acquisition costs, deposits held with reinsurers, provisions, deferred revenue and deferred tax liabilities.

The following balances include both current and non-current portions – reinsurers' shares of life assurance and general insurance business policyholder liabilities, loans and advances, investments and securities, other assets, derivative financial assets and liabilities, life assurance and general insurance policyholder liabilities, borrowed funds, amounts owed to bank depositors and other liabilities. The split between the current and non-current portions for these assets and liabilities is given either by way of a footnote to the relevant note to the accounts or by way of a maturity analysis (in respect of major financial liability captions).

A23: Funds under management
'Funds under management' represents a measure of the value of customer assets managed by the Group's insurance and asset management operating segments.

Accounting treatment of funds under management depends on the nature of the contractual relationship with the customer and generally conforms to the following basic principles:

- Contracts with customers that involve a policy of insurance between the customer and the insurer are accounted for 'on-balance sheet' and follow the accounting policies set out in A4. For such contracts, there is a legal transfer of funds between the customer and the insurer, and accounting recognition follows this contractual form, in accordance with insurance practice under IFRS 4, 'Insurance Contracts' ('IFRS 4'). The amount due to the policyholder is accounted for as a liability (generally in life assurance policyholder liabilities), the funds received are invested by the insurer in financial and other assets, which are recorded on-balance sheet.
- Customer funds related to asset/investment management contracts with the investor, where the investor only has a service relationship with the Group and where the contractual terms do not result in a transfer of ownership of the investor's assets to the insurer or asset manager, are not recognised on the Group's balance sheet but are only included as part of the funds under management measure. The Group has no legal entitlement to the investor's assets, nor any requirement to recognise a liability to the investor.

Note B5 on page 212 provides an analysis of funds under management. The lines 'life assurance policyholder funds' and 'shareholder funds' represent on-balance sheet funds under management, whereas the lines 'unit trusts and mutual funds' and 'third-party client funds' are off-balance sheet.

A24: Standards, amendments to standards, and interpretations adopted in the 2010 annual financial statements
The following standards, amendments to standards and interpretations, which are relevant to the Group, have been adopted in these financial statements:

- IAS 32 'Financial Instruments: Presentation' (amendment in respect of accounting for rights issues, effective 1 February 2010). The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the Group. The amendment is not expected to have an impact on the Group's financial statements.

A25: Standards and interpretations that have previously been early-adopted in the Group's annual financial statements

The following standards and interpretations have been previously early-adopted in the Group's financial statements.

- IFRS 2 'Share-based payment' (amendments effective 1 January 2010). The Group early-adopted the amendments to IFRS 2 'Share-based Payment', 'Group Cash-settled Share-based Payment Transactions' issued in June 2009. These amendments introduce guidance on the treatment of Group cash-settled share-based payment arrangements and consolidate the previous requirements set out in IFRIC 8, 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'. There were no material impacts arising from the implementation of this amendment.
- IFRS 3 'Business Combinations' (revised 2008) and IAS 27 'Consolidated and Separate Financial Statements' (revised 2008) (effective 1 July 2009). The Group early-adopted the provisions of the revised version of IFRS 3 'Business Combinations' together with the corresponding amendments to IAS 27 'Consolidated and Separate Financial Statements' in these financial statements. No retrospective application of the standards is required. Details of the accounting policy for business combinations are given in A3.
- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' (consequential amendment effective 1 July 2009). The Group early-adopted the consequential amendment clarifying that assets and liabilities of a subsidiary should be classified as held for sale if the Group is committed to a plan involving loss of control, regardless of whether the Group will retain a non-controlling interest after the sale.
- IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures' (consequential amendments effective 1 July 2009 arising from the changes to IFRS 3 and IAS 27). The Group early-adopted the consequential amendments to IAS 28 and IAS 31 arising as a result of the early-adoption of IFRS 3 and IAS 27 (revised 2008). There were no material impacts arising from the implementation of these amendments.
- IAS 39 'Financial Instruments: Recognition and Measurement' (effective 1 July 2009). The Group early-adopted amendments made to clarify two hedge accounting issues: i) inflation in a financial hedged item and ii) a one sided risk in a hedged item. The amendments had no impact on the Group's financial statements.

A26: Future standards, amendments to standards, and interpretations not early-adopted in the 2010 annual financial statements

At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the Group, have been issued by the International Accounting Standards Board, although the EU has not yet endorsed all of them.

- IAS 24 Related Party Disclosures (Amendment). The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- IFRS 9 'Financial Instruments' (effective 1 January 2013) is a new standard on financial instruments that will eventually replace IAS 39. The published standard introduces changes to the current IAS 39 rules for classification and measurement of financial assets. Under IFRS 9 there will be two measurement bases for financial assets, amortised cost and fair value. Financial assets at fair value will be recorded at fair value through the income statement with a limited opportunity to record changes in fair value of certain equity instruments through other comprehensive income. The main impact for the Group will be the reclassification of the Bermuda business' bond portfolios from 'available-for-sale' (fair value changes through other comprehensive income) to amortised cost or fair value through the income statement. Financial liabilities are excluded from the scope of the standard. The Group is currently assessing the full impacts of the standard on its financial statements. The standard has not yet to be endorsed by the EU.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective 1 July 2010). IFRIC 19 clarifies the treatment of transactions whereby equity instruments are issued in order to extinguish all or part of a financial liability. IFRIC 19, which has been endorsed by the EU, is not expected to have any impact on the Group's annual financial statements.
- IFRIC 14 Prepayments of a minimum funding requirement. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.
- IFRS 7 Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) was issued in October 2010. The amendments to IFRS 7 'Financial Instruments: Disclosures' require enhancements to the existing disclosures where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale. These amendments are effective for annual periods beginning on or after 1 July 2011. Early application of the amendments is permitted. The Group is currently assessing the full impacts of these disclosure requirements on its financial statements. The standard has not yet been endorsed by the EU.

B: Segment information

B1: Basis of segmentation

The Group's core operations are Emerging Markets, Nordic, Retail Europe and Wealth Management (collectively Long-Term Savings), Nedbank, Mutual & Federal, US Asset Management and Other (including the Group head office functions). The Bermuda operating segment is regarded as non-core. This is consistent with the revised way that management and the Board of Directors considers information when making operating decisions and is the basis on which resources are allocated and performance assessed by management and the Board of Directors, being in line with that reported in the previous financial year. This information is presented to the Board in local currency however this note is presented in pounds sterling, the presentation currency of the Group. As detailed above US Life has been reclassified as discontinued and as a result also non-core with the comparative segment information restated accordingly, with this resulting in a reduction in adjusted operating profit before tax and non-controlling interest of £49 million for the year ended 31 December 2009. The Group generates revenue from four principal business activities: life assurance, asset management, banking and general insurance. The types of products and services from which each operating segment derives its revenues are as follows:

Core operations

Emerging Markets – life assurance and asset management

Nordic – life assurance, asset management and banking

Retail Europe – life assurance and asset management

Wealth Management – life assurance and asset management

Nedbank – banking and asset management

Mutual & Federal – general insurance

US Asset Management – asset management

Other – other operating segments and business activities

Non-core operations

Bermuda – life assurance

US Life – life assurance

Adjusted operating profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to and the review of performance of the segments. The Group utilises additional measures to assess the performance of each of the segments, in particular the level of net client cash flows and funds under management. Additional performance measures considered by management and the Board of Directors in assessing the performance of the segments can be found in the Market Consistent Embedded Value basis supplementary information presented on pages 332 to 383.

In the analysis that follows, consolidation adjustments include the elimination of inter-segment revenues, expenses, assets and liabilities together with the impacts of the consolidation of the Group's interest in unit trusts, mutual funds and similar entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2010

	Long-Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Revenue					
Gross earned premiums	**2,353**	**122**	**28**	**351**	**2,854**
Outward reinsurance	**(72)**	**(5)**	**(8)**	**(79)**	**(164)**
Net earned premiums	**2,281**	**117**	**20**	**272**	**2,690**
Investment return (non-banking)	**4,072**	**1,144**	**392**	**4,409**	**10,017**
Banking interest and similar income	**–**	**169**	**–**	**–**	**169**
Banking trading, investment and similar income	**–**	**5**	**–**	**–**	**5**
Fee and commission income, and income from service activities	**372**	**238**	**198**	**912**	**1,720**
Other income	**72**	**8**	**–**	**11**	**91**
Inter–segment revenues	**54**	**20**	**5**	**12**	**91**
Total revenues	**6,851**	**1,701**	**615**	**5,616**	**14,783**
Expenses					
Claims and benefits (including change in insurance contract provisions)	**(3,943)**	**(83)**	**(25)**	**(303)**	**(4,354)**
Reinsurance recoveries	**83**	**5**	**5**	**75**	**168**
Net claims and benefits incurred	**(3,860)**	**(78)**	**(20)**	**(228)**	**(4,186)**
Change in investment contract liabilities	**(1,261)**	**(1,066)**	**(382)**	**(4,190)**	**(6,899)**
Losses on loans and advances	**–**	**(4)**	**(1)**	**–**	**(5)**
Finance costs (including interest and similar expenses)	**–**	**–**	**–**	**–**	**–**
Banking interest payable and similar expenses	**–**	**(78)**	**–**	**–**	**(78)**
Fee and commission expenses, and other acquisition costs	**(219)**	**(62)**	**(75)**	**(500)**	**(856)**
Other operating and administrative expenses	**(941)**	**(255)**	**(84)**	**(390)**	**(1,670)**
Goodwill impairment	**–**	**–**	**–**	**–**	**–**
Change in third–party interest in consolidated funds	**–**	**–**	**–**	**–**	**–**
Amortisation of PVIF and other acquired intangibles	**–**	**–**	**–**	**–**	**–**
Income tax attributable to policyholder returns	**(32)**	**(48)**	**–**	**(69)**	**(149)**
Inter-segment expenses	**(2)**	**(2)**	**(2)**	**(43)**	**(49)**
Total expenses	**(6,315)**	**(1,593)**	**(564)**	**(5,420)**	**(13,892)**
Share of associated undertakings' and joint ventures' profit/(loss) after tax	**3**	**2**	**–**	**1**	**6**
Loss on disposal of subsidiaries, associated undertakings and strategic investments	**–**	**–**	**–**	**–**	**–**
Adjusted operating profit/(loss) before tax and non-controlling interests	**539**	**110**	**51**	**197**	**897**
Tax expense	**(146)**	**(20)**	**(13)**	**(44)**	**(223)**
Non-controlling interests	**(1)**	**–**	**–**	**–**	**(1)**
Adjusted operating profit/(loss) after tax and non-controlling interests	**392**	**90**	**38**	**153**	**673**
Adjusting items net of tax and non-controlling interests	**(1)**	**(87)**	**(25)**	**(140)**	**(253)**
Profit/(loss) after tax from continuing operations	**391**	**3**	**13**	**13**	**420**
Loss from discontinued operations after tax	**–**	**–**	**–**	**–**	**–**
Profit/(loss) after tax attributable to equity holders of the parent	**391**	**3**	**13**	**13**	**420**

Of the total revenues, excluding intercompany revenues, £5,143 million was generated in the UK (2009: £5,544 million), £2,937 million in rest of Europe (2009: £3,938 million), £12,575 million in South Africa (2009: £10,084 million), £829 million in United States (2009: £993 million) and £90 million relates to other operating segments (2009: £81 million).

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (Note C1)	Non-core operations*	IFRS Income statement
–	728	–	–	–	3,582	–	–	3,582
–	(140)	–	–	–	(304)	–	(1)	(305)
–	588	–	–	–	3,278	–	(1)	3,277
–	56	16	61	435	10,585	(93)	299	10,791
3,913	–	–	–	–	4,082	–	–	4,082
199	–	–	–	–	204	–	–	204
946	28	465	1	–	3,160	(99)	–	3,061
35	–	9	(1)	3	137	–	22	159
20	20	4	29	(207)	(43)	–	43	–
5,113	692	494	90	231	21,403	(192)	363	21,574
–	(436)	–	–	–	(4,790)	–	(249)	(5,039)
–	58	–	–	–	226	–	1	227
–	(378)	–	–	–	(4,564)	–	(248)	(4,812)
–	–	–	–	–	(6,899)	–	–	(6,899)
(548)	–	–	1	–	(552)	–	–	(552)
–	–	–	(128)	–	(128)	(141)	–	(269)
(2,422)	–	–	–	–	(2,500)	(19)	–	(2,519)
(3)	(109)	(23)	–	(36)	(1,027)	149	(85)	(963)
(1,485)	(83)	(384)	(93)	(14)	(3,729)	41	(26)	(3,714)
–	–	–	–	–	–	(1)	–	(1)
–	–	–	–	(388)	(388)	–	–	(388)
–	–	–	–	–	–	(297)	–	(297)
–	–	–	–	–	(149)	149	–	–
(54)	(20)	–	(77)	207	7	–	(7)	–
(4,512)	(590)	(407)	(297)	(231)	(19,929)	(119)	(366)	(20,414)
–	1	–	–	–	7	–	–	7
–	–	–	–	–	–	(22)	–	(22)
601	103	87	(207)	–	1,481	(333)	(3)	1,145
(128)	(24)	(17)	45	–	(347)	(113)	4	(456)
(232)	(5)	–	(41)	–	(279)	21	–	(258)
241	74	70	(203)	–	855	(425)	1	431
10	(11)	(20)	(151)	–	(425)	425	–	–
251	63	50	(354)	–	430	–	1	431
–	–	–	–	–	–	–	(713)	(713)
251	63	50	(354)	–	430	–	(712)	(282)

* Non-core operations relates to Bermuda with the exception of £(21) million of Inter-segment revenue and expenses and the Loss from discontinued operations after tax, with these reflecting the results of US Life which has been classified as a discontinued operation as detailed in notes A1 and B1. Bermuda profit after tax for 2010 was £22 million. Further detail on the results of discontinued operations is provided in note H1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2009 (restated)

	Long-Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Revenue					
Gross earned premiums	1,946	109	31	315	2,401
Outward reinsurance	(56)	(5)	(8)	(81)	(150)
Net earned premiums	1,890	104	23	234	2,251
Investment return (non-banking)	2,636	2,035	564	4,997	10,232
Banking interest and similar income	–	157	–	–	157
Banking trading, investment and similar income	–	–	–	–	–
Fee and commission income, and income from service activities	305	190	189	746	1,430
Other income	65	6	–	24	95
Inter-segment revenues	55	32	10	27	124
Total revenues	4,951	2,524	786	6,028	14,289
Expenses					
Claims and benefits (including change in insurance contract provisions)	(2,551)	(72)	(37)	(255)	(2,915)
Reinsurance recoveries	76	2	5	46	129
Net claims and benefits incurred	(2,475)	(70)	(32)	(209)	(2,786)
Change in investment contract liabilities	(1,040)	(1,972)	(554)	(4,775)	(8,341)
Losses on loans and advances	–	(5)	(1)	–	(6)
Finance costs (including interest and similar expenses)	–	–	–	–	–
Banking interest payable and similar expenses	–	(70)	–	–	(70)
Fee and commission expenses, and other acquisition costs	(184)	(53)	(79)	(394)	(710)
Other operating and administrative expenses	(768)	(215)	(96)	(380)	(1,459)
Goodwill impairment	–	–	–	–	–
Change in third-party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	(37)	(39)	–	(116)	(192)
Inter-segment expenses	(5)	(38)	(2)	(48)	(93)
Total expenses	(4,509)	(2,462)	(764)	(5,922)	(13,657)
Share of associated undertakings' and joint ventures' profit/(loss) after tax	4	–	–	–	4
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests	446	62	22	106	636
Tax expense	(130)	9	(8)	(20)	(149)
Non-controlling interests	(2)	–	–	–	(2)
Adjusted operating profit/(loss) after tax and non-controlling interests	314	71	14	86	485
Adjusting items net of tax and non-controlling interests	(200)	(4)	(228)	(225)	(657)
Profit/(loss) after tax from continuing operations	114	67	(214)	(139)	(172)
Loss from discontinued operations after tax	–	–	–	–	–
Profit/(loss) after tax attributable to equity holders of the parent	114	67	(214)	(139)	(172)

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (Note C1)	Non-core operations*	IFRS Income statement
–	612	–	–	–	3,013	–	7	3,020
–	(117)	–	–	–	(267)	–	–	(267)
–	495	–	–	–	2,746	–	7	2,753
–	58	13	91	509	10,903	(275)	484	11,112
3,832	–	–	–	–	3,989	–	–	3,989
168	–	–	–	–	168	–	–	168
663	22	429	–	(6)	2,538	(116)	–	2,422
70	1	7	–	1	174	–	22	196
31	29	6	30	(251)	(31)	–	31	–
4,764	605	455	121	253	20,487	(391)	544	20,640
–	(412)	–	–	–	(3,327)	–	(459)	(3,786)
–	72	–	–	–	201	–	(1)	200
–	(340)	–	–	–	(3,126)	–	(460)	(3,586)
–	–	–	–	–	(8,341)	–	(4)	(8,345)
(505)	–	–	–	–	(511)	–	–	(511)
–	–	–	(104)	–	(104)	(218)	–	(322)
(2,557)	–	–	–	–	(2,627)	–	–	(2,627)
(2)	(106)	(18)	–	(12)	(848)	167	(47)	(728)
(1,167)	(64)	(354)	(84)	(22)	(3,150)	97	(19)	(3,072)
–	–	–	–	–	–	(266)	–	(266)
–	–	–	–	(470)	(470)	–	–	(470)
–	–	–	–	–	–	(312)	–	(312)
–	–	–	–	–	(192)	192	–	–
(65)	(25)	–	(55)	251	13	–	(13)	–
(4,296)	(535)	(372)	(243)	(253)	(19,356)	(340)	(543)	(20,239)
2	–	–	(4)	–	2	–	–	2
–	–	–	–	–	–	(50)	–	(50)
470	70	83	(126)	–	1,133	(781)	1	353
(96)	(15)	(19)	(4)	–	(283)	(128)	11	(400)
(193)	(16)	–	(34)	–	(245)	23	–	(222)
181	39	64	(164)	–	605	(886)	12	(269)
15	–	(3)	(241)	–	(886)	886	–	–
196	39	61	(405)	–	(281)	–	12	(269)
–	–	–	–	–	–	–	(71)	(71)
196	39	61	(405)	–	(281)	–	(59)	(340)

* Non-core operations relates to Bermuda with the exception of £(21) million of Inter-segment revenue and expenses and the Loss from discontinued operations after tax, with these reflecting the results of US Life which has been classified as a discontinued operation as detailed in notes A1 and B1. Bermuda profit after tax for 2009 was £33 million. Further detail on the results of discontinued operations is provided in note H1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B3: Gross earned premiums

Year ended 31 December 2010	Long-Term Savings				
	Emerging Markets	**Nordic**	**Retail Europe**	**Wealth Management**	**Total Long-Term Savings**
Life assurance – insurance contracts	**1,498**	**122**	**28**	**351**	**1,999**
Life assurance – investment contracts with discretionary participation features	**855**	**–**	**–**	**–**	**855**
General insurance	**–**	**–**	**–**	**–**	**–**
Gross earned premiums	**2,353**	**122**	**28**	**351**	**2,854**
Life assurance – other investment contracts recognised as deposits	**1,829**	**1,040**	**656**	**6,287**	**9,812**

Year ended 31 December 2009	Long-Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Life assurance – insurance contracts	1,287	109	31	315	1,742
Life assurance – investment contracts with discretionary participation features	659	–	–	–	659
General insurance	–	–	–	–	–
Gross earned premiums	1,946	109	31	315	2,401
Life assurance – other investment contracts recognised as deposits	2,726	1,199	733	4,906	9,564

B4: Impairments of financial assets

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Nordic	**4**	5
Total Long-Term Savings	**4**	5
Nedbank	**547**	504
Bermuda	**–**	13
Total	**551**	522

£m

Nedbank	M&F	USAM	Total core operations	Non-core operations	Total
–	–	–	**1,999**	–	**1,999**
–	–	–	**855**	–	**855**
–	**728**	–	**728**	–	**728**
–	**728**	–	**3,582**	–	**3,582**
–	–	–	**9,812**	–	**9,812**

Nedbank	M&F	USAM	Total core operations	Non-core operations	Total Restated
–	–	–	1,742	7	1,749
–	–	–	659	–	659
–	612	–	612	–	612
–	612	–	3,013	7	3,020
–	–	–	9,564	8	9,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B5: Funds under management

As at 31 December 2010	Long-Term Savings				
	Emerging Markets	**Nordic**	**Retail Europe**	**Wealth Management**	**Total Long-Term Savings**
Life assurance policyholder funds	**31,750**	**11,722**	**4,317**	**40,401**	**88,190**
Unit trusts and mutual funds	**10,613**	**1,800**	**398**	**14,525**	**27,336**
Third-party client funds	**11,732**	**–**	**–**	**–**	**11,732**
Total client funds under management	**54,095**	**13,522**	**4,715**	**54,926**	**127,258**
Shareholder funds	**2,882**	**431**	**245**	**958**	**4,516**
Total funds under management	**56,977**	**13,953**	**4,960**	**55,884**	**131,774**

As at 31 December 2009	Long-Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Life assurance policyholder funds	25,454	9,221	3,569	34,721	72,965
Unit trusts and mutual funds	7,686	1,428	391	11,308	20,813
Third-party client funds	8,229	–	–	–	8,229
Total client funds under management	41,369	10,649	3,960	46,029	102,007
Shareholder funds	2,130	360	210	830	3,530
Total funds under management	43,499	11,009	4,170	46,859	105,537

£m

Nedbank	M&F	USAM	Total core operations	Non-core operations	Total
846	**–**	**3,846**	**92,882**	**13,489**	**106,371**
5,713	**–**	**4,974**	**38,023**	**–**	**38,023**
4,164	**–**	**157,555**	**173,451**	**–**	**173,451**
10,723	**–**	**166,375**	**304,356**	**13,489**	**317,845**
–	**210**	**226**	**4,952**	**–**	**4,952**
10,723	**210**	**166,601**	**309,308**	**13,489**	**322,797**

Nedbank	M&F	USAM	Total core operations	Non-core operations	Total
658	–	6,789	80,412	9,602	90,014
3,775	–	4,095	28,683	–	28,683
3,800	–	150,423	162,452	–	162,452
8,233	–	161,307	271,547	9,602	281,149
–	162	169	3,861	–	3,861
8,233	162	161,476	275,408	9,602	285,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010

At 31 December 2010	Notes	Long-Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Assets						
Goodwill and other intangible assets	F1	120	995	522	1,463	3,100
Goodwill		101	243	198	655	1,197
Present value of acquired in-force business		–	568	246	593	1,407
Software development		11	4	3	20	38
Other intangibles		8	180	75	195	458
Mandatory reserve deposits with central banks		–	–	–	–	–
Property, plant and equipment	F2	396	12	3	16	427
Investment property	F3	1,679	–	–	–	1,679
Deferred tax assets	F8 (a)	96	78	27	27	228
Investments in associated undertakings and joint ventures	G5	26	4	–	1	31
Deferred acquisition costs	F4	139	66	316	855	1,376
Insurance contracts		1	14	7	47	69
Investment contracts		118	52	306	711	1,187
Asset management		20	–	3	97	120
Reinsurers' share of life assurance policyholder liabilities	E8	24	12	8	907	951
Insurance contracts		24	1	2	83	110
Unit–linked investment contracts and similar contracts		–	8	–	813	821
Outstanding claims		–	3	6	11	20
Reinsurers' share of general insurance liabilities	E8	–	–	–	–	–
Deposits held with reinsurers	E8	–	–	–	–	–
Loans and advances	E3	343	5,216	1	185	5,745
Policyholder loans		63	–	1	185	249
Other loans and advances		280	5,216	–	–	5,496
Investments and securities	E4	34,519	13,392	4,466	40,856	93,233
Government and government–guaranteed securities		4,704	167	74	272	5,217
Listed other debt securities, preference shares and debentures		2,324	2,798	46	–	5,168
Unlisted other debt securities, preference shares and debentures		4,209	–	20	140	4,369
Listed equity securities		10,991	–	7	–	10,998
Unlisted equity securities		1,945	4	–	–	1,949
Listed pooled investments		672	408	3	1,779	2,862
Unlisted pooled investments		7,936	10,015	4,316	37,671	59,938
Short–term funds and securities treated as investments		1,704	–	–	994	2,698
Other securities		34	–	–	–	34
Current tax receivable		4	1	9	95	109
Client indebtedness for acceptances		–	–	–	–	–
Trade, other receivables and other assets	F5	854	191	58	274	1,377
Derivative financial instruments – assets	E6	557	10	–	–	567
Cash and cash equivalents		1,141	198	93	336	1,768
Non–current assets held for sale	H2	–	–	–	6	6
Inter-segment assets		947	58	56	294	1,355
Total assets		40,845	20,233	5,559	45,315	111,952

£m

Nedbank	M&F	USAM	Other	Bermuda	US Life	Consolidation adjustments	Total
637	33	1,181	14	–	–	–	4,965
453	13	1,155	13	–	–	–	2,831
–	–	–	–	–	–	–	1,407
184	20	–	1	–	–	–	243
–	–	26	–	–	–	–	484
1,079	–	–	–	–	–	–	1,079
546	25	16	1	–	–	–	1,015
19	–	–	1	–	–	341	2,040
28	12	148	–	–	–	–	416
96	2	8	25	–	–	–	162
1	19	14	–	124	–	–	1,534
–	19	–	–	124	–	–	212
–	–	–	–	–	–	–	1,187
1	–	14	–	–	–	–	135
31	–	–	–	–	–	–	982
31	–	–	–	–	–	–	141
–	–	–	–	–	–	–	821
–	–	–	–	–	–	–	20
–	122	–	–	–	–	–	122
–	2	–	–	–	–	–	2
46,032	1	–	–	–	–	–	51,778
–	–	–	–	–	–	–	249
46,032	1	–	–	–	–	–	51,529
6,886	553	218	109	2,567	–	2,587	106,153
1,997	–	–	–	17	–	2,044	9,275
3,730	2	–	52	323	–	2,081	11,356
–	4	–	–	201	–	–	4,574
52	119	–	–	–	–	12,033	23,202
241	8	–	–	5	–	48	2,251
866	43	179	1	1,919	–	2,721	8,591
–	–	39	3	–	–	(16,528)	43,452
–	377	–	19	102	–	156	3,352
–	–	–	34	–	–	32	100
47	–	–	–	–	–	–	156
190	–	–	–	–	–	–	190
943	82	138	62	1,038	–	292	3,932
1,350	–	–	109	1	–	476	2,503
841	131	171	458	74	–	689	4,132
1	–	–	–	–	12,384	–	12,391
202	23	4	975	874	47	(3,480)	–
58,929	1,005	1,898	1,754	4,678	12,431	905	193,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010 continued

At 31 December 2010	Notes	Long-Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Liabilities						
Life assurance policyholder liabilities	E8	**35,676**	**12,248**	**4,460**	**41,468**	**93,852**
Insurance contracts		**14,122**	**45**	**130**	**1,109**	**15,406**
Unit-linked investment contracts and similar contracts		**12,789**	**12,094**	**4,308**	**40,347**	**69,538**
Other investment contracts		**137**	**–**	**–**	**–**	**137**
Discretionary participating investment contracts		**8,249**	**–**	**–**	**–**	**8,249**
Outstanding claims		**379**	**109**	**22**	**12**	**522**
General insurance liabilities	E8	**–**	**–**	**–**	**–**	**–**
Third–party interests in consolidated funds		**–**	**–**	**–**	**–**	**–**
Borrowed funds	E9	**291**	**2**	**–**	**1**	**294**
Senior debt securities		**–**	**2**	**–**	**–**	**2**
Mortgage backed securities		**–**	**–**	**–**	**–**	**–**
Subordinated debt securities		**291**	**–**	**–**	**1**	**292**
Provisions	F6	**158**	**(38)**	**4**	**50**	**174**
Deferred revenue	F7	**22**	**1**	**197**	**498**	**718**
Life assurance		**17**	**1**	**194**	**408**	**620**
Asset management		**5**	**–**	**3**	**90**	**98**
General insurance		**–**	**–**	**–**	**–**	**–**
Deferred tax liabilities	F8	**225**	**98**	**124**	**224**	**671**
Current tax payable		**123**	**12**	**4**	**65**	**204**
Trade, other payables and other liabilities	F9	**2,246**	**259**	**94**	**544**	**3,143**
Liabilities under acceptances		**–**	**–**	**–**	**–**	**–**
Amounts owed to bank depositors	E10	**–**	**5,957**	**–**	**–**	**5,957**
Derivative financial instruments – liabilities	E6	**135**	**10**	**–**	**–**	**145**
Non-current liabilities held for sale		**–**	**–**	**–**	**–**	**–**
Inter-segment liabilities		**123**	**1**	**4**	**99**	**227**
Total liabilities		**38,999**	**18,550**	**4,887**	**42,949**	**105,385**
Net assets		**1,846**	**1,683**	**672**	**2,366**	**6,567**
Equity						
Equity attributable to equity holders of the parent	F10	**1,847**	**1,683**	**672**	**2,366**	**6,568**
Non-controlling interests		**(1)**	**–**	**–**	**–**	**(1)**
Non-controlling interests – ordinary shares	F11(b)	**(1)**	**–**	**–**	**–**	**(1)**
Non-controlling interests – preference shares	F11(b)	**–**	**–**	**–**	**–**	**–**
Total equity		**1,846**	**1,683**	**672**	**2,366**	**6,567**

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £399 million (2009: £340 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All Emerging Markets debt relates to life assurance. All other debt relates to other shareholders' net assets.

£m

Nedbank	M&F	USAM	Other	Bermuda	US Life	Consolidation adjustments	Total
846	–	–	–	3,933	–	–	98,631
136	–	–	–	3,635	–	–	19,177
–	–	–	–	–	–	–	69,538
710	–	–	–	298	–	–	1,145
–	–	–	–	–	–	–	8,249
–	–	–	–	–		–	522
–	397	–	–	–	–	–	397
–	–	–	–	–	–	3,584	3,584
2,456	–	11	1,443	–	–	–	4,204
1,186	–	11	537	–	–	–	1,736
112	–	–	–	–	–	–	112
1,158	–	–	906	–	–	–	2,356
(4)	40	3	47	–	–	–	260
1	11	–	–	–	–	–	730
1	–	–	–	–	–	–	621
–	–	–	–	–	–	–	98
–	11	–	–	–	–	–	11
158	13	–	16	–	–	–	858
12	1	7	13	1	–	–	238
1,717	114	210	120	7	–	350	5,661
190	–	–	–	–	–	–	190
47,279	–	–	–	–	–	–	53,236
1,172	–	–	102	–	–	451	1,870
–	–	–	–	–	12,219	–	12,219
431	2	803	1,860	–	157	(3,480)	–
54,258	578	1,034	3,601	3,941	12,376	905	182,078
4,671	427	864	(1,847)	737	55	–	11,474
2,643	409	832	(2,293)	737	55	–	8,951
2,028	18	32	446	–	–	–	2,523
1,714	18	32	–	–	–	–	1,763
314	–	–	446	–	–	–	760
4,671	427	864	(1,847)	737	55	–	11,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009

At 31 December 2009	Notes	Long-Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Assets						
Goodwill and other intangible assets	F1	106	1,035	563	1,602	3,306
Goodwill		91	219	204	656	1,170
Present value of acquired in-force business		–	624	265	671	1,560
Software development		6	1	3	35	45
Other intangibles		9	191	91	240	531
Mandatory reserve deposits with central banks		–	–	–	–	–
Property, plant and equipment	F2	336	7	4	19	366
Investment property	F3	1,518	–	–	2	1,520
Deferred tax assets	F8(a)	54	108	17	23	202
Investments in associated undertakings and joint ventures	G5	20	2	–	–	22
Deferred acquisition costs	F4	123	49	275	778	1,225
Insurance contracts		–	2	–	50	52
Investment contracts		107	47	271	654	1,079
Asset management		16	–	4	74	94
Reinsurers' share of life assurance policyholder liabilities	E8	11	10	6	772	799
Insurance contracts		11	7	4	45	67
Unit-linked investment contracts and similar contracts		–	–	–	717	717
Outstanding claims		–	3	2	10	15
Reinsurers' share of general insurance liabilities	E8	–	–	–	–	–
Deposits held with reinsurers	E8	–	108	–	–	108
Loans and advances	E3	340	4,209	2	148	4,699
Policyholder loans		58	2	2	148	210
Other loans and advances		282	4,207	–	–	4,489
Investments and securities	E4	27,603	10,836	3,693	35,120	77,252
Government and government-guaranteed securities		3,586	150	60	251	4,047
Listed other debt securities, preference shares and debentures		1,825	1,453	53	–	3,331
Unlisted other debt securities, preference shares and debentures		2,989	–	2	104	3,095
Listed equity securities		8,854	1	10	–	8,865
Unlisted equity securities		1,223	15	–	–	1,238
Listed pooled investments		457	547	–	437	1,441
Unlisted pooled investments		6,123	8,670	3,568	34,327	52,688
Short-term funds and securities treated as investments		2,543	–	–	1	2,544
Other securities		3	–	–	–	3
Current tax receivable		4	4	16	86	110
Client indebtedness for acceptances		–	–	–	–	–
Trade, other receivables and other assets	F5	630	155	58	232	1,075
Derivative financial instruments – assets	E6	327	9	–	–	336
Cash and cash equivalents		189	344	81	278	892
Non-current assets held for sale	H2	–	–	–	–	–
Inter-segment assets		1,352	59	23	277	1,711
Total assets		32,613	16,935	4,738	39,337	93,623

£m

Nedbank	M&F	USAM	Other	Bermuda	US Life	Consolidation adjustments	Total
543	30	1,171	13	2	94	–	5,159
393	11	1,142	13	–	–	–	2,729
–	–	–	–	–	89	–	1,649
150	19	1	–	2	5	–	222
–	–	28	–	–	–	–	559
882	–	–	–	–	–	–	882
417	23	19	2	–	1	–	828
18	–	–	–	–	–	221	1,759
24	6	147	8	–	183	–	570
82	–	7	24	–	–	–	135
2	17	29	–	194	1,671	–	3,138
–	17	–	–	194	1,671	–	1,934
–	–	–	–	–	–	–	1,079
2	–	29	–	–	–	–	125
22	–	–	–	–	475	–	1,296
22	–	–	–	–	450	–	539
–	–	–	–	–	–	–	717
–	–	–	–	–	25	–	40
–	120	–	–	–	–	–	120
–	3	–	–	–	35	–	146
37,638	2	–	–	–	54	–	42,393
–	–	–	–	–	53	–	263
37,638	2	–	–	–	1	–	42,130
5,501	425	162	43	2,942	10,045	2,091	98,461
2,044	–	–	–	–	302	1,775	8,168
2,532	2	–	–	461	6,766	1,729	14,821
–	4	–	–	167	2,439	–	5,705
41	87	–	–	–	–	9,503	18,496
209	6	–	–	37	–	–	1,490
675	41	122	–	2,059	3	1,400	5,741
–	–	40	–	–	16	(12,678)	40,066
–	285	–	–	218	519	293	3,859
–	–	–	43	–	–	69	115
51	–	–	8	–	–	–	169
170	–	–	–	–	–	–	170
432	96	126	111	878	213	120	3,051
1,067	–	–	154	–	187	802	2,546
660	79	173	425	32	4	717	2,982
1	–	–	–	–	–	–	1
148	48	1	1,363	564	74	(3,909)	–
47,658	849	1,835	2,151	4,612	13,036	42	163,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009 continued

At 31 December 2009	Notes	Long-Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings
Liabilities						
Life assurance policyholder liabilities	E8	28,655	9,514	3,689	35,554	77,412
Insurance contracts		11,783	74	121	901	12,879
Unit-linked investment contracts and similar contracts		9,838	9,335	3,560	34,639	57,372
Other investment contracts		115	–	–	–	115
Discretionary participating investment contracts		6,639	–	–	–	6,639
Outstanding claims		280	105	8	14	407
General insurance liabilities	E8	–	–	–	–	–
Third-party interests in consolidated funds		–	–	–	–	–
Borrowed funds	E9	272	26	–	–	298
Senior debt securities		–	26	–	–	26
Mortgage backed securities		–	–	–	–	–
Subordinated debt securities		272	–	–	–	272
Provisions	F6	147	11	8	33	199
Deferred revenue	F7	23	5	160	456	644
Life assurance		16	5	155	379	555
Asset management		7	–	5	77	89
General insurance		–	–	–	–	–
Deferred tax liabilities	F8(b)	200	113	124	167	604
Current tax payable		70	20	2	37	129
Trade, other payables and other liabilities	F9	1,512	203	79	550	2,344
Liabilities under acceptances		–	–	–	–	–
Amounts owed to bank depositors	E10	–	5,448	–	–	5,448
Derivative financial instruments – liabilities	E6	141	22	–	–	163
Non-current liabilities held for sale		–	–	–	–	–
Inter-segment liabilities		51	37	–	181	269
Total liabilities		31,071	15,399	4,062	36,978	87,510
Net assets		1,542	1,536	676	2,359	6,113
Equity						
Equity attributable to equity holders of the parent	F10	1,540	1,536	676	2,359	6,111
Non-controlling interests		2	–	–	–	2
Non-controlling interests – ordinary shares	F11(b)	2	–	–	–	2
Non-controlling interests – preference shares	F11(b)	–	–	–	–	–
Total equity		1,542	1,536	676	2,359	6,113

£m

Nedbank	M&F	USAM	Other	Bermuda	US Life	Consolidation adjustments	Total
661	–	–	–	4,178	11,625	–	93,876
95	–	–	–	3,788	10,787	–	27,549
–	–	–	–	–	–	–	57,372
566	–	–	–	390	788	–	1,859
–	–	–	–	–	–	–	6,639
–	–	–	–	–	50	–	457
–	372	–	–	–	–	–	372
–	–	–	–	–	–	2,906	2,906
1,614	–	–	1,397	–	–	–	3,309
484	–	–	636	–	–	–	1,146
118	–	–	–	–	–	–	118
1,012	–	–	761	–	–	–	2,045
1	21	2	40	–	–	–	263
1	9	–	–	–	–	–	654
1	–	–	–	–	–	–	556
–	–	–	–	–	–	–	89
–	9	–	–	–	–	–	9
148	2	–	25	–	126	–	905
21	–	10	45	5	–	–	210
897	118	221	120	(9)	359	255	4,305
170	–	–	–	–	–	–	170
38,687	–	–	–	–	–	–	44,135
969	–	–	59	–	9	790	1,990
–	–	–	–	–	–	–	–
697	–	1,202	1,571	–	170	(3,909)	–
43,866	522	1,435	3,257	4,174	12,289	42	153,095
3,792	327	400	(1,106)	438	747	–	10,711
2,084	265	371	(1,552)	438	747	–	8,464
1,708	62	29	446	–	–	–	2,247
1,444	62	29	–	–	–	–	1,537
264	–	–	446	–	–	–	710
3,792	327	400	(1,106)	438	747	–	10,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

C: Other key performance information

C1: Operating profit adjusting items

(a) Summary of adjusting items

In determining the adjusted operating profit of the Group for core operations certain adjustments are made to profit before tax to reflect the directors' view of the underlying long-term performance of the Group. The following table shows an analysis of those adjustments from adjusted operating profit to profit before and after tax.

		Long-Term Savings				
Year ended 31 December 2010	Notes	**Emerging Markets**	**Nordic**	**Retail Europe**	**Wealth Management**	**Long-Term Savings**
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	C1(b)	**(2)**	**(89)**	**(41)**	**(74)**	**(206)**
Loss on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**–**	**–**	**–**	**–**	**–**
Short-term fluctuations in investment return	C1(d)	**1**	**(1)**	**1**	**(71)**	**(70)**
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(10)**	**–**	**–**	**–**	**(10)**
Dividends declared to holders of perpetual preferred callable securities	C1(f)	**–**	**–**	**–**	**–**	**–**
US Asset Management equity plans and non–controlling interests	C1(g)	**–**	**–**	**–**	**–**	**–**
Credit-related fair value losses on Group debt instruments	C1(h)	**–**	**–**	**–**	**–**	**–**
Total adjusting items		**(11)**	**(90)**	**(40)**	**(145)**	**(286)**
Tax on adjusting items	D1(d)	**10**	**3**	**15**	**5**	**33**
Non-controlling interest in adjusting items	F11(a)(iii)	**–**	**–**	**–**	**–**	**–**
Total adjusting items after tax and non-controlling interests		**(1)**	**(87)**	**(25)**	**(140)**	**(253)**

		Long-Term Savings				
Year ended 31 December 2009*	Notes	Emerging Markets	Nordic	Retail Europe	Wealth Management	Long-Term Savings
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	C1(b)	(1)	(12)	(243)	(167)	(423)
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	(51)	–	–	(7)	(58)
Short-term fluctuations in investment return	C1(d)	(38)	(1)	1	(88)	(126)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	(109)	–	–	–	(109)
Dividends declared to holders of perpetual preferred callable securities	C1(f)	–	–	–	–	–
US Asset Management equity plans and non-controlling interests	C1(g)	–	–	–	–	–
Credit-related fair value gains on Group debt instruments	C1(h)	–	–	–	–	–
Total adjusting items		(199)	(13)	(242)	(262)	(716)
Tax on adjusting items	D1(d)	(1)	9	14	37	59
Non-controlling interest in adjusting items	F11(a)(iii)	–	–	–	–	–
Total adjusting items after tax and non-controlling interests		(200)	(4)	(228)	(225)	(657)

* The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.

				£m
Nedbank	**M&F**	**USAM**	**Other**	**Total**
(6)	**–**	**(2)**	**–**	**(214)**
(1)	**–**	**(21)**	**–**	**(22)**
–	**(7)**	**–**	**(6)**	**(83)**
–	**–**	**–**	**–**	**(10)**
–	**–**	**–**	**44**	**44**
–	**–**	**6**	**–**	**6**
(20)	**–**	**–**	**(183)**	**(203)**
(27)	**(7)**	**(17)**	**(145)**	**(482)**
7	**(4)**	**6**	**(6)**	**36**
30	**–**	**(9)**	**–**	**21**
10	**(11)**	**(20)**	**(151)**	**(425)**

				£m
Nedbank	M&F	USAM	Other	Total
(4)	–	(2)	–	(429)
–	–	1	7	(50)
–	(10)	–	(30)	(166)
–	–	–	–	(109)
–	–	–	45	45
–	–	(1)	–	(1)
–	–	–	(263)	(263)
(4)	(10)	(2)	(241)	(973)
–	3	2	–	64
19	7	(3)	–	23
15	–	(3)	(241)	(886)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

C: Other key performance information continued

C1: Operating profit adjusting items continued

(b) Goodwill impairment and impact of acquisition accounting

Acquisition date deferred acquisition costs and deferred revenues are not recognised. These are reversed in the acquisition statement of financial position and replaced by goodwill, other intangible assets and the value of the acquired present value of in-force business ('acquired PVIF'). In determining its adjusted operating profit the Group recognises deferred revenue and acquisition costs in relation to policies sold by acquired businesses pre-acquisition, and excludes the impairment of goodwill and the amortisation of acquired other intangibles and acquired PVIF and the movements in certain acquisition date provisions.

Goodwill impairment and acquisition accounting adjustments to adjusted operating profit are summarised below:

£m

Year ended 31 December 2010	Emerging Markets	Nordic	Retail Europe	Wealth Management	Nedbank	USAM	Total
Amortisation of acquired PVIF	**–**	**(116)**	**(21)**	**(77)**	**–**	**–**	**(214)**
Amortisation of acquired deferred costs and revenue	**–**	**23**	**(7)**	**34**	**–**	**–**	**50**
Amortisation of other acquired intangible assets	**(1)**	**(26)**	**(13)**	**(35)**	**(6)**	**(2)**	**(83)**
Change in acquisition date provisions	**–**	**30**	**–**	**4**	**–**	**–**	**34**
Goodwill impairment	**(1)**	**–**	**–**	**–**	**–**	**–**	**(1)**
	(2)	**(89)**	**(41)**	**(74)**	**(6)**	**(2)**	**(214)**

£m

Year ended 31 December 2009*	Emerging Markets	Nordic	Retail Europe	Wealth Management	Nedbank	USAM	Total Restated
Amortisation of acquired PVIF	–	(106)	(37)	(86)	–	–	(229)
Amortisation of acquired deferred costs and revenue	1	21	(5)	34	–	–	51
Amortisation of other acquired intangible assets	(2)	(25)	(14)	(36)	(4)	(2)	(83)
Change in acquisition date provisions	–	98	–	–	–	–	98
Goodwill impairment	–	–	(187)	(79)	–	–	(266)
	(1)	(12)	(243)	(167)	(4)	(2)	(429)

* The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.

(c) (Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments

On 27 August 2010 USAM disposed of a subsidiary at a loss of £21 million.

In August 2008, an agreement with ABN AMRO Asset Management Asia and their parent company, Fortis Bank was entered into to acquire the 49% stake that Fortis held in AATEDA, a major Chinese asset management joint venture for €165 million. On 27 May 2009 the termination of this agreement with ABN AMRO Asset Management Asia and Fortis Bank was announced, with an exit fee of £41 million which has been accounted for as a loss on disposal.

(Loss)/profits on the disposal of subsidiaries, associated undertakings and strategic investments are analysed below:

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Emerging Markets	**–**	(51)
Wealth Management	**–**	(7)
Total Long-Term Savings	**–**	(58)
Nedbank	**(1)**	–
USAM	**(21)**	1
Other	**–**	7
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	**(22)**	(50)

(d) Long-term investment return

Profit before tax includes actual investment returns earned on the shareholder assets of the Group's life assurance and general insurance businesses. Adjusted operating profit is stated after recalculating shareholder asset investment returns based on a long-term investment return rate. The difference between the actual and the long-term investment returns are short-term fluctuations in investment return.

Long-term rates of return are based on achieved real rates of return appropriate to the underlying asset base, adjusted for current inflation expectations, default assumptions, costs of investment management and consensus economic investment forecasts, and are reviewed frequently, usually annually, for appropriateness. These rates of return have been selected with a view to ensuring that returns credited to adjusted operating profit are consistent with the actual returns expected to be earned over the long-term.

For Emerging Markets, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For Nordic, Retail Europe and Wealth Management, the return is applied to average investible assets. For M&F general insurance business, the return is an average value of investible assets supporting shareholders' funds and insurance liabilities, adjusted for net fund flows.

%

Long-term investment rates	**Year ended 31 December 2010**	Year ended 31 December 2009
Emerging Markets	**9.4**	13.3
Nordic	**1.8**	1.8
Retail Europe	**2.5**	2.8
Wealth Management	**2.0**	5.0
M&F	**9.4**	13.3

Analysis of short-term fluctuations in investment return

£m

Year ended 31 December 2010	**Emerging Markets**	**Nordic**	**Retail Europe**	**Wealth Management***	**Total Long-Term Savings**	**M&F**	**Other**	**Total**
Long-term investment return	**108**	**2**	**1**	**132**	**243**	**56**	**31**	**330**
Less: Actual shareholder investment return	**109**	**1**	**2**	**61**	**173**	**49**	**25**	**247**
Short-term fluctuations in investment return	**(1)**	**1**	**(1)**	**71**	**70**	**7**	**6**	**83**

£m

Year ended 31 December 2009**	Emerging Markets	Nordic	Retail Europe	Wealth Management	Total Long-Term Savings	M&F	Other	Total Restated
Long-term investment return	126	1	1	109	237	60	91	388
Less: Actual shareholder investment return	88	–	2	21	111	50	61	222
Short-term fluctuations in investment return	38	1	(1)	88	126	10	30	166

* Wealth Management long-term investment return includes £121 million (2009: £96m) in respect of income tax attributable to policyholder returns.
** The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.

C: Other key performance information continued

C1: Operating profit adjusting items continued

(e) Investment return adjustment for Group equity and debt instrument held in life funds

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments held by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of Nedbank. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2010 the investment return adjustment increased adjusted operating profit by £10 million (2009: increase of £109 million).

(f) Dividends declared to holders of perpetual preferred callable securities

Dividends declared to the holders of the Group's perpetual preferred callable securities were £44 million in the year ended 31 December 2010 (2009: £45 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

(g) US Asset Management equity plans and non-controlling interests

US Asset Management has a number of long-term incentive arrangements with senior employees in its asset management affiliates.

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to non-controlling interests. However, this is treated as a compensation expense in determining adjusted operating profit. The loss recognised in 2010 was £9 million (2009: loss £3 million).

The Group has issued put options to senior employees as part of some of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. As at 31 December 2010 these instruments were revalued, the impact of which was £3 million (2009: £4 million).

(h) Credit-related fair value gains and losses on Group debt instruments

The narrowing of credit spread of the Group's debt instruments in the market price has resulted in losses of £183 million (2009: losses due to narrowing of £263 million) on Other operating segments and £20 million (2009: £nil) in Nedbank being recorded in the Group's income statement for those instruments that are recorded at fair value.

In the directors' view, such movements are not reflective of the underlying performance of the Group and will reverse over time. They have therefore been excluded from adjusted operating profit.

C2: Foreign currencies

The principal exchange rates used to translate the operating results, assets and liabilities of key foreign business segments to Sterling are:

	Income statement (average rate)	Statement of financial position (closing rate)
31 December 2010		
Rand	**11.3095**	**10.2796**
US dollars	**1.5459**	**1.5530**
Swedish kronor	**11.1364**	**10.4227**
Euro	**1.1650**	**1.1614**
31 December 2009		
Rand	13.1746	11.9172
US dollars	1.5655	1.6148
Swedish kronor	11.9743	11.5562
Euro	1.1227	1.1268

C3: Earning and earnings per share

(a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders by the weighted average number of ordinary shares in issue during the year excluding own shares held in policyholder funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Profit/(loss) for the financial year attributable to equity holders of the parent from continuing operations	**431**	(269)
Loss for the financial year attributable to equity holders of the parent from discontinued operations	**(713)**	(71)
Loss for the financial year attributable to equity holders of the parent	**(282)**	(340)
Dividends declared to holders of perpetual preferred callable securities	**(32)**	(32)
Loss attributable to ordinary equity holders	**(314)**	(372)

Total dividends declared to holders of perpetual preferred callable securities of £44 million in 2010 (2009: £45 million) are stated net of tax credits of £12 million (2009: £13 million).

	Millions	
	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares in issue	**5,422**	5,277
Shares held in charitable foundations	**(7)**	(7)
Shares held in ESOP trusts	**(56)**	(41)
Adjusted weighted average number of ordinary shares	**5,359**	5,229
Shares held in life funds	**(205)**	(236)
Shares held in Black Economic Empowerment trusts	**(295)**	(235)
Weighted average number of ordinary shares	**4,859**	4,758
Basic earnings per ordinary share (pence)	**(6.5)**	(7.8)

Diluted earnings per share recognises the dilutive impact of share options held in ESOP trusts and Black Economic Empowerment trusts which are currently in the money in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full period.

	Millions	
	Year ended 31 December 2010	Year ended 31 December 2009
Weighted average number of ordinary shares	**4,859**	4,758
Adjustments for share options held by ESOP trusts	**137**	–
Adjustments for shares held in Black Economic Empowerment trusts	**295**	–
	5,291	4,758
Diluted earnings per ordinary share (pence)	**(6.1)**	(7.8)

No adjustments to the weighted average number of ordinary shares have been effected for 2009 in order to calculate the diluted earnings per ordinary share as any adjustments would be antidilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

C: Other key performance information continued

C3: Earning and earnings per share continued

(b) Adjusted operating earnings per ordinary share

Adjusted operating earnings per ordinary share is determined based on adjusted operating profit. Adjusted operating profit represents the directors' view of the underlying performance of the Group. For long-term and general insurance business adjusted operating profit is based on long-term investment return, including investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, income/(expense) from closure of unclaimed shares trusts and fair value gains/(losses) on Group debt instruments.

The reconciliation of profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

£m

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Loss for the financial year attributable to equity holders of the parent	**(282)**	(340)
Adjusting items	**482**	973
Tax on adjusting items	**(36)**	(64)
Non-core operations	**(1)**	(12)
Loss from discontinued operations – US Life	**713**	71
Non-controlling interest on adjusting items	**(21)**	(23)
Adjusted operating profit after tax attributable to ordinary equity holders	**855**	605
Adjusted weighted average number of ordinary shares – (millions)	**5,359**	5,229
Adjusted operating earnings per ordinary share – (pence)	**16.0**	11.6

(c) Headline earnings per share

In accordance with the JSE Limited (JSE) listing requirements, the Group is required to calculate a 'headline earnings per share' (HEPS), determined by reference to the South African Institute of Chartered Accountants' circular 8/2007 'Headline Earnings'. The table below sets out a reconciliation of basic earnings per ordinary share and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of International Financial Reporting Standards.

£m

	Year ended 31 December 2010		Year ended 31 December 2009 Restated	
	Gross	Net	Gross	Net
Loss for the financial year attributable to equity holders of the parent	**(282)**	**(282)**	(340)	(340)
Dividends declared to holders of perpetual preferred callable securities	**(32)**	**(32)**	(32)	(32)
Loss attributable to ordinary equity holders	**(314)**	**(314)**	(372)	(372)
Adjustments:				
Impairments of goodwill and intangible assets	**20**	**20**	266	266
Impairment of discontinued operations	**827**	**827**	–	–
Loss/(profit) on disposal of subsidiaries, associated undertakings and strategic investments	**22**	**17**	50	53
Realised gains/losses (including impairments) on available-for-sale financial assets	**(12)**	**(12)**	239	239
Headline earnings	**543**	**538**	183	186
Weighted average number of ordinary shares	**4,859**	**4,859**	4,758	4,758
Diluted weighted average number of ordinary shares	**5,291**	**5,291**	5,109	5,109
Headline earnings per share (pence)	**11.2**	**11.1**	3.8	3.9
Diluted headline earnings per share (pence)	**10.1**	**10.0**	3.6	3.6

C4: Dividends

Dividends paid were as follows:

	Note	Year ended 31 December 2010	Year ended 31 December 2009
			£m
2009 Final dividend paid – 1.5p per 10p share		**77**	–
2010 Interim dividend paid – 1.1p per 10p share		**54**	–
Dividends to ordinary equity holders		**131**	–
Dividends declared to holders of perpetual preferred callable securities	F10(b)	**44**	45
Dividend payments for the year		**175**	45

Dividends paid to ordinary equity holders, as above, are calculated using the number of shares in issue at the record date, less treasury shares held in ESOP trusts, life funds of Group companies, Black Economic Empowerment trusts and related undertakings.

As a consequence of the exchange control arrangements in place in certain African territories, dividends to ordinary equity holders on the branch registers of those countries (or, in the case of Namibia, the Namibian section of the principal register) are settled through Dividend Access Trusts established for that purpose.

In March and November 2010, £22 million and £22 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2009: £22 million and November 2009: £23 million).

A final dividend of 2.9 pence per 10p share has been recommended by the directors. Subject to shareholders' approval, the dividend will be paid on 31 May 2011 to shareholders on the register at the close of business on 15 April 2011. The dividend will absorb an estimated £142 million of shareholders' funds before taking into account any election for the scrip dividend alternative. The Company is planning to offer a scrip dividend alternative for eligible shareholders.

D: Other income statement notes

D1: Income tax expense/(credit)

(a) Analysis of total income tax expense/(credit)

	Year ended 31 December 2010	Year ended 31 December 2009 restated
		£m
Current tax		
United Kingdom tax		
Corporation tax	**23**	46
Double tax relief		
Overseas tax		
South Africa	**346**	257
United States	**(4)**	(7)
Europe	**61**	49
Secondary Tax on Companies (STC)	**4**	13
Prior year adjustments	**(1)**	14
Total current tax	**429**	372
Deferred tax		
Origination and reversal of temporary differences	**(10)**	105
Changes in tax rates/bases	**(4)**	–
Write down/recognition of deferred tax assets	**41**	(77)
Total deferred tax	**27**	28
Total income tax expense	**456**	400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

D: Other income statement notes continued

D1: Income tax expense/(credit) continued

(b) Reconciliation of total income tax expense/(credit)

£m

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Profit before tax	**1,145**	353
Tax at standard rate of 28% (2009: 28%)	**321**	99
Different tax rate or basis on overseas operations	**(22)**	(2)
Untaxed and low taxed income	**(171)**	(83)
Disallowable expenses	**124**	180
Net movement on deferred tax assets not recognised	**92**	69
Effect on deferred tax of changes in tax rates	**(7)**	(2)
STC	**(3)**	19
Income tax attributable to policyholder returns	**134**	142
Other	**(12)**	(22)
Total income tax expense	**456**	400

(c) Income tax relating to components of other comprehensive income

£m

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Preferred perpetual callable securities	**(12)**	(13)
Other	**(1)**	–
Income tax credit – continuing operations	**(13)**	(13)
Fair value gains	**181**	428
Shadow accounting	**(114)**	(18)
Income tax expense – discontinued operations	**67**	410
Income tax expense relating to components of other comprehensive income	**54**	397

(d) Income tax on adjusted operating profit

£m

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Income tax expense/(credit)	**456**	400
Tax on adjusting items		
Impact of acquisition accounting	**35**	40
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**5**	(2)
Short-term fluctuations in investment return	**3**	39
Income tax attributable to policyholders returns	**(149)**	(192)
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(12)**	(13)
Fair value gains and losses on group debt instruments	**5**	–
Tax on non-core operations	**4**	11
Income tax on adjusted operating profit	**347**	283

D2: Investment return (non-banking)

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
		£m
Interest and similar income		
Loans and advances	**52**	12
Investments and securities	**1,249**	1,095
Government and government-guaranteed securities	**380**	303
Other debt securities, preference shares and debentures	**397**	422
Pooled investments	**271**	80
Short-term funds and securities treated as investments	**184**	285
Other	**17**	5
Cash and cash equivalents	**100**	57
Total interest and similar income	**1,401**	1,164
Dividend income – investments and securities	**362**	373
Equity securities	**336**	310
Pooled investments	**26**	63
Fair value gains and losses recognised in income	**8,875**	9,530
Investments and securities	**8,615**	9,070
Derivatives	**(87)**	(449)
Other	**347**	909
Rental income from investment property	**166**	136
Investment property	**30**	(99)
Foreign currency (losses)/gains	**(43)**	8
Total investment return recognised in income	**10,791**	11,112

	Year ended 31 December 2010	Year ended 31 December 2009 Restated
		£m
Total interest income for assets not at fair value through income statement	**97**	74

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**(87)**	(449)
Designated at fair value through income statement	**8,962**	9,992
Available-for-sale financial assets	**–**	(13)
	8,875	9,530

The fair value gains and losses on available-for-sale financial assets shown above reflect the amount previously recognised as unrealised within the available-for-sale reserve in equity that have been recycled to the income statement on disposal or impairment of the particular assets.

Included within fair value gains and losses on available-for-sale investments and securities are impairment losses of £nil (2009: £13 million which related to debt securities held by the Group's Bermuda businesses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

D: Other income statement notes continued

D3: Banking interest and similar income

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Interest and similar income		
Loans and advances	**3,730**	3,635
Mortgage loans	**1,853**	1,852
Finance lease and instalment debtors	**650**	581
Credit cards	**102**	92
Bills and acceptances	**2**	3
Overdrafts	**128**	120
Term loans and other	**995**	987
Investments and securities	**352**	346
Government and government-guaranteed securities	**259**	261
Other debt securities, preference shares and debentures	**93**	85
Cash and cash equivalents	**–**	8
Total interest and similar income	**4,082**	3,989
Total interest income for assets not at fair value through income statement	**3,586**	3,518
Total interest income on impaired financial assets	**151**	218

D4: Banking trading, investment and similar income

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Dividend income – investments and securities	**22**	4
Equity securities	**22**	4
Rental income from investment property	**4**	4
Exchange and other non-interest income	**(4)**	21
Derivative income	**65**	61
Exchange	**2**	(1)
Securities dealing	**(68)**	(42)
Fair value (losses)/gains	**(3)**	3
Net trading income	**182**	139
Foreign exchange	**92**	88
Debt securities	**63**	58
Equities	**24**	(8)
Other	**3**	1
Total banking trading, investment and similar income	**204**	168
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**(96)**	35
Designated at fair value through income statement	**93**	(32)
	(3)	3
Realised fair value gains included in the above	**4**	4

D5: Fee and commission income, and income from service activities

£m

Year ended 31 December 2010	Long-term business	Asset management	Banking	General insurance	Total
Fee and commission income	**1,129**	**1,099**	**863**	**29**	**3,120**
Transaction and performance fees	**–**	**22**	**–**	**–**	**22**
Change in deferred revenue	**(73)**	**(9)**	**1**	**–**	**(81)**
	1,056	**1,112**	**864**	**29**	**3,061**

£m

Year ended 31 December 2009	Long-term business	Asset management	Banking	General insurance	Total
Fee and commission income	947	855	632	23	2,457
Transaction and performance fees	–	27	–	–	27
Change in deferred revenue	(73)	11	1	(1)	(62)
	874	893	633	22	2,422

The amounts shown above for asset management relate to fees earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

D6: Finance costs

£m

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Interest payable on borrowed funds		**79**	57
Senior debt and term loans		**44**	18
Subordinated debt		**68**	64
Other		**(33)**	(25)
Fair value gains and losses on borrowed funds		**189**	268
Borrowed funds		**166**	274
Derivative instruments		**23**	(6)
Foreign currency gains and losses on borrowed funds		**2**	(3)
Reserve movements relating to debt and derivative instruments		**(1)**	–
Total finance costs excluding banking activities		**269**	322
Finance costs from banking activities	D7	**202**	117
Total interest expense included above for liabilities not at fair value through income statement		**25**	21
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:			
Held-for-trading (including derivatives)		**23**	(6)
Designated at fair value through income statement		**166**	274
		189	268

D7: Banking interest payable and similar expense

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Amounts owed to bank depositors	**2,305**	2,458
Deposits and loan accounts	**1,237**	1,489
Current and savings accounts	**111**	119
Negotiable certificates of deposit	**736**	733
Banking non interest credit spreads	**19**	–
Long-term debt instruments	**202**	117
Other liabilities	**214**	169
Total interest payable and similar expenses	**2,519**	2,627
Total interest expense included above for liabilities not at fair value through income statement	**2,141**	2,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

D: Other income statement notes continued

D8: Fee and commission expenses, and other acquisition costs

£m

Year ended 31 December 2010	Long-term business	Asset management	General insurance	Total
Fees and commission expenses	**649**	**177**	**109**	**935**
Changes in deferred acquisition costs	**(31)**	**(4)**	**–**	**(35)**
Other acquisition costs	**56**	**7**	**–**	**63**
	674	**180**	**109**	**963**

£m

Year ended 31 December 2009	Long-term business	Asset management	General insurance	Total Restated
Fees and commission expenses	621	126	106	853
Changes in deferred acquisition costs	(178)	(3)	–	(181)
Other acquisition costs	52	4	–	56
	495	127	106	728

D9: Other operating and administrative expenses

(a) Other operating and administrative expenses include:

£m

	Note	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Staff costs	D9(b)	**1,958**	1,685
Depreciation	F2	**103**	86
Software costs		**11**	14
Operating lease rentals – banking		**63**	55
Operating lease rentals – non-banking		**31**	57
Amortisation of intangibles – software		**61**	49
Impairment of goodwill and other intangible assets		**20**	266

Included within the loss from discontinued operations is an additional amortisation of intangibles charge of £nil (2009: £20 million)

(b) Staff costs

£m

	Note	Year ended 31 December 2010	Year ended 31 December 2009 Restated
Staff costs			
Wages and salaries		**1,286**	1,183
Social security costs		**68**	56
Retirement obligations			
Defined contribution plans		**112**	50
Defined benefit plans		**(5)**	2
Other retirement benefits		**12**	4
Bonus and incentive remuneration		**337**	265
Share-based payments			
Cash settled	G2(h)	**7**	7
Equity settled	G2(h)	**13**	35
Termination benefits		**1**	2
Long-term employee benefits		**1**	1
Other		**126**	80
		1,958	1,685

(b) Staff costs continued

	Number	
	Year ended 31 December 2010	Year ended 31 December 2009
The average number of persons employed by the Group during the year was:		
Life assurance	**21,073**	18,897
Banking	**28,134**	27,180
Asset management	**3,937**	4,832
General insurance	**2,223**	2,331
Other	**209**	304
	55,576	53,544
Discontinued US Life operations	**154**	162
	55,730	53,706

(c) Fees to Group's auditors

Included in other operating expenses and loss from discontinued operations are fees paid to the Group's auditors. These can be categorised as follows:

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Fees for audit services		
Group	**1.5**	1.4
Subsidiaries	**12.3**	10.7
Pension schemes	**0.3**	0.3
Total audit fees	**14.1**	12.4
Fees for non-audit services		
Taxation	**2.2**	1.1
Information technology	**0.2**	0.1
Other services pursuant to legislation	**0.1**	0.1
Valuation and actuarial	**0.2**	0.1
Any other services provided by auditors	**3.3**	1.4
Total non-audit services	**6.0**	2.8
Total Group auditors' remuneration	**20.1**	15.2

In addition to the above, fees of £4.3 million (2009: £2.9 million) were payable to other auditors in respect of joint audit arrangements of Nedbank, the Group's banking subsidiary in South Africa. Of the fees for audit services to subsidiaries, £1.1 million (2009: £1.6 million) was in respect of discontinued US Life operations.

(d) Operating lease payments

	£m	
Payments under operating leases recognised as an expense in the year	**Year ended 31 December 2010**	Year ended 31 December 2009
Banking	**63**	44
Non-banking	**33**	28
	96	72

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities

E1: Group statement of financial position

The Group is exposed to financial risk through its financial assets (investments and loans), financial liabilities (investment contracts, customer deposits and borrowings), reinsurance assets and insurance liabilities. The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and banking operations. The most important components of financial risk are credit risk, market risk (arising from changes in equity, bond prices, and interest and foreign exchange rates), and liquidity risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and/or conditions.

(a) Categories of financial instruments

The analysis of assets and liabilities into their categories as defined in IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

£m

		Fair value through income statement						
At 31 December 2010	**Total**	**Held-for-trading**	**Designated**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Loans and receivables**	**Financial liabilities amortised cost**	**Non-financial assets and liabilities**
Assets								
Goodwill and other intangible assets	**4,965**	**–**	**–**	**–**	**–**	**–**	**–**	**4,965**
Mandatory reserve deposits with central banks	**1,079**	**–**	**–**	**–**	**–**	**1,079**	**–**	**–**
Property, plant and equipment	**1,015**	**–**	**–**	**–**	**–**	**–**	**–**	**1,015**
Investment property	**2,040**	**–**	**–**	**–**	**–**	**–**	**–**	**2,040**
Deferred tax assets	**416**	**–**	**–**	**–**	**–**	**–**	**–**	**416**
Investment in associated undertakings and joint ventures	**162**	**–**	**–**	**–**	**–**	**–**	**–**	**162**
Deferred acquisition costs	**1,534**	**–**	**–**	**–**	**–**	**–**	**–**	**1,534**
Reinsurers' share of life assurance policyholder liabilities	**982**	**–**	**816**	**–**	**–**	**38**	**–**	**128**
Reinsurers' share of general insurance liabilities	**122**	**–**	**–**	**–**	**–**	**–**	**–**	**122**
Deposits held with reinsurers	**2**	**–**	**2**	**–**	**–**	**–**	**–**	**–**
Loans and advances	**51,778**	**1,914**	**4,223**	**–**	**–**	**45,641**	**–**	**–**
Investments and securities	**106,153**	**1,370**	**100,898**	**2,459**	**1,070**	**356**	**–**	**–**
Current tax receivable	**156**	**–**	**–**	**–**	**–**	**–**	**–**	**156**
Client indebtedness for acceptances	**190**	**–**	**–**	**–**	**–**	**–**	**–**	**190**
Other assets	**3,932**	**507**	**1,062**	**–**	**–**	**2,044**	**–**	**319**
Derivative financial instruments – assets	**2,503**	**2,503**	**–**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**4,132**	**–**	**–**	**–**	**–**	**4,132**	**–**	**–**
Non-current assets held for sale	**12,391**	**–**	**–**	**–**	**–**	**–**	**–**	**12,391**
	193,552	**6,294**	**107,001**	**2,459**	**1,070**	**53,290**	**–**	**23,438**
Liabilities								
Life assurance policyholder liabilities	**98,631**	**–**	**72,200**	**–**	**26**	**160**	**–**	**26,245**
General insurance liabilities	**397**	**–**	**–**	**–**	**–**	**–**	**–**	**397**
Third-party interest in consolidation of funds	**3,584**	**–**	**3,584**	**–**	**–**	**–**	**–**	**–**
Borrowed funds	**4,204**	**–**	**1,579**	**–**	**–**	**–**	**2,625**	**–**
Provisions	**260**	**–**	**–**	**–**	**–**	**–**	**–**	**260**
Deferred revenue	**730**	**–**	**–**	**–**	**–**	**–**	**–**	**730**
Deferred tax liabilities	**858**	**–**	**–**	**–**	**–**	**–**	**–**	**858**
Current tax payable	**238**	**–**	**–**	**–**	**–**	**–**	**–**	**238**
Other liabilities	**5,661**	**1,155**	**576**	**–**	**–**	**–**	**2,960**	**970**
Liabilities under acceptances	**190**	**–**	**–**	**–**	**–**	**–**	**–**	**190**
Amounts owed to bank depositors	**53,236**	**3,484**	**8,703**	**–**	**–**	**–**	**41,049**	**–**
Derivative financial instruments – liabilities	**1,870**	**1,870**	**–**	**–**	**–**	**–**	**–**	**–**
Non-current liabilities held for sale	**12,219**	**–**	**–**	**–**	**–**	**–**	**–**	**12,219**
	182,078	**6,509**	**86,642**	**–**	**26**	**160**	**46,634**	**42,107**

£m

At 31 December 2009	Total	Fair value through income statement: Held- for-trading	Fair value through income statement: Designated	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
Assets								
Goodwill and other intangible assets	5,159	–	–	–	–	–	–	5,159
Mandatory reserve deposits with central banks	882	–	–	–	–	882	–	–
Property, plant and equipment	828	–	–	–	–	–	–	828
Investment property	1,759	–	–	–	–	–	–	1,759
Deferred tax assets	570	–	–	–	–	–	–	570
Investment in associated undertakings and joint ventures	135	–	–	–	–	–	–	135
Deferred acquisition costs	3,138	–	–	–	–	–	–	3,138
Reinsurers' share of life assurance policyholder liabilities	1,296	–	717	–	–	88	–	491
Reinsurers' share of general insurance liabilities	120	–	–	–	–	–	–	120
Deposits held with reinsurers	146	–	110	–	–	36	–	–
Loans and advances	42,393	1,163	3,157	–	–	38,073	–	–
Investments and securities	98,461	936	82,862	11,677	1,210	1,758	–	18
Current tax receivable	169	–	–	–	–	–	–	169
Client indebtedness for acceptances	170	–	–	–	–	–	–	170
Other assets	3,051	70	909	–	–	1,807	–	265
Derivative financial instruments – assets	2,546	2,546	–	–	–	–	–	–
Cash and cash equivalents	2,982	–	–	–	–	2,982	–	–
Non-current assets held for sale	1	–	–	–	–	–	–	1
	163,806	4,715	87,755	11,677	1,210	45,626	–	12,823
Liabilities								
Life assurance policyholder liabilities	93,876	1,372	58,582	–	–	121	1,178	32,623
General insurance liabilities	372	–	–	–	–	–	–	372
Third-party interests in consolidation of funds	2,906	–	2,906	–	–	–	–	–
Borrowed funds	3,309	–	1,344	–	–	–	1,965	–
Provisions	263	–	–	–	–	–	–	263
Deferred revenue	654	–	–	–	–	–	–	654
Deferred tax liabilities	905	–	–	–	–	–	–	905
Current tax payable	210	–	–	–	–	–	–	210
Other liabilities	4,305	411	643	–	–	–	2,545	706
Liabilities under acceptances	170	–	–	–	–	–	–	170
Amounts owed to bank depositors	44,135	2,520	6,235	–	–	–	35,380	–
Derivative financial instruments – liabilities	1,990	1,990	–	–	–	–	–	–
Non-current liabilities held for sale	–	–	–	–	–	–	–	–
	153,095	6,293	69,710	–	–	121	41,068	35,903

(b) Fair values of financial assets and liabilities

Determination of fair value

All financial instruments, regardless of their IAS 39 categorisation, are initially recorded at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only observable data.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities. When quoted prices are not available, fair values are determined by using valuation techniques that refer as far as possible to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. A number of factors such as bid-offer spread, credit profile, servicing costs and model uncertainty are taken into account, as appropriate, when values are calculated using a valuation technique. Changes in the assumptions used in such valuations could impact the reported value of such instruments.

In general, other than in respect of those securities that have been reclassified from available-for-sale to loans and receivables as described in note E1(a) above, none of the carrying amounts of financial assets and liabilities carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets and liabilities are primarily comprised of variable-rate financial assets and liabilities that re-price as interest rates change, short-term deposits or current assets.

Loans and advances

Loans and advances principally comprise of variable rate financial assets and liabilities, which are re-priced when there are movements in the interest rates.

The Group has developed and applied a fair value methodology in respect of gross exposures of loans and advances that are measured at amortised cost. The methodology incorporates the historical interest rates per product type and the projected monthly cash flows per product type. Future forecasts for the overall probability of default (PD) and Loss Given Defaults (LGDs) for the years from 2010 to 2012, based on the latest internal data available, is applied to the first three years' projected cash flows. Average PDs and LGDs are applied to the projected cash flows for later years. These results are compared to both regulatory and accounting credit model values. There are no significant variances in the fair value methodology results compared to the carrying values reported in these financial statements.

For impaired advances, the carrying value as determined from the Group's credit models is considered the best estimate of fair value. The Group is satisfied that, after considering the internal credit models together with other assumptions and the variable interest rate exposure, the carrying value of loans and advances measured at amortised cost approximates fair value.

Investments and securities

Investments and securities include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are stated at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated or models based on the market prices of investments held in the underlying pooled investment funds.

Investment contracts

The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Amounts owed to bank depositors

The fair values of amounts owed to bank depositors corresponds with the carrying amount shown in the statement of financial position, which generally reflects the amount payable on demand.

Borrowed funds

The fair values of amounts included in borrowed funds are based on quoted market prices at the reporting date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities

The fair values of other financial assets and liabilities (which comprised cash and cash equivalents, cash with central banks, other assets and liabilities) are reasonably approximated by the carrying amounts reflected in the statement of financial position as they are short-term in nature or re-price to current market rates frequently.

Fair value hierarchy

Fair values are determined according to the following hierarchy.

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets. Instruments classified as Level 1 generally comprise listed equity securities, government securities and other listed debt securities and similar instruments, actively traded pooled investments, certain quoted derivative assets and liabilities, listed borrowed funds and investment contract liabilities linked to Level 1 pooled investments and other assets.
- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable. Instruments classified as Level 2 generally comprise unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data. This includes certain loans and advances, certain privately placed debt instruments, third-party interests in consolidated funds and amounts owed to bank depositors.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable. Instruments classified as Level 3 generally comprise unlisted equity and securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments, and derivatives embedded in certain portfolios of insurance contracts where the derivative is not closely related to the host contract and the valuation contains significant unobservable inputs.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, or quoted prices cannot be obtained without undue effort, a valuation technique is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

Additional information on the impact of unobservable inputs is provided in the section headed 'Effect of changes in significant unobservable assumptions to reasonably possible alternatives'.

Fair value hierarchy £m

Year ended 31 December 2010	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	**6,294**	**810**	**5,444**	**40**
Loans and advances	**1,914**	**–**	**1,911**	**3**
Investments and securities	**1,370**	**302**	**1,031**	**37**
Other assets	**507**	**506**	**1**	**–**
Derivative financial instruments – assets	**2,503**	**2**	**2,501**	**–**
Designated (fair value through income statement)	**107,001**	**87,081**	**18,490**	**1,430**
Reinsurers' share of life assurance policyholder liabilities	**816**	**813**	**3**	**–**
Deposits held with reinsurers	**2**	**2**	**–**	**–**
Loans and advances	**4,223**	**2**	**4,221**	**–**
Investments and securities	**100,898**	**86,244**	**13,224**	**1,430**
Other assets	**1,062**	**20**	**1,042**	**–**
Available-for-sale financial assets	**2,459**	**579**	**1,872**	**8**
Investments and securities	**2,459**	**579**	**1,872**	**8**
Total financial assets measured at fair value	**115,754**	**88,470**	**25,806**	**1,478**
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	**6,509**	**1,132**	**5,376**	**1**
Life assurance policyholder liabilities	**–**	**–**	**–**	**–**
Other liabilities	**1,155**	**1,123**	**32**	**–**
Amounts owed to bank depositors	**3,484**	**–**	**3,484**	**–**
Derivative financial instruments – liabilities	**1,870**	**9**	**1,860**	**1**
Designated (fair value through income statement)	**86,642**	**47,678**	**38,204**	**760**
Life assurance policyholder liabilities	**72,200**	**46,099**	**25,341**	**760**
Third-party interests in consolidated funds	**3,584**	**–**	**3,584**	**–**
Borrowed funds	**1,579**	**1,579**	**–**	**–**
Other liabilities	**576**	**–**	**576**	**–**
Amounts owed to bank depositors	**8,703**	**–**	**8,703**	**–**
Total financial liabilities measured at fair value	**93,151**	**48,810**	**43,580**	**761**

Fair value hierarchy

£m

Year ended 31 December 2009	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	4,715	959	3,720	36
Loans and advances	1,163	31	1,125	7
Investments and securities	936	32	876	28
Other assets	70	70	–	–
Derivative financial instruments – assets	2,546	826	1,719	1
Designated (fair value through income statement)	87,755	76,960	9,011	1,784
Reinsurers' share of life assurance policyholder liabilities	717	717	–	–
Deposits held with reinsurers	110	110	–	–
Loans and advances	3,157	–	3,157	–
Investments and securities	82,862	76,114	4,964	1,784
Other assets	909	19	890	–
Available-for-sale financial assets	11,677	1,159	10,070	448
Investments and securities	11,677	1,159	10,070	448
Total financial assets measured at fair value	104,147	79,078	22,801	2,268
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	6,293	1,201	3,727	1,365
Life assurance policyholder liabilities	1,372	–	20	1,352
Other liabilities	411	390	21	–
Amounts owed to bank depositors	2,520	18	2,502	–
Derivative financial instruments – liabilities	1,990	793	1,184	13
Designated (fair value through income statement)	69,710	44,879	24,235	596
Life assurance policyholder liabilities	58,582	43,450	14,536	596
Third-party interests in consolidated funds	2,906	–	2,906	–
Borrowed funds	1,344	1,344	–	–
Other liabilities	643	85	558	–
Amounts owed to bank depositors	6,235	–	6,235	–
Total financial liabilities measured at fair value	76,003	46,080	27,962	1,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

	At beginning of the year	Gains/losses recognised in income statement	Gains/losses recognised in other comprehensive income	Purchases and issues	Sales and Settlements
Level 3 financial assets					
Held-for-trading (fair value through income statement)	**36**	**(10)**	**–**	**–**	**(5)**
Loans and advances	**7**	**(1)**	**–**	**–**	**(3)**
Investments and securities	**28**	**(9)**	**–**	**–**	**(1)**
Other assets	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments – assets	**1**	**–**	**–**	**–**	**(1)**
Designated (fair value through income statement)	**1,784**	**164**	**6**	**94**	**(240)**
Investments and securities	**1,784**	**164**	**6**	**94**	**(240)**
Available-for-sale financial assets	**448**	**–**	**–**	**5**	**(1)**
Investments and securities	**448**	**–**	**–**	**5**	**(1)**
Total Level 3 financial assets	**2,268**	**154**	**6**	**99**	**(246)**
Level 3 financial liabilities					
Held-for-trading (fair value through income statement)	**1,365**	**(3)**	**–**	**–**	**1**
Life assurance policyholder liabilities	**1,352**	**–**	**–**	**–**	**–**
Derivative financial instruments – liabilities	**13**	**(3)**	**–**	**–**	**1**
Designated (fair value through income statement)	**596**	**(31)**	**–**	**2**	**(54)**
Life assurance policyholder liabilities (investment contracts)	**596**	**(31)**	**–**	**2**	**(54)**
Total Level 3 financial liabilities	**1,961**	**(34)**	**–**	**2**	**(53)**

£m

Transfers in	Transfers out	Foreign exchange and other movements*	At end of the year	For assets and liabilities held at the year end: Gains/losses recognised in income statement	For assets and liabilities held at the year end: Gains/losses recognised in other comprehensive income
–	(1)	20	40	–	–
–	–	–	3	–	–
–	(1)	20	37	–	–
–	–	–	–	–	–
–	–	–	–	–	–
20	(433)	35	1,430	12	–
20	(433)	35	1,430	12	–
5	(31)	(418)	8	–	(8)
5	(31)	(418)	8	–	(8)
25	(465)	(363)	1,478	12	(8)
–	(3)	(1,359)	1	67	–
–	–	(1,352)	–	67	–
–	(3)	(7)	1	–	–
18	(262)	491	760	31	–
18	(262)	491	760	31	–
18	(265)	(868)	761	98	–

* Included within Foreign exchange and other movements are the financial assets and liabilities of US Life which have been transferred to non-current assets and liabilities held for sale and are disclosed in note H2

The transfers into Level 3 largely relate to instances where inputs on certain financial assets and liabilities obtained from pricing service providers are no longer observable. The transfers out of Level 3 relate to certain pooled investments no longer being considered inactive and for which observable inputs are now available. There were no significant transfers between Level 1 and Level 2 during the year.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives
Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameter using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, the valuations are assessed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts to marketability.

For asset-backed securities whose prices are unobservable, models are used to generate the expected value of the asset, incorporating benchmark information on factors such as prepayment patterns, default rates, loss severities and the historical performance of the underlying assets. The models used are calibrated by using securities for which external market information is available.

For structured notes and other derivatives, principal assumptions concern the future volatility of asset values and the future correlation between asset values. These principle assumptions include credit volatilities and correlations used in the valuation of the structured credit derivatives. For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or correlation from comparable assets for which market data is more readily available, and examination of historical levels.

Analysis of reasonably possible alternative assumptions

£m

Year ended 31 December 2010	Reflected in income statement		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Held-for-trading (fair value through income statement)	**10**	**10**	**–**	**–**
Loans and advances	**–**	**–**	**–**	**–**
Investments and securities	**8**	**8**	**–**	**–**
Derivative financial instruments – assets	**2**	**2**	**–**	**–**
Designated (fair value through income statement)	**177**	**167**	**–**	**–**
Investments and securities	**177**	**167**	**–**	**–**
Available-for-sale financial assets	**1**	**1**	**–**	**–**
Investments and securities	**1**	**1**	**–**	**–**
Total level 3 financial assets	**188**	**178**	**–**	**–**
Level 3 financial liabilities				
Held-for-trading (fair value through income statement)	**–**	**–**	**–**	**–**
Life assurance policyholder liabilities	**–**	**–**	**–**	**–**
Derivative financial instruments – liabilities	**–**	**–**	**–**	**–**
Designated (fair value through income statement)	**7**	**27**	**–**	**–**
Life assurance policyholder liabilities (investment contracts)	**7**	**27**	**–**	**–**
Total level 3 financial liabilities	**7**	**27**	**–**	**–**

For the above analysis, the determination of the impacts of the favourable and unfavourable changes was based on a reasonable range of favourable and unfavourable changes in the key observable inputs for the major types of Level 3 financial assets and liabilities, ranging from, for example, a 10% change in the price earnings multiple for equity securities, to a 25% change in the discount rates applied to debt securities and volatility assumptions in derivative contracts. Changes in other key observable inputs such as lapses and non-performance risk were also considered.

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Financial instruments designated as fair value through income statement

Certain items in the Group's statement of financial position that would otherwise be categorised as loans and receivables under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

£m

At 31 December 2010	Change in fair value due to change in credit risk		
	Maximum exposure to credit risk	**Current financial year**	**Cumulative**
Loans and advances	**4,223**	**–**	**–**
Investments and securities	**9,857**	**(8)**	**11**
Other assets	**88**	**–**	**–**
	14,168	**(8)**	**11**

£m

At 31 December 2009	Change in fair value due to change in credit risk		
	Maximum exposure to credit risk	Current financial year	Cumulative
Loans and advances	3,157	(1)	–
Investments and securities	8,842	(7)	(8)
Other assets	56	–	–
	12,055	(8)	(8)

Certain items in the Group's statement of financial position that would otherwise be categorised as financial liabilities at amortised cost under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

£m

At 31 December 2010		Change in fair value due to change in credit risk		
	Fair value	**Current financial year**	**Cumulative**	**Contractual maturity amount**
Borrowed funds	**1,579**	**(203)**	**(74)**	**1,686**
Amounts owed to bank depositors	**8,769**	**11**	**(11)**	**8,734**
	10,348	**(192)**	**(85)**	**10,420**

£m

At 31 December 2009		Change in fair value due to change in credit risk		
	Fair value	Current financial year	Cumulative	Contractual maturity amount
Borrowed funds	1,344	263	(276)	1,679
Amounts owed to bank depositors	6,235	(6)	(18)	6,290
	7,579	257	(294)	7,969

The fair values of other categories of financial liabilities designated as fair value through the income statement do not change significantly in respect of credit risk.

The change in fair value due to change in credit risk shown above is determined as the amount of the change in fair value of the instrument that is not attributable to changes in market conditions that give rise to market risk. For loans and receivables that have been designated as fair value through the income statement, individual credit spreads are determined at inception as the difference between the benchmark interest rate and the interest rate charged to the client. Subsequent changes in the benchmark interest rate and the credit spread give rise to changes in fair value of the financial instrument. Loans and advances are reviewed for observable changes in credit risk, and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated as fair value through the income statement. The change in fair value due to credit risk of financial liabilities designated as fair value through the income statement has been determined as the difference between fair values determined using a liability curve (adjusted for credit) and a risk-free liability curve. This difference is cross-checked to market related data on credit spreads, where available.

(c) Market risk

(i) Overview

Market risk is the risk of a financial impact arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

Each of the Group's business units has an established set of policies, principles and governance processes to manage market risk within their individual businesses and in accordance with their local regulatory requirements. A monitoring process established at a Group level overlies these individual approaches to the management of market risk.

The impacts of changes in market risk are monitored and managed by way of sensitivity analyses, through the business units' own regulatory processes, with reference to the Group's economic capital processes, and by other means. The sensitivity of the Group's earnings, capital position and embedded value is monitored through the Group's embedded value reporting processes.

(ii) Insurance operations

For the Group's insurance operations, equity and property price risk and interest rate risk (on the value of the securities) are modelled in accordance with the Group's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow the Group to manage significant equity exposures.

In South Africa the stock selection and investment analysis process is supported by a well-developed research function. For fixed annuities, market risks are managed where possible by investing in fixed interest securities with a duration closely corresponding to those liabilities. Market risk on policies that include specific guarantees and where shareholders carry the investment risk, principally reside in the South African guaranteed non-profit annuity book, which is closely matched with gilts and semi-gilts. Other non-profit policies are also suitably matched based upon comprehensive investment guidelines. Market risk on with-profit policies, where investment risk is shared, is minimised by appropriate bonus declaration practices.

In the US, for fixed annuities, risk is managed by investing in fixed securities with durations within a half-year of the duration of the liabilities. Cash flows in any period are closely aligned to ensure any mismatch is not material. In addition, extensive interest rate scenario testing is carried out, as required by US regulatory authorities, in order to ensure that the amounts reserved are sufficient to meet the guaranteed obligations. The guaranteed returns provided under equity indexed annuities are hedged to ensure a close matching of option or futures payoffs to the liability growth. Hedging is largely static with minimal trading. For variable annuities, the guaranteed returns provided are dynamically hedged. Hedging positions are reviewed daily to re-adjust them as necessary.

For the variable annuity business in Old Mutual Bermuda the guaranteed returns are no longer dynamically hedged, with instead the overall exposures to changes in markets monitored closely so that actions are taken to re-establish hedging at short notice as required. However this does create more short-term risk of volatility in earnings and capital for the Bermuda operation.

In Skandia's unit-linked assurance operations, the Group has limited exposure to the volatility from equity markets, because in the main, equity price risk is borne by policyholders (subject to the impact on asset-based fees charged on policyholder funds). In respect of Skandia's shareholders' funds, equity price risks are addressed in Skandia's investment policy, which provides for very limited opportunity for business units to invest their own capital in equities or in units in equity funds.

In some areas of Skandia's business, most notably its traditional life insurance business, Skandia is exposed to market risks arising from various forms of guarantees. Typically the policyholder is guaranteed a certain return regardless of the asset return achieved during the term of the policy. These risks are closely monitored and mitigated by applying asset and liability management techniques, ensuring that the proceeds from sale of assets are sufficient to meet the obligations to policyholders.

Sensitivities to adverse impacts of changes in market prices arising in the Group's insurance operations are set out in the Old Mutual audited Market Consistent Embedded Value supplementary basis information section of the Annual Report and Accounts on pages 374 to 383.

(iii) Banking operations

The principal market risks arising in the Group's banking operations arise from:

- Trading risk in Nedbank Capital; and
- Banking book interest rate risk arises from re-pricing and/or maturity mismatches between on and off-balance sheet components in all banking businesses.

A comprehensive market risk framework is used to ensure that market risks are understood and managed. Governance structures are in place to achieve effective independent monitoring and management of market risk.

Trading risk

Market risk exposures from trading activities at Nedbank Capital are measured using Value-at-Risk (VaR), supplemented by sensitivity analysis, and stress-scenario analysis, and limit structures are set accordingly.

The VaR risk measure for Nedbank estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by Nedbank represents the overnight loss that has less than 1% chance of occurring under normal market conditions. By its nature, VaR is only a single measure and cannot be relied upon on its own as a means of measuring and managing risk.

£m

At 31 December 2010	**Average**	**Minimum**	**Maximum**	**Year end**
Historical VaR (one-day, 99%) by risk type				
Foreign exchange	**0.2**	**0.1**	**0.7**	**0.4**
Interest rate	**0.9**	**0.4**	**1.4**	**0.6**
Equity products	**0.4**	**0.1**	**0.9**	**0.3**
Other	**0.4**	**0.1**	**0.5**	**0.4**
Diversification	**(0.7)**	**–**	**–**	**(0.6)**
Total VaR exposure	**1.2**	**0.7**	**3.5**	**1.1**

£m

At 31 December 2009	Average	Minimum	Maximum	Year end
Historical VaR (one-day, 99%) by risk type				
Foreign exchange	0.3	0.1	0.9	0.3
Interest rate	1.4	0.6	2.4	0.6
Equity products	0.5	0.2	1.1	0.3
Other	0.5	0.2	1.1	0.4
Diversification	(1.0)	–	–	(0.5)
Total VaR exposure	1.7	1.1	5.5	1.1

Banking book interest rate risk

Banking book interest rate risk at Nedbank arises because:

- The bank writes a large quantum of prime-linked assets and raises fewer prime-linked deposits.
- Funding is prudently raised across the curve at fixed-term deposit rates that re-price only on maturity.
- Short-term demand-funding products re-price to different short-end base rates.
- Certain ambiguous maturity accounts are non-rate-sensitive.
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds, that do not re-price for interest rate changes.

Nedbank uses standard analytical techniques to measure interest rate sensitivity within its banking book. This includes static re-price gap analysis and a point-in-time interest income stress testing for parallel interest rate moves over a forward-looking 12-month period. At 31 December 2010 the sensitivity of the banking book to a 1% instantaneous reduction in interest rates would have led to a reduction in net interest income and equity of £44 million (2009: £44 million).

The table below shows the re-pricing profile of Nedbank's banking book, which highlights the fact that assets re-price quicker than liabilities following derivative hedging activities.

At 31 December 2010	Up to 3 months	3<6 months	6 months < 1 year	1<5 years	Over 5 years	Trading and non-rate	£m Total
Interest rate re-pricing gap							
Total assets	**42,497**	**1,138**	**1,033**	**2,730**	**2,040**	**9,778**	**59,216**
Total liabilities and shareholders' funds	**35,960**	**3,750**	**2,977**	**1,673**	**190**	**14,666**	**59,216**
Interest rate hedging activities	**(2,707)**	**2,684**	**2,134**	**(333)**	**(1,778)**	**–**	**–**
Re-pricing profile	**3,830**	**73**	**190**	**725**	**71**	**(4,889)**	**–**
Cumulative re-pricing profile	**3,830**	**3,903**	**4,093**	**4,818**	**4,889**	**–**	**–**
Expressed as a % of total assets	**6.5**	**6.6**	**6.9**	**8.1**	**8.3**	**–**	**–**

At 31 December 2009	Up to 3 months	3<6 months	6 months < 1 year	1<5 years	Over 5 years	Trading and non-rate	£m Total
Interest rate re-pricing gap							
Total assets	35,105	283	524	2,624	1,409	7,944	47,889
Total liabilities and shareholders' funds	29,620	2,601	3,227	1,013	391	11,037	47,889
Interest rate hedging activities	(2,631)	2,232	2,474	(860)	(1,215)	–	–
Re-pricing profile	2,853	(85)	(229)	751	(197)	(3,093)	–
Cumulative re-pricing profile	2,853	2,768	2,539	3,290	3,093	–	–
Expressed as a % of total assets	6.0	5.8	5.3	6.9	6.5	–	–

Skandiabanken has low sensitivity to interest rate risk. The majority of Skandiabanken's deposit taking and lending activity, after risk coverage, is short-term, which means that interest rates are changed to reflect the situation in the money market. The interest rate risk that arises from mismatching of fixed rates of interest is reduced through interest rate swap agreements.

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(d) Currency risk

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows, with currency risk where these are not effectively matched. The principal foreign currency risk arises from the fact that the Group's presentation currency is GBP, whereas (other than for the UK operations) the functional currencies of its principal operations are South African rand, US dollar, Swedish krona and euro. The Group reduces this risk through the use of currency swaps, currency borrowings and forward foreign exchange contracts. Such risk mitigation techniques are reflected in the currency analyses that follow.

Old Mutual (Bermuda) Ltd ('OMB') shareholder funds and client assets are invested in US dollar denominated bonds, mutual funds, money market securities and cash. Where selected, OMB provides minimum guarantees, also denominated in US dollar. However, a significant portion of the underlying assets invested in by OMB's clients are exposed to currencies other than the US dollar. OMB estimates and tracks this exposure on a daily basis and, depending on the hedging strategy employed, seeks to mitigate the exposure to a greater or lesser extent.

The table below shows the Group's statement of financial position by major currency at 31 December 2010.

£m

At 31 December 2010	ZAR	GBP	USD	EUR	SEK	Other	Total
Assets							
Goodwill and other intangible assets	719	1,406	1,182	544	977	137	4,965
Mandatory reserve deposits with central banks	1,066	–	2	–	–	11	1,079
Property, plant and equipment	905	17	18	3	11	61	1,015
Investment property	1,683	341	–	–	–	16	2,040
Deferred tax assets	133	–	147	55	78	3	416
Investments in associated undertakings and joint ventures	120	26	8	–	–	8	162
Deferred acquisition costs	142	751	143	297	55	146	1,534
Reinsurers' share of life assurance policyholder liabilities	52	907	–	2	3	18	982
Reinsurers' share of general insurance liabilities	103	–	–	–	–	19	122
Deposits held with reinsurers	2	–	–	–	–	–	2
Loans and advances	43,917	377	1,232	240	5,233	779	51,778
Investments and securities	36,938	29,797	14,734	9,579	11,373	3,732	106,153
Current tax receivable	47	95	–	6	1	7	156
Client indebtedness for acceptances	180	–	9	–	–	1	190
Other assets	1,806	399	1,276	174	230	47	3,932
Derivative financial instruments – assets	1,965	209	228	88	10	3	2,503
Cash and cash equivalents	2,020	838	478	262	211	323	4,132
Non-current assets held for sale	1	6	12,384	–	–	–	12,391
	91,799	35,169	31,841	11,250	18,182	5,311	193,552
Liabilities							
Life assurance policyholder liabilities	35,599	29,011	10,536	10,241	9,306	3,938	98,631
General insurance liabilities	362	–	–	–	–	35	397
Third-party interests in consolidation of funds	672	1,857	161	–	894	–	3,584
Borrowed funds	2,758	792	43	611	–	–	4,204
Provisions	185	74	5	23	(38)	11	260
Deferred revenue	29	457	–	184	–	60	730
Deferred tax liabilities	382	124	–	228	95	29	858
Current tax payable	101	83	32	9	7	6	238
Other liabilities	3,969	762	290	180	257	203	5,661
Liabilities under acceptances	180	–	9	–	–	1	190
Amounts owed to bank depositors	44,226	565	1,056	407	5,965	1,017	53,236
Derivative financial instruments – liabilities	1,273	134	292	72	99	–	1,870
Non-current liabilities held for sale	–	–	12,219	–	–	–	12,219
	89,736	33,859	24,643	11,955	16,585	5,300	182,078

£m

At 31 December 2009	ZAR	GBP	USD	EUR	SEK	Other	Total
Assets							
Goodwill and other intangible assets	608	1,523	1,267	661	1,013	87	5,159
Mandatory reserve deposits with central banks	843	35	–	–	–	4	882
Property, plant and equipment	738	21	22	5	6	36	828
Investment property	1,518	223	–	–	–	18	1,759
Deferred tax assets	83	19	329	30	104	5	570
Investments in associated undertakings and joint ventures	102	26	7	–	–	–	135
Deferred acquisition costs	129	696	1,894	347	43	29	3,138
Reinsurers' share of life assurance policyholder liabilities	32	772	475	7	4	6	1,296
Reinsurers' share of general insurance liabilities	107	–	–	–	–	13	120
Deposits held with reinsurers	3	–	143	–	–	–	146
Loans and advances	35,077	533	1,586	92	1,979	3,126	42,393
Investments and securities	29,483	30,685	18,690	5,983	10,530	3,090	98,461
Current tax receivable	52	93	–	17	2	6	170
Client indebtedness for acceptances	140	–	10	19	–	–	169
Other assets	1,137	223	1,302	155	188	46	3,051
Derivative financial instruments – assets	1,381	100	1,020	34	9	2	2,546
Cash and cash equivalents	790	844	483	319	422	124	2,982
Non-current assets held for sale	1	–	–	–	–	–	1
	72,224	35,793	27,228	7,669	14,300	6,592	163,806
Liabilities							
Life assurance policyholder liabilities	28,509	30,204	18,920	7,171	6,318	2,754	93,876
General insurance liabilities	344	–	–	–	–	28	372
Third-party interests in consolidation of funds	531	1,507	206	–	662	–	2,906
Borrowed funds	1,941	750	31	583	4	–	3,309
Provisions	156	63	17	20	–	7	263
Deferred revenue	28	421	–	190	–	15	654
Deferred tax liabilities	337	162	126	154	109	17	905
Current tax payable	81	85	16	2	15	11	210
Other liabilities	2,507	100	742	382	229	345	4,305
Liabilities under acceptances	140	–	10	20	–	–	170
Amounts owed to bank depositors	35,471	778	1,572	179	2,803	3,332	44,135
Derivative financial instruments – liabilities	1,092	–	815	7	76	–	1,990
	71,137	34,070	22,455	8,708	10,216	6,509	153,095

The Group reduces the risk to foreign currency fluctuations through the use of currency swaps, currency borrowings and forward foreign exchange contracts. There are no direct exposures to the unit linked investments and related policyholder liabilities. Taking these risk mitigation techniques into account a 10% appreciation in the GBP would result in a reduction to equity holders' funds in relation to the USD of £711 million (2009: £318 million), EUR increase of £8 million (2009: reduction of £42 million), SEK reduction of £124 million (2009: reduction of £352 million) and ZAR reduction of £192 million (2009: an increase in consolidated equity holders' funds of £99 million).

A 10% deterioration in the value of the major currencies shown above in relation to GBP (as set out in note C2) would have led to a reduction in Profit after tax of £90 million (2009: £48 million gain).

E2: Credit risk

Overall exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The Group's exposure and credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have significant credit exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Nedbank's lending portfolio forms the substantial part of the Group's loans and advances, analysed below. Credit risk represents the most significant risk type facing Nedbank, accounting for over 58.2% of its economic capital requirements. Nedbank's credit risk profile is managed in terms of its credit risk management framework, which encompasses comprehensive credit policy, mandate (limits) and governance structures, and is approved by the Nedbank Board.

The other major source of credit risk arises predominantly in the Group's insurance operations' portfolios of debt and similar securities along with those portfolios of debt instruments held by the banking operations. Credit risk for these portfolios is managed with reference to established credit rating agencies with limits placed on exposures to below investment grade holdings.

Other than the above, the Group has other limited credit risk exposures in respect of amounts due from policyholders, intermediaries and reinsurers. None of the life assurance operations cedes significant risk through reinsurance and any loans to policyholders are secured on the surrender value of the relevant policies.

The table below represents the Group's maximum exposure to credit risk, without taking into account the value of any collateral obtained. The total credit exposure also includes potential exposure arising from financial guarantees given by the Group and undrawn loan commitments, which are not yet reflected in the Group's statement of financial position.

£m

	At 31 December 2010	At 31 December 2009
Mandatory reserve deposits with central banks	**1,079**	882
Reinsurers' share of life assurance policyholder liabilities	**982**	1,296
Reinsurers' share of general insurance liabilities	**122**	120
Deposits held with reinsurers	**2**	146
Loans and advances	**51,778**	42,393
Investments and securities	**28,657**	32,668
Government and government-guaranteed securities	**9,275**	8,168
Other debt securities, preference shares and debentures	**15,930**	20,526
Short-term funds and securities treated as investments	**3,352**	3,859
Other	**100**	115
Other assets	**3,842**	3,004
Derivative financial instruments – assets	**2,503**	2,546
Cash and cash equivalents	**4,132**	2,982
Financial guarantees and other credit related contingent liabilities	**3,915**	3,100
Loan commitments and other credit related commitments	**8,330**	4,602
Non-current assets held for sale	**11,750**	–
	117,092	93,739

(i) Financial collateral

The Group takes financial collateral to support exposures in its banking and securities and lending activities. Collateral held includes cash and debt securities. Cash collateral is included as part of cash equivalents.

These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

(ii) Non-financial collateral

The Group takes other physical collateral to recover outstanding lending exposures in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgage over property (both residential and commercial), and liens over business assets (including, but not limited to plant, vehicles, aircraft, inventories and trade debtors) and guarantees from parties other than the borrower.

The Group has not disclosed the fair value of collateral held as it is not practicable to do so.

A further analysis of credit risk is provided in notes E3, E4, E6 and F5.

E3: Loans and advances

(a) Summary

The following table shows an analysis of loans and advances:

	£m	
	At 31 December 2010	At 31 December 2009
Home loans	**18,924**	16,474
Commercial mortgages	**8,376**	6,409
Properties in possession	**64**	74
Credit cards	**809**	657
Overdrafts	**1,556**	1,035
Policyholder loans	**249**	263
Other loans to clients	**5,332**	4,513
Preference shares and debentures	**1,994**	1,396
Net finance leases and instalment debtors	**6,603**	5,381
Gross investment	**6,976**	5,761
Unearned finance charges	**(373)**	(380)
Factoring accounts	**311**	183
Trade, other bills and bankers' acceptances	**14**	24
Term loans	**7,304**	5,852
Remittances in transit	**11**	9
Deposits placed under reverse purchase agreements	**1,335**	955
Gross loans and advances	**52,882**	43,225
Provisions for impairment		
Specific provisions	**(886)**	(660)
Portfolio provision	**(218)**	(172)
Total net loans and advances	**51,778**	42,393

Non-performing loans included above had a book value less impairment provisions of £1,729 million (2009: £1,616 million).

Of the loans and advances shown above, £15,865 million (2009: £13,038 million) is receivable within one year of the reporting date and is regarded as current. £35,913 million (2009: £29,355 million) is regarded as non-current based on the maturity profile of the assets.

The table below gives an age analysis of loans and advances representing primarily the exposures of the Group's banking operations.

	£m	
	At 31 December 2010	At 31 December 2009
Neither past due nor impaired	**46,584**	37,670
Past due but not impaired	**3,683**	3,279
Past due but less than 1 month	**3,075**	2,631
Past due, greater than 1 month but less than 3 months	**481**	566
Past due, greater than 3 months but less than 6 months	**75**	28
Past due, greater than 6 months but less than 1 year	**24**	36
Past due more than 1 year	**28**	18
Impaired loans and advances individually impaired	**2,615**	2,276
Gross loans and advances	**52,882**	43,225
Provisions for impairment	**(1,104)**	(832)
Total net loans and advances	**51,778**	42,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

E3 Loans and advances continued

The neither past due nor impaired loans and advances can be further analysed by credit rating as follows:

£m

	At 31 December 2010				At 31 December 2009			
	Investment grade	**Sub-investment grade**	**Not rated**	**Total**	Investment grade	Sub-investment grade	Not rated	Total
Home loans	**923**	**10,145**	**4,830**	**15,898**	220	9,358	3,980	13,558
Commercial mortgages	**2,153**	**5,936**	**20**	**8,109**	493	5,572	15	6,080
Credit cards	**121**	**542**	**9**	**672**	91	434	44	569
Overdrafts	**297**	**710**	**261**	**1,268**	58	500	204	762
Policyholder loans	**160**	**–**	**83**	**243**	–	–	484	484
Other loans to clients	**3,544**	**1,332**	**252**	**5,128**	2,926	1,317	134	4,377
Preference shares and debentures	**728**	**4,601**	**91**	**5,420**	422	3,762	183	4,367
Net finance leases and instalment debtors	**1,376**	**521**	**14**	**1,911**	649	735	–	1,384
Factoring accounts	**–**	**308**	**–**	**308**	–	181	–	181
Trade, other bills and bankers' acceptances	**6**	**8**	**–**	**14**	13	11	–	24
Term loans	**5,163**	**934**	**171**	**6,268**	3,988	1,075	80	5,143
Remittances in transit	**8**	**1**	**1**	**10**	5	–	4	9
Deposits placed under reverse purchase agreements	**1,307**	**28**	**–**	**1,335**	732	–	–	732
Gross loans and advances	**15,786**	**25,066**	**5,732**	**46,584**	9,597	22,945	5,128	37,670

Collateral is held as security against certain loans and advances detailed above, with this principally consisting of cash, properties and letters of credit.

Movements in provisions for impairment of loans and advances are analysed as follows:

£m

	Year ended 31 December 2010			Year ended 31 December 2009		
	Specific impairment	**Portfolio impairment**	**Total impairment**	Specific impairment	Portfolio impairment	Total impairment
Loans and advances						
Balance at beginning of the year	**660**	**172**	**832**	407	172	579
Income statement charge/(credit)	**598**	**21**	**619**	565	(19)	546
Recoveries of amounts previously written off	**(67)**	**–**	**(67)**	(35)	–	(35)
Amounts written off against the provision	**(484)**	**–**	**(484)**	(378)	–	(378)
Foreign exchange and other movements	**179**	**25**	**204**	101	19	120
Balance at end of the year	**886**	**218**	**1,104**	660	172	832

The majority of loans and advances are in respect of Nedbank, which believes it has continued to make good progress in improving asset quality. In local currency terms Nedbank experienced a reduction in the impairment charge for the year driven mostly by its retail division, particularly in the secured portfolios that had lagged the recovery in the unsecured portfolios. Lower interest rates and the stabilising of job losses contributed to the retail credit loss improving significantly in the year. Nedbank further strengthened its provisioning by reducing certain security assumptions in specific impairments and lengthening the emergence periods. The credit portfolios in Nedbank's corporate banking business and wealth divisions are believed to be of a high quality and credit loss ratios remained within or below the respective target levels. Impairments for the capital division increased in the higher risk private equity portfolio.

During the year under review, the Group recognised collateral to the amount of £64 million (2009: £74 million) in the statement of financial position.

(b) Finance lease and instalment debtors

£m

	Minimum lease payments receivable		Present value of minimum lease payments receivable	
	At 31 December 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
Amounts receivable under finance leases				
Within one year	**1,851**	974	**1,752**	843
In the second to fifth years inclusive	**4,703**	4,771	**4,451**	4,525
After five years	**422**	16	**400**	13
	6,976	5,761	**6,603**	5,381
Less: unearned finance income	**(373)**	(380)	**–**	–
Present value of minimum lease payments receivable	**6,603**	5,381	**6,603**	5,381

The accumulated allowance for uncollectable minimum lease payments receivable is £230 million (2009: £134 million).

E4: Investments and securities

£m

	At 31 December 2010	At 31 December 2009
Government and government-guaranteed securities	**9,275**	8,168
Other debt securities, preference shares and debentures	**15,930**	20,526
Listed	**11,356**	14,821
Unlisted	**4,574**	5,705
Equity securities	**25,453**	19,986
Listed	**23,202**	18,496
Unlisted	**2,251**	1,490
Pooled investments	**52,043**	45,807
Listed	**8,591**	5,741
Unlisted	**43,452**	40,066
Short-term funds and securities treated as investments	**3,352**	3,859
Other	**100**	115
Total investments and securities	**106,153**	98,461

Investments and securities are regarded as current and non-current assets based on the intention with which the financial assets are held as well as their contractual maturity profile. Of the amounts shown above, £55,650 million (2009: £48,226 million) is regarded as current and £50,503 million (2009: £50,235 million) is regarded as non-current.

(a) Debt instruments and similar securities

The following table shows an age analysis of the portfolio of debt instruments and similar securities:

£m

	At 31 December 2010	At 31 December 2009
Neither past due nor impaired	**28,648**	32,346
Past due but not impaired	**9**	–
Impaired	**–**	322
Total debt instruments and similar securities	**28,657**	32,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

The following table shows an analysis of the carrying values of the Group's portfolio of debt and similar securities according to their credit rating (Standard & Poor's or equivalent), by investment grade.

£m

At 31 December 2010	Government and government-related securities	Other debt securities, preference shares and debentures	Short-term funds and securities	Other	Total
Investment grade (AAA to BBB)	**7,094**	**8,429**	**2,162**	**6**	**17,691**
Sub-investment grade (BB and lower)	**–**	**113**	**–**	**–**	**113**
Not rated	**2,181**	**7,388**	**1,190**	**94**	**10,853**
	9,275	**15,930**	**3,352**	**100**	**28,657**

At 31 December 2009	Government and government-related securities	Other debt securities, preference shares and debentures	Short-term funds and securities	Other	Total
Investment grade (AAA to BBB)	6,324	15,745	2,193	–	24,262
Sub-investment grade (BB and lower)	–	696	–	–	696
Not rated	1,844	4,085	1,666	115	7,710
	8,168	20,526	3,859	115	32,668

In general, no collateral is taken in respect of the Group's holdings of debt instruments and similar securities.

E5: Securities lending

The Group participates in securities lending where securities holdings are lent to third parties. The loaned securities are not removed from the Group's consolidated balance sheet but are retained within the relevant investment classification. Collateral is held in respect of the loaned securities, with the level of holding in relation to the underlying securities lent being dependant on the quality of collateral.

The table below represents the amounts lent and the related collateral received.

£m

	At 31 December 2010	At 31 December 2009
Amounts lent under securities lending		
Equity	**700**	626
Debt securities	**447**	230
	1,147	856
Amounts received as collateral for securities lending		
Cash	**1,131**	782
Debt securities	**16**	74
	1,147	856

The cash collateral above has been recognised in the statement of financial position with a corresponding liability to return the collateral included in other liabilities. Of the collateral included in the table above, £1,147 million (2009: £856 million) can be sold or repledged and £nil (2009: £nil) has been sold or repledged.

In addition the Group has provided £164 million in cash collateral (2009: £1 million) and £nil in debt securities collateral (2009: £92 million) under repurchase arrangements.

E6: Derivative financial instruments – assets and liabilities

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

- Foreign currency, interest rate and equity, or equity index, futures are contractual obligations to receive or pay a net amount based on changes in currency rates or underlying equities, or indices or interest rates or buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market (an Exchange). Since futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the Exchange, the credit risk is negligible.
- Forward rate agreements are individually negotiated interest rate contracts that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Forward foreign exchange contracts are individually negotiated contracts that require settlement of the pre-agreed currency amounts at a future date.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of both (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.
- Foreign currency, interest rate and equity, or equity index, options are contractual agreements under which the writer grants the holder the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument or amount of assets determined by reference to an index at a predetermined price. In consideration for the assumption of foreign exchange, interest rate or asset price risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over-the-counter). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become in-the-money or out-of-the-money as a result of fluctuations in market interest rates, foreign exchange rates or asset prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are in-the-money or out-of-the-money and, therefore, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The following tables provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments allow the Group and its customers to transfer, modify or reduce their credit, equity market, foreign exchange and interest rate risks.

The Group undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with whom it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

£m

At 31 December 2010	Notional principals		Fair values	
	Positive values	Negative values	Assets	Liabilities
Equity derivatives				
Options written	**–**	**539**	**52**	**82**
Options purchased	**612**	**–**	**240**	**70**
Futures	**152**	**598**	**1**	**8**
	764	**1,137**	**293**	**160**
Exchange rate contracts				
Forwards	**6,983**	**6,558**	**496**	**218**
Swaps	**1,383**	**877**	**208**	**161**
Options purchased	**334**	**–**	**15**	**–**
Futures	**1**	**–**	**(127)**	**–**
Options written	**–**	**319**	**–**	**10**
	8,701	**7,754**	**592**	**389**
Interest rate contracts				
Swaps	**18,950**	**15,099**	**716**	**737**
Forward rate agreements	**10,973**	**9,537**	**17**	**15**
Options purchased	**300**	**–**	**128**	**–**
Options written	**–**	**238**	**–**	**–**
Futures	**566**	**693**	**99**	**96**
Caps	**72**	**354**	**9**	**9**
	30,861	**25,921**	**969**	**857**
Credit derivatives				
Credit linked notes	**172**	**10**	**168**	**10**
Credit default swaps	**321**	**570**	**5**	**2**
	493	**580**	**173**	**12**
Other derivatives	**365**	**615**	**476**	**452**
Total	**41,184**	**36,007**	**2,503**	**1,870**

£m

At 31 December 2009	Notional principals		Fair values	
	Positive values	Negative values	Assets	Liabilities
Equity derivatives				
Options written	–	758	6	166
Options purchased	976	39	217	12
Futures	599	106	3	1
	1,575	903	226	179
Exchange rate contracts				
Forwards	6,420	6,255	1,237	1,013
Swaps	1,619	712	177	88
Options purchased	368	–	13	–
Futures	7	5	–	–
Options written	–	368	–	12
	8,414	7,340	1,427	1,113
Interest rate contracts				
Swaps	16,820	15,310	555	570
Forward rate agreements	3,644	5,363	5	8
Options purchased	1,663	1,163	167	1
Options written	–	391	–	9
Futures	864	1,552	81	74
Caps	195	580	11	9
	23,186	24,359	819	671
Credit derivatives				
Credit linked notes	65	127	73	5
Credit default swaps	–	–	–	–
	65	127	73	5
Other derivatives	8	–	1	22
Total	33,248	32,729	2,546	1,990

E: Financial assets and liabilities continued

E6: Derivative financial instruments – assets and liabilities continued

The contractual maturities of the derivative liabilities held are as follows:

£m

At 31 December 2010	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	No contractual maturity date	Total
Derivative financial liabilities	**1,870**	**570**	**278**	**541**	**538**	**–**	**1,927**

£m

At 31 December 2009	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	No contractual maturity date	Total
Derivative financial liabilities	1,990	811	421	388	344	–	1,964

E7: Hedge accounting

Cash flow hedges

Cash flow hedge accounting was applied in respect of the Group's exposures to foreign currency risk. The Group hedged its foreign currency risk on one of its existing euro loan borrowings by entering into foreign currency swaps for USD. These swaps were separated, for accounting purposes, into a EUR/GBP swap and a GBP/USD swap. Cash flow hedge accounting was applied to the EUR/GBP swap. At 31 December 2010 the EUR/GBP swaps had a notional principal of £nil (€nil) (2009: £27 million (€30 million)) and a fair value of £nil (2009: £5 million). At 31 December 2010 the cash flow hedge reserve was £nil (2009: £2 million). The cash flow hedge reserve is included in 'Other reserves' in the statement of changes in equity. There was no ineffectiveness in respect of either of the above cash flow hedges during the financial year (2009: nil).

Net investment hedges

The Group uses a combination of currency swaps, forward foreign exchange contracts and debt raised in the currency of the exposure to mitigate the translation effect of holding overseas companies. The following table summarises the Group's open positions with respect to financial instruments utilised for net investment hedging purposes. There was no ineffectivness in respect of the net investment hedges during the financial year (2009: nil).

At 31 December 2010	EUR	USD	ZAR	SEK
Open positions				
Forward contracts	**–**	**–**	**164**	**–**
Currency swaps[1]	**–**	**313**	**–**	**391**
Debt[2]	**–**	**32**	**10**	**–**
	–	**345**	**174**	**391**

At 31 December 2009	EUR	USD	ZAR	SEK
Open positions				
Forward contracts	113	–	95	–
Currency swaps[1]	–	321	–	353
Debt[2]	–	31	55	–
	113	352	150	353

1 Excludes $nil (2009: $35 million) of currency swaps that do not qualify for hedge accounting.
2 Excludes $750 million and €500 million (2009: $750 million and €500 million) of financial instruments accounted as non-controlling interests or as equity.

An analysis of amounts in the financial statements relating to derivatives designated as net investment hedges is shown in the table below:

£m

	At 31 December 2010	At 31 December 2009
Fair value of financial instruments designated as net investment hedges at the reporting date		
ZAR forward foreign exchange contracts	**(11)**	(4)
£300 million cross currency swap	**(89)**	(53)
€750 million cross currency swap	**(65)**	(53)
	(165)	(110)

The ZAR forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its South African operations. The £300 million cross currency swap is used to hedge SEK currency risk on SEK based assets in the Group's net investment in Skandia. The GBP to USD (£246 million to $486 million) leg of the €750 million cross currency swap is used to hedge USD currency risk on the USD based assets in the Group's net investment in US operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

E8: Policyholder liabilities

£m

	At 31 December 2010			At 31 December 2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Life assurance policyholder liabilities						
Insurance contracts	**19,177**	**(141)**	**19,036**	27,549	(539)	27,010
Investment contracts						
Unit-linked investment contracts and similar contracts	**69,538**	**(821)**	**68,717**	57,372	(717)	56,655
Other investment contracts	**1,145**	**–**	**1,145**	1,859	–	1,859
Discretionary participating investment contracts	**8,249**	**–**	**8,249**	6,639	–	6,639
Outstanding claims	**522**	**(20)**	**502**	457	(40)	417
	98,631	**(982)**	**97,649**	93,876	(1,296)	92,580
General insurance liabilities						
Claims incurred but not reported	**61**	**(12)**	**49**	49	(10)	39
Unearned premiums	**109**	**(51)**	**58**	94	(38)	56
Outstanding claims	**227**	**(59)**	**168**	229	(72)	157
	397	**(122)**	**275**	372	(120)	252
Life assurance policyholder and general insurance liabilities	**99,028**	**(1,104)**	**97,924**	94,248	(1,416)	92,832

Of the £1,104 million (2009: £1,416 million) included in reinsurer's share of life assurance policyholder and general insurance liabilities is an amount of £1,051 million (2009: £919 million) which is classified as current, the remainder being non-current.

Of the £2 million (2009: £146 million) included in deposits held with reinsurers £2 million (2009: £110 million) is classified as current, with no non-current deposits in 2010.

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below.

(a) Insurance contracts

£m

	Year ended 31 December 2010			Year ended 31 December 2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance at beginning of the year	**27,549**	**(539)**	**27,010**	28,106	(550)	27,556
Income						
Premium income	**1,999**	**(67)**	**1,932**	2,549	(158)	2,391
Investment income	**1,989**	**–**	**1,989**	1,623	–	1,623
Other income	**3**	**–**	**3**	5	–	5
Expenses						
Claims and policy benefits	**(2,268)**	**70**	**(2,198)**	(3,369)	165	(3,204)
Operating expenses	**(472)**	**–**	**(472)**	(372)	–	(372)
Currency translation loss/(gain)	**2,059**	**(6)**	**2,053**	(97)	44	(53)
Other charges and transfers	**(601)**	**(36)**	**(637)**	(594)	(48)	(642)
Taxation	**(1)**	**–**	**(1)**	(19)	–	(19)
Transfer to operating profit	**(293)**	**(12)**	**(305)**	(283)	8	(275)
Discontinued operations	**(10,787)**	**449**	**(10,338)**	–	–	–
Balance at end of the year	**19,177**	**(141)**	**19,036**	27,549	(539)	27,010

(b) Unit-linked investment contracts and similar contracts, and other investment contracts

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Balance at beginning of the year	**59,231**	47,126
New contributions received	**10,250**	9,822
Maturities	**(701)**	(656)
Withdrawals and surrenders	**(6,788)**	(5,703)
Fair value movements	**6,619**	8,345
Foreign exchange and other movements	**2,860**	297
Discontinued operations	**(788)**	–
Balance at end of the year	**70,683**	59,231

Of the liabilities shown in the above table, £nil (2009: £1,178 million) are recorded at amortised cost with the remainder being designated as fair value through the income statement.

(c) Discretionary participating investment contracts

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Balance at beginning of the year	**6,639**	5,647
Income		
Premium income	**855**	659
Investment income	**895**	774
Currency translation losses	**1,107**	867
	2,857	2,300
Expenses		
Claims and policy benefits	**(1,024)**	(1,050)
Operating expenses	**(85)**	(68)
Other charges and transfers	**(61)**	(145)
Taxation	**(7)**	(4)
	(1,177)	(1,267)
Transfer to operating profit	**(70)**	(41)
Balance at end of the year	**8,249**	6,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

(d) Contractual maturity analysis

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for investment contract liabilities and discretionary participating financial instruments, and expected claim dates for insurance contracts.

The Group acknowledges that for general insurance the unearned premium provision, which will be recognised as earned premium in the future, will most likely not lead to claim cash outflows equal to this provision. The Group has however adopted a conservative approach in estimating future cash outflows associated with unearned premiums, by assuming a 100% combined ratio.

£m

At 31 December 2010	Carrying amount	Undiscounted cash flows: Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Life assurance						
Insurance contracts	**19,177**	**1,572**	**1,744**	**9,271**	**24,658**	**37,245**
Investment contracts						
Unit-linked investment contracts and similar contracts	**69,538**	**59,173**	**888**	**2,227**	**6,790**	**69,078**
Other investment contracts	**1,145**	**740**	**77**	**264**	**236**	**1,317**
Discretionary participating investment contracts	**8,249**	**7,415**	**–**	**–**	**–**	**7,415**
Outstanding claims	**522**	**406**	**29**	**57**	**31**	**523**
	98,631	**69,306**	**2,738**	**11,819**	**31,715**	**115,578**
General insurance liabilities						
Claims incurred but not reported	**61**	**26**	**30**	**5**	**–**	**61**
Unearned premium	**109**	**56**	**51**	**2**	**–**	**109**
Outstanding claims	**227**	**88**	**100**	**39**	**–**	**227**
	397	**170**	**181**	**46**	**–**	**397**
	99,028	**69,476**	**2,919**	**11,865**	**31,715**	**115,975**

£m

At 31 December 2009	Carrying amount	Undiscounted cash flows: Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Life assurance						
Insurance contracts	27,549	920	2,454	13,360	30,465	47,199
Investment contracts						
Unit-linked investment contracts and similar contracts	57,372	52,324	469	1,005	3,583	57,381
Other investment contracts	1,859	36	675	614	840	2,165
Discretionary participating investment contracts	6,639	6,398	–	–	–	6,398
Outstanding claims	457	454	18	40	53	565
	93,876	60,132	3,616	15,019	34,941	113,708
General insurance liabilities						
Claims incurred but not reported	49	32	10	7	–	49
Unearned premium	94	61	19	14	–	94
Outstanding claims	229	149	46	34	–	229
	372	242	75	55	–	372
	94,248	60,374	3,691	15,074	34,941	114,080

(e) Assumptions

Insurance contract provisions (together with provisions for investment contracts with discretionary participating features) are calculated based upon assumptions determined in accordance with local accounting requirements. As described in the accounting policies, these vary significantly between geographies and are therefore discussed separately below.

South Africa

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

- The current best estimate of future experience, as described below.
- The compulsory margins as set out in the Actuarial Society professional guidance notes and FSB board notices.
- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These discretionary margins cause capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy.

Other discretionary margins, mainly held to cover:

- Mortality, lapse and investment return margins for Group Schemes funeral policies, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies.
- Mortality margins on Individual Business life policies, accidental death supplementary benefits, and disability supplementary benefits, due to uncertainty about future experience.
- Margins on certain Individual Business non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk.
- Expense margins in the pricing basis for Employee Benefits annuities.
- Interest margins on Employee Benefits PHI claims in payment due to the inability to fully match assets to liabilities as a result of the high rate of change in the portfolio (high volume of new claimants and terminations).
- Margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market-consistent basis to market swap yield curves in particular.

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

The provision for expenses (before allowing for margins) starts at a level consistent with recent experience and allows for an escalation thereafter.

The future gross investment returns by major asset categories and expense inflation (excluding margins) assumed for South Africa insurance business are as follows:

	%	
	At 31 December 2010	At 31 December 2009
Fixed interest securities	**8.5**	9.5
Cash	**6.5**	7.5
Equities	**12.0**	13.0
Properties	**10.0**	11.0
Future expense inflation*	**5.5**	6.5

* 7.5% (2009: 8.5%) for Individual Business administered on old platforms and 6.5% (2009: 7.5%) for Group Schemes' business.

For non-profit annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, valued using current fixed-interest or swap curve yield curves.

Assumptions are based upon experience as analysed in the following investigations:

Business unit	Type of investigation	Period of investigation
Individual Business	Flexi business mortality	2003 to 2006
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2005 to 2006
	Greenlight mortality	2001 to 2009
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency – Flexi and Conventional	2008
	Persistency – Greenlight	2003 to 2009
Group Schemes	Mortality	2009
	Persistency	2009 to 2010
Employee Benefits	Annuitant Mortality	2005 to 2009
	PHI claim terminations	2006 to 2009
	Group Assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis

In addition to these detailed experience investigations, the 2010 analysis of profit provides a measure of the aggregate experience in 2010. During this valuation period, actual decrement experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure.

Various actuarial assumption changes have been made which largely offset each other. These let to a net increase in the value of liabilities of £1 million (2009: £61 million decrease in liabilities). The biggest assumption changes in 2010 were (1) higher retail annuitant mortality assumptions which reduced liabilities by £24 million, and (2) lower economic assumptions which increased liabilities by £19 million.

United States

Insurance contract provisions and Deferred Acquisition Costs (DAC) balances for traditional insurance products with fixed premiums and benefits (measured according to FAS 60 under US GAAP) are calculated using mortality, lapse, expense and discount assumptions as at inception of the contract. These assumptions are determined based on management's best estimate, reflecting actual and expected experience, and also include provision for adverse deviation. The assumptions are locked in as of the date of issue, and are revised only where liability adequacy testing based on current best estimate assumptions results in loss recognition.

For insurance products with flexible premiums or benefits (measured according to FAS 97 under US GAAP), the account value is held as the base insurance contract provision, and the assumptions below are therefore not applicable. DAC balances, and additional reserves held for items including lapse guarantees, persistency bonuses and gains followed by losses, utilise best estimate assumptions as of the valuation date.

Mortality rates vary by gender and issue age; lapse rates vary by issue age and duration.

Bermuda

For insurance products with flexible premiums or benefits (measured according to FAS 97 under US GAAP), the account value is held as the base insurance contract provision. For the variable annuity contracts, DAC balances, and additional reserves are held for items including death and living benefit lapse guarantees, persistency bonuses and gains followed by losses, utilising a fair value method, are held using best estimate assumptions as of the valuation date. For fixed annuities, reserves are held at amortised cost.

Mortality rates vary by gender and issue age; lapse rates vary by issue age and duration with an additional variation by 'moneyness' level for variable annuity policies with living benefit guarantees.

Europe

Insurance contract provisions for the Group's Europe life assurance operations are limited, and principally comprise technical provisions for pure disability and death benefit cover sold in the United Kingdom and Scandinavia, together with death benefit risk cover in respect of unit-linked assurance products across all of our European territories. There are also technical provisions for healthcare which is sold in Scandinavia.

(f) Insurance risk

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk in the case of life assurance or risk of loss (from fire, accident, or other source) in the case of general insurance.

Insurance risk arises through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. Uncertainty in persistency, expenses and mortality & morbidity claim rates, relative to the actuarial assumptions made in the pricing process, may prevent the firm from achieving its profit objectives.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts.

The Group has developed a risk policy which sets out the practices which are used to manage insurance risk and the management information and stress testing requirements. The policy is cascaded to all entities across the Group who each have their own risk policy suite aligned to the Group. As well as management of persistency, expense and claims experience, the risk policy sets requirements and standards on matters such as underwriting and claims management practices, and the use of reinsurance to mitigate insurance risk.

The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

The financial impact of insurance risk events is examined through stress tests carried out within the MCEV and IFRS sensitivities, ICA and Economic Capital assessment.

Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims are higher than expected within the operations' pricing assumptions. Possible causes are unexpected epidemics of new diseases and widespread changes in lifestyle such as eating, smoking and exercise habits. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that increase longevity. Higher than expected levels of claims will cause emerging profit to be lower than expected.

For unit-linked contracts a risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value). This risk charge can be altered in the event of significant changes in the expectation for future claims experience, subject to 'Treating Customers Fairly' principles.

The operations manage mortality risks through its underwriting policy and external reinsurance arrangements where its policy is to retain certain types of insurance risks within specified maximum single event loss limits. Exposures above accepted limits are transferred to reinsurance counterparties.

Persistency

Persistency risk is the risk that a policyholder surrenders, transfers or ceases premium payments for their contracts in a volume that has not been expected within the pricing assumptions thereby leading to a reduction in financial profit and an impact on liquidity.

Most insurance contracts can be surrendered before maturity for a cash surrender value.

In order to limit this risk to an acceptable level, charging and commission structures are designed to limit the risk of direct financial loss on surrender.

Persistency statistics are monitored monthly. Actions may be triggered as a result of higher than expected lapse or withdrawal rates and significant emerging trends. A detailed persistency analysis at a product level is carried out on an annual basis.

In the short-term, profit is not materially impacted by changes in persistency experience that is reasonably foreseeable.

Expenses

Expense risk is the risk that actual expenses exceed expense levels assumed in product pricing. This may result in emerging profit falling below the Group's profit objectives.

Expense levels are monitored quarterly against budgets and forecasts. An activity based costing process is used to allocate costs relating to processes and activities to individual product lines.

Some products' structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels. This review may result in changes in charge levels, subject to 'Treating Customers Fairly' principles.

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

Tax

Tax risk is the risk that insufficient tax is collected from the policyholders because the projected taxation basis for basic life assurance business is incorrect resulting in contracts being incorrectly priced.

Tax risk also represents potential changes in the interpretation or application of prevailing tax legislation as paid by either policyholders or shareholders, where the detrimental impact is reduced profitability or additional shareholder tax burdens. The taxation position of the operations is projected annually and tax changes will result in changes to new business pricing models as part of the annual control cycle. High risk issues and emerging trends are reported internally on a quarterly basis.

(i) Risk management objectives and policies for mitigating insurance risk

The Group's exposure to insurance risk varies depending on the nature of its operations and their location. Consequently the Group's policy is to manage insurance risk separately through its principal operations, subject to appropriate central Corporate supervision and monitoring. The Group's principal operations that incur significant insurance risk are:

- OMLAC (SA) – long-term insurance in South Africa
- Old Mutual US Life – long-term insurance in the United States
- Old Mutual Bermuda – long-term insurance in Bermuda
- Mutual & Federal – general insurance in South Africa
- Skandia Nordic – life assurance in Scandinavia
- Skandia Wealth Management – life assurance in the UK

The Group's other insurance operations include:

- Life assurance in Skandia's unit-linked assurance operations in Continental Europe and Latin America – These do not give rise to significant insurance risks, as the unbundled insurance component of those products is insignificant in comparison to the rest of the Old Mutual Group.
- Other emerging markets entities in China and India and the rest of Africa (except South Africa) – These do not give rise to significant insurance risks relative to the Group as a whole.

The Group effectively manages its insurance risks through the following mechanisms:

- Having an agreed risk preference for all risk types including those related to insurance.
- The diversification of business over several classes of insurance and a number of geographical segments and large numbers of uncorrelated individual risks, by which the Group seeks to reduce variability in loss experience.
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed and quantification of such risks.
- Actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used.
- Guidelines for writing insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- Reinsurance, which is used to limit the Group's exposure to large single claims and catastrophes. When selecting a reinsurer, consideration is given to those companies that provide high security. In order to assess this, rating information from both public and private sources is used.
- The matching of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

(ii) Terms and conditions of long-term insurance business – Emerging Markets, Nordic, Wealth Management, US Life and Bermuda

The terms and conditions attaching to insurance contracts determine the level of insurance risk accepted by the Group. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred by the Group.

Emerging Markets

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Individual Life Flexi business with cover	Mortality/morbidity rates may be repriced (regular premium contracts)	Mortality, morbidity investment	Some investment performance, cover and annuity guarantees	Varies*
Conventional business with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity investment	Some investment performance and annuity guarantees	Varies*
Greenlight	Charges fixed at inception and cannot be changed for a specified term	Mortality, morbidity, expense	Rates fixed for a specified number of years	None
Group Schemes – funeral cover	Charges fixed at inception and cannot be changed for a specified number of years	Mortality including HIV/AIDS, expense	Rates fixed for a specified number of years	None
Employee Benefits – Group Assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees, except for PHI claims in payment for which benefit payment schedule is guaranteed	None
Non-profit annuity	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
With-profit annuity	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes

* The extent of the Group's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non-vesting (in which case they can be removed in adverse circumstances).

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. Investment returns not distributed after deducting charges are credited to bonus smoothing reserves, which are used to support subsequent bonus declarations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

Nordic

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Unit linked with death cover	Mortality rates may be re-priced	Mortality	Premiums for policies issued before 2002 are subject to pre-defined limits	None
Unit linked with longevity risk	Longevity rates may be re-priced	Longevity	Premiums for policies issued before 2002 are subject to pre-defined limits	None
Waiver of premium	Risk premium rates may be re-priced	Morbidity	Premiums for policies issued before 2002 are subject to pre-defined limits	None
Private Health Care	One year contracts. Re-priced at renewal	Morbidity	None	None
Personal Accident (Group)	One year contracts. Re-priced at renewal	Morbidity/ disability	None	None

Wealth Management

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Unit linked life assurance	Mortality rates may be re-priced	Mortality	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Unit linked critical illness	Morbidity rates may be re-priced	Morbidity	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Non-linked life assurance and critical illness (fixed term and whole of life)	Premium rates fixed at inception	Mortality	Rates fixed for the life of the contract	None
Non-linked life assurance and critical illness (rolling term)	Premium rates fixed, but may be re-priced when the term is rolled	Morbidity	Rates fixed for the first 10 years if cover levels are not altered	None

US Life

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Life term	Renewable term products offering coverage for level periods ranging from 1 to 30 years	Mortality, expense	Premium guarantees from 1 to 30 years, return of premium guarantees	None
Universal life	Flexible and fixed premium interest sensitive life insurance with cash value build up	Mortality, expense, investment	No lapse guarantees (max of 15 years or to age 95); cost of insurance (mortality charge) guarantees	Yes, through the crediting rate
Fixed indexed annuities	Single and flexible premium accumulation annuities with upside potential of equity indexed returns on their account value	Mortality, investment, hedging	Minimum caps, maximum spread guarantees, minimum interest guarantees	Yes, through index credits
Fixed deferred annuities	Single and flexible premium accumulation annuities	Mortality, investment	Minimum guaranteed accumulation rates and annuitisation rates	Limited – crediting rates are reset at specified intervals
Equity indexed universal life	Flexible premium interest sensitive whole life products with upside potential of equity indexed returns on their account value and a fixed account option	Mortality, investment, hedging	No-lapse guarantees; cost of insurance (mortality charge) guarantees; minimum caps; maximum spread guarantees	Yes, through the index and crediting rates are reset at specified intervals
Immediate (payout)	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
Variable annuities	Accumulation annuities with policyholder investments in separate accounts and a fixed account option	Mortality, investment, hedging	Minimum guaranteed death benefit and minimum guaranteed accumulation benefit which may include a minimum rate of return or waiver of surrender charges	Yes, through separate accounts and crediting rates are reset at specified intervals

Bermuda

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Variable annuities	Accumulation annuities with policyholder investments in separate accounts and a fixed account option	Mortality, persistency, market, hedging, volatility, basis risk	Minimum guaranteed death benefit and maturity benefit; credited rate guarantee on fixed account option	Yes, through separate account and credited rates on fixed account
Fixed deferred annuities	Single and flexible premium accumulation annuities with credited rate over specified duration	Persistency, investment	Credited rate over specified period	Via credited rates and renewal rates on rate expiration
Fixed indexed annuities	Single premium accumulation annuities with upside potential of equity indexed returns on their account value	Persistency, investment, hedging	Market participation with no downside minimum interest guarantees	Yes, through index credits

All business in the Group is subject to the risk that policyholders discontinue the insurance policy, through lapse or surrender.

(iii) Management of insurance risks – life assurance

The table below summarises the variety of risks to which the Group's life assurance operations are exposed, and the methods by which the Group seeks to mitigate these risks.

Risk	Definition	Risk management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk
HIV/AIDS	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of HIV/AIDS. Tests for HIV/AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates
Longevity	Possible increase in annuity costs due to policyholders living longer	For non-profit annuities, improvements to mortality are allowed for in pricing and valuation. Experience is closely monitored. For with-profit annuity business, the mortality risk is carried by policyholders and any mortality profit or loss is reflected in the bonuses declared
Policyholder behaviour	Selection of more expensive options, or lapse and re-entry when premium rates are falling, or termination of policy, which may cause the sale of assets at inopportune times	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation
Catastrophe	Natural and non-natural disasters, including war/terrorism, could result in increased mortality risk and payouts on policies	Catastrophe stop loss/excess of loss reinsurance treaty in place which covers claims from one incident occurring within a specified period between a range of specified limits
Policy lapse/Surrender	A policyholder option to terminate the policy, which may cause the loss of future earnings or sale of assets at inopportune times	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation

Many of the above risks are concentrated, either geographically (in the case of catastrophe) or by line of business (for example, medical developments, HIV/AIDS). The Group, through diversification in the types of business it writes and its geographic spread, attempts to mitigate this concentration of risk. See section (i), in the preceding section, for illustration of this.

(iv) Sensitivity analysis – life assurance

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract provisions recorded, with impact on profit/(loss) and/or shareholders' equity. The effect of a change in assumption is mitigated by the following factors:

- Offset (partial or full) to the bonus stabilisation reserve in the case of smoothed bonus products in South Africa.
- Offset (partial or full) through DAC amortisation in the case of US business.
- The effect of locked-in assumptions under US GAAP accounting, where assumptions underlying the insurance contract provisions are not changed until liabilities are not adequate after reflecting current best estimates.

The net increase or decrease to insurance contract provisions recorded as of 31 December 2010 has been estimated as follows:

	%	£m	£m	£m	£m
Assumption	**Change**	**Emerging Markets**	**Wealth Management**	**US Life**	**Bermuda**
Mortality and morbidity rates – assurance	10%	284	3	20	–
Mortality rates – annuities	(10)%	61	–	(6)	–
Discontinuance rates	10%	(11)	(3)	18	18
Expenses (maintenance)	10%	68	2	6	(2)

Emerging Markets

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The insurance contract liabilities recorded for the South African business are also impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to the insurance contract liabilities, and decrease to profit, of £91 million (2009: £58 million).

The valuation interest rate sensitivity reflects a change in the valuation interest rates without any corresponding change in investment returns or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

Nordic

The specified assumptions have an immaterial impact on the Skandia Nordic insurance IFRS contract technical provisions as these are relatively insensitive towards movements in mortality/longevity/morbidity or interest rates and mainly comprise of reserves that relate to claim reserves and incurred – but not reported provisions.

Wealth Management

The changes in insurance contract liabilities shown are calculated independently using the specified increase or decrease to the rates, with no change in premiums paid by policyholders. The assumption changes have no impact on the linked business within Skandia UK.

Whole of Life is the main product group affected by the lapse assumption change. This is because the policies have the longest duration and represent close to 85% of the reserve. The main product groups impacted by the expense, mortality and morbidity sensitivities are Whole of Life and Accelerated Critical Illness.

In the Wealth Management business, non-linked liabilities are fairly well matched by gilts so that the net impact of a valuation interest rate change taking asset and liability movement into account is negligible.

US Life

The assumption changes have relatively little impact on the US net IFRS insurance contract liabilities or DAC on life and immediate annuities, as assumptions are generally locked-in. For universal life and deferred annuities, assumptions supporting the Present Value Future Profits (PVFP)/Deferred Acquisition Costs (DAC) amortisation are periodically updated for actual experience. Each of these assumption changes could trigger a DAC unlocking. The assumption changes specified above do not approach the levels necessary to trigger a significant change in liabilities or DAC.

There is no impact for a change in the valuation discount rate for US Life as the valuation rate is locked-in.

Bermuda

Assumption changes on Bermuda business have counterbalancing effects. Lapses and partial withdrawals have the largest impact where increased activity reduces future fees and hence impact DAC negatively. However, such activity helps the guarantee portion of the business since less death and living benefit exposure is expected in the future. Thus, anti-selective behaviour (e.g. business with little or no guarantees redeeming at a faster rate) presents the bigger challenge but it is accounted for in both the DAC and guarantee reserve calculations and conservation efforts are underway to retain the less risky business. Mortality plays a much smaller part in Bermuda since all the business is accumulation/savings type business. Increased deaths do accelerate payment of guaranteed minimum death benefits but there is a comparable release of reserve on the maturity guarantee providing an offset (about 85% of the variable annuity business has both death/living benefits).

(v) Guarantees and options – life assurance

Many of the insurance contracts issued by the Group contain guarantees and options to policyholders, the ultimate liability for which will depend significantly on the number of policyholders exercising their options and on market and investment conditions applying at that time.

Emerging Markets

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a market-consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa (ASSA), PGN 110 in particular. The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below.

Product category	Description of options and guarantees
Individual business	
Death, disability, point and/or maturity guarantees	A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% per annum for life and endowment business and 4.78% per annum for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims. A small block of smoothed bonus savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25% per annum investment return
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity
Group business	
Vested bonuses in respect of pre-retirement with-profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed

Wealth Management

Product category	Description of options and guarantees	Policyholder position/key drivers
Unit-linked life assurance and critical illness business	The initial premium is guaranteed to sustain the original cover for the first 10 years even if the unit fund is depleted to zero. However, this guarantee only applies to the initial premium and cover, not to subsequent increments	Wealth Management business is predominantly unit-linked life assurance and critical illness business where a measure of the policy being in-the-money is not applicable

US Life

Product category	Description of options and guarantees	Policyholder position/key drivers
Death, disability, surrender point and/or maturity guarantees	Crediting rates declared for the fixed deferred annuity block of business vest fully. They are subject to a minimum crediting rate which is specified in the contract. Minimum surrender values are determined by this rate	16% of policies are currently in-the-money and being credited the minimum rate. A 300 basis points drop in interest rates would bring 98% of policies in-the-money
	Equity indexed annuities offer minimum crediting rates on the fixed portion of the product, minimum surrender values based on this and credit equity participation annually as a percentage of equity growth subject to a maximum %. This equity participation, which is subject to a minimum of 0% therefore vests annually	The minimum surrender values of 18% of policies are currently in-the-money. A year of flat equity markets with no equity credits would bring an additional 4% in-the-money. Two years of no equity credits would result in 28% of the portfolio being in-the-money. The equity exposure is hedged using a hedging strategy
	The universal life policies specify a minimum crediting rate to accumulate account balances	The minimum rate is currently being credited on 85% of the block
Guaranteed annuity options	All deferred annuities offer a guaranteed annuitisation option on maturity. The rates are set conservatively and typically have very low utilisation as customers in the United States value the choice inherent in a lump-sum payment	The extent to which the policies are currently in-the-money is negligible
No-Lapse Guarantees	Certain universal life contracts contain a feature that guarantees that the contract will continue, even if values would otherwise be insufficient, provided the customer has paid at least a stated amount of premium	25% of policies are currently in-the-money. This risk is reinsured

Bermuda

Product category	Description of options and guarantees	Policyholder position/key drivers
Index and Credited Rate Guarantees	Equity indexed annuities offer minimum guaranteed crediting rates on the fixed portion of the product, minimum surrender values and credit equity participation as a percentage of equity growth subject to a maximum percent Credited rates declared for the fixed deferred annuity block and are guaranteed for specific durations. Upon expiration, renewal rates are set that reflect with updated expected earned yields and competing market rates	For the index annuities' approximately 5% of the contracts are out-of-the-money, it would require approximately a 3% increase in EuroStox and 6% increase in Topix to bring them in-the-money (ie, an index credit would then be made). It is important to note that static hedges are purchased to reflect the risk of in-the-money contracts.
Death and Maturity Guarantees	Both minimum guaranteed death and maturity benefits are offered as optional riders for additional fees. However, standard GMDBs are included in the base policy. The company guarantees regardless of market performance that the customer or its beneficiaries (in case of death) will receive a minimum value. Death benefits designs are either return of investment or highest anniversary value. The maturity benefits promise a minimum account value at maturity (e.g. 105% at year 5) with more elaborate versions offering dual guarantees (e.g. UGO guarantee promises at years 5/10 a 105%/120% minimum account value, respectively) with a highest anniversary in year 10 if elected	Approximately 25% of the contracts with a maturity benefit are out-of-the-money requiring approximately a 9% decrease in account values on average to bring such policies in-the-money

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

(vi) General insurance risks and sensitivities

Mutual & Federal

The following types of business is written within the commercial, risk finance and personal divisions:

	Commercial	Risk finance	Personal
Fire	✓	✓	✓
Accident	✓	✓	✓
Personal accident	✓	✓	✓
Motor	✓	✓	✓
Engineering	✓	✗	✗
Crop	✓	✗	✗
Marine	✓	✗	✓
Credit	✓	✗	✓

Underwriting guidelines are designed to ensure that underwritten risks are well diversified, and that terms and conditions, including premium rates, appropriately reflect the risk.

Reinsurance plays an extremely important role in the management of risk and exposure at Mutual & Federal. The Group makes use of a combination of proportional and non-proportional reinsurance to limit the impact of both individual and event losses and to provide insurance capacity.

Involvement in any property catastrophe loss is limited to approximately £7 million for any one event and the level of catastrophe cover purchased is based on estimated maximum loss scenarios, in keeping with accepted market norms.

General insurance risk includes the following risks:

- Occurrence risk – the possibility that the number of insured events will differ from those expected.
- Severity risk – the possibility that the costs of the events will differ from those expected.
- Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

An increase of 10% in the average cost of claims would require the recognition of an additional loss of £43 million. Similarly, an increase of 10% in the ultimate number of claims would result in an additional loss of £43 million. The majority of the Group's general insurance contracts are classified as 'short-tailed', meaning that any claim is settled within a year after the loss date. This contrasts with the 'long-tailed' classes where the claims costs take longer to materialise and settle. The Group's long-tailed business is generally limited to personal accident, third-party motor liability and some engineering classes. In total the long-tail business comprises less than 5% of an average year's claim costs.

(g) Reinsurance assets – credit risk

None of the Group's reinsurance assets are either past due or impaired. Of the reinsurance assets shown in the statement of financial position all are considered investment grade with the exception of £144 million of unrated exposures (2009: £87 million). Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances.

E9: Borrowed funds

£m

	Notes	Group excluding Nedbank	Nedbank	At 31 December 2010	Group excluding Nedbank	Nedbank	At 31 December 2009
Senior debt securities and term loans	E9(a)	**550**	**1,186**	**1,736**	662	484	1,146
Mortgage backed securities	E9(b)	**–**	**112**	**112**	–	119	119
Subordinated debt securities (net of Group holdings)	E9(c)	**1,198**	**1,158**	**2,356**	1,034	1,010	2,044
Borrowed funds		**1,748**	**2,456**	**4,204**	1,696	1,613	3,309
Other issues treated as equity for accounting purposes							
US$750 million cumulative preference securities	F11(b)	**458**			458		
€500 million perpetual preferred callable securities	F10(b)	**338**			338		
£350 million perpetual preferred callable securities	F10(b)	**350**			350		
Total: Book value		**2,894**			2,842		
Nominal value of the above		**3,045**			3,162		

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year end exchange rates.

£m

	Group excluding Nedbank	Nedbank	At 31 December 2010	Group excluding Nedbank	Nedbank	At 31 December 2009
Less than 1 year	**498**	**323**	**821**	219	156	375
Greater than 1 year and less than 5 years	**921**	**2,164**	**3,085**	1,413	1,226	2,639
Greater than 5 years	**880**	**722**	**1,602**	899	1,033	1,932
Total	**2,299**	**3,209**	**5,508**	2,531	2,415	4,946

(a) Senior debt securities and term loans

	Group excluding Nedbank	Nedbank	At 31 December 2010	Group excluding Nedbank	Nedbank	At 31 December 2009
Floating rate notes[1]	**86**	**720**	**806**	114	265	379
Fixed rate notes[2]	**462**	**466**	**928**	548	219	767
Revolving credit facility[3]	**–**	**–**	**–**	–	–	–
Term loan and other loans	**2**	**–**	**2**	–	–	–
Total senior debt securities and term loan	**550**	**1,186**	**1,736**	662	484	1,146

Senior debt securities and term loan comprise:

1. Floating rate notes

Nedbank
- R1,690 million unsecured senior debt repayable September 2012 at 3 month JIBAR + 1.5%.
- R1,044 million unsecured senior debt repayable September 2015 at JIBAR + 2.20%.
- R1,750 million unsecured senior debt repayable March 2013 inflation linked (3.9% real yield).
- R98 million unsecured senior debt repayable March 2013 inflation linked (3.8% real yield).
- R1,552 million unsecured senior debt repayable April 2013 JIBAR +1.48%.
- R1,027 million unsecured senior debt repayable April 2015 JIBAR +1.75%.
- R80 million unsecured senior debt repayable April 2020 JIBAR +2.15%.

Group excluding Nedbank
- R550 million repayable August 2010 at 3 month ZAR – JIBAR-SAFEX + 4.5% – repaid.
- R100 million repayable February 2011 at 3 month ZAR – JIBAR-SAFEX + 4.5%.
- US$50 million repayable September 2011 at 3 month LIBOR plus 0.50%.
- €22 million repayable January 2010 at 3 month EURIBOR plus 0.35% – repaid
- SEK50 million repayable March 2010 at 3 month STIBOR plus 0.38% – repaid
- £3 million note repayable in December 2010, with holders having the option to elect for early redemption every six months with coupon referenced against six month LIBOR less 0.50% – repaid.

2. Fixed rate notes

Nedbank
- R130 million unsecured senior debt repayable October 2024 at zero coupon.
- R3,244 million unsecured senior debt repayable September 2015 at 10.55%.
- R762 million unsecured senior debt repayable September 2019 at 11.39%.
- R478 million unsecured senior debt repayable April 2015 at R157 +1.75%.

Group excluding Nedbank
- £500 million euro bond repayable October 2016 at 7.125%.
- US$16.5 million secured senior debt repayable August 2014 at 5.23%.
- €30 million euro bond repayable July 2010, capital and interest swapped into fixed rate US dollars at 5.28% – repaid.
- €10 million euro bond repayable December 2010, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 0.95% – repaid.
- €20 million euro bond repayable August 2013, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 1.30% – repaid.

The total fair value of the swap derivatives associated with the senior notes is £nil (2009: £12 million). These are recognised as assets and are included within note E5.

3. Revolving credit facilities and irrevocable letters of credit

The Group has a £1,250 million five-year multi-currency revolving credit facility, which had an original maturity date of September 2010. On 18 August 2007 syndicate banks agreed to extend the maturity date of £1,232 million of the facility until September 2012. At 31 December 2010 £499 million (2009: £480 million) of this facility was utilised, £nil (2009: £nil million) in the form of drawn debt and £499 million (2009: £480 million) in the form of irrevocable letters of credit.

The Group has committed standby facilities totalling £275 million, which were put in place in December 2010 and have a latest maturity date of 29 June 2012.

The Group has a SEK1,500 million revolving credit facility, which has a maturity date of 1 July 2011. At 31 December 2010 this facility was undrawn (2009: undrawn).

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For the year ended 31 December 2010 continued

(b) Mortgage backed securities – Nedbank

	£m	
	At 31 December 2010	At 31 December 2009
R291 million notes (class A1) repayable 18 November 2039 (11.467%)	**4**	25
R1.4 billion notes (class A2A) repayable 18 November 2039 (11.817%)	**96**	84
R98 million notes (class B note) repayable 18 November 2039 (12.067%)	**7**	6
R76 million notes (class C note) repayable 18 November 2039 (13.317%)	**5**	4
	112	119

(c) Subordinated debt securities

	£m	
	At 31 December 2010	At 31 December 2009
Nedbank		
R1.5 billion repayable 24 April 2016 (7.85%)[1]	**148**	126
R1.8 billion repayable 20 September 2018 (9.84%)[2]	**186**	149
R500 million repayable on 30 December 2010 (8.38%)[3]	**–**	41
R650 million repayable 8 February 2017 (9.03%)[4]	**67**	55
R1.7 billion repayable 8 February 2019 (8.9%)[5]	**171**	138
R2.0 billion repayable 6 July 2022 (3 month JIBAR plus 0.47%)[6]	**198**	171
R500 million repayable 15 August 2012 (3 month JIBAR plus 0.45%)[7]	**49**	42
R1.0 billion repayable 17 September 2020 (10.54%)[8]	**105**	84
R500 million repayable 14 December 2017 (3 month JIBAR plus 0.70%)[9]	**49**	42
R120 million repayable 14 December 2017 (10.38%)[10]	**12**	10
R487 million repayable 20 November 2018 (15.05%)[11]	**51**	41
R1,265 million repayable 20 November 2018 (JIBAR plus 4.75%)[12]	**125**	108
R300 million repayable on 4 December 2013 (JIBAR + 2.5%)[13]	**15**	13
US$100 million repayable on 3 March 2022 (3 month USD LIBOR)[14]	**65**	62
	1,241	1,082
Less: banking subordinated debt securities held by other Group companies	**(83)**	(72)
Banking subordinated debt securities (net of Group holdings)	**1,158**	1,010
Group excluding Nedbank		
R3.0 billion repayable 27 October 2015 (8.9%)[15]	**293**	252
£300 million repayable 21 January 2016 (5.0%)[16]	**296**	252
R250 million preference shares repayable 9 June 2011[17] – repaid	**–**	21
€750 million repayable 18 January 2017 (4.5%)[18]	**609**	509
	1,198	1,034
Total subordinated liabilities	**2,356**	2,044

The subordinated notes rank behind the claims against the Group depositors and other unsecured, unsubordinated creditors. None of the Group's subordinated notes are secured.

1. Unsecured secondary callable note was issued 24 April 2006 with a call date of 24 April 2011.
2. Unsecured secondary callable note was issued 20 September 2006 at R1.5 billion with a call date of 20 September 2013. On 18 May 2007 an additional R0.3 billion was issued.
3. Unsecured callable Bonds issued 30 March 2006.
4. Unsecured secondary callable note was issued 8 February 2007 with a call date of 8 February 2012.
5. Unsecured secondary callable note was issued 8 February 2007 at R1.0 billion. On 19 March 2007 an additional R0.7 billion was issued.
6. Unsecured secondary capital callable note issued 6 July 2007 and has a call date of 6 July 2017.
7. This bond issued on 15 August 2007 is an unsecured secondary capital callable floating rate note with a call date 15 August 2012.
8. This bond issued on 17 September 2007 is an unsecured fixed rate note with a term of 13 years (non-call 8 year).
9. This bond issued on 14 December 2007 is a 10 year (non-call 5 year) floating rate note. After its call date on 14 December 2012 its terms become JIBAR plus 1.70% until maturity.
10. This bond issued on 14 December 2007 is a 10 year (non-call 5 year) fixed rate note. After its call date its terms become floating 3 month JIBAR plus initial margin over mid swaps plus 1.0% until maturity.
11. This bond issued on 20 May 2008 is a perpetual (non-call 10 year) fixed rate note with a call date on 20 November 2018.
12. This bond issued on 20 May 2008 is a perpetual (non-call 10 year) floating rate note with a call date of 20 November 2018.
13. This bond issued on 4 December 2008 is a floating rate note with a call date of 4 December 2013.
14. Dated Tier 2 notes issued 3 March 2009 with call date 2 March 2017.
15. These bonds have a maturity date of 27 October 2020 and pay a coupon of 8.92% to 27 October 2015 and 3 month JIBAR plus 1.59% thereafter. The Group has the option to repay the bonds at par on 27 October 2015 and at 3 monthly intervals thereafter.
16. These bonds, issued on 20 January 2006, had a maturity date of 21 January 2016 and paid a coupon of 5.0% to 21 January 2011 and 6 month LIBOR plus 1.13% thereafter. The coupon on the bonds was swapped into floating rate of 6 month STIBOR plus 0.50%. The Group had the option to repay the bonds at par on 21 January 2011 and at 6 monthly intervals thereafter. These bonds were redeemed after the balance sheet date, at the first call date of 21 January 2011.

17. These preference shares were redeemable on 9 June 2011 and paid a variable cumulative coupon of 61.0% of the Prime Rate as quoted by Nedbank Limited. The Group had the option to redeem the shares at par at any time before the final redemption date but after giving an agreed period of notice, with the Group electing to redeem in 2010.
18. This bond, issued on 16 January 2007, has a maturity date of 18 January 2017 and pays a coupon of 4.5% to 17 January 2012 and 6 month EURIBOR plus 0.96% thereafter. The principal and coupon on the bond were swapped equally into Sterling and US Dollars with coupons of 6 month LIBOR plus 0.34% and 6 month US LIBOR plus 0.31% respectively. The Group has the option to repay the bonds at par on 17 January 2012 and at 6 monthly intervals thereafter.

E10: Amounts owed to bank depositors

£m

	At 31 December 2010	At 31 December 2009
Current accounts	**8,016**	9,006
Savings deposits	**3,731**	1,283
Other deposits and loan accounts		
Call and term deposits	**16,464**	14,972
Fixed deposits	**2,634**	2,345
Cash management deposits	**4,490**	2,772
Other	**5,765**	3,800
Negotiable certificates of deposit	**10,757**	8,704
Deposits received under repurchase agreements	**1,379**	1,253
	53,236	44,135

A contractual maturity analysis of the amounts owed to bank depositors is shown in the following table:

£m

Year ended 31 December 2010	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Amounts owed to bank depositors						
Current accounts	**8,016**	**8,016**	**–**	**–**	**–**	**8,016**
Savings deposits	**3,731**	**3,731**	**–**	**–**	**–**	**3,731**
Other deposits and loan accounts	**29,352**	**23,484**	**4,313**	**1,863**	**216**	**29,876**
Negotiable certificates of deposit	**10,758**	**2,567**	**6,553**	**2,337**	**2**	**11,459**
Deposits received under repurchase agreements	**1,379**	**1,379**	**–**	**–**	**–**	**1,379**
Amounts owed to bank depositors	**53,236**	**39,177**	**10,866**	**4,200**	**218**	**54,461**

£m

Year ended 31 December 2009	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Amounts owed to bank depositors						
Current accounts	9,006	8,879	107	20	–	9,006
Savings deposits	1,283	1,283	–	–	–	1,283
Other deposits and loan accounts	23,889	20,099	3,422	1,298	261	25,080
Negotiable certificates of deposit	8,704	2,421	6,233	613	3	9,270
Deposits received under repurchase agreements	1,253	1,253	–	–	–	1,253
Amounts owed to bank depositors	44,135	33,935	9,762	1,931	264	45,892

E11: Capital management (unaudited)

Overview

The Group actively manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Group's ability to continue as a going concern while enabling the ability to identify capital strains and ensuring that the return to shareholders is maximised through the optimisation of the debt and equity balance. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts and strategic initiatives. It is critical that the Group's capital management policies are aligned with the Group's overall strategy, business plans and risk appetite.

The Group's Capital Management Committee (GCMC) reviews the capital structure regularly. As part of the review the Committee considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Committee, the Group will balance its overall capital structure through the payment of dividends, new share issues, share buybacks as well as the issue of new debt or the redemption of existing debt. Measures that inform the GCMC's views on the appropriate level of capital for the Group includes shareholder performance objectives, regulatory capital requirements, internal economic capital measures, rating agency expectations and general views on maintaining financial flexibility.

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For the year ended 31 December 2010 continued

The Group's overall capital risk appetite is managed with reference to the requirements of the relevant stakeholders and seeks to maintain sufficient, but not excessive, financial strength to support stakeholder requirements, optimise its overall debt to equity structure to enhance returns to shareholders, subject to the requirements set by the Group's capital risk appetite and retain financial flexibility by maintaining liquidity, including unutilised committed credit lines.

The primary sources of capital used by the Group are equity shareholders' funds, preference shares, subordinated debt and borrowings. Alternative resources are utilised where appropriate. Targets are established in relation to regulatory solvency, ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with our risk appetite and the requirements of our various stakeholders.

The individual companies in the Group are subject to regulatory capital requirements at an individual level. In addition the Group as a whole is subject to the solvency requirements of the Financial Groups Directive (FGD) as implemented by the FSA. The Group utilises both this measure and economic capital measures to manage its capital position. Under FGD a continuous company solvency test is applied. Under this test the surplus capital held in each of the regulated entities is aggregated with the free assets of the non-regulated entities. Group borrowings are deducted from this total (other than subordinated debt issues which qualify as capital). No credit is given to the benefit of diversification. The test is passed where the aggregate number is positive. Due to the geographically diverse nature of the Group's operations there is an added complexity to the application of the FSA capital requirements. In particular certain regional capital requirements need to be recalculated under the FSA rules as if the companies were directly subject to the FSA capital regime. The Group met its FGD requirements at 31 December 2010 and throughout the year. As at the date of issue of these financial statements the unaudited pro-forma surplus was estimated to be £2.1 billion. The FGD position will be submitted to the FSA by 30 April 2011.

Capital position statements

(a) Life assurance operations

Each of the Group's life assurance businesses is capitalised at a sufficiently strong level for their individual circumstances. The regulatory capital position of the Group's life assurance operations, based on latest estimates that are not audited, is summarised as follows:

(unaudited) £m

	At 31 December 2010			At 31 December 2009		
	South Africa	**United States**	**Europe**	South Africa	United States	Europe
Equity shareholders' funds	**5,386**	**2,292**	**5,562**	4,447	1,064	5,132
Adjustments to a regulatory basis: Inadmissible assets	**(31)**	**(16)**	**(1,115)**	(19)	(215)	(1,106)
Other adjustments (including Group investment in operations)	**(561)**	**(1,416)**	**(2,407)**	(487)	(449)	(2,684)
Total available capital resources	**4,794**	**860**	**2,040**	3,941	400	1,342
Total capital requirements – local regulatory basis	**(1,214)**	**(445)**	**(301)**	(977)	(303)	(242)
Overall excess of capital resources over requirements	**3,580**	**415**	**1,739**	2,964	97	1,100

(unaudited) £m

	Year ended 31 December 2010			Year ended 31 December 2009		
	South Africa	**United States**	**Europe**	South Africa	United States	Europe
Capital resources at beginning of year	**3,941**	**400**	**1,342**	3,183	295	1,267
Earnings after tax	**310**	**187**	**254**	718	(184)	376
Change in admissible assets and other adjustments and other movements in reserves	**(25)**	**257**	**510**	(182)	318	(229)
Dividends	**(80)**	**–**	**(37)**	(281)	–	(55)
Foreign exchange movements	**648**	**16**	**(29)**	503	(29)	(17)
Capital resources at end of the year	**4,794**	**860**	**2,040**	3,941	400	1,342

South Africa

The amounts disclosed above represent the capital position of OMLAC(SA) and the life business in Namibia and Medscheme Life. The calculations are determined in accordance with the requirements of the South African Financial Services Board, using estimates of the regulatory adjustments, as the relevant regulatory returns have yet to be completed or audited. At 31 December 2010, OMLAC(SA)'s excess assets was 3.9 times (2009: 4.1 times) the Statutory Capital Adequacy Requirement (SCAR), after allowing for estimates of statutory limitations on the value of certain assets.

OMLAC(SA)'s shareholders' funds include its investments in Nedbank of £2,193 million (2009: £1,760 million) and M&F of £504 million (2009: £366 million). In addition, £530 million (2009: £690 million) is invested in the Group's loan notes and £530 million (2009: £561 million) is held in inter-company loans. All inter-company loans are immediately repayable and subject to commercial terms and conditions, with the exception that interest may be waived in certain circumstances.

The amount of the surplus available to be distributed as dividends to the ultimate parent, Old Mutual plc, is subject to available distributable reserves within the shareholders' fund, maintaining the minimum statutory capital adequacy requirement and foreign exchange controls, as determined by the South African Reserve Bank.

The statutory solvency requirement for Namibia is N$4 million (£0.4 million) (2009: N$4 million (£0.3 million)). This has been determined in accordance with local statutory rules.

United States

In the case of the United States, the amounts disclosed above represent the consolidated capital position of the Old Mutual US Life Holdings Inc. group of companies, including OM Financial Life Insurance Company, OM Financial Life Insurance Company of New York, and Old Mutual Reassurance (Ireland) Limited, and Old Mutual (Bermuda) Limited. The calculations have been determined on the basis of the local regulatory requirements for the United States (included at the relevant percentage used for FGD, which was 200% of Risk Based Capital).

The amount of the surplus available to be distributed as dividends to the ultimate parent, Old Mutual plc, is subject to available distributable reserves within the entities and the requirement to maintain the minimum statutory capital requirements. The local regulators have ultimate approval for dividend payments.

Europe

In the case of Skandia, the amounts disclosed above represent the consolidated capital position of Skandia's unit-linked assurance operations in the United Kingdom, Scandinavia and Continental Europe. The calculations have been determined on the basis of local regulatory requirements for the territories in question.

The amount of the surplus available to be distributed as dividends to the ultimate parent, Old Mutual plc, is subject to available distributable reserves within the shareholders' fund, maintaining the minimum statutory capital adequacy requirements and obtaining any necessary regulatory permissions as required by local regulators in the territories in question.

(b) Banking operations

The regulatory capital position of the Group's banking operations, based on latest estimates that are not audited, is summarised as follows:

(unaudited) £m

	At 31 December 2010		At 31 December 2009	
	Africa	**Europe**	Africa	Europe
Equity shareholders' funds	**2,137**	**254**	1,720	224
Eligible subordinated debt	**656**	**115**	598	104
Inadmissible assets	**–**	**(3)**	–	(2)
Other adjustments	**(38)**	**(1)**	(38)	(1)
Total capital resources	**2,755**	**365**	2,280	325
Total capital requirement	**(1,886)**	**(203)**	(1,659)	(197)
Excess of capital resources over capital requirement	**869**	**162**	621	128

(unaudited) £m

	Year ended 31 December 2010		Year ended 31 December 2009	
	Africa	**Europe**	Africa	Europe
Capital resources at beginning of the year	**2,280**	**325**	1,898	321
Earnings after tax and other increases in reserves	**362**	**144**	181	71
Change in admissible assets, other adjustments and other movements in reserves	**(37)**	**(108)**	(28)	(56)
New capital	**–**	**–**	–	–
Net (redemption)/issue of subordinated debt	**(49)**	**–**	50	–
Dividends paid	**(164)**	**–**	(108)	(9)
Foreign exchange movements	**363**	**4**	287	(2)
Capital resources at end of the year	**2,755**	**365**	2,280	325

The above amounts represent the capital positions of Nedbank Limited (including the London branch) and Skandiabanken AB. The calculations have been determined on the basis of local regulatory requirements for the territories in question, and reflect the Group's percentage ownership.

E12: Liquidity

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Individual businesses separately maintain and manage their local liquidity requirements according to their business needs, within the overall liquidity framework established by Old Mutual plc.

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available credit facilities. Given the nature of the Group's investments and securities, generally speaking, liquid resources are readily available, as the Group holds large portfolios of highly marketable securities, for example equities, listed bonds, actively traded pooled investments and cash and cash equivalents. Whilst most of the Group's policyholder and banking liabilities are generally repayable on demand, the Group's expectation is that policyholders and banking depositors will only require funds on an ongoing basis. Cash resources and other liquid assets are maintained in the event of a need for additional liquidity. Information on the nature of the investments and securities held is given in section E4. The Group's existing revolving credit facility of £1.23 billion (2009: £1.25 billion) does not mature until September 2012. Details, together with information on the Group's borrowed funds, are given in section E9.

The key information reviewed by the Group's executive directors and executive committee, together with the Group's capital management committee, is a detailed management report on the Group's and holding company's current and planned capital and liquidity position together with summary information on the current and planned liquidity positions of the Group's operating segments. Forecasts are updated regularly based on new information received, and as part of the Group's annual business planning cycle. The Group and holding company's liquidity and capital position and forecast is presented to the Old Mutual plc Board of Directors on a regular basis.

Group operating segments are required, both in terms of their local requirements and in accordance with direction from the holding company, to establish their own processes for managing their liquidity and capital needs and these are subject to review by their local oversight functions, with representation from the Group.

Further information on liquidity and holding company cash flow is contained in other sections of this annual report, for example the business review and Group Finance Director's statement.

The Group does not have material liquidity exposure to special purpose entities or investment funds.

The contractual maturities of the Group's financial liabilities are set out in the appropriate notes to the financial statements.

F: Other statement of financial position notes

F1: Goodwill and other intangible assets

£m

At 31 December	Goodwill		Present value of acquired in-force business		Software development costs		Other intangible assets		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Cost										
Balance at beginning of the year	**3,241**	3,316	**3,029**	3,129	**649**	548	**880**	916	**7,799**	7,909
Acquisitions through business combinations	**4**	12	**–**	–	**–**	51	**1**	–	**5**	63
Additions	**–**	–	**–**	–	**78**	20	**–**	2	**78**	22
Foreign exchange and other movements	**143**	(71)	**10**	(100)	**81**	52	**15**	(35)	**249**	(154)
Disposals or retirements	**(29)**	(16)	**–**	–	**(2)**	(22)	**–**	(3)	**(31)**	(41)
Transfer to non-current assets held for sale	**(73)**	–	**(335)**	–	**(40)**	–	**–**	–	**(448)**	–
Balance at end of the year	**3,286**	3,241	**2,704**	3,029	**766**	649	**896**	880	**7,652**	7,799
Amortisation and impairment losses										
Balance at beginning of the year	**(512)**	(235)	**(1,380)**	(1,179)	**(427)**	(361)	**(321)**	(252)	**(2,640)**	(2,027)
Amortisation charge for the year	**–**	–	**(214)**	(244)	**(61)**	(56)	**(83)**	(82)	**(358)**	(382)
Impairment losses	**(1)**	(266)	**–**	–	**(19)**	–	**–**	–	**(20)**	(266)
Foreign exchange and other movements	**(15)**	(12)	**27**	43	**(56)**	(32)	**(8)**	11	**(52)**	10
Disposals or retirements	**–**	1	**–**	–	**2**	22	**–**	2	**2**	25
Transfer to non-current assets held for sale	**73**	–	**270**	–	**38**	–	**–**	–	**381**	–
Accumulated amortisation and impairment losses at end of the year	**(455)**	(512)	**(1,297)**	(1,380)	**(523)**	(427)	**(412)**	(321)	**(2,687)**	(2,640)
Carrying amount										
Balance at beginning of the year	**2,729**	3,081	**1,649**	1,950	**222**	187	**559**	664	**5,159**	5,882
Balance at end of the year	**2,831**	2,729	**1,407**	1,649	**243**	222	**484**	559	**4,965**	5,159

All of the present value of acquired in-force business at the year end of £1,407 million relates to the Skandia business acquired during 2006 (2009: £1,649 million) which is due to be amortised over a further 10 to 15 years.

Of the other intangible assets £280 million (2009: £365 million) relates to distribution channels and £136 million (2009: £108 million) brands associated with the Skandia business. The remaining periods over which these are being amortised are 5 years and 10 years respectively.

The acquisitions through business combinations comprises £1 million (2009: £5 million) in respect of various acquisitions by the Group's US Asset Management business and £4 million (2009: £7 million) relating to various other small acquisitions.

Allocation of goodwill to cash generating units (CGUs)

The carrying amount of goodwill accords with the operating segmentation shown in note B, and primarily relates to the Long Term Savings CGUs of Nordic, Retail Europe and Wealth Management, together with Nedbank and US Asset Management.

An analysis of goodwill by CGU is set out below.

£m

	At 31 December 2010	At 31 December 2009
Nordic	**243**	219
Retail Europe	**198**	204
Wealth Management	**656**	656
Nedbank	**453**	393
US Asset Management	**1,155**	1,142
Other	**126**	115
Goodwill, net of impairment losses	**2,831**	2,729

Annual impairment testing of goodwill

In accordance with the requirements of IAS 36 'Impairment of Assets', goodwill is tested annually for impairment for each CGU, by comparing the carrying amount of each CGU to its recoverable amount, being the higher of that CGU's value-in-use or net selling price. An impairment charge is recognised when the recoverable amount is less than the carrying value. In all cases in 2010, each CGU's recoverable amount has been determined by reference to its value-in-use.

Nordic, Retail Europe and Wealth Management

These CGUs generate revenues through their life assurance and asset management businesses. Nordic also has a banking business as an additional principal source of revenue.

The value-in-use calculations for the life assurance operations are determined using the reported embedded value methodology plus a discounted cash flow calculation for the value of new business. The value of new business represents the present value of future profits from expected new business. Embedded value represents the shareholders' interest in the life assurance business and is calculated in accordance with Market Consistent Embedded Value principles. The methodology and significant assumptions underlying the determination of embedded value is disclosed in the supplementary information shown on pages 336 to 348. The differences between the key assumptions applied in the current year and in the prior year are disclosed on pages 353 to 366.

The cash flows attributable to the value of new business are determined with reference to latest approved three-year business plans. Projections beyond the plan period are extrapolated using an inflation based growth assumption.

The value-in-use calculations for the asset management and banking operations are similarly determined based on discounted cash flow models derived from the latest approved three-year business plans. An additional two years projections beyond the plan period are extrapolated using inflation based growth rates.

The cash flows are discounted at economic profit rates applicable relevant to each individual CGU. The key assumptions used in the value-in-use calculations for the Nordic, Retail Europe and Wealth Management CGUs are as follows:

- The growth rate – The rate used is an inflation based growth assumption, which varies by CGU and is based on external market factors particular to that CGU. Nordic applied the Swedish central bank inflation target of 2% to all principal business lines. Retail Europe, which incorporates a number of European countries, applied a weighted average calculation to determine the growth rate of 2.8% applied to its life assurance business and of 1.8% for its asset management business. Wealth Management applied 3.7% to both its life assurance business and asset management business in the UK, 1.8% in Italy and 1.7% in France.
- The discount rate – The applied rate used the relevant 10-year government bond rate as a starting point, which was adjusted for an equity market risk premium and other relevant risk adjustments, which were determined using market valuation models and other observable references. Rates applied were 15.9% for Nordic, 14.5% for Retail Europe and 15.8% for Wealth Management.

The directors are satisfied that any reasonable change in the assumptions would not cause the recoverable amounts of the Nordic, Retail Europe and Wealth Management CGUs to fall below their carrying amounts.

Nedbank

The impairment test in respect of the Nedbank CGU has been performed by comparing the CGU's carrying amount to its value-in-use. Value-in-use has been determined using a discounted cash flow methodology. The key assumptions used in the value-in-use calculation are the discount rate and growth rate, which are based on market factors relevant to that CGU. The discount rate applied is approximately 12.0% (2009: 12.9%). A 5% growth rate was applied to extrapolate cash flows for an additional two years beyond the three-year business plan period. A terminal value, using the same growth rate, is added for the value of cash flows beyond five years.

There was no impairment charge recognised for the Nedbank CGU in the current financial year (2009: £nil). The directors are satisfied that a reasonable change in assumptions would not cause the recoverable amount of the goodwill to fall below the carrying amount.

US Asset Management

The impairment test in respect of the US Asset Management CGU has been performed by comparing the CGU's carrying amount to its value-in-use. Value-in-use has been determined using a discounted cash flow methodology. The key assumptions used in the value-in-use calculations for the US Asset Management CGU are as follows:

- The three year business plan and two further years have growth rate assumptions based on management's expectation of performance over this period. A terminal value, using a long-term growth rate of 6% (2009: 6%) is added for the value of cash flows beyond five years. The assumed long-term growth rate was determined with reference to nominal historical GDP growth in the US.
- The risk-adjusted discount rate applied was 12.9% (2009: 13.3%).

No impairment charge has been recognised for the US Asset Management CGU. The directors believe that a reasonable adverse change in the assumptions used in the value-in-use calculation (for example, reducing the growth rate to 5% or increasing the risk adjusted discount rate by 0.9%) for that CGU would be absorbed before the recoverable amounts fall below the carrying amounts. The value-in-use exceeds the carrying amount by £165 million (2009: £290 million).

Segmental analysis of goodwill and intangibles

The following table shows a segmental analysis of the carrying amounts of goodwill and other intangible assets, together with amortisation and impairment charges, by operating segment:

Goodwill and other intangible assets by segment

£m

At 31 December 2010	Goodwill and intangible assets*	Amortisation	Impairment loss
Long-Term Savings	**3,101**	**300**	**20**
Emerging Markets	**120**	**2**	**1**
Nordic	**995**	**143**	**–**
Retail Europe	**522**	**36**	**–**
Wealth Management	**1,464**	**119**	**19**
Nedbank	**637**	**50**	**–**
US Asset Management	**1,181**	**3**	**–**
Other	**46**	**5**	**–**
Total	**4,965**	**358**	**20**

£m

At 31 December 2009	Goodwill and intangible assets*	Amortisation	Impairment loss
Long-Term Savings	3,306	317	266
Emerging Markets	106	3	–
Nordic	1,035	133	–
Retail Europe	563	54	187
Wealth Management	1,602	127	79
Nedbank	543	37	–
US Asset Management	1,171	2	–
Other	45	6	–
	5,065	362	266
Discontinued US Life operations	94	20	–
Total	5,159	382	266

* Goodwill and intangible assets discussed in the table above is net of amortisation and impairment losses.

Following a re-evaluation of the prospects for the former ELAM operating segment as part of the reorganisation in 2009, goodwill impairment tests were carried out based on a comparison of the re-allocated carrying amounts and their corresponding value-in-use calculations at the point of re-allocation. As a result, impairment charges were recognised in 2009 in the income statement of £187 million in the Retail Europe CGU and £79 million in Wealth Management CGU, largely as a result of a reassessment of the anticipated growth rates assumed in the value-in-use calculations determined during the reorganisation. The discount rate applied in the corresponding value-in-use calculations was 15.7%.

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F2: Property, plant and equipment

£m

At 31 December	Land		Buildings		Plant and equipment		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Gross carrying amount								
Balance at beginning of the year	**86**	76	**558**	405	**721**	660	**1,365**	1,141
Additions	**6**	–	**31**	56	**115**	82	**152**	138
Additions from business combinations	**–**	–	**–**	1	**–**	2	**–**	3
Increase/(decrease) arising from revaluation	**8**	(8)	**18**	(5)	**–**	–	**26**	(13)
Disposals	**–**	(1)	**(1)**	(21)	**(56)**	(76)	**(57)**	(98)
Foreign exchange and other movements	**11**	19	**85**	122	**92**	53	**188**	194
Transfer to non-current assets held for sale	**–**	–	**(6)**	–	**(7)**	–	**(13)**	–
Balance at end of the year	**111**	86	**685**	558	**865**	721	**1,661**	1,365
Accumulated depreciation and impairment losses								
Balance at beginning of the year	**–**	–	**(37)**	(13)	**(500)**	(446)	**(537)**	(459)
Depreciation charge for the year	**–**	–	**(16)**	(12)	**(87)**	(74)	**(103)**	(86)
Disposals	**–**	–	**–**	8	**55**	61	**55**	69
Foreign exchange and other movements	**–**	–	**3**	(20)	**(71)**	(41)	**(68)**	(61)
Transfer to non-current assets held for sale	**–**	–	**–**	–	**7**	–	**7**	–
Balance at end of the year	**–**	–	**(50)**	(37)	**(596)**	(500)	**(646)**	(537)
Carrying amount								
Balance at beginning of the year	**86**	76	**521**	392	**221**	214	**828**	682
Balance at end of the year	**111**	86	**635**	521	**269**	221	**1,015**	828

The carrying value of property, plant and equipment leased to third parties under operating leases, included in the above is £130 million (2009: £82 million) and comprises land of £15 million (2009: £12 million) and buildings of £115 million (2009: £70 million).

There are no restrictions on property, plant and equipment title as a result of security pledges.

The revaluation of land and buildings relates to Emerging Markets and to Nedbank. In 2010 Emerging Markets made revaluation gains of £1 million on land and £3 million on buildings (2009: losses of £10 million and £8 million respectively), while Nedbank made revaluation gains of £4 million on land and £12 million on buildings (2009: gains of £2 million and £3 million respectively). For Emerging Markets, land and buildings are valued as at 31 December each year by internal professional valuers and external valuations are obtained once every three years. External professional valuers are used for Nedbank. For both businesses the valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows and vacant land and property are valued according to sales of comparable properties. The carrying value that would have been recognised had the land and buildings been carried under the cost model would be £7 million (2009: £64 million) and £174 million (2009: £99 million) respectively for Emerging Markets and £27 million (2009: £21 million) and £167 million (2009: £97 million) for Nedbank respectively.

Additions and depreciation by segment

£m

Year ended 31 December 2010	Long-Term Savings	Nedbank	M&F	US Asset Management	Total
Additions	**26**	**119**	**4**	**3**	**152**
Depreciation	**26**	**63**	**6**	**8**	**103**

£m

Year ended 31 December 2009	Long-Term Savings	Nedbank	M&F	US Asset Management	Total
Additions	27	102	4	5	138
Depreciation	25	48	5	8	86

F3: Investment property

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Balance at beginning of the year	**1,759**	1,478
Additions	**162**	82
Additions from business combinations	**–**	155
Disposals	**(272)**	(57)
Net gain/(loss) from fair value adjustments	**30**	(54)
Foreign exchange and other movements	**362**	155
Transfer to non-current assets held for sale	**(1)**	–
Balance at end of the year	**2,040**	1,759

In 2010 additions of £162 million (2009: £237 million) related to Emerging Markets. Of the net gain/(loss) arising from fair value adjustments on investment properties, a £30 million gain (2009: £105 million loss) related to Emerging Markets.

The fair value of investment property (freehold) leased to third parties under operating leases is as follows:

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Freehold	**2,040**	1,759
Rental income from investment property	**163**	106
Direct operating expense arising from investment property that generated rental income	**(19)**	(19)
	144	87

The carrying amount of investment property is the fair value of the property as determined by a registered independent valuer at least every three years, and annually by locally qualified staff, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The Group's current lease arrangements, which are entered into on an arm's length basis and which are comparable to those for similar properties in the same location, are taken into account.

Of the total investment property of £2,040 million (2009: £1,759 million), £1,699 million (2009: £1,535 million) is attributable to South Africa, £341 million (2009: £223 million) to Europe and £nil (2009: £1 million) to other.

F4: Deferred acquisition costs

£m

Year end 31 December 2010	Insurance contracts	Investment contracts	Asset management	Total
Balance at beginning of the year	**1,934**	**1,079**	**125**	**3,138**
New business	**86**	**276**	**64**	**426**
Amortisation	**(308)**	**(221)**	**(48)**	**(577)**
Impairment losses charged for the year	**–**	**–**	**(10)**	**(10)**
Foreign exchange and other movements	**(186)**	**53**	**4**	**(129)**
Transfer to non-current assets held for sale	**(1,314)**	**–**	**–**	**(1,314)**
Balance at end of the year	**212**	**1,187**	**135**	**1,534**

£m

Year end 31 December 2009	Insurance contracts	Investment contracts	Asset management	Total
Balance at beginning of the year	2,107	961	131	3,199
New business	89	251	56	396
Amortisation	(102)	(130)	(46)	(278)
Impairment losses charged for the year	–	–	(5)	(5)
Foreign exchange and other movements	(160)	(3)	(11)	(174)
Transfer to non-current assets held for sale	–	–	–	–
Balance at end of the year	1,934	1,079	125	3,138

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F5: Trade, other receivables and other assets

£m

	At 31 December 2010	At 31 December 2009
Debtors arising from direct insurance operations		
Amounts owed by policyholders	**85**	89
Amounts owed by intermediaries	**89**	86
Other	**85**	23
Debtors arising from direct insurance operations	**259**	198
Debtors arising from reinsurance operations	**39**	94
Outstanding settlements	**461**	252
Reinsurance treaties	**974**	847
Other receivables	**840**	751
Accrued interest and rent	**400**	433
Trading securities and spot positions	**506**	63
Prepayments and accrued income	**145**	134
Other assets	**308**	279
Total trade, other receivables and other assets	**3,932**	3,051

Based on the maturity profile of the above assets, £2,931 million (2009: £2,849 million) is regarded as current and £1,001 million (2009: £202 million) as non-current. All amounts outstanding are short-term in nature. No significant balances are past due or impaired.

F6: Provisions

£m

	At 31 December 2010	At 31 December 2009
Surplus property	**16**	20
Client compensation	**39**	30
Warranties on sale of business	**3**	17
Liability for long service leave	**57**	49
Restructuring	**15**	5
Provision for donations	**89**	84
Other provisions	**92**	90
	311	295
Post employment benefits	**(51)**	(32)
Total	**260**	263

£m

Year ended 31 December 2010	Surplus property	Client compen-sation	Warranties on sale of business	Liability for long service leave	Restructur-ing	Provision for donations	Other	Total
Balance at beginning of the year	**20**	**30**	**17**	**49**	**5**	**84**	**90**	**295**
Unused amounts reversed	**–**	**–**	**(10)**	**–**	**–**	**–**	**(19)**	**(29)**
Unwind of discount	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Charge to income statement	**–**	**7**	**–**	**28**	**9**	**–**	**25**	**69**
Utilised during the year	**(4)**	**(9)**	**–**	**(27)**	**–**	**–**	**(5)**	**(45)**
Foreign exchange and other movements	**–**	**11**	**(4)**	**7**	**1**	**5**	**1**	**21**
Balance at end of the year	**16**	**39**	**3**	**57**	**15**	**89**	**92**	**311**

£m

Year ended 31 December 2009	Surplus property	Client compen-sation	Warranties on sale of business	Liability for long service leave	Restru-cturing	Provision for donations	Other	Total
Balance at beginning of the year	23	27	111	38	–	80	201	480
Unused amounts reversed	–	(2)	(54)	–	–	–	(52)	(108)
Unwind of discount	1	–	–	–	–	–	–	1
Charge to income statement	3	(3)	–	24	5	–	8	37
Utilised during the year	(7)	(2)	(26)	(20)	–	–	(65)	(120)
Foreign exchange and other movements	–	10	(14)	7	–	4	(2)	5
Balance at end of the year	20	30	17	49	5	84	90	295

2010 provisions in relation to surplus property amounted to £16 million (2009: £20 million). These relate to the onerous costs of vacant properties leased by the Group of which £16 million (2009: £13 million) is estimated to be payable after more than one year.

Provisions in relation to client compensation were £39 million (2009: £30 million), primarily relating to possible mis-selling of guarantee contracts in Wealth Management. £1 million (2009: £5 million) is estimated to be payable after more than one year.

Provisions in relation to warranties on the sale of businesses amounted to £3 million (2009: £17 million). £3 million (2009: £9 million) is estimated to be payable after more than one year.

The liability for long service leave of £57 million (2009: £49 million) relates to provision for staff payments for long serving employees, all of which estimated to be payable in less than one year.

Provisions in relation to restructuring were £15 million (2009: £5 million), primarily in respect of consolidation and related office relocation for Wealth Management. £11 million (2009: £3 million) is estimated to be payable after more than one year.

The provision for donations is held by Emerging Markets. It relates to the payment of charitable donations in future periods to which the Group is committed, out of the funds made available on the closure of the Group's unclaimed shares trusts, which were set up as part of the demutualisation in 1999 and closed in 2006 of which £70 million (2009: £84 million) is estimated to be payable after more than one year.

Other provisions includes provisions for tax on long-term staff benefits, restructuring and legal fees.

Where material, provisions are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could be result in adjustments to the amounts recorded. Of the total provisions recorded above, £163 million (2009: £188 million) is estimated to be payable after more than one year.

F7: Deferred revenue

£m

Year ended 31 December 2010	**Long-term business**	**Asset management**	**General insurance**	**Total**
Balance at beginning of the year	**556**	**89**	**9**	**654**
Fees and commission income deferred	**107**	**48**	**1**	**156**
Amortisation	**(39)**	**(39)**	**–**	**(78)**
Foreign exchange and other movements	**21**	**1**	**1**	**23**
Transfer to non-current assets held for sale	**(24)**	**(1)**	**–**	**(25)**
Balance at end of the year	**621**	**98**	**11**	**730**

£m

Year ended 31 December 2009	Long-term business	Asset management	General insurance	Total
Balance at beginning of the year	489	101	8	598
Fees and commission income deferred	91	34	–	125
Amortisation	(15)	(37)	–	(52)
Foreign exchange and other movements	(11)	(7)	1	(17)
Transfer from/(to) non-current assets held for sale	2	(2)	–	–
Balance at end of the year	556	89	9	654

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F8: Deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise.

(a) Deferred tax assets

The movement on the deferred tax assets account is as follows:

£m

Year ended 31 December 2010	At beginning of the year	Income statement (charge)/ credit	(Charged)/ credited to equity	Acquisition/ disposal of subsidiaries*	Foreign exchange and other movements	At end of the year
Insurance funds	**286**	**–**	**–**	**(288)**	**–**	**(2)**
Tax losses carried forward	**269**	**(30)**	**–**	**(42)**	**12**	**209**
Accelerated capital allowances	**6**	**(4)**	**–**	**–**	**–**	**2**
Available-for-sale securities	**185**	**–**	**(182)**	**(7)**	**4**	**–**
Other temporary differences	**265**	**27**	**2**	**(66)**	**6**	**234**
Netted against liabilities	**(624)**	**5**	**–**	**399**	**6**	**(214)**
Deferred fee income	**183**	**7**	**(1)**	**–**	**(2)**	**187**
	570	**5**	**(181)**	**(4)**	**26**	**416**

* Includes the transfer of US Life into non-current assets held for sale.

£m

Year ended 31 December 2009	At beginning of the year	Income Statement (charge)/ credit	(Charged)/ credited to equity	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Insurance funds	298	17	–	–	(29)	286
Tax losses carried forward	346	(53)	–	(4)	(20)	269
Accelerated capital allowances	17	(10)	–	–	(1)	6
Available-for-sale securities	584	56	(404)	–	(51)	185
Other temporary differences	284	(53)	(24)	(1)	59	265
Netted against liabilities	(63)	(10)	–	–	(551)	(624)
Deferred fee income	124	8	–	–	51	183
	1,590	(45)	(428)	(5)	(542)	570

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted. The amounts for which no deferred tax asset has been recognised comprise:

£m

	31 December 2010		31 December 2009	
	Gross amount	**Tax**	Gross amount	Tax
Unrelieved tax losses				
Expiring in the second to fifth years inclusive	**–**	**–**	248	79
Expiring after five years	**2,473**	**459**	2,492	415
Accelerated capital allowances	**117**	**31**	84	24
Other timing differences	**296**	**79**	20	6
	2,886	**569**	2,844	524

(b) Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

£m

Year ended 31 December 2010	At beginning of the year	Income statement charge/ (credit)	Charged/ (credited) to equity	Acquisition/ disposal of subsidiaries*	Foreign exchange and other movements	At end of the year
Accelerated tax depreciation	**24**	**1**	**–**	**(1)**	**5**	**29**
Deferred acquisition costs	**662**	**26**	**(115)**	**(404)**	**28**	**197**
Leasing	**44**	**–**	**–**	**–**	**9**	**53**
PVIF	**224**	**(24)**	**–**	**–**	**(3)**	**197**
Other acquired intangibles	**86**	**(19)**	**–**	**–**	**(2)**	**65**
Available-for-sale securities	**2**	**1**	**–**	**–**	**2**	**5**
Other temporary differences	**366**	**38**	**–**	**(5)**	**(18)**	**381**
Policyholder tax	**121**	**4**	**–**	**–**	**20**	**145**
Netted against assets	**(624)**	**5**	**–**	**399**	**6**	**(214)**
	905	**32**	**(115)**	**(11)**	**47**	**858**

* Includes the transfer of US Life into non-current assets held for sale

£m

Year ended 31 December 2009	At beginning of the year	Income statement charge/ (credit)	Charged/ (credited) to equity	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Accelerated tax depreciation	24	–	–	–	–	24
Deferred acquisition costs	715	24	(18)	–	(59)	662
Leasing	54	(18)	–	–	8	44
PVIF	258	(26)	–	–	(8)	224
Other acquired intangibles	107	(16)	–	–	(5)	86
Available-for-sale securities	2	–	–	–	–	2
Other temporary differences	256	(20)	–	–	130	366
Policyholder tax	99	7	–	–	15	121
Netted against assets	(63)	(10)	–	–	(551)	(624)
	1,452	(59)	(18)	–	(470)	905

As the Group is able to control the reversal of temporary differences in respect of investments in subsidiaries and branches and it is probable that these temporary differences will not reverse in the foreseeable future, there is no need to provide for the associated deferred tax liabilities. The aggregate amount of temporary differences on which further tax might be due if these temporary differences reversed would be estimated at £3.4 billion (2009: £3.4 billion).

F9: Trade, other payables and other liabilities

£m

	At 31 December 2010	At 31 December 2009
Amounts payable on direct insurance business		
Funds held under reinsurance business ceded	**119**	118
Amounts owed to policyholders	**326**	528
Amounts owed to intermediaries	**90**	80
Other direct insurance operation creditors	**60**	67
Accounts payable on reinsurance business	**35**	62
Accruals and deferred income	**697**	576
Share-based payments – cash-settled scheme liabilities	**21**	19
Short trading securities, spot positions and other	**1,598**	778
Trade creditors	**304**	297
Outstanding settlements	**503**	412
Total securities sold under agreements to repurchase	**117**	157
Obligations in relation to collateral holdings	**995**	295
Other liabilities	**796**	916
	5,661	4,305

Included in the amounts shown above are £3,885 million (2009: £2,960 million) that are regarded as current, the remainder as non-current.

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F10: Equity

(a) Share capital

	£m	
Authorised and issued share capital	**At 31 December 2010**	At 31 December 2009
Authorised ordinary shares of 10p each	**750**	750
Issued ordinary shares of 10p each	**570**	552

(b) Perpetual preferred callable securities

In addition to the Group's senior and subordinated debt, the Group has issued two separate tranches of perpetual preferred callable securities with a total carrying value of £688 million (2009: £688 million) as at 31 December 2010. In accordance with IFRS accounting standards these instruments are classified as equity and disclosed within equity shareholders' funds as shown on page 179.

£350 million perpetual preferred callable securities – these are unsecured and subordinated to the claims of senior creditors and the holders of any priority preference shares. For an initial period to 24 March 2020 interest is payable at a fixed rate of 6.4% per annum annually in arrears. From 24 March 2020 interest is reset semi-annually at 2.2% per annum above the sterling inter-bank offer rate for six month sterling deposits, and is payable semi-annually in arrears. Coupon payments may be deferred at the Group's discretion. The perpetual preferred callable securities are redeemable at the discretion of the Group at their principal amount from 24 March 2020.

€500 million perpetual preferred callable securities – Step-up Option B Undated Subordinated Notes issued under a Global Note Programme. These are unsecured and subordinated to the claims of senior creditors and the holders of any priority preference shares. For an initial period to 4 November 2015 the notes pay interest at a fixed rate of 5.0% per annum annually in arrears. After this date the interest is reset semi-annually at 2.63% per annum above six month EURIBOR and is payable semi-annually in arrears. Coupon payments may be deferred at the Group's discretion. The perpetual preferred callable securities are redeemable at the discretion of the Group at their principal amount from 4 November 2015.

F11: Non-controlling interests

(a) Income statement

(i) Ordinary shares

The non-controlling interests charge to profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100% of the ordinary equity. The principal subsidiaries where a non-controlling interest exists are the Group's banking business in South Africa and, prior to the acquisition of the non-controlling interest in Mutual & Federal in February 2010 (see F11(b)), the general insurance business in South Africa. For the year ended 31 December 2010 the non-controlling interests attributable to ordinary shares was £196 million (2009: £158 million).

(ii) Preferred securities

	£m	
	At 31 December 2010	At 31 December 2009
R2,000 million non-cumulative preference shares	**14**	16
R773 million non-cumulative preference shares	**5**	6
R300 million non-cumulative preference shares	**2**	2
US$750 million cumulative preferred securities	**38**	38
R364 million non-cumulative preference shares	**3**	2
Non-controlling interests – preferred securities	**62**	64

(iii) Non-controlling interests – adjusted operating profit

The following table reconciles non-controlling interests' share of profit for the financial year to non-controlling interests' share of adjusted operating profit:

		£m
Reconciliation of non-controlling interests share of profit for the financial year	**Year ended 31 December 2010**	Year ended 31 December 2009
The non-controlling interests charge is analysed as follows:		
Non-controlling interests – ordinary shares	**196**	158
Goodwill impairment and impact of acquisition accounting	**2**	1
Short-term fluctuations in investment return	**–**	2
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**22**	23
Fair value gains on group debt instruments	**6**	–
Income attributable to US Asset Management non-controlling interests	**(9)**	(3)
Non-controlling interests share of adjusted operating profit	**217**	181

The Group uses revised weighted average effective ownership interests when calculating the non-controllable interest applicable to the adjusted operating profit of its South Africa banking and, prior to the acquisition of the non-controlling interest in February 2010, general insurance businesses. This reflects the legal ownership of these businesses following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2010 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £22 million (2009: £23 million).

(b) Statement of financial position

(i) Ordinary shares

		£m
Reconciliation of movements in non-controlling interests	**Year to 31 December 2010**	Year to 31 December 2009
Balance at beginning of the year	**1,537**	1,147
Non-controlling interests' share of profit	**196**	158
Non-controlling interests' share of dividends paid	**(88)**	(80)
Net acquisition of interests	**(116)**	63
Foreign exchange and other movements	**234**	249
Balance at end of the year	**1,763**	1,537

Acquisition on non-controlling interest in Mutual & Federal

On 5 February 2010, the Group completed the acquisition of the remaining non-controlling shareholdings in Mutual & Federal Insurance Company Limited, following the fulfilment of all outstanding conditions precedent. On 8 February 2010, 147,313,449 new Old Mutual plc ordinary shares were issued in exchange for Mutual & Federal shares and listed on the London Stock Exchange, of which 68,378,851 were issues to Black Economic Empowerment trusts and 78,934,598 to other previous holders.

Other acquisitions

On 8 February 2010 Nedbank announced that it had obtained regulatory approval for the acquisition of the remaining 49.9% indirect interest in Imperial Bank Limited thereby satisfying all conditions precedent for the acquisition.

The purchase consideration was approximately £162 million (£155 million plus a Johannesburg Interbank Agreed Rate (JIBAR) factor applied up to 5 February 2010) which is being settled in four instalments out of existing cash resources of Nedbank Limited. The total amount, which included interest at the three month JIBAR, amounted to £165 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

F11: Non-controlling interests continued

(b) Statement of financial position continued

(ii) Preferred securities

	£m	
	At 31 December 2010	At 31 December 2009
R2,000 million non-cumulative preference shares[1]	**140**	140
R773 million non-cumulative preference shares[2]	**71**	71
R300 million non-cumulative preference shares[3]	**12**	12
US$750 million cumulative preferred securities[4]	**458**	458
R364 million non-cumulative preference shares[5]	**25**	25
R363 million non-cumulative preference shares[6]	**17**	17
R92 million non-cumulative preference shares[7]	**50**	–
	773	723
Unamortised issue costs	**(13)**	(13)
Total in issue at 31 December	**760**	710

Preferred securities are held at historic value of consideration received less unamortised issue costs.

1. 200 million R10 preference shares issued by Nedbank Limited (Nedbank), the Group's banking subsidiary. These shares are non-redeemable and non-cumulative and pay a cash dividend equivalent to 75% of the prime overdraft interest rate of Nedbank. Preference shareholders are only entitled to vote during periods when a dividend or any part of it remains unpaid after the due date for payment or when resolutions are proposed that directly affect any rights attaching to the shares or the rights of the holders. Preference shareholders will be entitled to receive their dividends in priority to any payment of dividends made in respect of any other class of Nedbank's shares.
2. 77.3 million R10 preference shares issued at R10.68 per share by Nedbank on the same terms as the securities described in (1) above.
3. 30 million R10 preference shares issued on 22 June 2006 by Imperial Bank Limited a subsidiary of Nedbank Limited, on the same terms as the securities described in (1) above.
4. US$750 million Guaranteed Cumulative Perpetual Preference Securities issued on 19 May 2003 by Old Mutual Capital Funding L.P., a subsidiary of the Group. Subject to certain limitations, holders of these securities are entitled to receive preferential cash distributions at a fixed rate of 8.0% per annum payable in arrears on a quarterly basis. The Group may defer payment of distributions at its sole discretion, but such an act may restrict Old Mutual plc from paying dividends on its ordinary shares for a period of 12 months. Arrears of distributions are payable quarterly cumulatively only on redemption of the securities or at the Group's option. The securities are perpetual, but may be redeemed at the discretion of the Group from 22 December 2008. The costs of issue have been amortised over the period to 22 December 2008.
5. 35 million R10 preference shares issued in 16 April 2007 at R10.27 per share by Nedbank on the same terms as the securities described in (1) above.
6. 36.3 million R10 preference shares issued by Nedbank in seven instalments between September 09 and December 09 on the same terms as the securities described in (1) above.
7. 9.2 million R10 preference shares issued by Nedbank on 11 March 2010 on the same terms as the securities in note 1 above.

G: Other notes

G1: Post employment benefits

The Group operates a number of pension schemes around the world. These schemes have been designed and are administered in accordance with local conditions and practices in the countries concerned and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the countries in which they operate.

(a) Liability for defined benefit obligations

£m

	Pension plans		Other post-retirement benefit schemes	
	Year to 31 December 2010	Year to 31 December 2009	**Year to 31 December 2010**	Year to 31 December 2009
Changes in projected benefit obligation				
Projected benefit obligation at beginning of the year	**815**	778	**211**	158
Benefits earned during the year	**9**	8	**6**	5
Interest cost on benefit obligation	**50**	41	**19**	12
Actuarial (gain)/loss	**53**	25	**(2)**	15
Benefits paid	**(50)**	(43)	**(3)**	(5)
Foreign exchange and other movements	**100**	6	**39**	26
Projected benefit obligation at end of the year	**977**	815	**270**	211
Change in plan assets				
Plan assets at fair value at beginning of the year	**953**	828	**175**	160
Actual return on plan assets	**90**	99	**17**	9
Company contributions	**12**	14	**(5)**	–
Employee contributions	**1**	1	**–**	–
Benefits paid	**(47)**	(41)	**(3)**	(4)
Foreign exchange and other movements	**110**	52	**34**	10
Plan assets at fair value at end of the year	**1,119**	953	**218**	175
Net (asset)/liability recognised in statement of financial position				
Funded status of plan	**(142)**	(138)	**52**	36
Unrecognised assets	**12**	8	**(10)**	(4)
Other amounts recognised in statement of financial position	**1**	1	**1**	–
Unrecognised actuarial gains	**23**	61	**12**	4
Net amount recognised in statement of financial position	**(106)**	(68)	**55**	36

(b) Expense/(credit) recognised in the income statement

£m

	Pension plans		Other post-retirement benefit schemes	
	Year to 31 December 2010	Year to 31 December 2009	**Year to 31 December 2010**	Year to 31 December 2009
Current service costs	**5**	8	**8**	3
Interest cost	**40**	31	**19**	12
Expected return on plan assets	**(59)**	(42)	**(15)**	(11)
Net actuarial losses/(gains) recognised in the year	**7**	5	**–**	–
Other benefit retirement plans	**2**	–	**–**	–
Total (included in staff costs)	**(5)**	2	**12**	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G: Other notes continued

(c) Principal actuarial assumptions

	%	
	Year to 31 December 2010	Year to 31 December 2009
UK pension schemes		
Discount rate	**5.4**	5.7-5.8
Expected return on plan assets:		
Equities	**7.2**	7.5-8.4
Debt	**4.2-5.4**	4.5-5.8
Cash	**0.5**	0.5-5.7
Annuities and other	**5.4**	5.7-6.5
Future salary increases	**4.7**	4.8
Pensions in payment and deferred pensions inflation	**3.7-4.3**	3.8-4.3
Price inflation	**3.7**	3.8
Europe pension schemes		
Discount rate	**3.8-4.0**	4.0
Expected return on plan assets:		
Equities	**5.8-6.7**	5.8
Debt	**2.8-3.7**	2.8
Property	**5.8-6.7**	5.8
Annuities and other	**5.8-6.7**	5.8
Future salary increases	**3.3-4.8**	3.3
Pensions in payment and deferred pensions inflation	**2.0-2.3**	2.0
Price inflation	**2.0-2.3**	2.0
African pension schemes		
Discount rate	**5.4-9.0**	7.5-9.0
Expected return on plan assets:		
Equities	**9.1-11.0**	9.0-12.5
Debt	**9.0-9.1**	9.0-9.5
Property	**9.0-9.1**	7.5-9.0
Future salary increases	**6.0-6.3**	5.0-6.0
Pensions in payment and deferred pensions inflation	**2.2-6.0**	1.4-6.0
Price inflation	**3.2-6.2**	4.0-6.0
African other post retirement schemes		
Discount rate	**7.3-8.0**	5.5-10.5
Expected return on plan assets	**7.3-8.0**	5.8-10.5
Future salary increases	**5.3-8.0**	5.8-9.0
Price inflation	**5.3-8.0**	3.5-9.0
Health cost inflation	**5.0-8.0**	7.3-9.0

The calculations are based on actuarially calculated mortality estimates relevant to the economic countries in which they operate, with a specific allowance made for future improvements in mortality which is broadly in line with that adopted for the 92 series of mortality tables prepared by the Continuous Mortality Investigation Bureau of the Institute of Actuaries.

The expected returns on plan assets have been determined on the basis of long-term expectations, the carrying value of the assets and the market conditions at the reporting date specific to the relevant locations.

The effect to the Group's obligation of a 1% increase and 1% decrease in the assumed health cost trend rates would be an increase of £22 million and decrease of £17 million (2009: increase of £13 million and decrease of £13 million) respectively.

(d) Plan asset allocation

%

	Pension plans		Other post-retirement benefit schemes	
	At 31 December 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
Equity securities	**37.8**	37.4	**36.5**	36.6
Debt securities	**41.7**	40.9	**26.3**	20.8
Property	**7.0**	6.8	**4.4**	5.6
Cash	**1.0**	3.6	**23.5**	26.1
Annuities and other	**12.5**	11.3	**9.3**	10.9
	100.0	100.0	**100.0**	100.0

Pension and other retirement benefit plan assets include ordinary shares issued by the Company with a fair value of £nil (2009: £nil).

(e) Summary of Group pension plans

£m

	Year to 31 December 2010	Year to 31 December 2009	Year to 31 December 2008	Year to 31 December 2007	Year to 31 December 2006
Present value of defined benefit obligations	**(977)**	(815)	(778)	(675)	(758)
Fair value of plan assets	**1,119**	953	828	855	836
Surplus	**142**	138	50	180	78
Experience losses arising on defined benefit plan liabilities:					
Amount	**(4)**	8	2	(5)	(12)
As a percentage of plan liabilities	**0.4%**	(1.0)%	0.0%	0.7%	1.6%
Experience gains arising on defined benefit plan assets:					
Amount	**(11)**	(8)	(69)	39	50
As a percentage of plan assets	**(0.9)%**	(0.8)%	(8.3)%	4.3%	6.0%

Total contributions expected to be paid to the Group pension plans for the year ending 31 December 2011 are £12 million (subject to any reassessments to be completed in the year).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G: Other notes continued

G2: Share-based payments

(a) Share-based payment arrangements

During the year ended 31 December 2010, the Group had the following share-based payment arrangements:

	Description of award				Contractual life	Vesting conditions		
Scheme[1]	Restricted shares	Options	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
UK Sharesave Scheme	–	✓	✓	✓[2]	3½- 5½	3 & 5	–	–
UK Share Option and Deferred Delivery Plan	–	✓	✓	–	6	3	Target growth in EPS	–
UK Restricted Share Plan	✓	–	✓	–	3-5	3 & 5	–	–
Old Mutual plc Share Reward Plan – Share options	–	✓	–	–	Up to 10 years	3	–	–
Old Mutual plc Share Reward Plan – Restricted Shares	✓	–	✓	–	Not less than 3 years	–	–	–
Old Mutual plc Performance Share plan – Share Options	–	✓	–	–	Up to 10 years	3	–	–
Old Mutual plc Performance Share plan – Restricted Shares	✓	–	✓	–	Not less than 3 years	Not less than 3 years	Target growth in EPS and ROE	–
Old Mutual plc 2008 Sharesave Plan	–	✓	–	✓[2]	3½-5½	3 & 5	–	–
South Africa Share Option and Deferred Delivery Plan	–	✓	–	–	6	3	Target growth in EPS	–
South Africa Restricted Share Plan	✓	–	✓	–	5	3	–	–
OMSA Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[3]
OMSA Senior Black Management Scheme	✓	–	✓	–	4-6	4, 5 & 6[4]	–	–
OMSA Management Scheme	✓	✓	✓	–	3-6	3	Target growth in EPS[5]	–
OMSA Black Business Partners Scheme	✓	–	✓	–	10	–	–	✓[6]
OMSA Client & Distributor Scheme	✓	–	✓	–	10	–	–	✓[7]
OMSA Community Scheme	✓	–	✓	–	10	–	–	✓[7]
Old Mutual Namibia Management Scheme	✓	✓	✓	–	3-6	3	–	–
Old Mutual Namibia Senior Black Management Scheme	✓	–	✓	–	4-6	4, 5 & 6[4]	–	–
Old Mutual Namibia Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[6]
Old Mutual Namibia Education Scheme	✓	–	✓	–	10	–	–	✓[6]
Old Mutual Namibia Distributor Scheme	✓	–	✓	–	10	–	–	✓[6]
Old Mutual Namibia Community Partners Scheme	✓	–	✓	–	10	–	–	✓[6]
Old Mutual Namibia Black Business Partners Scheme	✓	–	✓	–	10	–	–	✓[6]
Old Mutual Namibia Discretionary Scheme	✓	–	–	–	10	–	–	✓[6]
Nedcor Group (1994) Share Option Scheme	–	✓	✓	–	6	3 & 4[8]	Target growth in headline earnings	–
Nedbank Group (2005) Share Option Scheme	–	✓	✓	–	5	3	–	–

G: Other notes continued

G2: Share-based payments continued

	Description of award				Contractual life	Vesting conditions		
Scheme[1]	Restricted shares	Option	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
Nedbank Group (2005) Matched Share Scheme	✓	–	–	✓[9]	5	3	Various[10]	–
Nedbank Eyethu Non-Executive Directors' Scheme	–	✓	✓	–	6	6	–	✓[11]
Nedbank Eyethu Black Executive Scheme	✓	✓	✓	–	7	4, 5 & 6[4]	–	–
Nedbank Eyethu Black Management Scheme	✓	✓	✓	–	7	4, 5 & 6[4]	–	–
Nedbank Eyethu Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[3]
Nedbank Eyethu Black Business Partner Scheme	–	✓	✓	–	10	–	–	✓[6,11]
Nedbank Eyethu Retail Scheme	✓	–	–	✓[12]	3	–	–	✓[13]
Nedbank Eyethu Corporate Scheme	–	✓	✓	–	6	–	–	✓[14]
Nedbank Namibia Omufima Black Management Scheme	✓	✓	✓	–	7	4, 5 & 6[4]	–	–
Nedbank Namibia Omufima Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[6]
Nedbank Namibia Omufima Black Business Partner Scheme	–	✓	✓	–	10	–	–	✓[6,11]
Nedbank Namibia Omufima Affinity Group Scheme	–	✓	✓	–	10	–	–	✓[6,11]
Nedbank Namibia Omufima Education Scheme	–	✓	✓	–	10	–	–	✓[6,11]
Nedbank UK Long-term Incentive Plan	–	–	–	✓[15]	4	3	Target growth in average RoE	–
Mutual & Federal Share Option Scheme	–	✓	✓	–	6	3	–	–
Mutual & Federal Senior Black Management Scheme	✓	–	✓	–	7	4, 5 & 6[4]	–	–
Mutual & Federal Management Incentive Scheme	✓	✓	✓	–	6	3	–	–
Mutual & Federal Distributor Scheme	✓	–	✓	–	Indefinite	–	–	✓[7]
Mutual & Federal Community Scheme	✓	–	✓	–	Indefinite	–	–	✓[7]
Mutual & Federal Black Business Partners Scheme	✓	–	–	–	10	–	–	✓[6]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G: Other notes continued

G2: Share-based payments continued

	Description of award				Contractual life	Vesting conditions		
Scheme[1]	Restricted shares	Option	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
Mutual & Federal Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[6]
Mutual & Federal Namibia Share Option Scheme	✓	–	✓	–	6	3	–	–
Mutual & Federal Namibia Senior Black Management Scheme	✓	–	✓	–	7	4, 5 & 6[4]	–	–
Mutual & Federal Namibia Community Scheme	✓	–	✓	–	Indefinite	–	–	✓[7]
Mutual & Federal Namibia Black Business Partners Scheme	✓	–	–	–	10	–	–	✓[6]
Mutual & Federal Namibia Management Incentive Scheme	✓	✓	✓	–	6	3	–	–
Mutual & Federal Namibia Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[6]
Mutual & Federal Discretionary Scheme	✓	–	–	–	10	–	–	✓[6]

1 All share-based payment arrangements are equity settled with the exception of the South Africa Share Option, the Deferred Delivery Plan and the Mutual & Federal share schemes and the South Africa Restricted Share Plan which are cash-settled. 'UK' schemes relate to shares in Old Mutual plc listed on the London Stock Exchange. 'South Africa', 'OMSA', Mutual & Federal and 'Old Mutual' schemes relate to shares in Old mutual plc listed on the Johannesburg Stock Exchange ("JSE"). 'Nedcor' and 'Nedbank' schemes relate to shares in Nedbank Group Ltd listed on the JSE. Details of schemes related to US Asset Management are provided in Note G2(e).
2 Scheme is linked to a savings plan.
3 Earlier of five years or participant being entitled to any other award under any other share incentive scheme of the Company.
4 One third of the instruments granted become unrestricted after each of these time periods.
5 Performance target applies to options only.
6 Expiry of the contractual life.
7 Minimum period of ten years.
8 One half of the instruments granted become unrestricted after each of these time periods.
9 Matching contributions made by the participant of an amount not more than 50% of their after-tax bonus.
10 Where performance targets are not met, 50% of the instruments granted will become unrestricted.
11 No dealing in these instruments during the notional funding period.
12 For every three shares acquired, participants qualify for an additional bonus share.
13 Participant holds a Nedbank Group Ltd account as their primary account for the contractual life of the instrument.
14 Participant uses Nedbank Group Ltd as their primary banker for contractual life of the instrument. Nedbank has first right of refusal over all banking requirements.
15 Share appreciation rights 'SAR' scheme, where Nedbank will settle the difference between the current market price and the exercise price in cash, when the employee decides to exercise the SAR.

(b) Reconciliation of movements in options

The number and weighted average exercise prices of share options are as follows:

Options over shares in Old Mutual plc (London Stock Exchange)	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price
Outstanding at beginning of the year	**77,490,352**	**£0.66**	33,222,022	£1.20
Granted during the year	**4,720,010**	**£1.12**	58,992,582	£0.45
Forfeited during the year	**(7,162,357)**	**£0.87**	(12,451,662)	£1.05
Exercised during the year	**(5,362,778)**	**£0.76**	(1,940,138)	£0.94
Expired during the year	**(5,939,820)**	**£1.21**	(332,452)	£1.63
Outstanding at end of the year	**63,745,407**	**£0.61**	77,490,352	£0.66
Exercisable at 31 December	**1,767,384**	**£1.31**	6,234,171	£1.06

The options outstanding at 31 December 2010 have an exercise price in the range of £0.35 to £1.63 (2009: £0.35 to £1.99) and a weighted average remaining contractual life of 1.7 years (2009: 2.7 years). The weighted average share price at date of exercise for options exercised during the year was £1.19 (2009: £1.12).

Options over shares in Old Mutual plc (Johannesburg Stock Exchange)	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price
Outstanding at beginning of the year	**63,770,329**	**R12.45**	42,623,552	R18.30
Conversion from options over shares in Mutual & Federal (see below)	**9,060,754**	**R9.48**	–	–
Granted during the year	**15,736,775**	**R13.87**	34,996,407	R 7.79
Forfeited during the year	**(8,645,294)**	**R18.94**	(10,334,831)	R19.85
Exercised during the year	**(3,443,611)**	**R10.97**	(1,015,674)	R11.69
Expired during the year	**(2,481,216)**	**R14.43**	(2,499,125)	R13.68
Outstanding at end of the year	**73,997,737**	**R11.57**	63,770,329	R12.45
Exercisable at 31 December	**10,673,737**	**R12.72**	10,457,729	R14.10

The options outstanding at 31 December 2010 have an exercise price in the range of R1.45 to R19.10 (2009: R7.45 to R23.40) and a weighted average remaining contractual life of 3.9 years (2009: 4.3 years). The weighted average share price at date of exercise for options exercised during the year was R13.92 (2009: R13.63).

Options over shares in Nedbank Group Ltd	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price
Outstanding at beginning of the year	**36,950,389**	**R124.86**	41,124,074	R121.61
Granted during the year	**1,486,893**	**R125.36**	1,976,504	R 82.97
Forfeited during the year	**(1,286,772)**	**R105.23**	(1,577,822)	R115.88
Exercised during the year	**(5,943,004)**	**R94.47**	(4,207,864)	R 78.78
Expired during the year	**(5,328,228)**	**R140.67**	(364,503)	R102.75
Outstanding at end of the year	**25,879,278**	**R126.71**	36,950,389	R124.86
Exercisable at 31 December	**1,890,932**	**R100.75**	6,599,248	R 96.86

The options outstanding at 31 December 2010 have an exercise price in the range of R78 to R282.58 (2009: R63.19 to R282.58) and a weighted average remaining contractual life of 2.5 years (2009: 3 years). The weighted average share price at date of exercise for options exercised during the year was R131.17 (2009: R113.21).

Options over shares in Mutual & Federal Insurance Company Ltd	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price
Outstanding at beginning of the year	**5,268,370**	**R16.40**	5,291,160	R17.33
Conversion to options over Old Mutual plc (see below)	**(5,268,370)**	**–**	–	–
Granted during the year		**–**	1,614,690	R14.00
Forfeited during the year	**–**	**–**	(359,940)	R16.80
Exercised during the year	**–**	**–**	(489,570)	R10.60
Expired during the year	**–**	**–**	(787,970)	R18.83
Outstanding at end of the year	**–**	**–**	5,268,370	R16.40
Exercisable at 31 December	**–**	**–**	2,483,650	R13.99

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

The options outstanding at 31 December 2009 had an exercise price in the range of R2.5 to R27.95 and a weighted average remaining contractual life of 3.3 years. The weighted average share price at the date of exercise for options exercised during 2009 was R16.15.

In February 2010 the Group completed the acquisition of the remaining non-controlling interests in Mutual & Federal Insurance Company Ltd, with new Old Mutual plc shares issued in exchange for Mutual & Federal shares. In conjunction with the acquisition, options previously held over shares in Mutual & Federal were converted into options over shares in Old Mutual plc, being converted at a rate consistent with the acquisition terms.

(c) Measurements and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured using a Black-Scholes option pricing model.

Share options are granted under a service and non-market based performance condition. Such conditions are not taken into account in the grant date fair value measurement of the share options granted. There are no market conditions associated with the share option grants.

The grant date for the UK and SA Share Option and Deferred Delivery Plan annual awards is deemed to be 1 January in the year prior to the date of issue. As such the Group is required to estimate, at the reporting date, the number and fair value of the options that will be granted in the following year. The fair value of awards expected to be granted in 2011 which will have an IFRS 2 grant date of 1 January 2010, is shown separately below. The grant date for all other awards is the award issue date.

(d) Option pricing inputs

The following describes the option pricing inputs used for options granted by the Group during the year:

		Options issued on buy-out of M&F minorities*	Number of options granted	Fair value at measurement date	Share price	Exercise price	Expected volatility	Expected life	Expected dividends	Risk-free interest rate
UK Sharesave Scheme	**2010**		**1,561,135**	**£0.39**	**£1.18**	**£0.94**	**55.7%**	**3.4 yrs**	**2.1%**	**2.0%**
	2009		35,270,546	£0.16	£0.44	£0.35	54.7%	3.7yrs	–	2.1%
UK Share Option and Deferred Delivery Plan	**2010**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009		–	–	–	–	–	–	–	–
Old Mutual plc Share Reward Plan – Share Options	**2010**		**3,158,875**	**£0.52**	**£1.21**	**£1.21**	**55.7%**	**5.0 yrs**	**2.1%**	**2.8%**
	2009		12,367,231	£0.26	£0.47	£0.58	52.2%	5.0yrs	1.3%	2.8%
UK Performance Share Plan – Share option	**2010**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009		11,354,805	£0.26	£0.54	£0.60	49.9%	4.7yrs	–	2.5%
OMSA Management Scheme	**2010**		**15,428,501**	**R4.71**	**R13.87**	**R13.87**	**43.9%**	**5.3 yrs**	**3.5%**	**7.9%**
	2009		34,254,956	R7.11	R7.80	R7.80	43.8%	5.3yrs	3.0%	8.6%
Old Mutual Namibia Management Scheme	**2010**		308,274	R4.70	R13.91	R13.91	43.8%	5.4 yrs	3.5%	7.9%
	2009		741,451	R7.21	R7.52	R7.52	44.0%	5.3yrs	3.0%	8.6%
Nedbank Eyethu Black Executive Scheme	**2010**		**164,285**	**R31.17**	**R125.00**	**R121.08**	**24.5%**	**6.0 yrs**	**4.8%**	**–**
	2009		93,715	R23.88	R84.37	R116.19	45.5%	5.6yrs	6.9%	8.5%
Nedbank Eyethu Black Management Scheme	**2010**		**930,543**	**R30.43**	**R126.72**	**R126.11**	**25.6%**	**6.0 yrs**	**4.9%**	**8.1%**
	2009		1,836,338	R22.80	R77.78	R100.50	48.7%	6.0yrs	7.2%	8.6%
Nedbank UK Long-term IncentivePlan	**2010**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009		–	–	–	–	–	–	–	–
Mutual & Federal Share Option Scheme	**2010**	**346,750**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009	–	–	–	–	–	–	–	–	–
Mutual & Federal Management Incentive Scheme	**2010**	**3,318,789**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009	–	1,569,260	R3.97	R14.01	R14.01	34.0%	3.0yrs	4.5%	7.7%
Mutual & Federal Namibia Share Option Scheme	**2010**	**21,900**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009	–	–	–	–	–	–	–	–	–
Mutual & Federal Namibia Management Incentive Scheme	**2010**	**104,945**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2009	–	45,430	R4.05	R13.50	R13.50	34.0%	3.0yrs	4.5%	7.5%

* In February 2010 the Group completed the acquisition of the remaining non-controlling interests in Mutual & Federal Insurance Company Ltd, with new Old Mutual plc shares issued in exchange for Mutual & Federal shares. In conjunction with the acquisition, options previously held over shares in Mutual & Federal were converted into options over shares in Old Mutual plc, being converted at a rate consistent with the acquisition terms.

All of the above model inputs are expressed as weighted averages. The expected volatility is based on the annualised historic volatility of the share price over a period commensurate with the expected option life, ending on the date of valuation of the option. The expected life assumption is based on the average length of time similar grants have remained outstanding in the past and the type of employees to which awards have been granted.

(e) Share-based payment arrangements relating to US Asset Management

During the year ended 31 December 2010, US Asset Management had the following share based payment arrangements:

Acadian Asset Management (AAM)

Class B equity interests in AAM acquired by employees during 2007 entitled the participating employees to 28.57% of the earnings of AAM in excess of $120 million, and to a liquidation preference proportionate to their shareholding. In consideration for the equity acquired, the participating employees agreed to forego a portion of existing long-term incentive payments owed. The difference between the carrying amount of this consideration and the fair value of the interest acquired was treated as share-based compensation expense in 2007. Fair value was determined based on the discounted projected future cash flows of AAM.

OMAM Affiliate Equity Plan

Equity granted during the year to employees of firms participating in the OMAM Affiliate Equity Plan vests 3-5 years from the date of grant, conditional upon continued employment over this period. Equity purchased vested immediately. Fair value was determined based on a multiple of prior year earnings. Under the terms of the arrangements, participating employees may sell their equity back to Old Mutual (which acts as a buyer of last resort) at a fixed multiple of prior year earnings, subject to certain restrictions. Accordingly, the schemes are accounted for as cash-settled share-based payments, despite the fact the initial purchase and/or grants of equity are settled in equity instruments.

The following summarises the fair value of instruments purchased from and granted by US Asset Management during the year:

Fair value of instruments granted and purchased during the year		Affiliate share purchases	Affiliate share grants	Affiliate shares forfeited/ bought back	Total non-controlling interest in affiliate
AAM[1]	**2010**	**–**	**–**	**–**	**–**
	2009	–	–	–	–
	2008	–	–	–	–
	2007	28.57%	–	–	28.57%
OMAM Affiliate Equity Plan	**2010**	**1.64%**	**2.89%**	**(0.14)%**	**4.39%**
	2009	0.48%	0.44%	(0.22)%	0.70%
	2008	3.9%	2.5%	(0.4)%	6.0%
	2007	2.4%	7.3%	–	9.7%
Total fair value of instruments (US$m)[2]	**2010**	**–**	**$18.1m**	**–**	**$18.1m**
	2009	–	$2.4m	–	$2.4m
	2008	–	$6m	–	$6m
	2007	$17m	$9m	–	$26m

1 Percentage of Class B equity.
2 Represents fair value in excess of consideration granted for affiliate share purchases.

US Asset Management annual bonus awards

The OMAM Affiliate Equity Plan is incorporated into annual bonus awards of employees at participating firms, which are to be settled partly in cash, and partly in equity. The level of bonus is contingent upon current year financial and individual performance, therefore the vesting period for bonus equity to be granted during 2011 in respect of the 2010 financial year has been determined to commence from 1 January 2010.

It is anticipated that instruments with a fair value of US$7.9 million (2009: US$8.7 million and 2008: US$3.5 million) will be granted during 2010 to firms participating in the OMAM Affiliate Equity Plan based on 2010 financial performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G: Other notes continued

G2: Share-based payments continued

(f) Restricted share grants

The following summarises the fair value of restricted shares granted by the Group during the year:

		Restricted Shares issued on buy-out of M&F minorities*	Number granted	Weighted average fair value
UK Restricted Share Plan	**2010**		**–**	**–**
	2009		–	–
UK Share Reward Plan – Restricted Shares	**2010**		**5,221,865**	**£1.22**
	2009		8,713,091	£0.54
UK Performance Reward Plan – Restricted Shares	**2010**		**12,278,472**	**£1.19**
	2009		3,091,695	£0.58
OMSA Senior Black Management Scheme	**2010**		**2,913,437**	**R14.24**
	2009		7,737,889	R8.56
OMSA Management Scheme	**2010**		**11,224,113**	**R13.80**
	2009		27,739,043	R7.47
Old Mutual Namibia Management Scheme	**2010**		**221,435**	**R13.80**
	2009		643,089	R7.45
Old Mutual Namibia Senior Black Management Scheme	**2010**		**147,110**	**R14.46**
	2009		85,457	R8.18
Nedbank Group (2005) Matched Share Scheme	**2010**		**–**	**–**
	2009		194,248	R67.77
Nedbank Eyethu Black Executive Scheme	**2010**		**–**	**–**
	2009		31,791	R84.12
Nedbank Eyethu Black Management Scheme	**2010**		**–**	**–**
	2009		168,313	R77.28
Nedbank Group (2005) Share Option Scheme	**2010**		**–**	**–**
	2009		5,080,170	R75.36
Mutual & Federal Senior Black Management Scheme	**2010**	**329,256**	**136,695**	**R12.14**
	2009	–	101,880	R16.17
Mutual & Federal Management Incentive Scheme	**2010**	**2,090,273**	**7,168**	**R13.93**
	2009	–	1,599,220	R13.79
Mutual & Federal Broad-based Employee Scheme	**2010**	**545,748**	**–**	**–**
	2009	–	–	–
Mutual & Federal Distributor Scheme	**2010**	**1,017,832**	**–**	**–**
	2009	**–**	**–**	**–**
Mutual & Federal Community Scheme	**2010**	**1,017,832**	**–**	**–**
	2009	–	–	–
Mutual & Federal Black Business Partners Scheme	**2010**	**13,909,976**	**889,768**	**R10.55**
	2009	–	282,501	R13.63
Mutual & Federal Namibia Management Incentive Scheme	**2010**	**104,945**	**–**	**–**
	2009	–	54,550	R13.50
Mutual & Federal Namibia Senior Black Management Scheme	**2010**	**10,577**	**–**	**–**
	2009	–	810	R17.50
Mutual & Federal Namibia Broad-based Employee Scheme	**2010**	**17,443**	**–**	**–**
	2009	–	–	–
Mutual & Federal Namibia Black Business Partners Scheme	**2010**	**207,275**	**10,491**	**R12.63**
	2009	–	–	–
Mutual & Federal Namibia Community Scheme	**2010**	**76,768**	**3,886**	**R12.63**
	2009	–	–	–
Mutual & Federal Discretionary Scheme	**2010**	**90,772**	**4,593**	**R12.64**
	2009	–	–	–

The share price at measurement date was used to determine the fair value of the restricted shares. Expected dividends were not incorporated into the measurement of fair value where the holder of the restricted share is entitled to dividends throughout the vesting period.

* In February 2010 the Group completed the acquisition of the remaining non-controlling interests in Mutual & Federal Insurance Company Ltd, with new Old Mutual plc shares issued in exchange for Mutual & Federal shares. In conjunction with the acquisition, options previously held over shares in Mutual & Federal were converted into options over shares in Old Mutual plc, being converted at a rate consistent with the acquisition terms.

(g) Annual bonus awards

The UK and South Africa Share Option and Deferred Delivery Plans give rise to annual bonus awards. The level of annual bonus awards is contingent upon the satisfactory completion of individual and Company performance targets, measured over the financial year prior to the date the employees receive the award. The accounting grant date for the SA and UK annual bonus plans (other than the new joiner and newly qualified grants) has therefore been determined as 1 January in the year prior to the date of issue of the grants.

The Group anticipates awards under the South African scheme of 21,954,975 options (2009: 12,523,680 options) and 18,612,145 restricted shares (2009: 12,643,027 restricted shares.) The options have been valued using the Black-Scholes option pricing model, using an at the money option assumption. The restricted shares have been valued using a share price of R12.99 (2009: R13.18).

The Group estimate of the total fair value of the annual bonus expected to be paid in the form of options and restricted shares under the UK Share Option and Deferred Delivery Plan is outlined below. The fair value is determined by making an estimate of the level of bonus to be paid out following the attainment of personal and Company performance conditions.

	Year ended 31 December 2010		Year ended 31 December 2009	
	Total fair value, £m	**Vesting period**	Total fair value, £m	Vesting period
Old Mutual plc performance share plans – restricted shares	**6**	**4.2 years**	9	4.2 years
Old Mutual plc performance share plans – options	**3**	**4.2 years**	7	4.2 years

(h) Financial impact

		£m
	Year ended 31 December 2010	Year ended 31 December 2009
Expense arising from equity settled share and share option plans	**13**	35
Expense arising from cash settled share and share option plans	**7**	7
	20	42
Closing balance of liability for cash settled share awards	**21**	19
Total intrinsic value liability for vested benefits	**–**	–

G3: Related parties

The Group provides certain pension fund, insurance, banking and financial services to related parties. These are conducted on an arm's length basis and are not material to the Group's results.

(a) Transactions with key management personnel, remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of Directors as well as their shareholdings in the Company are disclosed in the Remuneration Report on page 159 and Corporate Governance Statement on page 138 respectively.

(b) Key management personnel remuneration and other compensation

	Year ended 31 December 2010		Year ended 31 December 2009	
	Number of personnel	**Value £000s**	Number of personnel	Value £000s
Directors' fees	**12**	**1,510**	9	1,214
Remuneration		**22,819**		13,590
Cash remuneration	**18**	**6,675**	13	4,777
Short-term employee benefits	**18**	**7,660**	13	4,159
Post employment benefits	**10**	**451**	12	587
Other long-term benefits	**7**	**14**	3	7
Share-based payments	**17**	**8,019**	12	4,060
		24,329		14,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G: Other notes continued

G3: Related parties continued

Share options	Year ended 31 December 2010 Number of personnel	Year ended 31 December 2010 Number of options/ shares '000s	Year ended 31 December 2009 Number of personnel	Year ended 31 December 2009 Number of options/ shares '000s
Outstanding at beginning of the year	**11**	**15,613**	10	7,393
Leavers	**2**	**(482)**	3	(848)
New appointments	**4**	**704**	2	410
Granted during the year		**425**		10,803
Exercised during the year		**(966)**		(1,171)
Lapsed during the year		**(795)**		(974)
Outstanding at end of the year	**13**	**14,499**	11	15,613

Restricted shares	Year ended 31 December 2010 Number of personnel	Year ended 31 December 2010 Number of options/ shares '000s	Year ended 31 December 2009 Number of personnel	Year ended 31 December 2009 Number of options/ shares '000s
Outstanding at beginning of the year	**10**	**7,832**	9	4,020
Leavers	**2**	**(1,565)**	3	(724)
New appointments	**6**	**1,314**	1	60
Granted during the year		**12,282**		5,376
Lapsed during the year		**(151)**		(119)
Released during the year		**(570)**		(781)
Outstanding at end of the year	**14**	**19,142**	10	7,832

(c) Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with Old Mutual plc and its subsidiaries, jointly controlled entities and associated undertakings in the normal course of business, details of which are given below. For current accounts positive values indicate assets of the individual whilst for credit cards and mortgages positive values indicate liabilities of the individual.

	Year ended 31 December 2010 Number of personnel	Year ended 31 December 2010 Value £000s	Year ended 31 December 2009 Number of personnel	Year ended 31 December 2009 Value £000s
Current accounts				
Balance at beginning of the year	**7**	**265**	6	(11)
Net movement during the year		**407**		276
Balance at end of the year	**8**	**672**	7	265
Credit cards				
Balance at beginning of the year	**4**	**22**	4	12
Net movement during the year		**7**		10
Balance at end of the year	**5**	**29**	4	22
Mortgages				
Balance at beginning of the year	**5**	**3,028**	4	1,896
Net movement during the year		**(1,125)**		1,509
Interest charged		**86**		190
Less repayments		**(334)**		(863)
Foreign exchange movements		**136**		296
Balance at end of the year	**5**	**1,791**	5	3,028
General insurance contracts				
Total premium paid during the year	**3**	**18**	5	33
Claims paid during the year	**1**	**1**	2	3
Life insurance products				
Total sum assured/value of investment at end of the year	**13**	**23,501**	12	11,550
Pensions, termination benefits paid				
Value of pension plan as at end of the year	**13**	**6,714**	11	5,648

Various members of key management personnel hold, and/or have at various times during the year held, investments managed by asset management businesses of the Group. These include unit trusts, mutual funds and hedge funds. None of the amounts concerned are material in the context of the funds managed by the Group business concerned, and all of the investments have been made by the individuals concerned either on terms which are the same as those available to external clients generally or, where that is not the case, on the same preferential terms as were available to employees of the business generally.

(d) Skandia Liv

Livförsäkringsaktiebolaget Skandia (publ) (Skandia Liv), is a related party to the Old Mutual Group. Skandia Liv is a wholly-owned subsidiary of Skandia and its business is conducted on a mutual basis. For the reasons given in the accounting policies Skandia Liv's result is not consolidated in these financial statements.

Material transactions between the Group and the Skandia Liv group in 12 months ended 31 December 2010 were as follows:

- Agreement in principle and framework agreement on co-operation covering market related functions and certain staff functions – this involves distribution and distribution support, customer service, market communication, administration of group insurance products, and staff and service functions. Skandia Liv paid £88 million (2009: £73 million) for services rendered under this agreement.
- Premises – the Group rents office premises from Skandia Liv. The Group paid market rents of £16 million (2009: £15 million) for these premises.
- Occupational pensions – Skandia Liv provides occupational pensions for the employees of the Group, for which the Group paid £15 million (2009: £19 million).
- Agreement on IT services – the Group provides IT services to Skandia Liv. The amount charged to Skandia Liv was £7 million (2009: £7 million).
- Settlement with Skandia Liv regarding the arbitration settlement – In a ruling issues on 2 October 2008, the arbitration board ruled that the going rate level of compensation in the market pursuant to the 2002 Asset Management Agreement is a maximum of ten basis points including value added tax, and that Skandia – for the time from 1 July 2008 and onward – is obligated to pay an amount to Skandia Liv that corresponds to the share of asset management fees received that exceed ten basis points including value added tax. A reserve to cover asset management fees for the time after 1 July 2008 was charged to the income statement. On 21 July 2009, an agreement was reached between Skandia and Skandia Liv, under which Skandia will pay a fixed amount per quarter until the end of 2013. The total remaining amount to be paid to Skandia Liv is less than the reserve provision booked as per July 2009 with the difference resolved in 2009, the effect being a release of £10 million. The remaining provision of £18 million has been reclassified and is shown as a liability to Skandia Liv in the statement of financial position.
- Currency derivatives – Skandia Liv hedge their currency position with forward contracts with Skandia Group at the prices prevailing on the foreign exchange market. Skandia Liv paid £27 million (2009: £2 million) for forward contracts during the year.

The balance outstanding at 31 December 2009 due from Skandia Liv is £13 million (2009: £2 million).

Various other arrangements exist between the Group and Skandia Liv, principally in respect of provision of accounting, legal and treasury functions, all of which are transacted on an arm's length basis.

Arbitration settlement

During the previous financial year settlement was reached in the arbitration proceedings between Skandia, and Skandia Liv in respect of the sale of the Skandia Asset Management business to Den Norske Bank in 2002.

(e) Nedbank Ltd

During 2009 a Group subsidiary, Nedbank Limited, provided funding to the Group. The funding was made through two loans of €69.5 million and £58.9 million with interest charged at EURIBOR and 6.55% respectively. Both the loans have a maturity date of 6 August 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G4: Principal subsidiaries and Group enterprises

The following table lists the principal Group undertakings whose results are included in the consolidated financial statements. All shares held are ordinary shares and, except for OM Group (UK) Ltd, are held indirectly by the Company.

Name	Nature of business	Percentage holding	Country of incorporation
Old Mutual (South Africa) Ltd	Holding company	100	Republic of South Africa
OM Africa Holdings (Pty) Ltd	Holding company	100	Republic of South Africa
Old Mutual Life Assurance Company (South Africa) Ltd	Life assurance	100	Republic of South Africa
Old Mutual Investment Group (South Africa) (Pty) Ltd	Asset management	100	Republic of South Africa
Nedbank Group Ltd	Banking	59	Republic of South Africa
Nedbank Ltd	Banking	59	Republic of South Africa
Mutual & Federal Insurance Company Ltd[1]	General insurance	100	Republic of South Africa
Old Mutual Life Assurance Company (Namibia) Ltd	Life assurance	100	Namibia
Old Mutual (US) Holdings, Inc	Holding company	100	Delaware, USA
Old Mutual U.S. Life Holdings, Inc	Holding company	100	Delaware, USA
Dwight Asset Management Company	Asset management	100	Delaware, USA
OM Financial Life Insurance Company	Life assurance	100	Maryland, USA
Old Mutual (Bermuda) Ltd	Life assurance	100	Bermuda
Acadian Asset Management[2]	Asset management	100	Massachusetts, USA
Barrow, Hanley, Mewhinney & Strauss, Inc	Asset management	100	Nevada, USA
OM Group (UK) Ltd	Holding company	100	England and Wales
Skandia Europe and Latin America (Holdings) Ltd	Holding company	100	England and Wales
Skandia Life Assurance Company Ltd	Life assurance	100	England and Wales
Old Mutual Wealth Management Limited	Holding company	100	England and Wales
Försäkringsaktiebolaget Skandia	Life assurance	100	Sweden
Skandiabanken AB	Banking	100	Sweden
Old Mutual (Netherlands) B.V.	Holding company	100	Netherlands

1 Following regulatory approval on 19 January 2010 the Group acquired the outstanding equity share previously-held by non-controlling interests and as a result now holds 100% (2009: 84%) of the share capital of Mutual & Federal.
2 The Group holds 100% Class A shares and 71.43% Class B shares in Acadian Asset Management. The remaining 28.57% Class B shares are held by the employees as described in note G2(e).

A complete list of subsidiaries is filed with the UK Registrar of Companies with the annual return. All the above companies have a year end of 31 December.

As described in the accounting policies Skandia Liv is not consolidated in these financial statements. Skandia Liv's unaudited capital and reserves are summarised as follows:

	£m (unaudited)	
	At 31 December 2010	At 31 December 2009
Capital and reserves	**31**	27
Profit/(loss) after tax	**2**	5

G5: Investments in associated undertakings and joint ventures

(a) Investments in associated undertakings and joint ventures

The Group's investments in associated undertakings and joint ventures accounted for under the equity method are as follows:

			£m	
At 31 December 2010	**Country of operation**	**% interest held**	**Carrying value**	**Group share of profit/ (loss)**
Clidet No. 638 (Pty) Ltd	**Republic of South Africa**	**49%**	**29**	**–**
Visigro Investments (Pty) Ltd	**Republic of South Africa**	**30%**	**8**	**–**
Odyssey Developments (Pty) Ltd	**Republic of South Africa**	**49%**	**10**	**–**
Old Mutual Finance (Pty) Ltd	**Republic of South Africa**	**50%**	**5**	**4**
Kotak Mahindra Old Mutual Life Insurance Ltd	**India**	**26%**	**13**	**2**
Old Mutual–Guodian Life Insurance Company Ltd	**China**	**50%**	**12**	**(4)**
All other associated undertakings			**85**	**5**
			162	**7**

All of the above investments in associated undertakings and joint ventures are unlisted. All investments in associated undertakings and joint ventures are equity accounted using financial information as at 31 December 2010.

			£m	
At 31 December 2009	Country of operation	% interest held	Carrying value	Group share of profit/(loss)
Clidet No. 638 (Pty) Ltd	Republic of South Africa	49%	23	–
Visigro Investments (Pty) Ltd	Republic of South Africa	30%	9	–
Odyssey Developments (Pty) Ltd	Republic of South Africa	49%	10	–
Kotak Mahindra Old Mutual Life Insurance Ltd	India	26%	16	3
Skandia BSAM	China	50%	8	(2)
All other associated undertakings			69	1
			135	2

(b) Aggregate financial information of investments in associated undertakings and joint ventures

The aggregate financial information for all investments in associated undertakings and joint ventures is as follows:

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Total assets	**2,032**	1,426
Total liabilities	**1,857**	1,002
Total revenues	**653**	603
Net profit/(loss) after tax	**7**	2

(c) Aggregate Group investment in associated undertakings and joint ventures

The aggregate amounts for the Group's investment in associated undertakings and joint ventures are as follows:

		£m
	Year ended 31 December 2010	Year ended 31 December 2009
Balance at beginning of the year	**135**	111
Net additions of investment in associated undertakings and joint ventures	**11**	4
Share of profit/(loss) after tax	**7**	2
Dividends paid	**–**	(6)
Foreign exchange and other movements	**9**	24
Balance at end of the year	**162**	135

The Group has no significant investments in which it owns less than 20% of the ordinary share capital that it accounts for using the equity method.

(d) Contingent liabilities

The Group is severally liable for the contingent liabilities relating to investments in associated undertakings of £1 million (2009: £1 million).

(e) Other Group holdings

The above does not include companies whereby the Group has a holding of more than 20%, but does not have significant influence over these companies by virtue of the Group not having any direct involvement in decision making or the other owners possessing veto rights.

G6: Contingent liabilities

		£m
	At 31 December 2010	At 31 December 2009
Guarantees and assets pledged as collateral security	**2,883**	2,375
Irrevocable letters of credit	**207**	605
Secured lending	**775**	555
Other contingent liabilities	**55**	49

The Group has pledged debt securities amounting to £1,379 million (2009: £1,253 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

Nedbank structured financing

Historically a number of the Group's South African banking businesses entered into structured finance transactions with third parties using the tax base of these companies. Pursuant to the terms of the majority of these transactions, the underlying third-party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service (SARS), although the obligation to pay in the first instance rests with the Group's companies. It is only in limited cases where, for example, the credit quality of a client becomes doubtful, or where the client has specifically contracted out of the re-pricing of additional taxes, that the recovery from a client could be less than the liability that could arise on assessment, in which case provisions are made. SARS has examined the tax aspects of some of these types of structures and SARS could assess these structures in a manner different to that initially envisaged by the contracting parties. As a result Group companies could be obliged to pay additional amounts to SARS and recover these from clients under the applicable contractual arrangements.

Nedbank litigation

There are a number of legal or potential claims against Nedbank and its subsidiary companies, the outcome of which cannot at present be foreseen. The largest of these potential actions is a claim in the High Court for R1.3 billion against Nedbank by certain shareholders in Pinnacle Point Group Limited, alleging that Nedbank had a legal duty of care to them arising from a share swap transaction. Nedbank and its legal advisers are of the opinion that the claim is without merit and will be defended vigorously.

Nedbank Securitisations

The Group through Nedbank is party to securitisation transactions involving GreenHouse Funding (Pty) Limited ('GreenHouse'), a residential mortgage backed securitisation programme, Octane ABS 1 (Pty) Limited ('Octane'), a securitisation programme of auto loans advanced by a subsidiary of Nedbank, and Synthesis Funding Limited ('Synthesis'), an asset backed commercial paper mortgage programme.

Synthesis primarily invests in long-term rated bonds and offers capital market funding to South African corporates. These assets are funded through the issuance of short-dated investment-grade commercial paper to institutional investors. All the commercial paper issued by Synthesis Funding Limited is assigned the highest short-term RSA local-currency credit rating by both Fitch and Moody's, and is listed on the Bond Exchange of South Africa (BESA).

Under GreenHouse Series 1, R2 billion of residential mortgages originated by Nedbank Retail was securitised. The commercial paper issued by GreenHouse has been assigned credit ratings by both Fitch and Moody's and is listed on the JSE. The homeloans of GreenHouse continue to be recognised in the statement of financial position of the Group, due to the significant risks and rewards associated with the homeloans not being transferred to the external investors. In January 2010 the arrears levels in GreenHouse breached the Arrear Trigger level. As a result, the Stop Purchase Event remains in effect resulting in no further home loans (other than servicing redraws – i.e. access facilities on existing GreenHouse loans) being acquired for as long as the arrears level remains above the Arrear Trigger level. As a consequence, all capital repayments were directed to noteholders.

Octane is a securitisation programme of auto loans originated by a subsidiary of Nedbank. The inaugural transaction entailed the securitisation of R2 billion of motor vehicle loans under Octane Series 1. The commercial paper issued by Octane Series 1 has been assigned credit ratings by Fitch and is listed on the JSE. The auto loans of Octane continue to be recognised on the statement of financial position of the Group due to the significant risks and rewards associated with the auto loans not being transferred to the external investors. During 2010 the transaction continued to repay investors in the normal course, as envisaged in the transaction documents.

The following table shows the carrying amount of securitised assets, stated at the amount of the Group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position:*

£m

	Carrying amount of assets		Associated liabilities	
	At 31 December 2010	At 31 December 2009	**At 31 December 2010**	At 31 December 2009
Loans and advances to customers				
Residential mortgage loans	**165**	166	**171**	169
Motor vehicle financing **	**59**	122	**78**	134
Other financial assets				
Corporate and bank paper	**155**	145	**–**	–
Other securities	**327**	338	**–**	–
Commercial paper	**–**	–	**484**	484
Total	**706**	771	**733**	787

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

* The value of any derivative instruments taken out to hedge any financial asset or liability, is adjusted against such instrument in this disclosure.
** Comparative information relating to motor vehicle financing has been restated to only disclose auto loans relating to the Octane transaction. This approach ensures consistency with the disclosure provided for GreenHouse and Synthesis. The effect of this restatement is a £21 million decrease in the carrying amount of motor vehicle financing assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

G7: Commitments

Capital commitments

The Group's capital commitments are detailed in the table below. The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

		£m
	At 31 December 2010	At 31 December 2009
Investment property	**118**	–
Property, plant and equipment	**95**	104

Commitments to extend credit to customers

The following table presents the contractual amounts of the Group's financial instruments not included in the statement of financial position that commit it to extend credit to customers.

		£m
	At 31 December 2010	At 31 December 2009
Original term to maturity of one year or less	**4,294**	1,983
Original term to maturity of more than one year	**1,885**	1,002
Other commitments, note issuance facilities and revolving underwriting facilities	**1,367**	63

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with local Central Banks in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.

Commitments under the Group's operating lease arrangements are described in note G8.

G8: Operating lease arrangements

(a) The Group as lessee

						£m
Outstanding commitments under non-cancellable operating leases, fall due as follows:	**Year ended 31 December 2010**			Year ended 31 December 2009		
	Banking	**Non-banking**	**Total**	Banking	Non-banking	Total
Within one year	**68**	**35**	**103**	117	35	152
In the second to fifth years inclusive	**233**	**97**	**330**	212	115	327
After five years	**292**	**70**	**362**	240	72	312
	593	**202**	**795**	569	222	791

(b) The Group as lessor

		£m
Assets subject to operating leases	**At 31 December 2010**	At 31 December 2009
Land	**15**	12
Buildings	**115**	70
Investment property	**2,040**	1,759
	2,170	1,841

		£m
Future minimum lease payments of contracts with tenants	**At 31 December 2010**	At 31 December 2009
Within one year	**59**	62
In the second to fifth years inclusive	**142**	149
After five years	**76**	21
	277	232

G9: Fiduciary activities

The Group provides custody, trustee, corporate administration, and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of misadministration or under-performance. Total funds under management are disclosed in note B5.

G10: Events after the reporting date

On 21 January 2011 the Group redeemed the £300 million Tier 2 bond repayable 21 January, taking the option to redeem at the first call date.

H: Discontinued operations and held for sale operations

H1: Discontinued operations

The results of the Group's United States life business, US Life, are shown as a discontinued operation in these financial statements. At 31 December 2010 the Group had entered into an agreement to dispose of the controlling interest in US Life to Harbinger OM LLC, an affiliate of Harbinger Capital Partners, and is seeking to gain regulatory approval for the sale. The disposal is expected to be completed at or around the end of the first quarter of 2011.

US Life has been classified as a discontinued operation in these financial statements. Analysis of the results of discontinued operations is given below.

(a) Income statement from discontinued operations

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	**1,608**	1,208
Expenses	**(1,557)**	(1,314)
Profit/(loss) before tax from discontinued operations	**51**	(106)
Loss on remeasurement to fair value less costs to sell	**(827)**	–
Loss before tax	**(776)**	(106)
Tax credit	**63**	35
Loss from discontinued operations after tax	**(713)**	(71)

(b) Statement of comprehensive income from discontinued operations

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Loss after tax for the financial year	**(713)**	(71)
Other comprehensive income for the financial year		
Fair value gains/(losses)		
Available-for-sale investments		
Fair value gains	**530**	975
Recycled to the income statement	**(12)**	227
Shadow accounting	**(334)**	(9)
Currency translation differences/exchange differences on translating foreign operations	**29**	(68)
Other movements	**(34)**	–
Income tax relating to components of other comprehensive income	**(67)**	(410)
Total other comprehensive income for the financial year	**112**	715
Total comprehensive (loss)/income for the financial year	**(601)**	644
Attributable to		
Equity holders of the parent	**(601)**	644
Total comprehensive (loss)/income for the financial year	**(601)**	644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

(c) Net cash flows from discontinued operations

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Operating activities	**(167)**	(191)
Investing activities	**63**	144
Net cash flows	**(104)**	(47)

H2: Disposal group held for sale

The assets and liabilities of the Group's United States life business, US Life, are shown as held for sale in these financial statements. The Group has entered into an agreement to dispose of the controlling interest in US Life to Harbinger OM LLC, an affiliate of Harbinger Capital Partners, and is seeking to gain regulatory approval for the sale.

On reclassification of the assets and liabilities of US Life to held for sale the fair value based on agreed terms with Harbinger less expected costs to sell was assessed and an impairment charge was taken to write down the net assets to this amount.

(a) Statement of financial position

Assets directly associated with disposal group held for sale

	£m
	At 31 December 2010
Deferred tax assets	**78**
Deferred acquisition costs	**551**
Reinsurers' share of long-term business policyholder liabilities	**506**
Deposits held with reinsurers	**36**
Loans and advances	**57**
Investments and securities	**10,794**
Trade, other receivables and other assets	**209**
Derivative financial instruments – assets	**127**
Cash and cash equivalents	**26**
	12,384

Liabilities directly associated with disposal group held for sale

	£m
	At 31 December 2010
Long-term business policyholder liabilities	**11,975**
Deferred tax liabilities	**22**
Trade, other payables and other liabilities	**222**
	12,219

Included within Investments and securities is £395 million of short term cash balances.

In addition to the disposal group held for sale, namely US Life, the Group had additional non-current assets held for sale of £7 million (2009: £1 million).

(b) Equity attributable to equity holders of the parent directly associated with disposal group held for sale

	£m
	At 31 December 2010
Retained earnings	**36**
Available-for-sale reserve	**18**
Share-based payments reserve	**1**
	55

(c) Fair value hierarchy

Fair values of financial assets and liabilities

Fair value hierarchy				£m
Year ended 31 December 2010	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	**127**	**–**	**127**	**–**
Derivative financial instruments – assets	**127**	**–**	**127**	**–**
Available-for-sale financial assets	**10,046**	**525**	**9,186**	**335**
Investments and securities	**10,046**	**525**	**9,186**	**335**
Total financial assets measured at fair value	**10,173**	**525**	**9,313**	**335**
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	**960**	**–**	**17**	**943**
Life assurance policyholder liabilities	**960**	**–**	**17**	**943**
Total financial liabilities measured at fair value	**960**	**–**	**17**	**943**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 continued

(c) Fair value hierarchy continued

£m

	At beginning of the year	Gains/ losses recognised in income statement	Gains/ losses recognised in other comprehensive income	Purchases and issues	Sales and settlements	Transfers in	Transfers out	Foreign exchange and other movements	At end of the year	For assets and liabilities held at the year end: Gains/ losses recognised in income statement	For assets and liabilities held at the year end: Gains/ losses recognised in other comprehensive income
Level 3 financial assets											
Available-for-sale financial assets	**419**	**(1)**	**12**	**116**	**(211)**	**21**	**(38)**	**17**	**335**	**–**	**8**
Investments and securities	**419**	**(1)**	**12**	**116**	**(211)**	**21**	**(38)**	**17**	**335**	**–**	**8**
Total Level 3 financial assets	**419**	**(1)**	**12**	**116**	**(211)**	**21**	**(38)**	**17**	**335**	**–**	**8**
Level 3 financial liabilities											
Held-for-trading (fair value through income statement)	**888**	**71**	**–**	**57**	**(108)**	**–**	**–**	**35**	**943**	**67**	**–**
Life assurance policyholder liabilities	**880**	**67**	**–**	**57**	**–**	**–**	**–**	**35**	**1,039**	**67**	**–**
Derivative financial instruments – liabilities	**8**	**4**	**–**	**–**	**(108)**	**–**	**–**	**–**	**(96)**	**–**	**–**
Total Level 3 financial liabilities	**888**	**71**	**–**	**57**	**(108)**	**–**	**–**	**35**	**943**	**67**	**–**

Analysis of reasonably possible alternative assumptions

£m

	Reflected in income statement		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Year ended 31 December 2010				
Available-for-sale financial assets	**–**	**–**	14	11
Investments and securities	**–**	**–**	14	11
Total Level 3 financial assets	**–**	**–**	14	11
Level 3 financial liabilities				
Held-for-trading (fair value through income statement)	**28**	**11**	–	–
Life assurance policyholder liabilities	**28**	**11**	–	–
Total Level 3 financial liabilities	**28**	**11**	–	–

For the above analysis, the determination of the impacts of the favourable and unfavourable changes was based on a reasonable range of favourable and unfavourable changes in the key observable inputs for the major types of Level 3 financial assets and liabilities.

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	At 31 December 2010	At 31 December 2009
			£m
Assets			
Investments in Group subsidiaries	8	**9,373**	8,993
Investments in associated undertakings	9	**26**	26
Other assets (including inter–company)	4	**1,299**	1,644
Derivative financial instruments – assets	2	**109**	176
Cash and cash equivalents		**438**	414
Total assets		**11,245**	11,253
Liabilities			
Borrowed funds	3	**1,451**	1,406
Provisions	6	**15**	17
Other liabilities (including inter-company)	5	**4,317**	4,628
Derivative financial instruments – liabilities	2	**100**	58
Total liabilities		**5,883**	6,109
Net assets		**5,362**	5,144
Shareholders' equity			
Equity attributable to equity holders		**5,362**	5,144

The Company's financial statements on pages 315 to 329 were approved by the Board of Directors on 8th March 2011.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

COMPANY STATEMENT OF CASH FLOWS

At 31 December 2010 continued

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities		
Profit before tax	**152**	139
Capital gains included in investment income	**–**	4
Fair value movements on derivatives and borrowed funds	**270**	230
Foreign exchange movements on assets and liabilities	**30**	(56)
Other non cash amounts in profit	**–**	–
Non-cash movements in profit before tax	**300**	178
Other operating assets and liabilities	**(52)**	87
Changes in working capital	**(52)**	87
Net cash inflow from operating activities	**400**	404
Cash flows from investing activities		
Acquisition of interests in subsidiaries	**(17)**	–
Proceeds from sale and maturity of other investments	**–**	11
Other investing cash flow	**22**	–
Net cash inflow/(outflow) from investing activities	**5**	11
Cash flows from financing activities		
External interest received	**58**	90
External interest paid	**(112)**	(129)
Inter-company interest received	**–**	–
Inter-company interest paid	**(39)**	(38)
Dividends paid to:		
Ordinary shareholders of the Company	**(95)**	–
Preferred shareholders	**(44)**	(45)
Net proceeds from issue of ordinary shares	**9**	4
Net purchase of treasury shares	**(20)**	(6)
Redemption of own shares	**–**	1
Issue of subordinated and other debt	**–**	542
Other debt repaid	**(104)**	(404)
Loan financing received from/(paid to) Group companies	**(35)**	(16)
Net cash (outflow) from financing activities	**(382)**	(1)
Net increase/(decrease) in cash and cash equivalents	**23**	414
Effects of exchange rate changes on cash and cash equivalents	**1**	(3)
Cash and cash equivalents at beginning of the period	**414**	3
Cash and cash equivalents at end of the year	**438**	414

At 31 December 2010 and 2009 all cash and cash equivalents were in the form of cash balances. During the year the Company recorded total dividend income from subsidiary undertakings of £650 million (2009: £658 million), of which only cash dividends from Försäkringsaktiebolaget Skandia (publ) of £38 million were received during the year ended 31 December 2010 (2009: £55 million).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Millions						£m
Year ended 31 December 2010	**Number of shares issued and fully paid**	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings***	**Perpetual Preferred callable securities**	**Total**
Attributable to equity holders of the Company at beginning of the year	**5,518**	**552**	**770**	**2,571**	**563**	**688**	**5,144**
Profit for the year	–	–	–	–	142	44	186
Total recognised income and expense for the year	–	–	–	–	142	44	186
Dividends for the year	–	–	–	–	(95)	(44)	(139)
Acquisition of non-controlling interest in Mutual & Federal	147	15	–	129	–	–	144
Shares issued in lieu of cash dividends	24	2	17	–	11	–	30
Net purchase of treasury shares	–	–	–	–	(20)	–	(20)
Issue of share capital by the Company	–	–	4	–	–	–	4
Exercise of share options	6	1	4	–	–	–	5
Fair value of equity settled share options	–	–	–	8	–	–	8
Attributable to equity holders of the Company at end of the year	**5,695**	**570**	**795**	**2,708**	**601**	**688**	**5,362**

	Millions						£m
Year ended 31 December 2009	Number of shares issued and fully paid	Share capital	Share premium	Other reserves	Retained earnings*	Perpetual preferred callable securities	Total
Attributable to equity holders of the Company at beginning of the year	5,516	552	766	2,561	409	688	4,976
Profit for the year	–	–	–	–	156	45	201
Total recognised income and expense for the year	–	–	–	–	156	45	201
Dividends for the year	–	–	–	–	–	(45)	(45)
Shares repurchased in the buy back programme	–	–	–	–	1	–	1
Net purchase of treasury shares	–	–	–	–	(3)	–	(3)
Issue of share capital by the Company	–	–	2	–	–	–	2
Exercise of share options	2	–	2	–	–	–	2
Fair value of equity settled share options	–	–	–	10	–	–	10
Attributable to equity holders of the Company at end of the year	5,518	552	770	2,571	563	688	5,144

* Included within retained earnings of £601 million (2009: £563 million) are distributable reserves of £598 million (2009: £514 million).

	£m	
Other reserves	**At 31 December 2010**	At 31 December 2009
Merger reserve	**2,661**	2,532
Share-based payment reserve	**47**	39
Attributable to equity holders of Company at end of the year	**2,708**	2,571

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

1 Financial assets and liabilities

Company statement of financial position

The Company is exposed to financial risk through its financial assets, financial liabilities and inter-company balances. The most important components of financial risk for the Company are interest rate risk, currency risk, liquidity risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The principal risk the Company faces is currency risk. The Company's functional and presentational currency is GBP, whereas the functional currencies of its principal subsidiaries are South African rand, US dollar, Swedish krona and euro.

(a) Categories of financial instruments

The analysis of assets and liabilities into their categories as defined in IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

£m

At 31 December 2010	Total	Fair value through income statement: Held-for-trading	Fair value through income statement: Designated	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
Assets						
Investments in Group subsidiaries	**9,373**	**–**	**–**	**–**	**–**	**9,373**
Investment in associated undertakings	**26**	**–**	**–**	**–**	**–**	**26**
Other assets (including inter–company)	**1,299**	**–**	**–**	**1,146**	**–**	**153**
Derivative financial instruments – assets	**109**	**109**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**438**	**–**	**–**	**438**	**–**	**–**
	11,245	**109**	**–**	**1,584**	**–**	**9,552**
Liabilities						
Borrowed funds	**1,451**	**–**	**906**	**–**	**545**	**–**
Provisions	**15**	**–**	**–**	**–**	**–**	**15**
Other liabilities (including inter–company)	**4,317**	**–**	**–**	**–**	**4,258**	**59**
Derivative financial instruments – liabilities	**100**	**100**	**–**	**–**	**–**	**–**
	5,883	**100**	**906**	**–**	**4,803**	**74**

£m

At 31 December 2009	Total	Fair value through income statement: Held-for-trading	Fair value through income statement: Designated	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
Assets						
Investments in Group subsidiaries	8,993	–	–	–	–	8,993
Investment in associated undertakings	26	–	–	–	–	26
Other assets (including inter-company)	1,644	–	–	1,501	–	143
Derivative financial instruments – assets	176	176	–	–	–	–
Cash and cash equivalents	414	–	–	414	–	–
	11,253	176	–	1,915	–	9,162
Liabilities						
Borrowed funds	1,406	–	761	–	645	–
Provisions	17	–	–	–	–	17
Other liabilities (including inter-company)	4,628	–	–	–	4,569	59
Derivative financial instruments – liabilities	58	58	–	–	–	–
	6,109	58	761	–	5,214	76

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

(b) Fair values of financial assets and liabilities

All financial instruments, regardless of their IAS 39 categorisation, are initially recorded at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only observable data.

Details of the different fair value hierarchy classifications are shown in the Group Accounts note E1(b).

Analysis of instruments at fair value

£m

At 31 December 2010	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held–for–trading (fair value through income statement)	**109**	**–**	**109**	**–**
Investments and securities	**–**	**–**	**–**	**–**
Derivative financial instruments – assets	**109**	**–**	**109**	**–**
Total financial assets measured at fair value	**109**	**–**	**109**	**–**
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	**100**	**–**	**100**	**–**
Derivative financial instruments – liabilities	**100**	**–**	**100**	**–**
Designated (fair value through income statement)	**906**	**906**	**–**	**–**
Borrowed funds	**906**	**906**	**–**	**–**
Total financial liabilities measured at fair value	**1,006**	**906**	**100**	**–**

£m

At 31 December 2009	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	176	–	176	–
Investments and securities	–	–	–	–
Derivative financial instruments – assets	176	–	176	–
Total financial assets measured at fair value	176	–	176	–
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	58	–	58	–
Derivative financial instruments – liabilities	58	–	58	–
Designated (fair value through income statement)	761	761	–	–
Borrowed funds	761	761	–	–
Total financial liabilities measured at fair value	819	761	58	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

Financial instruments designated as fair value through the income statement

Certain items in the Group's statement of financial position that would otherwise be categorised as loans and receivables under IAS 39 have been designated as fair value through the income statement. The maximum exposure to credit risk on investments and securities during 2010 was £nil (2009: £nil).

Certain items in the Group's statement of financial position that would otherwise be categorised as financial liabilities at amortised cost under IAS 39 have been designated as fair value through the income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

£m

		Change in fair value due to change in credit risk		
At 31 December 2010	**Fair value**	**Current financial year**	**Cumulative**	**Contractual maturity amount**
Borrowed funds	**906**	**184**	**(68)**	**946**

£m

		Change in fair value due to change in credit risk		
At 31 December 2009	Fair value	Current financial year	Cumulative	Contractual maturity amount
Borrowed funds	761	264	(252)	966

(c) Capital risk management

Old Mutual plc is the holding company of the Group and is responsible for the raising and allocation of capital in line with the Group's capital management policies set out in note E11 to the consolidated financial statements and for ensuring the operational funding and regulatory capital needs of the holding company and its subsidiaries are met at all times.

(d) Currency risk

The Company is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal foreign currency risk arises from the fact that the Company's functional currency is GBP, whereas the functional currency of its principal operations is South African rand, US dollar, Swedish krona and euro. The Company hedges some of this currency translation risk through currency swaps, currency borrowings and forward foreign exchange rate contracts. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts and currency swap agreements.

The table below summarises the Company's exposure to foreign currency exchange rate risk:

£m

At 31 December 2010	**GBP**	**ZAR**	**USD**	**EUR**	**SEK**	**Other**	**Reclassification**	**Total**
Assets								
Investments in associated undertakings	**26**	**–**	**–**	**–**	**–**	**–**	**–**	**26**
Derivative financial instruments – assets[1]	**1**	**–**	**–**	**19**	**–**	**–**	**89**	**109**
Cash and cash equivalents	**289**	**–**	**93**	**18**	**38**	**–**	**–**	**438**
Other assets	**8,102**	**11**	**681**	**141**	**1,727**	**10**	**–**	**10,672**
Total assets	**8,418**	**11**	**774**	**178**	**1,765**	**10**	**89**	**11,245**
Liabilities								
Borrowed funds[2]	**730**	**10**	**325**	**–**	**386**	**–**	**–**	**1,451**
Derivative financial instruments – liabilities[3]	**–**	**11**	**–**	**–**	**–**	**–**	**89**	**100**
Other liabilities	**2,522**	**–**	**1,331**	**457**	**22**	**–**	**–**	**4,332**
Total liabilities	**3,252**	**21**	**1,656**	**457**	**408**	**–**	**89**	**5,883**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

£m

At 31 December 2009	GBP	ZAR	USD	EUR	SEK	Other	Reclassification	Total
Assets								
Investments in associated undertakings	26	–	–	–	–	–	–	26
Derivative financial instruments – assets[1]	10	–	6	31	–	–	129	176
Cash and cash equivalents	382	–	32	–	–	–	–	414
Other assets	7,857	11	1,056	145	1,557	11	–	10,637
Total assets	8,275	11	1,094	176	1,557	11	129	11,253
Liabilities								
Borrowed funds[2]	672	55	244	54	306	–	75	1,406
Derivative financial instruments – liabilities[3]	–	4	–	–	–	–	54	58
Other liabilities	2,451	3	1,704	470	17	–	–	4,645
Total liabilities	3,123	62	1,948	524	323	–	129	6,109

1. The reclassified derivative financial instruments of £89 million (2009: £129 million) represent currency hedges for borrowed funds and so have been reclassified and netted against GBP and USD borrowed funds.
2. The totals of £730 million (GBP) (2009: £672 million), £325 million (USD) (2009: £244 million) and £386 million (SEK) (2009: £306 million) of borrowed funds have been disclosed as net of hedges in derivative financial instruments of £77 million (2009: £88 million), £12 million (2009: £41 million) and £89 million (2009: £54 million) respectively.
3. The derivative financial instrument of £89 million (2009: £54 million) represents a currency hedge for borrowed funds and so have been reclassified and netted against SEK borrowed funds.

A 10% deterioration in the values of the major currencies shown above in relation to GBP would result in a decrease in the Company's equity holders' funds of £17 million (2009: increase of £2 million).

(e) Credit risk

The Company is principally exposed to credit risk through cash at bank and the ability of the subsidiaries to repay amounts due to the Company, which it holds to back shareholder liabilities. Credit risk is managed by placing limits on exposures to any single counterparty, or groups of counterparties and to geographical and industry segments. Credit risk is monitored with reference to established credit rating agencies with limits placed on exposure to below investment grade holdings or the financial position of companies within the Group.

The following table analyses the credit rating (Standard & Poor's or equivalent) of financial assets bearing credit risk:

£m

At 31 December 2010	**Investment Grade (AAA to BBB)**	**Not rated**	**Total**
Investments in associated undertakings	**–**	**26**	**26**
Derivative financial instruments – assets	**109**	**–**	**109**
Other assets (including inter-company)	**–**	**1,299**	**1,299**
Cash and cash equivalents	**438**	**–**	**438**
Financial assets bearing credit risk	**547**	**1,325**	**1,872**

At 31 December 2009	Investment Grade (AAA to BBB)	Not rated	Total
Investments in associated undertakings	–	26	26
Derivative financial instruments – assets	176	–	176
Other assets (including inter-company)	–	1,644	1,644
Cash and cash equivalents	414	–	414
Financial assets bearing credit risk	590	1,670	2,260

(f) Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the Company's earnings and the value of its assets, liabilities and capital.

The Company employs currency and interest rate swap transactions to mitigate against the impact of changes in the fair values of its borrowed funds. Details of the arrangements in place are shown in the Group Accounts note E7 (Hedge accounting).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

(g) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company has net current liabilities of £1,441 million (2009: £1,142 million), all of which represent liabilities to other Group companies or finance vehicles of loans that often have short maturity dates or embedded call options. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows of both the Company and its subsidiaries.

The Company's existing revolving current facility of £1.25 billion does not mature until September 2012. Details, together with information on the Company's borrowed funds, are given in note 3.

The key information reviewed by the Company's executive directors and Executive Committee, together with the Capital Management Committee, is a detailed management report on the Company's current and planned capital and liquidity position. Forecasts are updated regularly based on new information received, and as part of the annual business planning cycle. The Company's liquidity and capital position and forecast is presented to the Company's Board of Directors on a regular basis.

Further information on liquidity and the Company's cash flows is contained in other sections of this annual report, for example the business review and Group Finance Director's statement.

2 Derivative financial instruments

The following tables provide a detailed breakdown of the contractual or notional amounts and the fair values of the Company's derivative financial instruments outstanding at the year end. These instruments allow the Company to transfer, modify or reduce their foreign exchange and interest rate risks.

The Company undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with whom it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Company.

£m

	Notional principals		**Fair values**	
At 31 December 2010	**Positive values**	**Negative values**	**Assets**	**Liabilities**
Exchange rate contracts				
Swaps	**559**	**391**	**90**	**89**
Forwards	**–**	**164**	**–**	**11**
	559	**555**	**90**	**100**
Interest rate contracts				
Swaps	**946**	**–**	**19**	**–**
Total	**1,505**	**555**	**109**	**100**

£m

	Notional principals		Fair values	
At 31 December 2009	Positive values	Negative values	Assets	Liabilities
Exchange rate contracts				
Swaps	567	353	129	54
Forwards	113	95	–	4
	680	448	129	58
Interest rate contracts				
Swaps	987	–	47	–
Total	1,667	448	176	58

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

The contractual maturities of the derivatives/liabilities held are as follows:

£m

At 31 December 2010	Balance sheet amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	No contractual maturity date	Total
Derivative financial liabilities	**100**	**100**	**–**	**–**	**–**	**–**	**100**
At 31 December 2009							
Derivative financial liabilities	**58**	**4**	**–**	**54**	**–**	**–**	**58**

3 Borrowed funds

£m

	Notes	At 31 December 2010	At 31 December 2009
Senior debt securities and term loans	3(i)	**546**	645
Subordinated debt securities	3(ii)	**905**	761
Total borrowed funds		**1,451**	1,406

£m

	At 31 December 2010	At 31 December 2009
Fair valued through income statement	**905**	761
Amortised cost	**546**	645
Total borrowed funds	**1,451**	1,406

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year end exchange rates.

£m

	At 31 December 2010	At 31 December 2009
Less than 1 year	**462**	171
Greater than 1 year and less than 5 years	**817**	1,279
Greater than 5 years	**536**	536
Borrowed funds	**1,815**	1,986

(i) Senior debt securities and term loan

£m

	At 31 December 2010	At 31 December 2009
Floating rate notes	**43**	89
Fixed rate notes	**503**	556
Total senior debt securities and term loans	**546**	645

The Company has a £1,250 million five-year multi-currency revolving credit facility, which had an original maturity date of September 2010. On 18 August 2007, syndicate banks agreed to extend the maturity date of £1,232 million of the facility by a further two years until September 2012.

At 31 December 2010, £499 million (2009: £480 million) of this facility was utilised, all in the form of irrevocable letters of credit (2009: £480 million). In the current year there was no form of drawn debt (2009: £nil).

During the year, the Company repaid €60 million bonds (€30 million, €20 million and €10 million) swapped into USD on inception. In addition, R550 million floating rate note was repaid, along with Sterling loan note.

In the current year the Company issued no new debt.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

(ii) Subordinated debt securities

	£m	
	At 31 December 2010	At 31 December 2009
£300 million repayable 21 January 2016 (5.0%)[1]	**296**	252
€750 million repayable 18 January 2017 (4.5%)[2]	**609**	509
Total subordinated debt securities	**905**	761

1. This bond, issued on 20 January 2006, has a maturity date of 21 January 2016 and pays a coupon of 5.0% to 21 January 2011 and six month LIBOR plus 1.13% thereafter. The coupon on the bonds was swapped into a floating rate of six month STIBOR plus 0.50%. The Company has the option to repay the bonds at par on 21 January 2011 and at six monthly intervals thereafter. This bond was redeemed after the end of the reporting period, at the first call date of 21 January 2011.
2. This bond, issued on 16 January 2007, has a maturity date of 18 January 2017 and pays a coupon of 4.5% to 17 January 2012 and six month EURIBOR plus 0.96% thereafter. The principal and coupon on the bond were swapped equally into Sterling and US Dollars with coupons of six month LIBOR plus 0.34% and six month US LIBOR plus 0.31% respectively. The Company has the option to repay the bonds at par on 17 January 2012 and at six monthly intervals thereafter.

4 Other assets

	£m	
	At 31 December 2010	At 31 December 2009
Other receivables	**11**	10
Corporation tax	**101**	89
Accrued interest and rent	**41**	43
Other prepayments and accrued income	**-**	1
Amounts owed by Group undertakings:		
Amounts falling due within one year	**157**	162
Amounts falling due after one year	**989**	1,339
Total other assets	**1,299**	1,644

5 Other liabilities

	£m	
	At 31 December 2010	At 31 December 2009
Accruals and deferred income	**59**	59
Amounts owed to Group undertakings:		
Amount falling due within one year	**1,692**	1,388
Amount falling due after one year	**2,566**	3,181
Other liabilities	**–**	–
Total other liabilities	**4,317**	4,628

6 Provisions

		£m	
	Note	**At 31 December 2010**	At 31 December 2009
Post employment benefits	7	**14**	17
Other		**1**	–
Total provisions		**15**	17

7 Post employment benefits

The Company holds a provision in respect of the Old Mutual Staff Pension Fund Defined Benefit pension scheme, which provides benefits based on final pensionable pay for members within the Group. The assets of the scheme are held in separate trustee administered funds. Pension costs and contributions relating to the scheme are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to the scheme, together with existing assets, are adequate to secure members' benefits over the remaining lives of participating employees. The scheme is reviewed on a triennial basis. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. During the year 2 employees (2009: 2) were directly employed by the Company. The costs for these Directors and ex-Directors are disclosed within the Remuneration Report on page 159.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

Liability for defined benefit obligations	£m Pension plans Year to 31 December 2010	Year to 31 December 2009
Change in projected benefit obligation		
Projected benefit obligation at beginning of the year	**61**	55
Interest cost on benefit obligation	**3**	3
Benefits paid	**(1)**	–
Actuarial gain/(losses)	**(1)**	3
Projected benefit obligation at end of the year	**62**	61
Change in plan assets		
Plan assets at fair value at beginning of the year	**41**	35
Actual return on plan assets	**4**	2
Benefits paid	**(2)**	–
Company contributions	**4**	4
Plan assets at fair value at end of the year	**47**	41
Net liability recognised in balance sheet		
Funded status of plan	**15**	20
Recognised actuarial loss	**(1)**	(3)
Net amount recognised in balance sheet	**14**	17

Expense recognised in the income statement	£m Pension plans Year to 31 December 2010	Year to 31 December 2009
Expected return on plan assets	**2**	2
Interest costs	**(3)**	(3)
Total	**(1)**	(1)

Principal actuarial assumptions	% Pension plans Year to 31 December 2010	Year to 31 December 2009
Discount rate	**5.4**	5.7
Expected returns on plan assets:		
Equities	**7.2**	7.5
Debt	**4.2**	4.5
Cash	**0.5**	5.7
Annuities and other	**5.4**	5.7
Future salary increases	**4.7**	4.8
Price inflation	**3.7**	3.8
Pensions in payment and deferred pensions inflation	**3.7**	3.8

Plan asset allocation	% Pension plans Year to 31 December 2010	Year to 31 December 2009
Equity securities	**39%**	37%
Debt securities	**60%**	60%
Other investments	**1%**	3%

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

£m

	Year to 31 December 2010	Year to 31 December 2009	Year to 31 December 2008	Year to 31 December 2007	Year to 31 December 2006
Present value of defined benefit obligations	**(62)**	(61)	(55)	(56)	(56)
Fair value of plan assets	**47**	41	35	37	32
Deficit	**(15)**	(20)	(20)	(19)	(24)
Experience losses arising on defined benefit plan liabilities:					
Amount	**–**	–	(1)	–	–
As a percentage of plan liabilities	**0.0%**	0.0%	2.0%	–	(0.4)%
Experience gains arising on defined benefit plan assets:					
Amount	**2**	1	(7)	(1)	–
As a percentage	**5.0%**	3.0%	(18.5)%	(1.8)%	–

8 Principal subsidiaries

£m

	At 31 December 2010	At 31 December 2009
Balance at beginning of the year	**8,993**	7,595
Acquisitions	**22**	–
Additions	**358**	1,417
Impairments	**–**	(19)
Balance at end of the year	**9,373**	8,993

On 24 December 2010, the Company increased its investment in the Ordinary share capital of Commsale 2000 Limited by £2.5 million.

On 14 December 2010, the Company increased its investment in the Ordinary share capital of OM Group (UK) Limited by £330 million via a reduction in loan financing.

On 29 June 2010, the Company increased its investment in the ordinary 'B' share capital of Millpencil Limited by $25.3 million.

Also included within additions is the Company's investment in subsidiary undertakings in respect of movements on the share based payments (£8 million).

On 17 December 2010, the Company received 9% share (SEK232.7 million) in Skandia Leben Holding Gmbh as payment of a dividend in specie from Försäkringsaktiebolaget Skandia (publ).

On 7 December 2010, the Company sold its entire holding in Skandia Investment Group Holdings to Skandia Life Assurance Holdings Limited for consideration of £1,000.

No companies were dissolved during the year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

The Company holds the following interests in Group companies:

At 31 December 2010	Country of incorporation	Class of shares	% interest held
Commsale 2000 Ltd	England & Wales	Ordinary	100%
Constantia Insurance Company (Guernsey) Limited	Guernsey	Ordinary	100%
Försäkringsaktiebolaget Skandia (publ)	Sweden	Ordinary	100%
Millpencil Limited	England & Wales	Ordinary	100%
OM Group (UK) Ltd	England & Wales	Ordinary	100%
Old Mutual Asset Solutions Ltd	England & Wales	Ordinary	100%
Old Mutual Capital Funding (Jersey) Limited	Jersey	Ordinary	100%
Old Mutual Finance (No.2) Limited	England & Wales	Ordinary	50%
Old Mutual Finance (No.4) Limited	England & Wales	Ordinary	100%
Old Mutual Holdings Limited	England & Wales	Ordinary	100%
Sandlord Ltd	England & Wales	Ordinary	100%
Selestia Holdings Limited	England & Wales	Ordinary	100%
Skandia (London) Ltd	England & Wales	Ordinary	100%
Skandia Europe and Latin America (Holdings) Limited	England & Wales	Ordinary	100%
Skandia UK Holdings Limited	England & Wales	Ordinary	100%
Skandia Leben Holdings Gmbh	Germany	Ordinary	9%

9 Investments in associated undertakings

The Company holds the following interest in associated undertakings:

			£m	
	Country of operation	% interest held	**At 31 December 2010**	At 31 December 2009
Kotak Mahindra Old Mutual Life Insurance Limited	India	26%	**26**	26

10 Commitments and guarantees

	£m	
	At 31 December 2010	At 31 December 2009
Commitments	**499**	480

The commitments relate to letters of credit issued in support of the operations of a subsidiary company. Any liability arising from these letters of credit would be recovered from the subsidiary company.

In February 2008, the Company issued a guarantee to a third party over a subsidiary's (Old Mutual Bermuda) obligations under the reinsurance contracts relating to the offshore investment products sold by a third party. The maximum payment under this guarantee is $250 million. This guarantee is accounted for as an insurance contract and payments will only arise should Old Mutual Bermuda be unable to meet its obligations under the relevant reinsurance contracts as they fall due.

11 Related parties

Old Mutual plc enters into transactions with its subsidiaries in the normal course of business. These are principally related to funding of the Group's businesses and head office functions. Details of loans, including balances due from/to the Company and terms and conditions thereon are set out below. Disclosures in respect of the key management personnel of the Company are included in the Group related parties disclosures.

On 5 February 2010, the Company completed the acquisition of the remaining non-controlling shareholding in Mutual & Federal Insurance Company Limited. As part of the transaction, the Company sold its shares in Mutual & Federal Insurance Company Limited to OMLAC(SA) in a non cash transaction in return for novating Old Mutual plc loan notes totalling $234 million and it assumed the obligation for the discharge in 2015 of the unsettled share-based payment transaction with Mutual & Federal Black Business Partners for nil consideration.

There are no transactions entered into by the Company with associated undertakings.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

Statement of Financial Position information	£m Balance due from/(to)
At 31 December 2010	
Subsidiaries:	
OM Group (UK) Limited[1]	**962**
Primemajor	**4**
Global Edge Technologies Pty Limited[4]	**1**
Old Mutual International companies[3]	**4**
Fairbairn Trust Company Limited	**2**
Bermuda Holdings companies[5]	**(274)**
Skandia companies[2]	**(2,460)**
Old Mutual (SA) companies[6]	**(530)**
Old Mutual Financial Services companies[7]	**(51)**
Old Mutual Business Services Ltd[8]	**(56)**
Old Mutual Capital Funding L.P.[9]	**(471)**
Constantia Insurance Company (Guernsey) Limited	**(2)**
Old Mutual (Netherlands) BV	**(4)**
Pointspirit[10]	**(28)**
Nedbank[12]	**(122)**
Millpencil[13]	**(10)**
GGP II[14]	**(79)**
Other related parties:	
Fairbairn Trust Company Limited[11]	**53**

1. The loan with OM Group (UK) Limited includes loan advances of $845 million, £68 million and AUD$7 million (2009: $1,518 million, £22 million and A$7 million). The dollar facility expires on 30 September 2015, whilst the Sterling facility expires on 28 June 2013 and both facilities' terms are at LIBOR +0.75%. The Australian dollar facility expires 30 November 2011 and interest is charged at 9.60% per annum. In addition, the balance also includes a subordinated loan of £350 million (2009: £350 million), with a term agreement of 6.75%, switching to floating rate (LIBOR +2.48%) after 12 years and a balance of £22 million which is deferred interest on the £350 million, with a term agreement of 12 month LIBOR plus 1.8% margin.
2. The balance with Skandia companies includes two loan notes with Skandia UK Limited, totalling £1,844 million, where the agreement states that interest is LIBOR + 0.30% margin and is due to mature on 27 February 2013. Also with Skandia UK is a balance of £49 million which is the deferred interest of the two loan notes and interest is charged at 12 month LIBOR and 0.30% margin. The Company has a term loan agreement with Skandia Insurance Company Ltd where the agreement states that interest is STIBOR + 7.3% margin and is due to mature on 31 January 2011. In addition, the balance also includes various rolling deposits where the interest is charged at LIBOR or EURIBOR with no margin. These deposits are with Skandia Life Assurance £30 million, Skandia Germany €57 million, Skandia Leben Holdings Gmbh €6.8 million, Skandia Holdings Ltd £79.8 million, SkandiaLink (Spain) €357 million and Skandia Europe and Latin America (Holdings) Limited of £18 million. There is also a discount note with Skandia Financial Holdings BV of €1.9 million with a maturity date of 4 March 2011.
3. The balance with Old Mutual International companies includes one contingent loan facility of £4 million (2009: £4 million) where the agreement states that no interest is charged and no maturity date is set in place.
4. The subordinated loan with Global Edge Technologies Pty Limited of R6.5 million (2009: R6.5 million). There is no interest charged in respect to this advance as it has been fully provided for in the books of Old Mutual plc.
5. The balance with Bermuda Holding companies includes a floating rate note of $82 million, and £0.2 million and £0.35 million floating rate notes. Interest charged is USD LIBOR + 0.45% margin on the $82 million and GBP LIBOR + 0.45% on the latter two. All mature on 28 April 2013 . In addition there are various discount notes.
6. The balance with Old Mutual (SA) companies includes one floating rate note $814 million (2009: $1,097 million). Interest charged is USD LIBOR + 0.45% margin and matures on 28 April 2013.
7. The balance with Old Mutual Financial Services companies includes long-term loan advances with no maturity dates of £13.6 million, on which interest is charged at the Bank of England base rate, interest free facility and an uncommitted money market deposit facility of £0.1 million, interest charged at a 12 month LIBOR, with a current balance £10 million.
8. The loan with Old Mutual Business Limited represents a long-term loan advance with no maturity date of £56 million, on which no interest is charged.
9. The loan with Old Mutual Capital Funding L.P. is a $750 million subordinated cumulative perpetual note which bears interest at 8.00% per annum payable quarterly. The notes have no mandatory maturity dates.
10. The loan with Pointspirit is a £500 million revolving credit facility where the agreement states that interest be charged at LIBOR + 0.15%. This RCF has no maturity date.
11. This represents amounts paid to the Fairbairn Trust Company Limited in respect of an 'ESOP' for the purchase of the Company's own shares.
12. The balance with Nedbank consists of two loans, €69.5 million and £58.9 million. Interest is charged at EURIBOR + 6.55% and LIBOR + 6.55%, with a maturity date of 6 August 2012 for both loans.
13. The balance with Millpencil is non-interest bearing and recallable at any time.
14. The balance with GGP II are 2 discount notes, $5 million maturing on 18 February 2011 and £74 million maturing on 17 March 2011.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2010

Outstanding amounts	£m Balance due from/(to)
At 31 December 2009	
Subsidiaries:	
OM Group (UK) Limited	**1,335**
Primemajor	**4**
Old Mutual Holdings (Kenya)	**10**
Global Edge Technologies Pty Limited	**1**
Old Mutual International companies	**4**
Fairbairn Trust Company Limited	**2**
Bermuda Holdings companies	**(563)**
Skandia companies	**(2,351)**
Old Mutual (SA) companies	**(692)**
Old Mutual Financial Services companies	**(79)**
Old Mutual Business Services Limited	**(126)**
Old Mutual Capital Funding L.P.	**(453)**
Constantia Insurance Company (Guernsey) Limited	**(2)**
Old Mutual (Netherlands) BV	**(1)**
Pointspirit	**(27)**
Nedbank	**(124)**
Millpencil	**(8)**
Other related parties:	
Fairbairn Trust Company Limited	**33**

Income statement information

At 31 December 2010	£m Interest received/ (paid)	Ordinary dividends received/ (paid)	Other amounts received/ (paid)
Subsidiaries	**(76)**	**650**	**(86)**

At 31 December 2009	£m Interest received/ (paid)	Ordinary dividends received/ (paid)	Other amounts received/ (paid)
Subsidiaries	88	658	(122)

12 Events after the reporting date

On 21 January 2011 the Company redeemed the £300 million Tier 2 bond repayable 21 January (5%), exercising its option to redeem at the first call date.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in relation to the Market Consistent Embedded Value basis supplementary information

The directors of Old Mutual plc have chosen to prepare supplementary information on a Market Consistent Embedded Value (MCEV) basis.

Old Mutual's methodology adopts the Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology. The Principles have been fully complied with at 31 December 2010 for all businesses.

In preparing the MCEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the methodology described above and the basis of preparation as set out on page 336;
- identified and described the business covered by the MCEV methodology;
- applied the MCEV methodology consistently to the covered business;
- determined assumptions on a market consistent basis and operating assumptions on a best estimate entity specific basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently; and
- where relevant, made estimates that are reasonable and consistent.

MCEV

INDEPENDENT AUDITORS' REPORT

to Old Mutual plc on the Market Consistent Embedded Value basis supplementary information

We have audited the Market Consistent Embedded Value (MCEV) basis supplementary information ('the supplementary information') of Old Mutual plc ('the Company') on pages 332 to 383 in respect of the year ended 31 December 2010. The financial reporting framework that has been applied in the preparation of the supplementary information is the Market Consistent Embedded Value Principles issued in October 2009 by the European CFO Forum ('the MCEV Principles'). The supplementary information should be read in conjunction with the Group financial statements which are on pages 172 to 314.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 330, the directors have accepted responsibility for preparing the supplementary information on an MCEV basis in accordance with the MCEV Principles.

Our responsibility is to audit, and express an opinion on, the supplementary information in accordance with the terms of our engagement and having regard to International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the supplementary information

An audit involves obtaining evidence about the amounts and disclosures in the supplementary information to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors. In view of the purpose for which the supplementary information has been prepared, however, we did not assess the overall presentation of the supplementary information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on supplementary information

In our opinion, the MCEV basis supplementary information of the Company for the year ended 31 December 2010 has been properly prepared, in all material respects, in accordance with the MCEV Principles using the methodology and assumptions as detailed in the basis of preparation of the supplementary information on page 336.

Alastair W S Barbour (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
8 March 2011

GROUP MARKET CONSISTENT EMBEDDED VALUE STATEMENT OF EARNINGS

For the year ended 31 December 2010

£m

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Long-Term Savings			
Covered business		**705**	252
Asset management and other business		**127**	26
Banking		**16**	16
		848	294
Nedbank			
Banking		**601**	470
Mutual and Federal			
General insurance		**103**	70
US Asset Management			
Asset management		**87**	83
Other operating segments			
Finance costs*		**(183)**	(144)
Other shareholders' expenses		**(57)**	(69)
Adjusted operating Group MCEV earnings before tax from core operations		**1,399**	704
Adjusted operating Group MCEV earnings before tax from Bermuda non-core operations		**(28)**	8
Adjusted operating Group MCEV earnings before tax from continuing operations**		**1,371**	712
Adjusting items from continuing operations	C3	**499**	478
Total Group MCEV earnings before tax from continuing operations		**1,870**	1,190
Income tax attributable to shareholders		**(410)**	(108)
Total Group MCEV earnings after tax from continuing operations		**1,460**	1,082
Total Group MCEV earnings after tax from US Life discontinued operations***		**227**	700
Total Group MCEV earnings after tax for the financial period		**1,687**	1,782
Total Group MCEV earnings for the financial period attributable to:			
Equity holders of the parent		**1,429**	1,562
Non-controlling interests			
Ordinary shares		**196**	156
Preferred securities		**62**	64
Total Group MCEV earnings after tax for the financial period		**1,687**	1,782
Basic total Group MCEV earnings per ordinary share (pence)		**28.2**	31.3
Weighted average number of shares – millions		**5,064**	4,994

* This includes interest payable from Old Mutual plc to non-core operations of £55 million for the year ended 31 December 2010 (£40 million for the year ended 31 December 2009).

** For long-term business and general insurance businesses, adjusted operating MCEV earnings are based on short-term and long-term investment returns respectively, include investment returns on life funds' investments in Group equity and debt instruments, and are stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all businesses, adjusted operating MCEV earnings exclude goodwill impairment, the impact of acquisition accounting, put revaluations related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value (profits)/losses on certain Group debt movements.

*** This is composed of earnings before tax of £48 million, adjusting items of £180 million and tax of £(1) million for the year ended 31 December 2010 (earnings before tax of £302 million, adjusting items of £435 million and tax of £(36) million for the year ended 31 December 2009). Further detail relating to adjusting items can be found in section C3.

ADJUSTED OPERATING GROUP MCEV EARNINGS PER SHARE

For the year ended 31 December 2010

Year ended 31 December 2010	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	£m Total
Adjusted operating Group MCEV earnings before tax		**1,399**	**(28)**	**48**	**1,419**
Tax on adjusted operating Group MCEV earnings	B2	**(313)**	**4**	**(1)**	**(310)**
Adjusted operating Group MCEV earnings after tax		**1,086**	**(24)**	**47**	**1,109**
Non-controlling interests					
Ordinary shares		**(217)**	**–**	**–**	**(217)**
Preferred securities		**(62)**	**–**	**–**	**(62)**
Adjusted operating MCEV earnings after tax attributable to equity holders		**807**	**(24)**	**47**	**830**
Adjusted operating Group MCEV earnings per share*		**15.0**	**(0.4)**	**0.9**	**15.5**
Adjusted weighted average number of shares – millions					**5,359**

* Adjusted operating Group MCEV earnings per share is calculated on the same basis as adjusted operating Group MCEV earnings, but is stated after tax and non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

Year ended 31 December 2009	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	£m Total
Adjusted operating Group MCEV earnings before tax		704	8	302	1,014
Tax on adjusted operating Group MCEV earnings	B2	(146)	(27)	(36)	(209)
Adjusted operating Group MCEV earnings after tax		558	(19)	266	805
Non-controlling interests					
Ordinary shares		(179)	–	–	(179)
Preferred securities		(64)	–	–	(64)
Adjusted operating MCEV earnings after tax attributable to equity holders		315	(19)	266	562
Adjusted operating Group MCEV earnings per share*		6.0	(0.4)	5.1	10.7
Adjusted weighted average number of shares – millions					5,229

* Adjusted operating Group MCEV earnings per share is calculated on the same basis as adjusted operating Group MCEV earnings, but is stated after tax and non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

COMPONENTS OF GROUP MCEV AND ADJUSTED GROUP MCEV

At 31 December 2010

Components of Group MCEV

	Notes	At 31 December 2010	At 31 December 2009
			£m
Adjusted net worth attributable to ordinary equity holders of the parent		**5,737**	4,417
Equity		**8,951**	8,464
Adjustment to include long-term business on a statutory solvency basis:			
Long-Term Savings	C5	**(2,053)**	(2,238)
Bermuda	C5	**(29)**	(6)
US Life	C5	**260**	(388)
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds		**306**	268
Adjustment to remove perpetual preferred callable securities and accrued dividends		**(688)**	(688)
Adjustment to exclude acquisition goodwill from the covered business:			
Long-Term Savings	C5	**(1,010)**	(995)
Value of in-force business		**4,164**	3,212
Present value of future profits		**5,256**	4,255
Additional time value of financial options and guarantees		**(433)**	(416)
Frictional costs		**(276)**	(221)
Cost of residual non-hedgeable risks		**(383)**	(406)
Group MCEV		**9,901**	7,629
Group MCEV value per share (pence)		**181.5**	144.5
Return on Group MCEV (RoEV) per annum from continuing core operations		**10.6%**	6.0%
Return on Group MCEV (RoEV) per annum from continuing non-core operations		**(0.3)%**	(0.4)%
Return on Group MCEV (RoEV) per annum from discontinued operations		**0.6%**	5.1%
Return on Group MCEV (RoEV) per annum		**10.9%**	10.7%
Number of shares in issue at the end of the financial period less treasury shares – millions		**5,456**	5,279

The adjustments to include long-term business on a statutory solvency basis reflect the difference between the net worth of each business on the statutory basis (as required by the local regulator) and their portion of the Group's consolidated equity shareholders' funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank, and inter-company loans). For some European countries the value reflected in the adjustment to include long-term business on a statutory solvency basis includes the value of the deferred acquisition cost asset which is part of the equity.

The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £830 million (year ended 31 December 2009: £562 million) divided by the opening Group MCEV.

COMPONENTS OF GROUP MCEV AND ADJUSTED GROUP MCEV

For the year ended 31 December 2010

Components of adjusted Group MCEV

£m

	Notes	At 31 December 2010	At 31 December 2009
Group MCEV		**9,901**	7,629
Pro forma adjustments to bring Group investments to market value			
Adjustment to bring listed subsidiaries to market value		**715**	805
Nedbank		**715**	623
Mutual & Federal		**–**	182
Adjustment for value of own shares in ESOP schemes*		**85**	71
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**266**	221
Adjustment to bring external debt to market value		**63**	302
Adjusted Group MCEV	B1	**11,030**	9,028
Adjusted Group MCEV per share (pence)		**202.2**	171.0
Number of shares in issue at the end of the financial period less treasury shares – millions		**5,456**	5,279

* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2009 and 31 December 2010 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2010 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the financial period.

Reconciliation of movements in Group MCEV (after tax)

£m

		Year ended 31 December 2010			Year ended 31 December 2009		
	Notes	**Covered business MCEV**	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Opening Group MCEV		**6,027**	**1,602**	**7,629**	4,183	1,079	5,262
Adjusted operating MCEV earnings		**590**	**240**	**830**	492	70	562
Non-operating MCEV earnings		**786**	**(187)**	**599**	1,191	(191)	1,000
Total Group MCEV earnings		**1,376**	**53**	**1,429**	1,683	(121)	1,562
Other movements in IFRS net equity	C4	**112**	**731**	**843**	161	644	805
Closing Group MCEV		**7,515**	**2,386**	**9,901**	6,027	1,602	7,629

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010

A: MCEV policies

A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 332 to 383 as 'MCEV') adopts Market Consistent Embedded Value Principles issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information.

The CFO Forum announced changes to the MCEV Principles in October 2009 to reflect *inter alia* the inclusion of a liquidity premium. These changes affirm that the risk free reference rate to be applied under MCEV should include both the swap yield curve appropriate to the currency of the cash flows and a liquidity premium where appropriate. The CFO Forum is undertaking further work to develop more detailed application guidance.

The Principles have been fully complied with for all businesses as at 31 December 2010. The detailed methodology and assumptions made in presenting this supplementary information are set out in notes A2 and A3.

Where reference is made to 'Europe' only, this generally captures the Nordic, Retail Europe and Wealth Management businesses.

Throughout the supplementary information the following terminology is used to distinguish between the terms 'MCEV', 'Group MCEV' and 'adjusted Group MCEV':

- MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business.
- Group MCEV is a measure of the consolidated value of shareholders' interests in covered and non-covered business. Non-covered business is valued at the IFRS net asset value detailed in the primary financial statements adjusted to eliminate inter-company loans.
- The adjusted Group MCEV, a measure used by management to assess the shareholders' interest in the value of the Group, includes the impact of marking all debt to market value, the market value of the Group's listed banking subsidiary, marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market, as well as including the market value of excess own shares held in ESOP schemes.

A2: Methodology

Introduction

MCEV represents the present value of shareholders' interests in the earnings distributable from assets allocated to the in-force covered business after sufficient allowance for the aggregate risks in the covered business and is measured in a way that is consistent with the value that would normally be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. MCEV is therefore a risk-adjusted measure to the extent that financial risk is reflected through the use of market consistent techniques in the valuation of both assets and distributable earnings and a transparent explicit allowance is made for non-financial risks.

The MCEV consists of the sum of the following components:

- Adjusted net worth, which excludes acquired intangibles and goodwill, consisting of:
  - free surplus allocated to the covered business; and
  - required capital to support the covered business.
- Value of in-force covered business (VIF)

The adjusted net worth of the covered business is the market value of shareholders' assets held in respect of the covered business after allowance for the liabilities of the in-force covered business which are dictated by local regulatory reserving requirements.

MCEV is calculated net of non-controlling shareholder interests and excludes the value of future new business.

Coverage

Covered business includes, where material, any contracts that are regarded by local insurance supervisors as long-term life assurance business, and other business, where material, directly related to such long-term life assurance business where the profits are included in the IFRS long-term business profits in the primary financial statements.

The covered business does not include any business written in Skandia Liv. Skandia Liv is a mutual life insurance company wholly owned by Old Mutual plc. All assets and liabilities are wholly attributable to the policyholders of the mutual company.

Some types of business are legally written by a life company, but under IFRS are classified as asset management because 'long-term business' only serves as a wrapper. This business continues to be excluded from covered business, for example:

- New institutional investment platform pensions business written in the United Kingdom as it is more appropriately classified as unit trust business; and

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

- Individual unit trusts and some group market-linked business written by the asset management companies in South Africa through the life Company as profits from this business arise in the asset management companies.

The treatment within this supplementary information of all business other than the covered business is the same as in the primary financial statements, except for the adjusted Group MCEV which includes the impact of marking all debt to market value, the market value of the Group's listed banking subsidiary, marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market, as well as including the market value of excess own shares held in ESOP schemes.

Free surplus

Free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business. It is determined as the market value of any excess assets attributed to the covered business but not backing the regulatory liabilities, less the required capital to support the covered business.

Required capital

Required capital is the market value of assets that are attributed to support the covered business, over and above that required to back statutory liabilities for covered business, whose distribution to shareholders is restricted. The following capital measures are considered in determining the required capital held for covered business so that it reflects the level of capital considered by the directors to be appropriate to manage the business:

- Economic capital;
- Regulatory capital (i.e. the level of solvency capital which the local regulators require);
- Capital required by rating agencies in respect of the North American business in order to maintain the desired credit rating; and
- Any other required capital definition to meet internal management objectives.

Economic capital for the covered business is based upon Old Mutual's own internal assessment of risks inherent in the underlying business. It measures capital requirements on an economic statement of financial position, with MCEV as the available capital, consistent with a 99.93% confidence level over a one-year time horizon.

For Emerging Markets, Retail Europe and Wealth Management capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whilst for Nordic the regulatory capital requirement is the most onerous. For US Life the required capital is based on the amount that management deems necessary to maintain the desired credit rating for the Company, whilst for Bermuda the required capital is set with reference to internal management objectives.

The required capital in respect of OMSA's covered business is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

The table below shows the level of required capital expressed as a percentage of the minimum local regulatory capital requirements.

£m

	At 31 December 2010			At 31 December 2009		
	Required capital (a)	**Regulatory capital (b)**	**Ratio (a/b)**	Required capital (a)	Regulatory capital (b)	Ratio (a/b)
Emerging Markets	**1,498**	**1,153**	**1.3**	1,225	930	1.3
Nordic*	**135**	**135**	**1.0**	104	92	1.1
Retail Europe**	**62**	**85**	**0.7**	32	52	0.6
Wealth Management***	**278**	**162**	**1.7**	213	143	1.5
US Life	**468**	**196**	**2.4**	462	193	2.4
Bermuda****	**403**	**–**	**n/a**	363	–	n/a
Total	**2,844**	**1,731**	**1.6**	2,399	1,410	1.7

* The regulatory capital for Nordic has increased from 31 December 2009 to 31 December 2010 as a result of an increase in funds under management.

** Local regulators within many of the Retail Europe countries allow intangible assets to be included as admissible regulatory capital. In such cases the required capital reported for MCEV is net of these items, although each of the countries continues to be sufficiently capitalised on the local solvency basis. Skandia Leben in Germany is permitted under local regulations to include the unallocated policyholder profit sharing liability as admissible capital. The required capital has increased due to a legislative change in Germany which has impacted the factoring business; receivables from factoring are required to be covered by share capital.

*** The required capital for Wealth Management has increased from 31 December 2009 to 31 December 2010 as a result of modelling refinements. The regulatory capital requirement for Wealth Management has been restated at 31 December 2009 to exclude the impact of a policyholder tax credit in Italy, which may be used to offset the capital requirement.

**** The Bermudan regulator allows intangible assets to be included as admissible regulatory capital.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Value of in-force covered business

Under the MCEV methodology, VIF consists of the following components:

- Present value of future profits (PVFP) from in-force covered business; less
- Time value of financial options and guarantees; less
- Frictional costs of required capital; less
- Cost of residual non-hedgeable risks (CNHR).

Projected liabilities and cash flows are calculated net of outward risk reinsurance with allowance for default risk of reinsurance counterparties where material.

Present value of future profits

The PVFP is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, including the value of contractual renewal of in-force business, on a best estimate basis where assumed earned rates of return and discount rates are equal to the risk free reference rates. It therefore represents a deterministic certainty equivalent valuation of future distributable earnings. The certainty equivalent valuation approach is described in more detail in note A3. Any limitations on distribution of such earnings due to statutory or internal capital requirements are taken into account separately in the calculation of frictional costs of required capital.

PVFP captures the intrinsic and time value of financial options and guarantees on in-force covered business which are included in the local statutory reserves according to local requirements, but excludes any additional allowance for the time value of financial options and guarantees.

Financial options and guarantees

Allowance is made in the MCEV for the potential impact of variability of investment returns (i.e. asymmetric impact) on future shareholder cash flows of policyholder financial options and guarantees within the in-force covered business.

The time value of financial options and guarantees describes that part of the value of financial options and guarantees that arises from the variability of future investment returns on assets to the extent that it is not already included in the statutory reserves. The calculations are based on market consistent stochastic modelling techniques where the actual assets held at the valuation date are used as the starting point for the valuation of such financial options and guarantees. Projected cash flows are valued using economic assumptions such that they are valued in line with the price of similar cash flows that are traded in the capital markets. The time value represents the difference between the average value of shareholder cash flows under many generated economic scenarios and the deterministic shareholder value under the best estimate assumptions for the equivalent business. Closed form solutions are also applied in Europe provided the nature of any guarantees is not complex.

The time value of financial options and guarantees also includes allowance for potential burn-through costs on participating business, i.e. the extent to which shareholders are unable to recover a loan made to participating funds to meet either regulatory or internal capital management requirements or the extent to which reserves are inadequate to cover severely adverse experience.

In the generated economic scenarios allowance is made, where appropriate, for the effect of dynamic management and/or policyholder actions in different circumstances:

- Management has some discretion in managing exposure to financial options and guarantees, particularly within participating business. Such dynamic management actions are reflected in the valuation of financial options and guarantees provided that such discretion is consistent with established and justifiable practice taking into account policyholders' reasonable expectations (e.g. with due consideration of the Principles and Practices of Financial Management, or PPFM, for South African business), subject to any contractual guarantees and regulatory or legal constraints and has been passed through an appropriate approval process by the local Executive team and, where applicable, the Board. Assumptions that depend on the market performance (such as crediting rates or bonus rates) are set relative to the risk free reference rates (subject to contractual guarantees) and assuming that all market participants are subjected to the same market conditions.
- Where credible evidence exists that persistency rates are linked to economic scenarios, allowance is made for dynamic policyholder behaviour in response to changes in economic conditions.
- Modelled dynamic management and policyholders' actions include the following:
  - changes in future bonus and crediting rates subject to contractual guarantees, including removing all or part of previously declared non-vested balances where circumstances warrant such action;
  - dynamic persistency rates for the US Life and Bermuda businesses, and dynamic guaranteed annuity option take-up rates for the South African business driven by changes in economic conditions and management actions; and
  - changes in surrender values.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

In determining the time value of financial options and guarantees at least 1,000 simulations are run to ensure that a reasonable degree of convergence of results has been obtained. Where deemed appropriate, the number of simulations is increased to reduce sampling error.

Europe

Whilst certain products within the European businesses provide financial options and guarantees, these are immaterial due to the predominantly unit-linked nature of the business.

Emerging Markets

The financial options and guarantees mainly relate to maturity guarantees and guaranteed annuity options.

As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses as at 31 December 2010 has been valued using a risk-neutral market consistent asset model, and is referred to as the 'Investment Guarantee Reserve' (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to future interest rate and equity market movements. This discretionary margin is valued in the VIF.

US Life

The financial options and guarantees mainly relate to minimum crediting (bonus) rates.

Bermuda

The financial options and guarantees mainly relate to the guaranteed minimum accumulation benefits on Variable Annuity contracts.

Frictional costs of required capital

From the shareholders' viewpoint there is a cost due to restrictions on the distribution of required capital that is locked in the Company. Where material, an allowance has been made for the frictional costs in respect of the taxation on investment return (income and capital gains) and investment costs on the assets backing the required capital for covered business. The allowance for taxation is based on the taxation rates applicable to investment earnings on assets backing the required capital, although such tax rates are reduced, where applicable, to allow for interest paid on debt which is used partly to finance the required capital.

The run-off pattern of the required capital is projected on an approximate basis over the lifetime of the underlying risks in line with drivers of the capital requirement. The same drivers are used to split the total required capital between existing business and new business.

The allowance for frictional costs is independent of the allowance for the cost of residual non-hedgeable risks as described below.

Cost of residual non-hedgeable risks

Sufficient allowance for most financial risks has been made in the PVFP and the time value of financial options and guarantees by using techniques that are similar to the type of approaches used by capital markets. In addition the modelling of some non-hedgeable non-financial risks is incorporated as part of the calculation of the PVFP (e.g. to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (e.g. dynamic policyholder behaviour such as the interaction of the investment scenario and the persistency rates).

Residual non-financial risks include, for example, liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk. All such risks for which no or insufficient allowance is made in the PVFP or time value of financial options and guarantees, together with some allowance for hedge risk and credit spread risk in the US Life and Bermudan businesses, are considered within the allowance for the CNHR.

An allowance is made in the CNHR to reflect uncertainty in the best estimate of shareholder cash flows as a result of both symmetric and asymmetric non-hedgeable risks since these risks cannot be hedged in deep and liquid capital markets and are managed, *inter alia*, by holding risk capital. Considering the Group as a whole, most residual non-hedgeable risks have a symmetric impact on shareholder value with the exception of operational risk.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The CNHR is calculated using a cost of capital approach, i.e. it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until the liabilities have run off. The capital charge in each year is the product of the projected expected non-hedgeable risk capital held after allowance for some diversification benefits and the cost of capital charge. The cost of capital charge therefore represents the return above the risk free reference rates that the market is deemed to demand for providing this capital.

The residual non-hedgeable risk capital measure is determined using an internal economic capital model based on appropriate shock scenarios consistent with a 99.5% confidence level over a one-year time horizon. The internal economic capital model makes allowance for certain management actions, such as reductions in bonus and crediting rates, where deemed appropriate.

The following allowance is made for diversification benefits in determining the residual non-hedgeable risk capital at a business unit level:

- Diversification benefits within the non-hedgeable risks of the covered business are allowed for.
- No allowance is made for diversification benefits between hedgeable and non-hedgeable risks of the covered business.
- No allowance is made for diversification benefits between covered and non-covered business.

The table below shows the amounts of diversified economic capital held in respect of residual non-hedgeable risks.

Capital held in respect of non-hedgeable risks

£m

	At 31 December 2010	At 31 December 2009
Emerging Markets*	**751**	606
Nordic	**362**	333
Retail Europe	**115**	143
Wealth Management**	**622**	563
US Life	**678**	661
Bermuda***	**274**	619
Total	**2,802**	2,925

* The capital held in respect of non-hedgeable risk for Emerging Markets has increased from 31 December 2009 to 31 December 2010 as a result of the strengthening of the South African Rand to Sterling.

** The capital held in respect of non-hedgeable risk for Wealth Management at 31 December 2009 has been restated from £640 million to £563 million due to calculation refinements.

*** The capital held in respect of non-hedgeable risks for Bermuda has reduced from 31 December 2009 to 31 December 2010 as a result of the change in the allowance for hedging basis risk that is now made in the determination of reserves for guaranteed benefits, as well as other calculation refinements.

A weighted average cost of capital rate of 2.0% has been applied to residual symmetric and asymmetric non-hedgeable capital at a business unit level over the life of the contracts. This translates into an equivalent cost of capital rate of approximately 2.9% being applied to the Group diversified capital required in respect of such non-hedgeable risks.

Participating business

For participating business in Emerging Markets, US Life and Bermuda, the method of valuation makes assumptions about future bonus or crediting rates and the determination of profit allocation between policyholders and shareholders. These assumptions are made on a basis consistent with other projection assumptions, especially the projected future risk free investment returns, established Company practice (with due consideration of the PPFM for South African business), past external communication, any payout smoothing strategy, local market practice, regulatory/contractual restrictions and bonus participation rules.

Where current benefit levels are higher than can be supported by the existing fund assets together with projected investment returns, a downward 'glide path' is projected in benefit levels so that the policyholder fund would be exhausted on payment of the last benefit.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Spread-based products

A market consistent valuation of spread-based products (such as Fixed Indexed Annuities in US Life and Bermuda, where investment returns are earned at one rate and policyholders' accounts are credited at a different rate with the difference referred to as 'spread') is dependent on the extent that management discretion can target a shareholder profit margin and the decision rules that management would follow in respect of crediting or bonus rates in any particular stochastic scenario.

Where guaranteed terms are offered at outset of a contract that dictate the payments to policyholders throughout the term of the contract, these payments are valued using the certainty equivalent valuation technique. These products, for example immediate annuities in payment, may therefore show a loss at point of sale under MCEV as investment margins are not anticipated while currently pricing practice does anticipate these margins. If returns in excess of the risk free reference rates actually emerge in the future, these will be recognised in the MCEV earnings as they arise.

For business where the crediting (bonus) rate is set in advance, crediting rates are set by considering management's target shareholder margins throughout the contract lifetime (subject to any guarantees). For other business, projected crediting rates are set equal to the risk free reference rates less the anticipated margin to cover profit and expenses (subject to any policyholder guarantees eroding the shareholder margins). However, during the period following the valuation date the existing crediting rate is applied until the next point at which it can be varied. Given the guarantees included within such products (including consideration of a 0% floor for crediting rates), stochastic modelling is used to value such contracts.

Valuation of assets and treatment of unrealised losses

The market values of assets, where quoted in deep and liquid markets, are based on the bid price on the reporting date. Unquoted assets are valued according to IFRS and marked to model.

No smoothing of market values or unrealised gains/losses is applied.

Asset mix

The time value of financial options and guarantees and PVFP (where relevant) are calculated with reference to assets that are projected using the actual asset allocation of the policyholder funds at the reporting date. However, if the current asset mix is materially different to the long-term strategic asset allocation as a result of market movements, projected assets are assumed to revert to the long-term strategic asset allocation in the short- to medium-term as appropriate.

Defined benefit pension scheme

Where a defined benefit pension scheme within the covered business is in surplus or deficit on the liability basis that is used to determine future employer contributions, the employer pension fund expense assumptions incorporated within the VIF allow appropriately for the expected release of surplus or funding of the deficit.

Look through principle

PVFP and value of new business cash flow projections look through and include the profits/losses of owned service companies, e.g. distribution and administration, related to the management of the covered business. Any profit margins that are included in investment management fees payable by the life assurance companies to the asset management subsidiaries have not been included in the value of in-force business or the value of new business on the grounds of materiality and because a significant proportion of these profits arise from performance-based fees.

Taxation

In valuing shareholders' cash flows, allowance is made in the cash flow projections for taxes in the relevant jurisdiction affecting the covered business. Tax assumptions are based on best estimate assumptions, applying current local corporate tax legislation and practice together with known future changes and taking credit for any deferred tax assets.

No allowance is made for any further additional tax that would be incurred on the remittance of dividends from the life subsidiaries to Old Mutual plc, apart from the South African business where full allowance has been made for Secondary Tax on Companies (STC) that may be payable in South Africa at a rate of 10% and the impact of capital gains tax. Furthermore, for the South African business it has been assumed that a reasonable proportion of the shareholder fund equity portfolio (excluding Group subsidiaries) will be traded each year.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The value of deferred tax assets is partly recognised in the MCEV. Typically those tax assets are expected to be utilised in future by being offset against expected tax liabilities that are generated on expected profits emerging from in-force business. MCEV may therefore understate the true economic value of such deferred tax assets because it does not allow for future new business sales which could affect the utilisation of such assets.

There is currently uncertainty around both the basis and effective date for possible taxation of fee income earned from fund managers by Swedish insurance companies and the expenses that can be relieved against such income. At present we continue to treat fee income from our Swedish unit-linked business as being exempt from corporation tax within our MCEV. An allowance for adverse taxation treatment is included as an operational risk within our CNHR.

The Emergency Budget of 22 June 2010 announced a reduction in the UK corporation tax rate by 1% per year for four years from the financial year beginning April 2011, ultimately bringing the corporation tax rate down to 24%. The MCEV results at 31 December 2010 have been calculated using an ongoing UK corporation tax rate of 27% and each reduction in the tax rate will be included in future results as and when they are enacted. The estimated positive impact on the VIF in respect of Wealth Management at 31 December 2010, assuming that all the annual reductions in the tax rate will be enacted, is £18 million. However, only £4 million is allowed for at 31 December 2010 as an assumption change relating to the first tax rate reduction to 27%. Further allowance will be made once future annual reductions are enacted.

New business and renewals

The market consistent value of new business (VNB) measures the value of the future profits expected to emerge from all new business sold, and in some cases premium increases to existing contracts, during the reporting period after allowance for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risks associated with writing the new business.

VNB includes contractual renewal of premiums and recurring single premiums, where the level of premium is pre-defined and is reasonably predictable, and changes to existing contracts where these are not variations allowed for in the PVFP. Non-contractual increments are treated similarly where the volume of such increments is reasonably predictable or likely (e.g. where premiums are expected to increase in line with salary or price inflation).

Any variations in premiums on renewal of in-force business from that previously anticipated including deviations in non-contractual increases, deviations in recurrent single premiums and re-pricing of premiums for in-force business are treated as experience variances or economic variances on in-force business and not as new business.

VNB is calculated as follows:

- Economic assumptions at the start of the reporting period are used, except for OMSA's Non-Profit Annuities and Fixed Bond products and US Life products where point of sale assumptions are used (where applicable using economic assumptions at the middle of the reporting period as a proxy).
- Demographic and operating assumptions at the end of the reporting period are used.
- At point of sale and rolled forward to the end of the reporting period.
- Generally using a standalone approach unless a marginal approach would better reflect the additional value to shareholders created through the activity of writing new business.
- Expense allowances include all acquisition expenses, including any acquisition expense overruns.
- Net of tax, reinsurance and non-controlling interests.
- No attribution of any investment and operating variances to VNB.

New business margins are disclosed as:

- The ratio of VNB to the present value of new business premiums (PVNBP); and
- The ratio of VNB to annual premium equivalent (APE), where APE is calculated as annualised recurring premiums plus 10% of single premiums.

PVNBP is calculated at point of sale using premiums before reinsurance and applying a valuation approach that is consistent with the calculation of VNB.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Analysis of MCEV earnings

An analysis of MCEV earnings provides a reconciliation of the MCEV for covered business at the beginning of the reporting period and the MCEV for covered business at the end of the reporting period on a net of taxation basis.

Operating MCEV earnings are generated by the value of new business sold during the reporting period, the expected existing business contribution, operating experience variances, operating assumption changes and other operating variances:

- The value of new business includes the impact of new business strain on free surplus that arises, amongst other things, from the impact of initial expenses and additional required capital that is held in respect of such new business.
- The expected existing business contribution is determined by projecting both actual assets and actual liabilities (including assets backing the free surplus and required capital) from the start of the reporting period to the end of the reporting period using expected real-world earned rates of return. The expected existing business contribution is presented in two components:
  - Expected earnings on free surplus and required capital and the expected change in VIF assuming that the assets earn the beginning of period risk free reference rates as well as the deterministic release of the time value of options and guarantees, frictional costs and CNHR; and
  - Additional expected earnings on free surplus and required capital and the additional expected change in VIF as a result of real-world expected earned rates of return on assets in excess of beginning of period risk free reference rates.
- Transfers from VIF and required capital to free surplus includes the release of required capital and modelled profits from VIF into free surplus in respect of business that was in-force at the beginning of the reporting period, although the movement does not contribute to a change in the MCEV.
- Operating experience variances reflect the impact of deviations of the actual operational experience during the reporting period from the expected operational experience. It is analysed before operating assumption changes, i.e. such variances are assessed against opening operating assumptions, and reflects the total impact of in-force and new business variances.
- Operating assumption changes incorporate the impact of changes to operating assumptions from those assumed at the beginning of the reporting period to those assumed at the end of the reporting period. As VNB is calculated using operating assumptions at the end of the reporting period, this impact only relates to the value of in-force business at the end of the reporting period that was also in-force at the beginning of the reporting period.
- Other operating variances include model improvements, changes in methodology and the impact of certain management actions, such as a change in the asset allocation backing required capital.

Total MCEV earnings also include economic variances and other non-operating variances:

- Economic variances incorporate the impact of changes in economic assumptions from the beginning of the reporting period to the end of the reporting period (e.g. different opening and closing interest rates and equity volatility, increases in equity market values during the period) as well as the impact on earnings resulting from actual returns on assets being different to the expected returns on those assets as reflected in the expected existing business contribution. It therefore also includes the impact of economic variances in the reporting period on projected future earnings.
- Other non-operating variances include the impact of changes in mandatory local regulations and legislative changes in taxation.

An analysis of MCEV earnings requires non-operating closing adjustments in respect of exchange rate movements and capital transfers such as those in respect of payment of dividends and acquiring/divesting businesses.

Return on MCEV for covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in local currency, except for Wealth Management, Long-Term Savings and total covered business where the calculations are performed in sterling.

The anticipated expected existing business contribution for the 12 months following the year ended 31 December 2010 (at the reference rate as well as in excess of the reference rate) is provided to assist users of the MCEV supplementary information in forecasting operating MCEV earnings. Note that the exchange rates that are used for such disclosure are the same rates that are used to translate current year earnings for comparability purposes. Therefore the ultimate expected existing business contribution for the financial year ending 31 December 2011 may differ from these results.

Analysis of Group MCEV earnings

Presentation of Group MCEV consists of the covered business under the MCEV methodology and the non-covered business valued as the unadjusted IFRS net asset value. A mark to market adjustment is therefore not performed for external borrowings and other items not on a mark to market basis under IFRS relating to non-covered business.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

A3: Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (e.g. mortality, persistency and expenses) are determined using best estimate assumptions of each component of future cash flows, are specific to the entity concerned and have regard to past, current and expected future experience where sufficient evidence exists (e.g. longevity improvements and AIDS-related claims) as derived from both entity-specific and industry data where deemed appropriate. Material assumptions are actively reviewed by means of detailed experience investigations and updated, as deemed appropriate, at least annually.

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period.

The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business, maintenance of in-force business (including investment management expenses) and development projects.

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- The MCEV makes provision for future development costs and one-off exceptional expenses (such as those incurred on the integration of businesses following an acquisition, restructuring costs and costs related to Solvency II implementation) that relate to covered business to the extent that such project costs are known with sufficient certainty, based on three year business plans.
- Unallocated Group holding company expenses have been included to the extent that they relate to the covered business. The table below shows the future expenses attributable to the long-term business. The allocation of these expenses aligns to the proportion that the management expenses incurred by the covered businesses to the total management expenses incurred in the Group.

Group holding Company expenses attributable to long-term business

	At 31 December 2010	% At 31 December 2009
Emerging Markets	**17**	16
Nordic	**4**	4
Retail Europe	**3**	3
Wealth Management	**6**	8
US Life	**2**	2
Bermuda	**–**	–
Total	**32**	33

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

In line with legislation in Germany, a specified proportion of miscellaneous profits is shared with policyholders. The revenue on in-force business can be reduced by various expense items, including those costs arising in respect of new business acquisition expenses in any year. Skandia Leben in Germany therefore sets the best estimate assumptions for the amount to be shared with policyholders in future years after making an allowance for the acquisition expenses in relation to the new business expected to be written over the next three years. However note that, as previously mentioned, MCEV excludes the value of future new business.

Economic assumptions

An active basis is applied to set pre-tax investment and economic assumptions to reflect the economic conditions prevailing on the reporting date. Economic assumptions are set consistently, for example future bonus or crediting rates are set at levels consistent with the investment return assumptions.

Under a market consistent valuation, economic assumptions are determined such that projected cash flows are valued in line with the prices of similar cash flows that are traded on the capital markets. Thus, risk free cash flows are discounted at a risk free reference rate and equity cash flows at an equity rate. In practice for the PVFP, where cash flows do not depend on or vary linearly with market movements, a certainty equivalent method is used which assumes that actual assets held earn, before tax and investment management expenses, risk free reference rates (including any liquidity adjustment) and all the cash flows are discounted using risk free reference rates (including any liquidity adjustment) which are gross of tax and investment management expenses. The deterministic certainty equivalent method is purely a valuation technique and over time the expectation is still that risk premiums will be earned on assets such as equities and corporate bonds.

Risk free reference rates and inflation

The risk free reference rates, reinvestment rates and discount rates are determined with reference to the swap yield curve appropriate to the currency of the cash flows. For Europe the swap yield curve is obtained from a number of sources including Bloomberg, Nordea Bank and Reuters. For the Emerging Markets and United States businesses, the swap yield curve is sourced from a third party market consistent asset model that is used to generate the economic scenarios that are required to value the time value of financial options and guarantees.

At 31 December 2010, no adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity adjustment to the US Life business and OMSA's Immediate Annuity business. Any other risk premiums are recognised within the MCEV as and when they are earned.

A wide range of liquidity market data and literature was reviewed at 31 December 2010. This included the CRO/CFO Forum formula which derives the liquidity premium based on corporate bond spreads, with 100% of the liquidity premium applied to immediate annuity business and 75% applied to participating business and fixed deferred annuities to allow for differences in the predictability of cash flows on these products. The review also included the Barrie+Hibbert calibration of US corporate bond spreads using a structural Merton-style model which decomposes the yields of illiquid assets into their constituent parts, and a comparison of the yields of similar durations on South African government bonds and bonds issued by state-owned enterprises.

It is the directors' view that a proportion of corporate bond spreads at 31 December 2010 is attributable to a liquidity premium rather than only to credit and default allowances and that returns in excess of swap rates can be achieved, rather than entire corporate bond spreads being lost to worsening default experience. For the US Life business and OMSA's Immediate Annuity business the currency, credit quality and duration of the actual corporate bond portfolios were considered and adjusted risk free reference rates were derived at 31 December 2010 by adding 75bps of liquidity premium for the US Life business (31 December 2009: 100bps) and adding 45bps of liquidity premium for OMSA's Immediate Annuity business (31 December 2009: 50bps) to the swap rates used for setting investment return and discounting assumptions. These adjustments reflect the liquidity premium component in corporate bond spreads over swap rates that is expected to be earned on the portfolios. Old Mutual believes that the differences between market yields on US Life's and OMSA's bond portfolios and the adjusted risk free reference rates still provide substantial implied margins for default. At those durations where swap yields are not available, e.g. due to lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation or extrapolation techniques.

Consumer price inflation assumptions are determined as those implied by index-linked government stocks or real swap yields if a liquid market of sufficient size exists. In other markets, the consumer price inflation assumptions are modelled considering a spread compared to swap rates. However, where modelling system capabilities are restricted (e.g. US Life), consumer price inflation is set as a flat assumption. Other types of inflation such as expense inflation are derived on a consistent basis and, where deemed appropriate, include a percentage addition to the consumer price inflation rate, for example as life company expenses include a large element of salary related expenses.

The risk free reference spot yields (excluding any applicable liquidity adjustments) and expense inflation rates at various terms for each of the significant regions are provided in the table below. The risk free reference spot yield curve has been derived from mid swap rates at the reporting date.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Risk free reference spot yields (excluding any applicable liquidity adjustments)

%

	GBP*	EUR	USD	ZAR	SEK
At 31 December 2010					
1 year	**0.9**	**1.3**	**0.4**	**5.6**	**2.3**
5 years	**2.7**	**2.5**	**2.2**	**7.4**	**3.3**
10 years	**3.6**	**3.3**	**3.4**	**8.2**	**3.7**
20 years	**4.0**	**3.7**	**4.0**	**8.1**	**4.0**
At 31 December 2009					
1 year	0.9	1.3	0.7	7.3	0.8
5 years	3.4	2.8	3.0	8.9	2.9
10 years	4.1	3.6	4.0	9.2	3.7
20 years	4.3	4.1	4.5	8.2	4.1

* In prior reporting periods, the risk free spot yields disclosed for GBP were on a 1-year forward basis. The assumptions as at 31 December 2010, as well as 31 December 2009, are now shown as annualised spot yields, consistent with other regions.

Expense inflation

%

	GBP	EUR	USD	ZAR	SEK
At 31 December 2010					
1 year	**3.0**	**2.5**	**3.0**	**5.0**	**2.2**
5 years	**4.3**	**2.5**	**3.0**	**6.4**	**3.0**
10 years	**5.3**	**2.5**	**3.0**	**7.2**	**3.2**
20 years	**5.1**	**2.5**	**3.0**	**7.0**	**3.3**
At 31 December 2009					
1 year	3.3	2.5	3.0	6.4	1.1
5 years	3.8	2.5	3.0	7.5	2.6
10 years	4.4	2.5	3.0	7.7	2.8
20 years	4.8	2.5	3.0	6.7	3.0

Volatilities and correlations

Where cash flows contain financial options and guarantees that do not move linearly with market movements, asset cash flows are projected and all cash flows discounted using risk-neutral stochastic models. These models project the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free reference rates.

Apart from the risk free reference yields specified above, other key economic assumptions for the calibration of economic scenarios include the implied volatilities for each asset class and correlations of investment returns between different asset classes. The volatility assumptions for the calibration of economic scenarios that are used in the stochastic models are, where possible, based on those implied from appropriate derivative prices (such as equity options or swaptions in respect of guarantees that are dependent on changes in equity markets and interest rates respectively) as observed on the valuation date. However, historic implied and historic observed volatilities of the underlying instruments and expert opinion are considered where there are concerns over the depth or liquidity of the market, e.g. volatilities for property returns. Where strict adherence to the above is not possible, for example where markets only exist at short durations such as the equity option market in South Africa, interpolation or extrapolation techniques are used to derive volatility assumptions for the full term structure of the liabilities. Correlation assumptions between asset classes that are used in stochastic models are based on an assessment of historic relationships. Where historic data is used in setting volatility or correlation assumptions, a suitable time period is considered for analysing historic data including consideration of the appropriateness of historical data where economic conditions were materially different to current conditions.

For the Emerging Markets stochastic models, due to the immateriality of corporate bond and property holdings, corporate bonds are assumed to yield the same returns as equivalent long-term government bonds and property is assumed to earn a return equal to a portfolio that is invested 50% in local equities and 50% in long-term government bonds.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The at-the-money annualised asset volatility assumptions of the asset classes incorporated in the stochastic models are detailed below.

ZAR volatilities*

%

	1 year swap	5 year swap	10 year swap	20 year swap	Equity (total return index)	Property (total return index)
At 31 December 2010						
Option term						
1 year	**18.7**	**16.9**	**15.8**	**15.1**	**23.4**	**16.0**
5 years	**16.4**	**15.5**	**14.9**	**14.4**	**25.5**	**15.7**
10 years	**15.6**	**15.0**	**14.5**	**13.9**	**27.0**	**15.9**
20 years	**13.8**	**13.3**	**12.8**	**11.9**	**27.8**	**15.4**
At 31 December 2009						
1 year	18.3	16.2	15.1	14.8	27.4	17.1
5 years	16.9	15.8	15.3	15.1	25.5	14.8
10 years	15.7	15.2	14.7	14.1	26.2	14.1
20 years	14.5	13.8	13.1	12.0	27.0	14.2

* Due to limited liquidity in the ZAR swaption and equity option market, the market consistent asset model has been calibrated by extrapolating swaption and equity option implied volatility data beyond terms of 2 years and 3 years respectively.

USD volatilities*

%

	1 year swap	5 year swap	10 year swap	20 year swap
At 31 December 2010				
Option term				
1 year	**37.8**	**34.3**	**31.2**	**27.7**
5 years	**26.2**	**24.7**	**23.0**	**20.9**
10 years	**20.0**	**18.8**	**17.7**	**16.1**
20 years	**16.8**	**15.7**	**14.7**	**13.1**
At 31 December 2009				
1 year	39.0	36.5	33.2	29.6
5 years	27.1	25.0	23.5	21.1
10 years	19.4	18.9	17.6	16.2
20 years	16.8	16.1	14.2	12.7

* In prior reporting periods USD volatilities were based on market quoted information. The assumptions for 31 December 2010 as well as 31 December 2009 are now shown as modelled volatilities, consistent with the disclosure of interest rate volatilities in South Africa. Market volatilities for 1-year option terms and 1-year swap tenors are significantly different to modelled volatilities, with the calibration ensuring a reasonable fit across the entire spectrum of modelled option terms and swap tenors instead of focusing the calibration in this area.

International equity volatilities (applicable to Old Mutual Bermuda)*

	SPX	RTY	TPX	HSCEI	TWY	KOSP12	NIFTY	SX5E	UKX
At 31 December 2010									
Option term									
1 year	**21.5**	**28.1**	**26.7**	**27.8**	**21.5**	**21.4**	**22.0**	**24.3**	**21.5**
5 years	**23.6**	**32.6**	**28.3**	**32.3**	**25.5**	**24.0**	**26.6**	**25.2**	**24.2**
10 years	**23.6**	**32.6**	**28.3**	**32.3**	**25.5**	**24.0**	**26.6**	**25.2**	**24.2**
At 31 December 2009									
1 year	22.1	28.6	28.3	33.5	22.9	23.3	26.5	24.7	23.1
5 years	24.4	32.9	29.4	34.2	26.4	24.2	26.4	25.4	24.1
10 years	25.0	32.6	29.0	37.4	27.5	30.0	31.2	27.4	25.9

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

International equity volatilities (applicable to Old Mutual Bermuda)*	EEM	USAgg	EUAgg	APAgg
				%
At 31 December 2010				
Option term				
1 year	**27.4**	**5.5**	**13.0**	**12.6**
5 years	**27.7**	**5.5**	**13.0**	**12.6**
10 years	**27.7**	**5.5**	**13.0**	**12.6**
At 31 December 2009				
1 year	31.6	4.5	12.0	11.6
5 years	30.8	4.5	12.0	11.6
10 years	36.7	4.5	12.0	11.6

* Long-term option implied volatility has been calibrated assuming a flat volatility term structure beyond 5 years due to limited data availability for some indices. In prior reporting periods, the volatilities disclosed for Bermuda were on a 1-year forward basis for most indices. The assumptions at 31 December 2010, as well as the comparatives for prior periods, are now shown as the annualised volatilities applicable over the entire option term specified, consistent with the disclosure of volatilities for other regions. These volatilities, as represented by their Bloomberg codes, refer to the price indices. Due to ongoing enhancements in the fund mapping process, the indices referenced may vary from period to period.

Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in Note C2 of the IFRS statements.

Expected asset returns in excess of the risk free reference rates

The expected asset returns in excess of the risk free reference rates have no bearing on the calculated MCEV other than the calculation of the expected existing business contribution in the analysis of MCEV earnings. Real-world economic assumptions are determined with reference to one-year forward risk free reference rates applicable to the currency of the liabilities at the start of the reporting period. All other economic assumptions, for example future bonus or crediting rates, are set at levels consistent with the real-world investment return assumptions.

Equity and property risk premiums incorporate both historical relationships and the directors' view of future projected returns in each region. Pre-tax real-world economic assumptions are determined as follows:

- The equity risk premium is 3.5% for Africa and 3% for Europe and the United States.
- The corporate bond return is based on actual corporate bond spreads on the reporting date less an allowance for defaults.
- The property risk premium is 1.5% in Africa and 2% in Europe.

Tax

The weighted average effective tax rates that apply to the cash flow projections within the VIF at 31 December 2010 are set out below:

- OMSA – 33% (31 December 2009: 33%)
- Namibia – 0% (31 December 2009: 0%)
- Nordic – 4% (31 December 2009: 4%)
- Retail Europe – 27% (31 December 2009: 28%)
- Wealth Management –11% (31 December 2009: 13%)
- US Life – 0% (31 December 2009: 0%)
- Bermuda – 0% (31 December 2009: 0%)

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B: Segment information

B1: Adjusted Group MCEV presented per business line

£m

	At 31 December 2010	At 31 December 2009
MCEV of the core covered business	**7,417**	6,147
Adjusted net worth*	**2,414**	1,954
Value of in-force business	**5,003**	4,193
MCEV of the Bermuda non-core covered business	**287**	198
Adjusted net worth*	**403**	363
Value of in-force business	**(116)**	(165)
MCEV of the US Life discontinued covered business	**(189)**	(318)
Adjusted net worth*	**534**	498
Value of in-force business	**(723)**	(816)
Adjusted net worth of asset management and other business	**1,950**	1,716
Emerging Markets	**289**	216
Nordic**	**4**	(75)
Retail Europe	**14**	12
Wealth Management	**171**	152
US Asset Management	**1,472**	1,411
Value of the banking business	**3,603**	2,948
Nordic (adjusted net worth)	**328**	314
Nedbank (market value)	**3,275**	2,634
Value of the general insurance business		
Mutual & Federal***	**409**	448
Net other business	**31**	123
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**266**	221
Adjustment for value of own shares in ESOP schemes**	**85**	71
Perpetual preferred securities (USD denominated)	**(449)**	(385)
Perpetual preferred callable securities	**(598)**	(477)
GBP denominated	**(270)**	(224)
Euro denominated	**(328)**	(253)
Debt	**(1,782)**	(1,664)
Rand denominated	**(304)**	(290)
USD denominated	**(337)**	(338)
GBP denominated	**(842)**	(759)
SEK denominated	**(297)**	(256)
Euro denominated	**(2)**	(21)
Adjusted Group MCEV	**11,030**	9,028

* Adjusted net worth is after the elimination of inter-company loans.

** Includes the adjusted net worth of Nordic holding companies that are classified as non-covered business, net of the holding companies' investment in Group subsidiaries.

*** Reflected at IFRS net asset value at 31 December 2010 and at market value for 31 December 2009 as a result of the acquisition of the remaining non-controlling interest in Mutual & Federal.

**** Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2009 and 31 December 2010 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2010 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the year.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B2: Adjusted operating MCEV earnings for the covered business

£m

	Year ended 31 December 2010	Year ended 31 December 2009
Adjusted operating MCEV earnings before tax for the covered business		
Long-Term Savings	**705**	252
Emerging Markets	**443**	272
Nordic	**65**	78
Retail Europe	**68**	(58)
Wealth Management	**129**	(40)
US Life	**48**	302
Bermuda	**(28)**	8
	725	562
Tax on adjusted operating MCEV earnings for the covered business		
Long-Term Savings	**(138)**	(7)
Emerging Markets	**(99)**	(60)
Nordic	**(20)**	3
Retail Europe	**(2)**	14
Wealth Management	**(17)**	36
US Life	**(1)**	(36)
Bermuda	**4**	(27)
	(135)	(70)
Adjusted operating MCEV earnings after tax for the covered business		
Long-Term Savings	**567**	245
Emerging Markets	**344**	212
Nordic	**45**	81
Retail Europe	**66**	(44)
Wealth Management	**112**	(4)
US Life	**47**	266
Bermuda	**(24)**	(19)
	590	492
Tax on adjusted operating MCEV earnings comprises		
Tax on adjusted operating MCEV earnings for the covered business	**(135)**	(70)
Tax on adjusted operating MCEV earnings for other business	**(175)**	(139)
Tax on adjusted operating MCEV earnings	**(310)**	(209)

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B3: Components of MCEV of the covered business

£m

	At 31 December 2010	At 31 December 2009
MCEV of the covered business	**7,515**	6,027
Adjusted net worth	**3,351**	2,815
Value of in-force business	**4,164**	3,212
Long-Term Savings		
Adjusted net worth	**2,414**	1,954
Free surplus	**441**	380
Required capital	**1,973**	1,574
Value of in-force business	**5,003**	4,193
Present value of future profits	**5,557**	4,667
Additional time value of financial options and guarantees	**(12)**	(7)
Frictional costs	**(267)**	(211)
Cost of residual non-hedgeable risks	**(275)**	(256)
Consisting of :		
Emerging Markets		
Adjusted net worth*	**1,804**	1,305
Free surplus	**306**	80
Required capital	**1,498**	1,225
Value of in-force business	**1,509**	1,158
Present value of future profits	**1,849**	1,424
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(240)**	(181)
Cost of residual non-hedgeable risks	**(100)**	(85)
Nordic		
Adjusted net worth	**186**	195
Free surplus	**51**	91
Required capital	**135**	104
Value of in-force business	**1,318**	1,114
Present value of future profits	**1,397**	1,196
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(6)**	(11)
Cost of residual non-hedgeable risks	**(73)**	(71)
Retail Europe		
Adjusted net worth	**103**	78
Free surplus	**41**	46
Required capital	**62**	32
Value of in-force business	**520**	453
Present value of future profits	**573**	507
Additional time value of financial options and guarantees	**(10)**	(6)
Frictional costs	**(11)**	(7)
Cost of residual non-hedgeable risks	**(32)**	(41)

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B3: Components of MCEV of the covered business

£m

	At 31 December 2010	At 31 December 2009
Wealth Management		
Adjusted net worth	**321**	376
Free surplus	**43**	163
Required capital	**278**	213
Value of in-force business	**1,656**	1,468
Present value of future profits	**1,738**	1,540
Additional time value of financial options and guarantees	**(2)**	(1)
Frictional costs	**(10)**	(12)
Cost of residual non-hedgeable risks	**(70)**	(59)
US Life (Discontinued)		
Adjusted net worth	**534**	498
Free surplus	**66**	36
Required capital	**468**	462
Value of in-force business	**(723)**	(816)
Present value of future profits	**(446)**	(511)
Additional time value of financial options and guarantees	**(186)**	(213)
Frictional costs	**(7)**	(6)
Cost of residual non-hedgeable risks	**(84)**	(86)
Bermuda (Non-core)		
Adjusted net worth	**403**	363
Free surplus	**–**	–
Required capital	**403**	363
Value of in-force business	**(116)**	(165)
Present value of future profits	**145**	99
Additional time value of financial options and guarantees	**(235)**	(196)
Frictional costs	**(2)**	(4)
Cost of residual non-hedgeable risks	**(24)**	(64)

* The required capital in respect of OMSA is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax)

The Long-Term Savings segment consists of Emerging Markets, Nordic, Retail Europe and Wealth Management.

£m

Long-Term Savings (LTS)	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**380**	**1,574**	**1,954**	**4,193**	**6,147**	101	1,441	1,542	3,950	5,492
New business value	**(419)**	**160**	**(259)**	**459**	**200**	(438)	129	(309)	462	153
Expected existing business contribution (reference rate)	**8**	**77**	**85**	**168**	**253**	5	92	97	191	288
Expected existing business contribution (in excess of reference rate)	**7**	**(3)**	**4**	**59**	**63**	(1)	5	4	59	63
Transfers from VIF and required capital to free surplus	**802**	**(184)**	**618**	**(618)**	**–**	766	(186)	580	(580)	–
Experience variances	**(16)**	**28**	**12**	**43**	**55**	(11)	(8)	(19)	(64)	(83)
Assumption changes	**23**	**2**	**25**	**(25)**	**–**	33	(22)	11	(242)	(231)
Other operating variance	**(93)**	**37**	**(56)**	**52**	**(4)**	154	(44)	110	(55)	55
Operating MCEV earnings	**312**	**117**	**429**	**138**	**567**	508	(34)	474	(229)	245
Economic variances	**100**	**41**	**141**	**342**	**483**	50	34	84	217	301
Other non-operating variance	**(7)**	**25**	**18**	**–**	**18**	39	(20)	19	168	187
Total MCEV earnings	**405**	**183**	**588**	**480**	**1,068**	597	(20)	577	156	733
Closing adjustments	**(344)**	**216**	**(128)**	**330**	**202**	(318)	153	(165)	87	(78)
Capital and dividend flows	**(383)**	**–**	**(383)**	**–**	**(383)**	(335)	(1)	(336)	0	(336)
Foreign exchange variance	**39**	**216**	**255**	**330**	**585**	4	151	155	111	266
MCEV of acquired/sold business	**–**	**–**	**–**	**–**	**–**	13	3	16	(24)	(8)
Closing MCEV	**441**	**1,973**	**2,414**	**5,003**	**7,417**	380	1,574	1,954	4,193	6,147
Return on MCEV (RoEV)% per annum					**9.2%**					4.5%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**12**	**43**	**55**	(19)	(64)	(83)
Persistency	**18**	**20**	**38**	(18)	(80)	(98)
Risk	**22**	**8**	**30**	31	–	31
Expenses	**(54)**	**5**	**(49)**	(56)	13	(43)
Other	**26**	**10**	**36**	24	2	26
Assumption changes	**25**	**(25)**	**–**	11	(242)	(231)
Persistency	**–**	**(4)**	**(4)**	(29)	(164)	(193)
Risk	**17**	**14**	**31**	30	53	83
Expenses	**(2)**	**(20)**	**(22)**	10	(161)	(151)
Other	**10**	**(15)**	**(5)**	(1)	31	30

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

£m

Long-Term Savings (LTS)	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**16**	**65**	**81**	**173**	**254**
Expected existing business contribution (in excess of reference rate)	**6**	**(4)**	**2**	**67**	**69**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Emerging Markets*	Year ended 31 December 2010					Year ended 31 December 2009				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**80**	**1,225**	**1,305**	**1,158**	**2,463**	(92)	1,075	983	1,090	2,073
New business value	**(159)**	**134**	**(25)**	**111**	**86**	(136)	110	(26)	91	65
Expected existing business contribution (reference rate)	**6**	**73**	**79**	**124**	**203**	(7)	85	78	129	207
Expected existing business contribution (in excess of reference rate)	**–**	**(3)**	**(3)**	**16**	**13**	–	5	5	16	21
Transfers from VIF and required capital to free surplus	**356**	**(166)**	**190**	**(190)**	**–**	314	(146)	168	(168)	–
Experience variances	**11**	**14**	**25**	**10**	**35**	(9)	(9)	(18)	(35)	(53)
Assumption changes	**19**	**–**	**19**	**18**	**37**	40	(29)	11	(90)	(79)
Other operating variance	**(6)**	**(2)**	**(8)**	**(22)**	**(30)**	46	(27)	19	32	51
Operating MCEV earnings	**227**	**50**	**277**	**67**	**344**	248	(11)	237	(25)	212
Economic variances	**57**	**21**	**78**	**84**	**162**	54	1	55	(39)	16
Other non-operating variance	**4**	**–**	**4**	**1**	**5**	–	–	–	–	–
Total MCEV earnings	**288**	**71**	**359**	**152**	**511**	302	(10)	292	(64)	228
Closing adjustments	**(62)**	**202**	**140**	**199**	**339**	(130)	160	30	132	162
Capital and dividend flows	**(93)**	**–**	**(93)**	**–**	**(93)**	(146)	(3)	(149)	–	(149)
Foreign exchange variance	**31**	**202**	**233**	**199**	**432**	3	160	163	156	319
MCEV of acquired/sold business	**–**	**–**	**–**	**–**	**–**	13	3	16	(24)	(8)
Closing MCEV	**306**	**1,498**	**1,804**	**1,509**	**3,313**	80	1,225	1,305	1,158	2,463
Return on MCEV (RoEV)% per annum					**13.2%**					9.8%

£m

	Year ended 31 December 2010			Year ended 31 December 2009		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**25**	**10**	**35**	(18)	(35)	(53)
Persistency	**29**	**5**	**34**	(9)	(44)	(53)
Risk	**11**	**7**	**18**	16	–	16
Expenses	**(15)**	**4**	**(11)**	(30)	11	(19)
Other	**–**	**(6)**	**(6)**	5	(2)	3
Assumption changes	**19**	**18**	**37**	11	(90)	(79)
Persistency	**–**	**2**	**2**	(29)	(55)	(84)
Risk	**17**	**(1)**	**16**	30	20	50
Expenses	**2**	**15**	**17**	10	(55)	(45)
Other	**–**	**2**	**2**	–	–	–

£m

Emerging Markets	Year ended 31 December 2011				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**12**	**60**	**72**	**106**	**178**
Expected existing business contribution (in excess of reference rate)	**–**	**(4)**	**(4)**	**16**	**12**

* The MCEV for Emerging Markets is presented after the adjustment for market value of life fund investments in Group equity and debt instruments.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The marginal decrease in 'expected existing business contribution (reference rate)' from 2009 to 2010 is mainly attributable to a lower one-year swap rate at 31 December 2009 (7.3%) compared to 31 December 2008 (9.3%) offset by a higher opening MCEV.

The 'expected existing business contribution (in excess of reference rate)' on the ANW has reduced from 2009 to 2010 due to a higher cash allocation assumed for shareholder funds.

The positive experience variances are mainly attributable to favourable persistency experience, as well as a small positive contribution from risk experience.

Operating assumption changes are positive in 2010 consisting mainly of an improvement in fees relative to maintenance expenses in the Corporate Segment due to economies of scale from an increasing fund membership; and an increase in annuitant mortality rates in Retail Affluent, following a recent mortality investigation which is supported by positive annuitant mortality experience variances.

The negative other operating variance was caused by various methodology changes and error corrections.

In addition to the effects above, other significant movements affecting the closing MCEV include a large positive impact from economic variances due to a combination of better than assumed equity returns and the effect of the changes in the shape of the swap yield curve. This was partially offset by modelling enhancements to the economic scenario generator used to calculate the investment guarantee reserve, which caused a decrease in the margin (buffer) held to protect against future market volatility, resulting in less value being released as profit in the future.

The capital and dividend flows mainly consist of the purchase of additional Nedbank shares.

The strengthening of the rand relative to sterling had a significant positive effect on the increase in MCEV.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in rand (including conversion of results for Mexico to rand).

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Nordic	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**91**	**104**	**195**	**1,114**	**1,309**	58	105	163	882	1,045
New business value	**(49)**	**6**	**(43)**	**84**	**41**	(57)	6	(51)	95	44
Expected existing business contribution (reference rate)	**–**	**1**	**1**	**14**	**15**	4	–	4	18	22
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**26**	**26**	–	–	–	14	14
Transfers from VIF and required capital to free surplus	**103**	**–**	**103**	**(103)**	**–**	81	(17)	64	(64)	–
Experience variances	**30**	**(5)**	**25**	**(1)**	**24**	28	(7)	21	10	31
Assumption changes	**–**	**–**	**–**	**(55)**	**(55)**	3	–	3	(30)	(27)
Other operating variance	**(44)**	**4**	**(40)**	**34**	**(6)**	–	–	–	(3)	(3)
Operating MCEV earnings	**40**	**6**	**46**	**(1)**	**45**	59	(18)	41	40	81
Economic variances	**(4)**	**12**	**8**	**86**	**94**	(5)	17	12	192	204
Other non-operating variance	**17**	**–**	**17**	**–**	**17**	18	–	18	1	19
Total MCEV earnings	**53**	**18**	**71**	**85**	**156**	72	(1)	71	233	304
Closing adjustments	**(93)**	**13**	**(80)**	**119**	**39**	(39)	–	(39)	(1)	(40)
Capital and dividend flows	**(100)**	**–**	**(100)**	**–**	**(100)**	(37)	–	(37)	–	(37)
Foreign exchange variance	**7**	**13**	**20**	**119**	**139**	(2)	–	(2)	(1)	(3)
Closing MCEV	**51**	**135**	**186**	**1,318**	**1,504**	91	104	195	1,114	1,309
Return on MCEV (RoEV)% per annum					**3.3%**					8.1%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**25**	**(1)**	**24**	21	10	31
Persistency	**(2)**	**(6)**	**(8)**	(2)	5	3
Risk	**5**	**–**	**5**	6	(1)	5
Expenses	**2**	**–**	**2**	3	(1)	2
Other	**20**	**5**	**25**	14	7	21
Assumption changes	**–**	**(55)**	**(55)**	3	(30)	(27)
Persistency	**–**	**(7)**	**(7)**	–	(29)	(29)
Risk	**–**	**–**	**–**	–	19	19
Expenses	**–**	**(18)**	**(18)**	–	(18)	(18)
Other	**–**	**(30)**	**(30)**	3	(2)	1

£m

Nordic	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**3**	**2**	**5**	**34**	**39**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**30**	**30**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the adjusted net worth portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Expected existing business contributions in 2011 are significantly higher than in 2010 due to higher one-year swap rates at 31 December 2010 relative to those at 31 December 2009 and a higher opening value of in-force.

The positive experience variances were largely caused by profit made on the sale of a private equity investment, higher than expected fee income and increased take-ups of drawdown products. There were no one-off expense variances.

Operating assumption changes were made to recognise higher expected commission payments, anticipated pricing pressure in the corporate segment, expectations of adverse persistency and adjustments to pricing of the Waiver of Premium business.

The other operating variance was mainly due to modelling refinements to deferred tax assets and more accurate valuation of tendered business.

The economic variances were mainly due to the positive effect of market movements on funds under management.

The capital and dividend flows mainly represent dividends, repayment of loans, internal re-classification and capital injections.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Swedish krona.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Retail Europe	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**46**	**32**	**78**	**453**	**531**	15	64	79	517	596
New business value	**(69)**	**1**	**(68)**	**75**	**7**	(74)	1	(73)	68	(5)
Expected existing business contribution (reference rate)	**1**	**–**	**1**	**8**	**9**	1	–	1	10	11
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**3**	**3**	–	–	–	3	3
Transfers from VIF and required capital to free surplus	**97**	**2**	**99**	**(99)**	**–**	97	7	104	(104)	–
Experience variances	**5**	**(1)**	**4**	**1**	**5**	(20)	1	(19)	(4)	(23)
Assumption changes	**–**	**–**	**–**	**11**	**11**	–	–	–	(26)	(26)
Other operating variance	**(9)**	**–**	**(9)**	**40**	**31**	18	(19)	(1)	(3)	(4)
Operating MCEV earnings	**25**	**2**	**27**	**39**	**66**	22	(10)	12	(56)	(44)
Economic variances	**1**	**2**	**3**	**19**	**22**	(1)	4	3	26	29
Other non-operating variance	**(26)**	**25**	**(1)**	**(5)**	**(6)**	20	(20)	–	3	3
Total MCEV earnings	**–**	**29**	**29**	**53**	**82**	41	(26)	15	(27)	(12)
Closing adjustments	**(5)**	**1**	**(4)**	**14**	**10**	(10)	(6)	(16)	(37)	(53)
Capital and dividend flows	**(6)**	**–**	**(6)**	**–**	**(6)**	(10)	(3)	(13)	–	(13)
Foreign exchange variance	**1**	**1**	**2**	**14**	**16**	–	(3)	(3)	(37)	(40)
Closing MCEV	**41**	**62**	**103**	**520**	**623**	46	32	78	453	531
Return on MCEV (RoEV)% per annum					**12.8%**					(7.9)%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**4**	**1**	**5**	(19)	(4)	(23)
Persistency	**(2)**	**3**	**1**	(1)	(1)	(2)
Risk	**3**	**–**	**3**	3	1	4
Expenses	**(3)**	**–**	**(3)**	(5)	–	(5)
Other	**6**	**(2)**	**4**	(16)	(4)	(20)
Assumption changes	**–**	**11**	**11**	–	(26)	(26)
Persistency	**–**	**9**	**9**	–	2	2
Risk	**–**	**–**	**–**	–	1	1
Expenses	**–**	**(4)**	**(4)**	–	(22)	(22)
Other	**–**	**6**	**6**	–	(7)	(7)

£m

Retail Europe	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**–**	**1**	**1**	**9**	**10**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**4**	**4**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the adjusted net worth portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Expected existing business contributions in 2011 are higher than in 2010 due to a higher opening asset-base.

Experience variances are mainly due to higher than anticipated profit sharing on participating contracts in Germany, as well as higher than expected fee income. In addition, there was a one-off expense variance in respect of project costs. Mortality and morbidity experience continues to be positive across all Retail Europe countries.

Operating assumption changes were made to recognise higher expected fee income in Germany and Poland following sustained favourable fee income experience. Future profit sharing assumptions for the German business were revised upwards in line with expected new business levels. Further operating assumption changes were made to recognise positive persistency experience and maintenance expense experience in Switzerland, and to reflect the capitalisation of Retail Europe overhead expenses.

The other operating variances are mainly due to improvements in the modelling of disability business in Switzerland and a reduction in the cost of non-hedgeable risk due to lower non-hedgeable risk capital.

The economic variances are mainly due to the positive effect of market movements on funds under management as well as the beneficial impact of lower swap rates across the region.

The capital and dividend flows mainly represent dividends.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in euro.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Wealth Management	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of In-force	MCEV
Opening MCEV	**163**	**213**	**376**	**1,468**	**1,844**	120	197	317	1,461	1,778
New business value	**(142)**	**19**	**(123)**	**189**	**66**	(171)	12	(159)	208	49
Expected existing business contribution (reference rate)	**1**	**3**	**4**	**22**	**26**	7	7	14	34	48
Expected existing business contribution (in excess of reference rate)	**7**	**–**	**7**	**14**	**21**	(1)	–	(1)	26	25
Transfers from VIF and required capital to free surplus	**246**	**(20)**	**226**	**(226)**	**–**	274	(30)	244	(244)	–
Experience variances	**(62)**	**20**	**(42)**	**33**	**(9)**	(10)	7	(3)	(35)	(38)
Assumption changes	**4**	**2**	**6**	**1**	**7**	(10)	7	(3)	(96)	(99)
Other operating variance	**(34)**	**35**	**1**	**–**	**1**	90	2	92	(81)	11
Operating MCEV earnings	**20**	**59**	**79**	**33**	**112**	179	5	184	(188)	(4)
Economic variances	**46**	**6**	**52**	**153**	**205**	2	12	14	38	52
Other non-operating variance	**(2)**	**–**	**(2)**	**4**	**2**	1	–	1	164	165
Total MCEV earnings	**64**	**65**	**129**	**190**	**319**	182	17	199	14	213
Closing adjustments	**(184)**	**–**	**(184)**	**(2)**	**(186)**	(139)	(1)	(140)	(7)	(147)
Capital and dividend flows	**(184)**	**–**	**(184)**	**–**	**(184)**	(142)	5	(137)	–	(137)
Foreign exchange variance	**–**	**–**	**–**	**(2)**	**(2)**	3	(6)	(3)	(7)	(10)
Closing MCEV	**43**	**278**	**321**	**1,656**	**1,977**	163	213	376	1,468	1,844
Return on MCEV (RoEV)% per annum					**6.1%**					(0.3)%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**(42)**	**33**	**(9)**	(3)	(35)	(38)
Persistency	**(7)**	**18**	**11**	(6)	(39)	(45)
Risk	**3**	**1**	**4**	6	–	6
Expenses	**(38)**	**1**	**(37)**	(24)	2	(22)
Other	**–**	**13**	**13**	21	2	23
Assumption changes	**6**	**1**	**7**	(3)	(96)	(99)
Persistency	**–**	**(8)**	**(8)**	–	(81)	(81)
Risk	**–**	**15**	**15**	–	12	12
Expenses	**(4)**	**(13)**	**(17)**	–	(66)	(66)
Other	**10**	**7**	**17**	(3)	39	36

£m

Wealth Management	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**1**	**2**	**3**	**24**	**27**
Expected existing business contribution (in excess of reference rate)	**6**	**–**	**6**	**17**	**23**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the required capital portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Adverse expense variances were predominately one-off variances of £(38) million relating to software development and restructuring costs. The 'other' variances are predominantly fee income being higher than expected. Positive persistency variance is driven by positive experience in International and Continental Europe business.

Positive operating assumption changes were made to 'other' and risk assumptions. The 'other' assumption change relates to fee income, consistent with positive experience in 2010. The risk assumption change relates to positive experience in Skandia UK.

Expense and persistency assumptions were strengthened. The expense assumption change is largely due to changes to reflect the new expense allocation review in UK and International, and a new provision to streamline existing expense provisions relating to development projects. The persistency assumption change is driven by a reduction in persistency to allow for the potential impact of the Retail Distribution Review (RDR) in the UK offset by increasing persistency assumptions due to positive experience in International.

Economic variances are due to positive market movements, exchange rate movements and tax deductions on income and gains as a result of the current tax position of the UK tax group.

The other non-operating variance is driven by the effect from changes in the United Kingdom corporation tax rate from 28% to 27%.

The capital and dividend flows mainly represent dividends, repayments of loans and capital injections.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in sterling.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

US Life	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**36**	**462**	**498**	**(816)**	**(318)**	(85)	550	465	(1,725)	(1,260)
New business value	**(66)**	**66**	**–**	**(28)**	**(28)**	(35)	41	6	8	14
Expected existing business contribution (reference rate)	**1**	**9**	**10**	**15**	**25**	(3)	21	18	(45)	(27)
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**80**	**80**	–	1	1	257	258
Transfers from VIF and required capital to free surplus	**81**	**(47)**	**34**	**(34)**	**–**	52	(54)	(2)	2	–
Experience variances	**33**	**(23)**	**10**	**30**	**40**	137	(103)	34	(35)	(1)
Assumption changes	**(6)**	**–**	**(6)**	**(57)**	**(63)**	–	–	–	30	30
Other operating variance	**–**	**–**	**–**	**(7)**	**(7)**	–	–	–	(8)	(8)
Operating MCEV earnings	**43**	**5**	**48**	**(1)**	**47**	151	(94)	57	209	266
Economic variances	**71**	**(18)**	**53**	**127**	**180**	(181)	59	(122)	556	434
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**114**	**(13)**	**101**	**126**	**227**	(30)	(35)	(65)	765	700
Closing adjustments	**(84)**	**19**	**(65)**	**(33)**	**(98)**	151	(53)	98	144	242
Capital and dividend flows	**(85)**	**–**	**(85)**	**–**	**(85)**	146	–	146	–	146
Foreign exchange variance	**1**	**19**	**20**	**(33)**	**(13)**	5	(53)	(48)	144	96
Closing MCEV	**66**	**468**	**534**	**(723)**	**(189)**	36	462	498	(816)	(318)
Return on MCEV (RoEV)% per annum					**14.1%**					22.7%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**10**	**30**	**40**	34	(35)	(1)
Persistency	**4**	**38**	**42**	(17)	20	3
Risk	**–**	**(10)**	**(10)**	–	17	17
Expenses	**25**	**–**	**25**	17	–	17
Other	**(19)**	**2**	**(17)**	34	(72)	(38)
Assumption changes	**(6)**	**(57)**	**(63)**	–	30	30
Persistency	**(6)**	**(58)**	**(64)**	–	18	18
Risk	**–**	**(1)**	**(1)**	–	12	12
Expenses	**–**	**2**	**2**	–	–	–
Other	**–**	**–**	**–**	–	–	–

£m

US Life	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**1**	**6**	**7**	**18**	**25**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**62**	**62**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The results for US Life include allowance for Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States Life Companies.

The 'expected existing business contribution (in excess of reference rate)' is calculated using the corporate bond spread that is expected to be earned over and above the adjusted risk free reference rate (inclusive of the liquidity premium adjustment).

The main reason for the significantly negative VNB result is due to very low swap yields compressing potential earnings on spread-based annuity business, resulting in significant future losses anticipated on an MCEV basis.

The experience variances were largely caused by positive persistency experience due to higher surrenders of Fixed Indexed Annuity contracts, which make future losses on an MCEV basis. Expense variances benefited from tight cost controls in this business. There were no material experience variance items that were one-off in nature.

Operating assumption changes include the increasing of premium persistency assumptions on certain unprofitable Universal Life and Term Assurance products.

The other operating variance was mainly due to modelling changes and error corrections.

The economic variances were mainly due to gains in the underlying investment portfolio and lower swap yields, partially offset by a reduction in the assumed liquidity premium from 100bps to 75bps.

The capital and dividend flows include the payment of dividends to Old Mutual plc.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollars.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Bermuda	Year ended 31 December 2010					Year ended 31 December 2009				
	Free surplus	**Required Capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**–**	**363**	**363**	**(165)**	**198**	342	34	376	(425)	(49)
New business value	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Expected existing business contribution (reference rate)	**–**	**3**	**3**	**9**	**12**	5	1	6	(4)	2
Expected existing business contribution (in excess of reference rate)	**–**	**30**	**30**	**35**	**65**	33	–	33	39	72
Transfers from VIF and required capital to free surplus	**16**	**(45)**	**(29)**	**29**	**–**	(5)	(4)	(9)	9	–
Experience variances	**(18)**	**1**	**(17)**	**(2)**	**(19)**	(72)	–	(72)	(21)	(93)
Assumption changes	**(19)**	**–**	**(19)**	**(16)**	**(35)**	(36)	–	(36)	(46)	(82)
Other operating variance	**(32)**	**37**	**5**	**(52)**	**(47)**	(345)	345	–	82	82
Operating MCEV earnings	**(53)**	**26**	**(27)**	**3**	**(24)**	(420)	342	(78)	59	(19)
Economic variances	**53**	**–**	**53**	**52**	**105**	102	–	102	167	269
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**–**	**26**	**26**	**55**	**81**	(318)	342	24	226	250
Closing adjustments	**–**	**14**	**14**	**(6)**	**8**	(24)	(13)	(37)	34	(3)
Capital and dividend flows	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Foreign exchange variance	**–**	**14**	**14**	**(6)**	**8**	(24)	(13)	(37)	34	(3)
Closing MCEV	**–**	**403**	**403**	**(116)**	**287**	–	363	363	(165)	198
Return on MCEV (RoEV)% per annum					**(11.4)%**					(41.0)%

£m

	Year ended 31 December 2010			Year ended 31 December 2009		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**(17)**	**(2)**	**(19)**	(72)	(21)	(93)
Persistency	**(15)**	**(1)**	**(16)**	(52)	(13)	(65)
Risk	**–**	**–**	**–**	–	–	–
Expenses	**(8)**	**–**	**(8)**	(10)	1	(9)
Other	**6**	**(1)**	**5**	(10)	(9)	(19)
Assumption changes	**(19)**	**(16)**	**(35)**	(36)	(46)	(82)
Persistency	**(16)**	**9**	**(7)**	–	(65)	(65)
Risk	**2**	**(1)**	**1**	–	–	–
Expenses	**–**	**(26)**	**(26)**	–	(29)	(29)
Other	**(5)**	**2**	**(3)**	(36)	48	12

£m

Bermuda	Year ended 31 December 2011				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**–**	**2**	**2**	**6**	**8**
Expected existing business contribution (in excess of reference rate)	**–**	**24**	**24**	**16**	**40**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

The 'expected existing business contribution (in excess of reference rate)' is calculated using the corporate bond spread that is expected to be earned over and above the adjusted risk free reference rate (inclusive of the liquidity premium adjustment), while the adjusted net worth component includes interest received from Old Mutual plc.

The experience variances include adverse persistency experience on Variable Annuity contracts and expense losses as a result of higher than anticipated expenditure on projects £(4) million and an increased head-count. Other experience variances include a one-off tax variance of £5 million due to the release of a tax contingency reserve. There were no other material experience variance items that were one-off in nature.

Operating assumption changes include the strengthening of expense assumptions consistent with 2010 experience and refinements to surrender assumptions as a result of the most recent experience investigation.

The other operating variance was mainly due to modelling changes and error corrections.

Economic variances were driven by good equity market performance and gains on the corporate bond portfolio, partially offset by increased Variable Annuity Guarantee costs due to declining interest rates.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollars.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

£m

Total covered business	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**416**	**2,399**	**2,815**	**3,212**	**6,027**	358	2,025	2,383	1,800	4,183
New business value	**(485)**	**226**	**(259)**	**431**	**172**	(473)	170	(303)	470	167
Expected existing business contribution (reference rate)	**9**	**89**	**98**	**192**	**290**	7	114	121	142	263
Expected existing business contribution (in excess of reference rate)	**7**	**27**	**34**	**174**	**208**	32	6	38	355	393
Transfers from VIF and required capital to free surplus	**899**	**(276)**	**623**	**(623)**	**–**	813	(244)	569	(569)	–
Experience variances	**(1)**	**6**	**5**	**71**	**76**	54	(111)	(57)	(120)	(177)
Assumption changes	**(2)**	**2**	**–**	**(98)**	**(98)**	(3)	(22)	(25)	(258)	(283)
Other operating variance	**(125)**	**74**	**(51)**	**(7)**	**(58)**	(191)	301	110	19	129
Operating MCEV earnings	**302**	**148**	**450**	**140**	**590**	239	214	453	39	492
Economic variances	**224**	**23**	**247**	**521**	**768**	(29)	93	64	940	1,004
Other non-operating variance	**(7)**	**25**	**18**	**–**	**18**	39	(20)	19	168	187
Total MCEV earnings	**519**	**196**	**715**	**661**	**1,376**	249	287	536	1,147	1,683
Closing adjustments	**(428)**	**249**	**(179)**	**291**	**112**	(191)	87	(104)	265	161
Capital and dividend flows	**(468)**	**–**	**(468)**	**–**	**(468)**	(189)	(1)	(190)	–	(190)
Foreign exchange variance	**40**	**249**	**289**	**291**	**580**	(15)	85	70	289	359
MCEV of acquired/sold business	**–**	**–**	**–**	**–**	**–**	13	3	16	(24)	(8)
Closing MCEV	**507**	**2,844**	**3,351**	**4,164**	**7,515**	416	2,399	2,815	3,212	6,027
Return on MCEV (RoEV)% per annum					**9.8%**					11.8%

£m

	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2009 Adjusted net worth	Value of in-force	MCEV
Experience variances	**5**	**71**	**76**	(57)	(120)	(177)
Persistency	**7**	**57**	**64**	(87)	(72)	(159)
Risk	**22**	**(2)**	**20**	31	17	48
Expenses	**(37)**	**5**	**(32)**	(49)	13	(36)
Other	**13**	**11**	**24**	48	(78)	(30)
Assumption changes	**–**	**(98)**	**(98)**	(25)	(258)	(283)
Persistency	**(22)**	**(53)**	**(75)**	(29)	(210)	(239)
Risk	**19**	**12**	**31**	30	64	94
Expenses	**(2)**	**(44)**	**(46)**	10	(190)	(180)
Other	**5**	**(13)**	**(8)**	(36)	78	42

£m

Total covered business	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**17**	**73**	**90**	**197**	**287**
Expected existing business contribution (in excess of reference rate)	**6**	**20**	**26**	**145**	**171**

Return on MCEV for total covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

C: Other key performance information

C1: Value of new business (after tax)

The tables below set out the regional analysis of the value of new business (VNB) after tax. New business profitability is measured by both the ratio of the VNB to the present value of new business premiums (PVNBP) as well as to the annual premium equivalent (APE), and shown under PVNBP margin and APE margin below. APE is calculated as annualised recurring premiums plus 10% of single premiums.

		£m
	Year ended 31 December 2010	Year ended 31 December 2009
Annualised recurring premiums		
Long-Term Savings (LTS)	**698**	685
Emerging Markets	**325**	249
Nordic	**144**	183
Retail Europe	**63**	62
Wealth Management	**166**	191
US Life	**10**	14
Bermuda	**–**	–
	708	699
Single premiums		
Long-Term Savings (LTS)	**7,932**	6,257
Emerging Markets	**1,611**	1,437
Nordic	**573**	527
Retail Europe	**63**	53
Wealth Management	**5,685**	4,240
US Life	**824**	549
Bermuda	**–**	15
	8,756	6,821
PVNBP		
Long-Term Savings (LTS)	**11,266**	9,563
Emerging Markets	**3,269**	2,834
Nordic	**1,104**	1,150
Retail Europe	**513**	537
Wealth Management	**6,380**	5,042
US Life	**889**	639
Bermuda	**–**	15
	12,155	10,217
PVNBP capitalisation factors*		
Long-Term Savings (LTS)	**4.8**	4.8
Emerging Markets	**5.1**	5.6
Nordic	**3.7**	3.4
Retail Europe	**7.2**	7.8
Wealth Management	**4.2**	4.2
US Life	**6.6**	6.6
Bermuda	**n/a**	n/a

* The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums)/annualised recurring premiums.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

C1: Value of new business (after tax) continued

	£m	
	Year ended 31 December 2010	Year ended 31 December 2009
APE		
Long-Term Savings (LTS)	**1,491**	1,312
Emerging Markets	**487**	393
Nordic	**201**	235
Retail Europe	**69**	67
Wealth Management	**734**	617
US Life	**92**	68
Bermuda	**–**	1
	1,583	1,381
VNB		
Long-Term Savings (LTS)	**200**	153
Emerging Markets	**86**	65
Nordic	**41**	44
Retail Europe	**7**	(5)
Wealth Management	**66**	49
US Life	**(28)**	14
Bermuda	**–**	0
	172	167
PVNBP margin		
Long-Term Savings (LTS)	**1.8%**	1.6%
Emerging Markets	**2.6%**	2.3%
Nordic	**3.7%**	3.8%
Retail Europe	**1.4%**	(1.0)%
Wealth Management	**1.0%**	1.0%
US Life	**(3.2)%**	2.2%
Bermuda	**n/a**	n/a
	1.4%	1.6%
APE margin		
Long-Term Savings (LTS)	**13%**	12%
Emerging Markets	**18%**	16%
Nordic	**21%**	19%
Retail Europe	**11%**	(8)%
Wealth Management	**9%**	8%
US Life	**(31)%**	20%
Bermuda	**n/a**	n/a
	11%	12%

* The US Life VNB is negative when calculated on an MCEV basis, due to the reliance on spread in the pricing basis, and the current low risk free swap curve.

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the Emerging Markets long-term business is excluded as the profits on this business arise in the asset management business. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in–force business.

The value of new institutional investment platform pensions business written in Wealth Management is excluded as this is more appropriately classified as unit trust business.

	£m	
Gross premium excluded from value of new business	**Year ended 31 December 2010**	Year ended 31 December 2009
Emerging Markets**	**723**	1,658
Wealth Management	**304**	153

** New business premiums not valued have reduced compared to 2009, mainly because single premium new business figures for 2009 include inflows relating to in-force business following OMSA's acquisition of Futuregrowth and Acsis Life. The results for the year ended 31 December 2009 have also been restated to include Namibia's contribution to new business premiums not valued (£1,625 million excluding Namibia).

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

C2: Product analysis of new covered premiums

£m

Emerging Markets	Year ended 31 December 2010 Recurring	Year ended 31 December 2010 Single	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single
Total business	**325**	**1,611**	249	1,437
Individual business	**284**	**889**	220	716
Savings	**69**	**713**	50	539
Protection	**70**	**–**	56	21
Annuity	**–**	**176**	–	155
Mass foundation cluster*	**145**	**–**	114	1
Group business	**41**	**722**	29	721
Savings	**20**	**585**	13	564
Protection	**21**	**1**	16	–
Annuity	**–**	**136**	–	157

* Previously described as Retail Mass.

£m

Nordic	Year ended 31 December 2010 Recurring	Year ended 31 December 2010 Single	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single
Unit-linked and life assurance	**144**	**573**	183	527

£m

Retail Europe	Year ended 31 December 2010 Recurring	Year ended 31 December 2010 Single	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single
Unit-linked and life assurance	**63**	**63**	62	53

£m

Wealth Management	Year ended 31 December 2010 Recurring	Year ended 31 December 2010 Single	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single
Unit-linked and life assurance	**166**	**5,685**	191	4,240

£m

US Life	Year ended 31 December 2010 Recurring	Year ended 31 December 2010 Single	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single
Total business	**10**	**824**	14	549
Fixed deferred annuity	**–**	**163**	–	30
Fixed indexed annuity	**–**	**502**	–	383
Variable annuity	**–**	**–**	–	–
Life	**10**	**1**	14	13
Immediate annuity	**–**	**158**	–	123

The table above does not include the contribution from the mutual fund business. This is detailed in the Business Review section.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

C3: Adjustments applied in determining total Group MCEV earnings before tax

£m

Analysis of adjusting items*	Year ended 31 December 2010			Year ended 31 December 2009		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Income/(expense)						
Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting	**–**	**(20)**	**(20)**	–	65	65
Economic variances	**864**	**(7)**	**857**	1,108	(10)	1,098
Other non-operating variances	**17**	**–**	**17**	18	–	18
Acquired/divested business	**–**	**(22)**	**(22)**	–	(48)	(48)
Closure of unclaimed share trust	**–**	**–**	**–**	–	–	–
Dividends declared to holders of perpetual preferred callable securities	**–**	**44**	**44**	–	45	45
Adjusting items relating to US Asset Management equity plans and non-controlling interests	**–**	**6**	**6**	–	(1)	(1)
Fair value gains on Group debt instruments	**–**	**(203)**	**(203)**	–	(264)	(264)
Adjusting items	**881**	**(202)**	**679**	1,126	(213)	913
Adjusting items from continuing operations	**701**	**(202)**	**499**	691	(213)	478
Adjusting items from discontinued operations	**180**	**–**	**180**	435	–	435
Total MCEV adjusting items	**881**	**(202)**	**679**	1,126	(213)	913

C4: Other movements in IFRS net equity impacting Group MCEV

£m

	Year ended 31 December 2010			Year ended 31 December 2009		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Fair value gains/(losses)	**–**	**8**	**8**	–	2	2
Net investment hedge	**–**	**(86)**	**(86)**	–	(41)	(41)
Currency translation differences/exchange differences on translating foreign operations	**580**	**448**	**1,028**	359	197	556
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**14**	**14**	–	13	13
Correction to transfers*	**–**	**–**	**–**	–	316	316
Other movements	**–**	**(24)**	**(24)**	(8)	(7)	(15)
Net income recognised directly into equity	**580**	**360**	**940**	351	480	831
Capital and dividend flows for the year	**(468)**	**322**	**(146)**	(190)	145	(45)
Net sale of treasury shares	**–**	**(28)**	**(28)**	–	–	–
Share buy back	**–**	**–**	**–**	–	–	–
Net issues of ordinary share capital by the Company		**162**	**162**	–	2	2
Acquisition of non-controlling interest in Mutual & Federal	**–**	**(93)**	**(93)**	–	–	–
Exercise of share options	**–**	**4**	**4**	–	3	3
Change in share based payment reserve	**–**	**4**	**4**	–	14	14
Other movements in net equity	**112**	**731**	**843**	161	644	805

* Refinement arising from the allocation of assets between covered and non-covered business at 31 December 2008.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

C5: Reconciliation of MCEV adjusted net worth to IFRS net asset value for the covered business

The table below provides a reconciliation of the MCEV adjusted net worth (ANW) to the IFRS net asset value (NAV) for the covered business.

£m

At 31 December 2010	Total	Long-Term Savings	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Bermuda
IFRS net asset value*	**5,794**	**5,088**	**1,216**	**1,243**	**632**	**1,997**	**274**	**432**
Adjustment to include long-term business on a statutory solvency basis	**(1,822)**	**(2,053)**	**207**	**(851)**	**(331)**	**(1,078)**	**260**	**(29)**
Inclusion of Group equity and debt instruments held in life funds	**389**	**389**	**389**	**–**	**–**	**–**	**–**	**–**
Goodwill	**(1,010)**	**(1,010)**	**(8)**	**(206)**	**(198)**	**(598)**	**–**	**–**
Adjusted net worth attributable to ordinary equity holders of the parent	**3,351**	**2,414**	**1,804**	**186**	**103**	**321**	**534**	**403**

£m

At 31 December 2009	Total	Long-Term Savings	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Bermuda
IFRS net asset value*	6,103	4,848	821	1,222	664	2,141	886	369
Adjustment to include long-term business on a statutory solvency basis	(2,632)	(2,238)	153	(841)	(382)	(1,168)	(388)	(6)
Inclusion of Group equity and debt instruments held in life funds	339	339	339	–	–	–	–	–
Goodwill	(995)	(995)	(8)	(186)	(204)	(597)	–	–
Adjusted net worth attributable to ordinary equity holders of the parent	2,815	1,954	1,305	195	78	376	498	363

* IFRS net asset value is after elimination of inter-company loans.

The adjustment to include long-term business on a statutory solvency basis includes the following:

- The excess of the IFRS amount of the deferred acquisition cost (DAC) and value of business acquired (VOBA) assets over the statutory levels included in the VIF.
- When projecting future profits on a statutory basis, the VIF includes the shareholders' value of unrealised capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity.
- For the US Life business, the reversal of the IFRS impairment for discontinued operations which is included in the IFRS net asset value, as this is not recognised on a statutory solvency basis.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

D: Other income statement notes

D1: Drivers of new business value for covered business

PVNBP Margin

Long-Term Savings*	Year ended 31 December 2010 %	Year ended 31 December 2009 %
Margin at the end of comparative period	**1.6**	1.5
Change in volume	**(0.1)**	(0.1)
Change in product mix	**0.2**	–
Change in country mix	**–**	–
Change in operating assumptions	**0.1**	0.1
Change in economic assumptions	**(0.1)**	–
Change in tax/regulation	**–**	0.1
Exchange rate movements	**0.1**	–
Margin at the end of the period	**1.8**	1.6
Emerging Markets**		
Margin at the end of comparative period	**2.3**	2.2
Change in volume	**0.1**	(0.1)
Change in product mix	**0.4**	(0.2)
Change in country mix	**–**	–
Change in operating assumptions	**(0.1)**	0.4
Change in economic assumptions	**(0.1)**	–
Margin at the end of the period	**2.6**	2.3
Nordic***		
Margin at the end of comparative period	**3.8**	3.3
Change in volume	**(0.1)**	(0.1)
Change in product mix	**0.6**	–
Change in country mix	**–**	–
Change in operating assumptions	**(0.4)**	0.4
Change in economic assumptions	**(0.2)**	0.2
Margin at the end of the period	**3.7**	3.8
Retail Europe****		
Margin at the end of comparative period	**(1.0)**	1.8
Change in volume	**1.6**	(2.1)
Change in product mix	**(0.2)**	(0.8)
Change in country mix	**–**	(0.1)
Change in operating assumptions	**0.9**	0.5
Change in economic assumptions	**0.1**	(0.3)
Margin at the end of the period	**1.4**	(1.0)
Wealth Management*		
Margin at the end of comparative period	**1.0**	1.2
Change in volume	**(0.1)**	(0.2)
Change in product mix	**(0.1)**	–
Change in country mix	**–**	–
Change in operating assumptions	**0.2**	(0.2)
Change in economic assumptions	**–**	–
Change in tax/regulation	**–**	0.2
Margin at the end of the period	**1.0**	1.0

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

D1: Drivers of new business value for covered business continued

	Year ended 31 December 2010	Year ended 31 December 2009
US Life***		
Margin at the end of comparative period	**2.2**	(0.9)
Change in volume	**(0.1)**	–
Change in product mix	**(0.9)**	1.5
Change in country mix	**–**	–
Change in operating assumptions	**(0.6)**	–
Change in economic assumptions	**(3.8)**	1.6
Margin at the end of the period	**(3.2)**	2.2
Total covered business*		
Margin at the end of comparative period	**1.6**	0.8
Change in volume	**(0.1)**	0.8
Change in product mix	**0.1**	–
Change in country mix	**–**	–
Change in operating assumptions	**0.1**	0.1
Change in economic assumptions	**(0.4)**	–
Change in tax/regulation	**–**	0.1
Exchange rate movements	**0.1**	(0.2)
Margin at the end of the period	**1.4**	1.6

* The PVNBP margin changes are calculated in sterling.
** The PVNBP margin changes are calculated in rand.
*** The PVNBP margin changes are calculated in krona.
**** The PVNBP margin changes are calculated in euro.
***** The PVNBP margin changes are calculated in dollars.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

E1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2010 and the value of new business for the year ended 31 December 2010 to changes in key assumptions.

For each sensitivity illustrated all other assumptions have been left unchanged except where they are directly affected by the revised conditions. Sensitivity scenarios therefore include consistent changes in cash flows directly affected by the changed assumption(s), for example future bonus participation in changed economic scenarios.

In some jurisdictions the reserving basis that underlies shareholder distributable cash flows is dynamic, and in theory some sensitivities could change not only future experience but also reserving levels. Modelling of dynamic reserves is extremely complex and the effect on value is second–order. Therefore, in performing the sensitivities, reserving bases have been kept constant for non-linked business (including non-linked reserves for linked business) whilst only varying future experience assumptions with similar considerations applying to required capital. However, the sensitivities for South Africa in respect of an increase/decrease of all pre–tax investment and economic assumptions, an increase/decrease in equity and property market values and increases in equity, property and swaption implied volatilities allow for the change in the time value of financial options and guarantees that form part of the IGR.

The sensitivities for an increase/decrease in all pre-tax investment and economic assumptions (with credited rates and discount rates changing commensurately) are calculated in line with a parallel shift in risk free reference spot rates rather than risk free reference forward rates. However, the 1% reduction is limited so that it does not lead to negative risk free reference rates.

The equity and property sensitivities make allowance for rebalancing of asset portfolios.

VNB sensitivities assume that the scenario arises immediately after point of sale of the contract. Therefore no allowance is made for the ability to re-price any contracts in the sensitivity scenarios, apart from the mortality sensitivities for the South African business where allowance is made for changes in the pricing basis for products with reviewable premiums.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Long-Term Savings (LTS)

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**7,417**	**5,003**	**200**
Effect of:			
Required capital equal to the minimum statutory requirement	**7,474**	**5,060**	**204**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**7,289**	**4,887**	**185**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**7,553**	**5,125**	**216**
Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	**7,425**	**5,011**	**202**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**7,736**	**5,274**	**208**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**7,107**	**4,741**	**193**
50bps contraction on corporate bond spreads	**7,437**	**5,003**	**200**
25% multiplicative increase in equity and property implied volatilities	**7,395**	**4,981**	**200**
25% multiplicative increase in swaption implied volatilities	**7,408**	**4,994**	**200**
Voluntary discontinuance rates decreasing by 10%	**7,606**	**5,193**	**238**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**7,653**	**5,239**	**220**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**7,536**	**5,122**	**212**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**7,392**	**4,979**	**199**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**185**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**219**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**7,462**	**5,049**	**203**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**7,365**	**4,952**	**196**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Emerging Markets

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**3,313**	**1,509**	**86**
Effect of:			
Required capital equal to the minimum statutory requirement	**3,366**	**1,562**	**90**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**3,285**	**1,479**	**80**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**3,342**	**1,540**	**91**
Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	**3,321**	**1,517**	**88**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**3,446**	**1,594**	**86**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**3,180**	**1,422**	**86**
50bps contraction on corporate bond spreads	**3,333**	**1,509**	**86**
25% multiplicative increase in equity and property implied volatilities	**3,292**	**1,488**	**86**
25% multiplicative increase in swaption implied volatilities	**3,306**	**1,502**	**86**
Voluntary discontinuance rates decreasing by 10%	**3,369**	**1,566**	**105**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**3,446**	**1,641**	**98**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**3,414**	**1,609**	**97**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges*	**3,290**	**1,487**	**85**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**79**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**100**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**3,330**	**1,526**	**87**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**3,290**	**1,486**	**85**

* No impact on with-profit annuities as the mortality risk is borne by policyholders.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Nordic

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**1,504**	**1,318**	**41**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,504**	**1,318**	**41**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,480**	**1,294**	**41**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,532**	**1,346**	**42**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,610**	**1,424**	**45**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,398**	**1,213**	**37**
50bps contraction on corporate bond spreads	**1,504**	**1,318**	**41**
25% multiplicative increase in equity and property implied volatilities	**1,504**	**1,318**	**41**
25% multiplicative increase in swaption implied volatilities	**1,504**	**1,318**	**41**
Voluntary discontinuance rates decreasing by 10%	**1,544**	**1,358**	**49**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**1,545**	**1,360**	**43**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**1,506**	**1,320**	**41**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**1,502**	**1,316**	**41**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**40**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**41**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,522**	**1,337**	**43**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**1,504**	**1,318**	**41**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Retail Europe

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**623**	**520**	**7**
Effect of:			
Required capital equal to the minimum statutory requirement	**626**	**523**	**7**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**606**	**505**	**5**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**637**	**533**	**10**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**636**	**533**	**7**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**610**	**508**	**7**
50bps contraction on corporate bond spreads	**623**	**520**	**7**
25% multiplicative increase in equity and property implied volatilities	**623**	**520**	**7**
25% multiplicative increase in swaption implied volatilities	**621**	**518**	**7**
Voluntary discontinuance rates decreasing by 10%	**638**	**535**	**9**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**648**	**546**	**9**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**627**	**525**	**8**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**623**	**520**	**7**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**6**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**8**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**624**	**521**	**6**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**615**	**513**	**7**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Wealth Management

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**1,977**	**1,656**	**66**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,978**	**1,657**	**66**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,918**	**1,609**	**59**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**2,042**	**1,706**	**73**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**2,044**	**1,723**	**70**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,919**	**1,598**	**63**
50bps contraction on corporate bond spreads	**1,977**	**1,656**	**66**
25% multiplicative increase in equity and property implied volatilities	**1,976**	**1,655**	**66**
25% multiplicative increase in swaption implied volatilities	**1,977**	**1,656**	**66**
Voluntary discontinuance rates decreasing by 10%	**2,055**	**1,734**	**75**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**2,014**	**1,692**	**70**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**1,989**	**1,668**	**66**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**1,977**	**1,656**	**66**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**60**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**70**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,986**	**1,665**	**67**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**1,956**	**1,635**	**63**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

US Life

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**(189)**	**(723)**	**(28)**
Effect of:			
Required capital equal to the minimum statutory requirement	**(185)**	**(719)**	**(28)**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**(380)**	**(914)**	**(5)**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**(18)**	**(552)**	**(60)**
Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	**(145)**	**(679)**	**(26)**
Recognising the present value of an additional 50% of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately*	**(34)**	**(568)**	**(18)**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**(189)**	**(723)**	**(28)**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**(189)**	**(723)**	**(28)**
50bps contraction on corporate bond spreads	**80**	**(454)**	**(28)**
25% multiplicative increase in swaption implied volatilities	**(270)**	**(804)**	**(53)**
Voluntary discontinuance rates decreasing by 10%	**(137)**	**(671)**	**(27)**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**(173)**	**(707)**	**(28)**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**(169)**	**(703)**	**(27)**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**(215)**	**(749)**	**(28)**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**(31)**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**(30)**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**(187)**	**(721)**	**(28)**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**(209)**	**(743)**	**(30)**

* At 31 December 2010 the size of the base liquidity premium adjustment for US Life business of 75bps is greater than the base liquidity premium adjustment for OMSA's Retail Affluent Immediate Annuity business of 45bps. Therefore in addition to the 10bps liquidity spread sensitivity that is also shown for Emerging Markets, a sensitivity was calculated to illustrate the impact of an additional 50% of liquidity spreads for US Life business.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Bermuda

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**287**	**(116)**	**n/a**
Effect of:			
Required capital equal to the minimum statutory requirement	**289**	**(114)**	**n/a**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**350**	**(126)**	**n/a**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**226**	**(105)**	**n/a**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**339**	**(110)**	**n/a**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**229**	**(123)**	**n/a**
50bps contraction on corporate bond spreads	**298**	**(105)**	**n/a**
25% multiplicative increase in equity and property implied volatilities	**190**	**(120)**	**n/a**
25% multiplicative increase in swaption implied volatilities	**285**	**(118)**	**n/a**
Voluntary discontinuance rates decreasing by 10%	**278**	**(107)**	**n/a**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**297**	**(106)**	**n/a**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**287**	**(115)**	**n/a**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**287**	**(116)**	**n/a**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**n/a**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**n/a**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**290**	**(113)**	**n/a**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**281**	**(122)**	**n/a**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

Total covered business

Total covered business includes the MCEV contribution from the US Life and Bermuda business segments.

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	**7,515**	**4,164**	**172**
Effect of:			
Required capital equal to the minimum statutory requirement	**7,578**	**4,227**	**176**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**7,259**	**3,847**	**180**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**7,761**	**4,468**	**156**
Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	**7,567**	**4,216**	**176**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**7,886**	**4,441**	**180**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**7,147**	**3,895**	**165**
50bps contraction on corporate bond spreads	**7,815**	**4,444**	**172**
25% multiplicative increase in equity and property implied volatilities	**7,396**	**4,138**	**172**
25% multiplicative increase in swaption implied volatilities	**7,423**	**4,072**	**147**
Voluntary discontinuance rates decreasing by 10%	**7,747**	**4,415**	**211**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**7,777**	**4,426**	**192**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**7,654**	**4,304**	**185**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**7,464**	**4,114**	**171**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	**n/a**	**n/a**	**154**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**189**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**7,565**	**4,215**	**175**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**7,437**	**4,087**	**166**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2010 continued

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	6,027	3,212	167
Effect of:			
Required capital equal to the minimum statutory requirement	6,076	3,262	172
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	5,746	2,865	161
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	6,346	3,589	167
Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	6,080	3,266	169
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	6,401	3,447	179
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	5,671	2,996	157
50bps contraction on corporate bond spreads	6,360	3,530	167
25% multiplicative increase in equity and property implied volatilities	5,929	3,190	167
25% multiplicative increase in swaption implied volatilities	5,906	3,092	161
Voluntary discontinuance rates decreasing by 10%	6,211	3,492	209
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	6,269	3,454	188
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	6,166	3,351	185
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	5,989	3,175	167
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges	n/a	n/a	150
Value of new business calculated on economic assumptions at the end of reporting period	n/a	n/a	153
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	6,160	3,345	173
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	5,932	3,118	161

FINANCIAL HISTORY

£m

Year ended 31 December	2010	2009[1]	2008	2007	2006
Consolidated Income Statement					
Revenue					
Gross earned premiums	**3,582**	3,020	5,156	5,566	4,713
Outward reinsurance	**(305)**	(267)	(335)	(293)	(267)
Net earned premiums	**3,277**	2,753	4,821	5,273	4,446
Investment return (non-banking)	**10,791**	11,112	(11,578)	6,318	10,439
Banking interest and similar income	**4,082**	3,989	4,059	3,190	2,441
Banking trading, investment and similar income[2]	**204**	168	162	170	–
Fee and commission income, and income from service activities	**3,061**	2,422	2,313	2,475	2,262
Other income	**159**	196	270	245	324
Total revenues	**21,574**	20,640	47	17,671	19,912
Expenses					
Claims and benefits (including change in insurance contract provisions)	**(5,039)**	(3,786)	(3,610)	(7,193)	(7,999)
Reinsurance recoveries	**227**	200	262	236	245
Net claims and benefits incurred	**(4,812)**	(3,586)	(3,348)	(6,957)	(7,754)
Change in investment contract liabilities	**(6,899)**	(8,345)	10,051	(2,618)	(4,655)
Losses on loans and advances	**(552)**	(511)	(319)	(157)	(123)
Finance costs	**(269)**	(322)	392	(50)	(91)
Banking interest payable and similar expenses	**(2,519)**	(2,627)	(2,853)	(2,053)	(1,461)
Fee and commission expenses, and other acquisition costs	**(963)**	(728)	(937)	(778)	(714)
Other operating and administrative expenses	**(3,714)**	(3,072)	(2,834)	(2,813)	(2,826)
Goodwill impairment	**(1)**	(266)	(74)	(3)	(8)
Change in third party interest in consolidated funds	**(388)**	(470)	779	(156)	(278)
Amortisation of PVIF and other acquired intangibles	**(297)**	(312)	(361)	(360)	(379)
Total expenses	**(20,414)**	(20,239)	496	(15,945)	(18,289)
Share of associated undertakings' and joint ventures' profit/(loss) after tax	**7**	2	(1)	(1)	6
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	**(22)**	(50)	53	25	85
Profit before tax	**1,145**	353	595	1,750	1,714
Income tax (expense)/credit	**(456)**	(400)	88	(504)	(621)
Profit/(loss) from continuing operations after tax[1]	**689**	(47)			
Discontinued operations					
Loss from discontinued operations after tax[1]	**(713)**	(71)			
(Loss)/profit after tax for the financial year	**(24)**	(118)	683	1,246	1,093
Attributable to					
Equity holders of the parent	**(282)**	(340)	441	972	836
Non-controlling interests					
Ordinary shares	**196**	158	188	224	207
Preferred securities	**62**	64	54	50	50
(Loss)/profit after tax for the financial year	**(24)**	(118)	683	1,246	1,093
Earnings per share					
Basic earnings per ordinary share on profit/(loss) from continuing operations (pence)[1]	**8.2**	(6.3)			
Basic earnings per ordinary share on profit/(loss) from discontinuing operations (pence)[1]	**(14.7)**	(1.5)			
Basic earnings per ordinary share (pence)	**(6.5)**	(7.8)	8.6	19.2	17.0
Diluted earnings per ordinary share on profit/(loss) from continuing operations (pence)[1]	**7.4**	(6.3)			
Diluted earnings per ordinary share on profit/(loss) from discontinuing operations (pence)[1]	**(13.5)**	(1.5)			
Diluted earnings per ordinary share (pence)	**(6.1)**	(7.8)	8.1	18.1	16.1
Weighted average number of shares – millions	**4,859**	4,758	4,755	4,894	4,705

1 2009 has been restated to reflect US Life as discontinued. No restatement has been made for 2008, 2007 or 2006.
2 2006 included in Banking interest and similar income.

FINANCIAL HISTORY

£m

Year ended 31 December	2010	2009[1]	2008	2007	2006
Consolidated Statement of Comprehensive Income					
(Loss)/profit after tax for the financial year	**(24)**	(118)	683	1,246	1,093
Other comprehensive income					
Fair value gains/(losses)					
Property revaluation	**26**	(10)	16	96	28
Net investment hedge	**(87)**	(41)	281	(13)	75
Available-for-sale investments					
Fair value gains/(losses)	**32**	112	(1,635)	(197)	(111)
Recycled to the income statement	**–**	13	414	36	17
Shadow accounting	**(15)**	36	26	25	28
Currency translation differences/exchange differences on translating foreign operations	**1,039**	334	429	133	(1,060)
Other movements	**31**	21	68	(4)	(4)
Income tax relating to components of other comprehensive income	**13**	13	366	34	14
Total other comprehensive income for the financial year from continuing operations[1]	**1,039**	478			
Total other comprehensive income for the financial year from discontinued operations[1]	**112**	750			
Total other comprehensive income for the financial year	**1,151**	1,228	(35)	110	(1,013)
Total comprehensive income for the financial year	**1,127**	1,110	648	1,356	80
Attributable to					
Equity holders of the parent	**594**	709	305	1,077	73
Non-controlling interests					
Ordinary shares	**428**	334	299	229	(43)
Preferred securities	**105**	67	44	50	50
Total comprehensive income	**1,127**	1,110	648	1,356	80

Year ended 31 December	2010	2009	2008	2007	2006
Adjusted Operating Profit	**1,481**	1,133	1,136	1,624	1,459
Adjusted Operating Profit Earnings per share					
Adjusted operating earnings per ordinary share (pence) – H1	**8.3**	4.9	8.7	8.2	8.5
Adjusted operating earnings per ordinary share (pence) – H2[2]	**7.7**	6.7	6.2	8.7	6.6
Adjusted operating earnings per ordinary share (pence)	**16.0**	11.6	14.9	16.9	15.1
Adjusted weighted average number of shares – H1	**5,342**	5,232	5,245	5,407	5,063
Adjusted weighted average number of shares – H2	**5,376**	5,226	5,215	5,415	5,379
Adjusted weighted average number of shares	**5,359**	5,229	5,230	5,411	5,222

1 2009 has been restated to reflect US Life as discontinued. No restatement has been made for 2008, 2007 or 2006.
2 Calculated based on full year less 1st half year.

FINANCIAL HISTORY

£m

Year ended 31 December	2010	2009	2008	2007	2006
Consolidated Statement of Financial Position[1]					
Assets					
Goodwill and other intangible assets	**4,965**	5,159	5,882	5,459	5,367
Mandatory reserve deposits with central banks	**1,079**	882	734	615	665
Property, plant and equipment	**1,015**	828	682	608	499
Investment property	**2,040**	1,759	1,478	1,479	804
Deferred tax assets	**416**	570	1,590	683	511
Investments in associated undertakings and joint ventures	**162**	135	111	81	83
Deferred acquisition costs	**1,534**	3,138	3,199	2,253	1,578
Reinsurers' share of life assurance policyholder liabilities	**982**	1,296	1,148	1,394	763
Reinsurers' share of general insurance liabilities	**122**	120	115	–	–
Deposits held with reinsurers	**2**	146	164	213	–
Loans and advances	**51,778**	42,393	35,745	30,687	22,804
Investments and securities	**106,153**	98,461	83,522	89,627	86,452
Current tax receivable	**156**	169	118	83	60
Client indebtedness for acceptances	**190**	170	220	165	–
Other assets	**3,932**	3,051	3,137	2,774	3,635
Derivative financial instruments – assets	**2,503**	2,546	3,228	1,527	1,238
Cash and cash equivalents	**4,132**	2,982	3,203	3,469	2,951
Non-current assets held for sale	**12,391**	1	7	1,623	1,165
Total assets	**193,552**	163,806	144,283	142,740	128,575
Liabilities					
Life assurance policyholder liabilities	**98,631**	93,876	81,269	84,251	80,081
General insurance liabilities	**397**	372	344	–	–
Third party interests in consolidated funds	**3,584**	2,906	2,591	3,547	3,041
Borrowed funds	**4,204**	3,309	2,295	2,353	1,676
Provisions	**260**	263	477	499	542
Deferred revenue	**730**	654	598	462	311
Deferred tax liabilities	**858**	905	1,452	1,413	1,393
Current tax payable	**238**	210	219	320	283
Other liabilities	**5,661**	4,305	4,074	6,180	5,266
Liabilities under acceptances	**190**	170	220	165	–
Amounts owed to bank depositors	**53,236**	44,135	38,171	31,817	25,052
Derivative financial instruments – liabilities	**1,870**	1,990	2,990	1,716	1,060
Non-current liabilities held for sale	**12,219**	–	6	420	1,107
Total liabilities	**182,078**	153,095	134,706	133,143	119,812
Net assets	**11,474**	10,711	9,577	9,597	8,763
Shareholders' equity					
Equity attributable to equity holders of the parent	**8,951**	8,464	7,737	7,961	7,237
Non-controlling interests					
Ordinary shares	**1,763**	1,537	1,147	933	848
Preferred securities	**760**	710	693	703	678
Total non-controlling interests	**2,523**	2,247	1,840	1,636	1,526
Total equity	**11,474**	10,711	9,577	9,597	8,763

1 The Group adopted the provisions of IFRS 7 'Financial Instruments: Disclosures' in its 2007 annual report and accounts. As part of the implementation of that standard certain income statement and statement of financial position captions were restated. The 2006 information has been restated where possible to be consistent with later years, however certain balances are not fully comparable in circumstances where information is not readily available.

FINANCIAL HISTORY

					£m
Year ended 31 December	**2010**	2009	2008	2007	2006
Additional Information					
Equity attributable to equity holders of the parent	**8,951**	8,464	7,737	7,961	7,237
Less: Perpetual preferred callable securities	**(688)**	(688)	(688)	(688)	(688)
	8,263	7,776	7,049	7,273	6,549
Shares issued and fully paid	**5,695**	5,518	5,516	5,510	5,501
Less: Treasury shares in issue	**(239)**	(239)	(239)	(105)	–
	5,456	5,279	5,277	5,405	5,501
IFRS Book value per Share (pence)	**151**	147	134	135	119
Funds under management	**322,797**	285,010	264,814	278,878	239,433
Earnings after tax attributable to ordinary equity holders					
Adjusted operating Group MCEV	**830**	562	575	922	–
Adjusted operating Group EEV	**–**	–	–	–	929
Adjusted operating Group MCEV earnings per share (pence)	**15.5**	10.7	11.0	17.0	–
Adjusted operating Group EEV earnings per share (pence)	**–**	–	–	–	17.8
Market consistent embedded value	**9,901**	7,629	5,262	7,359	–
European embedded value	**–**	-	–	–	7,117
MCEV per share (pence)	**181.5**	144.5	99.7	136.2	–
EEV per share (pence)	**–**	–	–	–	129.4

Rates used to translate the operating results, assets and liabilities of key foreign business segments to Sterling are:

Year ended 31 December	**2010**	2009	2008	2007	2006[1]
Exchange Rates					
Income statement (average rate)					
Rand	**11.3095**	13.1746	15.2948	14.1109	12.4740
US Dollars	**1.5459**	1.5655	1.8524	2.0014	1.8429
Swedish Kronor	**11.1364**	11.9743	12.2209	13.5253	13.5918
Euro	**1.1650**	1.1227	1.2594	1.4602	1.4671
Statement of financial position (closing rate)					
Rand	**10.2796**	11.9172	13.7194	13.6043	13.6746
US Dollars	**1.5530**	1.6148	1.4575	1.9827	1.9569
Swedish Kronor	**10.4227**	11.5562	11.4494	12.832	13.3924
Euro	**1.1614**	1.1268	1.0446	1.3596	1.4837

1 The 2006 Income Statement rate applied in respect of Skandia is an eleven month average rate, reflecting the acquisition date of 1 February 2006.

FINANCIAL HISTORY

Listings and shares in issue

The Company's shares are listed on the London, Malawi, Namibian and Zimbabwe Stock Exchanges and on the JSE Limited (JSE). The primary listing is on the London Stock Exchange and the other listings are all secondary listings. The Company's secondary listing on the Stockholm Stock Exchange ended on 7 September 2007, but the Company's shares may still be traded on the Xternal list of the Nordic Exchange in Stockholm. The ISIN number of the Company's shares is GB0007389926.

The high and low prices at which the Company's shares are recorded as having traded on the two main markets on which they were listed during 2010 and 2009 were as follows:

	2010		2009	
	High	**Low**	High	Low
London Stock Exchange	**145.2p**	**97.3p**	121.3p	30.8p
JSE	**R15.84**	**R11.64**	R14.86	R4.80

At 31 December 2010, the geographical analysis and shareholder profile of the Company's share register were as follows:

Register	Total shares	% of whole	Number of holders
UK	2,601,210,517	45.68	11,144
South Africa	2,770,918,189	48.65	30,593[1]
Zimbabwe	62,918,550	1.11	31,314[1]
Namibia	15,482,874	0.27	558[1]
Malawi	5,259,308	0.09	4,711[1]
Treasury shares (UK)	239,434,888	4.20	1
Total	**5,695,224,326**	**100**	**78,321**

Source: Computershare Investor Services

Size of holding	Total shares	% of whole	Number of holders
1-1,000	23,345,374	0.41	66,480
1,001-10,000	27,184,585	0.48	10,131
10,001-100,000	31,334,013	0.55	1,072
100,001-250,000	30,571,108	0.54	190
250,001+	5,343,354,358	93.82	447
Treasury shares (UK)	239,434,888	4.20	1
Total	**5,695,224,326**	**100**	**78,321**

Source: Computershare Investor Services

Note

1. The registered shareholdings on the South African branch register included PLC Nominees (Pty) Limited, which held a total of 2,360,989,530 shares, including 366,659,261 shares held for the Company's sponsored nominee, Old Mutual (South Africa) Nominees (Pty) Limited, for the benefit of 437,510 underlying beneficial owners. The registered shareholdings on the Zimbabwe branch register included Old Mutual Zimbabwe Nominees (Pvt) Limited, which held a total of 786,516 shares as nominee for 3,509 underlying beneficial owners. The registered shareholdings on the Namibian section of the principal register included Old Mutual (Namibia) Nominees (Pty) Limited, which held a total of 7,905,389 shares as nominee for 7,105 underlying beneficial owners. The registered shareholdings on the Malawi branch register included Old Mutual (Blantyre) Nominees Limited, which held a total of 46,664 shares as nominee for 137 underlying beneficial owners.

SHAREHOLDER INFORMATION

Registrars

The Company's share register is administered by Computershare Investor Services in conjunction with local representatives in various jurisdictions. The following are the contact details:

UK

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: +44 (0)870 707 1212
Website: *www.investorcentre.co.uk/contactus*

South Africa

Computershare Investor Services Pty Ltd
70 Marshall Street
Johannesburg 2001
(PO Box 61051, Marshalltown)
Tel: 0861 100 940
+27 (0)11 870 8211
Email: *omsa@computershare.co.za*

Malawi

National Bank of Malawi
Financial Management Services Department
Cnr Victoria Avenue/Henderson Street
Blantyre
(PO Box 1438, Blantyre, Malawi)
Tel: +265 182 3483/0900
Email: *nbminvestment@natbankmw.com*

Namibia

Transfer Secretaries (Pty) Limited
Shop 8 Kaiser Krone Centre
Post Street Mall
Windhoek
(PO Box 2401, Windhoek)
Tel: +264 (0)61 227647
Fax: +264 (0)61 248531
Email: *ts@nsx.com.na*

Sweden

Euroclear Sweden AB
Box 7822
SE-103 97 Stockholm
Tel: +46 8 402 9000

Zimbabwe

Corpserve (Private) Limited
2nd Floor, ZB Centre
Cnr First Street/Kwame Nkrumah Avenue
Harare
(PO Box 2208, Harare, Zimbabwe)
Tel: +263 (0)4 751559/61
Fax: +263 (0)4 752629
Email: *enquiries@corpserve.co.zw*

Computershare share dealing services

The Company's South African registrars, Computershare Investor Services, administer a telephone and postal sales service for shares held through Old Mutual (South Africa) Nominees (Pty) Limited on the South African branch register and shares held through Old Mutual (Namibia) Nominees (Pty) Limited on the Namibian section of the principal register. If you hold your shares in this way and wish to sell your shares by telephone, Computershare may be contacted on 0861 100 940 (a South African number) between 8.00 a.m. and 4.30 p.m. (local time) on Mondays to Fridays, excluding public holidays. A service fee is payable based on the value of the shares sold.

Internet share dealing: This service provides shareholders with a facility to buy or sell Old Mutual plc ordinary shares on the London Stock Exchange. The commission for deals through the internet is 0.5%, subject to a minimum charge of £15. In addition, stamp duty, currently 0.5%, is payable on purchases. There is no need to open an account in order to deal. Real-time dealing is available during market hours. Orders may also be placed outside market hours. Up to 90-day limit orders are available for sales. To access the service, log on to *www.computershare.com/dealing/uk.* Shareholders should have their Shareholder Reference Number (SRN) available for the purposes of sales. The SRN appears on share certificates and dividend cheques/tax statements. Payment by cheque will be required for purchases. At present, this service is only available to shareholders in certain European jurisdictions. Computershare's website contains an up to date list of these countries.

Telephone share dealing: The commission for deals through Computershare's telephone share dealing service is 1%, subject to a minimum charge of £25. In addition stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00 a.m. to 4.30 p.m. Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084. Detailed terms and conditions are available on request. Shareholders should have their Shareholder Reference Number (SRN) ready when calling about sales. The SRN appears on share certificates and dividend cheques / tax statements. Payment by cheque will be required for purchases. At present, this service is only available to shareholders in certain jurisdictions outside the UK, which Computershare will confirm upon request. For general enquiries about the dealing service shareholders can call 0870 873 5836.

These services are offered on an execution-only basis and subject to the applicable terms and conditions. This is not a recommendation to buy, sell or hold shares in Old Mutual plc. Shareholders who are unsure of what action to take should obtain independent financial advice. Share values may go down as well as up, which may result in a shareholder receiving less than he or she originally invested.

To the extent that this statement is a financial promotion for the share dealing service provided by Computershare Investor Services PLC, it has been approved by Computershare Investor Services PLC for the purpose of section 21(2)(b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority. Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

SHAREHOLDER INFORMATION

Scrip dividend scheme

The Company offers eligible shareholders the option to receive dividends in the form of shares through participation in the Company's scrip dividend scheme. Shareholders who are eligible to make an 'evergreen' election will receive dividends in the form of shares for each dividend for which a scrip alternative is offered while the election remains in place.

Details about eligibility to participate in the scrip dividend scheme are contained in the scrip dividend scheme booklet. This booklet and the accompanying mandate forms can be obtained from the Company's website (*www.oldmutual.com*) or from the relevant registrars (please refer to the contact details on the preceding page). Details of when elections to join the scrip dividend scheme must be received in order to receive the scrip dividend alternative for the final dividend for the year ended 31 December 2010 are set out under the heading 'Financial calendar' below.

Strate

Since January 2002, all transactions in the Company's shares on the JSE have been required to be settled electronically through Strate, and share certificates are no longer good for delivery in respect of such transactions.

The Company wrote to certificated shareholders on its South African branch register in October 2001 to inform them of these changes and of the courses of action available to them. The Company also wrote separately to certificated shareholders on the Namibian section of its principal register in January 2002 to explain the impact of Strate. These included participating in Issuer-Sponsored Nominee Programmes to dematerialise (in the case of South Africa) or immobilise (in the case of Namibia) their previously certificated shareholdings in the Company. Shareholders who have any enquiries about these programmes or about the effect of Strate on their holdings in the Company should contact Computershare Investor Services in Johannesburg on 0861 100 940 or +27 (0)11 870 8211.

Checking your holding online

An online service is situated at the Investor Centre option within the website address *www.computershare.com* which gives shareholders access to their account to confirm registered details, to give or amend dividend mandate instructions, and to obtain a current shareholding balance. A simple calculator function places a market quote against each holding and allows shareholders to estimate its value. There are also a number of downloadable forms from this site such as change of address, dividend mandate and stock transfer forms. Finally, there is an extensive list of frequently asked questions and the facility to contact Computershare Investor Services by email.

Warning to Shareholders – boiler room scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FSA before getting involved by visiting *www.fsa.gov.uk/register/*;
- Report the matter to the FSA either by calling 0300 500 5000 or visiting *www.moneymadeclear.org.uk*;
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at *www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml*

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website *www.moneymadeclear.org.uk*

Financial calendar

The Company's financial calendar for the forthcoming year is as follows:

Scrip dividend alternative calculation price determined	Last five dealing days up to 31 March 2011
Currency conversion date for the final dividend	31 March 2011
Local currency equivalents and scrip dividend alternative calculation announced	1 April 2011
Scrip dividend alternative closes for shareholders on the African exchanges	12 noon on 15 April 2011
Record date for the final dividend	15 April 2011
Scrip dividend alternative closes for shareholders on the principal UK register	12 noon on 3 May 2011
Annual General Meeting and First Quarter Interim Management Statement	12 May 2011
Final dividend payment date and issue of shares under the scrip dividend alternative	31 May 2011
Interim results	5 August 2011
Third Quarter Interim Management Statement	3 November 2011
Interim dividend payment date	30 November 2011
Final results for 2011	March 2012

SHAREHOLDER INFORMATION

Rule 144A ADRs

The Company has a Rule 144A American Depositary Receipt (Rule 144A ADR) facility through The Bank of New York. Each Rule 144A ADR represents 10 ordinary shares in the Company. Any enquiries about the Company's Rule 144A ADR facility should be addressed to The Bank of New York, 101 Barclay Street, New York, NY 10286, USA, tel: 1-888-BNY-ADRS (1-888-269-2377) if you are calling from within the USA. If you are calling from outside the USA, please call +1 212 815 3700. You may also send an email enquiry to *shareowners@bankofny.com*

Websites

Further information on the Company can be found on the following websites:

www.oldmutual.com
www.oldmutual.co.za

Electronic communications and electronic proxy appointment/voting instructions

If you would like to receive future communications from the Company by email, please log on to our website, *www.oldmutual.com/ir/index.jsp*, select the "Shareholder centre" section, click on "Electronic Communication" and then follow the instructions for registration of your details. In order to register, you will need your Shareholder Reference Number, which can be found on the payment advice notice or tax voucher accompanying your last dividend payment or notification. The number is also printed on forms of proxy for the Annual General Meeting.

Before you register, you will be asked to agree to the Terms and Conditions for Electronic Communications with Shareholders. It is important that you read these Terms and Conditions carefully, as they set out the basis on which electronic communications will be sent to you.

You should bear in mind that, in accessing documents electronically, you will incur the cost of online time. Any election to receive documents electronically will generally remain in force until you contact the Company's Registrars (via the online address set out earlier in this section of the Report or otherwise) to terminate or change such election.

The use of the electronic communications facility described above is entirely voluntary. If you wish to continue to receive communications from the Company by post, then you do not need to take any action.

Electronic proxy appointment is available for this year's Annual General Meeting. This enables proxy votes to be submitted electronically, as an alternative to filling out and posting a form of proxy. Further details are set out on the form of proxy. Electronic submission is also available for voting instruction forms.

GLOSSARY

We have written this glossary to help readers understand certain words and jargon used in our industry. In line with our aim of writing this report in plain English, the definitions are not precise or technical: they should not be used as the basis for making investment or other decisions.

A technical glossary of the financial terms can be found on our website at *www.oldmutual.com*

Actuary
Someone who uses mathematics (in particular, probability) to provide solutions to insurance-related problems. Actuarial techniques are used to design new insurance products and to assess the profitability of new and existing business.

Adjusted net worth (ANW)
Represents the market value of the net shareholders' assets held in respect of the covered business and forms part of the embedded value of a life company.

Affiliate
An investment firm specialising in offering specific services to a select number of individuals (term interchangeable with boutique).

Annual premium equivalent (APE)
A standardised measure of the volume of new life business written. It is calculated as the sum of (annualised) new recurring premiums and 10% of the new single premiums written in an annual reporting period. It gives a broadly comparable measure across companies to allow for differences between regular and single premium business.

Annuity
A regular payment from an insurance company made for an agreed period of time (usually up to the death of the recipient) in return for either a cash lump sum or a series of premiums which the policyholder has saved during their working lifetime.

Asset management
An investment management service provided by financial institutions on behalf of their customers.

Assumptions
Variables applied to data used to project expected outcomes. In the life insurance business, this might include assumptions on average life expectancy and policy surrender rates.

Bancassurance
An arrangement whereby banks and building societies sell life, pension and savings products on behalf of other financial providers.

Boutique
A small investment firm specialising in offering specific services to a select number of individuals (term interchangeable with affiliate).

Capital adequacy requirement (CAR)
The level of capital required by Old Mutual Life Assurance Company (South Africa) Limited to support its insurance business. It is mostly driven by the capital required to absorb investment risk and generally exceeds the level of capital required by the (national) regulator (called the Statutory Capital Adequacy Requirement).

Carbon Disclosure Project
The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world. Thousands of organisations from across the world's major economies measure and disclose their greenhouse gas emissions, water use and climate-change strategies through CDP. Corporations are rated and the information helps investors, corporations and regulators to make more informed decisions.

Correlation
Correlation is a statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates that there is no relationship between the variables. A correlation of -1 indicates a perfect negative correlation, meaning that as one variable goes up, the other goes down. A correlation of +1 indicates a perfect positive correlation, meaning that both variables move in the same direction together.

Covered business
A concept defined in the Market Consistent Embedded Value (MCEV) principles and guidelines. It refers to long-term business, which includes traditional life insurance, long-term healthcare and accident insurances, savings, pensions and annuities.

Deferred acquisition costs (DAC)
A method of accounting whereby the acquisition costs on long-term business (eg sales commissions) are recognised over the life of the contracts rather than up front at the time of sale. The costs are deferred on the balance sheet as an asset and amortised over the contract life.

Deferred annuity
An annuity due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by the policyholder by payment of a series of regular contributions or by a capital sum.

Earnings per share (EPS)
Earnings per Share (EPS) is calculated as post-tax adjusted operating profit divided by the adjusted weighted average number of shares (WANS) held by our investors. EPS is an indicator of our profitability that measures how much we earn for each share held.

Economic capital
Market value of assets minus fair value of liabilities. Used in practice as a risk-adjusted capital measure; specifically, the amount of capital required to meet an explicit solvency constraint (eg a certain probability of ruin).

GLOSSARY

Embedded value (EV)
Life insurance contracts are usually long term and may involve complex payment flows. This means it is difficult to measure the value of a life insurance business or how much income it is likely to generate over time. EV is a way of indicating what the underlying business is worth, based on the total of the net assets already invested in the business and the profits expected to emerge in the future.

Experience variance
In calculating embedded value of life business, it is necessary to make assumptions about items such as lapses or surrenders, mortality experience, etc. In any period the actual result for these items will differ from the assumed experience; this is known as the experience variance.

Financial Groups Directive (FGD)
A financial regime applying to EU-based companies whose activities span both the banking and investment sectors and the insurance sector. It lays down requirements for the Company's capital position and is intended to improve the stability of the financial system, thereby protecting customers.

FGD surplus
This represents the amount of capital in the Company which is surplus to the statutory solvency requirement for insurance groups as laid down by the Financial Groups Directive.

Financial Services Authority (FSA)
The regulator of financial services in the United Kingdom.

Financial Services Board (FSB)
The regulator of financial services in South Africa.

Funds under management (FUM)
The total value at market prices of funds managed by a company on behalf of shareholders and customers.

General insurance/property and casualty insurance (Short-term Insurance)
Non-life insurance mainly concerned with protecting the policyholder from loss or damage caused by specific risks. Examples include motor, contents and buildings insurance. Property insurance covers loss or damage through, for example, fire or theft. Casualty insurance covers losses arising from accidents that cause injury to other people or damage to their property.

In-force
An insurance policy is said to be in-force from its start date until the date it is terminated.

Independent financial adviser (IFA)
In the UK an IFA is a person or organisation authorised to give advice on financial matters and to sell the products of all financial services providers. IFAs are regulated by the Financial Services Authority.

Insurance
A contract taken out with an insurer to give financial protection against loss from a perceived risk. The person taking out the insurance is called the insured. Payments for the policy are called premiums.

International financial reporting standards (IFRS)
Accounting regulations that all publicly listed companies in the EU are required to use. They are designed to ensure companies prepare their accounts in a similar way so that there is a common basis for comparison.

Key risk indicator (KRI)
A metric that is indicative of the trend of risk exposures for a particular risk or group of risks.

Lapses/withdrawals/surrenders
The voluntary termination of a policy by a policyholder before the maturity date.

Life insurance
An insurance contract which promises the payment of an agreed sum of money upon the death of the insured within a specified period of time. Also known as life assurance.

Liquidity premium
A liquidity premium can be viewed as compensation for the lower liquidity of corporate bonds compared to government debt and for the risk that the market value of bonds will fall prior to maturity due to increasing credit spreads.

Long-term business
A term used by the Group to describe its life, health and pensions business and includes both covered and non-covered business. The term is broadly used throughout the industry, for example it is a UK regulatory expression broadly equivalent to life insurance and pensions.

Long-term investment return (LTIR)
The long-term return that Old Mutual assumes can realistically be earned on its investible shareholder assets when calculating Adjusted Operating Profit. Long-term investment return rates are reviewed annually and reflect the returns expected on the chosen asset classes.

Loss data
Data regarding direct losses experienced by the organisation as a result of events caused by a failure of people, process, systems and/or external events.

Management action plan
An action or actions developed by management that are usually triggered by one or more of the following:

- Risk exposure greater than risk appetite
- Control breakdowns or weaknesses
- Key risk indicator threshold breaches
- Loss events
- Audit findings

GLOSSARY

Market consistent embedded value (MCEV)
The standard of reporting for life insurance companies. It provides a common set of principles and guidelines for use in calculating embedded value. MCEV attempts to measure the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty in future investment returns. It is designed to provide an accurate reflection of the performance of long-term savings business and a method of comparing companies on a consistent basis.

Maturity
The date that an insurance policy or other financial contract finishes or "matures" and the benefit becomes payable.

Minority interests
A percentage of ownership in a company that is significant, but does not give the owner the ability to control the company. In accounting, includes only the dividends from a minority interest on a balance sheet, unless the owner has enough ownership to exert influence (but not outright control) over the company's direction. In that case, one includes both dividends and ordinary income on the balance sheet.

Mutual fund/unit trust
Fund of shares, bonds and other assets held by a manager for the benefit of investors who buy units in the fund, effectively pooling their money with that of other investors. It enables investors to achieve a more diversified portfolio than they might have done by making an individual investment.

Net client cash flow (NCCF)
The difference between money received from customers (eg premiums, deposits and investments) and money given back to customers (eg claims, surrenders, maturities) during the period.

Net risk (also known as 'Residual Risk')
A net risk is defined as the result of an assessment of the potential impact and likelihood of a risk after taking account of the design adequacy and operating effectiveness of the controls put in place to manage the risk.

Non-profit policy
Insurance cover guaranteeing certain benefits, but where the policyholder bears no investment risk and does not gain or lose if returns differ from expectations. Pure risk business such as annuities and health insurance is normally written on a non-profit basis.

Open-architecture
Where a company offers investment products from a range of other companies in addition to its own products. The advantage for customers is that it gives them a wider choice of funds to invest in and access to a larger pool of money management professionals.

Operational risk scenarios
Foreseeable, hypothetical events relating to failure of people, processes, systems and/or external events that potentially could have a significant impact on an organisation's risk profile or capital.

Pension
A regular payment received by an individual during their retirement until their death. A pension is usually bought through the payment of regular contributions during the individual's working lifetime.

Platform
Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms provide facilities for buying and selling investments (including Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Premium
The payment a policyholder makes in return for insurance cover. A single-premium contract involves a single lump sum payment made at the start of the contract. Under a regular-premium contract the policyholder agrees at the start to make regular payments throughout the term of the contract.

Probability distribution
A mathematical description of a range of possible values for a certain variable, identifying the likelihood of each possible value occurring.

Quantitative impact studies (QIS)
The QIS exercises test the financial impact and suitability of proposed Solvency II requirements on firms before the implementation of the regulations.

Return on equity (RoE)
A measure calculated by dividing profit after tax by the average amount of equity in the business. Equity indicates how much capital is tied up in the business.

Risk
The threat of an event that will limit the organisation's ability to achieve its business objectives. Risk is often expressed in terms of a combination of the consequences of an event or a change in circumstances and the associated likelihood of occurrence.

Risk adjusted performance measures
A metric that measures returns based on the quantum of risk taken to generate those returns. We use it to level the playing fields between different business units all competing for the same capital.

Risk appetite
The level of risk an organisation is willing to take in the pursuit of profit.

Risk assessment
This is a forward-looking and subjective process whereby risks are identified and exposure to risk is assessed or measured in the context of the business objectives. There are typically two aspects to the assessment of risk, one being the likelihood of risk occurring and the second being the impact of the risk.

GLOSSARY

Risk-based capital
Risk-based capital is the minimum amount of capital that an organisation needs to support its overall business operations. Risk-based capital is used to set capital requirements considering the nature, scale and complexity of the organisation.

Risk categorisation
A process for classifying risks possessing common qualities or quantities. Risk categorisation is used to collate information in a concise profile.

Risk exposure
Means the capital required to meet the business's current exposure to risk.

Risk identification
The qualitative determination of risks that are material, ie those that potentially can impact the organisation's achievement of its financial and/or strategic objectives.

Risk management framework
A set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organisation.

Risk policies
Policies that set out the minimum, mandatory requirements that businesses must follow to mitigate key Group risks.

Risk profile
The entire portfolio of risks organised by risk category that are found within a particular organisation.

Risk quantification
Attaching a probability or impact to the happening of a negative event. If it is certain that an event cannot occur, it is given a probability of 0; if it is certain that it will occur, it is given a probability of 1. Risks are assigned a probability between 0 and 1.

Scenario
A predicted sequence of events.

Scenario analysis
Scenario analysis is a process of analysing possible future events by considering possible outcomes (scenarios).

Solvency II
Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements.

Solvency Capital Requirement (SCR)
The SCR is the capital required to ensure that the (re)insurance company will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.

Standard formula
A non-entity-specific risk-based mathematical formula used by insurers to calculate their Solvency Capital Requirement under Solvency II, if the company is not using an internal model.

Statistical distribution
An arrangement of values of a variable showing their observed or theoretical frequency of occurrence, eg frequency distribution – a distribution of observed frequencies of occurrence of the values of a variable.

Sum assured
The lump sum benefit payable under an insurance policy or contract in circumstances which are defined within the policy; eg the amount payable on the death of the policyholder.

Technical provisions
Amounts set aside on the basis of actuarial calculations to meet forecast future obligations to policyholders.

Underwriting profit (general insurance)
A generally accepted non-life insurance term, also referred to as underwriting result, representing earned premiums minus the cost of claims and operating expenses. It indicates whether premiums cover claims and expenses or not.

Unit-linked policy
A type of long-term savings plan where premiums are used to buy units in an investment fund, such as a unit trust, and the benefits will be linked to the value of the underlying units rather than being fixed or guaranteed at the start of the plan.

Value of in-force business (VIF)
Part of the embedded value of a life insurance company. It represents the discounted value of the profits expected to arise from the in-force business. VIF is calculated using a set of actuarial, economic and operational assumptions.

Value of new business (VNB)
The discounted value of the future profits expected to arise from all new business sold during a reporting period. VNB is calculated by using actuarial assumptions.

With-profit
A type of investment policy in which extra amounts (bonuses) may be added to the sum assured to reflect profits earned during the course of the contract. Regular bonuses are usually added each year and, once declared, are usually guaranteed. A final or "terminal" bonus may be added when the policy becomes payable.

Wrap account
An account in which a broker or fund manager executes investment decisions on behalf of a client in exchange for a fee. These decisions might include shareholdings, investment funds, pensions and life insurance contracts.

Wrap platform
An investment platform which enables investment funds, pensions, direct equity holdings and some life insurance contracts to be held in the same administrative account rather than as separate holdings.

NOTES

Forward-looking statements
This Report contains certain forward-looking statements with respect to Old Mutual plc's and its subsidiaries' plans and expectations relating to their financial condition, performance and results. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and general economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and regulations in territories where Old Mutual plc or its subsidiaries operate.

As a result, Old Mutual plc's or its subsidiaries' actual future financial condition, performance and results may differ materially from the plans and expectations set forth in such forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this Report or any other forward-looking statements that it may make.

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