ANNUAL REPORT & ACCOUNTS 2009

OLD MUTUAL

INSURANCE • INVESTMENT • SAVINGS • BANKING

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The directors' report of Old Mutual plc for the year ended 31 December 2009 is set out on pages 1 to 160 and includes the sections of the Annual Report referred to in these pages.

Cover picture: We sponsor the Old Mutual Two Oceans Marathon in South Africa: long distance running reflects our philosophy of investing for the long-term.

FAST READ

OUR GROUP IN TRANSITION

Our strategy is to build a long-term savings, protection and investment group by leveraging the strength of our 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.

Fast Read

- **The following 6 pages give a high level summary of the report**
- **The report in detail starts on page 8**

Introduction from Patrick O'Sullivan

As the Group embarks on significant change, I am very pleased to be asked to add my experience to the Board in helping us meet the challenges ahead. One of my initial priorities has been to spend time getting to know as much about our business and people as possible. It is clear we have some very strong businesses and others that are positioned strategically to win in increasingly competitive markets.

The management team has also identified numerous opportunities for generating value from these businesses working together, which will be a real area of focus during 2010. We have a clear strategy and vision for the Group predicated on improving the value we offer both customers and shareholders. My thanks go to all our employees for their exceptional commitment to the Group during very difficult times. I am sure they will show the same dedication to change in the year ahead.

Patrick O'Sullivan
Chairman, Old Mutual plc

FAST READ

OUR BUSINESS AT A GLANCE

Our Values

- Integrity
- Respect
- Accountability
- Pushing beyond boundaries

For how we manage our social and environmental impact see page 129

And how we approach Risk Management see page 102

GROUP

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

Our primary operations are in the following geographies:

LTS – Southern Africa, Europe, Colombia, Mexico, India and China

US Asset management – US

Banking – Southern Africa

Short-term insurance – Southern Africa

Adjusted operating profit (AOP) 2009

£1,170m

2008: £1,136m

Funds under management 2009

£285bn

2008: £265bn

Number employed

53,706[1]

2008: 56,546

Operational highlights

- Good earnings growth in the second half of the year after a difficult first half
- Excellent progress in delivering against the five strategic priorities set in March 2009
- Capital position strengthened: FGD surplus increased from £0.7bn to £1.5bn
- Return to paying a dividend: Final dividend 1.5p per share.

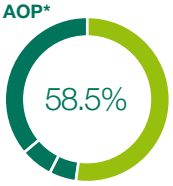
READ MORE p10

LONG-TERM SAVINGS (LTS)

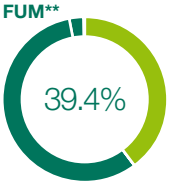
We provide innovative life assurance based solutions which address both protection and retirement savings needs.

Contribution to group

AOP*



FUM**



Adjusted operating profit (AOP) 2009

£685m

2008: £452m

Funds under management 2009

£112.2bn

2008: £91bn

Number employed

22,269

2008: 24,515

Operational highlights

- Positive second half sales momentum with a particularly strong fourth quarter
- Net client cash inflow of £1.9bn
- Strong profitability in Emerging Markets
- Good growth in funds under management in Nordic and Wealth Management
- US Life returned to profitability.

READ MORE p30

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

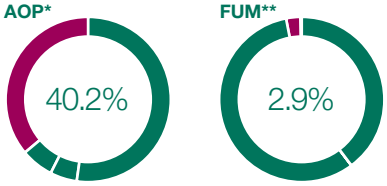
** Pie charts do not include Bermuda's contribution to the total Groups Funds under management.

[1] Includes Group Head Office and Bermuda.

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.

Contribution to group



Tier 1 Capital Adequacy Ratio

11.5%

2008: 9.6%

Total Assets

£47.9bn

2008: £41.3bn

Number employed

27,346

2008: 27,570

Operational highlights

- Performance affected in 2009 by the impact of the global recession, a difficult local economic environment and overall lower interest rates
- Growth in net interest income and non-interest revenue was offset, like other South African banks, by rising bad debts, resulting in operating profit down on 2008
- Further strengthened capital and liquidity positions.

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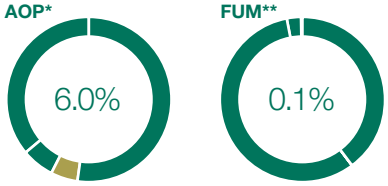
SHORT-TERM INSURANCE

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

Contribution to group



Adjusted operating profit (AOP) 2009

£70m

2008: £76m

Combined ratio

98.0%

2008: 96.1%

Number employed

2,331

2008: 2,703

Operational highlights

- Profits down on 2008 but a good recovery in the second part of the year after a very difficult first half
- New system implemented to enable efficient growth
- 100% owned by Old Mutual with effect from February 2010.

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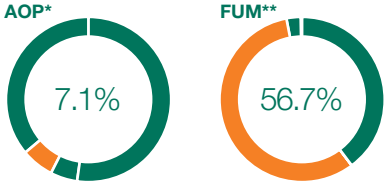
US ASSET MANAGEMENT

We aim to grow our customers' savings and wealth, whether through active and direct asset management or the selection of funds and managers for customers to invest in.

Contribution to group



Adjusted operating profit (AOP) 2009

£83m

2008: £97m

Funds under management 2009

£161.5bn

2008: £164.9bn

Number employed

1,544

2008: 1,600

Operational highlights

- Second-half operating profit 83% higher than the first half due to market growth and the success of cost-management initiatives within the business
- Nearly half the affiliates maintained positive net client cash flows although NCCF was negative and worse than 2008 for the business as a whole. This is very much in line with industry trends this past year
- Long-term investment performance remains strong.

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FAST READ

OUR STRATEGY

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

OLD MUTUAL STRATEGIC PRIORITIES

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.

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.

3 Share skills and experience across the Group

We will utilise our provide 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.

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.

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.

BUSINESS DRIVERS

To do this we expect businesses in our portfolio to make a meaningful contribution to the Group. They are required to:

- → Operate within our capital and risk requirements
- → Be capable of achieving 15% ROE
- → Add value to another part of the Group
- → Have growth potential in their markets
- → Have a clear plan to deliver profitable, sustainable growth
- → Create shareholder value into the future.

FAST READ

KEY PERFORMANCE INDICATORS

Set out below are the KPIs used to monitor the financial performance of the business

FUNDS UNDER MANAGEMENT

£285bn

ADJUSTED MCEV PER SHARE

171p

ADJUSTED OPERATING PROFIT BEFORE TAX (IFRS)*

£1,170m

ADJUSTED OPERATING PROFIT BEFORE TAX (MCEV)

£1,014m

ADJUSTED OPERATING EARNINGS PER SHARE (IFRS)*

12.1p

IFRS BOOK VALUE PER SHARE

147p

NET CLIENT CASH FLOW

£(3.1)bn

RETURN ON EQUITY*

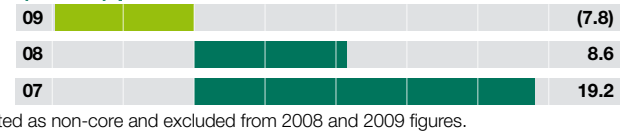
9.1%

PROFIT BEFORE TAX (IFRS)

£247m

BASIC EARNINGS PER SHARE (IFRS)

(7.8)p



*2007 figures include Bermuda. Under the Group's AOP policy this is now treated as non-core and excluded from 2008 and 2009 figures.

FAST READ

KEY FEATURES

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

LONG-TERM SAVINGS – EMERGING MARKETS

Number 1 insurance company by funds under management in South Africa*

R473bn

*As at 30.12.09. Equivalent in GBP £39.7bn

LONG-TERM SAVINGS – WEALTH MANAGEMENT

Number 1 in terms of market share in UK platform business (by assets)

Source: Lipper

US ASSET MANAGEMENT

61%

of assets outperformed benchmarks over a 5 year period

BANKING

14.9%

Total Capital Adequacy Ratio (up from 12.5% in 08) and better than the regulatory requirement of 9.75%

LONG-TERM SAVINGS – NORDIC

Skandia Link awarded "Best average return to customers on 3 and 5 year basis" for 3rd year in a row in the Swedish market

Source: Risk & Försäkring

LONG-TERM SAVINGS – EMERGING MARKETS

1 in 4 South Africans* are an Old Mutual customer

*Economically active adult population

US ASSET MANAGEMENT

25%

of client base international (ex US)

BANKING

2nd

largest retail deposit base in South Africa and one of the top three corporate banks

LONG-TERM SAVINGS – EMERGING MARKETS

Biggest market share of Life businesses in South Africa

31%

Source: LOA stats

LONG-TERM SAVINGS

12%

LTS APE margin (2008: 11%)

OLD MUTUAL GROUP

449,208

retail shareholders in South Africa

as at 31.12.09

LONG-TERM SAVINGS – WEALTH MANAGEMENT

Winner of Outstanding Service in both Life and Pensions and Investment Provider Categories (Financial Adviser Service awards)

LONG-TERM SAVINGS – EMERGING MARKETS

Number 1 in client service – Ask Africa, Service Excellence Award, Long-term insurance category – in South Africa

CHAIRMAN'S STATEMENT

Our new Chairman reflects on a challenging year for the Group

Following a year of de-risking the balance sheet, the Board and management are aligned in the goal of simplifying the Group structure and improving performance. Our international savings business is critical to achieving long-term growth and will be a special focus as we progress with implementing our strategy.

READ MORE ABOUT OUR STRATEGY p13

Patrick O'Sullivan
Chairman

I am privileged to have joined Old Mutual plc as its new Chairman at a pivotal point in its long history. You can rest assured that I and my fellow Board members are focused on delivering enhanced value to all our shareholders and building strong relationships of trust with our key stakeholders.

1.5p **The Board is pleased that we can now begin again to reward our many shareholders who have remained loyal to the Company with a final dividend of 1.5p per share**

Overview of 2009

Following the turmoil in global financial markets in 2008, 2009 was a difficult year for financial services companies, reflecting the recessionary environment that prevailed in many of the world's major economies. Despite this, the Company achieved adjusted operating earnings per share on an IFRS basis of 12.1p, which compared to 14.9p in the prior year. I believe this was a very acceptable result in these difficult circumstances. While there are non-cash charges (such as that arising on the revaluation of our own debt) which gave rise to a reported net loss, overall the Company has improved its financial strength and increased its IFRS book value (from 134p per share to 147p per share).

Board

Chris Collins retired as Chairman at the end of 2009, having served on the Board since the original listing of the Company in 1999. We are very grateful to him for his contribution and wish him a happy and fulfilling retirement.

Mike Arnold joined the Board as an independent non-executive director in September and also immediately became a member of our Group Audit and Risk Committee. His actuarial expertise is a valuable addition to the Board's skills, following his role as Chairman of the International Association of Consulting Actuaries and Principal/Consulting Actuary and Head of Life practice at Milliman. From April 2010, we are splitting the Group Audit and Risk Committee into separate Audit and Risk Committees, in line with recommendations contained in the Walker Review, and Mike has kindly agreed to take on the Chairmanship of the newly established Risk Committee. We expect this new committee will play an important role in ensuring that risk matters continue to be appropriately addressed at Board level.

The Board conducted a self-assessment exercise during 2009 in conjunction with external facilitators and one of my first tasks will be to ensure that the findings from this are implemented. There are also other increasingly onerous expectations of boards of banks and other financial institutions that I will address during the coming year.

On behalf of my Board colleagues, I would like to express our appreciation for all the dedication of the Group's employees during 2009 and for the resilience and commitment they showed during one of the most difficult years in the Group's history.

Dividend

We are pleased that the Company's improved capital position has enabled the Board to recommend a dividend for the year ended 31 December 2009 of 1.5p per share (or its equivalent in other applicable currencies) to be paid on 25 June 2010, subject to approval by shareholders at the Annual General Meeting (AGM) in May. The Board is pleased that we have been able to resume payment of a dividend and that we can now begin again to reward our many shareholders who have remained loyal to the Company during this difficult period.

AGM 2010

This year's AGM will be held at our offices in London on Thursday, 13 May 2010. In response to requests from some of our South African shareholders, we are also arranging this year for the AGM to be webcast. There is also an opportunity for shareholders, if they wish, to submit questions ahead of that meeting, which will be dealt with during the AGM. The Notice relating to our AGM enclosed with this Report includes further details of the webcast arrangements, and the various resolutions to be proposed and the procedure for submitting questions ahead of the Meeting.

Future

Following a year of de-risking the balance sheet, the Board and management are aligned in the goal of simplifying the Group structure and improving performance. Our international savings business is critical to achieving long-term growth and will be a special focus as we progress with implementing our strategy.

Patrick O'Sullivan
Chairman
11 March 2010

GROUP CHIEF EXECUTIVE'S STATEMENT

Our improved operating results for 2009 reflect better market conditions in the second half as well as our aggressive expense management as part of our drive to improve business performance. In the fourth quarter we saw especially good sales growth, with the strongest Long-Term Savings (LTS) quarterly sales performance for two years.

Julian Roberts
Group Chief Executive

Review of Operations

Introduction

Our operating results for 2009 are ahead of the previous year despite the highly volatile markets over the period. This is largely due to the improvement in market conditions during the second half, which resulted in greater demand for equity-based products from our clients and our drive to improve business performance, including the aggressive expense management programme completed in the US. We had especially good sales growth during the fourth quarter, the strongest quarterly sales performance for the LTS business for at least two years.

During 2009 our priority was to address the issues facing the Group, exacerbated by the global financial crisis. The turnaround in US Life is complete, the business in Bermuda is in run-off, we have built a strong capital and liquidity base and implemented strong central governance and controls. Despite previously announced expectations, we did not need to make any further capital injection in US Life in the early part of this year and do not anticipate any capital injection will be required during 2010.

£100m

Group-wide cost savings in the next three years

We have made good progress in the process of simplifying our portfolio of businesses and improving operational performance, with a particular focus on our long-term savings, protection and investment businesses. These represent the heart of the Group and building them is central to our future strategy, which is set out in my Strategy Update below. We are confident that by leveraging our core capabilities and applying them consistently across the Group we will deliver sustainable long-term value for all our stakeholders.

One of the strategic priorities announced in March last year was to strengthen and maintain our capital and liquidity position. I am pleased to report that we now have good balance sheet stability, as demonstrated by an increase in our FGD surplus to £1.5 billion as at 31 December 2009, from £0.7 billion at the end of 2008, and total liquidity of £1.2 billion. With the Group now in good financial health, we are able to turn our attention to the future.

Long-Term Savings (LTS)

Our LTS division delivered strong results for the year with operating profits up 52% from 2008, largely driven by the turnaround in US Life. Sales were down just 6% for the year and were up 5% in the second half compared to the same period in 2008. Margins improved, and net client cash flows and funds under management grew considerably during the year.

Two further strategic priorities that were announced in March last year were to leverage scale in our Long-Term Savings businesses and to streamline our portfolio of businesses. During the year we integrated our Long-Term Savings businesses into a single division under Paul Hanratty, Chief Executive Officer of LTS. The division was restructured around geographic and customer-related market segments, with a focus on identifying where we could extract costs and generate profitable organic growth through enhancing the customer value proposition.

We sold a number of businesses and exited a number of markets where we lacked scale and where the cost of building scale would not deliver sufficient returns, including Australia, Portugal, Hungary, the Czech Republic and Chile. We also sold Bankhall in the UK and closed our Asia Pacific regional office and our ELAM head office as part of the restructuring.

LTS: Emerging Markets

In South Africa, we have shown good resilience with strong profitability and a continuing high return on equity in very difficult economic conditions. Like-for-like sales on an APE basis were up marginally compared to the prior year. We continued to invest in our distribution capability and, as a result, we grew market share in our core product ranges and are well positioned to benefit from the recovery in consumer confidence.

WE EXPECT BUSINESSES IN OUR PORTFOLIO TO:

- → Operate within capital and risk requirements
- → Be capable of achieving 15% ROE
- → Add value to another part of the Group
- → Have growth potential in their markets
- → Have a clear plan to deliver profitable, sustainable growth
- → Create shareholder value into the future.

In Latin America, profits were up 133% in very difficult market conditions and we have developed a new retail mass product in Mexico which will be launched this year. In India, sales were down by 19%, which was better than the industry average and in China, sales were up 19%. Drawing on our South African expertise, we are developing several new products which we believe are highly suitable for these markets, some of which we have already begun selling in India.

Despite South Africa emerging from recession in the third quarter, consumer confidence remains low. However, the outlook for the Long-Term Savings, protection and investment environment is positive given South Africa's low dependence on credit, prudent economic policies, growing emerging black middle class and affluent markets, and improving regulatory frameworks and transparency of financial products. During 2010 we will continue our transition from a traditional life insurer to a modern savings, protection and investment business, while focusing on growing distribution, improving investment performance and service levels, and reducing cost.

LTS: Nordic

Life APE sales were up 8% on 2008 as our retail market continued to demonstrate resilience to the adverse economic environment, partly buoyed by increased direct sales of certain products through Skandiabanken. The recession did have an adverse impact on occupational pension sales in the corporate sector although we saw lower outflows from maturities and surrenders. Mutual fund sales were strong, up 47% on 2008 in line with wider market trends.

All of this contributed to very strong positive net client cash flows representing 13% of opening funds under management. Along with the improvement in equity markets, this helped to boost overall funds under management by 38% to a record level from the position at the end of 2008. Skandia Link in Sweden generated excellent investment returns during 2009 as customers' risk appetite improved, as demonstrated by their increased weighting in equities. Our relationship

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

with Skandia Liv is improving, although normalising the corporate and economic linkages will take time to come to fruition.

We are focused on protecting our improving margins through continued expense management, further growth in sales and new product development, including products designed for direct distribution. We are increasingly focused on our customers' needs and business profitability, while our strong brand, broad product mix and good market position give us excellent competitive advantage. Although the financial markets continue to be volatile, the outlook for the Nordic markets is favourable.

LTS: Retail Europe

The difficult economic environment had a much more marked impact in our Retail Europe countries. Unit-linked markets were considerably weaker as demand for guarantee products increased, resulting in lower than anticipated new business in the second half. Life APE sales were down 34% compared to the prior year, and IFRS profit was adversely affected by a substantial one-off charge in respect of policyholder profit sharing agreement with the regulatory authorities in Germany between 2005 and 2007. The performance of the business improved dramatically in the fourth quarter, with sales up 57% compared to the previous three months, driven particularly by the German and Polish markets.

Overall net client cash flows for the year remained strong compared to 2008, remaining flat against 2008 levels and representing 15% of opening funds under management, driven by improved surrender experience. Funds under management were up 27% on the 2008 year-end position, supported by our asset mix and improved client investment appetite during the second half.

After the change in structure in LTS, we focused on laying the foundations for business improvement and growth. We are developing single-premium products in line with growing customer demand and through improved distribution of regular-premium products have good prospects for over two-thirds of anticipated sales for 2010. With further product expansion out of South Africa, from which lower cost administration will also be provided for the business, we will now seek to grow market share and sustainable profitability.

LTS: Wealth Management

Again, the volatile markets during 2009 had a considerable impact on customer confidence, although sentiment improved in the second half which helped to grow sales, net client cash inflows and assets under management. Despite the tough first half, net client cash inflows for the year were up 25% and funds under management were up 21% as at 31 December 2009.

In the UK, the transition to our platform-enabled model was evidenced by the 22% increase in non-covered mutual fund business over 2008 versus a 6% decline in covered business, as clients' investment preferences shifted from more traditional life products into mutual funds. On the back of our strong distributor relationships, APE sales in Italy increased significantly as we grew our share of the unit-linked market from 4% to 12%, while in France sales remained steady with good growth in the fourth quarter. Total Wealth Management APE sales for the fourth quarter increased 38% over the previous quarter.

We remain the leading UK platform provider with a market share of 33% of total assets as at the end of 2009. We have launched a significant operational efficiency drive as well as seeking to enhance our new product offerings using the skill base in South Africa, where we develop our own technology. This is a distinct advantage over our competitors and when marketing to new customers. We are well positioned to capture the strong anticipated inflows as a result of increased customer demand for low cost and transparent products, and as they look to exit maturing traditional products such as with-profits bonds and endowments.

LTS: US Life

2009 was a transformation year for US Life. Having reduced the product profile, scaled back distribution and reduced the overhead base by 33%, the business returned to profitability on an AOP basis. As planned, Life APE sales were down 57% but despite this decrease in sales volume, we maintained strong relationships with the top-tier producing agents through whom we are now selling more profitable, capital light products. Margins for the year were strong at 20%.

The business did not need additional capital from the Group in the early part of this year and we believe we will not need to inject any further capital during

During 2010 we will continue our transition from a traditional life insurer to a modern savings, protection and investment business

2010. The business is now self-sustaining and is well positioned to deliver improved returns during 2010 on higher sales levels and a lower cost base, with new FIA and Universal Life products due to be introduced in the second quarter.

Bermuda

Our Bermuda business is now closed to new business, is in run-off and is treated as non-core. During 2009 the focus has been on de-risking, maintaining a stable operating environment, reducing costs, and managing capital and liquidity. We have continued to improve our understanding of the liabilities, with all positions monitored and marked to market on a daily basis. Most guarantees remain 'in the money' and the level of redemptions has remained low. However, if markets continue to rise and the value of customers' contracts move above the guarantee level, we anticipate a pronounced increase in the level of redemptions, which will accelerate the run-off.

Nedbank

The South African banking industry experienced an exceptionally tough and volatile year in 2009. Demand for credit grew at historically low rates and retail impairments increased dramatically as consumers came under severe pressure from falling income, job losses, declining asset prices and record high debt burdens. Despite the negative economic trends, underlying trading conditions showed early signs of improvement from the third quarter, when South Africa emerged from recession.

Nedbank's net interest income grew 0.8% to R16.3 billion and non-interest revenue, including the consolidation of the Bancassurance & Wealth joint ventures, grew by 11% to R11.9 billion. However, in line with expectations and with the other South African banks, earnings were impacted by rising bad debts. Although Nedbank's credit loss ratio declined to 1.47% for 2009, its liquidity position remains sound and its capital ratios remain above target levels. The Tier 1 capital adequacy ratio improved from 9.6% at the end of 2008 to 11.5% at the year-end, and the total capital adequacy ratio increased from 12.4% to 14.9%.

The rebound in the South African economy is likely to be slower than in previous cycles given weak consumer and business confidence and tighter lending criteria. However, retail trading conditions are expected to improve and interest rates are likely to remain steady at current levels, leading to lower impairments. The strength of Nedbank's balance sheet positions it well to capitalise on growth opportunities and to benefit from the expected turnaround in economic conditions.

US Asset Management

Although market conditions in 2009 were challenging, we took a number of actions to drive more profitable growth in this business. We have reorganised our central distribution structure, and strengthened our shared services offer to our affiliates and key aspects of our successful multi-boutique model. We reduced operating expenses by 22% and carried out a reorganisation of Old Mutual Capital, our retail mutual fund business, which will deliver $15 million to $20 million of annual expense savings from 2010.

Our track record of investment performance has positioned us well relative to competitors, and our diversified asset mix between equities, fixed income and alternatives helped us weather market volatility. While net client cash flows were down, they were broadly in line with the average of our peer group for the year. This partially offset a 16% rise in asset values resulting in funds under management for the year increasing by 9% to $261 billion.

Non-US clients already represent 25% of total funds under management as at the end of the period, and a key objective is to grow and diversify by expanding our international distribution capability. Prior to the recent market turmoil, clients were migrating asset allocation decisions toward international, global and alternative strategies. We believe these trends will continue in 2010, and our track record of investment performance and global business focus positions us well to capture these asset flows. Churn of underperforming managers in traditional domestic equity and fixed income mandates will also present opportunities to win new mandates.

Dividend

The Board has carefully considered the position in respect of a final ordinary dividend for 2009, and is recommending the payment of a final 2009 dividend of 1.5p per share (or its equivalent in other currencies).

The Board intends to pursue a dividend policy consistent with our 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.

Strategy Update

During 2009 our priority was to stabilise the business by addressing the issues in US Life and Bermuda and restoring the capital and liquidity positions of the Group, whilst at the same time implementing more effective governance and controls. With substantial improvements in place, we also started the process of simplifying our portfolio of businesses and improving our operational performance, while further examining the Group to determine its optimal future shape. We now have a clear strategy to build a cohesive long-term savings, protection and investment group by leveraging the strength of our capabilities in South Africa and around the world.

The strategy is designed to focus, drive and optimise our businesses to enhance value for both our

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

customers and shareholders. It will increase our international cash earnings and overall return on equity. It will result in a rationalisation of our activities over time, reducing substantially the complexity of the Group, and optimise our structure as we manage our businesses with a disciplined approach to risk management, governance and allocation of capital.

We will reduce our exposure to the US by exploring the disposal of US Life. We anticipate the listing of a minority shareholding in US Asset Management. We will continue to sell or exit markets where we do not have scale, have no prospect of achieving satisfactory returns or where the operations are outside of our risk tolerance. We expect the proceeds from this rationalisation and from retained earnings will be used to reduce debt by at least £1.5 billion and improve the quality of the Group's balance sheet.

We will retain businesses which meet our capital and risk requirements, can achieve a 15% return on equity, add value to other parts of the Group, have scope for sustainable future growth and are capable of creating future shareholder value. We will be ruthless in our application of these criteria and our businesses will be subject to continual review. By leveraging our core capabilities and maximising available synergies, we will deliver a good blend of profit growth, improved cash returns and generation of long-term embedded value. We will transfer technology and intellectual capital through shared skills and infrastructure, based on utilising our strong capabilities in South Africa and around the world to drive revenue and cost improvements.

We will focus on developing our customer proposition which is relevant to their needs, backed up by good distribution, support and service. We aim to deliver high performance in each of our businesses by driving profitable growth and operational efficiency, optimising risk and return and aligning reward schemes to activities that deliver value, with strengthened governance and control from the centre.

We have set specific targets of reducing costs by £100 million by the end of 2012, including £15 million of Group-wide corporate cost savings as the Group structure evolves. We have also set specific performance targets for our individual LTS businesses and for LTS as a whole, as set out below.

Long-Term Savings

Our LTS businesses can be categorised into three groups: those in mature markets which have scale and deliver high cash returns, such as Old Mutual South Africa (OMSA) within Emerging Markets; those that are established and growing but where profitability can be improved, such as Wealth Management and Nordic; and those that are sub-scale but have strong prospects for growing embedded value and delivering good return on equity, such as Retail Europe and, within Emerging Markets, India and China.

We have set targets to deliver cost savings of £75 million per annum and to improve overall return on equity from 14.9% (excluding US Life and reflecting the LTIR rate for Emerging Markets for 2010) as at 31 December 2009 to between 16%-18%, both by the end of 2012. To achieve this, we have set specific return on equity and cost savings targets for each of our LTS businesses.

Over and above this, we have identified opportunities for further cost and revenue synergies in three principal areas: in IT, by extending outsourcing to a global level, rationalising technology platforms and sharing applications; in administration by taking advantage of the efficient cost base in South Africa; and in product development, through sharing products and investment funds across our businesses.

In Emerging Markets, we are already distributing products designed in South Africa into India and expect to do the same into the other large and under-penetrated markets such as China and Mexico. South Africa has a well regulated long-term savings industry and a growing middle income and affluent market, which we are penetrating through our strong brand and powerful distribution platforms. We are therefore co-ordinating our Emerging Markets business, which includes our Africa operations, from OMSA. Having acquired the minorities in Mutual & Federal, we are also developing Old Mutual branded short-term insurance products for the South African middle income market. We have set a cost reduction target for Emerging Markets of £5 million per annum and a return on equity target of between 20%-25% by the end of 2012.

In Sweden, we already have a strong market share and are now broadening our product and service offering to the direct market through Skandiabanken, the region's most successful internet bank. For example, through Skandia Investment Group (SIG) we have exported the highly successful Spectrum concept of risk-targeted funds from the UK to Sweden, and Skandia Nordic has developed its own supporting web-based advisory tools for its direct customers. For the Nordic business we have set a cost reduction target of £10 million per annum and a return on equity target of between 12%-15% by the end of 2012.

In Retail Europe, we are already making good progress in transferring IT and back office functions to South Africa, which will significantly improve margins. We will also broaden its product set, including introducing protection products. We have set a cost reduction target for Retail Europe of £15 million per annum and return on equity target of 15%-18% by the end of 2012.

We have commenced an expense reduction exercise in Wealth Management which is intended to deliver cost savings across the business of £45 million per annum by 2012, with associated one-off restructuring costs at approximately the same level. The bulk of this is in Skandia UK, which is aiming to reduce its cost base in order to operate profitably and sustainably in the new low-margin environment. We already have an excellent platform capability and will be developing increased functionality and new products, sourced in South Africa, which are capital-light but provide good downside protection. We have also set a Wealth Management return on equity target of between 12%-15% by the end of 2012.

We have made a number of new appointments in LTS to help ensure delivery against these targets. We have appointed a new head of product development from within OMSA, and expanded the roles of other senior OMSA executives to enhance operational efficiency and distribution across our LTS businesses. We are also in the process of appointing a new head of IT. They will all report directly to Paul Hanratty, Chief Executive Officer of LTS.

Following the completion of the expense management programme in US Life, the business is now profitable on an AOP basis and is able to grow without further support from the Group. However, it lacks scale, has little overlap with the rest of our LTS businesses and, given its capital intensive nature, the risk-adjusted return on further investment does not meet our hurdle rate. As a result, with market conditions improving, we are exploring the disposal of US Life to allow the business to achieve its potential under different ownership. We remain firmly committed to supporting the business at an RBC ratio of 300%.

Asset Management

We have excellent, well established asset management businesses which are highly profitable and generate good cash flow. In South Africa, we are already the market leader and with investment performance improving we are confident of driving future net client inflows. In Europe, we expect guided architecture to complement our open-architecture platform, allowing us to capture significant inflows within SIG, our manager-of-managers business.

In the US, there are considerable opportunities for growing the business and expanding our existing franchises into international markets. We have already completed an expense management programme which reduced costs by 22%. The resulting margin improvement, together with anticipated growth in performance fees in line with the recovery in markets, will drive strong profitability and cash flows to the centre. We have also set a new cost reduction target of £10 million per annum and margin target of 25%-30% by the end of 2012.

We believe this will position the business well for a future listing and anticipate a partial IPO for the business within the next three years. The timing is dependent on margin progression, investment performance and market conditions. The IPO will allow it to benefit from an enhanced market profile and more visible valuation. It will provide access to capital markets and a mechanism for growth, and allow us to continue to improve the alignment of management.

Banking

In line with the South African banking industry, Nedbank's result was affected by the cyclical credit stress in the domestic economy. Despite the increased level of retail impairments, Nedbank has continued to strengthen its capital base. The sophisticated and well regulated South African banking system has ensured that the banks in South Africa were well insulated from the worst of the global financial crisis, while Nedbank's strong management team has continued to drive world-class risk management practices and outstanding performance in nearly all areas of the business. Despite the negative economic trends in 2009, underlying trading conditions showed early signs of improvement around the third quarter.

I am pleased to welcome the new Nedbank Chief Executive, Mike Brown and look forward to his contributions to our Group Executive Committee. As Mike and his team develop their future banking strategy, I look forward to discussing any changes Mike would like to make to the Nedbank strategy to continue its growth. We thank Tom Boardman for his tremendous success in the rehabilitation of Nedbank after we led its refinancing in 2004.

Outlook

We are determined that over the medium to long-term these measured and fully-funded actions will provide considerable value for shareholders. Together with further growth in assets under management as market conditions continue to improve, these actions will have a significantly positive impact on underlying operating profitability and return on equity. Accordingly, the Board has every confidence in the Group's prospects, as reflected by the resumption of a dividend.

Julian Roberts
Group Chief Executive
11 March 2010

GROUP FINANCE DIRECTOR'S STATEMENT

The Group delivered a solid performance in 2009 which is a satisfying result against a difficult economic background, particularly during the first half of the year. In the second half strong sales performance, the success of expense management activities and recovering equity markets helped generate good earnings growth.

Philip Broadley
Group Finance Director

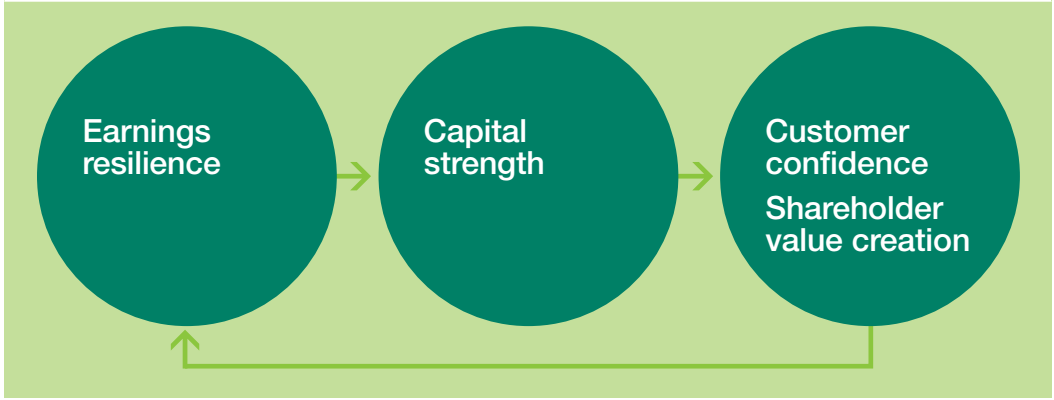
The Group delivered a solid performance in 2009, which is particularly satisfying given the volatile market and weak operating conditions seen during the year, particularly during the first half. Our performance improved significantly in the second half of the year, when strong sales performance in the third and fourth quarters and recovering markets helped deliver good earnings growth. Across the Group as a whole, we have seen sales return to similar levels as in the first half of 2008. The decline in profitability in Europe and Nedbank was more than offset by the increase in profitability of the US Life business, following reserve strengthening and impairment losses in 2008.

IFRS adjusted operating profit (AOP) for 2009 of £1,170 million was £34 million higher than the comparable 2008 profit. Adjusted operating profit in the second half of 2009 was £636 million compared to £316 million for the second half of 2008. Adjusted operating profit earnings per share were 12.1p for 2009 compared to 14.9p for 2008. The AOP EPS for the second half of 2009 was 6.8p compared to 6.2p for the second half of 2008. In 2008 results had been significantly affected by the need to strengthen reserves in the US Life and Bermuda business: these businesses both made a profit

£1,170 million

Adjusted operating profit before tax (IFRS basis)

VIRTUOUS CIRCLE OF FINANCE



in 2009. Bermuda is now treated as a non-core business and its profit is therefore excluded from the IFRS adjusted operating profit and the 2008 IFRS adjusted operating profit has been restated on the same basis.

In particular the performance of our LTS business showed the benefits of the geographic split of the business between Europe and Emerging Markets. While the profits from our Emerging Markets business were broadly evenly spread across the two halves of the year, both Nordic and Wealth Management showed significant improvements in the second half. Lower earnings on shareholder funds, increased levels of credit impairment in the banking businesses, and lower asset management profits in South Africa and the US restricted profits despite a creditable sales performance for the year overall.

Overview of 2009 Group results

Group Highlights (£m)	£m 2009	£m 2008	% Change
IFRS results			
Adjusted operating profit (IFRS basis)(pre-tax)*	**1,170**	1,136	3%
Adjusted operating earnings per share (IFRS basis)*	**12.1**	14.9	(19%)
Basic earnings per share	**(7.8p)**	8.6p	(191%)
(Loss)/profit after tax	**(118)**	683	(117%)
Sales statistics			
Life assurance sales – APE basis*	**1,380**	1,466	(6%)
Life assurance sales – PVNBP basis*	**10,202**	10,814	(6%)
Value of new business*	**167**	158	6%
Unit trust/mutual fund sales	**7,567**	6,600	15%
MCEV results			
Adjusted Group MCEV (£bn)	**9.0**	6.2	45%
Adjusted Group MCEV per share	**171.0p**	117.6p	45%
Adjusted operating Group MCEV earnings (post-tax)	**562**	575	(2%)
Adjusted operating Group MCEV earnings per share	**10.7p**	11.0p	(3%)
Financial metrics			
Return on equity*	**9.1%**	11.3%	
Return on Group MCEV	**10.7%**	7.8%	
Net client cash flows (£bn)	**(3.1)**	(1.2)	(158%)
Funds under management(£bn)	**285**	265	8%
Dividend	**1.5p**	2.45p	
FGD (£bn)	**1.5**	0.7	114%

* Treating Bermuda as a non-core business

GROUP FINANCE DIRECTOR'S STATEMENT CONTINUED

International Finance Directors who all report to Philip Broadley

Katie Murray
Group Head Office

Diane Radley
Emerging Markets

Marek Ryden
Nordic

Christer Hager
Retail Europe*

Mark Satchel
Wealth Management

Barry Ward
US Life

Raisibe Morathi
Nedbank

Debbie Loxton
Mutual & Federal

Matt Berger
US Asset Management

Valerie Smart
Bermuda

*From March 2010 Markus Deimel will represent Retail Europe

Net client cash flows were £1.9 billion positive in LTS as a whole, although Group net client cash flows were negative £3.1 billion as a result of the net £4.5 billion outflow in US Asset Management, of which £4.1 billion occurred in the fourth quarter.

Adjusted Group MCEV per share for 2009 increased to 171.0p from 117.6p at the year end 2008, and from 143.8p for the first half of 2009. The increase in the adjusted Group MCEV per share over the period was largely driven by the substantial reduction over the period in corporate bond credit spreads in US Life, an increase in equity markets, positive exchange rate movements, operating earnings from covered business, and an amendment arising from an allocation of assets between covered and non-covered businesses at the beginning of the year. This was partially offset by a lower result in operations in Europe, and by an increase in the market value of listed debt and fair value of non-listed debt (where applicable). As anticipated, Wealth Management benefited from a tax gain in aggregate of £205 million following the changes made to the corporation tax treatment of dividends received from overseas subsidiaries by the Finance Act 2009. MCEV data still includes Bermuda as covered business for both 2008 and 2009.

Adjusted operating Group MCEV earnings per share for 2009 of 10.7p were 3% lower than the 2008 year end results. Adjusted MCEV operating earnings in US Life and Bermuda increased significantly, mainly resulting from higher expected returns in 2009 from the corporate bond portfolio. This was offset by lower operating earnings from the other long-term insurance businesses (in particular, Wealth Management) due to lower short-term swap rates, adverse operating assumption changes in relation to persistency and capitalisation of planned development and project expenditure, and lower earnings in both the asset management and banking businesses. These fell on a pre-tax basis from £97 million to £83 million, and from £575 million to £470 million respectively.

The ROEV of 10.7% has increased significantly from 2008 largely as a result of the lower opening MCEV for 2009.

Reconciliation of IFRS and AOP profits

The IFRS after tax result for 2009 was a loss of £118 million, compared to a profit of £683 million in 2008. This movement was largely driven by the impact of marking-to-market of Group debt, as the improvement in the external valuation of Group debt in 2009 negatively impacted profit after tax by £263 million for the year, reversing the positive impact of £503 million of marking-to-market our own debt instruments in 2008. The movement was also driven by the unusually high effective tax rate on the IFRS results. In accordance with our AOP policy, a charge relating to acquisition accounting of £443 million and negative short-term fluctuations in investment return of £316 million represent the other significant deductions from the adjusted operating profit (pre-tax) to arrive at the 2009 loss after tax. As usual at the year-end, we have reviewed our goodwill balances, and we have

recognised a goodwill impairment (included within the acquisition accounting charge noted above) of £187 million in respect of Retail Europe business and £79 million in respect of Wealth Management which arose specifically in continental Europe. This impairment reflects a downgrading of our view of the value of these businesses since the time of acquisition given the changed economic circumstances in Europe and market readjustments. We continue to recognise goodwill of around £200 million for Retail Europe which we believe is supportable going forward, and the goodwill for the continental Europe part of Wealth Management has been written off. There was also a release of other provisions relating to long-standing litigation matters of £61 million.

Management Discussion and Analysis of Results for 2009

The principal businesses of the group are the Long-Term Savings division, Nedbank, Mutual & Federal and US Asset Management. During the year, Old Mutual owned on average 55% of Nedbank and 74% of Mutual & Federal. At 31 December 2009, the market capitalisation of Nedbank was £5.2 billion and of Mutual & Federal was £610 million. Since 31 December 2009, Old Mutual has completed the purchase of the remaining minorities of Mutual & Federal.

Long-Term Savings

The key financial metrics for the Long-Term Savings division are shown in the table below:

£m

2009	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Total
Life assurance sales (APE)	**393**	**235**	**67**	**617**	**68**	**1,380**
PVNBP	**2,834**	**1,150**	**537**	**5,042**	**639**	**10,202**
Value of new business	**65**	**44**	**(5)**	**49**	**14**	**167**
Unit trust/mutual fund sales	**2,765**	**393**	**24**	**3,210**	**–**	**6,392**
NCCF (£bn)	**(1.6)**	**1.0**	**0.5**	**2.5**	**(0.5)**	**1.9**
FUM (£bn)	**43.5**	**11.0**	**4.1**	**46.9**	**6.7**	**112.2**
Adjusted operating profit (IFRS basis) (pre-tax)	**446**	**62**	**22**	**106**	**49**	**685**
Operating MCEV earnings (covered business) (post tax)	**212**	**81**	**(44)**	**(4)**	**266**	**511**

£m

2008	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Total
Life assurance sales (APE)	362*	213	91	664	136	1,466
PVNBP	2,482*	991	555	5,540	1,246	10,814
Value of new business	61*	32	10	67	(12)	158
Unit trust/mutual fund sales	2,708	262	47	2,561	–	5,578
NCCF (£bn)	(1.8)	0.6	0.5	2.0	–	1.3
FUM (£bn)	40.3	8.0	3.5	38.9	0.3	91.0
Adjusted operating profit (IFRS basis) (pre-tax)	415	88	29	150	(230)	452
Operating MCEV earnings (covered business) (post tax)	343	149	14	229	(364)	371

* Includes Nedgroup Life sales. The comparative figures excluding Nedgroup Life are as follows: APE: £334m; PVNBP: £2,399m; VNB: £53m

GROUP FINANCE DIRECTOR'S STATEMENT CONTINUED

LTS reported strong results with IFRS operating profits up 52%, margins improved, and there was strong growth in funds under management, with positive net client cash flows. Sales for the whole of LTS were down only 6% for the full year, but up 5% for the second half compared to the same period in 2008. Emerging Markets sales in the first half were strong relative to those of other parts of LTS reflecting the later entry of South Africa into recession. Wealth Management sales performance in the second half was particularly strong, as was Nordic with very good NCCF and funds under management. Sales in Europe accounted for 67% of the APE and 53% of the value of new business. US Life sales were as planned, and the turnaround in the US Life business, which has delivered a small AOP profit, as compared to a significant loss in 2008, led to the increase in IFRS operating profits.

The APE margin of 12% for the year held up well relative to the comparative period (2008: 11%) despite the lower sales, and given the greater focus on product pricing. The PVNBP margin has also remained steady.

Further discussion on the drivers for the movements within the individual units of LTS, namely Emerging Markets, Nordic, Retail Europe, Wealth Management and US Life is given in the Business Review which follows.

Shareholder allocation and long-term investment return

The AOP result includes the long-term investment return (LTIR) result. The most significant portion of this return arises in the Emerging Markets unit, and in 2009 we have separated the return into those assets supporting OMLAC(SA)'s Capital Adequacy Requirement (CAR) and the excess shareholder assets. OMLAC(SA) is our principal legal entity in the South African part of the Emerging Markets Business Unit. The analysis of the investment return for this business is shown in the table below:

In 2009, the OMLAC(SA) LTIR fell from £133 million to £126 million and reflects a lower expected return of 13.3% (2008: 16.6%) combined with a lower average asset base. In 2010, the LTIR rate for OMLAC(SA) and M&F is 9.4% reflecting the expected asset mix of 25% equities and 75% cash. OMLAC(SA)'s investible asset base at the year end was £1.2 billion, with £1 billion being the assets supporting their capital requirement. The LTIR rates for the European business units reflect the shift towards a higher proportion of cash investment. The LTIR rates for the other businesses have not changed materially in 2009, and are expected to remain stable in 2010.

Currency development

The South African rand strengthened this year by 14% against sterling and the US dollar strengthened against sterling by 15% on an average basis over the year. This had the effect of improving rand-denominated and dollar earnings whilst decreasing the sterling value of dollar-denominated debt at the year-end rates.

Return on Equity

Return on Equity for the Group declined to 9.1% in 2009 from 11.3% in 2008, primarily due to the lower profits from Nedbank, a return to a normalised tax rate and lower European profits, partially offset by improvements in US earnings.

Funds under management and net client cash flow

Funds under management at 31 December 2009 were £285 billion compared to £265 billion at the end of 2008. During 2009, Old Mutual delivered robust investment performance in challenging markets. Group net client cash flows were negative £3.1 billion, as a result of the net £4.5 billion outflow (net of Group transfers) in US Asset Management, although net client cash flows were £1.9 billion positive in LTS as a whole. We produced positive flows of £4.0 billion in our Wealth Management, Nordic and Retail Europe businesses combined,

£m

	31 December 2009 as currently reported	31 December 2008 restated	31 December 2008 as previously reported
OMLAC(SA) LTIR	**126**	133	241
Other operating segments	**91**	108	0
Total	**217**	241	241

offset by outflows of £1.6 billion in our Emerging Markets business and £0.5 billion in our US Life business. The USAM negative net client cash flow was a result of outflows from several of our US Asset Management affiliates.

The overall FUM and NCCF result is pleasing, considering the challenges of delivering on absolute investment performance in the extremely volatile markets of the past two years. While over the course of 2009, the FTSE-100, the JSE Africa All Share Index and S&P 500 all grew more than 15%, within the period there has been significant fluctuation in many asset classes. The US and South African equity portfolios showed the greatest volatility. Given the movement in monthly funds under management during the period, there were adverse impacts on both management fees and performance fees in the first half of 2009, and these reversed in the second half of 2009. Our large fixed income assets under management performed well. Investment performance in South Africa improved on prior years. Benchmark performance of the US Asset Management business was mixed, with 'quant' underperforming and 'credit' out-performing.

Key actuarial and MCEV developments in 2009

Old Mutual reports its supplementary embedded value information in accordance with the Market Consistent Embedded Value Principles (the 'Principles') issued in June 2008 by the CFO Forum and updated in October 2009 to reflect the inclusion of a liquidity premium. 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 performing further work to develop more detailed application guidance. The Principles have been fully complied with for all businesses at 31 December 2009.

For the US Life business and OMLAC(SA)'s Retail Affluent Immediate Annuity business we considered the currency, credit quality and duration of our actual corporate bond portfolios, together with a wide range of liquidity market data and literature, and derived adjusted risk-free reference rates at 31 December 2009. It is the Directors' view that a significant proportion of corporate bond spreads at 31 December 2009 is attributable to a liquidity premium rather than credit and default risk and that returns in excess of swap rates can be earned on our portfolios, rather than entire corporate bond spreads being lost to worsening default experience. Liquidity premiums of 100 basis points for the US Life business (31 December 2008: 300 basis points; 30 June 2009: 175 basis points) and 50 basis points for OMLAC(SA)'s Retail Affluent Immediate Annuity business (31 December 2008: zero allowance; 30 June 2009: 50 basis points) were added to swap rates used for setting investment return and discounting assumptions. We believe that the differences between market yields on our US Life and OMLAC(SA)'s Retail Affluent bond portfolios and the adjusted risk-free reference rates still provide adequate implied margins for defaults. No liquidity adjustment is applied for other regions.

When the liquidity premium adjustment was calibrated and introduced for US Life business at 31 December 2008, similar research was not yet concluded for South Africa to estimate the quantum of the liquidity premiums inherent in South African corporate bond spreads. In addition, the impact of a liquidity premium adjustment on US Life business was far more material than for OMLAC(SA)'s Retail Affluent Immediate Annuity business as the concentration of investments in the corporate bond market is far greater and the widening of corporate bond spreads has been more pronounced in the US compared to other regions. Hence the application of a liquidity premium adjustment was initially focused on the US and an adjustment was only introduced for OMLAC(SA) at 30 June 2009 for consistency in methodology.

The recovery of global equity markets together with the contraction of corporate bond spreads, whilst partly offset by the reduction in the liquidity premium adjustment for US Life, were the main factors driving positive economic variances of £1.0 billion for 2009. In addition there was also a strong contribution from foreign exchange movements mainly caused by strong rand appreciation against sterling.

Adverse persistency was experienced across a number of operations and the organisational restructure led to negative expense variances, although this was partly offset by positive mortality variances across all operations.

Persistency assumptions were strengthened, partly to allow for temporary worsening in persistency, and planned development and project expenditure has been capitalised in the value of in-force (VIF). This was partly offset by positive mortality assumption changes, in particular because of a weakening of mortality assumptions in OMSA's Retail Mass business following positive experience for assured lives.

GROUP FINANCE DIRECTOR'S STATEMENT CONTINUED

The MCEV of Wealth Management was boosted by the removal of dividend tax in the International business.

Following the purchase of the minority interests in respect of Mutual & Federal on 8 February 2010 in exchange for 147 million Old Mutual plc shares, Mutual & Federal has been delisted and will be incorporated in the adjusted Group MCEV at its IFRS equity amount from 2010 onwards. If the transaction had completed on 31 December 2009, it would have diluted the 2009 adjusted Group MCEV per share by approximately 6p.

The anticipated expected existing business contributions (or expected 'unwind' of the MCEV) at the 'reference rate' of £262 million as well as 'in excess of the reference rate' of £189 million for the twelve months following the year ended 31 December 2009 are 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 2010 may differ from these results.

Lapses and Surrenders

We continue to monitor and manage actively the lapse and surrender behaviour of customers and specific agents. The pattern of surrenders in the US during 2009 was more volatile than in 2008 in the fixed annuity book, similar to industry-wide trends, and terminations were above assumption levels for the first half of 2009. A moderation through the second half brought about by an active lapse and surrender management programme had the effect of reducing fixed annuity termination rates close to assumption levels. Termination experience for life products was below assumed levels and fixed annuity experience improved during the course of the year.

Emerging Markets saw some indications of deteriorating persistency in certain regular premium Retail Mass products given the economic conditions in the first half of 2009, which led to increased unemployment. Lapse and surrender management programmes in the unit are well established, but we have nevertheless strengthened operating assumptions for our Emerging Markets unit, partially short-term, and this reduced MCEV by £83 million.

The experience in Wealth Management, particularly in the UK and International businesses, reflected anxiety around equity-based investments although this stabilised in the second quarter and onwards for the rest of 2009. However, given the changes in the operating model of the UK business and the migration to the platform business from the older product lines, we have also made a negative operating assumption change of £81 million in respect of persistency.

Elsewhere in LTS, trends were generally in line with assumptions.

Surrenders in Bermuda occurred mainly on the non-guaranteed book as asset values recovered. Conservation activity here focused on managing cash flow and profitability, and efforts in this regard are likely to develop further in 2010 in a way that is consistent with maximising long-term value for the Group.

Overall the financial circumstances of our customer base remain the key driver of lapse and surrender behaviour. For example, rising unemployment in a number of markets has led to what we believe to be a temporary deterioration in persistency, which should revert back to long-term assumptions as economic conditions improve.

Capital, liquidity, leverage and dividends

Capital

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive, at 31 December 2009 was £1.5 billion (31 December 2008: £0.7 billion; 30 June 2009 £1.0 billion). This represents a coverage ratio of 135%, compared to 121% at 31 December 2008 and 128% at 30 June 2009. The increase since 31 December 2008 comprises the statutory earnings in the period, rand strength and a Nedbank Tier 2 capital raising offset by modest rises in statutory bank capital requirements in South Africa. There was a positive £0.1 billion movement in FGD arising from management actions including the disposal of Australia, closure of Bermuda to new business, and a change in the investment mix of Emerging Markets' shareholder funds held to back the Capital Adequacy Requirement. The Group FGD surplus was reduced by £42 million compared to 2008, as US Life is now included at 200% of local capital required rather than 150% as in prior periods.

Our Group capital is structured in the following way:

				£m
	2009	**%**	2008	%
Ordinary Equity	**4,218**	**73**	3,048	70
Other Tier 1 Equity	**611**	**11**	573	13
Tier 1 Capital	**4,829**	**84**	3,621	83
Tier 2	**2,550**	**44**	2,430	56
Deductions from total capital	**(1,597)**	**(28)**	(1,724)	(39)
Total Capital	**5,782**	**100**	4,327	100

Tier 1 includes £174m of the 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 Solvency II Directive was approved by the European Union in November 2009, and is scheduled to come into effect in October 2012. The Group is actively participating in the industry consultations, such as the Quantative Impacts Studies, which are taking place to develop the more detailed implementation measures which the European Union will agree over the next two years.

The Solvency II Directive is intended to align the regulatory capital regime for insurers more closely with the economic risk view of the business. However, it also changes the qualifying criteria for regulatory capital in response to the market events of the past couple of years, and in addition, has considerable implications on the governance structures and operating models for EU insurance businesses. Although the Solvency II Directive applies to EU insurers only, it applies to the Group's businesses globally; furthermore we expect other jurisdictions, notably South Africa, to implement equivalent regimes shortly afterwards.

Our subsidiary businesses continue to have strong local statutory capital cover.

We remain committed to supporting the US Life capital ratio at a level above 300% RBC. In February 2009, $225 million of cash was injected into the US Life business. Since then, the improvement in performance has meant that the Group has not been required to provide any net additional capital to the US Life businesses. This compares favourably with our previous guidance where we stated the business could require between $200-300 million. The development for 2010 capital needs in US Life depends upon a wide range of factors including our statutory earnings, market movements, ratings migration and the implementation of possible changes to both US GAAP and NAIC accounting rules which are currently under consideration. Such developments may result in a release of statutory capital requirements in due course. Given the capital position of the business and our expected level of IFRS impairments for 2010 of $55 million, we do not anticipate a capital injection into the business during 2010.

Liquidity and Cash Flow

As a Group we concentrate on maintaining effective dialogue and strong commercial relationships with our banks and fixed income investors. In 2009 we have successfully extended two existing bank facilities of £250 million, have put in place an additional three-year bank facility of $200 million, and in October 2009, we successfully placed

	At 31 December 2009	**At H1 2009**	At 31 December 2008
Statutory Entity	**Ratio**	**Ratio**	Ratio
OMLAC(SA)	**4.1x**	**3.9x**	3.8x
Mutual & Federal	**172%**	**141%**	104%
US Life	**312%**	**281%**	305%
Nordic	**10.8x**	**10.8x**	9.9x
UK	**2.9x**	**3.0x**	2.5x
Nedbank*	**Core Tier 1: 9.9%**	**Core Tier 1: 8.6%**	Core Tier 1: 8.2%
	Tier 1: 11.5%	**Tier 1: 10.0%**	Tier 1: 9.6%
	Total: 14.9%	**Total: 13.2%**	Total: 12.4%

* This includes unappropriated profits.

GROUP FINANCE DIRECTOR'S STATEMENT CONTINUED

a £500 million seven-year 7.125% fixed rate senior bond.

At 31 December 2009, the Group holding company had total liquidity headroom of £1.2 billion (2008: £0.6 billion), comprising cash of £0.4 billion and undrawn facilities of £0.8 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 its normal trading operations.

The Group generated £434 million of free surplus in the year (2008: £83 million), of which £249 million (2008: (£158) million) was generated from covered business, and £551 million (2008: £308 million) was generated by the LTS division. Bermuda continues to be included as covered business for both 2008 and 2009.

Leverage

Our reported net debt at 31 December 2009 was 0.4% up on the 2008 year-end position at £2,273 million, but was £102 million lower than at 30 June 2009. This represented senior debt leverage of 1.8% compared to 5.4% in 2008 and total debt leverage was 20.1% in 2009, compared to 26.7% in 2008.

At 31 December 2009, our gross debt on an IFRS basis was £2,842 million, and at market value it was £2,526 million.

During the year, the business units contributed £529 million of inflows which were offset by £339 million of operational expenses and organic investment including the $225 million of capital injected into US Life in the first quarter. During the period, cash of £41 million was also used to exit the AA TEDA transaction and £80 million was paid in respect of the settlement of certain long-standing litigation matters.

Dividend

The Board has carefully considered the position in respect of a final ordinary dividend for 2009, and is recommending the payment of a final 2009 dividend of 1.5p per share (or its equivalent in other currencies). The Company is offering, for the first time, a scrip dividend alternative for eligible shareholders. The dividend timetable is set out opposite.

The Board intends to pursue a dividend policy consistent with our 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.

The movement in the net debt position is shown below:

		£m
	2009	2008
Opening net debt	**(2,263)**	(2,420)
Inflows from businesses	**529**	822
Outflows to businesses and expenses	**(339)**	(440)
Debt and equity movements		
Ordinary dividends paid	**–**	(353)
Share repurchase	**–**	(175)
Equity issuance	**2**	5
Other non-cash movements	**(202)**	298
Closing net debt	**(2,273)**	(2,263)
Net decrease/(increase) in debt	**(10)**	157

Timetable for the final dividend

Currency conversion date	5 May 2010
Currency equivalents and scrip calculation price announced	6 May 2010
Last day to trade cum div for shareholders on the registers in Malawi, Namibia, South Africa and Zimbabwe	7 May 2010
Ex-dividend date for shareholders on the registers in Malawi, Namibia, South Africa and Zimbabwe	10 May 2010
Last day to trade cum div for shareholders on the UK Register	11 May 2010
Ex-dividend date for shareholders on the UK Register	12 May 2010
Record date for the dividend	14 May 2010 (Close of business)
Payment date and date of issue of shares under the scrip dividend alternative	25 June 2010

Share certificates and date of issue of shares under the scrip dividend alternative on the South African register may not be dematerialised or rematerialised between 10 May 2010 and 14 May 2010, both days inclusive. Further details of the scrip dividend alternative are contained in the separate shareholder circular.

US Life bond portfolio performance

The cash characteristics of the US Life business are very different from that of the equivalent period of 2008. We consider that the unusual market conditions have validated our decision to hold a higher than usual cash weighting in the US Life Investment portfolio. In the second half of 2009, we began to make selective purchases of new bonds. We currently hold around $0.8 billion of cash and other short-term holdings in the portfolio. The profile for maturities from the bond portfolio and new premium inflow, gives us considerable flexibility when considering actions to mitigate against having to realise losses on corporate bonds. The portfolio is well matched with assets (including cash and short-term holdings) of 5.6 years of average duration compared to 5.8 years of liabilities.

On the US Life $15.3 billion fixed income security portfolio, the unrealised loss was $0.5 billion at the end 2009, and has continued to improve to below $0.2 billion at the end of February 2010. This compares to $1.6 billion at 30 June 2009 and $2.3 billion at 31 December 2008. All of the above amounts are stated net of the impact of reclassification of certain securities permitted by the amendment of IAS 39, the unrealised loss on which amounted to $45 million at 31 December 2009, $283 million at 30 June 2009 and $387 million at 31 December 2008.

Of the portfolio, 50% is rated 'A' and above, 42% is rated 'BBB' or below and 8% is not rated. The ten largest holdings account for $1.3 billion (8.1%) of the portfolio (31 December 2008: $1.1 billion and 6.1%) with an average holding of $128 million (2008: $107 million). The portfolio continues to have approximately 15.7% in residential and commercial mortgage-backed securities, with approximately 5% in preferred stock and hybrid instruments.

There have been a small number of defaults in the portfolio in the year amounting to $14 million. Total impairments amounted to $389 million in 2009 compared to $711 million in 2008. The valuation of the bonds held in the portfolio has benefited from the ongoing equity recapitalisations, mainly of financial companies. As a result, we have taken advantage of the opportunity to harvest gains so as to improve the underlying features of the bond portfolio further. The running yield of the portfolio is 5.82% (including cash and other invested assets).

Bermuda

Bermuda is in run-off and consequently is treated as a non-core entity from 2009. The effect of this is to remove its result from our AOP disclosures, but to account for the interest on the loan notes to the Group as a cost for AOP purposes of approximately £40 million annually. It continues to be consolidated for the purposes of IFRS reporting. The AOP EPS for 2008 has also been restated from 12.2p to 14.9p.

During most of 2009, hedges were applied to a core number of components (interest rates, foreign exchange, equity markets), with an average hedge effectiveness of 95-96% achieved in the period to September 2009. Given the improvement in the capital position of the Group and the stabilisation of the hedge effectiveness, combined with management's improved understanding and management systems for tracking the underlying risks, a process of selective and progressive release of the external hedge position commenced in the fourth quarter of 2009, with strict oversight and within risk parameters agreed with the Group Risk and Capital Committee. By 31 December 2009, the majority of the equity market hedges had been released. The release of the hedges is subject to a stop-loss protocol, and controls are in place to ensure that effective hedges can be reinstated quickly if required.

The business remains well capitalised and able to meet all its future obligations. Surrender behaviour that is influenced by underlying fund performance will determine the speed at which the Bermudan book of business runs off over time, and the extent and timing of any capital and cash release.

GROUP FINANCE DIRECTOR'S STATEMENT CONTINUED

Group restructuring, corporate disposals and acquisitions and related party transactions

The Group continues to simplify its structure and reduce its spread of business to focus on areas of key competence and competitive strength, and drive operational improvements. As discussed in the Group Chief Executive's Report, we have announced a programme of corporate restructuring designed to simplify the Group and realise value for shareholders. A number of operations have been identified for potential exit. We expect proceeds from disposals and from retained earnings will be deployed to reduce debt as part of the Group Capital Management Programme. Within each business and in particular in the Wealth Management division of LTS, reorganisations and efficiency programmes are being launched, with a target of reducing costs by £100 million across the Group by the end of 2012. In aggregate, these will result in expected 2010 charges to AOP of around £50 million. While the restructuring programme is put into effect, we will be able to assess the impact on Group Head Office resources required and the progress made from iCRaFT and other risk management improvements. Head Office costs for 2009 were £65 million, and following the implementation of iCRaFT and the completion of the restructuring, we anticipate that we can maintain underlying Group Head Office costs at less than £60 million per annum.

During 2009, the Group launched an offer for remaining minorities of Mutual & Federal. This transaction closed on February 2010 with the issue of 147 million ordinary shares to the minority shareholders. We also successfully completed the acquisition of a 100% share in ACSIS, a South African asset management firm, in August. Disposals in 2009 were of the Chilean and Australian businesses, and the withdrawal from the AA TEDA acquisition in China in the first half of 2009, and Bankhall in the UK in October 2009. Following the disposal to Nedbank of several Old Mutual joint ventures, Old Mutual has sold the shares received from Nedbank in accordance with regulatory approved processes. During February 2010, Nedbank received final regulatory approvals to acquire 100% of the ordinary and preference shares in Imperial Bank.

Tax and non-controlling interests

The effective tax rate on adjusted operating profits of 25% has returned to within its normal anticipated range, from 8% in the comparative period. Factors increasing the 2009 AOP tax rate compared to 2008 include a reduced proportion of profits being earned on low-taxed dividends and capital profits, partially offset by prior year adjustments and lower secondary tax on companies (STC) costs on reduced dividends. We anticipate a similar rate for 2010. Furthermore, the 2008 rate was anomalously low due to the unprecedented market conditions, the recognition of previously unrecognised deferred tax assets and a release of provisions following agreement of various issues with tax authorities.

The IFRS effective tax rate for 2009 was anomalously high at 148% reflecting policyholder contribution, losses carried forward not recognised and non-deductible goodwill.

Risks and uncertainties

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

Continued volatility in world economic conditions creates uncertainty in equity markets, currency fluctuations, credit spreads, corporate bond defaults and rating agency actions both on investments owned by the Group and the Group underlying entities. Unemployment conditions continue to deteriorate and could adversely affect termination experience in respect of the life insurance business that could result in realising losses on illiquid assets, particularly in the case of US Life, although this is likely to be less than in 2008 and 2009. Credit losses in South Africa's banking system are subject to uncertainty and volatility.

Economic uncertainty has contributed to reduced consumer confidence. This has changed product preferences to lower-risk investment products and affected termination experience in respect of existing and new business. These may have an impact on earnings and present both risks and opportunities for the Group.

The Group is continually monitoring these uncertainties and taking appropriate actions wherever feasible. The Group continues to meet Group and individual entity capital requirements and day-to-day liquidity needs.

The implementation of the new operating model will present challenges, yet reduce risk across the Group. The Group continues to strengthen and embed its risk management framework, whereby we actively monitor and manage risk through the three-lines-of-defence at both a business unit and Group level, where risks exceeding pre-determined thresholds are escalated to management and risk officers, who are responsible for the appropriate mitigating action. Each business regularly reviews its overall business risk exposure against risk appetite set in conjunction with Group Head Office. Further detail on risk management is provided in the Group Risk Report.

Philip Broadley
Group Finance Director
11 March 2010

At 31 December 2009 the Group's regulatory capital surplus was £1.5 billion and the Group holding company had total liquidity headroom of £1.2 billion. In addition our subsidiary businesses maintain strong local statutory capital cover and sufficient liquidity to support their normal trading operations.

GROUP EXECUTIVE COMMITTEE

The Committee meets regularly to address strategic issues, to review the Group's progress against its business plan for the year and to discuss other high-level matters affecting the Group's performance or prospects. In addition to the Group Chief Executive and the Group Finance Director, there are seven other positions on the Group Executive Committee.

Standing:
Don Hope, Paul Hanratty, Philip Broadley, Don Schneider, Andrew Birrell

Seated:
Paul Maddox, Julian Roberts, Tom Turpin, Mike Brown

Julian Roberts (52), B.A., F.C.A., M.C.T.
Group Chief Executive

Julian has been Group Chief Executive of Old Mutual plc since September 2008. Julian 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 previously Chief Financial Officer of Aon UK Holdings Limited.

Philip Broadley (49), 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 to 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.

Andrew Birrell (40), 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 this he was Chief Financial Officer at Capital Alliance Holdings. His early career was at Metropolitan Life. Andrew is a Fellow of the Faculty of Actuaries, Fellow of the Actuarial Society of South Africa, an Associate of the Society of Actuaries and a Chartered Enterprise Risk Analyst.

Mike Brown (43), 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 (48), 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 (53), 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 was appointed to the role of Chief Executive Officer of Old Mutual (Bermuda) Limited in August 2008. Don was Chairman of the Intech Fiduciaries Ltd and the Old Mutual Australia Ltd boards until their sale from the Old Mutual Group, a role he assumed in November 2007. Before joining Old Mutual, Don was Group Treasurer of Eagle Star Holdings plc, a subsidiary of B.A.T. Industries plc.

Paul Maddox (49), M.A., F.C.A.
Head of Strategic Implementation

Paul joined Old Mutual in February 2009 (on a long-term secondment) from Ernst & Young where he was the Partner in charge of the Programme Advisory Services practice. Paul has spent the last 20 years as a management consultant delivering major change programmes in Financial Services, including the highly successful Chip and Pin Programme, which was the biggest change in the UK payments industry since decimalisation. Paul started his career by qualifying as a Chartered Accountant with Deloitte Haskins and Sells.

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 joining Merrill Lynch, Don worked for Morgan Stanley for 13 years and he held a variety of senior HR roles. Don started his career as a consultant in human resources.

Tom Turpin (49), BS (Accounting)
President and Chief Executive Officer, Old Mutual Asset Management (US)

Tom was appointed President and Chief Executive Officer, Old Mutual Asset Management (US) in June 2008. He previously served as Chief Operating Officer of Old Mutual (US). Prior to that, he was Managing Director and Head of Defined Contribution Plans at Putnam Investments. From 1982 to 1993 he held a variety of leadership positions with The Boston Company. Tom is a member of the board of Old Mutual (US) Holdings and a member of the boards of directors of several affiliated companies and affiliate managed investment funds.

IN THE RIGHT DIRECTION

Exposure to diverse geographies helps LTS profitability in difficult markets

LTS reported strong results, with improved margins and IFRS operating profits up 52%. Funds under management grew strongly, with positive net client cash flows. Sales for the whole of LTS were down only 6% for the full year and returned to growth in the second half – rising 5% compared to the same period in 2008. Emerging Markets sales were better in the first half than the second, reflecting the later timing of the recession in South Africa. Wealth Management sales performance in the second half was particularly strong – as was Nordic, with very good NCCF and funds under management. US Life sales were as planned.

LTS Adjusted operating profit* by division

Adjusted operating profit (AOP)	£m
Emerging Markets	446
Nordic	62
Retail Europe	22
Wealth Management	106
US Life	49

*IFRS basis (pre-tax)

LONG-TERM SAVINGS

The Long-Term Savings Division (LTS), brings all of the Group's long-term savings businesses together. The vision of LTS is aligned to that of the Group's vision, which is to be our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals. We intend to achieve this vision by being the leader in the management of personal finances within our selected markets, for predominantly middle income and affluent customers.

KEY FACTS

Adjusted operating profit (AOP)
2009

£685m

2008: £452m

Funds under management (FUM)
2009

£112.2bn

2008: £91bn

Net client cash flow (NCCF)

(£bn)

09	1.9
08	1.3

Return on equity (ROE)

(%)

09	15.2
08	9.9

Number employed

22,269

Some of our brands

OLD MUTUAL
OLD MUTUAL
MARRIOTT
skandia
skandia investment group
Futuregrowth Specialist Asset Management
SYMMETRY

LTS Executive Committee

1 **Jonas Jonsson**
CEO, Retail Europe

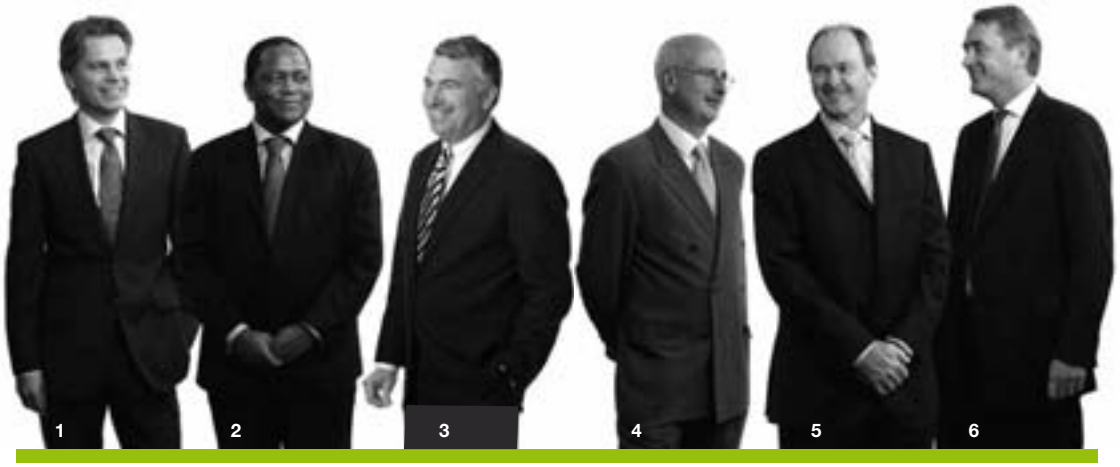
2 **Kuseni Dlamini**
CEO, Emerging Markets and Old Mutual South Africa

3 **Chris Chapman**
CEO, US Life

4 **Bob Head**
CEO, Wealth Management

5 **Paul Hanratty**
CEO, Long-term Savings and Chairman, Old Mutual South Africa

6 **Bertil Hult**
CEO, Nordic

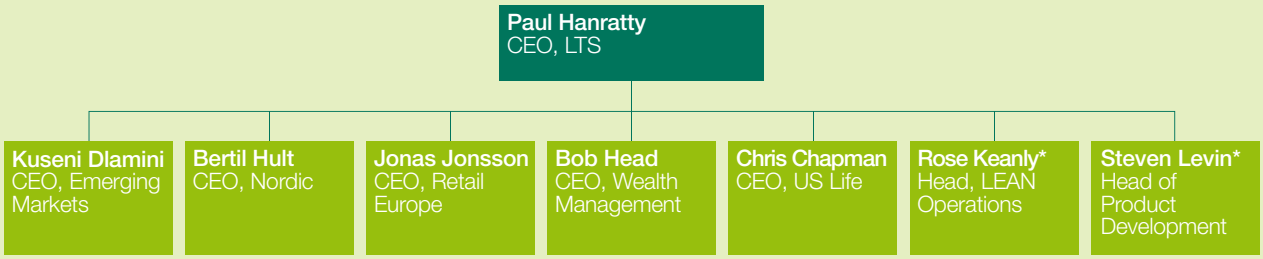


LONG-TERM SAVINGS CONTINUED

By leveraging our expertise and capabilities, identifying and delivering synergies and deploying our technology more effectively we will unlock value for customers and shareholders.

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

LONG-TERM SAVINGS



*Appointed: March 2010

Long-Term Savings Overview

In March 2009 we announced that one of our five strategic priorities was to "Leverage scale in our long-term savings businesses". In order to achieve this objective we announced the creation of the Long-Term Savings Division (LTS), bringing all of the Group's long-term savings businesses together for the first time. The vision of LTS is to be our customers' most trusted partner in helping them achieve their lifetime financial goals, within our selected markets. We intend to achieve this objective through the unlocking of value for customers and shareholders by:

- Leveraging the core expertise and capabilities that we have within our businesses;
- Ensuring more effective deployment of technology and platform; and
- Identifying and exploiting synergies.

The LTS Executive Committee includes the CEOs of all the LTS Business Units (Emerging Markets, Retail Europe, Nordic, Wealth Management and US Life). This structure enables rigorous discussion within LTS and brings to the surface areas where synergies can be gained and capabilities replicated.

£43.5bn **Funds under management in Emerging Markets**

What is LTS?

LTS is Old Mutual's long-term savings business. This includes both life and non-life investment products, which we provide to help our customers improve their financial health or to manage their personal finances. Across our various businesses, we have real competitive advantage as a result of the following:

1. Access to customers

We have excellent access to customers through a range of different distribution channels, which are founded on long and trusted relationships.

2. Excellent customer solutions

We have built up a reputation for having excellent solutions which meet the needs of our customers. These are generally tied to the provision of advice, whether by us, or via independent distribution channels.

3. Scale

The scale of our LTS business allows us to achieve significant economies, including process and IT efficiencies, which permit us to deliver excellent customer service at a lower cost.

4. Delivering returns consistent with needs

Across our LTS business we have a common approach to delivering investment returns for customers. This is about delivering value and returns consistent with their needs. Customer focus is the hallmark of the LTS business. We believe it provides us with a competitive advantage as it builds trust amongst customers and can be related back to their specific needs and risk profiles.

The rationale for the business

Within LTS, returns and growth rates are high. It is well-balanced in terms of its financial characteristics, having a mix of high return, cash-generative businesses (OMSA, Namibia and Colombia), high profit growth businesses (Wealth Management and Nordic), and high embedded value growth businesses (European Retail, Africa, Asia and Mexico). The overall result of managing these businesses together is to generate a good cash return coupled with strong profit and embedded value growth over the long-term. In addition, there is a great opportunity to increase returns by identifying and further developing synergies across the Group.

Highlights of the past year

2009 was a challenging, yet exciting, year for LTS. Our goal as we began to develop the strategy for the LTS division was to create more value for customers and shareholders from combining the LTS businesses. As part of this strategy, we exited Australia, Chile and the Eastern European countries where we did not have a meaningful presence. In addition, we restructured our Wealth Management and Retail Europe businesses for optimal performance and combined China, India, Colombia, Mexico, OMSA and the Rest of Africa into an Emerging Markets business unit to leverage the extensive knowledge of emerging markets already in existence in OMSA.

Financial performance

See Group Finance Director's report (page 16).

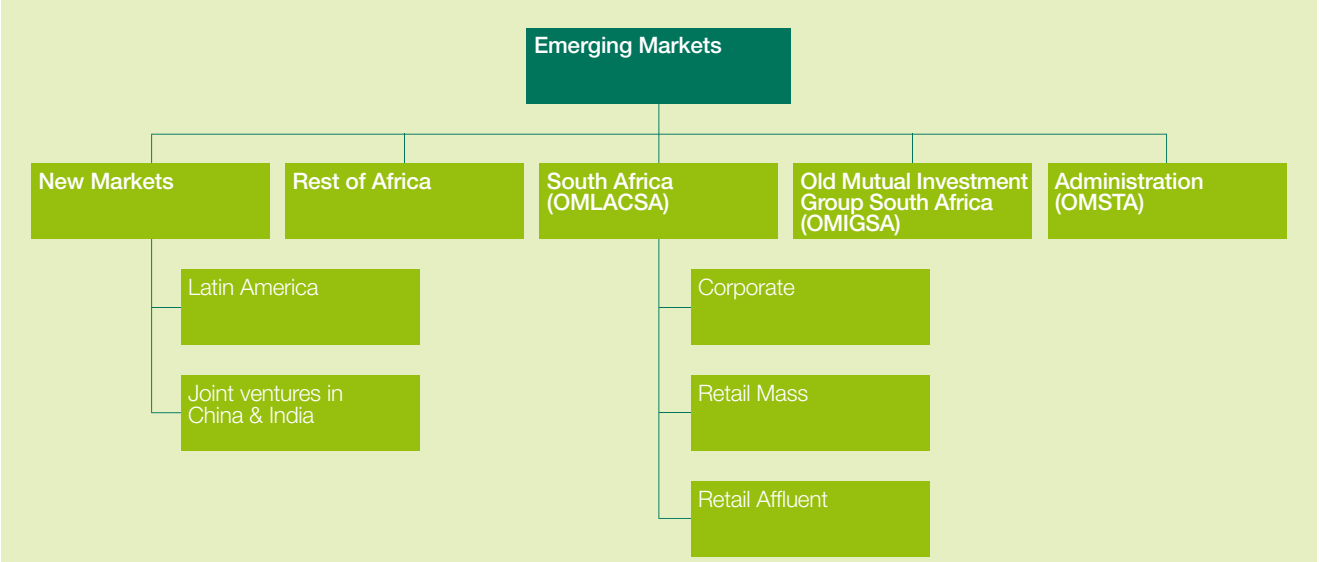
Looking forward to 2010

2010 is going to be a key year for LTS with our focus centred around the delivery of our strategy specifically in relation to the cost and revenue synergies identified, the delivery of the Wealth Management strategy as included in its section below, and continuing to leverage our skills and capabilities. We will prepare each of the businesses in the LTS division for growth and optimal performance in their respective markets, and while the year ahead will be undoubtedly be testing as the uncertainty of the markets continues, we are confident that the LTS businesses will not only exhibit the resilience evidenced by the 2009 financial results, but also produce a strong performance in 2010 as a result of the newly-focused strategy.

LONG-TERM SAVINGS CONTINUED

Emerging Markets

LONG-TERM SAVINGS: EMERGING MARKETS



LTS
Emerging Markets
Nordic
Retail Europe
Wealth Management
US Life

LTS Emerging Markets provides innovative financial solutions addressing both protection and savings needs in 10 countries with a combined population of over 2.6 billion in Africa, Asia and Latin America. Our biggest business is in South Africa, where we are the largest financial services company (as measured by assets under management). We also serve other African countries through our operations in Namibia, Zimbabwe, Malawi, Kenya and Swaziland. Under New Markets we provide financial services to Latin America through Skandia Colombia and Mexico, and in Asia through joint ventures Old Mutual Kotak Mahindra in India and Skandia:BSAM in China. Our business comprises asset management, life insurance, banking and short-term insurance. In life insurance we provide wealth management, investment products, retirement savings, life insurance and disability insurance to individuals and groups in all 10 countries in which we operate.

In South Africa we provide asset management services through Old Mutual Investment Group South Africa's (OMIGSA) boutiques. OMIGSA's investment boutiques collectively span all key asset classes and employ unique strategies that meet the different needs and risk profiles of their customers. This gives our customers access to a comprehensive range of savings and investment solutions. We are expanding our reach outside the traditional South African customer base by offering property, infrastructure, exchange traded funds (ETF) and hedge-fund solutions that meets the needs of international investors. The investment boutiques include:

- a number of specialist equity businesses;
- a fixed income capability in Futuregrowth;
- a number of businesses which blend multiple asset classes to create risk profiled solutions for investors;
- an index-tracker capability in Dibanisa Fund Managers;
- a property asset management and property management capability in Old Mutual Investment Group Property Investments (OMIGPI);
- a multi-manager capability through SYmmETRY, which creates portfolios for institutional investors blending best of breed asset managers across multiple asset classes;
- a private equity and infrastructure investment capability; and
- Old Mutual Specialised Finance (OMSFIN), which is active in corporate lending, securities lending and structured products.

We offer life insurance services in South Africa through Old Mutual Life Assurance Company (South Africa) (OMLACSA). This has three distinctive business units:

- **Retail Affluent** business provides life, disability, retirement annuities, savings and investment products to individuals earning more than R12,000 per month. Our multi-channel

distribution approach gives us extensive reach. Retail Affluent has 25% market share of its 2.9 million target market of customers. In 2009 we got R2.1 billion Life APE sales from all distribution channels and R24.3 billion non-life inflows.

- **Retail Mass** business meets the financial services needs of the mass market, which is defined as all those individuals who earn a monthly personal income of less than R12,000: an estimated 10.2 million individuals in South Africa. In 2009 we received R1.5 billion APE from all our channels. In the last five years, Retail Mass doubled its APE driven by demographic shifts (making it the fastest growing segment). Based on the number of customers we have a market share of 37% if we only take the traditional life company competitors into account and 24% if we incorporate all players (including banks) in this space.
- **Corporate** segment provides investment, retirement, insurance, structured products and advisory services to corporate, institutional and parastatal customers. Investment products are customised depending on the investor's requirements. These include smoothed bonus portfolios (where we have 70% of the market), absolute growth portfolios, structured solutions, annuity products (which account for more than 60% of the SA market), group assurance products as well as third-party asset management. We offer other multi-managed asset management solutions and administer a range of retirement schemes for corporates and umbrella arrangements. Many of these schemes are defined contribution and open-architecture. Through Old Mutual Actuaries and Consultants (OMAC) we offer advisory services to 150 sizeable retirement funds as well as medical schemes.

In the rest of Africa most of our life products are distributed by tied agents. In Zimbabwe we offer short-term insurance through RM Insurance Company and a range of banking services through Central African Building Society (CABS), Zimbabwe's largest building society.

In Latin America we serve a mix of retail affluent, retail mass and corporate customers with an open-architecture of international and domestic unit trust funds. In China we mainly serve the affluent market and in India we mainly serve retail mass.

We continue to build on our strengths:

- Old Mutual South Africa has a strong balance sheet and is one of the best capitalised businesses in the industry: we have a higher credit rating than any of our competitors.
- We have the largest distribution capability in the South African long-term industry: our combination of tied agents, independent financial advisers, bank distribution, corporate advisers and direct distribution enables us to reach a full spectrum of potential customers.
- In the rest of Africa, our businesses dominate the local markets in which they operate.
- Excellent risk management and sophisticated product design capabilities make us a profitable one-stop financial services provider with leading products across all the customer segments we serve.
- In Latin America we are a premier player in managing corporate voluntary pensions, with a rapidly growing market share.
- In China we are the market leader in unit-linked investments.

Business model

Our current business is designed to maximise assets under management (AUM) and margin while minimising expenses.

We maximise AUM by:

- Growing our sales through growing our distribution ahead of our competitors, segmenting our customer base to service affluent, mass and corporate customers appropriately, and providing class-leading products.
- Providing attractive investment performance, aided by our model of having multiple boutiques with their own specialist focus.
- Ensuring that money does not leave the company unnecessarily. We seek high persistency though good customer management and service, strong investment performance and sales force training to manage sales quality.

We maximise margin by leveraging our risk management and product development capabilities to yield differentiated products where we can make a good margin. For commoditised products we leverage our brand and distribution footprint to reach more customers than our competitors. As at the end of December we had 2,535 tied agents serving the Retail Affluent segment of OMSA. Our key product offerings include *Greenlight*, a flexible and comprehensive range of life, disability, and future-needs cover. A range of retirement savings plans, annuities, investment and income products are provided through different wrappers – which include the *Max*, *Investment Frontiers* and *Galaxy* product ranges.

LONG-TERM SAVINGS CONTINUED

LTS
Emerging Markets
Nordic
Retail Europe
Wealth Management
US Life

For OMSA's Retail Mass segment, channels to market include salaried tied agents selling predominantly through worksite marketing, Group Schemes, independent financial advisers (IFAs), direct channels, partnerships with other retail chain stores and banks. We offer savings, retirement and life cover and funeral cover products. In 2009 we started offering lending products to this market through Old Mutual Finance. At the end of 2009 we had 2,694 tied agents.

In Latin America, we distribute primarily through tied financial planners and in China through multiple distribution channels.

In the rest of Africa most of the life products are distributed by tied agents.

In South Africa, in 2009, the total contribution to Life (APE) sales from agents in Retail Mass was 76% and 50% in Retail Affluent.

Generally we achieve higher margins in riskier markets and segments, or where competition is lower. Margin is also affected by liability profile. We make higher margins on insurance contracts than on pure investment contracts.

We manage expenses tightly, and costs per policy are well below those in developed markets. Customer service, technology and policy administration service for the Retail Affluent, Retail Mass and Corporate businesses in OMSA and some of the other African businesses are provided by Old Mutual Service Technology and Administration (OMSTA). We established OMSTA in 2003 to improve customer service and provide IT capabilities while substantially reducing costs through economies of scale. OMSTA services all Old Mutual's customers, intermediaries and retirement fund members across our full product range through our extensive network of service centres, call centres and internet. It achieves economies while enhancing service quality, and we are looking to use its capability across the other LTS divisions to benefit from its low cost base and boost LTS's competitiveness in other geographies.

Our business plan sets delivery targets that we track monthly. The strategy development cycle, running from November to May, feeds into the business planning cycle which runs from June to October. During the strategy development cycle, the management team sets the strategy and provides context and direction to guide business planning. We set both financial and non-financial objectives for a three year cycle. Delivery against the agreed plan is reviewed monthly, quarterly and annually and we take remedial action where necessary. The plan forms part of the performance agreements for business units and is directly linked to how they are rewarded.

Sophisticated risk management processes ensure that we deliver what we promise to customers. Our capital adequacy reserves (CAR) ensure that we can weather adversity, and we add a significant margin to statutory requirements so that we can meet substantial deviations. The life company in South Africa currently holds at least 1.25 times statutory CAR as a minimum internal CAR, which, together with some strategic holdings such as investments in Nedbank and M&F, is not distributed to shareholders. We also determine economic capital (the minimum capital needed to meet worst-case loss in economic value, due to risks arising from business activities) and working to integrate that with the existing capital management framework. Staff incentives are based on economic profit.

Our distribution through bank financial advisers within Nedbank constitutes an important channel. Our key relationships with Nedbank and Mutual and Federal (M&F) are delivering real value. In Namibia and Swaziland we have a bancassurance arrangement with Nedbank. We launched the OM Investment Credit Card in South Africa with Nedbank support and are currently reviewing the possibility of transactional banking with Nedbank. We distribute some of our products through Nedbank Financial Planners, which delivered R167 million APE of sales in 2009. Procurement synergies with Nedbank and M&F are delivering cost savings on both sides. We will continue to leverage our relationship with M&F to grow the value of our business.

Product development

Among the most distinguishing features of Old Mutual's products are their simplicity and transparency, so we take care to follow this philosophy diligently when designing products and updating features.

We use a host of surveys and focussed groups to ensure that we continue to deliver on our promises and meet our customers' needs.

Experience has shown that we also develop products relatively cheaply when compared to competitors and that we are quick to market; thereby enabling us to boost our return to shareholders.

In line with international trends and the need to ensure products are appropriate for today's environment, we are now continuously developing investment and savings products which have significantly lower charges (and capital requirements), increased transparency and flexibility.

5,229 **tied distribution intermediaries in South Africa**

Market overview

South Africa

The impact of recession on the jobs market was much worse than anticipated. Nearly eight hundred thousand workers lost their jobs. Local equity markets followed a similar pattern to international markets, with a dramatic fall at the beginning of the year followed by a significant recovery in H2. The All Share Index rose by 29% in 2009, with dramatic variances in sector performances. Inflation fell, from a peak of 8.6% in March, to 6.3% in December. The rand appreciated by 22% against the US dollar and 14% against the British pound mainly as a result of a narrowing trade deficit.

The local financial services sector was severely affected by the South African recession as job losses led to a decline in disposable incomes. Competition has continued to increase as banks, life assurers and asset managers increase their product offerings in an effort to grow their share of customer wallets. In addition, new market entrants unburdened by legacy issues are challenging existing practices.

The overall savings rate in South Africa remains low, with a large proportion of savings being channelled into non-financial investment vehicles such as property. Demographic shifts have seen a fast-growing black middle-income market accumulating savings and wealth while the “baby-boomer” market enters the wealth-decumulation phase. The economic growth of recent years has boosted the emerging and middle-income market segments, presenting us with significant opportunity. We see further opportunities in the mass market, created by growth in customer numbers and income as well as low penetration of financial service solutions. However, in 2009 this growth was threatened by customers’ high levels of indebtedness, which resulted in higher rates of early policy termination.

The regulatory regime has been evolving to secure greater transparency and protection for consumers over the past 10 years. New commission regulations for savings policies were implemented from 1 January 2009, moving from fully upfront commission to part upfront and part spread over the duration of a policy. This was a profound change for the long-term insurance sector and we implemented adviser retention strategies to ease advisers’ transition to the new regime. The government also introduced a Consumer Protection Bill aimed at establishing national norms and standards for consumer protection and the Protection of Personal Information Bill which will affect the way we collect, store, process and use customer data. Amendments to the Competition Act included personal accountability for individuals who instigate cartel activity, and new corporate governance rules brought significant changes relating to Board membership and remuneration.

Future regulations that will present opportunities and threats to us are retirement fund reform and the proposed introduction of a National Health Insurance Scheme. The government is working on reforming the retirement fund industry within a broader framework of an integrated social security system, aiming to secure retirement savings.

Other Emerging Markets

In the rest of Africa, economies are expected to have achieved positive growth in 2009. According to Central Bank of Kenya, Kenya is expected to grow between 2.5% and 3.0%, while Swaziland is expected to grow by 0.4% in 2009.

In Latin America economic growth was mixed, with Mexican real GDP growth of 2.9% during Q3 signalling that recovery has started while the Colombian economy shrunk by 0.2%. However, Colombian GDP was expected to grow strongly in Q4 and we anticipate overall positive growth in 2009. The Government of Mexico is facing a decline in revenues and therefore it passed a new tax law for 2010 which primarily raises income tax to corporations and individuals.

Equity performance was mixed across the rest of our emerging markets. The Kenyan NSE All Share Index declined by 2.4% in 2009 and the Malawian All Share Index dropped by 15.4%, while equities rose 43% in Mexico and 53% in Colombia.

Inflation declined across many countries. In Zimbabwe the introduction of a multi-foreign currency regime helped to deliver lower inflation. In Mexico the central bank left rates unchanged at 4.5% in November as inflation had declined below expectation to 3.6%. During Q4 2009 Colombia’s central bank reduced interest rates by 50 bps to 3.5% as inflationary had dropped to 2%.

Political stability generally increased across the rest of Africa. Peaceful elections were held in Malawi in May and in Namibia in November. Zimbabwe has seen some political stability since the formation of the all-inclusive government, although there are still outstanding issues arising from the Global Political Agreement on which it is based. Kenya has remained calm and is busy with constitutional reforms; however tensions in the alliance remain.

Strategy

Our strategy for growth aims to transform us from a traditional life insurer to a leading provider of investment and savings solutions to every South African. It will require us to:

LONG-TERM SAVINGS CONTINUED

HOW WE DO BUSINESS

SHARING ECONOMIC BENEFIT IN SOUTH AFRICA

Old Mutual is committed to putting broad-based Black Economic Empowerment (BEE) into action. Ensuring that our economic benefits and opportunities are spread equitably across South African society is part of our procurement policy. In 2009, OMSA Group Procurement introduced a quarterly BEE procurement report collating information from across Old Mutual SA. We are also working closely with Masisizane to establish BEE supplier accreditation and supplier development frameworks.

"The way we work with our suppliers is important for building strong and mutually beneficial relationships so that we participate actively in the economic transformation of South Africa." – Heidi Kincaid, Head of Procurement, OMSA

- Become a consistently top performing asset manager in every asset class – creating a compelling profile for OMIGSA boutiques, improving our investment performance, expanding the boutique offering and growing the number of boutiques to occupy niche positions
- Build a leading investment brand – we are already seen as the No1 long-term insurance brand in our markets and are increasingly recognised as a leading savings and investment brand
- Broaden our offerings to meet customers' needs – updating and improving our current product range and expanding it to include products aimed at the Foundation Market
- Grow access to customers and distribution ahead of our competitors – this is the key to competitive advantage in our market
- Maintain cost efficiency – operational excellence and cost control will enable us to offer our customers affordable and competitive products at a sustainable margin, and through OMSTA we will continue reducing the operational cost of the business, leveraging IT and improving customer service to provide a solid platform for growth
- Position Old Mutual as the leading South African corporate citizen in financial services – OMSA has always played a leading role in supporting the economy and people of South Africa, and we will continue doing this through broad-based initiatives that create opportunities for disadvantaged people and businesses alike
- Use our strong operating position in South Africa to expand selectively further into Africa – this is a source of immense growth potential, and in the parts of Africa where we already operate we intend to grow by optimising existing operations and developing wider financial services
- Grow the value of our business in Latin America by building the brand, sharing best practice with our South African operations, extending product ranges and expanding to reach a wider range of customers.

Operational highlights 2009

South Africa

OMSA has committed to transform itself from a traditional life assurer to a modern savings and investment business. This journey has necessitated a shift in focus and step forward in performance across all areas of the business, and we have made great strides in leveraging technology to gain competitive advantage, reduce costs and raise service levels.

We continue to improve our customer value proposition by enhancing our product offering and by becoming more customer-centric. In June we launched a credit card account that lets users invest for the future every time they shop. The relaunched Severe Illness Benefit on Greenlight was well received. We launched a new bonus series for the *Absolute Growth Portfolios* to enhance the product attractiveness to Corporate customers following negative bonus smoothing account balances after the market fall in Q1 2009.

We aim to give our customers outstanding long-term investment performance and remain committed to our embedded boutique asset management model. At the 2009 Raging Bull Awards, *Old Mutual Income Fund* was named 'Best Domestic Fixed Interest Income Fund' and the *Old Mutual Mining and Resources Fund* was named 'Best Domestic Equity Resources & Basic Industries Fund'.

We have continued to focus on selectively growing our distribution footprint by retaining and attracting intermediaries and building relationships with them. Despite the economic challenges we expanded our tied distribution from 5,181 to 5,229 advisors in 2009. In August we gained access to a niche market of private and retirement fund customers by acquiring ACSIS. In its first full year of trading Old Mutual Finance expanded its distribution reach and had 63 branches by the year-end.

We successfully integrated Futuregrowth into the rest of the asset management business, with remarkably high retention of key investment professionals and customers.

In South Africa we reviewed our shareholder portfolio to hold more cash and reduce exposure to equities. As a result our capital position remained strong: the ratio of admissible capital for the life company to the statutory capital adequacy requirement was 4.1 times, compared to 3.8 times at the end of 2008.

Other Emerging Markets

To extend our product offering we introduced Retail Mass products in Kenya and we have started expanding nationally utilizing innovative forms of distribution and money collection including cell phone.

In Zimbabwe, we successfully managed the transition to a dollarised environment and our strategy to maintain this business through the political and economic difficulties is starting to bear fruit. We are in the process of upgrading our infrastructure, obtaining operational efficiencies and launching new products. We are well positioned in Zimbabwe given our broad range of financial services.

In Swaziland we completed our first full year of operation and also launched a range of Corporate products.

In Namibia we developed and rolled out an innovative lending product. In addition we successfully implemented a new retirement administration system.

In Malawi we made great strides in developing a local asset management capability and this has laid the foundation for unit trusts – the first to be provided in Malawi.

Performance in 2009

Excellent results is a tough operating environment

For key figures see highlights table on page 40.

Overview

Emerging Markets' economies rallied strongly during the second half of 2009, benefiting from a weaker dollar and higher commodity prices after the credit crisis. South Africa experienced a comparatively modest and short recession in the first half of 2009, but returned to growth in the third quarter and ended the year with positive quarterly GDP growth. We expect this momentum to continue into 2010. The South African equity market enjoyed a very strong final quarter as local and foreign investors moved into equities. Growth also resumed in Latin America and Asia from the third quarter onwards. Markets rallied strongly during the second half of the year and emerging markets' currencies generally appreciated strongly against both the pound and dollar, with the closing rand rate rising against those currencies by 13% and 22% respectively. The impact of the economic volatility led to an increase in the share of risk product sales across our product lines relative to savings and investment products.

South Africa constitutes approximately 94% of the IFRS adjusted operating profit of our Emerging Markets Business Unit.

South Africa

In South Africa, our business has been resilient with strong profitability and high return on allocated capital in very difficult economic conditions, with our like-for-like sales on an APE basis up marginally compared to prior year (after excluding Nedgroup Life sales in 2008). We continued to invest in our distribution capability and as a result, we grew market share in our core product ranges and are well positioned to benefit from the recovery in consumer confidence. Nevertheless, the demand for our products during 2009 was adversely affected by rising unemployment and generally low consumer confidence across the economy. These factors, among others, have put pressure on disposable income, resulting in a number of customers terminating their policies. This poor persistency experience adversely affected the claims experience in the year. However, through continued investment, we improved the service levels to our customers. This is evidenced by the number of service awards we continue to win. We were awarded first place for service excellence in the long-term assurance category in the 2009 Ask Afrika Orange Index national surveys as well as the 2009 award for Best National Call Centre. We continued expanding our distribution footprint by retaining and attracting intermediaries and growing our relationships with them. Despite the economic challenges, we have expanded our tied distribution from 5,181 intermediaries in 2008 to 5,229 intermediaries in 2009, and we successfully completed the acquisition of a 100% share in ACSIS, a South African asset management firm, in August, thereby gaining access to a niche market of private and retirement fund customers. 2009 was also the first full year of trading of Old Mutual Finance (OMF), our new retail loan business, which has expanded our distribution reach by establishing 65 OMF branches in 2009.

In June 2009 we sold our shares in the Nedgroup Life and BOE Private Client joint ventures to Nedbank. As a result we now exclude Nedgroup Life sales from our life sales and embedded value for both 2009 and 2008 sales and margin numbers. However, for IFRS and AOP profit reporting, these businesses have still been included for the first 5 months to 1 June 2009 and for the full year in 2008.

LONG-TERM SAVINGS CONTINUED

Highlights (Rm)	2009	2008	% Change
Long-term business adjusted operating profit	**3,263**	3,398	(4%)
Asset management adjusted operating profit	**958**	921	4%
Long-term investment return (LTIR)	**1,658**	2,032	(18%)
Adjusted operating profit (IFRS basis) (pre-tax)	**5,879**	6,351	(7%)
Return on allocated capital (OMSA only)	**26.0%**	27.8%	
Operating MCEV earnings (covered business) (post-tax)	**2,794**	5,237	(47%)
Return on embedded value (covered business) (post-tax)	**9.8%**	14.4%	
Life assurance sales (APE)	**5,178**	5,105*	1%
Unit trust/mutual fund sales	**36,421**	41,418	(12%)
PVNBP	**37,339**	36,675*	2%
Value of new business	**853**	813*	5%
APE margin	**16%**	16%	
PVNBP margin	**2.3%**	2.2%	
Net client cash flows (NCCF) (Rbn)	**(20.5)**	(27.3)	25%

Highlights (Rbn)	2009	2008	% Change
Total funds under management	**518.4**	552.6	(6%)
Of which, SA client funds under management	**448.7**	443.0	1%

* Excludes Nedgroup Life sales. The comparative including Nedgroup Life are as follows: APE: R5,537 million; PVNBP: R37,959 million; VNB: R934 million; APE margin: 17%; PVNBP margin: 2.5%

Other Emerging Markets

Namibia

We achieved remarkable results in a year of immensely tough trading conditions. Sales of recurring premium products, which is core to the life company, ended 12% up on the prior year. There was a swing to investment business and we grew our Unit Trust sales by 62% from 2008. The bulk of our Unit Trust sales went into the money market fund, which is competing effectively with similar funds run by banking institutions.

We developed and rolled out an innovative lending product. In addition, we successfully implemented a new retirement fund administration system.

Rest of Africa

We continue to manage our investments in the Rest of Africa for value, although they remain small relative to our profile in South Africa in 2009.

Latin America

Whilst our businesses in Latin America are small relative to others in the Emerging Markets Business Unit, we have had an excellent profit growth of 133% (in rand terms) in very difficult economic conditions. Non-life sales were strong despite the slow start of the year following the H1N1 outbreak. We have developed a new Retail Mass product in Mexico to be launched in 2010 and we are confident that this will significantly boost sales. We also intend to tap into the expertise in South Africa to develop a range of transferable and suitable product-types such as the “smoothed bonus” and “umbrella” products.

Asia

Old Mutual’s operations in Asia consist of a joint venture with the Beijing State-owned Asset Management Company in China (Skandia:BSAM) which sells unit-linked and universal life products, and a 26% share in Kotak Mahindra Old Mutual in India, a life assurance joint venture with the Indian-listed financial services company, the Kotak Mahindra Group.

India accounts for the bulk of our Asian sales, with APE of R1.8 billion (INR10.3 billion) and, despite our business there growing faster than the rest of the sector during the first quarter of 2009, sales were down 26% in rand terms from the 2008 comparative (19% in local currency terms). Its strategy has subsequently changed to focus on more profitable growth, as opposed to pure revenue generation. Kotak Mahindra Old Mutual is still growing at an encouraging rate on a relative basis and now occupies 10th position in the industry for Individual business, with 1 million lives insured, and 9th position in the industry for Group business, with 1.4 million lives insured.

APE sales in sterling terms in China (Skandia:BSAM) increased by 19% in local currency terms from CNY77 million (R92 million) to CNY92 million (R113 million) for the year. The increase in APE sales was largely a result of a strong growth in single premium sales, up 112% to CNY679 million (R836 million). Our business in China continued to experience strong competitive pressure from a number of direct competitors in the market. The industry ranking for Skandia:BSAM, measured on a gross written premiums basis, improved from 40th at H1 2009 to 38th by year-end. A number of new products are currently in the pipeline for 2010.

Life sales summary

Over the whole year, life sales improved by 1% from 2008, despite the tough environment. In South Africa, this was mainly as a result of strong growth of recurring-premium sales of 8% which was partially offset by a 6% drop in single-premium sales.

Recurring-premium sales

Risk

Recurring-premium risk sales increased primarily due to:

- promotion of the Severe Illness Benefit on the *Greenlight* product, where sales in the Affluent Market grew by 11%;
- 5% growth in our sales force in Retail Mass and an increased focus on risk products, which led to a 31% growth in the Retail Mass market; and
- success in securing large schemes in Corporate, leading to a 62% increase in Group Assurance sales over the 2008 level.

Savings

OMSA sales of recurring-premium savings products declined 7% relative to prior year. Lower sales in our Retail segments, which were partially offset by strong sales in the Corporate segment. Sales of recurring-premium savings products were down 23% in the Retail Affluent segment as customers were reluctant to commit to long-term savings products in light of the higher risk of job losses and lower disposable incomes. In the Retail Mass segment, recurring-premium savings sales were down 5% mainly as a result of economic pressures. The new commission structure on savings products also contributed to the lower sales of recurring-premium savings products in the Retail segments. However, we grew our recurring-premium savings sales by 139% in the Corporate segment as a result of higher sales of our umbrella funds, our increased focus on building the direct sales channel and expanded distribution through retail intermediary channels.

Single-premium sales

Single-premium sales were down 6% on prior year due to lower annuity sales. Corporate annuity sales were affected by volatility in the market during the first half of the year which led to greater caution by trustees, as well as some pension funds being under-funded and, hence unwilling to transfer their business to us and having to make a net contribution to the fund.

Life sales in the second half of the year improved by 35% in rand terms compared to the first half and by 1% compared to 2008, as confidence began to return to the economy and markets rallied. In Retail Affluent, life sales improved by 26% in the second half after we enhanced our *Investment Frontiers* fixed bond and *Greenlight* products. In Retail Mass, we improved our life sales by 33% in the second half as a result of the increase in productivity of our sales team. We secured new customers into our umbrella scheme, called *Evergreen*, in the last quarter of the year, which boosted our Corporate recurring-premium sales by 57% compared to the first half of the year. The strong pipeline we had in Corporate in the first half of the year materialised in the second half of the year, resulting in 45% growth in single-premium sales over the first half.

Unit trust sales

Unit trust sales were 12% behind 2008, with lower flows through Old Mutual Investment Services (OMIS) in 2009 partially offset by good flows into money market unit trusts early in the year and inclusion of *Futuregrowth* unit trusts in our product range in 2009. Money market unit trusts slowed down in the second half of the year as a result of a decline in interest rates. The 2008 comparative numbers were boosted by a one-off R2bn inflow into the Money Market fund from the *Galaxy* platform. Sales in the second half of R19.1 billion showed an improvement on the first half levels of R17.4 billion.

IFRS AOP Results

Adjusted operating profit was down 7%, driven mainly by a reduced LTIR, and the long-term business profits declined by only 4% from prior year level. This was mainly due to:

- impact of lower equity levels on asset-based fees and investment variances;
- mortality and disability losses on Group Permanent Health Insurance and Group Life Assurance products;
- a small charge for share-based payments this year compared to a large credit in the prior year as a result of the strong Group share price performance; and
- the loss of seven months' contribution to profit from joint ventures with Nedbank.

LTS
Emerging Markets
Nordic
Retail Europe
Wealth Management
US Life

LONG-TERM SAVINGS CONTINUED

Excluding the contribution from Nedgroup Life in both 2008 and 2009, profit on the life business was flat compared to the prior year.

In South Africa, life business adjusted operating profit declined by 19% in the second half of 2009, mainly because the first half included higher contribution from reserve releases than the second half, as well as the absence of profits from Nedgroup Life and BOE.

Asset management operating profit in South Africa was down 16% on prior year as a result of:

- lower average asset values and a reduction in the proportion of assets held in equities (which attract higher fees) adversely impacting base fees;
- lower third-party managed funds
- lower transactional revenue in Old Mutual Properties business;
- mark-to-market losses in our Old Mutual Specialised Finance (OMSFIN) business; and
- higher share-based payment costs.

The factors above were partially offset by higher performance fees earned in the second half of the year and higher revenue on the term portfolio of OMSFIN as the interest rate cycle turned. Asset management profits increased by 68% in the second half of 2009 compared with the first half following the recovery of equities and improved OMIGSA investment performance, which resulted in higher performance fees. The Emerging Markets asset management result included an increase in asset management profits in Latin America.

LTIR was 18% lower at R1,522 million after a 330 basis point decrease in the rate of expected return (from 16.6% in 2008 to 13.3% in 2009), combined with a marginally lower average asset base. The asset class split for 2009 was 30% equities, 70% cash and bonds, compared to 48% equities and 52% cash and bonds for 2008.

Value of new business and margins

The value of new business margin (excluding Nedgroup Life) remained flat at 16% on an APE basis and improved from 2.2% in 2008 to 2.3% in 2009 on a PVNBP basis mainly due to more favourable operating assumptions changes for new business.

MCEV Results

Market Consistent Embedded Value (MCEV) operating earnings after tax declined by 47% from the 2008 level. This was mainly due to lower than expected returns which decreased by R1.7 billion (based on lower one-year swap rates and a lower opening embedded value of R28.4 billion compared to R36.4 billion in 2008), and the impact of adverse operating assumption changes (-R1.0 billion) primarily related to persistency and the capitalisation of certain project expenses.

Net Client Cash Flow

Retail net client cash flow was positive but overall net client cash flow was R20.5 billion negative due to the previously reported net outflow of R16.2 billion from the Public Investment Corporation (PIC). Net client cash flow in the Retail Mass and Retail Affluent channels improved on the prior year as a result of ACSIS and unit trust sales in the Affluent segment, good sales protection sales growth and better than expected mortality experience in the Mass segment. Corporate and OMIGSA experienced net outflows. This was a result of higher benefit withdrawals (especially withdrawal benefits from pension funds on the back of job losses across the economy), two large terminations in Corporate, and net outflows from *Futuregrowth* in OMIGSA, as well as the PIC outflow previously mentioned. We anticipate further withdrawals from PIC in 2010 as part of their planned mandate reallocation.

Investment performance

Overall OMIGSA investment performance continues to improve. Fifteen of our collective investment scheme funds ended the calendar year in the top quartile of their respective industry categories over one year, with ten and eleven funds achieving top quartile ranking over three and five years respectively. Notable performance has come from Macro Strategy, where all three of their *Flexible*, *Balanced* and *Stable Growth* unit trusts are positioned in the top quartile of their respective categories over the calendar year to end December. Similar recovery has come from Value Equity and Select Equity, where their *High Yield Opportunity Fund*, *Growth Fund* and *Top Companies Fund* are all in the top ten funds (out of 76) in the General Equity category over the year.

Funds under management

Funds under management of R518 billion decreased for Emerging Markets as a whole, mainly due to the inclusion in 2008 of Skandia Australia's funds under management (approximately R25 billion). Skandia Australia was sold in March 2009. FUM in OMSA improved by 2% from 2008 as a result of the acquisition of ACSIS and positive market returns, partially offset by negative net client cash flow.

Marketing

In 2009 the strength of the Old Mutual brand and its reputation for integrity, financial strength, reliability and performance enabled us to perform well in South Africa despite the difficult economic environment.

The strategic thrust of our brand communication activity in 2009 was engagement and communication with customers, distribution channels, employees and stakeholders to amplify reassurance and trust in OMSA. We took a multi-faceted approach using advertising, advertorials, material for face-to-face meetings, media activity, digital marketing and sponsorship. The campaign worked on many levels – from communicating specific facts about capital strength, liquidity and performance of smoothed bonus products to emphasising the longer-term context by promoting our investment principles and providing general reassurance through 'green' TV commercials.

Our engagement and communication with stakeholders and investors during the financial crisis earned us first place among the JSE's Top Ten listed companies, ranked by revenue, in the New York-based Reputational Institute's Global Reputation Pulse 2009 survey. We also came first in the Sunday Times Top Brands Awards in the Long-Term Insurance category.

In addition to this activity, our business segments and OMIGSA maintained a stream of product and service innovations – both to meet immediate customer needs and to drive longer-term competitive advantage. Examples include *The Money Plan* from Old Mutual Finance, which brings together a unique mix of financial services, financial education and debt repayment planning. Our Corporate business unit launched a *Financial Wellbeing Programme* that provides financial education to its retirement fund members and employees.

Old Mutual's thought leadership position continues to strengthen. OMIGSA's economists have been quoted extensively on the markets and the economy and the launch of the Old Mutual Savings Monitor stimulated debate on the need for higher savings in South Africa.

Customer service

We focus relentlessly on becoming more customer centred and enhancing the customer service we deliver through our call centres, internet and extensive branch infrastructure. We have combined all customer servicing for the Retail Affluent, Retail Mass and Corporate businesses in OMSTA to ensure consistently high service levels across our entire customer base and use IT to help improve service. We are also driving service levels higher by using LEAN methodology to re-engineer business processes.

Our commitment to customer service is demonstrated by:

- Top ratings for service in the long-term assurance category in both the 2008 and 2009 Ask Afrika Orange Index Service Excellence Benchmark surveys, which measured service across 54 companies from 11 industries, and
- Winning the 'Best Customer Service Centre' award at the 2009 Business Process enabling South Africa (BPeSA) Awards

People

We maintain a working environment that supports the recruitment of highly effective employees, improves productivity and fosters relationships that build on the diversity of the workforce. Of our total workforce, about 85% are employed in South Africa. Our employee engagement programme in South Africa (Siyakhula) aims to foster staff participation and innovation.

In line with our shift away from heavy capital products, in 2007 we introduced an economic profit based variable pay scheme for employees in South Africa (outside OMIGSA) to incentivise efficient management of capital as well as growth of profits. Employees receive a proportion of the economic profit generated in the year, to cultivate a culture of teamwork while ensuring that we appropriately reward individual effort.

In the rest of Africa we have crystallised our focus on people by developing a comprehensive People Strategy. A key element of the strategy is to support a culture of delivery and high performance. This is further supported by a robust performance management practice that aims to ensure focus on all aspects of the business.

Latin America has a performance management process implemented with active participation of the team leaders and their team members. For the senior management the process is conducted according to the balanced scorecards criteria from the group.

Risks

We continue to manage our risks and develop our Risk Management capabilities in alignment with Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

LONG-TERM SAVINGS CONTINUED

Priorities for 2010

In 2010 we will remain focused on:

- Growing sales through expanding distribution;
- Continue improving our investment performance;
- Investment in service and continuously improving the level of service delivery; and
- Tightly controlling our expenses.

We are also continuing to focus on our expansion into the rest of Africa. Africa is an important growth market given improvements in governance and increased disposable wealth, leading to an increasing demand for financial services products.

In Latin America we will continue to focus on how to grow the business by leveraging strengths and capabilities in OMSA and the rest of the group. We will continue broadening our retail product offering, expanding our distribution and developing asset management capability for our corporate business.

Outlook

The South African economy emerged from recession in the third quarter although consumer confidence remains low. Latest government predictions are for the South African economy to grow by 2.3% in 2010, and consumer confidence is expected to continue to increase. However, some concerns remain as private debt levels are still above sustainable levels and further job cuts are expected despite the economic recovery.

We believe that the outlook for the rand is favourable because of the high interest rates, a narrowing trade deficit, the global recovery and growing confidence regarding South Africa's economic policy direction, as evidenced in the recent Budget.

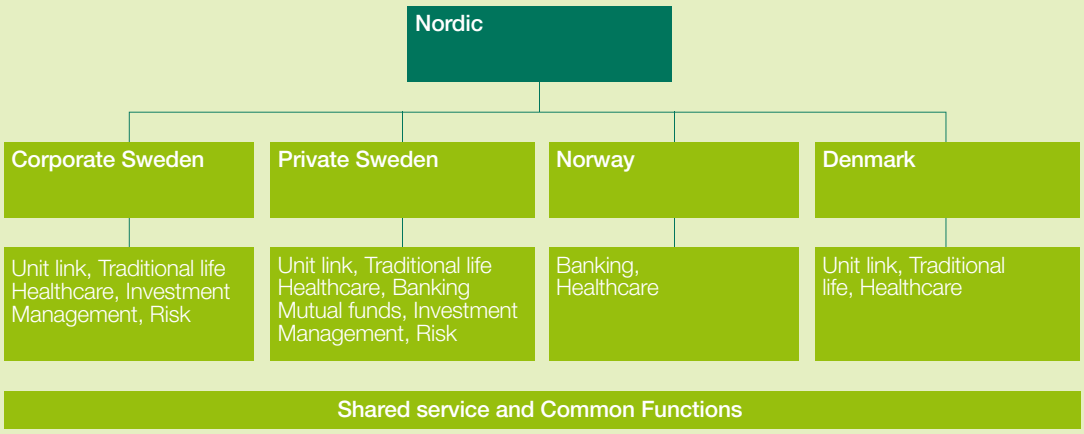
The long-term outlook for the savings and investment environment is positive and is supported by a combination of factors:

- the prudent fiscal and monetary policies of the past years are expected to continue the recent trends of the economy returning to a robust growth path by the end of 2010;
- the growing emerging black middle class and affluent markets, supported by the reduction in interest rates in 2009, the now-growing economy and Black Economic Empowerment efforts should sustain consumer spending growth;
- the Government's continuing investment in infrastructure and public sector employment programmes;
- Governmental policies for the formulation of a framework for mandatory retirement savings; and
- improvements in the level of financial education and the transparency of financial products.

The short-term picture looks increasingly optimistic, but remains at risk from market volatility as well as volatility in the rand. We are monitoring the current situation with increasing vigilance and are well positioned to react quickly to any unfavourable eventualities.

Nordic

LONG-TERM SAVINGS: NORDIC



Our Nordic business operates in Sweden, Denmark and Norway. We provide some 2.5 million retail and corporate customers with a wide range of products including traditional life, unit-linked, healthcare insurance, banking, financial advisory and mutual funds.

We are differentiated in the marketplace by our broad product mix – combining insurance, banking and investment business – and gain competitive advantage from our market-leading expertise and proven business model.

Skandia has operated in the Swedish market for over 150 years and is a strong and well-respected brand. It became part of Old Mutual in 2006. We are organised into four business areas focused on sales to specific customer groups:

- **Private Sweden**, our retail business in Sweden, offers savings products and financial advice from our banking, unit-linked, mutual funds and traditional life business
- **Corporate Sweden** offers products and financial advice from our unit-linked, healthcare and traditional life business
- **Corporate Denmark** offers products from our unit-linked, healthcare and traditional life business
- **Private Norway**, our retail business in Norway, offers products and financial advice from our bank business.

Business model

In 1990 we launched Sweden's first fund insurance company, Skandia Link. Today Skandia Link offers savings products for both private and corporate business.

Skandiabanken, once a niche player in the Nordic banking market, is now established as a full-range online retail bank serving customers in Sweden and Norway. It is well positioned to take advantage of the growing demand for direct self-service solutions in the Nordic savings market.

Our Corporate business operates in Denmark and Sweden, serving small and medium enterprises, large companies, international corporates and the public sector. It distributes its products through independent financial advisers (IFAs), other external partners and a directly-employed sales force.

Our Retail business operates in Norway and Sweden, targeting affluent and mass affluent customers. We serve this market mainly through our directly employed advisers, the internet and IFAs.

Products offered include:

Unit-linked

We offer a wide range of unit-linked funds across a variety of asset classes and risk profiles. These funds, including those from our own fund companies, are managed externally; we select and monitor managers using our unique evaluation process.

Traditional life

Traditional life products are an important part of our integrated product offering in the Swedish market. As the market's largest life company, Skandia Liv is active in both the private and occupational pensions segments. We provide insurance products with a security profile featuring long-term savings with a guaranteed yield plus protection. In 2009 Skandia Liv was rated as one of the top traditional life assurers by independent Swedish consultants and distributors.

LONG-TERM SAVINGS CONTINUED

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Mutual funds

We offer mutual fund products through our banking subsidiary, Skandiabanken. Skandia Fund Products' offering is accessible for unit-linked savings, direct savings, individual pension savings through Skandiabanken and for premium pension savings through the national PremiePensionMyndigheten (PPM) system. Customers decide how they wish their money to be managed by choosing from PPM's range of funds.

Banking

Skandiabanken is an online retail bank offering a full banking service. Its offering to private individuals is strengthened by selling our non-insurance products. It also serves as a direct distribution channel for us, targeting self-service clients with a full range of savings products through a new online platform. In 2009 it won several awards in Norway and Sweden for its outstanding service and we strengthened the savings offering by widening the fund range, introducing discounted share trading and launching a number of new saving products.

Private healthcare

We offer private healthcare products to companies and their employees. Our healthcare division also supports our unit-linked and traditional life business in Sweden and Denmark, adding value to the pension scheme products and broadening our product offering.

Skandia Liv

Skandia Liv is a traditional life assurance company serving customers in Sweden and Denmark. It is a wholly-owned subsidiary of Skandia but is run on a mutual basis. It operates within a strict local legal framework and the benefits usually associated with share ownership accrue to Skandia Liv's policyholders rather than the holding company. Consequently, Skandia Liv is not consolidated into the Group's accounts.

Product development

We aim to develop products that meet our customers' needs and demands, using customer surveys, competitor benchmarks and market analysis. In parallel to this, our product approval process assesses how effectively each new product creates value for customers – and for shareholders, for example in terms of capital efficiency and long-term profitability.

New products developed in 2009 include *Hälsa in i Sjuk* – a corporate healthcare product, *Garantipension Plus* – an alternative product within the new PA-KFS-plan, new pregnancy insurance, property insurance in co-operation with Dina Försäkringar, *Skandia Vælger* – a fund of funds solution, and new funds such as the *Lynx Dynamics Fund*. We launched *Direktpension in Depå* to replace a previous unit-linked capital insurance product which had become unprofitable because customers are reducing the length of time for which they hold savings products.

Market overview

The personal market is increasingly important in Sweden and Norway, as reduced state and employer pension benefits place more responsibility on individuals to secure their own future finances. A growing number of people are approaching and reaching retirement age and increasingly need to make their own investment allocation decisions. This means growing demand for holistic advice and close customer relationships. All our major competitors in Sweden are Nordic bancassurance entities.

The demand for advice and self-directed solutions, combined with growth in the personal market, are major business opportunities that we will focus on in the coming years. The consumer market is characterised by diversity of savings instruments and customer preferences. The main types of savings are insurance (a market worth SEK700 billion), bank deposits (SEK700 billion), mutual funds (SEK600 billion), equities (SEK600 billion) and bonds (SEK100 billion). Total industry revenues in the individual savings market are expected to grow from between SEK40 billion and 50 billion in 2008 to between SEK70 billion and 80 billion by 2015 – driven primarily by market appreciation, increasing disposable income and asset reallocation.

Customer behaviour is changing in the Nordic market. The new generation favours internet-based services, which drives demand for increased transparency and unbundling of products, services and prices. Insurance products and pricing are becoming less differentiated. The market for insurance-based long-term savings products is being impacted by the withdrawal of tax incentives.

The changing dynamics of the Swedish corporate market are leading to increased focus on the unaffiliated part of the market. Corporate pensions are the dominant segment of the Swedish life market, a sector in which we have traditionally been very strong. However, our strategies to increase sales in this segment need to reflect the way the corporate market is changing, with growing use of collective agreement procurements and increased pressure on prices. Swedish brokers are responding to these changes by shifting their focus to small and mid-sized companies and to individuals.

In Denmark the authorities continue to focus on increased transparency regarding cost of pension products and tax reforms are reducing tax benefits

on insurance. A complete commission ban in Denmark will be introduced on 1 January 2011.

Strategy

Our key objectives to 2012 are to:

- Grow in the private savings market in Sweden and Norway
- Retain existing corporate business in Sweden
- Strengthen our position and grow in Denmark
- Improve and develop risk and capital management
- Increase operational efficiency.

To achieve our vision of having the most satisfied customers in the savings market we aim to move from our current position as a product supplier mainly offering insurance products to become a more customer-oriented financial solutions provider characterised by operational excellence.

We will improve and develop our customer interface, enhance our product offering and make our products available to customers through different channels. The key challenge will be to build attractive offerings that provide both end-customers and distributors with advisory tools and quality advice, innovative products, top-quartile returns and the market's best customer service.

- **Private Sweden** Although our current market position is relatively small compared to main competitors, we have important strengths: our customer base, well-known brand and our insurance platform and expertise. We aim to grow by moving closer to the end-customer with a new distribution model, integrated channels, a full-range savings offering and well defined service levels offering holistic advice. Our focus segments are affluent and mass market clients among our existing customer base, particularly over-55s.
- **Private Norway** We are currently a niche player positioned as an innovative daily banking partner with a strong position as a customer-friendly internet bank. We aim to grow by expanding our product offering with more savings, insurance and investment products, adding advisory services to become a savings partner.
- **Corporate Denmark** We are seen as a challenger and innovator providing excellent pension products for companies with under 100 employees. We aim to grow by increasing our distribution power with new channels and offerings to position us as a trustworthy deliverer of products and services to larger companies. We will focus on packaged offerings and efficient customer solutions and administration.
- **Corporate Sweden** Our fundamentally strong position faces price pressures and changed market conditions. To maintain our market position we are focusing on small and medium-sized companies, owner-managed companies and management plans, mainly for businesses in our existing customer base. We will move closer to our customers and develop attractive new propositions, effective processes and improved service levels.

Performance in 2009

Continued strong net client cash flows, rising FUM and strengthened relations with distributors

For key figures see highlights table on page 48.

Sales

New sales in Nordic increased by 8% compared to the prior year, driven by the very successful Skandia *Depå* product sold through Skandiabanken direct sales, the internal advisory channel and brokers. Retail business was strong with muted impact on our particular target markets from the recession. However, the effects of the economic downturn did have an adverse impact on occupational pension sales in the Swedish corporate sector with lower inflows as a result of less workforce mobility, lower salary increases, and higher than expected premium cessations due to layoffs. We closed down sales of an unprofitable unit-linked product in September 2009 and this had a meaningful impact on sales growth in the final quarter of 2009.

Nordic had excellent growth in mutual fund sales, which increased by 47% compared to the prior year. The driver behind this growth was *Skandia Global Hedge*, one of the best performing hedge funds in Sweden, which attracted SEK950 million of inflows. In addition, during 2009 there was a material inflow of customer fund holdings from other banks as the result of a marketing campaign launched early in the year.

IFRS AOP results

IFRS AOP decreased 32% in 2009 compared to the prior year. The fall in interest rates in Sweden and specific differences in valuation basis between IFRS assets and the liabilities under Swedish regulations resulted in unrealised losses of SEK119 million in the assets backing reserves in the unit-linked and health businesses. Interest rates are now at a historical low in Sweden. The health insurance business (rebranded as *Lifeline*) was also negatively affected by the higher cost of claims and lower premium income. We have re-priced the business and made changes to both products and policy conditions. In Denmark, where similar actions were taken in early 2009, the business showed considerable improvement in the second half of 2009, and similarly the Swedish business is expected to improve in 2010.

LONG-TERM SAVINGS CONTINUED

Highlights (SEKm)	2009	2008	% Change
Long-term business adjusted operating profit	**502**	754	(33%)
Banking business adjusted operating profit	**193**	283	(32%)
Asset management adjusted operating profit	**42**	39	8%
Adjusted operating profit (IFRS basis) (pre-tax)	**737**	1,076	(32%)
Return on equity*	**11.7%**	17.0%	
Operating MCEV earnings (covered business) (post-tax)	**965**	1,839	(48%)
Return on embedded value (covered business) (post-tax)	**8.1%**	12.9%	
Life assurance sales (APE)	**2,819**	2,599	8%
Unit trust/mutual fund sales	**4,708**	3,207	47%
PVNBP	**13,774**	12,108	14%
Value of new business	**526**	397	32%
APE margin	**19%**	15%	
PVNBP margin	**3.8%**	3.3%	
Net client cash flows (SEKbn)	**11.6**	7.0	66%

Highlights (SEKbn)	2009	2008	% Change
Funds under management	**127.2**	91.9	38%

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

Skandiabanken's results were weaker due to lower net interest income following the repo rate declines during the year and the impact on the margin of prudent liquidity management. Credit losses increased marginally, but the credit loss ratio is still at a low level (0.14% in 2009 compared to 0.13% in 2008), reflecting the low-risk nature of Skandiabanken's lending business, and the stability of the Nordic residential market.

IFRS AOP was positively affected by increased investment value in the private equity portfolio of SEK51 million. The second half of 2009 showed strong results in the unit-linked business due to positive growth in FUM driven by positive stock markets trends, together with a strong NCCF, thus increasing fund-based income.

We are continuing to review the expense base of the business, and will seek to cut costs in 2010 where we are able to do so.

Skandia AB and Skandia Liv have decided that for the time being there will be no changes made to the corporate form of Skandia Liv, but that they will be moving forward with the objective "One Skandia", maintaining a close cooperation between the two companies.

Value of new business and margins

The value of new business and profit margin increased substantially during the second half of 2009, due to a more profitable business mix, positive operating assumption changes and sales growth. The business mix was positively affected by the closure of the private regular premium unit-linked product referred to above, which was replaced by a much more profitable, lower commission product. The assumption changes are driven by changed mortality pricing and positive experience as well as high transfers into the unit-linked decumulation product, thereby prolonging the duration significantly. The effects came through during the second half of 2009, and PVNBP margin improved from 3.3% for 2008 to 3.8% for 2009, and APE margin from 15% for 2008 to 19% for 2009.

The price pressure in the Swedish market continues, especially in the corporate market. In the medium term, the margin is still expected to remain in the high teens, but this will require continued high new sales, product development and cost control.

MCEV results

Operating MCEV earnings were down 48% on the comparative period mainly due to lower than expected existing business contribution arising from historically low interest rates, capitalised one-off developmental project costs, and increased outward transfer assumptions during the accumulation phase of corporate business. The closing MCEV has increased substantially, especially in the second half of the year, due to the impact on non-operating earnings of strong stock market performance leading to large positive investment variances, and a

£11.0bn

Funds under management in Nordic

release of provisions after the settlement of certain longstanding litigation matters.

Net Client Cash Flow

Net client cash flow for the year was an exceptional, and record high of, SEK 11.6 billion, representing 13% of opening funds under management. The positive performance was largely driven by a combination of strong Life sales, especially the *Investment Portfolio* product, regular premium unit-linked sales, and lower outflows related to maturities and surrenders in the occupational pension business. Positive flows in mutual funds also contributed to this performance. Net client cash flow increased 66% compared to the prior year, although it weakened in the second half as a result of the increase in the pace of corporate outflows.

Funds under management

Funds under management at 31 December 2009 were SEK127 billion, up 38% from the level at 31 December 2008, and 18% from 30 June 2009. The increase was due to strong net client cash flow and positive development on the equity markets. This is a significant improvement compared to previous periods.

Our 2009 investment performance was excellent. For the third consecutive year, Skandia Link was awarded best performance among the unit-linked companies in the Swedish market. During 2009 Skandia Link's average client enjoyed investment performance of 29%. Average performance on a weighted index (66% MSCI AC World and 34% OMRX Total Market) during the same period was 15%. Customers are increasing their appetite for investment risk by weighting a larger proportion of their holdings in equities and, in particular, emerging markets equities.

Marketing

As indicated in the 'Product development' section above, we had a busy year for new product launches, which we supported with appropriate marketing and promotion.

In Sweden, Skandia Link earned the Risk & Försäkring award for 'best average return to customers on a three- and five-year basis' for the third year running. On the back of this we ran some very successful marketing campaigns focusing on our investment performance.

We believe that being a good corporate citizen is good for business. For more than 20 years we have run the Skandia Ideas for Life corporate social responsibility programme, which works to protect children and young people and support their social development. Skandiabanken has teamed-up with voluntary organisation ECPAT to block purchases of child pornography using payment systems, and this work won much positive PR and publicity in the Swedish media during 2009.

Our PR activity in 2009 doubled our positive exposure in the media, benefiting sales, net client cash flow and our brand image.

We continuously run roadshows for both corporate and private customers. These are very popular and successful both for launching new propositions and for disseminating information and education about savings and investments.

Customer service

We have launched our common vision – to have the most satisfied customers in the savings market – across the whole organisation, and this is beginning to influence our processes and customer relations:

- Skandiabanken Sweden won the Teleperformance award for 'best customer service in all categories' in 2009 and the Q Service 'best bank customer service' award in 2010
- Skandiabanken Norway won the Norsk Kundbarometer 2008 citation for 'most satisfied customers' for the eighth year running
- We have simplified our customer communications and application forms
- Skandiabanken Norway has introduced enhanced self-service functionality for lending
- We have improved share trading facilities for corporate and personal customers
- We have improved the information on our Skandia.se website
- Corporate Sweden has improved its customer invoicing processes.

In our customer satisfaction research, Skandia Norway and Denmark both achieved strong results: Skandia Norway's customer satisfaction levels are among the highest for all businesses in Norway. Distributors in Sweden rated us extremely highly and we remain one of the top two in this market. Skandia Sweden's satisfaction ratings were affected by the crisis of confidence in all Swedish financial institutions which followed the market turmoil in Autumn 2008 and Spring 2009; despite this, satisfaction was unchanged among private customers and reduced only modestly among corporate customers.

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LONG-TERM SAVINGS CONTINUED

	2008	Target 2009	Result 2009
Satisfied customer index Private Sweden	63	64	63
Satisfied customer index Corporate Sweden	58	59	56
Satisfied customer index Corporate Denmark	63	64	64
Satisfied customer index Private Norway	80	80.5	80.5
Satisfied distribution index Sweden	57	58	63

People

In 2009 we launched our Nordic People Strategy initiative aimed at improving our people processes, strengthening our performance culture and supporting the overall business plan. This has made very strong progress. We have established a leadership development programme for new leaders, a talent management review process is underway and key decisions have been taken on training and development. We have also produced guidelines for handling underperformance, for implementation in 2010.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with the Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

HOW WE DO BUSINESS

ENCOURAGING SUSTAINABLE VALUE CREATION

We want to improve the transparency of the companies we invest in. So Skandia joined 12 of Sweden's largest institutional investors in 2009 to launch a Sustainable Value Creation Initiative. As part of this we published surveys of governance and policies for sustainable value creation in the 100 largest corporations on NASDAQ OMX Stockholm and the 74 companies in the Oslo Børs Benchmark Index.

"This index encourages companies to develop sustainably while at the same time creating long-term economic value for their shareholders." – Hans Svensson, Head of Public Affairs and CR, Skandia Insurance Company

Priorities for 2010

We will continue working towards our vision of having the most satisfied customers in the savings market. The focus will be on building high-quality, innovative offers for end-customers and distributors by providing advisory tools and quality advice, innovative products, top-quartile returns and excellent client service. We will continue to develop new investment portfolio products, supported by initiatives to achieve operational excellence. Our priorities for 2010 to 2012 are:

- Drive growth in the Swedish and Norwegian personal savings markets, strengthen our position and grow in Denmark
- Achieve operational excellence by retaining existing corporate business in Sweden and increasing our operational efficiency
- Achieve excellence in risk and capital management.

Outlook

Although the financial markets continue to be volatile, the outlook for the Nordic markets remains positive. The mass corporate market is challenging with an increasing movement towards low margin tendered business. We continue to focus on strengthening the market position by delivering first-class products and offerings to customers both on the private market, as well as the higher margin segment of the corporate market. A key part of this is the improvements to the Skandia Nordic platform, *Skandia.se*, which was re-launched during the second quarter of 2009. With the launch of a series of combined offerings such as the Skandia *Investment Portfolio*, Skandia *Depå*, we have started to exploit the potential of decumulation products and increased cross-selling. We have also strengthened our ALM capacity, improved our operating model to be more customer oriented, and announced changes in the commission structure to improve future profitability. With increased focus on customer needs and profitability, we remain convinced that we can turn this period of disruption into a lasting opportunity. The broad product mix and market position of our business gives us a competitive advantage in a challenging market.

We are disposing of further private equity assets and expect a pre-tax profit of approximately SEK126 million from this source in 2010.

Retail Europe

LONG-TERM SAVINGS: RETAIL EUROPE

Retail Europe consists of four local businesses: Skandia Austria, Skandia Germany, Skandia Poland and Skandia Switzerland. All are active in the same product market – recurring unit-linked life business focused on old-age provisioning – and have similar business models. They serve the savings and investment needs of similar retail customer segments and operate on related platforms. The core product range covers regular and single-premium unit-linked products, supported by pure investment solutions and disability solutions.

Business model

We operate in interesting markets that offer great opportunities: 140 million people – the overwhelming majority of them retail customers – threatened by financial uncertainty due to fundamental demographic change and the ongoing crisis in public retirement provision. Distribution is primarily through co-operation with about 12,000 independent distributors. Our main strengths are our innovative products, investment competence and long-standing distributor relationships.

We follow a value-driven business model, applying a strong key performance indicator focus to all relevant business areas. In sales, for instance, we are more concerned with the value of new business than the quantity of new contracts. We also pay close attention to the existing business book, maintaining quality by rewarding low surrender rates. We take business decisions at the appropriate levels to ensure we stay close to our markets without losing necessary central oversight.

Product development

In our markets we are seen as one of the leading unit-linked suppliers, with innovative and flexible products and strong investment knowledge. While our focus in the past has not been on guarantees, we add guarantee features when sensible. For instance, our businesses were the first in their markets to offer guarantee funds as investment options. In 2009 we introduced the new product *Safety Plan*, which includes a guarantee at maturity, in Switzerland.

We will continue to optimise our portfolio in 2010 – aided by our collaboration with Skandia Investment Group, which helps us provide innovative and return-oriented solutions for our customers.

Market overview

Driven by the European regulators, the increase in regulatory and transparency requirements to improve customer protection continues to put pressure on small and mid-sized distributors and providers in all markets. This was particularly evident in Germany with the introduction of the new Insurance Contract Law in 2008.

Regulatory pressure has led to some consolidation and a significant decline in the number of independent distributors. The impact was reinforced by some insurers seeking to secure their access to distribution by buying stakes in independent distributors.

The financial crisis has undermined customers' confidence in financial services generally and unit-linked products in particular. More than ever, they are now looking for orientation, simplicity and reliability. Traditional life insurance products from highly reputable companies could benefit significantly from this uncertainty.

Uncertainty during the financial crisis drove some customers to cut their investment in long-term savings. In addition, increasing cost transparency and customer uncertainty raised legitimacy issues for distributors. As a result, life businesses suffered from higher lapse rates and surrenders; and new unit-linked business in Germany, for instance, decreased by 33% compared to 2008. In response, some competitors increased their commission payments to compensate distributors for decreasing market volume.

LONG-TERM SAVINGS CONTINUED

Strategy

Our federal model of standalone businesses in Central Europe has been successful in growing these businesses from the outset. But the model needed some changes in response to increased competition and consolidation, as well as the increased burden of consumer protection and regulation. So we created Skandia Retail Europe in 2009 to build one efficient business unit out of four formerly autonomous local companies. This should generate scale benefits and a better allocation of resources through cross-border integration.

As a first step the new business unit appointed a cross-border senior management team bringing together new managers from other parts of the Group and experienced managers of the local companies. We then launched the new Skandia brand in all markets. The main ambition of the new senior management is to develop a common market approach that serves as a catalyst for harmonising capabilities, processes and workflows across borders. The transformation project is currently building a new harmonised operating model with the intention to transfer parts of policy administration and IT to South Africa in collaboration with OMSTA.

Our mid-term target is to increase the number of contracts in force to 1 million by 2014.

Performance 2009

Key foundations laid for the future development of the business

Sales

The countries served by Retail Europe were impacted by the difficult economic environment which affected consumer confidence in our products. Unit-linked markets decreased materially in premium size during 2009, whilst the relative attraction of guaranteed products increased. This impacted the normal increase in new business towards the year-end which did not materialise to the same degree as in previous years. Overall APE sales in Retail Europe decreased by 34% compared to the prior year.

2009 was a critical year for Retail Europe during which key foundations have been laid for the future development of the business. In particular an integrated senior management team has been established and functional heads have been appointed for key cross-European functions, such as finance and risk. The business is now working as a cross-border team whilst at the same time maintaining focus on the distributor requirements in each market.

In the second half of the year, efforts to tackle new sales development were increased within all Retail Europe businesses. The objective is to grow to achieve critical mass in all our chosen niche markets. Examples include intensifying the relationship with special distribution partners in Germany, the initiation of cooperation agreements with Deutsche Bank in Poland, and the development of the new *Safety Plan* product in Switzerland.

The combined impact of these initiatives and the recovery of the stock market meant that in the fourth quarter new sales rose by 57% compared to the previous three months, driven particularly by the German and Polish markets. The variance against the fourth quarter of 2008 was reduced to 10%. This impact was most marked in Poland where in the final quarter sales were 145% above the same period in 2008 and 73% above the previous quarter. Similarly, German sales in the final three months of the year exceeded the previous quarter by 76%.

Highlights (€m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**25**	36	(31%)
Return on equity	**9.0%**	18.6%	
Operating MCEV earnings (covered business) (post-tax)	**(49)**	18	(372%)
Return on embedded value (covered business) (post-tax)	**(7.9%)**	2.6%	
Life assurance sales (APE)	**75**	114	(34%)
Unit trust/mutual fund sales	**27**	59	(54%)
PVNBP	**603**	699	(14%)
Value of new business	**(6)**	13	(146%)
APE margin	**(8%)**	11%	
PVNBP margin	**(1.0%)**	1.8%	
Net client cash flows (€bn)	**0.6**	0.6	0%

Highlights (€bn)	2009	2008	% Change
Funds under management	**4.7**	3.7	27%

Overall, the rally in sales, underpinned by the rally in equity markets, positioned the business well at the end of the year after a very weak first half of 2009.

IFRS AOP Results

The IFRS AOP for 2009 was €25 million, 31% lower than in 2008, mainly affected by reduced fees, a lower investment result and a policyholder profit-sharing agreement with the regulatory authorities for the German business. The main contribution to the IFRS AOP in 2009 was made by the Austrian business, exceeding the prior year result, driven by lower administration costs and reduced commission expense. All markets achieved positive IFRS results.

All businesses realised substantial cost savings in administration and staff costs in 2009, aligning the cost base to the reduced sales environment. However these savings were partially offset by the investment to integrate the new management structure, and the one-off costs from closing the businesses in Hungary and the Czech Republic, and our contribution towards the now-closed ELAM office.

Value of new business and margins

The 2009 value of new business (VNB) was negative €6 million, significantly below 2008 which was €13 million.

The negative VNB and negative profit margin were mainly driven by the decrease in new sales which caused sales volume acquisition expense overruns that could not be entirely compensated for by savings in expenses. A reduction in higher margin single-premium business also added to the shortfall. Despite the lower new sales Poland maintained a positive profit margin in 2009.

MCEV Results

The decrease in 2009 MCEV operating earnings is mainly driven by the lower new business contribution, adverse experience variances and changes in operating assumptions.

In comparison to the 2008 results, experience and assumption changes had a negative impact of €24 million. This is as a result of the one-off experience variances and a further assumption change for profit-sharing in Germany, as well as expenses overruns, other minor methodology changes, and the recognition of one-off developmental project costs. This was offset by positive persistency assumption changes and less adverse persistency experience than in 2008.

The management action taken in 2009 and the rebound in the markets provide a positive backdrop to the MCEV prospects for 2010.

Net Client Cash Flow

Net client cash flow (NCCF) in 2009 remained robust at €551 million due to stable regular-premiums and was flat relative to 2008. The continued strong performance of the NCCF represented 15% of the opening funds under management.

The strong result is driven by the positive development of surrender experience which was 20% below 2008 in the unit-linked business. Actions taken to increase customer and broker communication led to this positive result despite the ongoing volatility in financial markets.

Funds under management

Funds under management ended the year 27% above the position at 31 December 2008, heavily benefiting from market performance and stable NCCF. This includes positive market movements on portfolio values of 19% of opening FUM, reflecting the rise in financial markets seen across the globe in the second half of 2009. In the German business the €2 billion mark was exceeded for the first time.

Equity funds particularly benefited from the capital market developments in 2009. Actively managed portfolios as well as guarantee funds rose in line with total client funds (31% and 27% compared to 30% in total client funds). This was close to leading market indices such as the MSCI World (in EUR) which rose by 23%.

FUM was supported by the effective asset mix of the portfolio and reflects the investment appetite of our customers. Although client funds were impacted by the fall in equity markets during the financial crisis they have benefited from the recovery that started in the second half of the year and this trend is expected to continue throughout 2010.

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Customer service

All our national businesses have won awards for their outstanding service to distributors and customers alike.

People

We strive to connect company and personal targets for an optimal approach to performance management. We reward employees for achieving both company targets and individual goals. Sales force compensation is based on value-oriented targets, not mere volume.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

LONG-TERM SAVINGS CONTINUED

Priorities for 2010

- Grow through common approach to markets, developing from product supplier to solution provider
- Streamline and optimise business and product portfolio
- Improve services to business partners and customers
- Share know-how and capabilities within the Group (e.g. the intended transfer of parts of policy administration and IT to South Africa in collaboration with OMSTA)
- Embed one lean retail organisation.

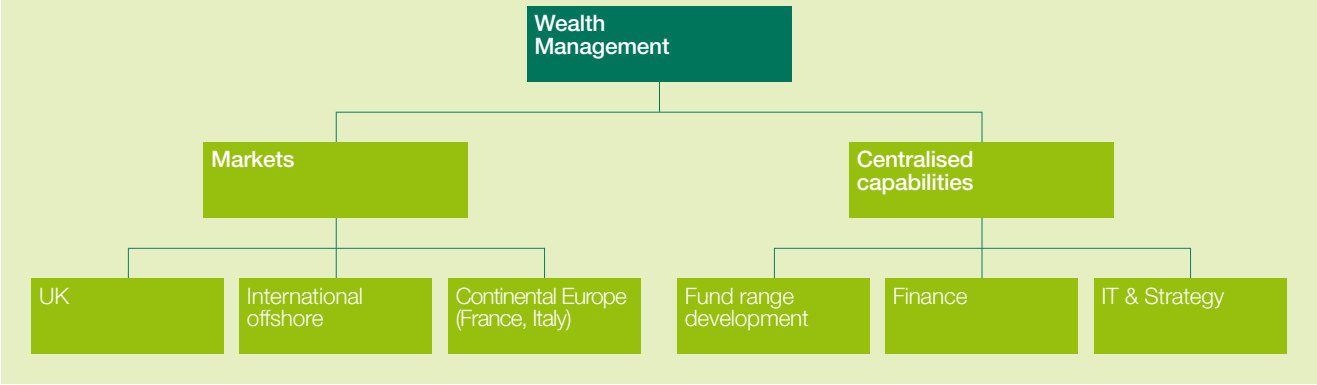
Outlook

Retail Europe faces another challenging year, but we are confident of increasing market share and strengthening our position. Our core strength is the flexibility of our unit-linked concept with embedded guaranteed funds and our strong investment expertise. We have established a systematic change management approach to steer and successfully implement the ongoing transformation of the business in the challenging international environment. We continue to explore opportunities to create efficiencies by utilising the skills, and capacity available in the South African business.

Despite the ongoing uncertainty in our markets, we expect improved performance and profit growth in 2010.

Wealth Management

LONG-TERM SAVINGS: OLD MUTUAL WEALTH MANAGEMENT



Old Mutual Wealth Management provides advice-driven, predominantly single-premium unit-linked propositions to affluent and high-networth customers across continental Europe, the UK and a number of international markets. While our target segment has a significant proportion of middle-aged customers, demographic shifts over the longer term are providing growth prospects through people living longer and through growth in individual wealth levels. Wealth transfer to the next generation provides sustainability in market prospects. In the UK, the affluent segment represents approximately 83% of managed funds and between 50% and 60% in the large European markets (*Boston Consulting Group, 2007*).

Our organisation comprises three strong businesses:

- **Skandia UK** is a leading provider of long-term investments with innovative solutions for wealth building and wealth management, offered through the independent financial adviser (IFA) channel on our market-leading platform. Our proposition is based on the belief that financial services should be focused on each individual's goals, rather than on pushed products. Our offer is built on choice and transparency to enable customers to make informed financial decisions.
- **Skandia Wealth Management Continental Europe** targets the affluent segment in continental Europe (predominantly Italy and France). It offers high-quality service through multiple distribution channels with a broad product offering to meet affluent customers' investment needs through the various phases of their lives.
- **Skandia International** is the offshore wealth management arm of the Old Mutual Group, conducting business in Asia, the UK, South Africa, the Middle East, Europe and South America. Our aim is to offer and deliver attractive offshore market-led solutions for the long-term savings and investment needs of high-networth customers internationally, building sustainable and profitable growth in international markets.

Combining these businesses into one Wealth Management organisation provides significant opportunities. Our common focus on affluent customers, and the dominance of single-premium investment business in this segment, create significant prospects to leverage infrastructure, scale opportunities and product knowledge.

Our customer offer includes unit-linked life insurance, pensions and mutual funds. It is based on open and guided architecture, giving customers and their advisers access to a wide range of funds managed by third-party providers. To meet customer demand our offer includes both regular-premium and single-premium products, although the latter predominates. The product set is customised to the needs of local markets:

- Our **UK** business has been transitioning over time from providing an insurance-wrapped, narrow product offer to an open-architecture, platform-enabled offering in line with market trends. Our product set is therefore divided between a legacy portfolio and our market-leading platform proposition. During 2009 we transferred a large portion of our portfolio onto our platform product range, where our

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customers have access to a wider choice of products, funds and investment propositions.

The transition to platform enablement positions us well in the UK market, which remains primarily IFA driven. Advisers are increasingly adopting platforms as a means of managing customers' investment portfolios, driven by customer preferences for understandable and transparent propositions, regulation that requires regular review of investments, and new adviser remuneration models. As a result, our business is moving towards a more efficient structure that services IFAs better through online technologies and tools. We believe there are opportunities to extend our UK platform to our other markets across Europe and elsewhere.

We offer our UK customers several product wrapper possibilities:

Pensions – a range of pension wrappers to meet the retirement-planning needs of individuals, employers and trustees. All our pension products offer wide investment choice in funds where the underlying investments are through third-party fund managers. Assets are invested either directly into third-party funds or through our range of blended investment solutions.

Investment bonds – our investment bond offers access to third-party funds and blended investment solutions, all managed by third-party fund managers in a product structure that is tax-efficient for certain customer segments.

Protection – we also offer premium protection solutions in the form of unit-linked whole life product and critical illness cover. Average premium sizes are high and typical customers include the self-employed and entrepreneurs as well as customers seeking protection linked to efficient inheritance tax solutions.

→ In **Continental Europe**, our offer consists predominantly of unit-linked business in a life assurance wrapper, supplemented by a mutual funds offer launched in 2009. An important part of our proposition is the ability to customise products for individual distributors' clients. Features such as automatic stop-loss enable customers to take advantage of equity market growth while managing downside risk.

→ The most important product for our **International** business is our award-winning portfolio bond. This bond's flexibility enables customers to invest in virtually any tradable asset and in a variety of currency denominations. Its portability is another attractive feature. Our product offer is supported by a comprehensive suite of trust options and online facilities.

Our distribution is advice-led, in line with the preferences of the affluent customer segment. In the UK, distribution is solely through IFAs. The larger IFAs and networks, which we manage as key accounts, represent approximately 60% of total new business income. In the last quarter of 2009 we reviewed our UK sales structure to ensure our business model is fit for the future and aligned to advisers' support needs. We closed a number of regional offices and created a new, enhanced sales organisation consisting of field consultants, a complementary centralised business consultant team and a team focused on delivering value to our corporate partners. In our international markets we distribute through international banks, private banks and financial advisers. We distribute in continental Europe through independent financial advisers, banks, sales networks and our own sales force. We also have an institutional sales force distributing Skandia Investment Group (SIG) funds to institutional customers. Our distributor offer is based on strong relationship management, high-quality service and responsiveness to market needs. Our partnering approach has succeeded in delivering new business even during 2009's difficult market conditions.

Our business success has been based on core capabilities stemming from our corporate heritage as an open-architecture pioneer. Our independence and track record of innovation continue to distinguish us in the market, while our experience in platform-enabled business is a strong asset. We strive to deliver high-quality service and responsiveness to our customers and distributors, and see this as a sustainable source of competitive advantage.

We are structured to stay close to our individual markets while benefiting from centralised capabilities, oversight and optimisation in fund range development, strategy, finance and IT functions. We believe this approach provides opportunities to leverage infrastructure and management processes across the business, especially as we build a pan-European business based on common infrastructure.

Business model

Our business model is scale-driven, with part of our income related to the value of funds under management (FUM). As FUM are driven by the attractiveness and relevance of the product offer, we continuously strive to increase product breadth and depth around local market needs. Our distribution strategies aim to maintain and develop

our market presence and make us the provider of choice to distributors. Our policy is to invest in distribution channels with long-term sustainability and good persistency in business. Our strong market positions in product provision, relationships and FUM give us strong bulk purchasing power in the asset management market, which allows us to offer our fund range at very competitive prices.

The global recession has hit providers' volumes across the world, but as local economies emerge from recession we expect our new business volumes to benefit from improved investor confidence.

Since our distribution is centred mainly on independent channels, a large proportion of total expenses consist of sales incentives, which are fully variable in line with volume. As our internal expenses are, to a large extent, fixed, we achieve economies of scale as volumes increase. Operational efficiency remains important to keep costs at optimum levels. Sharing technical, operational and management infrastructure across the Wealth Management business helps us to maximise efficiency.

Our planning and control processes are focused on value creation over the long-term as well as short-term capital usage. Our decision criteria take into account the prospects of earning returns above the cost of capital, to ensure that both customers and shareholders receive added value.

Product development

Our platform provides a convenient, transparent and flexible online approach where customers are able to grow, protect and use their wealth with the support and guidance of a financial adviser. Through Skandia's platform, they can see their full investment portfolio in one place, and can understand the investment strategy that lies behind it. The platform also enables advisers to manage their customers' investments. It provides an end-to-end process starting at risk-profiling the customer through to sourcing the appropriate investments through various tools and features. During the year we further enhanced the functionality on the platform; we now offer customers access to valuation and online switching, recognising their increasing desire for self-service in line with their experience in areas such as online banking. We will further develop these features and services in 2010 to ensure that customers can access the information they need when they need it.

Enhancing our product range to better serve the needs of local markets is a priority. In 2009 we launched a number of innovative products and features, including:

- A Latin American MCB redemption product, sold through existing distribution channels to meet the growing market need for an international non-contractual savings product
- A non-accredited product for Singapore, launched to expand Skandia International's target customer base in this growing market
- A refreshed version of Old Mutual Guernsey's perennially successful life account range, which offers a more competitive charging structure while maintaining its flexible method of investing overseas
- Daily trading features in Italy, which allow greater investment flexibility and significantly enhance our offer
- A number of distributor-specific products in France, specifically targeted at the private bank channel
- A number of new tools and features on our platform in the UK, including an ISA allowance tool and a tax-efficient withdrawals tool.

An important part of creating winning propositions is our fund selection, development and packaging capability. This is delivered through Skandia Investment Group (SIG), which brings together all Skandia's investment research, analysis, portfolio management, open-architecture and investment product expertise. SIG works closely with the LTS business units to deliver investment management solutions that suit customer requirements in our various markets and offer us attractive economics. Central to SIG's capability is the development of blended solutions, such as the highly successful risk-targeted *Spectrum* fund range launched in 2009, and multi-manager propositions such as the *Best Ideas* range. During 2009, SIG evolved its fund range to adapt to changing customer needs in the light of the significant market changes experienced since late 2007. The new fund range offers customers a more compelling choice of investment solutions with the benefit of improved performance.

The strength of our product offer was recognised through a number of awards in 2009, including:

- 'Best Multi-Manager' in the Moneyfacts Awards (Investment, Life and Pensions)
- 'Best Regular Premium Investment Product (UK Offshore)', 'Best New Product (Far East)' and 'Best Online Proposition (Far East)' in the International Adviser Life Awards
- 'Best Fund Platform' in the Logica UK Platform Awards
- 'Best International Life Group' in the International Fund & Product Awards
- 'Best Fund Supermarket' in the Professional Adviser Awards.

LONG-TERM SAVINGS CONTINUED

HOW WE DO BUSINESS

TREATING CUSTOMERS FAIRLY

At Skandia UK treating our customers fairly is a top priority. We've had Treating Customers Fairly (TCF) champions in place since 2005, working on ways to develop and promote best practice within teams. They also help ensure that their teams keep TCF in mind in everything they do and every decision that affects customers. Whether running TCF workshops, leading by example or measuring TCF standards, these champions play a vital role in making sure we continue to treat our customers fairly.

"In the Customer Service Division we communicate with our customers daily. It's vitally important to put ourselves in the customer's shoes continually – both to ensure we treat them fairly, and also to support our vision of delivering service excellence and process efficiency." – Kaila Bishop, Customer Services, Skandia UK Group

Market overview

Demographic changes in Europe and across the globe will continue to result in individuals needing to save for the long term. The affluent and high-networth segments of the market are expected to grow as people become wealthier and wealth transfers to the next generation. Although competition in these segments is tough, we believe that the economics remain attractive. As defined-benefit schemes become increasingly unaffordable, defined-contribution schemes are expected to become the norm for employer-provided premium obligations in the future, which will favour our products in the market.

The global financial crisis has reinforced an existing need for quality advice and transparency. This favours our strategic focus on advice-led, choice-driven investments – which will gain further support from forthcoming regulatory changes. In the UK, for example, the requirements proposed by the Retail Distribution Review aim to provide greater clarity about the services being provided, with the charges for this service potentially being specifically agreed between the adviser and the customer. We expect that other global markets will move to similar regulations in the future. Skandia's modern solutions already meet some of the new requirements and the proposition will be developed further to offer the necessary flexibility.

The credit crunch of 2008 and 2009 resulted in low customer appetite for investing new money, putting pressure on new sales in the financial sector. During the crisis, customers moved away from riskier asset classes such as equity into more stable categories such as cash and fixed interest. More recently we have started to see a reversal of this trend as equity markets recover.

Recent budget announcements in the UK have curtailed the tax relief available to wealthier individuals, making investments into pensions less attractive. As a result, these customers may turn to other types of savings for their retirement. We have a full range of tax wrappers to meet their needs. The recent changes to ISA allowances for over-50s, increasing their annual allowance to £10,200, caused a surge in ISA new business across the industry during Q4.

Compared with single domestic markets, the offshore financial services industry offers greater diversity of geography, customer base, distribution, risk management and competition – as well as opportunities generated by variable macro and micro conditions.

The implementation of Solvency II will emphasise our low-risk, capital-efficient business model. We expect to have an advantage over other market players that carry product guarantees on their balance sheets. This capital saving will enable us to channel comparatively more capital into the further development of business opportunities and to grow our business.

Strategy

In line with the Old Mutual Group's overall strategic initiatives, we are focused on building scale, maintaining our strong capital positions and streamlining our portfolio over time. To this end, our strategy aims to:

- Deliver innovative products to meet local market needs and increase the breadth and depth of our product offer
- Evolve the customer and distributor proposition as we anticipate and respond to changes in preferences, behaviour and market dynamics
- Optimise our fund portfolio to the benefit of customers
- Seek opportunities to expand our platform technology and infrastructure across the business
- Pursue volume in profitable products and channels and improve profitability where opportunities arise.

During 2009 we sold Bankhall, an organisation offering support services to directly regulated advisers, to increase focus on our core business.

Performance in 2009

Improved sales performance in Old Mutual's largest market

Highlights (£m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**106**	150	(29%)
Return on equity*	**7.9%**	9.7%	
Operating MCEV earnings (covered business) (post-tax)	**(4)**	229	(102%)
Return on embedded value (covered business) (post-tax)	**(0.3%)**	14.3%	
Life assurance sales (APE)	**617**	664	(7%)
Unit trust/mutual fund sales	**3,210**	2,561	25%
PVNBP	**5,042**	5,540	(9%)
Value of new business (post-tax)	**49**	67	(27%)
APE margin	**8%**	10%	
PVNBP margin	**1.0%**	1.2%	
Net client cash flows (£bn)	**2.5**	2.0	25%

Highlights (£bn)	2009	2008	% Change
Client funds under management	**46.9**	38.9	21%

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

Overview

Wealth Management operated in volatile markets during 2009. The UK has experienced a severe recession, while France and Italy have also been impacted to a lesser degree. While stock markets have now recovered somewhat, customer confidence in savings has been significantly affected by uncertainty. During the second half of 2009, sentiment improved and, as our customer proposition became sharper, we saw good growth in our sales, strong net client cash flows and a marked uplift in funds under management. The fourth quarter was particularly strong, contributing £203 million of the total £617 million APE sales for the year, and £1,066 million of the £3,210 million unit trust/mutual fund sales for the year.

Sales

UK market

In the UK, our platform proposition is working well. This was particularly evident in the second half of the year when sales reached record levels and we adjusted our product offering to sustain its relevance in the changing market environment. The degree to which business is transitioning to our platform-enabled model is highlighted by the material increase in contribution from non-covered mutual fund business in the UK, which recorded a 22% increase in sales when compared to 2008. By contrast, our covered business sales in the UK declined by 6% year-on-year as customer investment preference continued to shift towards mutual funds, and away from the more traditional life product offerings. We remained the leader in the UK platform market, with 33% market share (in assets) (*source: Lipper*) at the end of the fourth quarter, well ahead of our competitors. Our strong performance in the UK platform market is aligned with our focus on delivering transparent, convenient and efficient services. We are pleased with the momentum in this business which was recognised in the positive responses from a syndicated study conducted among pensions and investment providers by ORC, a UK market research company, in the third quarter.

International markets

In the markets in which Skandia International operates (primarily UK offshore, the Far East, Latin America and the Middle East), the negative impact of the global recession has had a lagged effect compared to 2008 when new sales were relatively unaffected, with 2009 showing falls in inflows compared to 2008. However, sales in the second half of 2009 showed some improvement on the first-half. Single-premium business represents 44% of our International business. In the UK single-premium offshore market we have overtaken two competitors and are now ranked second with a 14% market share based on statistics for the third quarter of the year (*source: MSE*), a 4% increase on previous periods. The UK offshore market represents 26% of our total business.

Following a change in government pension legislation, we have decided to cease writing new pension business in Finland and are reviewing our other products. Pensions were a significant profit generator for Skandia International in the past, and the curtailing of that activity there will result in changes to the emphasis of the business and reduce the cost base.

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Continental Europe

In continental Europe (France and Italy), we have benefited from close and positive relationships with distributors, resulting in sustained inflows throughout the year. We continue to explore mechanisms to improve traction in these markets both in terms of the efficiency of our operational structure and the nature of our relationships with distribution channels. Our continental European business overall delivered covered business APE sales 54% higher than in 2008 (on a sterling basis), as both new and existing distributor relationships generated improved sales. In Italy our market share (assessed as new sales in the unit-linked segment) grew from approximately 4% at the end of 2008 to 12% at the end of 2009 (*source: Ania*). In France, the market remains oriented towards guarantee products but sales in the last quarter showed some recovery, rising by 33% over the previous quarter of 2009 in sterling terms. We have decided to reduce our activity with financial planners in Spain given the lack of business, and we will adjust our headcount accordingly.

IFRS AOP results

IFRS pre-tax adjusted operating profit was 29% below prior year levels. This reflects the operating leverage of the business, with lower year-on-year net sales and lower average levels of funds under management over the course of the year resulting in reduced management fee revenues. Lower interest rates have negatively impacted shareholder investment return and profit levels on the protection business in the UK. These negative movements were partially offset by increased policyholder contribution profit recognition in accordance with the three-year smoothing policy. The large contribution to profits of the fourth quarter of 2008 following the market weakness are smoothed over twelve quarters and so the full-year impact is only felt during 2009.

The IFRS AOP pre-tax result was negatively impacted by one-off items in 2009. As previously announced, there were a number of write-offs in the first half of the year, relating to unit allocation errors in International (£19 million) and France (£4 million), a £6 million provision in the UK for legacy product valuation and a write-down of £6 million on a property unit trust investment relating to the Glanmore fund.

On a post-tax basis, the IFRS AOP result was 8% below 2008, due to a large reduction in the AOP effective tax rate. The effective tax rate for 2008 was unusually high at 38%, compared to 19% in the current year.

A significant portion of the UK AOP result, in both 2008 and 2009, arises from gains in respect of policyholder contribution. These gains fluctuate over time, although we would expect a normalised level of gains to be £30-£35 million per annum. In 2008 and 2009, the gains recognised within the adjusted operating result amounted to £59 million (pre-tax) and £96 million (pre-tax) respectively, reflecting the market volatility experienced. In accordance with industry practice and our stated accounting policy, these gains have been smoothed through our results over a three-year period, rather than recognised immediately in AOP. In 2010 we expect the gain to be approximately £100 million (pre-tax), falling to £60 million (pre-tax) in 2011, before it reverts to normalised levels in 2012.

Under the revised management structure of the Wealth Management unit, a robust programme is underway to adjust how we serve the market, particularly in the UK, and to restructure the operational infrastructure supporting the business. Besides ensuring that our market offering is oriented towards servicing the needs of our distributors, the programme is expected to deliver cost savings across the business of £45 million on a run-rate basis by 2012, with associated one-off restructuring costs at approximately the same level. £13 million of costs have been already incurred in the 2009 AOP results, with the majority of the balance anticipated to be incurred during 2010, and an associated run-rate saving of £11 million already achieved. We have also streamlined the operations of Skandia Investment Group (SIG), appointing a new head and announcing the closure of the US sales office, which has resulted in £1 million restructuring costs in 2009.

Value of new business and margins

Compared with 2008, the value of new business and profit margins were influenced by three main factors:

- Lower sales volumes across all markets, with APE down 7% year-on-year, which had a negative impact of £5 million on VNB and a 10 basis point reduction in the PVNBP margin.
- This was offset by the positive impact of the reduction in the effective tax rate on business value created on new sales in our offshore markets, delivering £11 million of VNB and 22 basis points of PVNBP margin.
- The internal expense base did not scale down in line with reduced sales production. Rather the internal acquisition expense base grew year-on-year leading to a £15 million reduction in VNB and a 30 basis point reduction in PVNBP margin. The increase in expenses reflects investments in the platform business, but highlights the opportunity for further operational efficiencies in the future.

£46.9bn

Funds under management in Wealth Management

MCEV results

The Market Consistent Embedded Value (MCEV) operating earnings after tax declined from £229 million in 2008 to a loss of £4 million in 2009. The change was mainly due to a lower than expected existing business contribution (based on lower one-year swap rates), a lower new business contribution, adverse experience and operating assumption changes partially offset by the removal of dividend tax in International. For the latter effect, the impact on adjusted net worth was recognised within the operating earnings, while the impact on VIF was recognised in non-operating earnings.

In 2009 the adverse operating assumption changes of £99 million were the net impact of:

- strengthening persistency assumptions in both the UK and International businesses (-£81million, of which -£24 million was in response to the new regulation in Finland),
- capitalisation of planned development and project spend together with a strengthening of maintenance expenses (-£66 million),
- a higher fee income assumption (£36 million), and
- changing a morbidity risk assumption in the UK to align with positive experience (£12 million).

The fall in operating MCEV earnings is the driver of the 14.6% year-on-year fall in RoEV.

Net Client Cash Flow

Net client cash flow showed a 25% improvement on the prior year, driven by good new sales inflows and improving persistency.

On the UK platform, annualised surrender rates improved from approximately 14% of average funds under management at the beginning of the year to 12% by the end of 2009. As we migrate business to the platform, the UK legacy business has seen lower inflows coupled with higher surrender rates, which resulted in negative net client cash flow for the year from this part of the business. Surrender rates on the legacy book appear to be stabilising, and a retention team has been mobilised locally to improve persistency, including assessing options for controlled transfers to the platform where this would serve customer investment objectives. However, we do anticipate that the traditional book of business will gradually decline as more investors move away from the legacy products towards the platform-enabled investment propositions.

Net client cash flow in our offshore business was impacted mainly by lower sales levels, with surrender levels remaining relatively high as a result of market conditions. 2009 surrender experience, influenced by broker-specific surrenders and changed regulations in Finland, has prompted us to review and strengthen our persistency assumptions, the effect of which can be seen in the MCEV indicators. With recent improvements in surrender rates our outlook for persistency in the coming periods is cautiously positive.

Strong inflows and maintained focus on persistency have resulted in good net client cash flows in continental Europe which were significantly higher than in 2008 and reached 19% of opening funds under management on a sterling basis.

Funds under management

Funds under management recovered strongly in 2009 as global equity markets lifted from their low levels at the start of the year and as a result of strong net client cash flows. 2009 full-year funds under management were 21% above the 2008 closing position. Net client cash flow contributed 6% in asset growth, while market movements on the portfolio added a further 15% to total funds under management. Throughout the year, we have witnessed gradual changes in the asset mix, as customers started shifting from conservative portfolios with high fixed income weightings into relatively more risky asset classes as equity markets recovered. This has a positive impact on the run-rate of our revenue streams, which are substantially driven by fund rebates.

Investment performance on funds selected and managed by SIG showed a marked improvement in 2009, with both our core range of researched third party funds and our proprietary funds performing well, particularly since the restructure of the UK fund range during 2009. In addition, SIG's *Asset Allocation Model Portfolios* have consistently outperformed benchmark since launch, with significantly lower levels of volatility relative to benchmark. 2009 was an excellent year for SIG, with overall fund range performance in the top quartile in the industry, having 64% of funds ahead of benchmarks.

The improvements in investment performance in 2009 were aided by the establishment of a dedicated portfolio management team, while the UK fund range restructuring concentrated effort and scale into funds, cut total expense ratios and enabled the use of tactical asset allocation for the first time. In addition, improving economic and market conditions boosted risk appetite, with active managers being rewarded for taking risk.

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Marketing

Throughout 2009 we continued our drive to increase brand awareness with advisers and end-customers and to deliver solutions tailored to customer needs. Examples of our marketing activity during the year were:

- The annual Skandia UK Trailblazer roadshows, held in September, which earned excellent feedback from the 1,600 advisers who attended. Trailblazer is a series of events designed to help distributors prepare for the changing regulatory environment and build long-term value in their business – giving us an opportunity to share our distributor support proposition
- Our sponsorship of the Sky Sports coverage of golf and sailing during the year, to increase consumer brand awareness among key target segments. This initiative has successfully increased Skandia brand awareness in the market. Also in the sporting arena, Skandia continued its sponsorship of the GBR sailing team in 2009
- The launch of the *Skandia Global Dynamic Equity Fund* in April 2009: offering customers a focused and flexible global equity solution that combines both manager selection and active asset allocation in a single fund, it has been a top-quartile performer from its inception
- The launch of the highly successful *Skandia Spectrum Funds* – an investment solution giving IFAs the tools to match a customer's risk appetite with funds that aim to create the maximum return for that profile
- The launch of the *Skandia European Best Ideas Fund* – an actively managed pan-European fund solution, giving European customers the benefits of robust asset allocation, manager selection and manager blending through our Multi-Manager approach. The fund has performed in the top quartile since inception
- In France we introduced Skandia Initiatives, a roadshow programme that aims to support IFAs in business development, and again participated in the annual Patrimonia trade event. This was an opportunity to showcase our new advisory option on the Archipel platform, as well as our IFA segmentation programme. Both initiatives have been very successful in raising awareness of our products.

Customer service

We are committed to providing consistently high standards of service to customers and distributors. Recognition of our drive for service excellence during 2009 included:

- Two five-star ratings ('Investment Provider' and 'Life & Pensions Provider') in the FT Adviser Online Service Awards and a five star rating in the industry Financial Adviser Awards for the 12th year running, recognising the high service quality we maintained despite the platform migration programme running throughout the year
- 'Best Commitment to Service' in the International Fund & Product Awards
- Second place for quality of service in the IFA channel, in a study by a leading publication in France.

People

We use a balanced scorecard approach to performance management, measuring and rewarding employees based on their performance across a range of financial, customer, operational and organisational learning objectives. We believe in benchmarking remuneration against the market for specific roles, with variable pay reflecting the achievement of objectives linked to customer and shareholder value.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

Priorities for 2010

- Build and expand the customer and distributor proposition
- Build profitable volume through investment in products, service and distribution
- Maintain and improve operational efficiency, reducing duplication and streamlining processes
- Lay the foundations for extending our UK platform infrastructure to other markets.

Outlook

Over the last quarter of 2009, we attracted markedly better new business inflows on the back of sustained financial market performance during 2009. While the recovery in the global economy is still fragile and individuals' economic situations remain constrained, we believe that customer appetite for long-term investment is returning, while the gap between the need to save and actual savings levels is increasing. The sustainability, speed and strength of the economic recovery are difficult to predict; however, we are cautiously optimistic. We expect that competition will be tough in 2010 as providers race to capture the returning market. We believe that those providers with market-relevant product offers and high levels of service quality and responsiveness will be the winners.

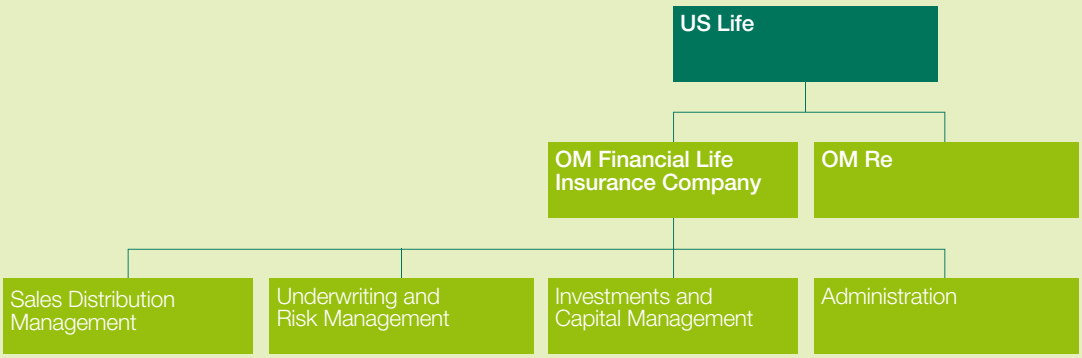
The aftermath of the recession and its long-term impacts on customer behaviour, trust and risk appetites is likely to be significant for the industry over the next few years. However, we believe we are well-positioned to respond to these changes as we build out our product proposition and offers with continued focus on transparent, advice-led business.

Our market share has grown over 2009, which demonstrates that our products and service quality remain relevant in the market. As the market recovers, we expect this to position us strongly for further growth in funds under management. The development of product spread and depth in the UK platform market is critical to the success of the business and we will be accelerating our focus on this in the period to 2012.

Our efficiency programme is intended to align the cost base of the business with the nature of the lower-margin platform business. We expect that, coupled with improving volumes and revenue, this will have a positive effect on IFRS and MCEV results in future years. Further restructuring costs are expected in 2010. We have set ourselves goals for 2012 of delivering a return on equity of 12-15%, net client cash flow of at least 5% of opening funds under management, as well as £45 million of cost savings as previously mentioned.

US Life

LONG-TERM SAVINGS: US LIFE



US Life primarily consists of OM Financial Life Insurance Company and its subsidiary, OM Financial Life Insurance Company of New York. It covers all 50 US states as well as the District of Columbia. Our products are designed to deliver excellent profitability while providing customers with transparency and value-driven benefits.

Fixed indexed annuities (FIAs)

Our FIA products have been highly ranked in the top six companies for market share from 2004 to 2008 by Advance Index Product Sales & Marketing Report. They guarantee the policyholder no loss of principal due to market risk with a return derived from the greater of a guaranteed fixed rate or a formula relative to equity market index movements. By hedging the potential equity index upside using equity index options and futures, we give customers the potential for equity market gains while managing exposure to loss of principal. Under these contracts we invest in a portfolio of bonds and other fixed income securities that earn a spread above the cost of options and futures and rate guaranteed to the policyholder. Specific product names include the *OMIndex-Safety* series (available in 4, 7 and 10-year durations), *OMIndex-Escalator* (available in 6, 8 and 10-year durations), *OMIndex-Accelerator* (available in 7 and 10-year durations) *OMIndex-Spectrum 9*, *OMNYIndex-Safety 7* and *OMNYIndex-Spectrum 10*.

Fixed annuities

Similarly to FIAs, under these fixed-rate contracts we invest in a portfolio of bonds and other fixed income securities that earn a spread above the rate guaranteed to the policyholder. There are two main types of fixed annuities: one aims primarily to offer a tax-efficient way of saving money for retirement, and the other to provide an income stream for life. Our fixed annuity product offerings include the *OMGuarantee-Platinum* series and the *OMGuarantee-Plus* series.

Protection products

We offer one principal protection product line: fixed indexed universal life (FIUL) products. These provide flexible life assurance protection in the event of death or disability. The indexed universal life product is designed to provide supplementary retirement income options for customers who use preferred loan features for tax advantage. Our two core FIUL products are *OMLife-Choice* and *OMLife-Elite*.

In the middle-income to upper-middle-income segment of the market that we target, consumer needs are not particularly complex. In the US, the ratio of life insurance coverage to household income is no more than 3:1, regardless of income level. By contrast in Japan, where the ratio is 10:1, there is greater understanding and appreciation of the value of life insurance.

What our customers want is a product solution for a particular financial objective, such as a tax-advantaged supplemental retirement income or a way to reduce the risk of financial loss. Customers want to trust that these products will perform as the company and agent represent. They want information available at the touch of a keystroke or within a minute of dialling a toll-free number. Meeting service expectations is critical to the long-term success of insurance companies operating in the US market.

We are building products and services that cater to customers in the 63% of American households with incomes between $35,000 and $250,000 per year. Our niche will be in the $75,000 to $150,000 household income market. Our products will be distributed through independent agents

and managing general agents (MGAs) who are focused on serving our target markets. Effectively meeting the basic risk and retirement needs of this customer segment will give Old Mutual tremendous opportunity for growth and market share attainment in the US.

Most US households have not saved an adequate retirement account to assure the same quality of life they enjoyed during their income-earning years. With the market downturns of 2001 and 2008 many baby-boomers will struggle to accumulate enough funds to retire comfortably. They will look to companies to meet their income needs through guaranteed minimum income benefits via annuities and tax-free loans in cash value accumulation life policies.

The market dynamics for the US will continue to provide significant opportunities around the broader middle market and the ageing baby-boomer demographic.

Business model

We distribute our products through independent agents. The majority of sales are generated through established groups of MGAs, similar to large brokerage firms in the UK, who typically offer agents a range of annuity and life assurance products from various providers. In the US it is not economic for insurance companies to target agents directly with their products: the MGA is the intermediary between the agents and the insurance companies, of which there are about 20 core competitors in our chosen markets. After a culling process earlier in the year, we currently have contracts with some 260 MGAs.

Our relationships with our top distribution partners continue to be an area of strength. Many individual contacts date back a decade or more, and such long-term relationships help us to weather change.

We provide differentiated support to our Power Partners (key account MGAs) and their downstream agents by offering:

- Excellent products – we will continue to offer a broad portfolio of unique products built to serve the needs of middle- and upper-middle-income customers
- Educational workshops – we host workshops designed to help advisers grow their practices to the next level and regularly deliver actionable sales programmes to agents in the field
- Special programmes for our top producers – loyalty deserves to be rewarded, so we offer a number of unique services for our most productive advisers and our compensation programs and services are tiered so that we give the best service to the most productive agents.

People, products and processes are the keys to our success, and we can be a key to the success of our distribution partners. To be successful in both the short- and long-run, we must:

- Be innovative – adding depth and breadth to our product line and positioning ourselves creatively in the marketplace by addressing customers' income replacement and retirement income needs
- Develop excellence in recruiting and training distribution partners – refining our processes to recruit wholesale and retail distributors, bring them into production and make them steadily more productive
- Create positive experiences – making our customers feel important. The little things matter; positive service experiences matter.

Capital and cash management are our primary drivers for decisions, particularly in light of the severe change in the economic climate that began in Q4 2008. Our capital level is substantially dictated by regulatory and rating agency requirements, which we meet by taking appropriate action regarding types of assets, reinsurance, available product features, benefits and mix of product offerings.

In our product development process, we aim for designs that contribute to maintaining an overall return in the 10% to 12% range while generating a significant value of new business.

Our business planning and forecasting processes include detailed analysis of the sources of actual capital which is compared to the required capital level. Components of each are monitored monthly for management action, particularly on the asset side. The process includes identifying and planning for potential events that could either increase surplus or reduce required capital as well as striving to mitigate such events.

During 2009 we engaged Goldman Sachs Asset Management (GSAM) as advisers to provide oversight and additional analysis on the structured securities in the US Life investment portfolio. After a thorough review of GSAM's capabilities, including support of the impairment/audit process for structured securities at the close of the first half of the year, we engaged GSAM as lead asset manager of the US Life investment portfolio, with responsibilities spanning the full spectrum of fixed income securities. As lead manager, GSAM is also responsible for providing investment input that informs our overall asset allocation, and has dedicated actuarial resources to help us move towards portfolio segmentation. We continue to work with our existing affiliated asset managers, Dwight Asset Management and Barrow, Hanley, Mewhinney and Strauss.

LONG-TERM SAVINGS CONTINUED

Product development

The growth in the US Life business since 2000 has been predicated on a partnership with core distributors on product design and exploitation of niche markets: for example, in the mortgage term market we provide death benefit protection to individuals financing or refinancing a home. While we determine the retail strategy, the product solutions are most often created in partnership with distributors. This assures the partner company that we are on-target with the product design while also securing shelf space with MGAs that help in the development process.

Market overview

There is a push for federal regulation of the insurance business to ensure consistency across the various states. This could offer companies and agents economies of scale in compliance; but a more onerous regime similar to that for securities dealers could drive out companies and agents that sell primarily or only fixed products and do not wish to entertain the associated upfront costs and new business strain. Thus far, such a change appears highly unlikely for the next few years because the proposals under consideration in Congress generally do not apply to the insurance business.

A regulatory change – US Securities and Exchange Commission (SEC) Rule 151A – that could reduce the viability of indexed life and annuity products is currently being challenged in the US Court of Appeals. In effect it would mean that indexed products would be treated like securities and could only be sold through agents who have securities licenses. Originally Rule 151A was scheduled to go into effect in 2011 if it survived legal challenges. The SEC has now agreed to an additional two-year deferral, which means it is unlikely to take effect before 2013; meanwhile, the SEC could decide not to go forward with it, or it could be struck down in legal challenges yet to be lodged if it is reissued. At state level, regulators continue to impose additional requirements to enhance consumer protection during the sale of insurance products.

Many of our core competitors are in the early phases of their own re-engineering efforts. Having taken tough, swift action very early on in the market downtown, we gained significant competitive edge. Many of our key distribution partners commented positively on our early action and transparency throughout the transformation process in Q4 2008 and during 2009.

Many of the customers we aim to attract are baby-boomers, a group totalling over 78 million people in the US with estimated net worth of nearly $17 trillion dollars and a need for wide-ranging life insurance and savings products (*Source: US Census Bureau*). The fact that many of these individuals can expect to spend a quarter to a third of their life in retirement (*Source: Economist* Jeffrey Brown) further compounds their need for protection, accumulation and income distribution products.

Strategy

We have scaled the business to achieve profitable growth. The agent-culling process and streamlined product portfolio have focused the company on steady, quality new business through our core distribution partners. We have made early efforts to garner support with this key group, including the introduction of information-rich marketing programmes and a more personalised approach to handling day-to-day requests.

Our core products strategy reduced the annuity portfolio from over 50 products to 23 and the life portfolio from nine products to two. By taking this streamlined approach we aimed to continue providing our agents with sustainable solutions in uncertain times: the products we continue to offer today provide the flexibility and benefits to meet customers' future expectations.

The current risk to maintaining capital levels is having to sell assets in a declining market to meet liability obligations, and the impact on required capital of declining credit ratings. Our action to mitigate these risks included liquidity analysis, which resulted in a higher than normal cash balance held through September to avoid selling assets in a depressed market, as well as monthly monitoring of ratings migration. In addition, we actively monitored and planned for beneficial regulatory action designed to relieve the impact of ratings changes as well as other surplus relief action. As surrenders have declined we have invested more cash while maintaining a prudent level based on our analysis. We have also selected assets for sale where the loss is offset by the release of required capital for asset risk.

As part of the business transformation initiative we reduced the number of internal customer service and IT staff and renegotiated all major Third Party Administrator (TPA) contracts. These changes did not reduce our service capability and we earned our best-ever ratings from agents for overall customer service levels and call centre responsiveness. The average annual cost per contract for customer service (including TPA and IT) has reduced by 22% from over $54 in 2008 to under $43 for 2009. Additional full year savings coming through in 2010 will further improve the average cost per contract.

Performance in 2009

Continued progress to improve profitability and enhance risk management

Highlights ($m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**76**	(425)	118%
Return on equity	**10.5%**	(25.3%)	
Operating MCEV earnings (covered business) (post-tax)	**417**	(676)	162%
Return on embedded value (covered business) (post-tax)*	**22.7%**	(97.6%)	
Life assurance sales (APE)	**107**	251	(57%)
PVNBP	**1,000**	2,307	(57%)
Value of new business	**22**	(21)	205%
APE margin	**20%**	(8%)	
PVNBP margin	**2.2%**	(0.9%)	
Net client cash flows ($bn)**	**(1.5)**	(0.4)	(275%)

Highlights ($bn)	2009	2008	% Change
Funds under management**	**16.7**	15.2	10%

* Calculated as the operating MCEV earnings (post-tax) divided by the absolute value of the opening MCEV

** Stated on a start manager basis as USAM manages $6bn of the funds on behalf of US Life

Overview

During 2009 we successfully transformed and scaled back the business. The major actions of reducing the product profile, scaling back distribution with a focus on top-tier producing agents, lowering staff numbers, and carrying out a full review of our outsourcing model are now complete. As a result of these actions, we made significant strides in addressing the three core focus areas in the business, which are operational efficiency and cost control, product and assumption risk, and the ongoing effort to de-risk the company's fixed income investment portfolio.

Sales

Total US Life sales (APE basis) were down 57% over the comparative period as a result of a planned reduction in the number of products offered as well as focusing on top-tier producing agents and conserving capital. As planned, total gross sales declined from $1,950 million in 2008 to $860 million in 2009. Elsewhere, the wider life insurance industry suffered a decline in sales not seen since the end of World War II.

The product profile was streamlined to focus on more profitable sales and products with lower new business capital strain. Fixed indexed annuity (FIA) sales were down 47% to $60 million on an APE basis. This product line is our key offering, contributing 56% of total APE for 2009 and currently offers attractive margins. It meets the needs of customers who seek principal protection, as well as fixed interest guarantees or a guaranteed fixed income. Immediate annuity sales represent 18% of total 2009 APE and remain an important offering as they contribute to capital in the year of sale.

APE for the *Universal Life* product suite was down 57% to $22 million on an APE basis and our core life product, *Indexed Universal Life*, fared the best out of all life product segments, partially due to the elimination of *Universal Life* products other than *Indexed Universal Life*. *Indexed Universal Life* continues to offer attractive sales potential in the life market due to indexed crediting options, and tax-advantaged growth and income options. Term Life sales were suspended in 2009 due in part to their capital inefficiency as a product.

Although volumes were managed down by design, key distributors that drive our sales remain largely intact year on year. In the annuity distribution channel, four of the top five and eight of the top ten distributors are the same in 2009 as in 2008. In the life distribution channel, three of the top five and seven of the top ten distributors are the same in 2009 as in 2008. Having recently concluded our annual distributor conference, general consensus was that US Life exceeded expectations in dealing with difficult economic conditions in 2009 through a transparent communications plan, creating a new foundation for future growth. Confidence from this group remains high and key distributor relationships are strong.

IFRS AOP results

Pre-tax adjusted operating profit (IFRS basis) was $76 million for 2009 compared to a loss of $425 million for 2008. Gross margins (prior to DAC amortisation) of $430 million in 2009 compared to a loss of $54 million in 2008. The prior year was impacted by a $436 million mortality assumption change for the Immediate Annuity line. The underlying additional $48 million of margin earned in 2009 is

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primarily driven by the annuity product lines which showed better underwriting experience. Mortality on the Immediate Annuity line improved over 2008 while 2009 includes a gain arising from commutation of 17 large cases. The FIA line generated higher surrender charges as a result of increased surrender activity. Offsetting the better underwriting experience was lower net investment income due to holding cash at the low interest rates of the period and the increased level of surrender activity. DAC amortisation was $354 million and $368 million respectively for 2009 and 2008. Unlocking in 2008 was due to prospective annuity assumption changes while that of 2009 was due to the retrospective amortisation impact of surrenders and the decline in premiums from Universal Life sales.

IFRS operating expenses were $58 million or 33% lower over the comparative period resulting from tight expense management and cost renegotiations of three key service providers.

Value of new business and margins

Value of new business increased by $43 million over the comparative period, with the margin for the year at 20%. The increase in margin was mainly due to higher swap rates and the focus on selling more profitable business. Management actions to improve margins on fixed indexed annuities have also increased the value of the in-force book. The traditional life business has been shrunk because of its capital inefficiency.

MCEV results

Operating MCEV earnings improved significantly up $1,093 million from the prior year loss of $676 million. This was mainly due to increased expected existing business contributions, which accounted for $363 million of earnings in this reporting period compared to $44 million in the comparative period, and the large negative experience variances and assumption changes in 2008 which were not repeated in 2009 (experience variances were negative $2 million in 2009 compared to negative $280 million in 2008, and assumption changes had a positive impact of $47 million in 2009, compared to negative $619 million in 2008). MCEV does not capitalise investment spreads in excess of the adjusted risk free reference rate up-front, as was the case under EEV. Were these spreads to be capitalised, the increase in embedded value from the 2008 level would be in excess of $900 million. Unlike for 2008, guarantees on the policies in force in 2009 although above the low reference risk free rates prevalent for the period, were generally less than the actual yield earned on the portfolio.

During the period we commuted a block of our SPIA contracts to the owners through their third party advisors at a value less than the reserve established for this block after the recent reserve strengthening, giving a positive variance. Although the experience from the total SPIA annuity block can be expected to be volatile, since it is a small book with some large individual contracts, we are confident that the reserve adjustments made in previous periods are adequate to cover the future expected outcomes in respect of this business and the transaction described above supports this view. Changes in lapse assumptions due to improved experience resulted in a small gain, while amendments to the opening TVOG (time value of options and guarantees) balance and the lapse methodology also gave a small net gain. We consider that the anticipation of attractive crediting rates available from the rise in equity markets during 2009 had a progressively beneficial impact on surrenders.

The large movements in non-operating earnings demonstrate the sensitivity of the US Life MCEV to changes in the economic environment, as market consistent methodology means that results move more directly in line with the movements in the market in general. Since assets are marked to market the high unrealised losses in the bond portfolio have a large impact on the MCEV. The $1.8 billion decrease in unrealised losses in 2009, partially offset by a significantly lowered liquidity premium assumption (100 basis points in 2009 from 300 basis points in 2008), was the key driver of a net positive $681 million and 8.30p per share impact on non-operating earnings, to the Group MCEV earnings per share respectively, at 31 December 2009.

Net Client Cash Flows

Net client cash flows were negative due to the decision to reduce new business volumes and also an increase in surrender activity during the first half-year. We believe that this was driven by policyholder liquidity needs and the adverse effect that the equity markets had on our fixed index annuity returns. During the second quarter of 2009, a conservation programme was introduced to focus on the reduction of full surrender activity. The programme delivered benefits and surrender experience trended downwards in the second half of 2009. By the end of the year the four-week average for full surrender activity was nearly half the level seen at the peak in the second quarter of 2009 and was in line with long-term expectations.

Funds under management

Funds under management ended the period at $16.7 billion, up 10% from the opening position primarily due to a $1.3 billion (10%) increase in the market value of the investment portfolio and investment income for the period. This was partially offset by negative net client cash

flows of $1.5 billion, or 10% of opening funds under management.

Investment portfolio

The fixed income portfolio continued to be affected by poor economic and volatile financial market conditions. However, the fair value of the portfolio increased $1.3 billion from year-end 2008. The yield on the book value of the fixed income portfolio was 5.82% (including cash and other invested assets), and has not changed significantly from that of 2008, as reinvestment of cash has not materially changed the overall yield. We ended the year with $0.8 billion (5% of holdings) in cash and short term holdings, reflecting purchases of assets from cash inflows, as well as with cash proceeds from de-risking and gain-harvesting transactions. Purchase activity has targeted NAIC 1 to 2 rated securities including selectively into the financial services sector. The net unrealised loss position on the fixed income security portfolio improved to $0.5 billion at 31 December 2009 ($2.3 billion at 31 December 2008), reflecting a broad recovery in financial markets in general, and narrowing corporate credit spreads in particular and selective de-risking. It has continued to improve to below $0.2 billion as at the end of February 2010. Continued Government purchases in the residential mortgage bond markets, and increased support to the commercial mortgage market through programmes such as the Term Asset-Backed Securities Loan (TALF) and Public-Private Investment Program (PPIP) have also led to narrowing spreads across structured securities, which have also been favourable to the portfolio's unrealised loss position. As the Federal Reserve's support of the Agency market through explicit purchase of such securities comes to an end in the first quarter of 2010, it is likely that Agencies could retreat from current valuations. As such, despite excellent collateral quality, we view Agencies as posing potential spread-widening risk. Similarly, very highly-rated, long maturity securities are at risk of underperformance or negative price action as long-dated Treasury yields move higher on the back of mounting Federal deficits and the need to fund ongoing stimulus programmes.

Approximately $1.5 billion of the fixed income portfolio is classified as Loans and Receivables, which are carried at amortised cost. As a result, $45 million of unrealised losses on a mark-to-market basis are not reflected in the balance sheet in accordance with IAS 39.

During the last three quarters of the year, the financial services sector securities were generally the largest contributors to the improvement in the net unrealised loss position for the fixed income portfolio. With increased access to capital and the prospect of stabilising and improving earnings quality, the likelihood of coupon deferrals for weaker financial hybrids, such as those of US regional banks, appears to be diminishing. Against the backdrop of improved liquidity in the capital markets and a recovery in economic activity, high yield default rates are expected to decline by around 50 to 75% from prior year levels and investment grade downgrades are expected to return towards historic norms. This implies that the worst of corporate defaults and ratings downgrades has passed.

The fair value of the US fixed income investment portfolio at 31 December 2009, after recognition of the impairments, totalled $15.3 billion compared to $14.0 billion at 31 December 2008.

Impairments

During 2009, there were three defaults in the corporate bond portfolio of $14 million included in the total $389 million of IFRS impairment losses on 82 securities. These were partially offset by $35 million of net investment trading gains. As of 31 December 2009 compared to 31 December 2008, $807 million of investment grade securities were downgraded to non-investment grade and $35 million of non-investment grade securities have been downgraded further. Impairment losses included $235 million related to structured securities, with the losses being due to adverse changes in expected future cash flows. The impairment losses were primarily in residential mortgage-backed securities ($138 million), commercial mortgage-backed securities ($80 million), preferred stocks and hybrid securities ($43 million net) and 13 corporate holdings ($111 million), the most significant of which were related to financial sector issuers.

The fixed income portfolio has exposure to approximately $0.8 billion of preferred stock/hybrid instruments amounting to approximately 5% of the portfolio at 31 December 2009 compared to $0.6 billion (5% of the portfolio) at 31 December 2008, with the bulk of this exposure concentrated in the financial services sector. During the first half of 2009, these holdings came under pressure as concerns about financial institutions continued to mount In the second half of 2009, however, the fair value of these securities have recovered sharply, as results from the Federal Reserve's "stress test" of banks were released, and banks and other financial institutions successfully raised capital to bolster their balance sheets.

We monitored closely and reduced our exposure to hybrid preferred securities and other assets in advance of adverse rating migration (e.g. Dubai Ports in 2009) through trading activity. We also selectively harvested gains to offset realised losses. We are encouraged with the progress we have

LONG-TERM SAVINGS CONTINUED

LTS
Emerging Markets
Nordic
Retail Europe
Wealth Management
US Life

been able to make with better understanding and anticipating the dynamics of the portfolio through our own processes and close co-operation with our expanded investment management roster.

OM Financial Life Insurance Company regulatory capital, including capital contributions, increased slightly compared to statutory 2008 levels as strong statutory operating earnings offset investment impairments. OM Financial Life's required capital was essentially unchanged (at the targeted 300% level). In the end, higher risk-based capital charges resulting from credit rating migration of the portfolio due to investment downgrades did not have a significant impact in 2009. As expected, credit rating migration took place within the corporate bond portfolio but this was offset by improved charges on the structured security portfolio. The main reason for this was the NAIC RMBS rating initiative that adjusted the asset risk required capital to account for loss severity in the structured security portfolio. As yet no adjustment to the CMBS ratings requirement has been agreed although this and other relief measures are likely to be discussed by the regulators and the Industry.

The risk-based capital ratio increased from 305% at year end 2008 to 312% at 31 December 2009 based on the small movement in both capital and required capital. The US Life business in aggregate did not need additional capital from the Group in 2009, although capital was repositioned between companies within the US Life Group through the transfer of $30 million from OM Re to achieve the 312% year end result. Given our anticipated level of impairments for 2010 of $55 million, and the net capital consumption of our sales plans, we do not consider it likely at this stage that we will require further new capital for this business.

Marketing

Our re-engineering and cost-cutting measures eliminated the majority of our traditional print, broadcast and web-based advertising. However, as part of the product portfolio overhaul we enhanced the look, feel and content of all the marketing materials that help our agents to sell Old Mutual products. The new materials feature more visually appealing imagery, simplified product mapping and naming to tie the product portfolio together, highly stylised concepts and sales ideas to extend Old Mutual's brand recognition and revised content to help agents understand and communicate key benefits. Launched in October, they were warmly welcomed by our field force.

Changing market dynamics dictated a shift in our presentational approach. In the past we had portrayed successful, wealthy baby-boomer types living the high life in some style and splendour. Now, and for the foreseeable future, our approach focuses on fresh, flourishing and grounded aspects of nature – characteristics that we believe end-customers can more easily relate to the products.

Customer service

A key objective in 2009 was to deliver enhanced and proactive customer service through a series of initiatives:

- Introduce proactive service model through TPA Perot Systems
- Implement in-force web capability
- Provide enhanced in-force illustration capability
- Establish case management services within underwriting
- Establish and train sales support (pre-sales) teams in Baltimore and Lincoln
- Implement customer relationship management capability
- Review key distribution relationships and identify service enhancement opportunities
- Review progress through independent research.

All these were successfully completed. Feedback from MGAs and agents has been very positive, and this anecdotal response has been confirmed by independent surveys of our writing agents by Service Quality Measurement (SQM) and LIMRA. SQM benchmarks over 350 leading North American call centres annually, asking customers about their service experience. The 2009 survey showed that we improved performance compared with 2008 and exceeded world-class benchmarks on two key measures: first call resolution and overall customer satisfaction. We asked LIMRA to conduct a fifth survey of 7,000 life and annuity producers to evaluate the service we give them and determine if service had improved since the previous survey in November 2008. Its overall finding: "Old Mutual improved in four areas since the 2008 survey – ease of doing business, call centre, sales support and new business/underwriting. These translated to a large increase in the company's overall ratings." We received the best ratings for service delivery since we started the survey in 2005.

People

Our business transformation programme in late 2008 and early 2009 reduced our workforce by approximately 50% and consolidated it into one site in Baltimore, Maryland. The process was designed to streamline and right-size the business while retaining the key talent needed to move the company forward. The impacted employees were handled with respect and dignity and offered assistance with their career transition. Communication throughout the process was key to its success.

We recognise that our future success depends on having an engaged and committed workforce, and the business is now staffed with talented employees who are delivering on our business strategy. We have a performance management system that clearly aligns employee and business goals and rewards employees for accomplishments and contributions. A special recognition programme, our Anchor Achievement Awards, rewards individuals who go above and beyond their normal work responsibilities and provide outstanding performance. We have function-specific action plans to engage every employee in our business. And our development programmes prepare our managers for the responsibilities of retaining employees and offer the general staff opportunities to grow and develop their skills. All these initiatives demonstrate our commitment to our employees, their value, and their importance to the success of the business.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with the Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

Priorities for 2010

- → Strengthen the core competencies of the business in distribution channels, asset liability spread management, product development and platform outsourcing
- → Embed risk management practices
- → Maintain 300% RBC ratio through integrated capital and sales management
- → Optimise risk/return trade-offs on investments
- → Strengthen employee experience and retain talent.

Outlook

By leveraging the business transformation successes accomplished in 2009, we are well positioned to generate modest, quality returns in the coming year. Sales levels in 2010 are expected to increase over 2009 levels, but within the capital utilisation parameters set for the business and with a targeted focus on profitable products. New FIA and Universal Life products are expected to be introduced in the second quarter of 2010. Expense actions taken in 2009 will provide a lower cost base in 2010. Capital self sufficiency is again the goal of the business for 2010 and the balance sheet, including invested assets, is more conservatively positioned than prior quarter-ends. In 2010, we are assuming a long-run rate of impairments at 30 basis points of our bond portfolio for IFRS AOP.

The economic backdrop in the US continues to be quite muddled, with financial market returns reflecting a sense of optimism and confidence that at times appears at odds with core economic metrics. The impact of the government's extraordinary stimulus efforts has had a direct effect on the narrowing of risk spreads across the board, and credit is flowing again to corporate America. However, the labour market remains challenging, with the unemployment rate hovering at around 10%, and companies still reluctant to materially expand payrolls. The backdrop of high unemployment and below-average economic growth continues to weigh on sentiment in the housing market and this gives rise to risks to surrender levels. The exposure of the US bond market to real estate impairments represents a further source of uncertainty as does the potential price impact on higher quality bonds if rates rise.

CONTROLLED THINKING

Improvement in non-interest revenue (NIR)

NIR, including the consolidation of the Bancassurance and Wealth joint ventures, grew by 11.0% to R11,906 million (2008: R10,729 million). Like-for-like NIR increased by 6.1% – driven by good growth in commission, fee and trading income, partially offset by a reduction in fair-value gains from R368 million in 2008 to R44 million. Commission and fee income was 12.4% higher, largely from volume growth in retail transactional banking and increases in fees charged across the bank.

Non-interest revenue

BANKING

Nedbank Group is South Africa's fourth largest banking group measured by assets. It has a strong retail deposit franchise and its corporate lending market share is over 20%. Headquartered in Johannesburg, Nedbank has large regional operational centres and a distribution network throughout South Africa, with facilities in other southern African countries.

KEY FACTS

Total assets 2009

£47.9bn

2008: £41.3bn

Return on equity (ROE) 2009

11.5%

2008: 17.7%

Total capital adequacy ratio

14.9%

2008: 12.4%

Net interest income (£m)

09	1,238
08	1,057

Net interest margin (%)

09	3.39
08	3.66

Number employed

27,346

Some of our brands

NEDBANK

BOE PRIVATE CLIENTS

fairbairn PRIVATE BANK

Tom Boardman
Former Chief Executive, Nedbank

Mike Brown
Chief Executive, Nedbank

Nedbank

BANKING: NEDBANK

Nedbank Group Limited ('Nedbank') is a bank holding company. Its principal subsidiary is Nedbank Limited. The company's ordinary shares have been listed on the JSE Limited since 1969.

Nedbank Group is South Africa's fourth largest banking group measured by assets, with a strong retail deposit franchise. Its corporate lending market share is over 20%, Nedbank Capital is ranked as one of the top three in key investment banking league tables and the bank leads the commercial property finance market with over 30% market share. Nedbank Business Banking is the second largest business bank in the urban areas and the Retail business is the fourth largest retail bank in South Africa by assets and transactional products with the second largest retail deposit market share.

Nedbank operates a universal bank model through five main business clusters; Nedbank Corporate, Nedbank Capital, Nedbank Business Banking, Nedbank Retail and Nedbank Bancassurance and Wealth. Together these offer a wide range of banking, bancassurance, asset management and wealth management services.

In addition to its Johannesburg headquarters, Nedbank has large regional operational centres and a distribution network throughout South Africa with facilities in other southern African countries. These facilities are operated through Nedbank's subsidiary and affiliated banks, as well as through branches and representative offices in key global financial centres.

Nedbank Group has a strategic alliance with the pan-African banking group, Ecobank, enabling Nedbank to provide its customers with a one bank experience across 33 African countries.

The largest portion of Nedbank's earnings and economic profit are generated from its wholesale business, supplemented by other income from lending and deposit taking activities. A key focus is to increase the non interest revenue (NIR) to expenses ratio from the current 78.9% to above 85% in the medium-to-long term.

During 2009 the group structure was further simplified through Nedbank's acquisition of Old Mutual's minority stake in the Bancassurance and Wealth joint ventures, and the outstanding 49.9% share in Imperial Bank, resulting in Nedbank having the second largest share of the vehicle financing market at 30%. The Imperial Bank acquisition became effective in February 2010.

Product Development:

Nedbank Retail

In a largely commoditised business environment Nedbank Retail has concentrated on ensuring that its processes and systems are streamlined and best suited to customers' needs. We do not expect Nedbank Retail's major product offerings to change dramatically in 2010. Some focus areas include:

- Expanding the range and distribution of foreign exchange products
- Enhancing cash distribution strategies
- Prepaid and debit card acquisition strategies
- The introduction of further bundled product options
- Continuing review of product profitability, specifically in pricing for credit, where increased price differentiation is key to attracting good quality customers
- Leveraging the existing cost infrastructure as well as a focus on cross-sell initiatives to grow non-interest revenue.

Nedbank Business Banking

Nedbank Business Banking operates a unique decentralised business model, allowing quicker customer decisions with better credit assessment using local knowledge. The solutions for customers include:

- NetBank Business, an electronic banking solution for customers with some of the most advanced security technology available in South Africa. The system allows for easy offsite updating without impacting customer activity
- Unique cash handling solutions for customers.

Nedbank Corporate

Nedbank Corporate will also focus on initiatives towards improving the level of non-interest revenue, including:

- Bundling transactional products and services to help reinforce cross-selling and collaboration with other units of the bank
- Developing many new products, especially with regard to cash handling solutions where several "proof of concept" initiatives have already been initiated
- Developing "value add" information based solutions to meet customer needs. These include:
  - A new cash management solution that offers sweeping and offsetting of balances across different accounts and currencies
  - Auto reconciliation services
  - Electronic bill presentation and payment
  - E-statements.
- Further enhancing the primary customer interface "NetBank Business"; in 2010 we will complete the original programme, allowing us to migrate the corporate client base and close down the historical channels.

While some new products are being implemented in the card and mobile space, the focus within the Africa portfolio remains on updating existing systems and ensuring that the current suite of products is run effectively and that revenue collection is optimised.

Nedbank Capital

In this challenging economic environment Nedbank Capital maintained a conservative stance in its trading activities. This included trading less risky foreign exchange and debt activities and a focus on high quality larger stocks in equity trading activities. The business also continues to grow its annuity based income.

HOW WE DO BUSINESS

BACKING OUR SERVICE PROMISES WITH CASH

Nedbank Retail's AskOnce promise campaign guarantees that we will continually enhance our customers' banking experience through excellent service. We remain fully committed to this, and in 2009 extended the six AskOnce propositions to include one for new clients switching their current accounts to Nedbank: we'll move their debit orders for them, hassle-free. If we break an AskOnce promise and it's brought to Nedbank's attention, we give R50 (£4) to charity. To date, this has raised donations totalling more than R90,000.

"We believe AskOnce will set a new benchmark in the services industry." – Saks Ntombela, Managing Executive, Nedbank Retail

Changes in products and services envisaged for 2010 include:

- Extending the reach of current capabilities to new markets and selected sub-segments of the current customer base
- Managing product profitability and customer requirements
- Focusing on allocation of capital and resources to opportunities that generate higher non-interest revenue, while continuing to offer existing products to a wider range of customers.

Nedbank Bancassurance & Wealth

Bancassurance & Wealth delivered various new products during 2009, primarily simple savings and risk products, enabling customers to reduce risks associated with the current economic cycle. The asset management division successfully launched new international investment products including AAAf rated Money fund as well as the international Best of Breed offering.

In 2010 we intend to expand the life assurance product range beyond credit and simple life as well as growing selectively our short-term offering into personal accident, warranties and other after-care products.

Market overview

The South African banking industry experienced an exceptionally tough and volatile year as a result of the global recession combined with cyclical credit stress in the domestic economy.

South Africa's banking system has remained resilient. This is reflected in the country's improvement from 15th to 6th place in the latest World Economics Forum Global Competitiveness Report ranking on the soundness of banks.

Strategy

South Africa accounts for over 60% of Africa's banking economic profit. Nedbank's primary focus is to "Win in banking in South Africa" by growing its share of economic profit in South Africa and southern Africa primarily through transactional banking growth.

Nedbank Retail

Nedbank Retail aims to grow its footprint through non-traditional channels, including cashless branches and in-retailer branch expansion. It continues to focus on growing deposits and its share of transactional and savings account balances at a rate ahead of its asset growth, in order to reduce its reliance on expensive wholesale funding.

The acquisition of Imperial Bank will allow the combined vehicle finance business to compete more effectively through cost and process efficiencies that come with scale.

Nedbank Business Banking

Business Banking's strategy for 2010 is to deliver a step change in revenue growth to achieve its vision of becoming the leader in Business Banking for South Africa by 2011. The foundations for this were laid in 2009 and, despite the challenging external environment, Business Banking maintained its focus on customer acquisition and cross-selling and was also able to ensure greater discipline and rigor with respect to customer pricing and fee collection. These initiatives will continue into 2010.

Increased focus on the cross-selling process yielded more rigorous measurement and management information, introduction of a sales steering committee to provide oversight as well as roll-out of additional training and coaching tools.

Nedbank Corporate

Corporate Banking is embarking on research into the sectoral view of the various industries. This research is expected to generate incisive value-chain analysis and therefore increase understanding of the various value drivers across the industries. This should underpin Corporate Banking's 'guarded growth' strategy of growing selected assets that generate positive and sustainable economic profit.

Property Finance is addressing the currently depressed property market segments with a selective asset growth strategy. Pricing of capital and, subsequently, assets becomes key to winning new deals. The division will be further expanded through the addition of Imperial Bank's property finance business.

Nedbank Africa will continue improving efficiencies and organic growth of its current businesses. Key areas of focus for organic growth will be on the businesses in Zimbabwe (MBCA) and Namibia. The team will also continue to pursue selective acquisitive growth within the SADC markets. Strengthening the Nedbank-Ecobank alliance will continue to be an area of focus and growth in 2010.

Nedbank Capital

Nedbank Capital is in the final stages of replacing its derivative systems, allowing improved management and risk analysis in the trading areas, and implementing an enhanced foreign exchange and money market system.

Leveraging the Ecobank alliance and penetrating African countries in sectors where Nedbank Capital has specific sector expertise remains an important growth opportunity. In addition, alliances with other institutions are being considered to address strategic deficiencies in certain products and geographies. Generation of non-interest revenue will be to continue to be a focus when providing balance sheet lending.

Nedbank was the first African bank to apply the Equator Principles and Nedbank Capital has successfully leveraged its carbon expertise to develop the carbon strategy for Nedbank and to help customers generate carbon credits.

Nedbank Bancassurance & Wealth

Bancassurance and Wealth was historically part of Nedbank Retail but from August 2009 became a separate business division. The positioning as a customer-facing business has increased the focus and opportunity to generate non-interest revenue and economic profit.

The businesses within Bancassurance and Wealth encompass life assurance, short term insurance, financial planning and insurance brokerage, fully-fledged private banking and fiduciary services locally and internationally as well as asset management.

Nedbank Group acquired the Old Mutual minority stakes in the Bancassurance and Wealth joint ventures with effect from 1 June 2009:

→ 50% of BoE (Pty) Limited
→ 50% of Nedgroup Life Assurance Company
→ 29.7% of Fairbairn Private Bank

The purchase of the joint ventures has removed all structural and legacy obstacles. This now presents an opportunity to become more customer-centric and focus on maximising value through cross-selling and further penetration of the Nedbank and Imperial Bank customer bases. As a result, the component businesses of Bancassurance and Wealth have been restructured to deliver on this strategy.
The most significant change to the structure includes the consolidation of four previously independent asset management operations and the alignment of the local and international Wealth Management businesses into a single high-networth proposition.

Performance in 2009

Resilient performance in a challenging environment

The full text of Nedbank's results for the year ended 31 December 2009, released on 25 February 2010, can be accessed on Nedbank's website http://www.nedbankgroup.co.za

Highlights (Rm)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)*	**6,192**	8,800	(30%)
Headline earnings**	**4,277**	5,765	(26%)
Net interest income**	**16,306**	16,170	1%
Non-interest revenue**	**11,906**	10,729	11%
Net interest margin**	**3.39%**	3.66%	
Credit loss ratio**	**1.47%**	1.17%	
Cost to income ratio**	**53.5%**	51.1%	
ROE**	**11.5%**	17.7%	
ROE (excluding goodwill)**	**13.0%**	20.1%	

Highlights (£m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**470**	575	(18%)

* Prior year AOP included an amount of R726 million in respect of the sale of Visa shares.
** As reported by Nedbank in their report to shareholders as at 31 December 2009

Banking environment

Demand for credit slowed dramatically and retail impairments increased significantly as consumers came under severe pressure from falling income, job losses, declining asset prices and record high debt burdens. By the end of 2009 growth in asset-based finance had slowed to 1.0% year-on-year. Interest rates were reduced by 450 basis points to cushion the effects of a rapidly slowing economy and increasing unemployment.

Corporate demand for credit lost momentum due to weak global and local demand, which eroded corporate profits through weaker pricing power, lower commodity prices and a strong rand. Support came from construction projects and increased government spending, boosted primarily by the public sector's infrastructure drive and preparations for the 2010 FIFA World Cup.

Despite the negative economic trends dominating much of 2009, underlying trading conditions showed early signs of improvement around the third quarter. This was led by a rebound in growth in emerging markets, especially China and India, and was followed by initial indications of recovery in most industrialised countries, chiefly brought about by unprecedented government intervention and massive fiscal and monetary stimulation. Improved commodity prices and global demand brought an element of relief to domestic export manufacturers, lifting South Africa out of 'official' recession in the third quarter. There are early signs that the sharp drop in interest rates is starting to revive household credit demand as house prices showed modest signs of a slow recovery towards the end of the year.

Key to the outlook for 2010 will be employment growth. After job losses of nearly one million during the downturn, employment showed early signs of stabilising in the fourth quarter of 2009. Job creation in the formal sector is likely to be slow, with an overall 2% employment gain for the year being expected. This will support household income and lead to some improvement in consumer finances and therefore spending. The rebound is likely to be slower than in previous cycles given weak consumer and business confidence and tighter lending criteria.

Review of results

For Old Mutual reporting purposes, IFRS AOP (pre-tax) profits fell by 30% to R6,192 million.

Headline earnings decreased by 25.8% from R5,765 million to R4,277 million. Basic earnings reduced by 24.7% to R4,826 million (2008: R6,410 million).

Diluted headline earnings per share (EPS) decreased by 29.8% from 1,401 cents to 983 cents. Diluted basic EPS declined by 28.8% from 1,558 cents to 1,109 cents. These results are in line with the guidance given in the third-quarter trading update.

Nedbank's return on average ordinary shareholders' equity (ROE), excluding goodwill, decreased from 20.1% to 13.0%. ROE decreased from 17.7% to 11.5% for the year. These declines were driven primarily by increasing retail impairment levels and the negative impact from lower endowment earnings that reduced headline earnings, together with strengthened capital levels as shareholders' equity growth far exceeded growth in total assets.

Nedbank Retail's credit quality deteriorated in 2009, with impairments worsening significantly, although the rate of new defaults slowed in the second half of the year. Business banking and wholesale banking impairments ended the year at better levels than originally anticipated.

Nedbank's funding and liquidity levels have remained sound as a result of ongoing focus on increasing and strengthening liquidity buffers, lengthening the funding profile, maintaining a low reliance on interbank, foreign and capital markets, as well as robust balance sheet management. A strong, broad-based deposit franchise also provides Nedbank with diverse funding sources.

Financial performance

Net interest income (NII)

NII grew 0.8% to R16,306 million. Following a 450 basis point interest rate cut during 2009 and the resulting effect of lower endowment income, Nedbank's net interest margin decreased in line with expectations to 3.39% from 3.66% in 2008. The primary drivers of margin compression were: liability margin compression reflecting the higher cost of term funding; lower endowment on capital and non-repricing of transactional deposit accounts that are not rate-sensitive; and quicker downward repricing of interest-earning assets compared with interest-earning liabilities. These were partially offset by the repricing of asset margins in line with Nedbank's risk-based pricing policies.

Impairments charge on loans and advances

The credit loss ratio of 1.47% for 2009 (2008: 1.17%) showed signs of improvement after having peaked at 1.67% at 31 March 2009.

The credit cycle has to date largely impacted consumers and the smaller businesses, as reflected in the continued deterioration of retail credit loss ratios. High levels of unemployment, lower collateral values due to weak housing and vehicle markets, and delays in recoveries resulting from debt counselling have all played a part in the increase in defaulted advances in retail secured loans.

£470m

Nedbank's adjusted operating profit (pre-tax)

Wholesale banking credit loss ratios have improved since June 2009 and remained better than anticipated for this part of the economic cycle. On the whole credit quality in the Capital, Corporate and Business Banking books has remained within acceptable levels, although in this volatile economic environment the risk of corporate default remains high.

Defaulted advances increased by 56.3% from R17,301 million to R27,045 million and represent 6.0% of total advances. Total impairment provisions increased by 24.7% from R7,859 million to R9,798 million. Although early arrears have improved for the last seven consecutive months in the year, defaulted advances have continued increasing albeit at a slower rate.

Non-interest revenue (NIR)

NIR, including the consolidation of the Bancassurance and Wealth joint ventures, grew by 11.0% to R11,906 million (2008: R10,729 million). Like-for-like NIR increased by 6.1%, driven by good growth in commission and fee income and trading income offset to an extent by fair-value gains, which dropped from R368 million in 2008 to R44 million. The drop in fair-value gains is mainly the result of Nedbank reporting, in 2008, fair-value gains of R207 million from the mark-to-market of its own debt, which we mentioned was unlikely to be repeated and was highlighted as poor-quality income that was not attributed to capital. In 2009 fair-value gains on Nedbank's debt amounted to R6 million.

Commission and fee income was 12.4% higher, largely from volume growth in retail transactional banking and increases in fees charged across the bank.

Trading income increased by 18.6% from R1,553 million in 2008 to R1,841 million in 2009, reflecting robust trading activity in treasury, investment banking and the global market businesses.

Bancassurance and Wealth NIR increased by 61.7% to R1,518 million for the year, driven primarily from the consolidation of the joint ventures for seven months and with good performances from the asset management, financial planning and life insurance businesses. On a like-for-like basis NIR for Bancassurance and Wealth increased by 4.7%, with good growth in the SA businesses.

Expenses

Nedbank Group continued to maintain tight control on discretionary spending while investing in strategic areas of the business. Expenses increased by 9.9% to R15,100 million (2008: R13,741 million). This increase was impacted by the consolidation of the Bancassurance and Wealth joint-venture acquisitions with effect from June 2009. On a like-for-like basis, excluding the joint-venture acquisitions, expenses increased by 7.7%.

Associate income

Associate income decreased to R55 million in 2009 (2008: R154 million) as a result of the BoE Private Clients and Nedgroup Life Assurance Company joint-venture acquisitions that were previously accounted for as joint ventures under the equity method.

Taxation

The taxation charge (excluding taxation on non-trading and capital items) decreased by 29.9% from R1,757 million in 2008 to R1,232 million.

Non-trading and capital items

Income after taxation from non-trading and capital items decreased to R549 million for the year (2008: R645 million). The main contribution in 2009 came from the accounting revaluation of the Bancassurance and Wealth joint ventures immediately prior to their acquisition, while in the previous year the main contributor was R622 million after-tax profit from the sale of Visa shares.

Capital

Nedbank Group remains focused on optimising and strengthening its capital ratios. During 2009 these ratios have increased significantly and continue to be maintained above Nedbank's target ratios. Nedbank holds a surplus of R13.5 billion above its minimum total regulatory capital adequacy requirements.

Capital adequacy	2009 ratio	2008 ratio	Target range	Regulatory minimum
Core Tier 1 ratio	**9.9%**	8.2%	7.5% to 9.0%	5.25%
Tier 1 ratio	**11.5%**	9.6%	8.5% to 10.0%	7.00%
Total capital ratio	**14.9%**	12.4%	11.5% to 13.0%	9.75%

Capital adequacy ratios include unappropriated profit at year-end.

Regulatory capital adequacy ratios increased mainly due to the retention of earnings and a key focus on the optimisation of capital and risk-weighted assets, enabled by enhancing data quality and more selective asset growth using our economic-profit-based 'managing for value' philosophy. This resulted in risk-weighted assets decreasing by 8.1%, which is well below overall balance sheet growth of 0.6%. Nedbank was also able to maintain its dividend cover at 2.3 times while increasing capital.

To increase conservatism, Nedbank increased its target debt rating (solvency standard) from A- to A for internal economic capital requirements in line with the higher target ratios for regulatory capital announced early in 2009. A more conservative definition of available financial resources to cover the economic capital requirements was also introduced.

Nedbank currently holds a surplus of R11.8 billion against its economic capital requirements. This is calibrated to the new A debt rating including a 10% buffer, which is assessed against comprehensive stress and scenario testing.

Nedbank's leverage ratio (total assets to ordinary shareholders' equity) at 14.4 times (2008: 16.2 times) is conservative by international standards and in line with the local peer group.

Liquidity

Nedbank's liquidity position remains sound, with a loan-to-deposit ratio of 95.9%. Management continues to focus on diversifying the funding base, lengthening the funding profile and further strengthening and increasing the liquidity buffers.

In addition to the strong deposit franchise across Nedbank Retail, Nedbank Business Banking and Nedbank Corporate providing a diverse funding mix, Nedbank successfully increased the size of its liquidity buffer in 2009 and lengthened the overall funding profile in order to achieved improved asset-to-liability matching. Increased focus on capital market issuance under the domestic medium-term note programme, the introduction of innovative fixed-deposit products for retail clients and a broader offering of money market products were the primary drivers behind the lengthening of the funding profile.

During the year the following programmes were undertaken to diversify the funding base and lengthen the bank's existing funding profile: the issuing of R5.6 billion of senior unsecured debt, which was five times oversubscribed; the raising of R153 million in perpetual preference shares; obtaining a $100 million credit line from a foreign development bank; and focusing on the retail deposit base through innovative products.

Nedbank maintains a low reliance on interbank, capital market and foreign funding. Its small proportion of foreign funding at just over 1.0% is driven by its regional focus where 91.4% of its asset base is in South Africa. Low historic reliance in the abovementioned markets creates diversification opportunities subject to pricing.

Nedbank continues to adopt a strategy of applying best international practice, with the Basel principles on sound liquidity management having been further embedded during this financial period.

Total assets

Total assets increased by 0.6% to R571 billion (2008: R567 billion). During the year: cash and securities declined by 8.2% mainly from the maturing of R10 billion of additional liquid assets. This was offset by the purchase of replacement government bonds of R4 billion to hedge long-term debt instruments; and Nedbank showed lower trading and derivative balances mainly arising from foreign exchange movements.

This was balanced by: growth in intangible assets related to the Bancassurance and Wealth joint-venture acquisitions; growth in investments from the first-time consolidation of Nedgroup Life; and an increase in advances.

Advances and Deposits

Advances increased by 3.7% to R450 billion, reflecting: ongoing growth in Nedbank Capital and Imperial Bank; slower growth in Nedbank Corporate and Nedbank Retail; and reduced advances in Nedbank Business Banking due to a slowdown in client demand for credit and a reduction of single-product loans in line with the drive to reduce higher risk exposures and focus on primary clients.

Growth in advances took place across a number of categories, including personal loans, mortgage loans, preference shares, deposits placed under reverse repurchase agreements and other loans, offset by a decrease in low-margin overnight loans. Overall market share increased by 1.4%.

Nedbank has focused on managing for value and selective asset growth while improving margins, resulting in bank advances growth and lower levels of advances in the trading portfolio.

Nedbank retained a strong ratio of advances to deposits of 96%. It grew deposits in line with its requirement to fund the growth in balance sheet assets, with deposits increasing by 0.5% to R469.4 billion (2008: R466.9 billion). In the retail deposit market current and savings account balances remain at low levels as consumers reduce debt levels. In the wholesale deposit market current and savings

accounts as well as fixed deposits have increased, partially offset by a reduction in other term deposits.

Optimising and diversifying the funding mix and lengthening the profile continued to be a key management focus. Despite intense competition in the local deposit market, Nedbank has maintained its strong deposit franchise and continues to hold the second largest share of household deposits at 24.2%. During the year a number of innovative retail deposit products were successfully introduced, including Nedbank's Equity-linked Deposit, EasyAccess Deposit and Platinum Park-It.

Marketing

Strategically aligned brand communications have continued to position Nedbank as respected, caring, understanding and aspirational bank. It has placed increased emphasis on its green credentials, community and customer involvement and range of affinity offerings.

The Nedbank Cup made a significant contribution to increasing brand awareness and positively influencing consumer perceptions. Nedbank was ranked as the number one bank sponsoring soccer in South Africa. Overall awareness of Nedbank as a soccer sponsor increased to 64% in 2009 (2008: 28%) and awareness in the mass market has doubled since 2008 to 77%.

Retail marketing focussed on driving customer acquisition, non-interest revenue, service and pricing as well as assisting customers through a very difficult year. A number of new transactional and investment offerings were introduced as well as a free software package enabling customers to budget and manage their money more effectively. On the service front, commitment to world-class service continued through the Ask Once service offering.

Business Banking maintained a high profile in the market, strengthening it's positioning as a bank that "partners for growth for a greater South Africa", whilst promoting specific investment and transactional banking product offerings to selected target markets.

In the corporate and capital markets, core positioning campaigns have aimed at raising the brand profile and communicating key business differentiators. Ongoing attention has also been given to tactical communications, highlighting selected deals as well as localised events and strategic sponsorships.

The effectiveness of the overall marketing efforts is reflected in the steady improvement in all independently measured key brand metrics. Nedbank continues to gain brand equity in presence, relevance and advantage.

Customer Service

Nedbank Retail

'World class service' is essential to Nedbank's customer-centric approach. In 2009 it extended the 'Ask Once' campaign, which is Nedbank's guarantee to customers that it will continuously enhance their banking experience, to include a specific service promise for customers wishing to switch their current accounts to Nedbank.

Nedbank Retail has made significant strides in improving its customer service in recent years, although competitors have narrowed the gap and it is important that focus is maintained on improving service further through investing in staff and innovative systems, processes and offerings tailored to customer requirements.

Nedbank Business Banking

The main focus in Business Banking was on business alignment to clearly defined customer segments. Higher complexity, high value customers are now serviced by dedicated teams with the appropriate support structure and staff experience levels. For our high volume of smaller customers with less needs and lower-value business we use more streamlined processing and a lower-cost support structure.

In the 2009 independent BMI-T survey, Nedbank Business Banking was acknowledged as having achieved the biggest improvement in customer service out of the four big banks in South Africa.

The focus in 2010 will be on strengthening Business Banking's service culture through a series of conversations, activities and campaigns.

Nedbank Corporate

Service remains a key priority for Nedbank Corporate and their top customers are supported by a dedicated service capability.

The Startrack Survey is one of the most important measures used by Corporate Banking in assessing the effectiveness of its relationship with customers and is closely monitored each year. The survey ranks the performance criteria that are important to customers and how Corporate Banking rates on those criteria. The top five performance criteria in 2009 relate to the turnaround of customer requests, accessibility, efficiency in problem solving and the relationship managers' knowledge of systems and products and their delivery on promises. In comparison to previous years Nedbank Corporate Banking improved its overall ranking. It was ahead of its competitors in three of the top five criteria and was ranked first on the criteria relating to turnaround and accessibility.

The Ecobank alliance has provided a strong platform to support customer needs across the continent and the recently launched "Centre of Excellence" gives customers a single interface for accessing services across the alliance. Synergies are also materialising as we introduce alliance customers to Nedbank Corporate's existing products, such as NedTreasury, in order to meet their banking needs.

The outsourcing arrangement with Wells Fargo (Wachovia) gives customers access to "self-service" functionality enabling them to bypass historical manual paper based systems.

Nedbank Capital

Nedbank Capital continues to focus on being an integrated investment bank. During the year it won a number of awards including:

- Africa Investor ICT/Telecoms Deal of the Year award for the Neotel deal;
- Africa Investor Transport Deal of the Year award for the Bakwena deal; and
- African Banker Deal of the Year award for the Bakwena refinancing deal.

Nedbank Bancassurance & Wealth

Asset management performance, both across the unitised and private client businesses, was well above benchmarks. Nedgroup Investments recently received the award of third place in the 'Domestic Management Company of the Year', and received two Raging Bull awards for individual funds.

The wealth businesses continue to excel in customer service. BoE Private Clients was rated No.1 in service and advice in an independent survey by SMRC Marketing Solutions (Pty) Ltd and Fairbairn Private Bank was voted 'Best International Wealth Manager 2009'.

The recent changes to the Wealth Management structure will facilitate improvements in service delivery by building a consistent advice process and creating better alignment across the local and international Wealth Management businesses.

People

Nedbank's Corporate Performance Management (CPM) is based on the "Total Performance Management" approach. It is used to monitor and manage both corporate and individual performance against key performance indicators, aligned to the group's business plan, which ultimately drive economic profit.

Nedbank uses a Balanced Scorecard approach to monitoring and managing performance. Performance measures in the scorecard focus on the delivery of the business strategy, organisational culture and HR strategy and are weighted for different roles within the bank. Executive scorecards are signed off annually by the Board and are key drivers for the staff remuneration and development.

Reward mechanism

Nedbank Group adopted a total-reward philosophy that is integrated into its people management processes. Remuneration schemes are not excessive and are conservative when measured by both local and global standards. In 2004 headline earnings declined 3% and bonus pools were reduced by 33%. Bonus schemes were refocused in 2009 to recognise headline earnings and economic profit against pre-determined targets, as well as increased capital and liquidity weightings in scorecards.

Performance is measured at a group, business unit and individual level – against agreed financial and non-financial targets – after the year-end results are finalised. The incentive pools are based on a combination of group economic profit (EP), headline earnings and the individual business' non-financial driver performance.

Whilst market-related remuneration is distributed for meeting the agreed targets, performance in excess of these targets is rewarded through additional incentives created through a short-term incentive scheme and recognition programme.

Nedbank's long-term incentive schemes are primarily aimed at retaining key, high-impact employees. They are intended to motivate high performers to remain with Nedbank whilst aligning their individual interests with those of shareholders.

Risk

Refer to Risk and Responsibility section for details relating to Risk Management.

Priorities for 2010

- Improving the profitability of Nedbank Retail;
- Improving Nedbank's non-interest revenue, particularly through bancassurance activities and improved cross-selling in other areas;
- Increasing the number of new primary customers across all parts of the business and maintaining existing primary customers through improved value-added services;
- Building on Nedbank's inherent strengths and substantive market share in the wholesale and business banking sectors;
- Responding to opportunities arising from increased broadband and mobile banking accessibility and seeking innovative ways to expand the retail distribution network;
- Optimising the allocation of capital to business activities through the business cycle in order to grow businesses with high forecast economic

profits and to anticipate activities which are vulnerable to large cyclical impairments;
- → Expanding internationally within SADC and the rest of Africa within acceptable risk limits;
- → Building on Nedbank's leadership in transformation, corporate social investment and the environment.

Outlook

Nedbank currently anticipates gross domestic product (GDP) growth of around 2.2% in 2010, indicating slightly better prospects for the banking sector. The global environment and the 2010 FIFA World Cup are primary factors influencing domestic recovery, although the global recovery remains fragile and reliant on continued government support.

Local retail trading conditions are expected to improve as disposable incomes stabilise, retrenchments ease, general labour conditions start improving, debt burdens moderate and house prices start to recover. Interest rates are likely to remain steady at current levels and lead to lower impairment levels. The 2010 FIFA World Cup is expected to lift confidence and encourage an increase in household credit demand and transactional banking volumes.

Fixed-investment activity is expected to remain modest as a result of excess capacity in the private sector and some loss of momentum in the Government's infrastructure spending programme as several large World Cup-related projects are completed. These developments are likely to constrain corporate demand for credit, while strong competition will place pressure on margins.

Interest rate cuts from 2009 will continue to have a negative endowment effect on banking interest margins, but should be partially offset by a gradual decrease in impairments as recoveries and arrears levels improve. The reversal of provisions in the balance sheet is expected to take longer as defaulted advances continue to increase, albeit at a slower rate. Nedbank remains cautious about impairments as, although corporate impairments have been benign, there could be large one-off charges that are difficult to predict, and it is uncertain how the current economic challenges could further impact consumers.

While the economic environment remains fragile, the business outlook inevitably remains uncertain. The short-term outlook for 2010 assumes that interest rates will remain unchanged for the year. Nedbank Group's performance in 2010 is likely to reflect: growth in advances in the mid single-digits; continuing pressure on interest margins as a result of a continued negative endowment effect and anticipated to be compressed by a further 10 to 20 basis points; continued improvement in the credit loss ratio but remaining above the target range; mid double-digit growth in non-interest revenue, and lower double-digit expense growth, resulting from the consolidation of the Bancassurance and Wealth joint-venture acquisitions for the full period in 2010, compared with the seven months in 2009; a further strengthening of capital adequacy ratios and focus on funding and liquidity; and the drive to extract value from the acquisitions made in 2009.

CONFIDENT COVERAGE

Leveraging new technology

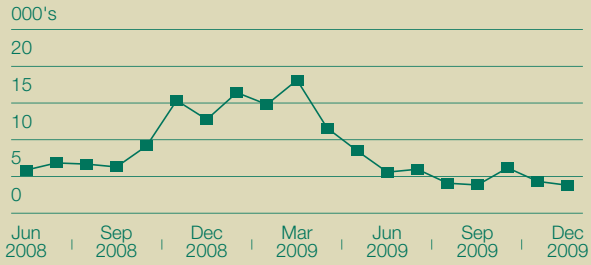
In order to deliver improved products and service to our valued stakeholders we implemented a number of new technology systems. As a result, we have seen major improvements in our operational efficiency and broker service.

The systems provide a strong foundation on which to run our new and existing products.

The graph below, which illustrates improved efficiency, shows a considerable decrease in the number of outstanding pieces of work (e.g. registered claims, etc). The spike was as a result of problems experienced with the implementation and bedding down of the new system.

This project has been a great success.

Outstanding items



SHORT-TERM INSURANCE

Mutual & Federal (M&F) is the second-largest short-term insurer in South Africa, with offices in South Africa, Namibia and Botswana. It provides a full range of insurance products to commercial and domestic customers, principally in four major portfolios: Commercial, Personal, Risk Finance and Credit.

KEY FACTS

Adjusted Operating Profit (AOP)
2009

£70m

2008: £76m

Combined ratio
2009

98.0%

2008: 96.1%

Underwriting result

(£m)

Number employed

2,331

Our brand

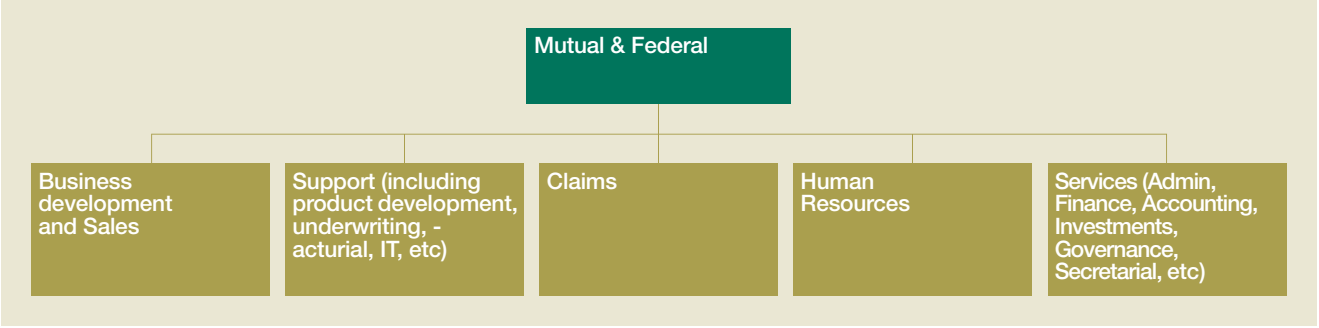
MUTUAL&FEDERAL

Keith Kennedy
MD, Mutual & Federal

SHORT-TERM INSURANCE CONTINUED

Mutual & Federal

SHORT-TERM INSURANCE: MUTUAL & FEDERAL



Mutual & Federal (M&F) is the second-largest short-term insurer in South Africa, with offices in South Africa, Namibia and Botswana. It provides a full range of insurance products to commercial and domestic customers, principally in four major portfolios: Commercial, Personal, Risk Finance and Credit.

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.

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 in-house 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.

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.

The **Credit** portfolio is underwritten by a subsidiary of M&F and is offered within a market segment where the group dominates the market.

Business model

The company's success is built on strong relationships with intermediaries, who introduce more than 90% of its business. These intermediaries range from small and medium-sized operations concentrating on domestic business to large national corporate brokers who provide specialised services and manage large portfolios.

Each portfolio is managed in line with the market within which it is offered. The Personal portfolio comprises higher volumes of lower-value premiums and generally requires less underwriting involvement, while the Commercial portfolio includes larger risks requiring detailed surveying, underwriting and reinsurance structuring. Because we are able to offer this full range of services, we can tailor products to customers' specific requirements and help them with their overall risk management.

M&F operates centralised claims and administration for the risks written. Management of the investment portfolio is subcontracted to Old Mutual Investment Group South Africa.

Product and service developments

We are extensively overhauling the M&F policy administration systems to ensure faster, better service and greater processing efficiency. To date we have widely implemented paperless transaction processing and introduced a new customer-orientated computer system for our flagship domestic insurance product, *Allsure*.

Our claims service and settlement philosophy remain a primary source of competitive advantage, and our reputation for fast, efficient and fair claims settlement continues to attract and retain customers and intermediaries.

Market overview

Although the short-tem insurance market grew in 2009, the growth was slower than in previous years due to the unfavourable economic climate. There was a sharp decline in vehicle and home sales and domestic business was particularly affected.

The market remains stable and established insurers continue to generate underwriting surpluses, albeit at a lower level than in the previous five years. Market data suggests that bank- and broker-owned insurers have shown above-average growth and direct insurers have continued to expand faster than the overall market. In some cases this has been at the expense of traditional insurers, who are continually seeking ways to regain market share.

The continuing emergence of a larger middle class and the high levels of infrastructural spending in the country have, to some extent, moderated the impact on insurers of reduced consumer spending.

The market continues to be firmly regulated by the Financial Services Board.

Strategy

M&F aspires to be the strongest and most successful short-term insurer in its chosen markets. We remain focused on profitability while addressing new and existing markets, channels and products to generate growth.

We are strongly committed to the intermediary channel and further development of broker relationships.

A new management team is in place to deliver the strategy that will make M&F a multi-channel, process-efficient company that is able to service all of its channels cost-effectively and in a way that will drive end-customers to demand the Mutual & Federal brand.

Operational highlights 2009

In 2009 we implemented a regionalisation model for our operations, introduced the *Allsure* computer system and improved the group's Business Process Management capability. During 2010 and 2011 the new computer system will be rolled out to other portfolios and the business processes will be further refined to enhance customer service.

The restructured group has brought a greater proportion of customer-facing staff onto a widely distributed platform, which will help to promote growth.

These changes are also expected to deliver further cost reductions in 2010 and 2011.

Underwriting profitability depends on the fundamental soundness of the company's portfolios, management's diligence in rate setting, and ongoing adherence to responsible underwriting standards.

Combined with strong management measures, the significant improvement in investment markets has helped to strengthen overall company solvency.

SHORT-TERM INSURANCE CONTINUED

Performance in 2009

Return to stability

Highlights (Rm)	FY 2009	FY 2008	% Change
Underwriting result	**140**	299	
Long-term investment return (LTIR)	**791**	925	
Restructuring costs	**(13)**	(55)	
Adjusted operating profit (IFRS basis) (pre-tax)	**918**	1,169	(21%)
Gross premiums	**8,456**	9,159	(8%)
Earned premiums	**6,874**	7,669	(10%)
Claims ratio	**69.4%**	67.1%	
Combined ratio	**98.0%**	96.1%	
Solvency ratio	**55.9%**	41.0%	
Return on equity* (1 year average)	**21.2%**	29.0%	

Highlights (£m)	FY 2009	FY 2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**70**	76	(8%)

* The ROE is now shown over a 1 year average equity base (previously 3 years average) to achieve consistency with the rest of the Group.

IFRS AOP results

Following adverse investment conditions and high levels of claims in early 2009, the company recovered well in the later parts of 2009. Management action on profitability led to the cancellation of some personal scheme business in 2009. This contributed to a fall in premiums for 2009 as whole.

Despite the underwriting loss recorded in the first half, there was a significant improvement in underwriting results during the second half and an overall underwriting surplus of 2% was achieved. This followed the implementation of various corrective measures and a generally improved trading environment.

Investment returns were strongly higher in 2009 as world financial markets returned to greater stability. Total actual investment return for the year amounted to R660 million compared to a loss of R146 million in 2008.

During the year the company completed the implementation of a sophisticated state-of-the-art system for processing a large portion of the personal portfolio. Whilst this caused unfortunate declines in service levels in the first half these were largely remedied by the year-end and have resulted in substantial improvements in processing opportunities for customers and intermediaries.

Solvency margin

Following improvements in investment return and underwriting stability during the second half, the solvency margin (the ratio of net assets to net premiums) improved to 56% at year-end (2008: 41%). This is well within our target range.

Acquisition of minority shares by Old Mutual

The acquisition of the minority shares in M&F was concluded successfully in early February 2010. Although the finalisation was delayed by certain outstanding approvals, the overall process was completed with limited disruption to staff and customers. Management can look forward to closer working relationships with Old Mutual and increased opportunities for growth and profitability through joint ventures and other cooperation.

Marketing

We maintained our ‘short moments’ advertising campaign and approach in 2009. This emphasised the importance of reliable insurance and has a strong ‘people’ theme to further reinforce the relationship element of short-term insurance. The advertisements also aim to foster relationships with younger individuals from diverse cultural and ethnic backgrounds, as our customer base has traditionally been predominantly white and middle-aged.

The impact of our advertising and marketing has been somewhat constrained over the past two years by the potential sale of the company. But even though this resulted in some loss of drive and focus, market research indicates that the 'short moments' campaign has been successful in promoting name and logo recognition.

Customer service

Customer service suffered to some extent during 2009 as a result of the restructure, system implementation and uncertainty surrounding future company ownership. Management undertook extensive roadshows to meet intermediaries and discuss service difficulties; these meetings again evidenced the strength of our broker relationships, which will continue to improve as intermediaries experience the significant benefits which the new systems offer.

People

M&F has always enjoyed a reputation for having the most capable and qualified employees and is often regarded as the training ground of the short-term insurance industry. This is the result of our ongoing commitment to training and effective operation of recognition and reward programmes. We continue to improve employee satisfaction and drive transformation of the business; and we have made significant strides towards meeting employment equity objectives despite considerable difficulty in recruiting suitably qualified staff.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with the Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Risk Management.

HOW WE DO BUSINESS

M&F HELPS BOOST FINANCIAL LITERACY

At Mutual & Federal we've been investing in financial literacy education as part of our membership of the South African Insurance Association and the Financial Sector Charter. For example, our 'Managing Your Money' initiative is helping to improve the low levels of mathematical literacy in South African schools. It provides training workshops for teachers with lesson plans, worksheets and student assignments all aligned with the school curriculum.

"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

Priorities for 2010

M&F has been through a significant period of restructuring and systems implementation over the past two years. This was difficult but was an important and necessary step towards creating a sound base on which to grow revenue over the coming years. We now have the following priorities:

- → Growing the business through a multi-channel distribution model
- → Maintaining process enhancements and optimisation by continuously improving and bedding-down the business model
- → Completing the IT strategy of moving to state-of-the-art technology platforms
- → Maintaining tight control over capital and solvency.

Outlook

Despite unusually heavy rains in the Johannesburg area of South Africa, which led to higher than usual personal-lines claims in the early months of 2010, we remain confident with regard to our underwriting prospects.

M&F has a strong brand in the southern Africa market and good relationships with its intermediary partners. The next few years promise much as we look to leverage these relationships, as well as good systems and processes, in order to drive profitable and sustainable growth.

ALIGNED VIEW

Strength of diversity, power of focus

With 18 distinct investment firms, over 160 investment solutions and £161.5 billion in assets under management, Old Mutual Asset Management remained competitive with strong operating earnings and free cash flow through the worst of the market downturn. Through leading client service practices, solid long-term investment performance and decisive management actions, the business is poised to perform well during market recovery. Early indicators point to success as second half earnings were 83% ahead of first half and operating margins had returned to 21% on a run rate basis by year end.

We partner with diverse boutique investment firms to offer investment disciplines focused on the financial needs of our clients. This partnership coupled with the strength, experience, and financial support of a £161.5 billion global investment management platform serves as the foundation to deliver exceptional results for clients and shareholders.

US ASSET MANAGEMENT

Based in Boston, our business consists of 18 distinct boutique investment firms managing $261 billion across all major investment strategies for institutional clients, high net worth individuals and retail investors around the world; some 25% of our clients are non-US based. Our boutiques are headquartered predominantly in North America, with two in London.

KEY FACTS

Adjusted operating profit (AOP)
2009

£83m

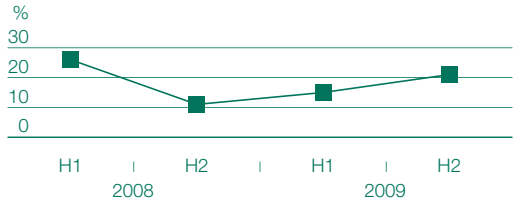
2008: £97m

Funds under management (FUM)
2009

£161.5bn

2008: £164.9bn

Margin



Number employed

1,544

Some of our brands

ACADIAN

DWIGHT ASSET MANAGEMENT COMPANY

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.

ROGGE

US Asset Management Executive Committee

1 **Matthew Appelstein**
Executive Vice President, Head of Sales and Marketing

2 **Matt Berger**
Senior Vice President, Chief Financial Officer

3 **Tom Turpin**
President and Chief Executive Officer

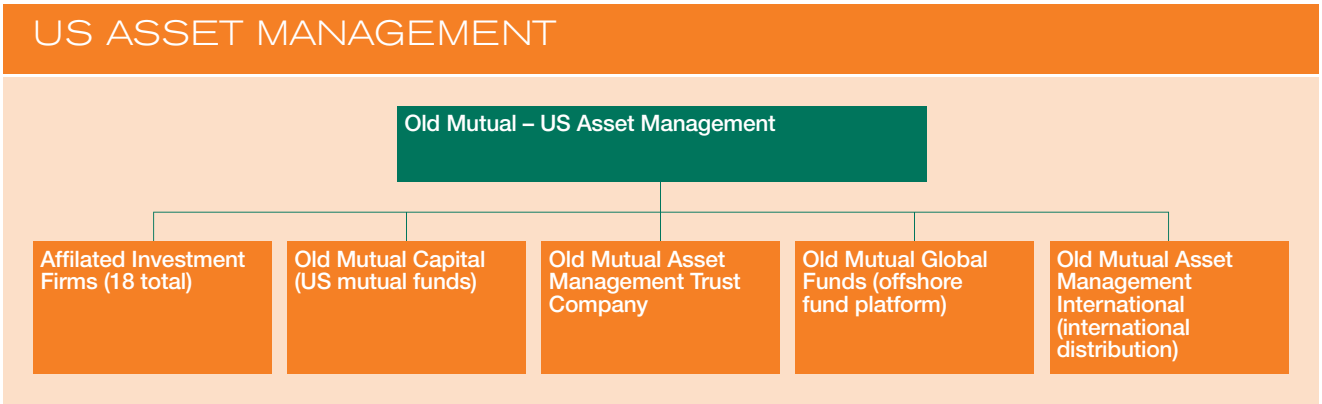
4 **Linda Gibson**
Executive Vice President, Chief Operating Officer

5 **Julian Sluyters**
President and Chief Executive Officer, Old Mutual Capital

6 **Jim Mikolaichik**
Executive Vice President, Head of Strategy, Product and Corporate Development

US ASSET MANAGEMENT CONTINUED

US Asset Management



We have built a leading asset management business in North America through a combination of acquisitions and strong organic growth. Our business model provides a strategic framework in which boutique asset management businesses thrive. We continue to enjoy the privilege of serving some of the largest and best-known institutions (e.g. universities, corporations, defined benefit plans, defined contribution plans, sovereign wealth funds) around the world. Our strict adherence to pure institutionalised investment processes, consistently strong investment performance and concentration on customer service provides long-term partnership with our customers.

Based in Boston, our business consists of 18 distinct boutique investment firms managing $261 billion across all major investment strategies for institutional clients, high net worth individuals and retail investors around the world; some 25% of our clients are non-US based. Our boutiques are headquartered predominantly in North America, with two in London. Dwight Asset Management, a fixed income manager, is the largest with 22% of our total funds under management. The next largest managers are Barrow, Hanley, Mewhinney & Strauss, a value equity manager (21%), Acadian Asset Management, an international equities manager (19%), and Rogge Global Partners, a global fixed income manager (14%).

Over time the largest firms in the business may change, depending on investment performance, market cycles and demand for particular investment styles. The sources of profits within the affiliate portfolio also change. However, the diversification of asset classes in our portfolio mitigates to some degree the risk of extreme earnings volatility, reflected in our positive operating earnings and competitive margins in the current difficult market environment. As markets grow, operating leverage provides for a degree of margin expansion.

Collectively, US Asset Management offers over 140 distinct investment strategies. We grow our marketable investment capacity and maintain diversification in our offerings by seeding strategies, recruiting investment talent and acquiring firms. Each member firm has its own vibrant, entrepreneurial culture of investment management capabilities focused on its particular area of expertise. The institutional approach of the member firms ensures consistency of style and process across market cycles.

We have a distinct competitive advantage in our ability to attract and retain talented investment professionals through a consistent approach to profit sharing and equity ownership structures – thereby ensuring the longevity of the investment firms and customer relationships. Most of the boutiques have profit-sharing arrangements in which they earn a percentage of operating profit. Most also have long-term equity plans. The combination of profit-sharing and equity plans ensures that each boutique's interests are closely aligned with those of our shareholders and customers. A thoughtful approach to succession planning, which provides an orderly transfer of ownership and management responsibilities to successive generations of investment talent, also contributes to the longevity of individual firms.

Business model

Our vision is to be a market-leading asset management firm delivering high-quality investment solutions to clients while providing exceptional business results. Our business is structured as an actively-managed holding company that fosters investment autonomy among its specialised boutique firms to achieve investment and operating excellence.

The operating model has five focus areas:

- **Investment excellence:** We present clearly articulated investment processes and solutions to clients through our 18 boutique investment management firms. These firms strive to exceed performance expectations through consistently applied investment processes. We recruit and retain top investment talent by offering investment autonomy and equity ownership.
- **Customer service and distribution:** The 18 boutiques provide high-quality service to support client objectives. Distribution professionals embedded in boutiques, as well as centralised distribution support, continually seek opportunities to meet evolving client and market demand.
- **Diversification of investment solutions:** Our experienced management team regularly reviews and positions the enterprise-wide offering of investment solutions to maximise value creation for clients and shareholders. It also aims to minimise volatility in funds under management and earnings, and to achieve diversification benefits, through effective management of the boutique portfolio.
- **Global leverage:** We use existing Old Mutual Group capabilities to grow a global portfolio of client relationships. We continue to pursue partnerships and leverage existing global infrastructure at Skandia, OMIGSA and other business units to drive profitable expansion.
- **Financial and operational management:** Our senior management team closely monitors financial and operational objectives to create and preserve value for shareholders aggressively. This close oversight is critical to the generation of free cash flow to provide strong returns and support growth opportunities. Effective risk management is the foundation of our business relationships and we proactively seek full compliance with internal controls and regulatory requirements.

We believe the current business model is best positioned to achieve our long-term strategic vision. It offers clear sources of competitive advantage, including:

- Attraction of deep investment expertise with entrepreneurial drive
- Low turnover of key investment talent
- Firm longevity
- Ability to source and integrate new investment capabilities
- Thought leadership in product development, packaging and distribution
- Diversity of boutiques, providing value and stability throughout market cycles
- Professional business management and a scaled infrastructure platform with shared services and robust governance.

Market overview

The current market environment presents both opportunity and challenge for the asset management industry. There is continuing pressure on earnings across the industry due to the volatility of change in asset levels, although recovery of global markets has provided a stronger asset base to finish the year. The action taken by most firms to reduce headcount and expenses will provide effective operating leverage as markets return to growth in line with historic averages. Firms operating from a position of capital strength will continue to focus on adding investment talent and acquiring complementary investment capabilities. As market volatility returns closer to normal there has been some consolidation, with leading companies acquiring firms to strengthen distribution and investment capabilities as well as build scale. As part of this process, several firms have sought external capital from the public markets to fund strategic growth plans – and more will follow.

Competition in North America remains strong, with each of our boutiques facing significant competition from other specialist providers. The immediate differentiating factors between firms are often investment performance and product capabilities. Our investment managers have a record of delivering excellent long-term performance and we have the ability to leverage the diverse styles of individual investment teams. As a result, we are able to seek targeted investment opportunities to broaden our product capabilities.

US ASSET MANAGEMENT CONTINUED

Investment firms with undiversified portfolios, dominant equity weightings or performance fees with high water marks are the most susceptible to earnings pressure. A significant number of asset management firms restructured in late 2008 and 2009 to alleviate anticipated margin pressure. However, many were careful not to reduce expenses any more than necessary in the short term, to avoid compromising their positioning for the next wave of growth. Global market recovery and strong performance will help to raise performance and transaction fees.

Regulation is materially impacting the asset management industry in response to significant losses by investors across most markets. The US Government expects to deliver continued change to the nation's financial regulatory framework, including asset management organisations and retirement plan sponsors. As a result, less-established investment managers may face additional risk management and market pressures. This will present opportunities for traditional asset management firms with strong governance to gather assets and acquire new investment capabilities.

Strategy

Our strategy directly supports four of the Group's five strategic priorities:

- **Maintain and strengthen capital position:** Our business continues to be a source of capital. We will continue to grow it prudently by reinvesting earnings in talent and strategic acquisitions that create shareholder value over time.
- **Streamline the portfolio over time:** We made progress in achieving operational efficiencies in 2009. Old Mutual Capital's retail platform was realigned to focus on the professionally-sold marketplace. We improved the boutique investment firms' earnings potential by closing an underperforming boutique as well as targeting general expense savings. Provision of shared central services to our affiliates is a key benefit of the multi-boutique model, delivering operational leverage across the business, supporting lift-outs and incubation of new teams, and allowing investment professionals to maximise their focus on customer service. One of our key initiatives for 2010 will be to review and enhance the current shared services structure to maximise potential for further value creation.
- **Leverage scale in long-term savings businesses:** We continue to seek ways to leverage scale across the Old Mutual Group and opportunities to work with Skandia Investment Group and OMIGSA to drive further synergies.
- **Strengthen governance:** We work closely with the Group on strategic business planning and positioning US Asset Management within the Group model for the future. We also continue to monitor our operations closely for financial and operational risk and openly participate in implementing Group-level finance transformation initiatives.

Our business is well positioned strategically to take advantage of market, demographic and related trends as we continue to develop innovative product solutions, deliver strong investment performance and grow our business. We maintain expertise in sourcing, cultivating and integrating investment talent and capabilities in our business. We have also placed emphasis on thought leadership in product development, packaging and distribution while enabling investment professionals to focus on investment management and delivering superior investment results.

25% **Proportion of clients of US Asset Management who are non-US based**

Performance in 2009

Earnings grew strongly in the second half of the year as markets recovered

Highlights ($m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**130**	181	(28%)
Return on Capital	**4.1%**	7.2%	
Operating margin	**18%**	20%	
Net client cash flows ($bn)	**(7.1)**	(5.2)	(37%)
Funds under management ($bn)	**261**	240	9%

Highlights (£m)	2009	2008	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**83**	97	(14%)

Overview

While market conditions during 2009 were challenging, it was a year in which we completed successfully a number of long-term strategic actions to reposition the business. These actions included realigning our retail platform to focus on the professionally-sold marketplace, integrating a cash-management team at Dwight, reorganising our central distribution structure and optimising our shared services model to deliver further economies of scale. Provision of central services to our affiliates is a key aspect of the multi-boutique model, delivering operational leverage across the business, supporting lift-outs and incubation of new teams, and allowing investment professionals to maximise their focus on managing money for customers.

Investment Performance

Long-term investment performance from our member firms remains strong. At 31 December 2009, 58% of assets had outperformed their benchmarks over the trailing three-year period and 50% of assets were ranked above the median of their peer group over the trailing three year period. Over the trailing five-year period, 61% of assets outperformed their respective benchmarks and 52% of assets were ranked above the median of their peer group. Value equity and global fixed-income continue to rank amongst our top performing asset classes. Recent challenges among our quantitative managers are showing signs of improvement as markets return to historical patterns of performance with a bias toward higher-quality investments.

IFRS AOP results

Strong market growth and a reduction in the expense base of the business drove significant earnings growth during the second half of the year, with IFRS adjusted operating profit of $84 million increasing 83% ($38 million) over the first-half result. IFRS adjusted operating profit of $130 million for the full year was down $51 million (28%), This was due largely to a decrease in management fees, driven by lower average funds under management as a result of market weakness in the first quarter and cyclical lows in performance fees. However the impact of lower revenues was partly offset by continued success in managing expenses. The result also includes $12 million in significant one-time restructuring costs related primarily to our retail business.

Operating margin and cost management

Operating expenses for 2009 were down 22% compared to the prior year, enabling us to experience significant leverage in 2010 from the recent and ongoing recovery in market levels. The full year operating margin of 18% was down 2% from 2008, driven by the pace and severity of market declines and lower revenues late in 2008 and early in 2009. The margin for the second half of 2009 was 21%, an improvement on our 2008 full year margin of 20%. This reflects the success of expense management actions taken by management in response to declining revenues. As previously indicated, expense reductions in our retail business will deliver $15 million to $20 million of annual expense savings from 2010.

Net Client Cash Flows

Net client cash flows of ($7.1 billion), (3%) of opening funds under management, were broadly in line with the average of our peer group for the year. The result was driven primarily by outflows at Acadian, Barrow Hanley and Dwight, partially offset by strong inflows at Heitman, Campbell and Thompson, Siegel and Walmsley. Despite the challenging environment nearly half of our managers experienced net cash inflows for the year.

US ASSET MANAGEMENT CONTINUED

Funds under management

Funds under management increased 9% ($21 billion) during 2009 with a 16% market uplift offset in part by asset outflows. Growth and diversification through international distribution remains a key element of our strategy, with non-US clients comprising 25% of total funds under management at the end of the period.

Affiliate developments

As previously announced, equity plans were implemented at five affiliates during 2009, and we will complete the rollout for the remaining firms during 2010. Alignment of the interests of affiliate management was a key factor in the success of our cost management initiatives during 2009 and remains a vital component of our long-term strategy, critical to talent retention and positioning the business for sustainable long-term growth.

Retail developments

Efforts to reposition Old Mutual's US retail platform in 2009 were successful. A strategic assessment of the business was completed and resulting recommendations executed by the end of 2009. Actions taken during the second half of 2009 provided a refreshed and more focused product offering aligned with the best of Old Mutual's institutional investment capabilities. Retail distribution will more specifically target Registered Investment Advisors (RIAs), Family Offices, and Bank Trust channels which are among the fastest growing segment of the financial services industry. The traditional and alternative investment expertise of Old Mutual's distinct institutional boutiques aligns well with the needs of the professional buyer market. Overall, retail efforts provided a reduction in spending and increased margins for the business while preserving a valuable retail shareholder base with significant opportunity for growth in an important distribution channel for the future.

Marketing

We re-organised our distribution structure by appointing internal candidates as heads of the US and non-US institutional channels and hiring a third senior executive to focus on the professional buyer channel – which encompasses Registered Investment Advisors (RIAs), family offices and bank trusts. We also hired three additional distribution specialists to support these new roles. The reorganisation is intended to add depth to individual boutiques' sales efforts without encroaching on their independence.

People

We will achieve competitive advantage through the strength and capability of our people. A continuing goal in 2010 is to sustain a work environment that manifests our core values and attracts and retains the best people. Additional goals are to implement strategies for building on the existing talent pool, refining our talent assessment and management process, and reinforcing a culture of pay for performance that will drive key talent commitment and motivation. We will also continue monitoring potential legislation to ensure that current incentives are in line with future requirements. All these efforts are vital in an increasingly competitive asset management industry.

Risk

We continue to manage our risks and develop our Risk Management capabilities in alignment with the Group's Enterprise Risk Management framework. Refer to Risk and Responsibility section for details relating to Group Risk Management.

Priorities for 2010

For 2010 and beyond we have five strategic priorities:

- → Maximise the value of our client proposition by delivering consistently high-quality investment performance, innovative solutions and best-in-class service
- → Ensure excellence in distribution and service by supporting boutiques' distribution efforts
- → Continue to diversify the marketable capacity of our investment management capabilities
- → Continue to leverage best practice in managing boutique investment firms around the Group and driving greater global distribution for our existing boutiques
- → Achieve all the above within a framework of strong financial and capital management.

Outlook

We remain cautiously optimistic on the recovery of global markets in 2010. However, there may be a wider dispersion of growth rates between regions and historically high volatility throughout the year. Difficulties within financial institutions have created significant opportunities for investment businesses with strong balance sheets to position for the next growth cycle and win the war for investment talent within the US. Market volatility has widened the gap between top quartile and bottom quartile performers with an expectation that clients will continue to increase the rate of replacement for underperforming managers and asset classes. While we have a number of accounts at risk at certain affiliates, our overall new business pipeline is robust and we expect to remain in the top half of our peer group in terms of net client cash flows.

Prior to the current market troubles, customers were migrating asset allocation decisions toward international, global and alternative strategies and we believe these trends will continue in 2010, Churn of underperforming managers in traditional domestic equity and fixed income mandates will present opportunities to gain new client funds to manage. Search activity steadily increased in the second half of 2009 with the winners being those investment firms that are truly institutional quality and offer risk management, continuity of firm personnel, strong ownership structures and transparency of investment process with longevity of performance.

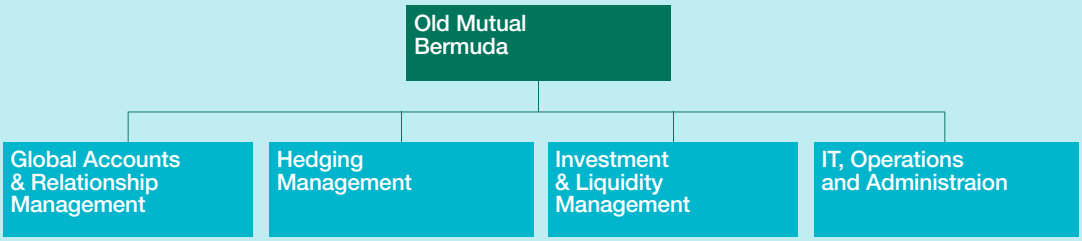
Our efforts to reposition the business and the recovery in capital markets in 2009 position us well for growth in 2010. In the absence of a continued recovery in global equity markets, future earnings growth for US Asset Management will be restricted. However, our track record of investment performance and global business focus has positioned us well relative to our competitors, and our diversified asset/client mix will continue to help us weather market volatility.

BERMUDA

We closed Bermuda to new business in March 2009. During the run-off period we will maintain high levels of customer service, continue to deliver operational efficiencies and tightly manage risk.

Andrew Darfoor
CEO, Bermuda

BERMUDA



From its inception in 2000, Old Mutual Bermuda (OMB) sold over 51,000 policies, with an aggregate premium value of over $9 billion, through a bank distribution strategy. The business model addressed a key customer niche by providing investment products to international, non-US citizen and non-US resident customers seeking a wide range of investment choices (multiple funds and fund families across a variety of international asset allocation portfolios, equity, bond, money market and fixed rate accounts), exposure to international economies and confidentiality through participation in a secure structure.

A significant attraction for customers was that assets are held in segregated accounts, with our trust participation model ensuring that all plans were issued in Bermuda and governed by applicable Bermuda law. Our core business competency remains meeting the needs of large financial institutions by providing innovative and competitive investment solutions through an open-architecture platform.

51,000

Policies sold by Old Mutual Bermuda since 2000

Generic own-brand, private label and proprietary versions of products were customised to distributors' needs and sold through over 70 financial institutions, primarily large international banks. The business also served a range of private and institutional customers.

Following a change of Group strategy and a significant recapitalisation of the business in 2008, after completion of a strategic review in 2009, OMB was closed to new business on 18 March 2009 other than where contractually obliged to accept premium add-ons up to the first policy anniversary date.

Key markets and products

As a leading and innovative provider of investment products for international banks' high net worth and affluent customers, our product mix comprises three investment plans which currently have funds under management of $5.8bn:

- **The Universal Investment Plan (UIP):** an international investment plan which offers long-term growth potential with a variety of investment options including international equity, bond, hedge and money market funds, as well as fixed rate accounts. This plan also offers strategies to help protect and potentially grow the investment
- **The Guaranteed Index Plan (GIP):** an investment plan with index options that link returns to the values of the world's major indices, while guaranteeing a minimum of 105% of the amount invested. This plan gives investors full participation in any upside, subject to an annual cap
- **The Guaranteed Rate Plan (GRP):** an investment plan offering a fixed rate solution that allows control over maturity and flexibility of return. This plan enables investors to diversify by allocating into multiple guarantee periods.

Performance in 2009

Business transformed and delivering on run-off plan

Highlights ($m)	2009	2008	% Change
IFRS profit (pre-tax)	**34**	(675)	105%
Insurance reserves (excluding those held in the separate account)	**2,053**	3,084	(33%)
Operating MCEV earnings (covered business) (post-tax)	**(29)**	(436)	93%

Highlights ($bn)	2009	2008	% Change
Funds under management*	**5.8**	5.8	0%

Highlights (£m)	2009	2008	% Change
IFRS profit (pre-tax)	**22**	(365)	106%

* Stated on a start manager basis as USAM manages $1.1 billion of funds on behalf of Old Mutual Bermuda.

BERMUDA CONTINUED

Overview

The business performed credibly against its core objectives, with all written policies passing their first anniversary date meaning that no further policyholder premiums have been permitted since August 2009.

Old Mutual Bermuda (OMB)'s core focus in 2009 was to retain the key staff necessary to execute the agreed run-off plan, reduce costs by half over a three-year period, improve operational efficiencies, strengthen the governance structure, manage capital and liquidity, significantly improve management information analytics and continue de-risking the in-force variable annuity book through a range of measures.

In 2009, management implemented a soft-close strategy to restrict fund choices and continued to improve hedge effectiveness by reducing basis fund mismatches. The business has been transformed with a significantly improved understanding of liabilities and associated management information systems developed, with robust financial metrics and a return to profitability.

Significant reductions in the cost base were delivered during 2009 (over 40% expense reduction year-on-year), with further savings and operational improvement initiatives targeted for 2010. Overall a leaner business operating model has been adopted, with ongoing cost efficiencies anticipated to drive down costs by a further 5-10% annually.

Aggregate surrender activity remains in line with expectations. Ultimately, surrender activity will determine the speed of run-off and the extent and timing of any associated capital, or cash, release. The business remains well capitalised and able to meet all its future obligations, with the knowledge that retention packages are in place for key employees needed to execute on the run-off plan.

IFRS results

Bermuda is now treated as a non-core business and its profit is therefore excluded from the Group's IFRS adjusted operating profit. The 2008 IFRS adjusted operating profit has been restated on the same basis.

IFRS pre-tax profit of $34 million for 2009 was significantly better than 2008 ($675 million IFRS pre-tax loss for 2008) benefiting from expense reductions, lower DAC expense (mainly due to reduced unlocking) and lower guarantee losses, primarily as a result of improved effectiveness of the hedging programme, favourable equity markets and currency movements, higher interest rates, lower volatility and improved fund basis development. The impact of selective releases of hedge positions instituted in the fourth quarter of 2009 was also beneficial in reducing guarantee losses in conjunction with reduced overall reserve requirements as a result of favourable markets.

MCEV results

The post-tax loss on the MCEV operating earnings of $29 million for 2009 was significantly better than the prior year mainly due to the large negative assumption changes made in 2008 for the GMAB strengthening and lower interest rates. Surrender development also led to persistency experience variances.

Reserves

Of total insurance liabilities of $6,741 million (2008: $7,018 million), $4,688 million (2008: $3,934 million) is held in the separate account, relating to Variable Annuity investments, where risk is borne by policyholders. The remaining reserves amount to $2,053 million (2008: $3,084 million). Of this, $763 million (2008: $1,428 million) is in respect of GMAB/GMDB liabilities on the Variable Annuity business, and $1,290 million (2008: $1,656 million) for 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). These non-separate account reserves represent the discounted future expected account balance needed to meet policy obligations. OMB reserves are calculated on a policy-by-policy basis and are updated frequently and verified independently through both internal and external actuarial review, as well as subject to internal and external audit, as part of the normal statutory audit.

New fund mappings developed in 2009 better allocated exposures to Asian and other emerging markets (which require higher levels of reserving given their inherent higher volatility), thereby improving the accuracy of the reserves. OMB maintains a very significant surplus to its minimum capital requirement, and no further cash or capital injections are anticipated.

Investment Portfolio

No defaults were recorded in the year, with reported impairments of $20 million (2008: $56 million) for 2009. The net unrealised loss position improved to $29 million as at 31 December 2009 ($277 million as at 31 December 2008) as spreads continued to narrow across key sectors.

The book value of the portfolio fell from $1.3 billion at the end of 2008 to $1.0 billion at the end of 2009, primarily to meet surrenders and withdrawals. The fixed income portfolio remains at an A2 average quality, with an improvement to 95% investment grade compared to 2008 of 93%.

As at 31 December 2009, the book value, fair value and unrealised loss of the investment portfolio with a market value to book value ratio of 80% or less was $71 million, $50 million and $21 million respectively (compared to $521 million, $324 million and $197 million, respectively, at 31 December 2008).

Management of Hedging

The hedge policy originally adopted by OMB focused on hedging the underlying economic risk of the guarantees. Generally this strategy reduces the income statement exposure but can result in substantial cash flow movements as the realised changes in value of the underlying derivatives are offset by an unrealised movement reflected in the reserves. In a falling market this will result in large cash inflows while, in a rising market, there will be cash outflows. During most of 2009, hedges were applied to a core number of components (interest rates, foreign exchange, equity markets), with an average hedge effectiveness of 95-96% achieved in the period to September 2009.

Given the improvement in the capital position of the Group, combined with management's improved understanding and management systems for tracking the underlying risks, a process of selective and progressive release of the hedge position commenced in the fourth quarter of 2009. This has been subject to strict oversight and is operated within risk parameters agreed with the Group Risk and Capital Committee. The control systems in place mean that the reinstatement of effective hedges could be made very quickly if required. The new approach continues to manage the underlying economics, but is more dynamic in nature, striking a balance between the potential changes in the income statement, cash flow movements and the transactional costs. Where considered appropriate, the level of hedging activity may be adjusted, subject to a strict stop-loss policy.

The OMB hedge team evaluates the hedging strategy on a continuing basis, with any proposed changes to the strategy subject to strict oversight. A stop-loss protection protocol, and daily management and reporting of Value at Risk cash and profit & loss are used by the Group to monitor business exposures.

Priorities for 2010

With the business transformed in 2009, the key priorities for 2010 are to:

- → Further improve expense and operational efficiencies delivered in 2009, maintaining cost discipline and focus to deliver further planned expense reductions
- → Manage capital and liquidity effectively
- → Further embed risk management into key business decision making processes
- → Continue to de-risk the in-force variable annuity book, appropriately executing a dynamic hedging program on key risks
- → Implement conservation efforts to better retain profitable non-guaranteed assets.

Outlook

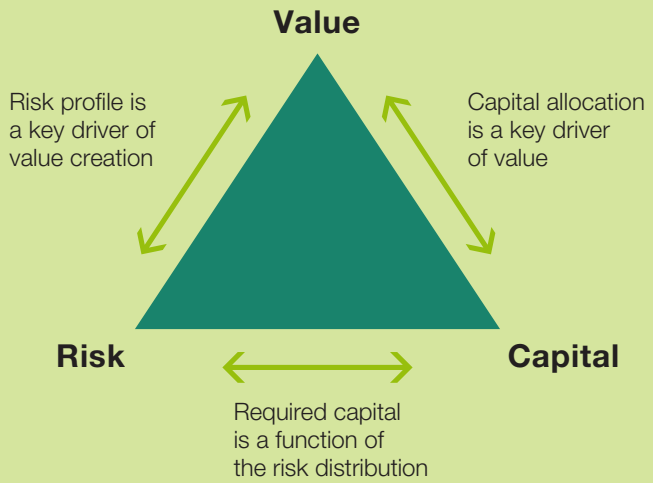
OMB aims to continue to aggressively execute against its run-off strategy, whilst maintaining high levels of customer service through continued operational and service improvements. A return to more normal market conditions will further underpin the continued recovery in profitability, although the business expects increased volatility in earnings in the medium term, particularly as the peak of the crystallisation of guarantees approaches in 2012 and then 2017.

RISK AND CAPITAL MANAGEMENT

Our risk management frameworks provide essential tools to enable us to take timely and informed decisions to maximise opportunities and mitigate potential threats.

Andrew Birrell
Group Risk and Actuarial Director

RISK AND CAPITAL DRIVE VALUE



Every business activity in our Group requires us to put capital at risk, in exchange for the prospect of earning a return. In some activities, the level of return is quite predictable, whereas in other activities the level of return can vary over a very wide range, ranging from a loss to a profit. Accordingly, over the past year we have expended substantial energy on improving our risk and capital management framework, to focus on taking risks where we:

- Understand the nature of the risks we are taking, and what the range of outcomes could be under various scenarios, for taking these risks
- Understand the capital required in order to assume these risks
- Understand the range of returns that we can earn on the capital required to back these risks
- Attempt to optimise the risk-adjusted rate of return we can earn, by reducing the range of outcomes and capital required arising from these risks, and increasing the certainty of earning an acceptable return.

We have embarked on a journey, which requires us to undertake this analysis on an ongoing and rigorous basis. We believe that this process will add value for our shareholders, and provide security to our other capital providers and clients. Value is

added for shareholders if our process allows us to demonstrate sustainable risk-adjusted returns in excess of our cost of capital. The process provides security to our capital providers and clients by assuring them that we are not taking on incremental risks which adversely affect the outcomes we have contracted to deliver to them.

This section of the Annual Report discusses how our Group manages Risk and Capital to generate value. These methodologies are embedded into the Group and business unit management decision-making process, our 'first line of defence'. The role of the Group and Business Unit Chief Risk Officers (CROs) is to provide robust challenge to the management teams based on quantitative and qualitative metrics as part of their 'second line of defence' mandate. The Group Internal Audit team provides the 'third line of defence' challenge.

The pursuit of value requires us to balance risk assumed with capital required:

- If risk assumed is greater than the capital we have available, an adverse outcome will prejudice solvency
- If capital available is greater than the risk-assuming opportunities that can be identified, the result will be a low-risk but low-return business
- It is possible to have a high-risk, low-return business, which represents the worst of all outcomes
- Our objective is an appropriate risk/capital balance, which seeks to provide higher certainty of achieved risk-adjusted returns within an acceptable level of risk assumed and capital required, but which does not expose us to unacceptably high risk of capital depletion in the event of adverse outcomes.

Our objective of balancing risk, return and capital has led us to enhance substantially our risk and capital management methodologies, in order to be able to identify threats, uncertainties and opportunities and in turn develop mitigation and management strategies to achieve an optimal outcome. The risk management community within the businesses have worked alongside management to develop and implement tools that assist in identifying risk appetite, setting risk strategy and making difficult decisions about which products and businesses are likely to provide acceptable risk-adjusted returns, with an acceptable capital requirement and level of confidence about their achievement, and to exit from all of those which are not. Many of the outcomes of this work are discussed elsewhere in the Annual Report, while others will only emerge over time as the Group implements its preferred strategy.

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

Risk management is integral to the Group's decision-making and management process. The Group's ambition is to embed it in the role and purpose of all employees via the organisational culture, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions.

The past year has tested all companies' ability to minimise downside risk resulting from upheavals in the financial sector. Old Mutual's own risk management frameworks provided essential tools to enable us to take timely and informed decisions to maximise opportunities and mitigate potential threats. I believe that our activities, as outlined in this report, will provide you with a better understanding of these frameworks, as well as providing some insight as to how we intend to build on these to create better outcomes and fulfil the requirements of Solvency II.

Andrew Birrell
Group Risk and Actuarial Director

OPTIMISING THE UPSIDE AND MANAGING THE DOWNSIDE

Risk management is an integral part of our management decision-making process, enabling us 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 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.**

RISK AND CAPITAL MANAGEMENT CONTINUED

Achievements of 2009 and objectives for the future

In the following section we set out our progress over the past year and our objectives for the future, as we instil risk management techniques to generate value.

Achievements of 2009

Events during the past year tested the ability of financial sector participants to respond quickly to significant market shifts. Old Mutual's capability has been evident in our response to the financial crisis and the consequent events during 2009 which shook investor confidence. We faced risks head-on and came through stronger than before. Our consistent Group-wide 'three lines of defence' approach enabled us to quantify exposures quickly and, where appropriate, implement strategies to mitigate levels of risk deemed to be beyond our appetite. It is important to note that certain risk exposures are still higher than we would like, and that it is difficult to take action to reduce them immediately. In these instances we have implemented arrangements that allow us to monitor exposures continuously, implement proactive measures and ensure that they do not increase further.

In March 2009 our Group Chief Executive set out the Group's strategic priorities. One of these was to improve governance and risk management. The objectives of the Group's risk management community were wholly aligned with this requirement. In the risk report contained in the 2008 Annual Report and Accounts we stated our risk management priorities for 2009 were to embed the enhancements made to the risk management system during 2008 and strengthen our risk management framework. During 2009 we have taken significant strides in achieving those priorities, particularly in quantifying exposures, increasing the sophistication of the methodologies we use to balance risk, capital and return, and implementing three-year exposure determinations as part of our business-planning processes. These processes ensure risk exposure levels are effectively monitored and managed in relation to the limits set. Over the past year, Old Mutual's capital and liquidity positions have both strengthened substantially.

Objectives for the year ahead

We are committed to the continued development of our risk management framework. Old Mutual's integrated Capital, Risk and Financial Transformation programme ('iCRaFT') is at the heart of our objective to embed a culture of managing for value. As a business-owned initiative, rather than a risk and actuarial programme, iCRaFT will deliver positive benefit to the Group, with the additional benefit of full compliance with the requirements of Solvency II. We began the programme in April 2008 and it is intended to be fully delivered by October 2012. Our Financial Controls Initiative, now a project in its own right since having become distinct from the Finance 2010 project, began implementation in 2008 and is intended to ensure that the information that we produce for internal and external stakeholders is accurate and error-free, as a result of a thorough review of all processes and controls in producing such information and the application of best practice in financial controls. Details of these projects are discussed later in this report.

Accountability for risk management, and transparency of risk issues are crucial to our success. Responsibilities for managing risk are allocated to all managers within the Group and risk management requirements have been embedded in our performance management programme.

Ultimately the success of risk management will be determined by the extent to which it embeds in the corporate culture and leads to demonstrably better outcomes. The Group Operating Model work, referred to in the Governance section of this report, is designed to reinforce the governance structures in place to support risk management across the Group, and the transparency of information flows. By setting minimum standards for business units to adhere to, we aim to achieve consistency in our approach across the Group.

FOCUSED ON THE FUTURE

We continue to invest in our risk management and controls framework. The benefits will serve to protect stakeholders better, deliver greater efficiencies and ensure we continue to meet regulatory requirements, particularly Solvency II. To illustrate some of these investments, there follow details of two projects currently underway, being iCRaFT and the Financial Controls Initiative (FCI).

Launched in April 2008, iCRaFT is a key strategy enabler and central to one of our strategic priorities: "to increase operational efficiency, strengthen governance and risk management".

iCRaFT will elevate capital, risk, financial and performance management methodologies, their application and integration, to best practice levels by the end of 2012.

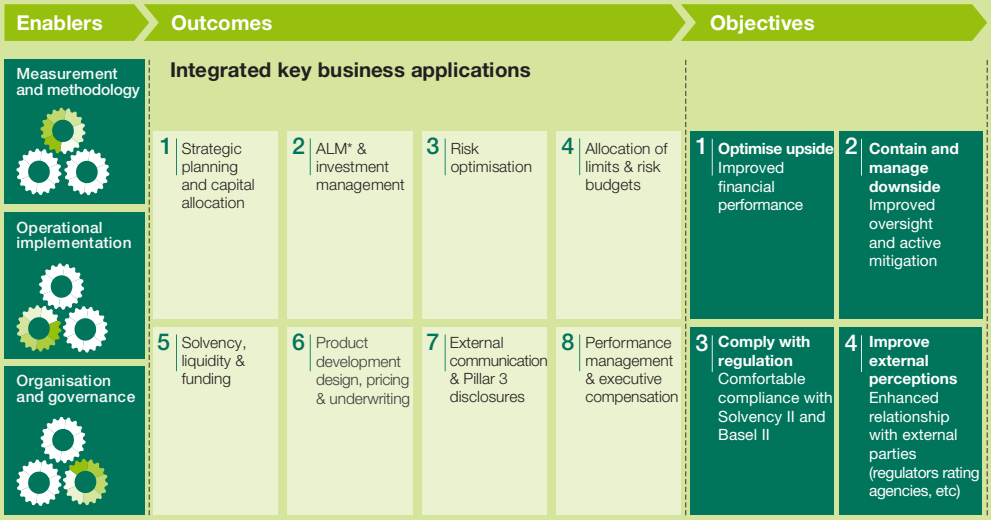
It will deliver tangible benefits in four main areas:

- Compliance with the EU's new regulation for insurance companies, Solvency II
- Enhanced oversight and risk management
- Improved financial performance
- Enhanced external reporting of business activities.

Example 1 of 'Focused on the future'

iCRaFT in practice

"iCRaFT is a holistic approach to elevating capital, risk, financial and performance management, and their application and integration, to best practice levels by the end of 2012, while incorporating Solvency II and Basel II compliance. We refer to this as a culture of managing for value."



*Asset Liability Matching

RISK AND CAPITAL MANAGEMENT CONTINUED

FOCUSED ON THE FUTURE (CONTINUED)

Solvency II will impact on products and capital required and is expected to have significant impact on the competitive landscape. The profitability and capital intensity of business decisions and products will become more transparent. However, compliance alone will not lead to sustainable strategic differentiation. Consequently, within iCRaFT we are undertaking development work to deliver a forward-looking view of integrated risk and capital management linked to enhanced performance management.

iCRaFT will significantly change current business processes. We have developed an end-state vision for the programme and completed a comprehensive review with each of the businesses to assess the size of the challenge we face in achieving this vision. We have agreed key design and solution decisions across the eight major business applications that the programme addresses, and during 2009 we prioritised activities to ensure alignment with existing business activities. As a result we have commenced programme workstreams in key business applications, including internal capital model development, and initiated work on the IT architecture to support the end vision.

We made significant progress on these workstreams in 2009, even though the final implementing measures for Solvency II were still evolving rapidly. For example, the internal capital model development project has specified a detailed methodology, based on best practice, to be applied when calculating our risk-based capital requirements under Solvency II. We have selected a third-party software vendor to enable us to do this and begun piloting the required applications.

The risk monitoring and reporting project focuses on delivering enhanced oversight and reporting capabilities while ensuring closer integration of functions across the Group. We are piloting an application to give us a consistent operational risk monitoring and reporting process across the Group. We have also started reporting more granular credit and counterparty exposures to better understand our credit and counterparty concentration risk across the Group. A full application to facilitate this analysis will be delivered in 2010.

The performance measurement workstream is successfully rolling out risk-adjusted performance measures aligned with the way we view risk management in the Long-Term Savings division. Executive compensation for 2010 has been linked to risk-adjusted performance measures. In order to ensure alignment between staff and shareholders, the risk-adjusted metrics will also be the primary future driver of capital allocation, business performance measurement and incentive pool determination.

Going forward, we believe the 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 improved tools for meeting its responsibilities to shareholders 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 while Old Mutual 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 employees.

Example 2 of 'Focused on the future'

Managing the risk of errors in financial statements: the Financial Control Initiative

Our Finance function routinely seeks continual improvement in the quality, insight and timeliness of financial information. During 2009, in response to the challenges of operating in increasingly diverse and complex markets, we continued to implement the Old Mutual Finance Control Initiative (FCI).

FCI aims to improve the quality of the information that we produce for internal and external stakeholders and applies best practice in finance control. The initiative has been led by the Group Finance Director, supported by dedicated teams in our individual businesses. It involves rolling out risk identification, control monitoring practice and control activity reporting technology in the 50 Old Mutual reporting entities where most significant financial reporting risk resides.

FOCUSED ON THE FUTURE (CONTINUED)

FCI aims to increase risk awareness throughout the Finance function. It requires identification of financial reporting risk, and improved ownership and monitoring of the performance of controls that are fundamental to our ability to produce reliable financial information. This project has required close co-operation between the Finance, Risk and Internal Audit functions. While Finance employees have managed the implementation and Finance will remain accountable for financial reporting risk management, the project has been implemented to integrate with Risk and Internal Audit practices and will supplement the work of the iCRaFT programme.

FCI has already enabled the Group to develop a clearer view of financial risk 'hotspots' and develop remediation plans to safeguard the quality of information produced. The FCI methodology will be embedded during 2010. Continual improvement of controls will ultimately facilitate better decision-making and enable more efficient finance processes, harmonised around best practice and a small, well-defined set of key controls.

Robust, evolving enterprise risk management

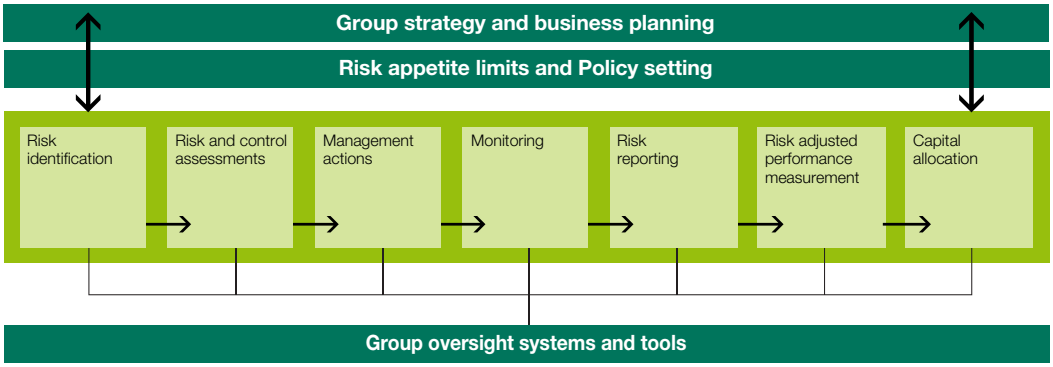
We believe effective risk management is more than just the collection and analysis of data. It also encompasses the insights delivered by information which facilitate appropriate actions. Old Mutual benefits from having enhanced its Group risk management framework, which gives full Group-wide coverage of a variety of risks.

Our annual risk cycle is designed to give management relevant, up-to-date information from which trends can be observed and assessed. The governance structure supporting our risk cycle is designed to deliver the right information, at the right time, to the right people. In line with the industry's increasingly sophisticated management of risk, we continued to develop and embed our risk appetite framework during 2009 – particularly our risk appetite assessment techniques.

The following sections set out our risk management framework, illustrating each layer of tools and systems provide us with 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 processes



RISK AND CAPITAL MANAGEMENT CONTINUED

Risk Management Governance

We strengthened our risk governance framework in 2009 to encourage greater discipline, transparency and discussion in relation to risk. This involved consolidating our 'three lines of defence' approach to provide greater solidarity within each of the lines. Changes included:

- Reviewing and enhancing the Group's risk governance structure by strengthening the mandate of the Group Risk & Capital Committee (GRCC), now renamed as the Group Executive Risk Committee (GERC)
- Creating stronger risk and capital interactions between the key committees at Group level: Group Executive Committee, the GERC, the Group Capital Management Committee (GCMC) and the Group Audit and Risk Committee, clarifying the business unit mandate and authority to execute risk responsibilities effectively
- Strengthening the risk management role within the business units by ensuring that each unit has a Chief Risk Officer with direct access to the Group Risk Director.

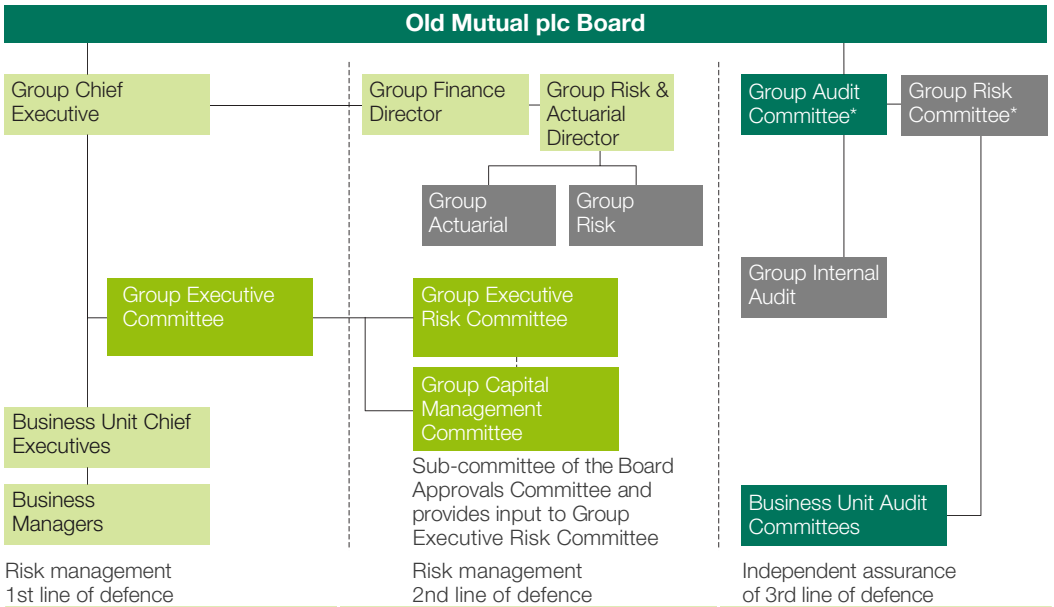
In this report, we focus on the responsibilities of the two second line of defence committees illustrated below, being the GERC and the GCMC. The responsibilities and remit of the first and third line forums can be found in the Governance section of this report.

Group Executive Risk Committee

The GERC was established in July 2008. During 2009 it has proven to be a key decision-making and oversight body, proactively setting risk appetite limits, ensuring risk exposures are within established parameters and overseeing the Group risk profile. It has added value by overseeing the resolution of Group issues in a timely and effective manner, ensuring both short- and long-term business strategy is in line with our agreed risk appetite.

The GERC committee comprises senior Group executives, from Risk, Actuarial, Capital,

Risk Governance framework



First line of defence	Second line of defence	Third line of defence
Day-to-day risk management Management and employees within each business are responsible for the identification, assessment, and management and reporting of risk data	Oversight The risk community – including Chief Risk Officers, the Risk Management Committees and specialist risk management and compliance functions – provides assurance that risks are being appropriately managed across the business	Independent verification Group Internal Audit provides independent assurance on the effectiveness of key governance, risk management and internal control processes

* The Group Audit Committee and Group Risk Committee operated as one Committee in 2009, and will be separated in 2010 in line with the recommendations of the Walker review.

Compliance, and Internal and External Audit. Its main responsibility is to support the Group Risk and Actuarial Director in understanding and overseeing the implementation of the Group's risk framework, including risk appetite and capital management.

The GERC key responsibilities are:

- Monitoring and reviewing the Group's risk profile including losses and control breakdowns
- Setting risk appetite limits, 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 GERC receives reports from Group Risk and Actuarial, GCMC, Group Finance, Treasury and iCRaFT. It provides input to the Group Executive Committee and the Group Audit and Risk Committee. The GERC works closely with the GCMC.

Group Capital Management Committee

The GCMC 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 the basis of the appropriate level of prospective return versus risk, as identified by the GERC. It is the mechanism by which the Group ensures that capital is allocated to business units in line with the Group's strategy, and that appropriate return rates are set and monitored. If necessary it will reallocate capital where appropriate for greater reward.

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

The GCMC key responsibilities are:

- Recommending to the Board the Group's capital allocation, capital 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.

These committees support the second line of defence to ensure that the Group Executive Committee maintains clear sight of the risk exposure and capital allocation across the Group to facilitate first line of defence decisions.

In 2010 we expect the roles of these committees to strengthen further, particularly in their interactions with business unit risk and capital committees. Recommendations arising from the Walker Review of "Corporate governance in UK Banks and other financial industry entities" were published on 29 November 2009. Old Mutual already has in place a number of the recommendations proposed by the Walker Review, such as the role of the Board. We anticipate further benefits as we adopt the recommendations to implement a Board Risk Committee, distinct from the Board Audit Committee, in April 2010. The separation of the disciplines will reinforce the risk culture and increase risk specific challenge to the benefit of the organisation, shareholders and other stakeholders. The major business units will mirror the Group governance structure through business unit level Board Risk Committees.

These changes are incorporated into the wider Group Operating Model changes, details of which are included in the Governance section of this report.

Group oversight approach

Setting the tone from the top is important for us, providing the parameters within which we are able to manage our capital and value objectives on a risk sensitive basis. Our oversight starts with the strategy setting and business planning process. These plans help us articulate our appetite for risk, which is then set as risk appetite limits for each business unit to work within. Group also set out parameters in policies for all business units to adhere to. Details of these tools are set out below.

Strategy and business planning

Risk management is embedded in our business strategy and planning cycle. Testament to this is the inclusion of risk management as one of our strategic priorities. By setting the business and risk strategy, we are able to determine appropriate capital allocation and target setting for the Group and each of our businesses.

All business units are required to consider the risk implications of their annual plans. As the following section highlights, these plans include analysis of the impact of objectives on risk exposure. Throughout the year, we monitor business performance regularly focussing both on financial performance and risk exposure. The aim is to continue the process of integrating risk management into the planning and management process and to facilitate informed decisions. Through ongoing review, the links between risk appetite, risk management and strategic planning are embedded in the business-as-usual environment so that key decisions are made in the context of the risk appetite for each business unit.

RISK AND CAPITAL MANAGEMENT CONTINUED

Risk appetite limits

Risk appetite provides us with a basis for formally reviewing and controlling business activities by setting boundaries that ensure that business activities are aligned to stakeholder expectations and are of an appropriate scale, relative to the risk and potential reward.

In 2009 we required all business plans to include an analysis of risk appetite impact throughout the 3 year plan period. This increased transparency highlighted where management actions have an impact on our risk-adjusted performance, allowing us to maximise our risk-adjusted return and shareholder value. Early identification of areas that could potentially breach limits has allowed the timely formulation of action plans to avoid this.

Setting risk appetite limits for the businesses and measuring their exposure against those limits allows us, amongst other things, to:

- Allocate capital on a risk-adjusted performance basis
- Consider risk-based pricing and product development to set product pricing terms and charging structures
- Improve decisions regarding portfolio management and optimisation.

This not only allows us to balance risk, capital and return across the Group but also provides us with an enhanced understanding of the risks embedded in our business. It provides a framework for capital allocation decisions taken by the Group Capital Management Committee.

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

(See panel below for definitions)

The embedding of our risk appetite methodology is a cornerstone of our risk analysis capability. Using one of the metrics 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. ECaR indicates the reduction in post-tax economic value (broadly defined as market-consistent embedded value for life companies or IFRS equity for other Group companies) over a one-year forward-looking time horizon that should only be exceeded seven times in 10,000 years (a 99.93% confidence level consistent with our target 'A' rating).

ECaR helps us to optimise risk-based decisions. The stress test allows us to monitor overexposures and deepens our understanding of where the business could further improve its capital allocation. We have set appetite limits for economic capital based on the ratio of available financial resource divided by economic capital.

FCaR was added as a new risk appetite metric during the year, measuring the potential reduction in FGD surplus capital in various adverse economic scenarios. We recognise that FGD is a key regulatory measure which it 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. For further details on our FGD position throughout the year see page 287.

Risk appetite metric definitions

Metric	Definition
ECaR	The value of assets required to ensure that the business concerned can meet in full its obligations to policyholders and senior creditors at a 99.93% confidence level, which is the probability placed on a target A-rated bond not defaulting in the next year
EaR	The reduction in pre-tax IFRS adjusted operating profit over a one-year forward-looking time horizon following a 1 in 10 year loss event
CFaR	The reduction in the potential cash remittable to Old Mutual Group on a 1 in 10 year basis
OpRisk	The reduction in economic value due to 1 in 10 year operational loss events and expected day-to-day losses and reputational impacts
FCaR	The reductions in FGD surplus at the reporting date. This is tested following both 1 in 10 years and once in 200 years loss events

Risk appetite in action

Setting risk appetite limits across the business has proved a valuable management tool. For example, using the results produced by the risk appetite framework in 2008, Old Mutual Life Assurance Company South Africa (OMLAC(SA)) concluded that there was excessive market risk in its business. An action plan to reduce this exposure led to a transfer of shareholder assets from equities into cash and hedging of the remaining shareholder equity investments. As a result, when equity markets in South Africa fell during late 2008 and 2009, OMLAC(SA) avoided any significant losses. As the market started to recover OMLAC(SA) management considered unwinding the hedges to strive for greater possible upside. However, calculating that this would breach its risk appetite, it elected to keep the hedges until they expired to ensure the downside was mitigated.

Stress and scenario testing

We perform regular stress tests and sensitivity analysis to monitor the robustness of our regulatory and capital position. As an example of the stress testing undertaken, the following table shows the assumptions of testing performed to stress the reduction in FGD surplus from the 30 June 2009 balance sheet position in three different test scenarios.

These assessments give management a view on the capital that would be required if any of the scenarios became reality. They help management to prepare for significant changes in the environment and protect shareholders and investors from unexpected loss. Information on stress testing is reported to the GERC, and to management so that decision making is based on an understanding of potential impacts.

Policy setting

Group policies set out our mandatory minimum requirements that business units must follow. At the end of 2009 there were 27 Group policies in place covering a range of topics, including Liquidity Risk, Market Risk, New Product and Business Approval, Capital and Treasury Risk and Business Continuity.

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. 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.

Collectively known as the Group Policy Suite, these policies are agreed by the GERC and approved by the Group Audit & Risk Committee. Once approved, policies are communicated to each business unit for compliance. Every six months, business units must provide an attestation to the Group on compliance with these policies.

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

Risk module		Adverse scenario	Recession scenario	Inflation scenario
Interest rate	0- ≤ 2Y	-50%	-60%	+500%
	2- ≤ 5Y	-50%	-60%	+100%
	5- ≤ 10Y	-30%	-50%	+50%
	10Y+	-15%	-40%	+40%
Equities (EEA, OECD)		-10%	-40%	0%
Equities (other)		-20%	-55%	0%
Real estate		-15%	-25%	0%
Credit spread risk		25% of function[1]	100% of function[1]	0% of function[1]
Lapse risk		15% of surrender strain	15% of surrender strain	30% of surrender strain

1 Function is a formula that depends on rating and maturity of credit instruments.

RISK AND CAPITAL MANAGEMENT CONTINUED

Consistent business unit risk methodology

Supporting the planning cycle, risk appetite setting and stress testing, we use a number of risk management tools to manage the identification, management and escalation of risk within the businesses. All business units adopt a consistent methodology ensuring that information can be reviewed and analysed on a like-for-like basis. The methodology employed by the business units includes:

- Product development process
- Risk categorisation
- Risk and control self-assessment (RCSA)
- Monitoring
  - Operational risk event data
  - Key risk indicators
- Market-consistent embedded value (MCEV).

Product development process

Risk assumption frequently starts in the product development process, where new products are designed, priced, implemented on administration systems and sold to customers. The Board implemented a centralised approval process for all products which may have implicit or explicit guarantees, in order for product design to be better understood and for aspects such as pricing, administration arrangements, marketing material and investment requirements to be rigorously challenged by an independent party. The Group Risk & Actuarial Director is responsible for approving products which contain guarantees.

Risk categorisation

Since 2008, risk categorisation has promoted and established 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. We will review our categorisation model in the coming months to ensure it is still appropriate in the current environment.

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 an RCSA 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 assessment 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.

The Group subscribes to a database outlining significant operational losses experienced by 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 rapid changes that will provide a better customer experience and reduce unexpected losses.

Key risk indicators (KRIs)

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

During 2009 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 2010 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 as a tool 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 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 (MCVNB) provides information on the extent of investment risk that is embedded in new products. For further information, see the MCVNB supplementary information on page 340 of this report.

Significant risks to Old Mutual

Old Mutual's weakness in certain business units in the past was caused by a combination of a small number of poor investment decisions, insufficient consideration of the volatility of certain guaranteed products and executive short-term reward for sales growth in certain businesses resulting in incorrect long-term business decisions. Although these instances were limited to a small part of the Group, Old Mutual was not alone in this regard. All financial service organisations were required to act quickly in the recent tough environment. Although these conditions brought many of these shortcomings to light, they have made it 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.

We do not only look at risk as presenting threats. They also present opportunities and are impacted by uncertainties. When considering risk, we need to consider not only the downside risk, but also the potential upside in order to make the right decisions.

The table alongside lists some of the most significant risks Old Mutual faced during 2009:

KRI Examples:

KRI	Related risk type	What it tells us
Expense levels – actual v forecast	Business risk	If trending up, the Group's costs will be higher than planned, which if not compensated by a rise in income will mean profits will be lower than forecast. This trend will also show in increased exposure to business risk. The indicator allows proactive analysis to identify the reasons for the increase in expenses and to put appropriate management actions in place.
Level (%) of voluntary turnover in key jobs	Operational risk	If trending up, this indicator can highlight a failure to retain key talent, which could mean recruitment costs are higher than planned and an increased exposure to this risk as key jobs are left vacant for a time. The indicator allows analysis of the reasons for the leavers and facilitates actions to be put in place to prevent repetition.
Assets in excess of local regulatory capital requirements	Liquidity risk	If trending down, this indicator provides Group with knowledge that the solvency position is worsening and the risk of regulatory intervention is increasing. The reasons for the reduction in surplus assets can be identified and management actions taken to ensure the trend does not continue.

RISK AND CAPITAL MANAGEMENT CONTINUED

SIGNIFICANT RISKS TO THE OLD MUTUAL GROUP

Risk type	Risk as a threat and uncertainty	Mitigating actions and opportunities
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 a 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 upon where clients default on their obligations with respect to the financial guarantees.	Although in some instances it does not pay to take credit risk, there are situations when expected returns mean that there are significant rewards for assuming this risk. We monitor credit exposures and set limits in each business unit, reducing our risk exposure by requiring counterparties to have a specified credit rating. We also check to ensure that we do not have a concentration of exposure to single issuers, sectors or investment types.
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. 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 a failure of distribution providers) could have an impact on our business. This risk also covers the risk of terminations and expenses being higher than expected, which would prejudice product profitability and sustainability.	We offer innovative products to suit different clients and different client needs, enabling us to find opportunities even in challenging market conditions. 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.
Market risk – Interest – Equity – Hedge – Real estate – Credit spread – Foreign exchange	The risk of loss as a result of adverse changes in the market value of assets and liabilities. This includes the risk of falling equity values or losses due to volatility in asset values as well as the impact of changing interest rates, credit spreads and currency fluctuations. 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.

SIGNIFICANT RISKS TO THE OLD MUTUAL GROUP (CONTINUED)

Risk type	Risk as a threat and uncertainty	Mitigating actions and opportunities
Liquidity risk	The risk that available liquid assets will be insufficient to meet changing market conditions, liabilities, funding of asset purchases or an increase in client demands for cash.	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 Risk Executive Committee providing additional oversight and challenge. By monitoring our liquidity position prudently, we are well positioned to identify surplus liquid assets available.
Operational risk	The risk arising from operational activities, for example a failure of a major application, or losses incurred as a consequence of negligence or fraud.	Taking greater operational risk rarely gives the Group greater reward and therefore we aim to minimize our operational risk exposure across the Group. The Group is currently developing a strategic risk management system which will increase our understanding of the operational risks in the business and facilitate the improvement in the controls to reduce losses. The Group has purchased a database of operational risk losses in other organisations, which ensures we are proactive in mitigating risks that have crystallised in other companies before they affect Old Mutual. Operational risk is one of the metrics in our risk appetite framework and is monitored with actions taken if it approaches the limit.
Underwriting risk	We are exposed to underwriting risk by issuing insurance contracts. The business units which incur significant underwriting risk are Old Mutual Bermuda, Old Mutual Specialised Finance, Old Mutual Life Assurance Company of South Africa Limited, Nedgroup Life Assurance Company Limited and Old Mutual Financial Life Insurance Company (OMFLIC) which provide long-term insurance and Nedgroup Insurance Company Limited and Mutual & Federal, which provide short-term insurance. In respect of long-term insurance, the risk of loss is caused by insurance claim frequencies and sizes being larger than expected. This includes the risk of mortality/ morbidity being higher than expected. With short-term insurance the risk relates to an increased number of claims due to accidents or adverse weather conditions.	Our Group-level liability risk policy sets out the internal controls and processes that we must follow in long-term and short-term insurance. Business units have more detailed underwriting policies. Actuarial modelling is used to calculate premiums and monitor claims patterns. The internal controls designed to mitigate operational risks help ensure that we feed robust data into our models. Analysis of MCEV plays a key role in ensuring we are managing these risks pro-actively. In banking, our risk management standards require strict limits to be set in relation to underwriting limits, and mandates the review of gross as well as net exposures, to understand the impact of hedge failure.

RISK AND CAPITAL MANAGEMENT CONTINUED

Group risk profile

The table below shows the significant risks to the Group, based on Group diversified economic capital. Diversification accounts for risks within business units and between business units across the Group.

Old Mutual significant risks as a percentage of overall Group exposure

Ranked in order of significance to the Group based on economic capital figures.

	Long-term savings	Banking	Mutual & Federal (short-term insurance)	US Asset Management	Old Mutual Bermuda
1. Credit risk	●●	●	Negligible	Negligible	✓
2. Market risk	●● (Interest and equity)	✓	✓	Negligible	● Hedge and equity
3. Business risk	●●	✓	Negligible	Negligible	Negligible
4. Operational risk	●	✓	Negligible	Negligible	Negligible
5. Underwriting risk	✓	✓	✓	N/A	N/A

✓ Exposure to risk type but economic capital exposure less than 5% of Group's diversified total
• Significant or principal risk to Group, with economic capital exposure between 5% and 10% of Group's diversified total
•• Significant or principal risk to Group, with economic capital exposure more than 10% of Group's diversified total

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 the level of credit risk they face and in line with Group policies and principles. Business units are responsible for ensuring their credit risk exposures stay within the risk appetite limits set by the Group.

Our in-house Risk Exposure Aggregation System (REAS) allows us to monitor Group-wide counterparty risk. It aggregates nominal exposures reported by the business units but does not collect any VaR-related data (such as probability of default). In 2010, we will further enhance our oversight of Group credit risk by implementing a new counterparty exposure system through the iCRaFT project.

The new counterparty exposure system will facilitate a VaR approach to setting Group-level counterparty exposure limits as well as providing the concentration risk capital requirement for the Group's internal capital model. It will also allow more timely and proactive monitoring of the additional risk arising from the aggregation of counterparty exposures across different business units and geographies.

The Group Executive Risk Committee monitors and challenges accumulations of credit exposures across the Group, arising due to same-name exposure held in different business units. As at 31 December 2009, the Group's top exposures by sector are:

Counterparty Exposures by Sector

The two main sectoral exposures are both driven by the inclusion of Nedbank's banking book exposures:

- As a bank, Nedbank inevitably has large exposures to the other South African banks; this sector also includes the Skandia Money Market Fund and the financial sector corporate bond portfolio of the US Life business
- The exposure to government debt includes a substantial amount of South African government debt which Nedbank holds in respect of its reserve requirements.

The main change in the sectoral exposures during 2009 has been a reduction in banking and financial exposure, offset by an increase in government exposure. This is a consequence of, inter alia, the proactive de-risking of the US Life bond portfolio through a shift out of corporate bonds into US Treasuries.

Market risk

Market risk is the risk of changes in the value of our financial assets or financial liabilities arising from changes in equity, bond and real estate prices, credit spreads, 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.

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 125 for further details*). We conduct separate analyses to understand the impacts on both shareholder and policyholder assets.

In respect of the investment of shareholder 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 OMLAC(SA). To mitigate the risk of falling equity markets adversely impacting the shareholder capital position, we use extensive equity hedging. We regularly evaluate the protection offered by the hedges that we operate in order to decide the appropriate level and extent of hedging that we need.

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-basis information section of this report (see page 340). For our insurance operations, equity, property price, credit spread 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 market consistent embedded value 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 regular 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 planned expenses and the expenses in previous years, as well as the level of lapse and surrender activity.

All new life assurance products 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 prior to it going to launch. In all cases there are a series of product development committees and stringent requirements which must be passed before the new product can proceed to launch. Many of these additional requirements have been introduced following experience relating to the Old Mutual Bermuda Variable Annuity product. All potential risks to the Group as a result of writing the new product are considered prior to the product being 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) impacts. 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 Business Reviews chaired by Group with each of the businesses, ensures regular dialogue and oversight of business performance. At each meeting business risk is monitored and, where appropriate, actions are agreed to mitigate negative trends. MCEV is a particularly useful tool that is used to monitor ongoing experience as it emerges. For further details on MCEV, see page 340 of this report.

Insurance risk

The Group assumes insurance 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

RISK AND CAPITAL MANAGEMENT CONTINUED

and morbidity risk in the LTS business and a risk of loss from fire, accident and other sources in our short-term insurance business.

The table below shows our key insurance risks along with risk management actions within the LTS and short-term insurance businesses:

KEY INSURANCE RISKS

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, we can reset mortality rates. 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 prerequisite for acceptance at standard rates.
Medical developments 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.
Changing financial market conditions risk	Lower swap curves and higher volatilities cause investment guarantee reserves to increase.	A discretionary margin is added to the value of guarantees, determined on a market consistent stochastic basis and included in current reserves. A partial hedge is in place (South Africa). Fewer and lower guarantees are typically provided on new business (South Africa).
Policyholder behaviour risk	Selection of more expensive options, or lapse and re-entry when premium rates are falling, or termination of policy, which may force the sale of assets at inopportune times.	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Catastrophe risk	Natural and non-natural disasters, including war and terrorism, could result in increased mortality risk and payouts 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 specified limits.
Policy lapse risk	Where policyholders have an option to terminate the policy, this could force the sale of assets at inopportune times. This creates the risk of capital losses and/or reinvestment risk if market yields have decreased.	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.

Our insurance risk exposure is relatively low as we effectively manage this through:

- Diversification of the business over several insurance classes and a number of geographical segments
- The relatively weak correlation of insurance risk with our other risk types, which reduces our exposure after diversification
- Maintenance and use of 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 insurance risks, eg 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 those liabilities' nature and term.

Reinsurance plays an extremely important role in the management of risk and exposure in our short-term insurance business, 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 £6.3 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 (this is based on a limit of R75 million for one event at an estimated exchange rate of R11.90 to the pound).

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 the amount of an insurer's obligation may change at the end of a contract period.

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.

For more information on insurance risk, see p193 in the notes to the accounts.

Operational risk

Operational risk represents approximately 10% of our aggregate Group risk profile. 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 flooding 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 highest operational risk exposures arise within LTS because of its size relative to the other divisions and business units, which are all 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. This is supplemented by the operational risk event identification and recording process which was embedded across the Group in 2009. The improvement in data 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 has helped us identify a significant number of operational risks ranging from failures in our underwriting processes to the effects of a pandemic on business operations. These have been assessed and prioritised, and the principal operational risks we face are listed in the table on the next page. These are reassessed and monitored by the GERC and Group Executive Committee at least quarterly.

One key factor in our future success will be our ability to analyse the increased level of risk data collected. This is dependent on IT capability. We recognise that now is the right time to review our risk management system to gain the greatest benefit and after much due diligence on a number of systems we have chosen Open Pages as our long-term strategic system. The new system is now in the development phase: roll-out starts in Q2 2010 and is scheduled to complete in 2011. We expect operational risk management to become increasingly robust throughout H2 2010 as the system embeds.

RISK AND CAPITAL MANAGEMENT CONTINUED

The main operational risks facing the group are:

KEY OPERATIONAL RISKS

Risk description	2009 trend	2009 commentary	Key mitigations
Strategy/change risk This was identified as a principal risk by the Board and Group Executive Committee. It arises if the Group is unable to effect the necessary culture shift to implement its change initiatives effectively, in response to the changing market environment.	↑	We set new strategy in 2009, which identified a number of change initiatives to position the Group for sustainability and growth in the future. This risk is increasing due to the number of change initiatives that the Group is undertaking. These were agreed and prioritised at the beginning of the year by the Group Executive Committee. Examples include iCRaFT and other projects to enable the consolidation of our LTS business into a single operating structure to unlock value. To deliver these changes some 20 individual strategic implementation programmes have been set up to implement them in stages, spanning organisational, functional and geographic boundaries.	To manage these change initiatives, we appointed a Head of Strategic Implementation in February 2009 as part of the Group Executive Committee and set up a Strategic Implementation Department to monitor and guide the strategic programmes. As part of this process regular progress reports are made to the Group Executive Committee.
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 in 2012. 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.	↑	This risk is increasing for the Group for a number of reasons. 2009 market events have increased regulatory expectations across the industry, with particular emphasis on capital and liquidity issues. An increase in consumer activism in many of the jurisdictions where we operate is resulting in challenges from consumers about whether business is conducted fairly. As regulators have sought to understand how businesses in their territory have responded to market falls and liquidity pressure – and as regulators respond to consumer pressure – we have seen an increase in regulatory visits and interaction across the Group. In Europe, Solvency II will challenge the industry to further enhance and integrate risk and capital models.	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 regulator for Old Mutual plc under the Financial Groups Directive. The iCRaFT project is designed to deliver, as a minimum, all Solvency II requirements, as part of an integrated business change programme.

KEY OPERATIONAL RISKS (CONTINUED)

Risk description	2009 trend	2009 commentary	Key mitigations
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 breakdowns in the processes, human error or IT systems issues.	↑	Implementation of the operational risk event reporting process during 2009 has highlighted that this risk is crystallising regularly. This has led to a number of actions and improvements to the framework which should embed and start to reduce losses in 2010.	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 system that we are implementing in 2010 will categorise risks by business process, enabling us to assess more readily the level of risk in each process.
IT infrastructure During 2009 a Group-wide IT benchmarking exercise identified some areas for improvement across our IT infrastructure and control environment. There is a risk that if these are not completed within an appropriate timescale we could experience problems with the current IT systems.	↓	The consolidation of our long-term savings business presents opportunities to further enhance our IT infrastructure and exploit IT synergies. This work started in 2009. The development of a number of Group-wide IT solutions has helped us carry out further work on the current infrastructure and future IT strategy. This is helping to reduce risk in this area.	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.
HR risk This was identified as a principal risk in 2008. The demand for staff in a number of key disciplines in the industry has increased, particularly driven by increasing regulatory change, which could lead to Old Mutual employees resigning and joining competitors.	↓	During 2009 our turnover of key management reduced. Market conditions and the reorganisation of the business promoted stability and contributed towards this reduction.	Group-wide management development programmes and formal succession planning are in place. We have established a Group strategic implementation programme to review remuneration across the Group. This will introduce more consistent practices and address the new FSA remuneration requirements.

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 Group has £1.2 billion liquidity headroom, comprising £447m of cash and £773m of undrawn committed facilities; this includes the proceeds of a £500 million senior bond issued last October.

Financial Groups Directive surplus

As part of the Group's regular and ongoing risk appetite submissions, business units are asked to assess the impact of various adverse scenarios on their statutory surplus and ultimately their FGD surplus. This allows the Group to quickly identify those drivers key to maintaining the target level of FGD surplus. Management has access to a heat map which allows continuous monitoring of the surplus position in our changing economic environment.

RISK PROFILE BY SEGMENT

Long-Term Savings (LTS)

LONG-TERM SAVINGS (LTS) RISK PROFILE

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 business, market (equity and interest) and credit risk.

LTS has an inherent resilience against specific risks because its product and geographic diversity spread risk across its various businesses. The Group exposures within LTS break down as follows:

LTS exposures as a percentage of overall group exposure

Ranked in order of significance to the Group based on economic capital figures.

	South Africa and Emerging Markets	Wealth Management	Nordic	Retail Europe	US Life
Business risk	●	●	✓	✓	✓
Market equity risk	●	✓	✓	✓	●
Credit risk	✓	Negligible	✓	Negligible	●●
Operational risk	✓	✓	✓	Negligible	✓

✓ Exposure to risk type but economic capital exposure less than 5% of Group's diversified total
• Significant or principal risk to Group, with economic capital exposure between 5% and 10% of Group's diversified total
•• Significant or principal risk to Group, with economic capital exposure more than 10% of Group's diversified total

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 capital strains. If large numbers of policies lapse, the business is exposed to losses on up-front commissions, and also to per-policy maintenance costs increasing above pricing assumptions, resulting in losses as 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 or up-front commissions not fully earned by distributors cannot be recouped. 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.

RISK PROFILE BY SEGMENT

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 risk 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 also important in US Life and South Africa & Emerging Markets, they represent a lower proportion of overall risk, given the market and credit-related risks in US Life, and the market-related risks in South Africa & Emerging Markets.

We have a number of mitigating actions in place to monitor and contain business risk.

During 2009 we took significant actions to reduce the cost base of all Group companies, particularly the Skandia UK and US Life businesses. This was also a major driver behind the recent Group restructuring as we aim to give scale to our Retail Europe businesses by combining them into a single unit. In addition, our ongoing platform strategy should ultimately result in cost savings. The changes in the US Life business were made in the first four months of 2009, and the risk reduction was quickly evident in the half-year economic capital calculations.

Within the US Life business we took significant steps to control the impact of lapses on the crystallisation of unrealised losses by building up significant cash holdings. These enabled us to withstand a temporary increase in terminations in the first half of the year without having to crystallise losses in the investment portfolio. A combination of a normalisation in terminations over the second half of the year and a reduction in corporate bond spreads reduced the risk and quantum of potential investment losses, which in turn allowed US Life to reduce its cash holdings. This is part of the ongoing monthly activity of the US Life Oversight Committee.

We also run a number of incentive programmes to encourage lower surrender levels in the business.

LTS market risk

The extent of the Group's discretion as to the allocation of investment return to policyholders varies according to the type of contract. 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 set 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 OMLAC(SA) Board and are disclosed to the Financial Services Board of South Africa, OMLAC(SA)'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 OMLAC(SA) guaranteed non-profit annuity book, which is closely matched with gilts, semi-gilts and high quality corporate bonds. 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.

RISK PROFILE BY SEGMENT CONTINUED

In US Life's fixed annuities, policyholder option 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, we carry out extensive interest rate scenario testing, as required by US regulatory authorities, to ensure that the amounts reserved are sufficient to meet the guarantee obligations. The guaranteed returns provided under equity-indexed annuities are hedged to ensure a close matching of option or futures pay-offs to the liability growth. Hedging is largely static with minimal trading. Variable annuities are no longer written and for those policies in force the guaranteed returns provided are dynamically hedged. Hedging positions are reviewed daily and readjusted as necessary. In our US businesses 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 underperformance of the hedge assets in comparison with the associated liabilities, in respect of the components that we hedge. 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.

Within OMLAC(SA) and US Life, 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 undertake regular and ongoing activity related to interest rate and equity hedging to mitigate this risk.

Real estate risk for the Group is low compared with other risk categories. It is noteworthy only in the OMLAC(SA) business – where a portion of policyholder funds is invested in real estate to generate outperformance and diversify the asset portfolio – and in Nedbank, where real estate assets are held as collateral backing mortgage loans on residential and commercial real estate.

LTS credit risk

The US Life business is exposed to credit risk by the substantial corporate bond holdings and asset backed securities within its investment portfolio. The risk relates not only to defaults or impairments but also to the possibility of widening credit spreads adversely impacting the market value of the investment portfolio. All these risks may create a liquidity need to bridge the gap between benefits payable on termination and realisable asset values.

We actively monitor and manage the US Life portfolio to mitigate credit risk. We appointed a new Chief Investment Officer in US Life, who has significant credit management experience. During 2009 we took action to rebalance the composition of the US Life investment portfolio. At the year end, the investment grade of the portfolio has improved although we continue to have an over-exposure to corporate bonds. There has been substantial improvement in unrealised losses on the portfolio, which as of 31 December stands at $497 million, down from $2,844 million in March 2009. We expect to see continued improvement in this area during 2010.

US Life: Composition of the investment portfolio

$m	31 December 2009	31 December 2008
Treasury/Agency	505	351
CMBS/RMBS/ABS	2,900	3,739
Corporate bonds	11,947	9,682
Cash/short-term	839	1,218
Total investments & securities	16,191	14,990

In other business units, shareholder credit-related exposure is predominantly relevant sovereign debts.

We are currently enhancing the process and systems infrastructure that support aggregation of credit exposures as part of the iCRaFT programme to ensure they are fully Solvency II compliant, with a target completion date of Q1 2010.

In line with Scandinavian market practice, SkandiaBanken (Skandia Nordic's banking arm) provides a full-range online retail banking service to customers in Sweden and Norway. Its lending portfolio has been built on sound lending practices and mostly (95%) comprises mortgages with excellent creditworthiness and low loan-to-value ratios (38% at December 2009); the residual exposure (5%) is comprised of unsecured loans. The bank has strong liquidity and was consequently only marginally affected by the market turbulence in 2009. Its credit loss ratio (credit losses as a percentage of the opening lending balance) remained low at only 0.14%.

Businesses outside Group risk appetite: US Life and Old Mutual Bermuda

Measured against the risk appetite limits set by the Group Executive Risk Committee and ratified by the Group Executive Committee, all the Group's businesses are within the Group's appetite except for US Life and Old Mutual Bermuda. It is worth noting that:

- Both these business units are managing their positions to reduce the risk in their business gradually, within their capabilities and minimising loss of value
- An Oversight Committee has been established for each business to monitor risk exposures, help to optimise risk-taking within the business and track progress monthly. The Committee members include the Group Risk and Actuarial Director, the Group Finance Director and relevant executives from the companies concerned
- Credit risk is actively managed in US Life, to improve the quality of the investment portfolio holdings while trying to avoid realising large losses by trading out of securities with significant unrealised losses at inopportune times; we have made significant progress in achieving this
- 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
- We monitor Old Mutual Bermuda's hedging and related risks daily, and the company has been closed to new business to prevent any increase in guarantee exposures brought on by growing the Variable Annuity book. Over time we expect exposures to reduce significantly as policies mature and roll off the book. We continue to monitor hedging activity closely on both an actual and notional basis
- In September 2009 the decision was taken to progressively and selectively remove the majority of the hedge positions on this business. This decision was taken in light of rising markets globally, which increased the liquidity risk inherent in our short futures strategy and reduced market risk and our improved capital position which allowed us to better absorb fluctuations in guarantee costs. It also helped us save on substantial hedging costs at a time of rising markets. We continue to monitor our "notional hedge" as rigorously as we would monitor any hedge which was actually in place, and therefore should markets begin to fall again we are in a position to replace protection rapidly. It is likely that we will maintain a dynamic approach towards hedging in this business, by varying the extent of hedges over time based on market conditions.

RISK PROFILE BY SEGMENT CONTINUED

Banking

BANKING RISK PROFILE

NEDBANK

Banking credit risk

As our primary banking business, Nedbank carries a substantial proportion of our credit risk through its lending and other financing activities (it should be noted that, due to the nature of its investment portfolio, US Life also retains a significant proportion of our credit risk).

Nedbank's financing activities contribute to its significant credit risk exposure. We expect impairment levels to remain stable or even start to reduce during 2010. 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 maintains a well diversified funding deposit base supporting a strong loan to deposit ratio. Nedbank has remained focused on attracting its share of the deposit base. The bank continues to pursue opportunities to lengthen and diversify its funding base, maintaining a strong regional presence with little reliance on foreign funding. The bank also has an immaterial reliance on securitised and interbank funding – facilitated by a strong retail and commercial deposit base.

Nedbank has cultivated and embedded a prudent and conservative risk appetite, primarily focused on the basics of banking in southern Africa. This is illustrated by a number of factors including conservative credit underwriting practices which have culminated in a high-quality, well collateralised wholesale book as well as further tightening of credit criteria in our retail book in anticipation of the economic downturn. This has resulted in Nedbank's reasonable credit concentration risk levels in relation to the South African market, with counterparty credit risk being restricted to non-complex, vanilla banking transaction.

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:

- 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.

Nedbank has a low level of assets and liabilities exposed to the volatility of IFRS fair value accounting; a small market trading risk in relation to total bank operations; relatively low banking book interest rate risk by international standards

and low equity (investment) risk exposure, having successfully completed the non-core asset disposal strategy in 2007. Nedbank has low currency translation risk due to its strong regional focus and its relatively small offshore structure is deemed appropriate and optimal, given its current international strategy.

The Group's capital adequacy ratios increased significantly in 2009 and continued to be maintained above the group's target ratios. Ongoing focus will be given to increasing Core Tier 1 capital and the Tier 2 regulatory capital remains well diversified with no maturing subordinated debt until 2011.

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 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.

Banking 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 South African economy has emerged from recession in the third quarter of 2009, posting only modest growth over the quarter, but the recovery gained some traction in the final quarter of 2009 as real GDP grew by 3.2%. The improved performance was mainly due to a rebound in manufacturing exports on the back of strong demand for commodities from China and a modest recovery in most major industrialised countries. However, some segments of the domestic economy are still under significant strain.

In the short term, the recovery is expected to continue to be hampered by high unemployment and high household debt levels resulting in a protracted recovery in retail banking. While wholesale banking, which has been resilient, even at the peak of the interest rate cycle, is showing increased signs of credit stress, the Group's own experience is still within expected and acceptable levels.

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's operational risk strategy and objectives are in line with the Basel II framework. Nedbank will apply for regulatory approval to transition its current operational risk management framework capabilities from the Standardised Approach to the Advanced Measurement Approach in 2010.

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.

RISK PROFILE BY SEGMENT CONTINUED

Mutual & Federal

For Mutual & Federal, the second-largest short-term insurer in South Africa, underwriting risk is the primary concern. Adverse weather patterns and large numbers of commercial fires impacted our underwriting profitability in the first half of the year, but the recovery in the second half reflected the fundamental soundness of our portfolios, our diligence in rate setting and our continuing adherence to responsible underwriting standards.

The potential sale of Mutual & Federal by the Old Mutual Group caused uncertainty in the business during 2009. This was coupled with the environmental challenges facing the industry and challenging internal projects, such as introduction of a single insurance administration system. The decision to make Mutual & Federal a wholly owned subsidiary of Old Mutual provided confidence to the local team. In 2010 management focus is on stabilising the operating platform and responding to changes within the market to continue to offer growth, profitability and value to clients.

US Asset Management

Since this is an asset management business, market volatility presents the greatest risk. We conduct our asset management activities in an agency capacity, hence clients take both the upside and downside risk in their portfolios. Our 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 felt the impact of the financial crisis in a lower level of asset-based fees and substantially lower performance fees.

Old Mutual Bermuda (Legacy business)

In Old Mutual Bermuda, reductions in interest rates can cause more of the investment guarantees and options within its deferred annuity business 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.

Variable annuities are no longer sold, and for in force policies, 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. The ongoing monitoring of hedge activity in Old Mutual Bermuda ensured that the effectiveness in respect of components hedged averaged 96% over 2009.

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 125.

Summary

Old Mutual has made considerable progress in 2009 in effectively managing risk and capital in order to create value. This is a particular achievement given the past year's volatility in financial markets. Our progress is due to the continued focus on group wide risk management through our Strategic priorities and iCRaFT programme. The risk environment will continue to evolve, and we embrace this journey. We are developing and implementing further tools to allow us to optimise business decisions and take a forward-looking view of 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 2009 and are therefore effective.

RESPONSIBLE BUSINESS INTRODUCTION

Sustainable growth through responsible business

The management of our social and environmental impacts is a central part of what it means for us to be a responsible business and deliver long-term sustainable success.

Don Schneider
Group Human Resources Director
Group Executive Responsible for Corporate Responsibility

The year in brief

- Completed our second public submission for the Carbon Disclosure Project
- Won five customer service awards
- Invested £10.1 million in local community programmes
- Set up the Group Responsible Business Committee
- Formalised our Responsible Business Policy
- Retained our membership of FTSE4Good Index and JSE's Socially Responsible Investment Index

1 **Helen Wilson**
Head of Corporate Responsibility

2 **Helen Casey**
Head of Marketing

3 **Patrick Bowes**
Head of Investor Relations

4 **Sam Brown**
Head of Risk, USA, Nordic and Retail Europe

5 **Martin Murray**
Group Company Secretary

6 **Don Schneider**
Group Human Resources Director

7 **Steve Lock**
Head of Financial Crime Prevention and Security

RESPONSIBLE BUSINESS INTRODUCTION CONTINUED

Ensuring sustainable growth

Without doubt, 2008 and 2009 have been two of the most challenging years that many of us in the financial services industry have experienced. But a sharp shock can provide necessary focus. We have used this experience to re-evaluate the drivers behind our vision of delivering long-term sustainable success.

In the past year we have taken time to re-examine in particular what it means to be a responsible business and how we go about operating as one. We have not only developed new governance and management structures to deliver consistency across the Group; we have also considered how to build greater trust with our stakeholders. Our progress so far is evidenced by the fact that in 2009 Old Mutual South Africa was voted number one for 'Corporate Reputation' by Global Reputation Pulse and Nedbank was voted 'Socially Responsible Bank of the Year' at the African Banker Awards. As we move forward, I firmly believe that it is not enough to manage the risks we face related to our social and environmental impacts: our future success depends on how we can create opportunities by taking a more proactive approach.

Strengthening governance and risk management

During 2009, strengthening our governance and risk processes across the Group has been one of our strategic priorities. The details of this are explained in the risk section of the report but integrating the management of our social and environmental impacts into our approach was a central part of this process and will continue to be a focus for 2010. In 2008 we made a commitment to set up a new forum to focus on these issues; in 2009 we set up our Responsible Business Committee, which I chair. Through me, this new governance structure reports directly into the Group Executive Committee and gives the Group leadership and direction on being a truly responsible business.

In addition to our new governance structure for responsible business, we have also developed our Responsible Business Principles into a Group-wide policy: further details can be found in the sections that follow. This policy is now effective for all business units, driving greater consistency across the Group. For the first time, it includes a procurement policy defining what we expect of our suppliers and what our suppliers can expect from us, now and in the future. As we move forward we plan to revisit the policy regularly to ensure it meets both our, and our stakeholders', rising expectations.

Broader commitment to responsible business

In parallel with the changes to our governance and risk structures we have continued to look at the bigger picture and deliver on the commitments we have made as a Group. This has included our ongoing public commitment to addressing climate change through our support for the work of the UN as a signatory to the Copenhagen Communiqué. By better understanding our own impacts through our second public submission to the Carbon Disclosure Project we have been able to implement carbon reduction strategies across the Group.

We have also continued to pursue the principles outlined by the UN Global Compact on human rights, labour, environment and anti-corruption. During 2009, despite the global recession, we also maintained our investment in the communities and societies in which we operate – particularly in South Africa, where we continue to play a vital role in the nation's economic transformation.

Stronger stakeholder engagement

Talking to our stakeholders, and understanding what matters to them, is always important; and it has never been more important to maintain ongoing dialogue and effective engagement than it was in 2009. We spent a lot of time and effort making sure that all our stakeholders, particularly customers and employees, had the information they needed. In 2010 we will be expanding the number and range of stakeholder dialogues, and formalising this process to ensure we focus on the issues and impact areas that drive sustainable growth.

The future

Getting the right governance and risk management structures in place has been an important step forward for us in 2009. But we know there is still much for us to do. This year promises to be an exciting one, and we believe we are well positioned to continue achieving our aim of sustainable growth through responsible business.

Don Schneider
Group Human Resources Director

OUR APPROACH TO RESPONSIBLE BUSINESS

Being a responsible business means pursing commercial success in ways that honour ethical values and respect people, communities and the natural environment. It includes making decisions that fairly balance the claims of relevant stakeholders. Our Responsible Business Policy sets out our top level commitment to operating responsibly and is structured around five key areas which we have determined are most material to our business, namely the customers, employees, environment, society and suppliers. Details of the policy and our activities in these key impact areas in 2009 can be found in the sections that follow.

OUR STAKEHOLDERS AND APPROACH TO RESPONSIBLE BUSINESS

*Customers, shareholders, employees, local communities, regulators, suppliers, NGOs.

Providing excellent service is critical to retaining our customers through tough and uncertain economic times.

RESPONSIBLE BUSINESS POLICY: CUSTOMERS

The Group's ability to manage and grow its customers' investments is a source of its value as a business, business units must:

- **Endeavour to deal with customers in a way that is open, honest and fair;**
- **Give the appropriate advice where permitted, to grow customers' assets in a way that meets their needs;**
- **Sell and promote the Group's financial products in a way that is clear and transparent;**
- **Ensure that they provide clear information to customers about how their funds are invested;**
- **Facilitate and listen to customer feedback and act on it;**
- **Rectify any errors that affect customers as quickly as possible (that are identified by the Group and are within its control).**

We provide over 12 million customers internationally with long-term saving products, asset management, banking and short-term insurance products and services.

If we are to manage their financial requirements well, we must understand their needs and provide them with accurate advice, the most suitable products and good service. This means working with all our customers – personal and business – in a way that is open, honest and respectful. At a time when the wider financial sector is under close scrutiny, this is more important than ever.

We continue striving to deliver high levels of customer service. All our businesses have clearly communicated processes enabling customers to give feedback on the services we provide, so that we can respond to any problems promptly and effectively.

In 2009, key elements of good customer service included:

- Making sure our customers were up-to-date with developments within our business and across the sector;
- Providing financial advice at a time when customers were most likely to need it;
- Consolidating our products to offer our customers a clearer and more efficient service.

In 2010 we will continue refining our products and businesses as we try to give our customers value for money and transparency, while offering the financial protection, advice and support that they need.

So how did we address these core customer issues in 2009?

Providing regular communication

We need to make sure our customers understand how we have responded to the challenges that the market situation has posed and how they are affected by what has happened. In 2009 we held about 25% more meetings with the companies that invest in us, compared with 2008. We expect a similar level of interaction in 2010. Across the Group, we made sure our customers were kept up-to-date with emerging issues and latest developments. In most of our business units we have reviewed our customer communication strategies and expanded our activities to include additional emails, e-newsletters, seminars, blogs, meetings, videos, Q&A sessions and letters from CEOs. These tools have enabled us to explain to our customers how our businesses have been affected by the financial crisis, specific portfolio developments, market changes and performance across the year.

Providing financial advice and assistance to our customers

Old Mutual has a long history of providing financial tools, training and advice to corporate and individual customers to help increase financial literacy levels, improve financial management and help our customers to understand our products and see how to benefit from using them. Providing this support across the Group was more important than ever in 2009.

Our customer service centres provide appropriate advice across all our business units. When relevant, we provide free seminars to help advisers prepare for changes in the regulatory environment. In many of our businesses we provide additional support and free management seminars for our small business customers. In 2009, for example, Skandia UK launched a new online financial planning tool enabling advisers to demonstrate how to maximise tax-efficient withdrawals from collective investments and investment bonds.

Improving product offering and service

In 2009 we reviewed the products and services we offer across many of our business units to ensure that what we offer our customers is simple and efficient, and creates wealth over the long-term.

This process is never complete, but we made progress during the year and it will continue across the Group in 2010.

Skandia Investment Group has undertaken a project which involves reviewing Skandia Investment Management Limited's (SIML) fund range in the UK. The bulk of the project has been completed, with the merging of seven funds and closing of 15 funds and share classes, to produce a clear and cohesive fund range. Within this project, Skandia UK and Skandia International have also taken measures to simplify and reduce the number of in-house life and pension funds. As a result, the number of UK funds has been reduced by one third of its original size. This means that the business is focused on delivering performance by managing more money through fewer funds creating a more streamlined approach. By bringing together existing funds, we are in a greater position to deliver more value for customers; managing fewer funds with larger assets enables economies of scale that can be passed on to clients. We have cut some annual management charges by about 25% which, together with the adoption of a more flexible investment approach, has been very positive for our clients.

Preventing financial crime

Reducing the Group's vulnerability to financial crime is a central component of our risk programme. It is an area on which we continue to focus our attention, having set up a dedicated team at Group level in 2007. The team focuses on important risk and regulatory areas such as money laundering, bribery and corruption, whistle-blowing and sanctions compliance across the Group.

During 2009 we worked closely with all our businesses to maintain vigilance in this area. We emphasised the importance of engaging senior management across the Group with our financial crime specialists to fully understand the risks and responsibilities associated with financial crime. The Group's Audit and Risk Committee also received annual updates on the state of our financial crime controls.

Our Group Information Security Working Group, consisting of representatives from across the business units, met four times in 2009 to share security best practice and identify common areas in need of specific focus. Additional networks are also in place between Group businesses that share particular crime issues, such as Nedbank and Skandiabanken. At Nedbank we are exploring various biometric solutions for preventing identity theft and deterring bank robberies. Learnings from this will be shared where relevant across the Group.

CUSTOMERS

EMPLOYEES DEVISE CUSTOMER FOCUSED IMPROVEMENTS

Skandia has turned to its employees in Sweden for ideas on how to improve its products and services. This has encouraged the whole business to focus on efficiency and quality service, with hundreds of practical ideas being put into practice.

For example, customer service teams have agreed on new roles where individuals take responsibility for gaining a deeper knowledge of a specific product; they then share their knowledge with the rest of the team, particularly when that product changes. The scheme has also led to the development of an intranet site where all employees can share their ideas, track what every team is doing and see how actions are making a difference to customers. Our employees can really see what a difference and contribution they make to the business.

"It really encourages employees to get directly involved in making positive changes."

Lena Hök, Information Manager of Skandiabanken and Skandia Private

Recognition for our service to our customers

Across the Group we work hard to provide choice and flexibility to our customers, whose needs change over time. We continue to develop innovative, value for money and transparent savings and investment products. In 2009, our reputation for good customer service and the strong relationships we have with our customers earned us a number of awards, including:

- Old Mutual South Africa won the 'Best South African Customer Service Centre' award at the African Stars Awards and the 'Long-term Insurance Industry Service Excellence' award from the Ask Afrika Orange Index;
- In Norway, Skandiabanken was ranked by EPSI Rating (Extended Performance Satisfaction Index) as the best customer service provider across all industries;
- Skandia International won 'Best Commitment to Service' at the International Investment Fund and Product Awards;
- Skandia:BSAM won the 'Best Customer Service' award from the China Information Associate and China Service Trade Associate.

EMPLOYEES

Through 2009 we worked hard to continue to attract, engage and develop the best people in a very challenging year for the financial services sector. Continuing to invest in our people will position us well for future growth.

RESPONSIBLE BUSINESS POLICY: EMPLOYEES

Our Responsible Business Policy provides an overview of the approach we take to our relationship with our employees, while our Group HR Policy sets out in more detail the standards we expect from business units.

To attract and retain the best people, the Group works hard to create an environment where employees can flourish and where people are proud to work. Wherever the Group's employees are based, business units must:

- **Recruit and reward employees fairly and according to merit. This is balanced with the need to ensure that the Group assists with advancing transformation in the unique context of African operations;**
- **Promote the health and wellbeing of employees in the work environment;**
- **Provide opportunities for employee dialogue; listen actively and encourage participation in the resolution of issues;**
- **Invest in employee development and provide opportunities for career and personal advancement, including involvement in community activities;**
- **Safeguard employee rights, including but not limited to, rights to freedom of association and collective bargaining;**
- **Embrace and encourage the diversity that exists amongst employees, whilst treating individuals with respect.**

We employ over 53,500 people in 34 countries. Our employees are the foundation of our relationships with our stakeholders; by creating an environment where they feel supported, rewarded and encouraged to develop, we are able to help them reach their potential.

During 2009 we continued to maintain and develop our positive relationship with our employees. It was a challenging year for our business, and we are proud of the way they have responded. We have devoted considerable efforts to recognising their contribution, through a focus on fostering talent, listening to what they want to tell us, promoting health and wellbeing, and rewarding their ideas and contributions. Our success in achieving this in many parts of our business is reflected in the external awards we won in 2009, including:

- Skandia:BSAM was named 'Best Employer' by Fortune Magazine in China;
- Fairbairn Private Bank ranked 15th out of 1,000 companies in the Sunday Times 100 Best Small Companies to Work for 2009;
- Skandia UK has been recognised as 'One to Watch' for two years running in the Best Companies to Work for survey.

So what did we do to deliver our commitments to employees in 2009?

Recognising and developing talent

We continued to provide high-quality training for our employees across the Group and our Career Choices Model increased the access to, and quality of, career advice available to all our employees. For example, the Skandia UK business completed its Employer of Choice programme, which has successfully implemented a wide variety of new development and employee engagement initiatives. Employees now have dedicated resources to support, motivate and work with them to develop their careers – and specialist support to provide professional development and technical mentoring.

At a time when leaders must be able to deal with ambiguity and uncertainty, while confidently managing risk and leading change across their business, we have increased the scope of our development programmes for senior management. The Global Business Manager's Programme and our new Global Strategic Management Development Programme have both been developed to facilitate strategic and leadership learning, networking and sharing best practice.

We take a proactive approach to succession planning, to mitigate risks and focus our development programmes where they are most needed. Our objective is to improve our ability to fill key roles internally – thereby enabling continuity and providing career opportunities for the talent that we have throughout the Group. One initiative driven by our understanding of current succession plans was the creation of a Global Leadership Potential Programme. This provides individual action plans for people who show particular promise, to prepare them for appropriate future roles at more senior levels within the Group.

READ MORE ABOUT RISK p102

Listening to, and engaging with, our people

Maintaining high levels of commitment is important to both short- and long-term business performance. We gauge employees' commitment, involvement and enthusiasm for their work and Old Mutual in terms of 'employee engagement'.

Every year we survey our employees confidentially, to ask them about their experiences of working at Old Mutual; and we use the results to inform changes within the business. Surveys of this type in 2009 indicate that, due to the recession, across all industries, levels of employee engagement have fallen. Our 2009 survey showed we were no exception. However, despite the slight decrease in scores we continued to rank in the top quartile of companies surveyed and engagement levels remain high across the Group relative to other organisations[1].

Our employees recognised our ability to adapt to change and rate our managers highly in their levels of honesty and integrity. This organisational resilience and trust in managers place us in a good position to remain competitive, continue building our performance score and retain valuable employees as the market begins to recover.

We place a premium on a strong internal communications process, both across the Group and within our business units, and we believe that this has been an important contributor to motivating our employees. For the first time in the Group's history we launched a Group-wide ezine, In Touch. This has been supported by our intranet and other internal magazines to share information between business units and keep employees up to date. In particular, it was important in 2009 to increase our communications about the financial crisis to inform our employees of the latest developments in the business and the sector. Employees responded positively, and this prompted many suggestions that have led directly to numerous improvements benefiting our customers and the efficiency of the business.

Wellness at Work

We want Old Mutual to be a safe, positive and rewarding place for our employees to work, so we take their health and wellbeing at work seriously. Across the Group individual business units have a variety of approaches for promoting wellness at work. These are just a few examples:

- During 2009, over 11% of Old Mutual South Africa employees accessed the health and wellbeing services and support offered to them by our Employee Wellbeing Programme, including over 800 who received face-to-face advice;
- Nedbank established a network of 80 Wellness Champions in the latter part of 2009 who have volunteered to communicate health and wellness initiatives to colleagues.

Transformation

Transformation remains a key priority in our African operations and in 2009 we continued to focus effort on making the profile of our employees more representative of the demographics of the people we serve across South Africa.

For example, at Nedbank, our retail division has made good progress in advancing black and black female employees at senior, middle and junior management levels. This helped earn us third place out of 200 in the 2009 Financial Mail Top Empowered Companies Survey. The challenge remains to achieve our targets at all levels, and in 2010 we will continue to place a strong emphasis on achieving our goals.

EMPLOYEES

HELPING EMPLOYEES WITH MONEY MATTERS

In Skandia UK we ran a two-day Money Matters programme. This involved a range of activities to help employees from across the business learn more about the products and services offered by Skandia, as well as about their own personal finances. As part of the initiative we launched a Money Matters intranet site to give employees easy access to finance-related tips, tools and information.

At Skandia we are always looking to provide training that helps our employees not only in their day-to-day job but also in their personal life. This helps us ensure we deliver both for our customers and for our people.

1 Benchmarked against members of the Corporate Leadership Council.

ENVIRONMENT

We aim to achieve long-term sustainable growth. Understanding the impact we have on the environment, and the risks and opportunities that this presents, is central to achieving this goal.

RESPONSIBLE BUSINESS POLICY: ENVIRONMENT

During 2009 we revisited our commitment to minimising our impact on the environment through our new Responsible Business Policy.

As a financial services provider, the Group recognise that it has two types of environmental impact: direct impacts that arise from the running of our offices and branches, and indirect impacts through the procurement of services and products and the investment decisions that we make and products we sell.

To minimise environmental impacts where practical, business units must:

- **Set targets and monitor measures to reduce their energy and water use and the waste they generate in each of their locations. This is to aid the Group with reducing its carbon footprint;**
- **Create awareness to aid employees in understanding their impacts and their role in minimising these;**
- **Consider environmental impacts as part of their investment decision process.**

We work hard to improve the way we manage our environmental risks. This is important, not only because it reduces our reputational and regulatory risk and allows us to use resources more efficiently, but also because it is part of our broader responsibility to future generations. We manage both the direct impacts we have as a business through our operations (for example, running our offices, employees' travel and the production of materials related to our work) and also the indirect impact we have through our investment decisions, communications and products. We also recognise that there are opportunities across the Group to take proactive action on the environment, such as reducing costs through efficiencies, using environmental positioning to win new customers, or developing new products to meet customer demand. Across the Group in 2009 we shared environmental best practice in terms of both risks and opportunities.

As part of our broader role in helping to tackle the challenges that climate change presents, we continued to support the UN's work in this area and signed the Copenhagen Communiqué as part of the UN Climate Change Conference in December 2009. We also committed funding for a research project at Imperial College London, looking into the effect of climate change on biodiversity.

During 2009 we made progress towards our environmental policy commitments. However, we recognise that there is still much to be done. Our goals for 2010 are based on reducing the direct impact of our operations, managing the impact of our investment decisions, and engaging our employees in our environmental effort.

ELECTRICITY, WATER AND WASTE USEAGE

	Electricity (KWh)		Water (m^3)		Waste (Kg)	
Business Unit	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Group Head Office	8,465,964	9,038,851	27,788	30,656	142,360	173,960
Long Term Savings	572,871,465	631,012,556	4,183,119	4,400,941	5,041,253*	503,196
Banking	94,552,210	98,710,927	310,630	373,935	552,000	674,000
Short-term Insurance	84,890	88,330	17,545	18,177	Not available	Not available
US Asset Management	1,155,909	1,158,145	2	2	3,175	3,300
TOTAL+	**677,209,494**	**740,008,809**	**4,539,084**	**4,823,711**	**5,738,788***	**1,354,456**

\+ Includes Legacy

* Waste figures decreased across all business units in 2009. The increase in total is due to the inclusion of Old Mutual South Africa data for the first time.

So what did we do to meet our environmental commitments in 2009?

Minimising the direct impact of our operations

Our biggest direct sources of carbon emissions are our offices and travel. As part of our continued commitment to developing a better understanding of our own environmental impact, and in particular our carbon footprint, we completed our second public submission to the Carbon Disclosure Project (CDP) in 2009. This saw us included in the CDP's Carbon Disclosure Leadership Index for the first time, ranking in the top 10% of the FTSE350 companies that responded. In our submission we made a commitment to reduce our overall carbon emissions by 2% during 2009, and we have met this target. As part of this commitment each business unit has developed, or started to develop, carbon reduction initiatives.

In addition to our Group submission, Nedbank also made its own CDP submission. It was recognised as the overall winner in the South African Carbon Disclosure Project Report 2009 Leadership Index. Nedbank followed this achievement by making a commitment to carbon neutrality, making it the first South African bank and the first listed company in South Africa to do so.

In 2010 we plan to finalise carbon reduction strategies across the Group, monitor our reduction targets and submit our third public Group CDP submission.

Managing our indirect impact through our investment decisions, communications, and products

In 2008 we developed our first Group Investment Statement. Following on from this, in 2009 we worked with different parts of the business, including the Group Executive Committee, to establish how we can refine the statement to reflect the structure and priorities of the Group for 2009 and beyond. In 2010 we will continue to review the Group Investment Statement and investment statements from the business units across the Group.

As part of Nedbank Group's commitment to managing the indirect impact of its investment decisions it continued to apply the Equator Principles to project finance initiatives. These provide an enhanced risk management framework to assess projects' possible environmental and social impacts. Using the Equator Principles has significantly increased our awareness, knowledge and experience in managing environmental and social risk for all transactions.

We also help manage our indirect environmental impacts through the products we offer to our customers and by developing communication methods that are specifically designed to minimise impact on the environment. For example, during 2009 Nedbank ran a series of outdoor, radio and print advertisements designed to increase take-up of our range of Green Affinity banking, investment and insurance products, encouraging customers to choose products designed to benefit the environment.

ENVIRONMENT

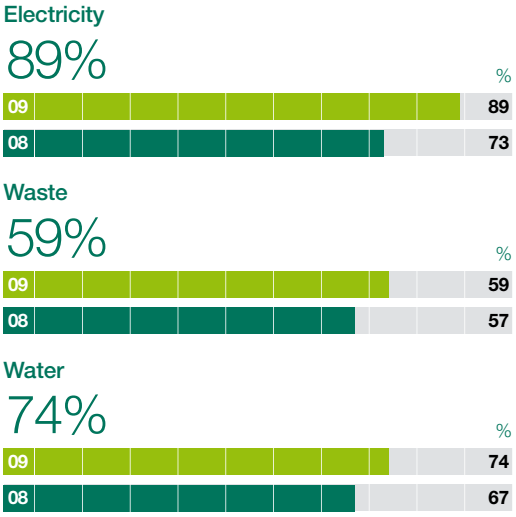
GREEN BANKING PROVES A WINNER

In South Africa, Nedbank has gained an unexpected benefit from initiatives aimed at lowering its carbon footprint. Its growing reputation as the 'green bank' is attracting not only customers but also skills to the company. In September 2009, Nedbank announced its commitment to go carbon neutral.

"Nedbank is the first South African bank, in fact the first large corporation in the country, to take this step."

Tom Boardman, Former Chief Executive, Nedbank

Percentage of business units reporting environmental data



Engaging our employees

Engaging our employees in our environmental efforts has been an important part of delivering change across the Group in 2009. Throughout the year and across the Group we have continued to promote the 'three Rs' – Reduce, Reuse and Recycle. Much of this work has been conducted at individual business unit level. However, we also worked to share best practice across the Group through meetings, workshops, and our Group ezine, In Touch. As well as promoting behaviour change at work, we have also run programmes throughout the Group to help employees take action at home.

Useful links:

For more information on how we engage our employees please see www.oldmutual.com

Our impacts reach beyond our customers, suppliers and employees to the wider communities in which we operate. Managing all of our impacts, including those that affect society at large, is important in creating a sustainable business that delivers long-term success for all those it affects.

RESPONSIBLE BUSINESS POLICY: SOCIETY

Good relations and long-term partnerships with local communities are synonymous with success. Wherever they operate, business units must:

- **Promote in the communities they serve:**
  - **Financial education and other appropriate education programmes;**
  - **Financial inclusion;**
  - **Economic development; and**
  - **Health (where appropriate).**
- **Consider social impacts as part of our investment decision process where practical.**

We work hard to maintain good relationships with all our stakeholders and the communities in which we operate, protecting our corporate reputation and helping us achieve long-term success.

As financial institutions have come under greater scrutiny than ever before, it has been more important than ever to maintain our support for the communities in which we operate. Our broader role in society is of particular importance to us because, as one of the leading financial services providers in Southern Africa, we are a significant participant in these countries' economies and societies. In South Africa we are committed to playing a leading role in the country's economic transformation and at Old Mutual South Africa (OMSA) the initiatives we run are underpinned by four main themes which form our strategy for helping to transform the national economy:

- Poverty eradication through job creation;
- Capacity building and addressing skills shortages in national, provincial and local government departments;
- Property and infrastructure development;
- Increasing the national knowledge base, focusing specifically on equipping learners with more sophisticated mathematical and scientific skills.

Our investment decisions have an impact on society through the projects we finance and the companies in which we invest. These activities generate wealth for our customers and shareholders and we work to minimise, as far as possible, any potential negative impacts they may have on society.

So what did we do in 2009 to manage and build on our positive impact on society?

Promoting financial education and inclusion

As a financial service provider we believe we have a commitment not only to our customers but also to society as a whole, helping people better understand the financial marketplace and the choices they make in spending and saving. This ensures that they understand, and can benefit from, the products and services we provide. We use our financial knowledge and skills to support financial education in the countries where we operate.

Across the Group we run many financial inclusion projects. Where possible, we encourage our employees to pass on their own skills and knowledge: for example, Old Mutual plc has entered into partnership with Young Enterprise London to deliver a Personal Economics Programme targeting young people in London, making us the key private sector supporter for financial literacy education in Southwark schools and providing opportunities for Old Mutual employees to deliver financial literacy classes to students.

In South Africa we see financial education as a core part of our responsibility to help the nation break the cycle of generational poverty and the debt trap that so many find themselves in. We continue to deliver our On The Money programme through OMSA, a financial education initiative that has benefited over 50,000 South Africans since it was launched. In addition, in 2009 we introduced our Financial Wellbeing Programme to help retirement fund members plan for retirement.

Supporting development in our communities

We provide a wide range of opportunities for our employees to donate their time and effort to help support their local communities through activities including mentoring, participation in environmental projects, fund-raising for good causes, and health and welfare projects.

These activities are usually tailored to the needs of the communities in which we operate. We recognise the importance of continuing our support at a time when communities are most likely to need our help. This is evident in the fact that Skandia UK broke its annual fund-raising record in 2009. Skandia UK employees have joined over 20 different types of volunteering activities and have given nearly 600 hours to the local community through team-building events.

The Old Mutual (South Africa) Foundation enhanced its working relationship with the Nedbank Foundation by jointly hosting the Old Mutual Nedbank Community Builder of the Year for the second year running, to honour and recognise our Staff Community Builders. We also joined forces in support of Do It Day, the national volunteer campaign spearheaded by Greater Good South Africa, further entrenching our position as leaders in volunteering in South Africa.

Across the Group we also support our local communities through financial assistance for charity and philanthropic donations: we donated a total of £10.1 million in 2009 to support community development projects. These included education, community development and socio-economic development projects which are most relevant to the local communities in which we operate.

Making responsible investment decisions

Our Group Investment Statement outlines our approach to social and environmental issues in investment decisions for both our own capital investments and those we make on behalf of our customers.

An important element of our investment approach is to give our customers ethical investment choices where possible. For example, in the UK over 30 funds we offer our customers are ethical and environmental funds. In Sweden, customers are able to invest in the Ideas for Life Mutual Fund which donates 2% of its profits to charity; this amounted to £300,000 in 2009 and funded 216 different projects supporting young people in the Nordic region. In South Africa, the Infrastructural, Developmental & Environmental Assets (IDEAS) Managed Fund is a socially responsible investment vehicle marketed and managed jointly by Unity Incorporation (representing a group of seven trade unions) and Old Mutual Investment Group South Africa; it invests in assets that contribute to the sustainable economic and social development of disadvantaged communities.

SOCIETY

BIG BEASTS GET SOUTH AFRICA ON THE MONEY

OLD MUTUAL'S **ON THE MONEY** THE BIG FIVE SECRETS OF MONEY MANAGEMENT

At Old Mutual South Africa we are working with the government and other stakeholders on a well co-ordinated and coherent financial education programme to help consumers manage their finances better. These efforts include the On The Money programme, a financial education initiative we created to teach South Africans how best to manage their finances. The programme is based on the behaviours of South Africa's Big Five wild animals. It uses the unique characteristics of the lion, leopard, elephant, rhino and buffalo to help build a positive and productive attitude towards money and the management of personal and family finances.

"Old Mutual South Africa is at the forefront of efforts to grow the nation's savings. Playing our role through financial education is key to that growth."

Crispin Sonn, Director of Corporate Affairs, Old Mutual South Africa

SOCIETY

ENCOURAGING SUSTAINABLE VALUE CREATION

SUSTAINABLE VALUE CREATION

We want to improve the transparency of the companies we invest in. So Skandia joined 12 of Sweden's largest institutional investors in 2009 to launch a Sustainable Value Creation Initiative. As part of this we published surveys of governance and policies for sustainable value creation in the 100 largest corporations on NASDAQ OMX Stockholm and the 74 companies in the Oslo Børs Benchmark Index.

"This index encourages companies to develop sustainably while at the same time creating long-term economic value for their shareholders."

Hans Svensson, Head of Public Affairs and CR, Skandia Nordic

SUPPLIERS

We work with many different suppliers across the Group and are committed to acting fairly and honestly in all our dealings with them.

RESPONSIBLE BUSINESS POLICY: SUPPLIERS

It is important for us to be consistent in the way we manage our relationships with all our suppliers to raise standards across the Group. So we have included in our Responsible Business Policy a set of commitments related to the suppliers we work with.

Business units must:

- **Where appropriate treat suppliers as partners to create long-term relationships;**
- **Act fairly and honestly with suppliers (see additional detail in society section);**
- **Factor the environmental and social impact of their suppliers into their procurement decisions, where practical;**
- **Work with their suppliers to create awareness and progress understanding of the social and environmental impacts on them;**
- **Have adequate procurement controls including but not limited to, segregation of authorisation of expenditure and selection of vendors/suppliers.**

We work with thousands of suppliers. Our choice of suppliers, and the way we deal with them, not only reflects the values we have as a company but also determines how strong and mutually beneficial our supplier relationships are, both now and in the future. The relationships we develop secure us high-quality, reliable and cost-effective products and services; and the business we bring to our suppliers assists their growth and development.

To further improve our procurement, in 2009 we integrated it into our new Responsible Business Policy. As part of this, we made a commitment to strengthen our relationships with suppliers. A number of our business units have been developing ways to consider social and environmental impacts in their procurement decisions, and are working with suppliers to help them understand these issues. In South Africa, where we are the largest financial services business, the country's Black Economic Empowerment (BEE) strategy has a material impact on our business: in 2009 we continued working to ensure that the economic benefits and opportunities we generate are spread equitably across South African society.

So what were the main developments in our supplier relationships and activities during 2009?

Developing stronger relationships with suppliers

Our reputation is one of our most important assets and the relationships we build with our suppliers contribute directly to that reputation. Our Code of Business Conduct, in combination with the commitments to suppliers outlined in the new Responsible Business Policy, sets clear standards. The implementation of procurement policy is managed by procurement teams at local level and we work with all our suppliers to help them meet our requirements. In 2010 we will be reviewing how procurement is monitored within each business unit.

As part of our work to strengthen relationships throughout our supply chain, our business units run regular supplier forums to share best practice and seek feedback. During 2009 we started to look at ways in which we can stimulate greater feedback from our supply chain. Old Mutual South Africa (OMSA), for example, has a Procurement Council to provide a feedback channel, tracking progress over time through monitoring and auditing.

Greening the supply chain

Where practical, we consider the environmental impacts of our suppliers' activities in our procurement decisions; and we work with suppliers to raise their awareness and understanding of these impacts and improve their performance.

Nedbank and Skandia Nordic are showing leadership in this area, and plans are in place to share their best practice with the rest of the Group in 2010. At Nedbank, for example, we have focused particularly on suppliers with the largest environmental impact and have moved to electronic invoicing where possible.

Improving black economic empowerment in South Africa

In all our business relationships in South Africa, across Old Mutual South Africa, Nedbank, and Mutual & Federal we aim to ensure that we act within the spirit of the BEE strategy, as well as in line with the letter of the law. This includes our relationships with our suppliers.

Where possible we practise affirmative procurement by sourcing goods and services from:

- All suppliers based on their BEE Procurement Recognition Level;
- Black-owned small and medium enterprises (including micro-enterprises);
- Black women owned suppliers.

Nedbank, for example, has a dedicated BEE Procurement Management Unit. This sets the framework rules for BEE procurement, in line with the Nedbank Procurement Policy, and engages with all parts of the business in achieving BEE goals and targets.

At OMSA, the Transformation Committee and Procurement Council receive quarterly reports on all aspects of procurement. Through the Procurement Council we are working closely with Masisizane (a non-profit organisation set up by Old Mutual to support national economic transformation) and with the business units to establish BEE supplier accreditation and supplier development frameworks.

SUPPLIERS

COUNTING THE CARBON COST OF TRAVEL

At Nedbank, environmental issues affecting procurement are discussed at bi-monthly Group Procurement Committee meetings and actions to reduce the bank's environmental footprint are implemented via the committee.

Having investigated buying behaviours and updated policies, in 2009 the team stepped-up its focus on meeting our intensity reduction targets for travel and paper use. A sustainable travel task team has been established and all business travel must now be pre-authorised and the carbon cost of the travel indicated on the order form. The footprinting information for flights includes the carbon cost of travel to and from the airport, based on distance, car and fuel type.

"During 2009, we initiated several projects to ensure that the bank and its suppliers remain focused on environmental sustainability issues"

Howard Stephens, Chief Procurement Officer, Nedbank

SUPPLIERS

STICKING TO THE ECO-LABEL

In 2009, Skandia Nordic joined Sweden's Svanen eco-label network. This means that when we buy office furniture, head office catering, and travel (including hotels, trains and air travel), we use only those goods and services that display the Svanen eco-label. The label is awarded only to the most environmentally sound products and services, and also takes into account factors such as fair trade.

"Concern for the environment is an important part of our corporate responsibility work, and joining the network was a very practical way to take action."

Per Lindell, Environment Controller, Skandia Nordic

BOARD OF DIRECTORS

Key:
[1] Member of the Group Audit and Risk Committee
[2] Member of the Nomination Committee
[3] Member of the Remuneration Committee

1. Patrick O'Sullivan (60)[2], B.A., F.C.A. (Ireland), M.Sc. Chairman

Patrick joined the Board and succeeded Chris Collins 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 CEO, General Insurance and Banking of its UKISA business division and Group Finance Director. Qualified as a chartered accountant, his prior experience includes positions at Bank of America, Goldman Sachs, Fidelity Guaranty Insurance Company (a subsidiary of GE Capital), Barclays/BZW and Eagle Star Insurance Company. He is COO Retail, Asia and Latin America, of COFRA Group in Switzerland and also serves as a non-executive director of Man Group plc and Bank of Ireland.

2. Julian Roberts (52)[2], B.A., F.C.A., M.C.T. Group Chief Executive

Julian has been Group Chief Executive of Old Mutual plc since September 2008. Julian 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 previously Chief Financial Officer of Aon UK Holdings Limited.

3. Philip Broadley (49), 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.

4. Nigel Andrews (62)[1, 2, 3], B.Sc., M.B.A. Independent non-executive director

Nigel 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 non-executive director of Chemtura Corporation, 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 (62)[1], B.Sc., F.I.A. Independent non-executive director

Mike joined the Board as an independent non-executive director in September 2009. 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 MGM Assurance and the Scottish Equitable Policyholder Trust.

6. Rudi Bogni (62)[1, 2, 3], D.Econ. (Bocconi) Senior independent non-executive director

Rudi has been senior independent non-executive director since May 2008, having served on the Board since February 2002. He also chairs the Remuneration Committee. Rudi is Chairman of Medinvest International SCA, Luxembourg. He is also a member of the boards of the LGT Foundation, Common Purpose International Limited and Prospect Publishing,

of the Governing Council of the Centre for the Study of Financial Innovation and of the International 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. Russell Edey (66)[1, 2, 3], F.C.A.
Independent non-executive director

Russell has been an independent non-executive director of the Company since June 2004. He is Chairman of Anglogold Ashanti Limited, 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 previously served on the boards of English China Clays plc, Wassall plc, Northern Foods 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.

8. Reuel Khoza (59), Eng.D., M.A.
Non-executive director

Reuel has been a non-executive director of the Company since January 2006 and Chairman of Nedbank Group since May 2006. Reuel 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 and non-executive directorships of Glaxo Wellcome SA, IBM SA, Vodacom, the JSE, JCI, Standard Bank Group and Liberty Life.

9. Bongani Nqwababa (44)[1], B.Acc., C.A., M.B.A.
Independent non-executive director

Bongani has been an independent non-executive director since April 2007. He became Chief Financial Officer of the South African mining group, Anglo Platinum Limited, in January 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.

10. Lars Otterbeck (66), Dr. Econ.
Independent non-executive director

Lars has been an independent non-executive director of the Company since November 2006. He is also Chairman of Skandia Insurance Company Limited, Hakon Invest AB, The Free Enterprise Foundation and Näringslivets Börskommitté (Industry and Commerce Stock Exchange Committee). He is Vice Chairman of the Swedish Corporate Governance Board and of the Third AP Fund as well as a non-executive director of AB Svenska Spel.

11. Richard Pym (60)[1, 2, 3], B.Sc., F.C.A.
Independent non-executive director

Richard has been an independent non-executive director since September 2007. He chairs the Group Audit and Risk Committee. Richard is Chairman of Bradford & Bingley plc, Northern Rock (Asset Management) plc and BrightHouse Group Limited and is a non-executive director of British Land Group plc. He was Group Chief Executive of Alliance & Leicester plc from 2002 until his retirement in 2007 and is a former Vice President of the British Bankers Association and former Chairman of Halfords Group plc.

CHAIRMAN'S INTRODUCTION

Corporate governance – a key foundation for our business success

It is essential that our governance continues to adapt to the ever more demanding business landscape.

Patrick O'Sullivan
Chairman

Achievements during 2009

- Actuarial expertise on the Board strengthened
- New Chairman appointed
- Group representation on subsidiary boards strengthened
- Risk appetite refined and further embedded into our operational decision-making processes

Priorities for 2010

- Full roll-out and embedding of our new Group Operating Model
- Separation of the functions of the Group Audit and Risk Committee into two separate Board-level committees
- Addressing other recommendations in the Walker Review
- Planning for Board succession and renewal
- Active participation in the continuing debate about improving governance

We have made progress in streamlining the Old Mutual Group during 2009, including by strengthening our governance framework and procedures. This was one of our Group Chief Executive, Julian Roberts', five key priorities for 2009 and has been an area of focus throughout the year. We have followed through on his pledge to ensure that appropriate assurance is implemented and maintained over the Group's activities and businesses. As part of this, we have clarified reporting lines at Group Executive Committee level, strengthened the representation of the Group on major subsidiary boards and developed a new Group Operating Model based on strategic control rather than the highly decentralised structure that previously prevailed. As it is implemented during 2010, this model will replace our current Scheme of Delegated Authority.

The recent financial crisis has emphasised the need to be vigilant and proactive in the management of risk. The proposed introduction of Solvency II in Europe, currently scheduled for 2013, will increase further the focus on risk-adjusted metrics and have important implications for regulatory capital. Risk management is therefore a key part of our governance process. The Risk and Capital Management Report earlier in this document provides an overview of the progress we have made in this area and describes some of the challenges that lie ahead.

The governance of UK-listed banks and other large financial institutions (BOFIs) was the subject of the Walker Review, which published various recommendations in November 2009. Old Mutual is categorised as a BOFI and will be determining its response to these recommendations over the coming months. In addition, we will be addressing certain recommendations that emerged from our own Board effectiveness review conducted during 2009 in conjunction with external facilitators. We have already made a number of changes as a result of these developments, as described in the Report on Governance that follows. As the new Chairman, I will be personally responsible for ensuring that we take the necessary steps to ensure that our governance continues to adapt to the ever more demanding business landscape. I also aim to ensure that the Board retains the right level of expertise and experience to lead the Group as our new strategy is implemented.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

In this section, we describe how the Company's governance operated during 2009

Old Mutual views good governance as a vital ingredient of operating a successful business.

Martin Murray
Group Company Secretary

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DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

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.

The approach that the Group adopts to governance is underpinned by the Group's four values of integrity, respect, accountability and pushing beyond boundaries. We require **integrity** of the Group's businesses in all their dealings, including the way in which their boards of directors operate and report upwards. **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** lies at the heart of all good governance systems and is vital for the prompt escalation of issues and how they are then addressed. Finally, we aim to empower our operating units to **push beyond boundaries** and to be responsive and inventive to serve customers' needs without entangling them with unnecessary red tape.

During 2009, the Group reviewed its board structures and risk governance arrangements in major subsidiaries, seeking to apply lessons learned during the severe downturn in 2008 and the first part of 2009. We believe that in the current climate we should move from a highly decentralised federal model of group governance to a more centralised "strategic controller" model steered from our head office. Our new Group Operating Model will be rolled out during 2010.

Combined Code compliance

As the Company's primary listing (which will be renamed from 1 April 2010 as a premium listing) is on the London Stock Exchange, this report mainly addresses the matters covered by the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "**Combined 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 3 and, in the case of Nedbank Group Limited and Mutual & Federal Insurance Company Limited (until it was delisted on 8 February 2010), the Listings Requirements of the JSE Limited.

Throughout the year ended 31 December 2009 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 Combined Code as described in the following sections of this Report. The Company's compliance with Combined 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.

Walker Review

During 2009, in response to the view that the events of the financial crisis had exposed material shortcomings in the governance and risk management of some regulated firms, the UK Treasury commissioned Sir David Walker to carry out a review of the corporate governance of major banks and other financial institutions, which led to the publication, in November 2009, of a report containing 39 recommendations. These covered board size, composition and qualification; functioning of the board and evaluation of performance; the role of institutional shareholders in exercising good stewardship over the firms in which they invest; governance of risk; and directors' remuneration.

Old Mutual has already begun to address the implications of the Walker Review and will be taking further steps during 2010 in order to be compliant by the time the new regime is fully in force. This is currently expected to be for accounting periods beginning on or after 29 June 2010. Further details of how the Walker Review's recommendations on remuneration matters are being factored into the Company's approach are set out in the Remuneration Report.

Board of Directors

Membership

The Old Mutual Board currently has 11 members, two of whom are executive and nine of whom are non-executive directors. All of the current directors, except for Mr M Arnold (who was appointed to the Board from 1 September 2009) and Mr P O' Sullivan (who was appointed as successor to Mr C Collins as Chairman of the Board with effect from 1 January 2010), served throughout the year ended 31 December 2009.

2009 operations

Board meetings were held regularly during 2009. Scheduled meetings were co-ordinated with the Company's reporting calendar to allow for detailed consideration of interim, preliminary and final results and quarterly 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, 11 Board meetings were held during 2009.

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.

Responsibilities of the Board

The Board's role is to exercise stewardship of the Company within a framework of prudent and effective controls that enable 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 and controls, 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 (which, in 2009, led to the decision to pursue the new Group Operating Model);
- 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.

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 co-ordination 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 (Mr J Roberts and Mr P Broadley), the other members of the Group Executive Committee are: Mr A Birrell (Group Risk and Actuarial Director), Mr M Brown (Chief Executive of Nedbank Group, who succeeded Mr T Boardman in March 2010), Mr P Hanratty (Chief Executive Officer of the Long-Term Savings division), Mr D Hope (Head of Strategy Development), Mr P Maddox (Head of Strategic Implementation), Mr D Schneider (Group Human Resources Director) and Mr T Turpin (Chief Executive Officer of US Asset Management). Additional details accompany the photographs of the Committee on pages 28 and 29 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, and Group Audit and Risk, subject to their respective terms of reference. The Board receives reports from these committees on the matters that they have covered. The matters addressed by the principal Board committees in 2009 are outlined in the part of this section of the Annual Report headed "Board Committees".

The Chairman and Group Company Secretary are both involved in ensuring good information flows within the Board and its committees, as well as in facilitating induction and training for the directors. All directors have access to the Group Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

On appointment, new directors receive induction, including information about matters of immediate importance to the Group, such as the current strategy and operating performance. They also hold a series of meetings with other directors, senior management and external advisers (such as the auditors) as part of this induction.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

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.

Scheme of Delegated Authority

Under the Scheme of Delegated Authority, the Board delegates decision-making relating to wholly-owned subsidiary businesses to the boards of the Group's principal subsidiaries, subject to specified escalation criteria that require higher-level authorisation based on the materiality of the matter concerned.

The governance relationship with the Group's majority-owned subsidiary, Nedbank Group Limited, is somewhat different from those that apply to wholly-owned subsidiaries, in recognition of its 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. Among the matters covered are:

- Transactions involving members of the Nedbank Group that require prior consultation with or agreement by the Company
- Provision of information, including that required for assuring the Company about various aspects of corporate governance
- Consultation over senior appointments
- Business co-operation.

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 at least one third of the directors (excluding those appointed by the Board during the year) should retire by rotation each year. These provisions are applied in such a manner that each director submits himself for election or re-election at regular intervals and at least once every three years.

Accordingly, at the Annual General Meeting ("**AGM**") to be held on 13 May 2010, shareholders will be asked to approve the election of Mr M Arnold and Mr P O'Sullivan, and the re-election of Mr N Andrews, Mr B Nqwababa and Mr L Otterbeck. The Board, having reviewed the performance of these directors and the contributions that they each respectively make, recommends that they be elected or re-elected as directors at the AGM. Biographical details of each of the directors who is standing for election or re-election are contained in the Board of Directors section of this document.

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 recommendations in the Board effectiveness review, scheduled retirements of non-executive directors in 2011 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). In 2009, the Board was assisted by external facilitators in its review. The results of the review are considered by the Board and appropriate actions taken, if necessary. An action plan setting out the recommendations arising from the review and tracking progress in addressing them has been agreed by the Board and will be updated and considered at Board meetings during 2010.

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 an annual performance evaluation of each of the other non-executive directors, with any resulting action points being reported to the Nomination Committee. These procedures will be 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 directors. As Mr Collins, the former Chairman, was due to retire at the end of 2009, this did not take place this year.

The assignment of responsibilities between the Chairman, Mr P O'Sullivan, and the Group Chief Executive, Mr J 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 Mr P O'Sullivan as Chairman include those contained in the Supporting Principle to paragraph A.2 of the Combined Code, namely leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda; ensuring that the directors receive accurate, timely and clear information; ensuring effective communication with shareholders; 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

Seven of the eight current non-executive directors other than the Chairman (Messrs N Andrews, M Arnold, R Bogni, R Edey, B Nqwababa, L Otterbeck and R Pym) are considered by the Board to be independent within the meaning of, and having regard to the criteria set out in, paragraph A.3.1 of the Combined 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, Mr R Khoza, is not considered independent because of his chairmanship of the Group's partly-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

Mr R Bogni is the senior independent director. 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 be inappropriate. 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 quoted securities of its subsidiaries 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 2009 and 11 March 2010.

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 31 December 2009		
Mr N Andrews	7,000	–
Mr M Arnold	12,725	–
Mr R Bogni	19,000	–
Mr P Broadley	50,625[1]	–
Mr R Edey	25,000	2,604
Mr R Khoza	–	2,062[2]
Mr B Nqwababa	–	–
Mr L Otterbeck	–	–
Mr R Pym	40,000	–
Mr J Roberts	1,500,832[1]	–

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 1 January 2009 (or date of appointment as a director, if later)		
Mr N Andrews	7,000	–
Mr M Arnold	12,725	–
Mr R Bogni	19,000	–
Mr P Broadley	–[1]	–
Mr R Edey	25,000	2,604
Mr R Khoza	–	2,062[2]
Mr B Nqwababa	–	–
Mr L Otterbeck	–	–
Mr R Pym	20,000	–
Mr J Roberts	1,089,604[2]	–
Former director (at 1 January and 31 December 2009)		
Mr C Collins	100,000	–

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 2009.

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 Mr J Roberts nor Mr P 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 committees of the Board is set out below.

Group Audit and Risk Committee

Members and years of appointment: Mr R Pym (Chairman) (2007), Mr N Andrews (2003), Mr M Arnold (2009), Mr R Bogni (2002), Mr R Edey (2004), Mr B Nqwababa (2007). Secretary and year of appointment: Mr M Murray (1999)

All members of the Group Audit and Risk Committee (the "**Committee**") are independent non-executive directors. The Chairman, Mr Pym, is a chartered accountant with a wide range of recent and relevant financial experience, being Chairman of Bradford & Bingley plc and of Northern Rock (Asset Management) plc. He was Chief Executive of the major UK banking group, Alliance & Leicester plc, until July 2007. All members of the Committee are expected to be financially literate and to have relevant corporate finance experience. The terms of reference of the Committee, which specify its responsibilities, are available on our website at www.oldmutual.com.

At its meetings during 2009, the Committee considered, among other things:

- The accounting principles, policies and practices adopted in the Group's accounts. These included the use and quantum of the liquidity premium used in valuing the bond portfolio of the Group's US life business for the purposes of MCEV reporting, the carrying value of goodwill and various proposed changes to actuarial assumptions;
- The internal audit function, including internal audit's terms of reference, reporting lines and access to the Committee and members of the Board, its plans and resources and achievement of the activities planned as part of its agreed programme for the year, the results of key audits and other significant findings, and the adequacy of management's responses and the timeliness of resolution;
- External audit, including: audit plans for the year, changes in key external audit staff in the external auditors' plan for the year, arrangements for day-to-day management of the audit relationship, the auditors' arrangements to identify, report and manage any conflicts of interest, the 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;
- Significant accounting and actuarial issues;
- Tax, litigation and contingent liabilities affecting the Group;
- Any significant findings or control issues arising from internal audits carried out around the Group; and
- Significant risks and related risk management practices across the Group,

and received and considered specific reports or presentations on:

- The Group's US life business, to satisfy itself that the right actions were being taken to manage risk within this operation, following the problems that emerged there during 2008;
- The Group's proposed response to an independent actuarial report on provisioning for guaranteed variable annuity products at Old Mutual Bermuda;
- The activities of subsidiary audit committees on a regular basis (a number of audit or audit and risk committees operated during 2009 at subsidiary level, including at Old Mutual Life Assurance Company (South Africa) Limited, Old Mutual (US) Holdings, Inc., Old Mutual US Life Holdings Inc., Skandia UK, Skandia Nordic, Skandia Europe & Latin America, Nedbank Group Limited and Mutual & Federal Insurance Company Limited, with terms of reference broadly equivalent to those of the Committee); and
- The 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 Group Governance and Control Planning meeting was held between the Chairman of the Committee and the Chairmen of the main subsidiary audit committees, the Group Internal Audit Director, the heads of internal audit of major subsidiaries, the Group Risk Director and representatives of the Group's auditors during December 2009, to co-ordinate the audit committees' activities and to review and approve the scope of internal audit plans for 2010. This included a presentation by the Company's auditors, KPMG, on the likely implications for the Group of Solvency II. Such planning meetings take place annually.

Please refer to the section later in this Report headed "Auditors" for information on our policy on auditor independence and non-audit fees and the recommendation of the Committee that the auditors be re-appointed for 2010. The Committee's role in relation to monitoring of risk is explained in more detail in the 'Internal control environment' section

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

of this report and the separate report on Risk and Capital Management earlier in this document.

The Group's whistle-blowing arrangements 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 also made to educate staff around the Group about the existence of the whistle-blowing facility and to help them detect the signs of possible fraudulent or improper activity.

The Committee holds private meetings with the external auditors once a year (or more often, if requested by the auditors) to review key issues. The Chairman of the Committee also has regular interaction with the external auditors, the Group Internal Audit Director and the Group Risk Director, as well as with the Chairmen of subsidiary audit committees and the Group Finance Director, to remain abreast of issues as they arise during the year.

From April 2010, the activities of the Group Audit and Risk Committee will be split and reassigned, in line with recommendations contained in the Walker Review, into two successor committees, the Group Audit Committee and the Board Risk Committee. Mr R Pym will continue to be Chairman of the Group Audit Committee, while Mr M Arnold will be Chairman of the Board Risk Committee. Each will be a member of the other committee so as to ensure continued close liaison about audit and risk matters.

Remuneration Committee

Members and years of appointment: Mr R Bogni (Chairman) (2005), Mr N Andrews (2002), Mr R Edey (2007), Mr R Pym (2008). Secretary and year of appointment: Mr M Murray (1999).

Details of the role and activities of the Remuneration Committee and how the Remuneration Committee and the Board have applied the main and supporting principles and the Code Provisions in Section B of the Combined 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 our website at www.oldmutual.com.

Nomination Committee

Members and years of appointment: Mr C Collins (1999, became Chairman in May 2005,) replaced by Mr P O'Sullivan with effect from January 2010, Mr N Andrews (2005), Mr R Bogni (2003), Mr R Edey (2005), Mr R Pym (2008), Mr J Roberts (2008). Secretary and year of appointment: Mr M 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 where these are material in the context of the Group as a whole. It was chaired during 2009 by the Chairman of the Board, Mr C Collins, (now replaced by Mr P O'Sullivan) and a majority of its members (four out of six) are independent non-executive directors.

The terms of reference of the Nomination Committee, which specify its responsibilities, are available on our website at www.oldmutual.com.

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 refreshing and 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 2009, the Committee identified the need to increase specialist actuarial expertise within the non-executive cadre, leading to the appointment of Mr M Arnold to the Board. A separate Chairman's Selection Committee was established, under the chairmanship of Mr R Bogni, the senior independent director, for the purpose of identifying and recommending a suitable candidate for the position of Chairman. Mr C Collins, the incumbent Chairman, was not involved in the selection or appointment of his successor. Mr P O'Sullivan was appointed to the Board as Chairman from 1 January 2010.

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 2009.

The Group Chief Executive and Group Finance Director attended all, and the Chairman attended all but one, of the Group Audit and Risk Committee meetings held during the year at the invitation of the Chairman of that Committee (but members of management were absent for the private sessions between members of that Committee and the auditors). The Group Chief Executive also attended all and the Chairman attended all but one 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 2009, fees paid by the Group to KPMG Audit Plc, the Group's auditors, and its associates totalled £11.9 million for statutory audit services (2008: £11.0 million), £0.5 million for other audit and assurance services relating to Old Mutual Market Consistent Embedded Value reporting (2008: £0.5 million), and £2.8 million for tax and other services (2008: £4.3 million). In addition to the above, Nedbank Group paid a further £2.9 million (2008: £2.6 million) to Deloitte in respect of joint audit arrangements.

The following guidelines have been approved by the Group Audit and Risk 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

	Board (scheduled and ad hoc)	Group Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings held	11	5	5	7
Mr N Andrews	10/11	5/5	5/5	7/7
Mr M Arnold	4/4	1/1	–	–
Mr R Bogni	10/11	5/5	5/5	7/7
Mr P Broadley	11/11	–	–	–
Mr R Edey	11/11	5/5	5/5	7/7
Mr R Khoza	11/11	–	–	–
Mr B Nqwababa	11/11	5/5	–	–
Mr L Otterbeck	10/11	–	–	–
Mr R Pym	10/11	5/5	5/5	7/7
Mr J Roberts	11/11	–	–	7/7
Former director				
Mr C Collins	9/11*	–	–	6/7

* Mr Collins was unable to attend the last two Board Meetings of 2009 as he was indisposed following an operation.

- 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 indirectly solicit the employment of key senior staff and management of their 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 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 Business Unit 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 £300,000 placed with the external auditors is to be subject to competitive tender and agreed by the Group Finance Director and Group Chief Executive;

- All non-audit work costing over £1 million placed with external auditors is to be approved by the Group Audit and Risk Committee;

- Cumulative fees for non-audit services in any financial quarter should not exceed £500,000 without approval of the Group Audit and Risk 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 one year without the approval of the Group Audit and Risk Committee.

KPMG Audit Plc has expressed its willingness to continue in office as auditor to the Company and, following a recommendation by the Group Audit and Risk Committee to the Board, a resolution proposing its 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, Mr Alastair Barbour, joined the audit team as a key audit director in 2005 and succeeded to his current role in 2008.

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 2009 and up to the date of approval of this Report. The process accords with the Turnbull guidance set out in 'Internal Control Guidance for Directors on the Combined 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;
- Regular reviews of the effectiveness of the system of internal control by the Group Audit and Risk Committee, which receives reports from Group Risk and Group Internal Audit. The Committee also receives reports from 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**") provides independent, objective assurance on the effectiveness of Old Mutual's systems of governance, risk management and internal control. The work of GIA is focused on the areas of greatest risk to Old Mutual as determined by a comprehensive, risk-based planning process. The Group Audit and Risk Committee ("**GARC**") 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 our wholly-owned subsidiaries report directly to the Group Internal Audit Director ("**GIAD**"). The GIAD reports functionally to the Chairman of the GARC and administratively to the Group Finance Director. The GIAD attends all meetings of the GARC, and has unrestricted access to the Group Chief Executive as well as open invitations to attend any meetings of the Business Unit Audit Committee and of the Group Executive Risk Committee.

GIA teams across Old Mutual use a single audit methodology which meets the standards set by the Institute of Internal Auditors. Issues raised by GIA during the course of their work are communicated to management, who are responsible for taking action to address the issues identified within an appropriate and agreed timeframe.

Formal reports are submitted by the GIAD to each meeting of the GARC, summarising the results of internal audit activity, management's progress in addressing issues and other significant matters.

Other Directors' Report matters

Relations with shareholders and analysts

The Company places great importance on regular, clear and direct communication with its shareholders, institutional investors and sell-side analysts.

The Chairman makes contact with major investors during the year and meets them as required. The Company has a dedicated Investor Relations team, which responds to a variety of enquiries from investors and analysts. The team also runs a programme to facilitate communication between executive management and a wide range of institutional investors worldwide within the constraints of the Listing, Prospectus, Disclosure and Transparency Rules. These investors include both debt and equity owners.

Old Mutual increased the number of investor meetings by approximately 25% to 194 in 2009

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

compared to 2008. These took place in the UK, South Africa, North America and continental Europe and generally involved one or more of the Group Chief Executive, Group Finance Director or another member of the senior management team. In 2009, the Company targeted smaller institutional investors and these who manage funds for high net worth retail clients and charities with a view to diversifying its shareholder base.

In addition, the Company presented at a number of major investor conferences around the world. It also hosted three events for institutional investors and analysts: a presentation on the Company's UK platform business, which was given by members of UK management, a presentation on Nedbank by its senior management team and a presentation by an independent analyst and economic adviser, who discussed 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 14 sell-side analysts from the UK 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 Board is updated regularly by the Investor Relations team on issues arising from any shareholder communications and from analyst research.

General Meetings

The Board uses the AGM to comment on the Group's trading performance during the first quarter of the year. 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 approval of the Report and Accounts. The chairmen of the Group Audit and Risk, Remuneration and Nomination Committees are available to answer any questions on the matters covered by these Committees at AGMs. All the directors in office at the date of the meeting attended the AGM in 2009.

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 annual base salary within five years of appointment; the equivalent figure for other executive directors is 100% of 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 2009 amounted to £3,867,555, corresponding to 40 days' payments when averaged over 2009.

Charitable contributions

The Group made a wide range of significant donations to charitable causes and social development projects during 2009, 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 £195,000 during the year (2008: £672,000).

Environmental matters
A description of the Group's environmental impact and management during 2009 is contained 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 2009 of 1.5p per share (or its equivalent in other relevant currencies). Subject to approval at the 2010 AGM, a scrip dividend alternative will also be available for eligible shareholders in relation to this dividend.

The Board intends to pursue a dividend policy consistent with the Group's new strategy and having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of a 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 2009 was £551,825,295 divided into 5,518,252,950 Ordinary Shares of 10 pence each (2008: £551,614,136 divided into 5,516,141,360 Ordinary Shares of 10 pence each). During the year ended 31 December 2009, 2,111,590 shares were issued under the Company's employee share option schemes at an average price of 91.18 pence each.

At 31 December 2009, 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 527,670,000 shares. No shares were bought back by the Company during 2009.

Out of the 5,518,252,950 shares in issue at 31 December 2009:

- 239,434,888 were held by the Company in treasury
- A total of 204,777,492 shares were held by African life subsidiaries of the Company, with 190,284,758 of these shares held on books for the benefit of the Group's South African life operations and related businesses. Under UK company law these shares cannot be voted while they are held by subsidiaries of Old Mutual plc.

The total number of voting rights in the Company's issued ordinary share capital at 31 December 2009 (which excludes the 239,434,888 shares held in treasury, but includes the shares held by the African life subsidiaries) was 5,278,818,062.

In the period 1 January to 10 March 2010, 1,200,752 further shares were issued by the Company under its employee share schemes at an average price of 93.46p each and 147,313,449 shares were issued on 8 February 2010 as consideration for the acquisition by the Company of the minority interests not already owned by the Group in Mutual & Federal Insurance Company Limited. No further shares were bought back during that period. As a result, the Company's issued share capital at 10 March 2010 had increased to £566,676,715.10 divided into 5,666,767,151 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 5,427,332,263.

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. No shares were issued for cash in 2009 disapplying pre-emption rights, and the total number of shares issued disapplying pre-emption rights 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 2010 AGM.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

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 that 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 have been repurchased by the Company since the AGM in 2009.

Amendment to the Articles of Association

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 recent company law changes are being proposed for adoption 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, mental 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 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.

Substantial interests in voting rights

At 10 March 2010, 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
Alliance Bernstein	442,093,506	8.15
Public Investment Corporation of the Republic of South Africa	307,212,664	5.66
Cevian Capital	302,103,832	5.57
Sanlam Investment Management (Pty) Limited	208,685,625	3.85
Legal & General Group Plc	203,844,712	3.76
Old Mutual Life Assurance Company (South Africa) Limited	192,049,630	3.54

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 financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Statement. In addition, section E of the notes to the financial statements 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.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS CONTINUED

The Group continues to meet Group and individual entity capital requirements and day-to-day liquidity needs through the Group's available credit facilities. The Company's existing revolving current facility of £1.25 billion does not mature until September 2012.

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 and this Directors' Report on Corporate Governance and Other Matters collectively comprise the 'directors' report' for the purposes of section 463(i)(a) of the Companies Act 2006. The Remuneration Report set out in this document 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
11 March 2010

REMUNERATION REPORT

In this section, we describe the Company's remuneration practice during 2009.

The Remuneration Committee aims to ensure that the Company's remuneration practices are aligned with good corporate governance and risk management.

Rudi Bogni
Chairman of the Remuneration Committee

I am pleased to present the annual report of the Remuneration Committee, referred to in this report as **the Committee**, 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.

The Group has shared the challenges faced by the financial services sector since the economic downturn began. The Committee continues to review incentive programmes to ensure an appropriate balance is maintained between the need for remuneration that is competitive, while ensuring that remuneration practices are aligned with good corporate governance and risk management.

Some fundamental changes in governance of the financial services sector are now in contemplation as a result of the publication in the UK of the Walker Review in November 2009. The Committee is taking steps to align with this latest review where practicable, primarily by:

- Ensuring the composition of the Committee has adequate bench strength in terms of capability to provide a deeper level of scrutiny
- Extending the Committee's responsibility for ensuring remuneration practices are aligned with shareholder interests organisation-wide
- A greater focus on high-paid executives across the broader Group who are not on the Board.

In 2009, we announced a plan to change the strategic direction of Old Mutual and accomplish a turnaround of the Group. A number of critical steps were taken during 2009 to stabilise the Group and prepare for more fundamental changes. Our Group strategy, communicated to investors in March 2010, sets out the next phase of the strategy for the Group with a number of transformational changes which will be executed over the next few years.

The change in strategy prompted the Committee to review the current executive incentive arrangements with a view to ensuring that executive remuneration is well aligned with the new strategy.

The key themes emerging from the executive remuneration review were:

1. **Short-term incentive focus.** The current arrangements require a bonus to be paid in order for there to be any long-term incentive funding. This introduces a focus on short-term performance that the Committee believes is now not consistent with current trends in the financial services sector, and is also not appropriate in the context of a transformation strategy operating over a number of years.
2. **Alignment of performance conditions with strategy**. The current performance conditions, while appropriate to a stable-state business, are not directly aligned with the Group strategy.
3. **Incentivising management appropriately.** The particular focus required over the coming strategic period for the business warrants a single focused arrangement operating over the next few years, to incentivise management to achieve the required changes.

The rationalising of the business over the next few years, as set out in our Group strategy, is fundamental to the Group's future success. This will present significant challenges to our most senior executives and accordingly the Committee has, over the last few months, overseen the revision of the Group's remuneration structure to support this new strategy. A new plan for executive directors and other key group executives is therefore proposed, which takes into account the need to retain and appropriately incentivise these individuals during this crucial period in the Company's evolution.

The background principles and details of this plan have been discussed with our largest shareholders and are also set out in the accompanying circular relating to this year's Annual General Meeting. The key elements of executive remuneration following introduction of the new plan are set out below.

Proposed structure of the remuneration of executive directors

Element	Key features	Rationale
Base salary	→ Base salaries will be frozen in 2010	→ Reflects market practice and agreed policy for 2010 in light of low inflation and shareholder expectations
Short-Term Incentive (cash and deferred element)	→ Total Short-Term Incentive (STI) remains capped at 150% of base salary → MCEV will no longer be used as a metric → Deferral into shares increased from 33% to 50% of STI	→ Higher deferral reflects developing practice in the financial services sector → Places more emphasis on Old Mutual's long-term sustainable performance and increases alignment with shareholders
New Old Mutual Strategic Incentive Plan (OMSIP)	→ No matching awards will be offered in 2010 in respect of 2009 bonus → OMSIP will replace the normal long-term incentive awards for 2010 and 2011 and will be made up of three parts (each of up to 250% of base salary) as described below → Part 1 awards will be made in 2010 to incentivise the rationalising component of strategic change (as described in Part V of the Shareholder Circular relating to the 2010 AGM) over the three-year measurement period → Part 2 awards will be made in 2010 and linked to financial performance for the period 2009 to 2012 as follows: → One half on financial performance of long-term savings business → One half on absolute total shareholder return (TSR) → Part 3 awards will be made in 2011 and linked to financial performance for the period 2010 to 2013, as follows: → One half on financial performance of long-term savings business → One half on absolute total shareholder return (TSR) → All OMSIP awards will vest subject to attainment of agreed targets after 3 years and be released 50% after 3 years and 50% after 4 years → From 2012 onwards, annual long-term awards will be aligned with appropriate targets as determined at that time after the transformation period → Clawback provisions will apply to all future share grants including deferred shares and long-term incentive awards	→ This new plan is subject to shareholder approval at the AGM on 13 May 2010 → A one-off rationalising award provides the incentivisation for management to achieve the strategic transformation of the Group → The rationalising measures provide management with clear line of sight to value drivers that are within their control, and provide the most effective way of assessing overall delivery of the strategy → The financial measures relating to the long-term savings business provide alignment and focus on ensuring that the future business is optimised during the business transformation to deliver an enhanced and profitable earnings stream → The TSR measure aligns executives with the ultimate delivery of value for shareholders → The release (50% after 3 years and 50% after 4 years) for these LTIP awards provides long-term alignment with shareholders
Pension and benefits	→ Benefit allowance unchanged from 2009 (35% of base salary)	→ Reflects the Group's emphasis on minimising pension liabilities and focusing the package for executive directors on performance-related pay

In addition to this, a Group-wide project is underway to realign executive incentive structures at a business unit level from 2010 onwards, to ensure that local incentive structures across the Group:

→ Support the Group's longer-term value-creation goals
→ Conform with new regulatory requirements as well as shareholder governance and guidance on variable pay structures and design
→ Provide more consistency in the level of reward for performance and in variable pay design
→ Enable the Group to continue to attract and retain highly talented executives at the business unit level.

The Committee recommends this report to shareholders and asks for your support for the related resolutions at the forthcoming AGM.

Rudi Bogni
Chairman of the Remuneration Committee
11 March 2010

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 2008 and 2009' on page 168 and 'Directors' interests under employee share plans' on page 175 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 179. 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), 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 (collectively "Senior Employees") in accordance with the policy
- Reviewing, monitoring and approving, or recommending for approval, the Company's share incentive arrangements and awards.

Remuneration policy for executive directors

The Company embraces the principles of the Combined Code relating to directors' remuneration and complies with its provisions. These are the guiding principles that the Committee has applied during 2009 and intends to continue to apply:

- 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, 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
- To design remuneration arrangements that will attract, retain and motivate individuals of the exceptional calibre needed to lead the Group's development.

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 has reviewed this policy and considers it to be appropriate.

The Committee has discretion to consider corporate performance on environmental, social and governance (ESG) issues when setting the remuneration of executive directors and senior management. It aims to ensure that the incentive structures for executive directors and senior management do not raise ESG risks by inadvertently motivating irresponsible behaviour. It also takes cognisance of the FSA Remuneration Code and the Walker Review recommendations (insofar as applicable to insurance groups).

Wherever it considers appropriate, the Committee seeks the views of institutional investors on any significant changes to remuneration structures applicable to the executive directors or affecting the Company's share incentive arrangements.

Membership of the Committee

The following independent non-executive directors served on the Committee during the year:

Name of non-executive director	Position	Period on the Committee
Rudi Bogni	Chairman	May 2005 to date
Nigel Andrews	Member	November 2002 to date
Russell Edey	Member	June 2007 to date
Richard Pym	Member	May 2008 to date

The Committee renewed the appointment of Alan Judes as its independent adviser for 2009, through his consultancy Strategic Remuneration. 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 for the Committee includes attending meetings of the Committee and advising the Committee in connection

with benchmarking of the total reward package for executive directors and other senior members of staff, the design of short-term incentive and long-term incentive arrangements, valuation of share options, updating the Committee on trends in compensation and governance matters and accompanying the Chairman of the Committee at meetings with shareholder representatives to discuss proposed remuneration structures. In addition, Alan Judes provided services to the Company in connection with share incentive plans and prepared communication materials for participants in the LTIP. Fees for 2009 amounted to £72,000 excluding VAT of which £20,000 excluding VAT, was in respect of the services provided to the Company.

Don Schneider and Kevin Stacey of Group HR assisted the Committee during the year. Group HR provides supporting materials for matters that come before the Committee, including comparative data and justifications for proposed salary, benefit, bonus and share awards and criteria for performance targets and appraisals against those targets. It uses the services of external advisers as necessary. The Committee Chairman has access to and regular contact with Group HR independently of the executive directors.

During 2009, the Committee met five times. The Board accepted the recommendations made by the Committee during the year without amendment. The Committee meetings were also attended by the Group Chief Executive (other than when his own remuneration was being discussed), Kevin Stacey and Chris Collins, the then Chairman of the Board. Don Schneider also attended all meetings following his appointment as HR Director. The Group Company Secretary, Martin Murray, acted as Secretary to the Committee.

The Management Remuneration Committee (MRC)

The MRC oversees executive remuneration governance 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 approves remuneration arrangements and pay review decisions recommended by subsidiary remuneration committees. It is chaired by the Group Chief Executive and comprises three members of the Group Executive Committee, including the Group Finance Director. 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 principles to ensure that the principles agreed by the Committee are properly implemented at the Group's main subsidiaries:

Principles adopted by the MRC are that remuneration must be:

- Viewed in conjunction with wider people management practices to support a consistent approach to achieving desired culture and behaviour
- Performance-related and linked to delivery against value-creating objectives
- Benchmarked to reliable and relevant market data specific to each region and sector.

In addition:

- Remuneration design should be considered a key business competence and resourced accordingly
- Incentive payments must be based on performance measures that account adequately for the risks taken in producing the profits
- Incentives must be based on objectives that reward the creation of a sustainable business and long-term value creation and should not be prejudiced by short-term objectives
- Deferrals should be linked to the realised profitability of the business on which the incentive is based
- Uncapped incentive arrangements will only be agreed if:
  - Funding of awards for bonus and long-term incentive awards is an acceptable percentage of the profit; and
  - Bonus pools have not been struck above the level at which cost and risk can be allocated
- Individual performance objectives aligned to business plans, and individual performance ratings, must be agreed annually
- Underperformance should be dealt with formally according to local policies.

Alignment with strategy and shareholders

The graph at the top of the next page shows the total shareholder return to 1 January 2010 on £100 invested in shares in Old Mutual plc on 1 January 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 Board and the Committee also consider a variety of other sector-specific comparators.

Total shareholder return for the five years to 1 January 2010

Terms of engagement of the executive directors

Directors holding executive office have service contracts with the Company. The terms of these are considered by the Committee to provide a proper balance of responsibilities and security between the parties. The Company's policy is to fix notice periods for executive directors at a maximum of 12 months. Compensation for loss of office is tailored to reflect the Company's contractual obligations and the obligation on the part of the employee to mitigate loss.

The Company can terminate the service contracts of the two executive directors, Julian Roberts and Philip Broadley, on 12 months' notice. Their current contracts are dated 23 January 2009 and 10 November 2008 respectively. If not terminated earlier, these contracts may continue until the directors attain the age of 65 (7 June 2022 for Julian Roberts and 31 January 2026 for Philip Broadley).

Neither Julian Roberts' nor Philip Broadley's contracts contain any provisions quantifying compensation payable on early termination.

Executive directors' remuneration during 2009

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 2009 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	£270,781	Paid monthly in cash – 35% of basic salary (less pension contributions).
Pension contribution	£19,719	Paid in lieu of a monthly cash payment under the benefit allowance.
Short-term incentive	£952,425	114.75% of a maximum of 150% of basic salary, to be paid half in cash and half in restricted shares under the Old Mutual plc Share Reward Plan. The short-term incentive for 2009 was based on achievement of Group financial targets, as well as delivery of individually agreed objectives.
Long-term incentive	£576,000	The value shown represents the expected value of the bonus-matching award granted under the Performance Share Plan on a two-for-one basis. Julian Roberts pledged a combination of 231,576 existing shares and 276,124 shares purchased with some of his net cash incentive paid in March 2009 under the plan.*
Other benefits	£1,933	Life cover of £1,000,000 and disability cover capped at £140,000 a year.
Restricted share release	£34,577 based on the market value of the shares at date of release	On 30 March 2009, Julian Roberts received a release of 75,578 shares held under the deferred short-term incentive restricted share award originally granted in 2006. He retained all of these shares, paying the associated income tax and employee National Insurance costs.
Share option exercise	£119,518	On 14 October 2009, Julian Roberts exercised options over 661,418 shares, originally granted on 3 March 2004 with an exercise price of £0.9525 per share. Julian Roberts sold 601,892 of these shares at a price of £1.1332 per share to pay the exercise price and income tax and National Insurance Contributions.

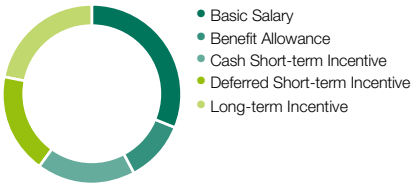
Philip Broadley, Group Finance Director

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	£660,000	120% of a maximum of 150% of basic salary to be paid half in cash and half in restricted shares under the Old Mutual plc Share Reward Plan. The short-term incentive for 2009 was based on achievement of Group financial targets, as well as delivery of individually agreed objectives.
Long-term incentive	£57,435	The value shown represents the expected value of the bonus-matching award granted under the Performance Share Plan on a two-for-one basis. Philip Broadley pledged 50,625 shares purchased using his net cash incentive paid in March 2009 under the plan.*
Other benefits	£1,933	Life cover of £1,000,000 and disability cover capped at £140,000 a year.
Restricted share grant (Joining Award)	£400,000	On 8 April 2009, Philip Broadley received a restricted share award under the Old Mutual plc Performance Share Plan over 739,372 shares. Vesting of the award is subject to the achievement of performance targets as set out on page 167.

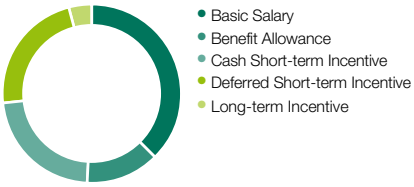
* This amount was also disclosed in the 2008 narrative because of the link to the 2008 short-term incentive plan, although the amount granted in 2008 was accounted for correctly in the Directors' interests under employee share plans table.

The following diagrams show the breakdown of the executive directors' total remuneration arrangements during 2009 (excluding restricted share award releases, option exercises and the Joining Award).

Julian Roberts



Philip Broadley



Short-term incentive targets for performance year 2009

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 for 2009 are set out in the following table.

Targets applicable to Julian Roberts' and Philip Broadley's short-term incentives for performance year 2009

	Julian Roberts		Philip Broadley	
	Potential	Achieved	Potential	Achieved
Group Targets as % of salary	112.5	81	75	54
Personal targets as % of salary	37.5	33.75	75	66
Total (as % of salary)	150	114.75	150	120
£000 incentive for period	1,245	952	825	660
Achieved incentive as % of maximum		76.5		80

The Remuneration Committee determined that a fourth metric (Capital Restructuring and Liquidity) would be added to the three set out in last year's Remuneration Report (EPS, RoAE and MCEV) for the calculation of Group targets in 2009.

Performance targets applicable to share incentives

Prior to 2009, the vesting of executive share options and, in certain cases, restricted share awards, was subject to the successful achievement of EPS-based targets as set out below.

Year of grant	Plans covered by targets	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)
2007 2008	SOP MISP RSP	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 least15% over the three-year vesting period

The Committee obtains external audit sign-off on attainment of any performance targets as part of its oversight procedures, in which KPMG Audit Plc validates the performance measurement and submits a report to the Committee advising the relative vesting of each specific award. In respect of the share options and bonus-matching restricted share awards granted in 2007, the IFRS EPS-based targets were not met and the share options and bonus-matching restricted share awards lapsed on 11 March 2010.

For bonus-matching awards and the restricted share Joining Award granted to Philip Broadley in 2009, a target of Return on Average Equity (RoAE) was added to the IFRS EPS measure so that targets for long-term incentive awards reflect the two major measures of profitability and capital management applied across the Group. Equal weight is attached to the two metrics for the vesting of any award and vesting of each is attained against the three tiers specified below. One-third of each award vests on attainment of the RoAE and EPS targets at each tier, 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:

Return on Average Equity

	Tier 1 %	Tier 2 %	Tier 3 %
RoAE required	10	11	12

Real growth in adjusted operating profit IFRS earnings per share

		Growth factor above UK RPI	
Stock Market growth*	Tier 1 %	Tier 2 %	Tier 3 %
50% +	9.0	12.0	15.0
0%	0.0	3.0	6.0

*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 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 remains open to new members. The total membership of the OMSPF, including active, deferred and pensioner members (both sections) across the Group, reported in the most recent scheme Annual Report and accounts at 31 December 2008 was 1,370.

Julian Roberts is a member of the defined contribution section of the OMSPF and during 2009 the Company contributed a total of £19,719 in lieu of an equivalent cash payment under his agreed 35% benefit allowance. The accumulated value of Julian Roberts' funds in the OMSPF was £247,403 at 31 December 2009 (£182,390 at 31 December 2008). Philip Broadley does not participate in any employer-provided pension scheme of the Group.

Directors' emoluments for 2008 and 2009

Remuneration for the year ended 31 December 2009 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. (USLIFE) and Nedbank Group Limited (Nedbank), where relevant – was as follows:

	Salary and Fees		Bonus		Benefits and benefit allowance[1]		Pension		Total	
	£000 **2009**	£000 2008	£000 **2009**	£000 2008	£000 **2009**	£000 2008	£000 **2009**	£000 2008	£000 **2009**	£000 2008
Chairman										
Chris Collins	**297**[2]	300	**–**	–	**–**	24	**–**	–	**297**	324
Executive directors										
Philip Broadley	**550**	78	**660**[3]	72[3,4]	**193**	27	**–**	–	**1,403**	177
Julian Roberts	**830**	617	**952**[3]	489[3,4]	**303**	196	**20**[5]	20[5]	**2,105**	1,322
Non-executive directors										
Mike Arnold	**22**	–	**–**	–	**–**	–	**–**	–	**22**	–
Nigel Andrews	**111**[6]	104[6]	**–**	–	**–**	7	**–**	–	**111**	111
Rudi Bogni	**80**	79	**–**	–	**–**	12	**–**	–	**80**	91
Russell Edey	**69**	69	**–**	–	**–**	–	**–**	–	**69**	69
Reuel Khoza	**305**[7]	251[7]	**–**	–	**–**	–	**–**	–	**305**	251
Bongani Nqwababa	**65**	65	**–**	–	**–**	–	**–**	–	**65**	65
Lars Otterbeck	**176**[8]	174[8]	**–**	–	**–**	11	**–**	–	**176**	185
Richard Pym	**89**	83	**–**	–	**–**	16	**–**	–	**89**	99
Total emoluments	**2,594**	1,820	**1,612**	561	**496**	293	**20**	20	**4,722**[9]	2,694

1 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.
2 Chris Collins sacrificed £3,000 to pay for chauffeur services.
3 The total short-term incentive for the 2008 performance year was payable two-thirds in cash and one-third in the form of a restricted share award. For 2009, the short-term incentive is payable 50% in cash and 50% in the form of a restricted share award.
4 Julian Roberts pledged existing shares to the value of £129,175 and used £154,025 from his net cash short-term 2008 incentive to purchase Old Mutual plc shares in order to secure a bonus-matching award for the 2008 performance year. Philip Broadley used his entire net cash 2008 short-term incentive to purchase Old Mutual plc shares to secure a bonus-matching award for the 2008 performance year.
5 The Company made pension contributions in lieu of an equivalent cash payment under Julian Roberts' benefit allowance.
6 Includes fees of £41,520 (2009) and £35,000 (2008) from OMUSH and USLIFE.
7 Includes fees of £250,482 (2009) and £196,000 (2008) from Nedbank.
8 Includes fees of £121,093 (2009) and £119,000 (2008) from Skandia.
9 The prior-year comparative number as published in the Remuneration Report for 2008 was £4,546,000 which included £1,852,000 paid to former executive and non-executive directors.

The executive directors who held office during 2009 were required to waive fees for non-executive directorships held in subsidiary companies totalling £2,000 during the year ended 31 December 2009 (2008: £15,000) in favour of the Company or its subsidiaries. These waivers are expected to remain in force in the future.

Executive directors' remuneration in 2010

There has been no change to the executive directors' basic salaries or benefit allowances from those that applied in 2009.
The short-term incentive is now payable 50% in cash and 50% in the form of a restricted share award and, subject to shareholder approval at the 2010 AGM, it is proposed that the long-term incentive award will be replaced with the Old Mutual Strategic Incentive Plan as described below.

Julian Roberts, Group Chief Executive

Element	Quantum	Additional information
Basic salary	£830,000 p.a.	Paid monthly in cash. Not increased since January 2009.
Benefit allowance	£290,500 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Short-term incentive	£1,245,000 (maximum)	Maximum of 150% of basic salary payable half in cash and half deferred for three years in restricted shares under the Old Mutual plc Share Reward Plan. The short-term incentive for 2010 will be based on achievement of Group financial targets as well as delivery of individually agreed objectives.
Long-term incentive	£1,660,000 (based on the annualised expected value of the maximum award after discounting by 40% for the impact of performance targets)	The Old Mutual Strategic Incentive Plan – see below.
Maximum for 2010	£4,025,500	

Philip Broadley, Group Finance Director

Element	Quantum	Additional information
Basic salary	£550,000 p.a.	Paid monthly in cash. Not increased since November 2008.
Benefit allowance	£192,500 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Short-term incentive	£825,000 (maximum)	Maximum of 150% of basic salary payable half in cash and half deferred for three years in restricted shares under the Old Mutual plc Share Reward Plan. The short-term incentive for 2010 will be based on achievement of Group financial targets as well as delivery of individually agreed objectives.
Long-term incentive	£1,100,000 (based on the annualised expected value of the maximum award after discounting by 40% for the impact of performance targets)	The Old Mutual Strategic Incentive Plan – see below.
Maximum for 2010	£2,667,500	

The Old Mutual Strategic Incentive Plan

The Old Mutual Strategic Incentive Plan (OMSIP) will replace the long-term incentive awards for the executive directors and certain other senior members of management for 2010 and 2011 (the matching plan is discontinued and in particular 2010 Matching Awards in respect of the 2009 bonus will not be made). The normal maximum award level under the plan will be 250% of salary per annum. To align management strongly with shareholders during the transformation phase and to further incentivise strategic change, an additional one-off award of 250% of salary will be made in 2010. The 2010 and the 2011 annual awards will be linked to the financial targets agreed for the transformation period. Normal awards will recommence in 2012. Subject to attainment of the agreed targets, all the awards under the OMSIP will vest in two equal parts, three and four years from the dates of grant.

If the plan is approved at the Annual General Meeting on 13 May 2010, it is envisaged that awards under the OMSIP will be made as soon as practicable thereafter.

The one-off award relating to the strategic change will be released 50% in 2013 and 50% in 2014 subject to performance as measured against rationalising objectives, described below.

The annual awards for 2010 and 2011 will be released 50% after year three and 50% after year four subject to the following performance targets:

- one half of the award will be subject to the financial performance of the Long-Term Savings business post-restructuring
- one half of the award will be subject to absolute Total Shareholder Return (TSR) targets.

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 targets for the OMSIP award are set out below.

Rationalising Objective

The Committee will require the executive directors to rationalise the Group by achieving initiatives in accordance with and supportive of the Group strategy statement. These performance conditions were chosen to focus the attention of management on achieving the strategy that has been adopted by the entire Board for rationalising the business.

The Board has identified a set of initiatives which relate to the restructuring of the business and has set expectations for what is required under each of these initiatives. At an appropriate time in the planning stage for each initiative, the Committee, in consultation with the Board, will set more detailed targets for what satisfactory performance through to exceptional performance means in relation to each initiative.

The Committee will measure the outcome based on the agreed performance levels at the point the initiative is achieved (this could be at any time during the measurement period). Comprehensive retrospective disclosure and explanation of vesting decisions will be provided annually in the following Remuneration Report. The assessment made by the Committee will be by reference to the pre-determined targets, and will take into account the quality of execution, in particular in relation to risk and sustainability.

Component	Objective	Measurements
Significant Rationalising Initiatives	Rationalise the Group by achieving strategic initiatives in accordance with the Group 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 rationalising

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 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. Outcomes will be disclosed in the Remuneration Report in the year following the achievement of objectives. The Committee has chosen these methods because of the commercial sensitivity of disclosing more than summary information in advance and because it gives the Committee the time and discretion to judge performance with the benefit of additional information emerging during the whole of the performance period.

Financial Objectives

1. Financial performance of the Long-Term Savings Business

The financial metrics within the OMSIP are intended to provide an incentive based on a selection of key financial measures that best reflect the financial performance and success of the business over the performance period. The chosen measures balance profitability, returns and scale growth:

	Vesting %	Cumulative Growth in IFRS AOP[1]	Return on Equity[2]	Annual compound growth in 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

2. Absolute TSR

TSR will be measured on an absolute basis, 50% in ZAR and 50% in GBP and will be averaged at the start (Q4) and end (Q4) 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 vesting 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 considered the use of a relative TSR measure, but believes that absolute TSR reflects a fairer measure of shareholder value, given the current circumstances of the Group. Relative TSR is undermined by the difficulties of finding a relevant peer group for Old Mutual given:

- The South African weighting of the business and the shortage of comparably sized South African peers
- Currency issues arising from Old Mutual's particular geographic spread
- The current business mix of insurance, asset management, and banking
- The envisaged strategic transformation of the Group during the measurement period.

Short-term incentive targets for performance year 2010

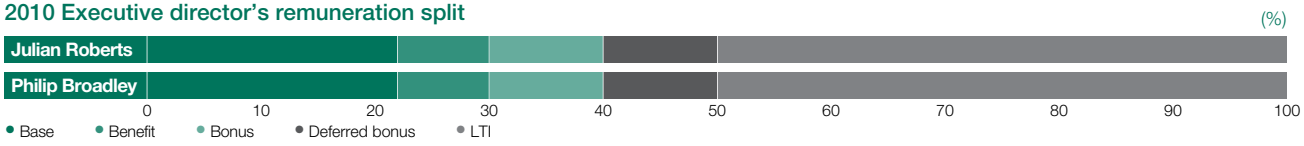
The respective weightings attached to the Group metrics shown as a percentage of base salary for the executive directors' short-term incentive for 2010 are as follows:

Metric	Mr J Roberts Group %	Mr P 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 and risk functions. The financial elements of his bonus therefore have a lower weighting than line management executives and more emphasis is placed on personal objectives.

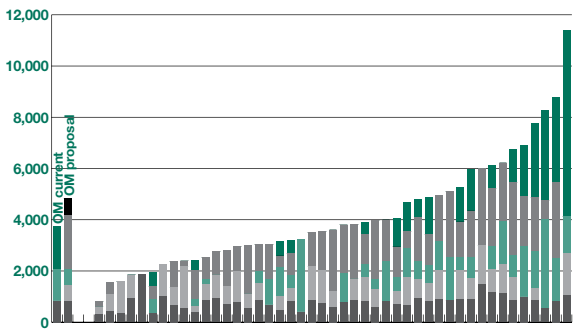
The following chart depicts the overall make-up of the executive directors' respective remuneration packages for 2010, assuming on-target (rather than maximum) delivery on short-term incentives and an expected value for long-term incentives.

2010 Executive director's remuneration split



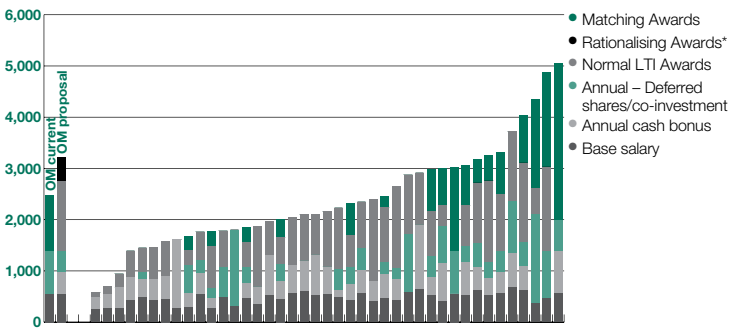
Maximum face value of pay and incentives for Julian Roberts

(£000) as compared against CEOs of the FTSE26-75 (full year incumbents)



Maximum face value of pay and incentives for Philip Broadley

(£000) as compared against CFOs of the FTSE26-75 (full year incumbents)



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 PWC.
*The one-time Rationalising Award is annualised over the 3-year rationalising period.

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 2009
Performance Share Plan – share options and restricted shares (PSP)	In 2009, the purpose of the PSP was to grant share options and/or restricted shares as long-term incentive awards under a bonus-matching arrangement to qualifying senior employees. If an employee disposes of the personal shares to which the matching option or restricted share award relates, the matching option and/or restricted share award will lapse pro-rata to the number of personal shares disposed of. From 2010 onwards, the PSP will be used to grant awards in respect of the Old Mutual Strategic Incentive Plan. Shares held under option or award cannot be transferred, assigned, charged or otherwise disposed of prior to exercise, except on death, and the awards would lapse on any attempt to do so.	16,947,482
Share Reward Plan – share options and restricted shares (SRP)	The purpose of the SRP is to grant share options and/or restricted shares as deferred short-term incentives (DSTI) or joining awards to qualifying senior employees. DSTI grants are phased annually so that no undue incentive arises in relation to any year of maturity. Shares held under option or award cannot be transferred, assigned, charged or otherwise disposed of prior to exercise, except on death, and the awards would lapse on any attempt to do so.	17,738,440
2008 Sharesave Plan (SAYE)	The purpose of the SAYE is to provide a savings and investment opportunity for employees of the Group's participating businesses in the UK, Guernsey, Jersey and the Isle of Man, which encourages share ownership at all levels. Options will be granted for three- or five-year periods at a discount of up to 20% from the market price during a reference period shortly before the date of grant. Shares held under option cannot be transferred, assigned, charged or otherwise disposed of prior to exercise, except on death, and the option would lapse on any attempt to do so.	34,504,812
Share Option and Deferred Delivery Plan (SOP)	The purpose of the SOP (which is now closed to new awards) was to grant share options as short-term or long-term incentives to qualifying senior employees. Grants were phased annually so that no undue incentive arose in relation to any year of maturity. Shares held under option cannot be transferred, assigned or charged prior to exercise, except on death, and the option would lapse on any attempt to do so.	24,028,728
Restricted Share Plan (RSP)	The purpose of the RSP (which is now closed to new awards) was: (i) to assist in the recruitment of key individuals by making awards of shares, restricted for three or more years, which lapse on prior termination of employment unless special circumstances apply; and (ii) to support retention of key talent by (a) contingent share awards that form the deferred element of an annual incentive award, based on performance evaluation for the prior year; and (b) bonus matching awards. Shares held under award cannot be sold, transferred, pledged, assigned, or otherwise disposed of prior to vesting, except on death, and the awards would lapse on any attempt to do so.	7,987,654
UK Sharesave Plan (Sharesave)	The purpose of Sharesave (which is now closed to new awards) was to provide a savings and investment opportunity for employees of the Group's participating UK businesses, which encouraged share ownership at all levels. Options were granted for three- or five-year periods at a discount of up to 20% from the market price during a reference period shortly before the date of grant. Shares held under option cannot be transferred, assigned or charged prior to exercise, except on death, and the option would lapse on any attempt to do so.	797,898

Name of Plan	Description	Shares under award or option at 31 December 2009
The OMSA Broad-Based Employee Share Plan	This 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 shares for all permanent staff of those businesses who were not in any of the Company's other share schemes, through a one-off award of shares. Grants of share awards in connection with the South African BEE transactions were made in October 2005 and in connection with Namibian BEE transactions in April 2007. There is currently no intention for further awards to be made to South African or Namibian employees under this plan. During the restricted period, a participant may not dispose of or transfer any of his or her restricted shares or any interest in them.	5,250,344
The OMSA Senior Black Management Share Plan (SBP)	The purpose of the SBP is to help Old Mutual South Africa and Old Mutual Namibia to attract and retain senior black managers in light of the increased competition for talented and experienced black management. It provides for the award of restricted shares and the grant of share options. Grants are made in addition to the normal annual share incentive allocations under the OMSA Management Incentive Share Plan described below. 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. During the restricted period, a participant may not dispose of or transfer any of his restricted shares or any interest in them.	20,346,564
The OMSA Management Incentive Share Plan (MISP)	The purpose of the MISP is to attract, retain and reward senior and middle management at Old Mutual South Africa and Old Mutual Namibia. It provides for awards of both restricted shares and share options on similar terms to the SRP, SOP and RSP. 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. During the restricted period, a participant may not dispose of or transfer any of his restricted shares or any interest in them.	95,136,175
Total shares held under award or option at 31 December 2009		**222,738,097**

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 and awards granted under the RSP would vest in full
- Options granted under the MISP 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 and the OMSA Broad-Based Employee Share Plan would vest in full
- Options and restricted share awards granted under the OMSA Senior Black Management Share Plan would vest in full
- 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 current share incentive schemes, including how discretion is exercised and the grant levels currently applicable, and considers these to be appropriate to the Company's current 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 2009, 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	1,552,369
Old Mutual plc Employee Share Trust[2]	Guernsey	18,959,521
OMN Broad-Based Employee Share Trust[3]	Namibia	904,224
OMN Management Incentive Trust[3]	Namibia	2,234,800
OMSA Broad-Based Employee Share Trust[4]	South Africa	28,705,690
OMSA Management Incentive Trust[4]	South Africa	82,505,037
OMSA Share Trust[4]	South Africa	23,048,439
Total		157,910,080

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 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.
3 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 OMSA Senior Black Management Share Plan, while the OMN Management Incentive Trust holds shares for Namibian awards under the OMSA MISP. Awards to white employees in Namibia under the OMSA MISP are settled by the OMSA Share Trust.
4 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 OMSA Senior Black Management Share Plan, while the OMSA Management Incentive Trust holds shares for the OMSA MISP. Awards to white employees under the OMSA MISP and all awards that have been granted to South African and Namibian employees under the restricted share plan and share option and deferred delivery plan 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 and the OMN Management Incentive 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 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 2009, the Company had 2.14% of share capital available under the 5% in five years limit applicable to discretionary share incentive schemes and 5.55% of share capital available under the 10% in 10 years limit applicable to all share incentive schemes. The issued share capital figure used for this calculation has not been reduced to reflect shares bought back into treasury by the Company.

Subsidiaries' share incentive schemes

The Company's separately-listed subsidiaries, Nedbank Group Limited and Mutual & Federal Insurance Company Limited (whose listing came to an end in February 2010 when it became wholly owned by the Old Mutual Group), have their own share incentive schemes, which are under the control of the Remuneration Committees of their respective boards and are not further addressed in this Report. None of the past or present 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 2009 in favour of the executive directors under the employee share schemes described in the 'Employee share plans' section above. Those granted during 2009 are highlighted in bold and those vested, released, exercised or lapsed during 2009 are shown in italics:

Award type and plan	Reason for award	Performance targets to be met	Grant Date	At 1 Jan 09	Granted	Exercised, Released, Lapsed	At 31 Dec 09	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	57.00	–	–	10-Nov-11	10-Nov-14
Total				**1,315,789**	**–**	**–**	**1,315,789**					
Shares (SRP)	**DSTI**	**No**	**8-Apr-09**	**–**	**44,235**[1]	**–**	**44,235**	**–**	**–**	**–**	**8-Apr-12**	**8-Apr-12**
Total				**–**	**44,235**	**–**	**44,235**					
Option (PSP)	**Match**	**Yes**	**8-Apr-09**	**–**	**442,357**[1,2,3]	**–**	**442,357**	**54.10**	**–**	**–**	**8-Apr-12**	**8-Apr-15**
Total				**–**	**442,357**	**–**	**442,357**					
Shares (PSP)	**Match**	**Yes**	**8-Apr-09**	**–**	**85,805**[2,3]	**–**	**85,805**	**–**	**–**	**–**	**8-Apr-12**	**8-Apr-12**
	Joining	**Yes**	**8-Apr-09**	**–**	**739,372**[1,2]	**–**	**739,372**	**–**	**–**	**–**	**8-Apr-12**	**8-Apr-12**
Total				**–**	**825,177**	**–**	**825,177**					
Julian Roberts												
Shares (SRP)	**DSTI**	**No**	**8-Apr-09**	**–**	**301,594**[1]	**–**	**301,594**	**–**	**–**	**–**	**8-Apr-12**	**8-Apr-12**
Total					**301,594**	**–**	**301,594**					
Option (PSP)	**Match**	**Yes**	**8-Apr-09**	**–**	**4,436,229**[1,2,3]	**–**	**4,436,229**	**54.10**	**–**	**–**	**8-Apr-12**	**8-Apr-15**
Total					**4,436,229**	**–**	**4,436,229**					
Shares (PSP)	**Match**	**Yes**	**8-Apr-09**	**–**	**860,508**[2,3]	**–**	**860,508**	**–**	**–**	**–**	**8-Apr-12**	**8-Apr-12**
Total					**860,508**	**–**	**860,508**					
Option (SOP)	*LTI*	*Yes*	*26-Feb-03*	*645,406*	–	*645,406*[4]	–	*86.25*	–	–	–	–
	LTI	*Yes*	*3-Mar-04*	*661,418*	–	*661,418*[5]	–	*95.25*	*113.32*	*119,518*	14-Oct-09	–
	LTI	Yes	26-Apr-05	304,348	–	–	304,348	126.50	–	–	26-Apr-08	26-Apr-11
	LTI	*Yes*	*29-Mar-06*	*239,295*	–	*239,295*[6]	–	*198.50*	–	–	–	–
	LTI	Yes	30-Mar-07	307,504	–	–	307,504[7]	162.60	–	–	30-Mar-10	30-Mar-13
	LTI	Yes	3-Apr-08	426,137[8]	–	–	426,137	123.20	–	–	3-Apr-11	3-Apr-14
Total				**2,584,108**	**–**	**1,546,119**	**1,037,989**			**119,518**		
Shares (RSP)	*DSTI*	*No*	*29-Mar-06*	*75,578*	–	*75,578*[9]	–	–	*45.80*	*34,577*	*30-Mar-09*	–
	Match	*Yes*	*29-Mar-06*	*118,976*	–	*118,976*[6]	–	–	–	–	–	–
	DSTI	No	30-Mar-07	90,812	–	–	90,812	–	–	–	30-Mar-10	30-Mar-10
	Match	Yes	30-Mar-07	143,766	–	–	143,766[7]	–	–	–	30-Mar-10	30-Mar-10
	DSTI	No	3-Apr-08	93,104	–	–	93,104	–	–	–	3-Apr-11	3-Apr-11
	Match	Yes	3-Apr-08	186,661[8]	–	–	186,661	–	–	–	3-Apr-11	3-Apr-11
Total				**708,897**	**–**	**194,554**	**514,343**			**34,577**		
Option SAYE		No	9-Apr-09	–	48,906	–	48,906	32.00[10]	–	–	1-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 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.

3 The number of shares awarded under the RSP bonus match on 8 April 2009 was calculated by reference to a price of 0.55781p per share, being the price at which the matching shares were acquired by the Old Mutual plc Employee Share Trust.

4 Unexercised options granted on 26 February 2003 expired on 26 February 2009, six years after the date of grant.

5 On 14 October 2009 Julian Roberts exercised share options originally granted on 3 March 2004 over 661,418 shares. Julian Roberts sold 601,892 of these shares to cover the costs of exercise and the income tax and employee's National Insurance contribution liabilities and retained 59,526 shares.

6 As a result of the MCEV EPS-based performance targets not being met, the options and bonus-matching restricted share awards granted on 29 March 2006 lapsed on 4 March 2009.

7 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.

8 Subject to the fulfilment of performance targets prescribed by the Committee, under which options and bonus-matching restricted shares granted in 2008 are subject to a sterling-denominated EPS performance target requiring growth in IFRS EPS to exceed growth in UK RPI by at least 9% over the three-year vesting period.

9 On 30 March 2009, 75,578 shares were released to Julian Roberts in respect of the 2006 deferred short-term incentive restricted share award. Julian Roberts retained all shares.

10 The SAYE option price was determined as 20% 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 109.2p at 31 December 2009 and ranged from a low of 30.8p to a high of 121.3p during 2009.

Executive directors' shareholding requirements

The 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 annual base salary within five years of appointment; the equivalent figure for the other executive director is 100% of annual base salary. For the purposes of the calculations, unvested restricted share awards are excluded.

The following table shows Old Mutual plc shares held by the executive directors at 31 December 2009 (including holdings by 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 2009	Date by which holding must be achieved
Julian Roberts	1,140,110	1,500,832	September 2013
Philip Broadley	503,664	50,625	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 2009, namely 109.2p.

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 2009 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	1,500,832	1,638,909	485,510	530,177	–	–	2,169,086	261%
Philip Broadley	50,625	55,283	44,235	48,305	1,315,789	686,842	790,430	144%

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

Chris Collins retired as Chairman on 31 December 2009. His replacement, 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 given at any time by either the Company or Patrick O'Sullivan, (b) his being duly re-elected at any intervening Annual General Meetings, and (c) the provisions of the Company's Articles of Association relating to the removal of directors, Patrick O'Sullivan's appointment may continue until his 70th birthday, namely 15 April 2019.

The other eight 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 June 2002	1 June 2008	3rd	1 June 2011
Mike Arnold	1 Sep 2009	1 Sep 2009	1st	1 Sep 2012
Rudi Bogni	1 Feb 2002	1 Feb 2008	3rd	1 Feb 2011
Russell Edey	24 June 2004	24 June 2007	2nd	24 June 2010
Reuel Khoza	27 Jan 2006	27 Jan 2009	2nd	27 Jan 2012
Bongani Nqwababa	1 April 2007	1 April 2007	1st	1 April 2010
Lars Otterbeck	14 Nov 2006	14 Nov 2009	2nd	14 Nov 2012
Richard Pym	1 Sep 2007	1 Sep 2007	1st	1 Sep 2010

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)
- Not linked to share price or Company performance.

The annual fees for the Chairman and for other non-executive roles for 2009 and 2010 are set out below:

	2009 £	2010 £
Chairman	300,000	350,000

	2009 and Q1 2010 £
Non-executive directors	
→ Base Fee	55,000
→ Senior independent director additional fee	3,000
Additional fees payable for Committees	
Group Audit & Risk Committee	
→ Chairman	30,000
→ Member	10,000
Remuneration Committee	
→ Chairman	12,000
→ Member	4,000

	2010 (effective from 1 April 2010) £
Non-executive directors	
→ Base Fee	55,000
→ Senior independent director additional fee	10,000
Additional fees payable for Committees	
Group Risk Committee	
→ Chairman	25,000
→ Member	8,000
Group Audit Committee	
→ Chairman	30,000
→ Member	10,000
Remuneration Committee	
→ Chairman	20,000
→ Member	6,000
Nomination Committee	
→ Member	3,000

None of the non-executive directors of the Company (including the Chairman) contributed to any Group pension fund during 2009 or had any accrued pension fund benefits in any Group pension fund at 31 December 2009.

Shareholder approval of the Remuneration Report

An advisory vote on the Remuneration Report will be put to shareholders at the AGM on 13 May 2010.

Rudi Bogni
Chairman of the Remuneration Committee,
On behalf of the Board
11 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 judgments 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 complies 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
11 March 2010

Philip Broadley
Group Finance Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OLD MUTUAL PLC

For the year ended 31 December 2009

We have audited the financial statements of Old Mutual plc for the year ended 31 December 2009 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. 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. We have audited the Reconciliation of adjusted operating profit to Profit after tax which has been prepared on the basis as set out on page 182.

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 178, 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 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 web-site at www.frc.org.uk/apb/scope/UKP.

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 2009 and of the Group's profit 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 178, in relation to going concern; and
- the part of the Corporate Governance Statement on page 146 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Alastair W S Barbour (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square London EC4Y 8BB
11 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Revenue			
Gross earned premiums	B3	**3,820**	5,156
Outward reinsurance		**(369)**	(335)
Net earned premiums		**3,451**	4,821
Investment return (non-banking)	D2	**11,616**	(11,578)
Banking interest and similar income	D3	**3,989**	4,059
Banking trading, investment and similar income	D4	**168**	162
Fee and commission income, and income from service activities	D5	**2,422**	2,313
Other income		**202**	270
Total revenues		**21,848**	47
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(5,069)**	(3,610)
Reinsurance recoveries		**328**	262
Net claims and benefits incurred		**(4,741)**	(3,348)
Change in investment contract liabilities		**(8,345)**	10,051
Losses on loans and advances		**(511)**	(319)
Finance costs	D6	**(322)**	392
Banking interest payable and similar expenses	D7	**(2,627)**	(2,853)
Fee and commission expenses, and other acquisition costs	D8	**(806)**	(937)
Other operating and administrative expenses	D9	**(3,139)**	(2,834)
Goodwill impairment	C1(b)	**(266)**	(74)
Change in third party interest in consolidated funds		**(470)**	779
Amortisation of PVIF and other acquired intangibles	C1(b)	**(326)**	(361)
Total expenses		**(21,553)**	496
Share of associated undertakings' profit/(loss) after tax	G5(b)	**2**	(1)
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(50)**	53
Profit before tax		**247**	595
Income tax (expense)/credit	D1(a)	**(365)**	88
(Loss)/profit after tax for the financial year		**(118)**	683
Attributable to			
Equity holders of the parent		**(340)**	441
Non-controlling interests			
Ordinary shares	F11(a)	**158**	188
Preferred securities	F11(a)	**64**	54
(Loss)/profit after tax for the financial year		**(118)**	683
Earnings per share			
Basic earnings per ordinary share (pence)	C3(a)	**(7.8)**	8.6
Diluted earnings per ordinary share (pence)	C3(a)	**(7.8)**	8.1
Weighted average number of shares – millions		**4,758**	4,755

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
(Loss)/profit after tax for the financial year		**(118)**	683
Other comprehensive income for the financial year			
Fair value (losses)/gains			
Property revaluation		**(10)**	16
Net investment hedge		**(41)**	281
Available-for-sale investments			
Fair value gains/(losses)		**1,087**	(1,635)
Recycled to the income statement		**239**	414
Shadow accounting		**27**	26
Currency translation differences/exchange differences on translating foreign operations		**302**	429
Other movements		**21**	68
Income tax relating to components of other comprehensive income	D1(c)	**(397)**	366
Total other comprehensive income for the financial year		**1,228**	(35)
Total comprehensive income for the financial year		**1,110**	648
Attributable to			
Equity holders of the parent		**709**	305
Non-controlling interests			
Ordinary shares		**334**	299
Preferred securities		**67**	44
Total comprehensive income for the financial year		**1,110**	648

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO PROFIT AFTER TAX

For the year ended 31 December 2009

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Core operations			
Long Term Savings	B2	**685**	452
Nedbank	B2	**470**	575
M&F	B2	**70**	76
USAM	B2	**83**	97
		1,308	1,200
Finance costs		**(104)**	(140)
Long term investment return on excess assets		**91**	108
Interest payable to non-core operations – Bermuda		**(40)**	–
Other shareholders' expenses		**(85)**	(32)
Adjusted operating profit		**1,170**	1,136
Adjusting items	C1(a)	**(1,137)**	60
Non core operations – Bermuda		**22**	(365)
Profit before tax (net of policyholder tax)		**55**	831
Income tax attributable to policyholder returns	B2	**192**	(236)
Profit before tax		**247**	595
Total income tax (expense)/credit	D1(a)	**(365)**	88
(Loss)/profit after tax for the financial year		**(118)**	683

Adjusted operating profit after tax attributable to ordinary equity holders

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Adjusted operating profit		**1,170**	1,136
Tax on adjusted operating profit	D1(d)	**(292)**	(86)
Adjusted operating profit		**878**	1,050
Non-controlling interests – ordinary shares	F11(a)	**(181)**	(218)
Non-controlling interests – preferred securities	F11(a)	**(64)**	(54)
Adjusted operating profit after tax attributable to ordinary equity holders		**633**	778
Adjusted weighted average number of shares – (millions)	C3(a)	**5,229**	5,230
Adjusted operating earnings per share – (pence)	C3(b)	**12.1**	14.9

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, 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. Bermuda, which is non-core, is 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 2009

	Notes	At 31 December £m 2009	At 31 December £m 2008
	A1		Restated
Assets			
Goodwill and other intangible assets	F1	**5,159**	5,882
Mandatory reserve deposits with central banks		**882**	734
Property, plant and equipment	F2	**828**	682
Investment property	F3	**1,759**	1,478
Deferred tax assets	F8	**570**	1,590
Investments in associated undertakings and joint ventures	G5	**135**	111
Deferred acquisition costs	F4	**3,138**	3,199
Reinsurers' share of life assurance policyholder liabilities	E8	**1,296**	1,148
Reinsurers' share of general insurance liabilities	E8	**120**	115
Deposits held with reinsurers	E8	**146**	164
Loans and advances	E3	**42,393**	35,745
Investments and securities	E4	**98,461**	83,522
Current tax receivable		**169**	118
Client indebtedness for acceptances		**170**	220
Trade, other receivables and other assets	F5	**3,051**	3,137
Derivative financial instruments – assets	E6	**2,546**	3,228
Cash and cash equivalents		**2,982**	3,203
Non-current assets held-for-sale		**1**	7
Total assets		**163,806**	144,283
Liabilities			
Life assurance policyholder liabilities	E8	**93,876**	81,269
General insurance liabilities	E8	**372**	344
Third party interests in consolidated funds		**2,906**	2,591
Borrowed funds	E9	**3,309**	2,295
Provisions	F6	**263**	477
Deferred revenue	F7	**654**	598
Deferred tax liabilities	F8	**905**	1,452
Current tax payable		**210**	219
Trade, other payables and other liabilities	F9	**4,305**	4,074
Liabilities under acceptances		**170**	220
Amounts owed to bank depositors	E10	**44,135**	38,171
Derivative financial instruments – liabilities	E6	**1,990**	2,990
Non-current liabilities held-for-sale		**–**	6
Total liabilities		**153,095**	134,706
Net assets		**10,711**	9,577
Shareholders' equity			
Equity attributable to equity holders of the parent	F10	**8,464**	7,737
Non-controlling interests			
Ordinary shares	F11(b)	**1,537**	1,147
Preferred securities	F11(b)	**710**	693
Total non-controlling interests		**2,247**	1,840
Total equity		**10,711**	9,577

The consolidated financial statements on pages 180 to 320 were approved by the Board of Directors on 11 March 2010.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
		Restated
Cash flows from operating activities		
Profit before tax	**247**	595
Capital (gains)/losses included in investment income	**(9,762)**	14,183
Loss on disposal of property, plant and equipment	**1**	3
Depreciation of property, plant and equipment	**86**	74
Amortisation and impairment of goodwill and other intangible assets	**648**	504
Impairment of loans and receivables	**770**	320
Share-based payment expense	**21**	21
Share of associated undertakings' (profit)/loss after tax	**(2)**	1
Loss/(profit) arising on disposal of subsidiaries, associated undertakings and strategic investments	**50**	(53)
Other non-cash amounts in profit	**(465)**	(294)
Non-cash movements in profit before tax	**(8,653)**	14,759
Reinsurers' share of life assurance policyholder liabilities	**(148)**	486
Reinsurers' share of general insurance liabilities	**(5)**	(49)
Deferred acquisition costs	**62**	(370)
Loans and advances	**(6,589)**	(5,206)
Insurance liabilities	**(652)**	282
Investment contracts	**13,163**	(10,260)
Amounts owed to bank depositors	**5,964**	6,110
Other operating assets and liabilities	**(1,798)**	(3,901)
Changes in working capital	**9,997**	(12,908)
Taxation paid	**(373)**	(458)
Net cash inflow from operating activities	**1,218**	1,988
Cash flows from investing activities		
Net acquisitions of financial investments	**(2,674)**	(1,170)
Acquisition of investment properties	**(82)**	(145)
Proceeds from disposal of investment properties	**57**	13
Acquisition of property, plant and equipment	**(138)**	(99)
Proceeds from disposal of property, plant and equipment	**29**	11
Acquisition of intangible assets	**(43)**	(18)
Acquisition of interests in subsidiaries	**(5)**	(93)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**40**	1,138
Net cash outflow from investing activities	**(2,816)**	(363)
Cash flows from financing activities		
Dividends paid to		
Equity holders of the Company	**–**	(352)
Non-controlling interests and preferred security interests	**(190)**	(208)
Interest paid (excluding banking interest paid)	**(57)**	(87)
Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)	**100**	31
Net sale of treasury shares	**38**	5
Shares repurchased in buyback programme	**–**	(175)
Issue of subordinated and other debt	**1,049**	374
Subordinated and other debt repaid	**(441)**	(225)
Net cash inflow/(outflow) from financing activities	**499**	(637)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 continued

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
		Restated
Net (decrease)/increase in cash and cash equivalents	**(1,099)**	988
Effects of exchange rate changes on cash and cash equivalents	**160**	399
Cash and cash equivalents at beginning of the year	**4,983**	3,596
Cash and cash equivalents at end of the year	**4,044**	4,983
Consisting of		
Coins and bank notes	**263**	221
Money at call and short notice	**2,412**	2,794
Balances with central banks (other than mandatory reserve deposits)	**307**	188
Cash and cash equivalents in the statement of financial position	**2,982**	3,203
Mandatory reserve deposits with central banks	**882**	734
Short term cash balances held in policy holder funds	**897**	2,043
Cash and cash equivalents subject to consolidation of funds	**(717)**	(997)
Total	**4,044**	4,983
Other supplementary cash flow disclosures		
Interest income received (including banking interest)	**5,394**	5,384
Dividend income received	**335**	493
Interest paid (including banking interest)	**2,544**	3,078

The 31 December 2008 cash flows have been restated as detailed in note A1.

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 and cash and cash equivalents subject to consolidation of funds, 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009 continued

£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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009 continued

Year ended 31 December 2008	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		5,510	7,961	1,636	9,597
Profit after tax for the financial year		–	441	242	683
Other comprehensive income					
Fair value gains/(losses)					
Property revaluation		–	16	–	16
Net investment hedge		–	281	–	281
Available-for-sale investments					
Fair value losses		–	(1,635)	–	(1,635)
Recycled to the income statement		–	414	–	414
Shadow accounting		–	26	–	26
Currency translation differences/exchange differences on translating foreign operations		–	419	10	429
Other movements		–	(23)	91	68
Income tax relating to components of other comprehensive income	D1(c)	–	366	–	366
Total comprehensive income for the financial year		–	305	343	648
Dividends for the year	C4	–	(395)	(165)	(560)
Net sale of treasury shares		–	5	–	5
Shares repurchased in the buyback programme		–	(175)	–	(175)
Issue of ordinary share capital by the Company		–	5	–	5
Change in participation in subsidiaries		–	–	26	26
Exercise of share options		6	5	–	5
Change in share-based payments reserve		–	26	–	26
Transactions with shareholders		6	(529)	(139)	(668)
Shareholders' equity at end of the year		5,516	7,737	1,840	9,577

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009 continued

£m

Year ended 31 December 2008	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		551	757	2,908	(304)	3,361	688	7,961
Profit for the financial year attributable to equity holders of the parent		–	–	–	–	410	31	441
Other comprehensive income								
Fair value gains/(losses)								
Property revaluation		–	–	16	–	–	–	16
Net investment hedge		–	–	–	281	–	–	281
Available-for-sale investments								
Fair value losses		–	–	(1,635)	–	–	–	(1,635)
Recycled to income statement		–	–	414	–	–	–	414
Shadow accounting		–	–	26	–	–	–	26
Currency translation differences/exchange differences on translating foreign operations		–	–	–	419	–	–	419
Other movements		–	–	8	3	(34)	–	(23)
Income tax relating to components of other comprehensive income		–	–	367	(13)	–	12	366
Total comprehensive income for the financial year		–	–	(804)	690	376	43	305
Dividends for the year	C4	–	–	–	–	(352)	(43)	(395)
Net sale of treasury shares		–	–	–	–	5	–	5
Shares repurchased in the buyback programme		–	–	–	–	(175)	–	(175)
Issue of ordinary share capital by the Company		–	5	–	–	–	–	5
Exercise of share options		1	4	–	–	–	–	5
Change in share-based payments reserve		–	–	26	–	–	–	26
Transactions with shareholders		1	9	26	–	(522)	(43)	(529)
Attributable to equity holders of the parent at end of the year		552	766	2,130	386	3,215	688	7,737

£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	(30)	75	147	–	2,908
Fair value gains/(losses)						
Property revaluation	–	–	16	–	–	16
Available-for-sale investments						
Fair value losses	–	(1,635)	–	–	–	(1,635)
Recycled to income statement	–	414	–	–	–	414
Shadow accounting	–	41	(15)	–	–	26
Other movements	–	(1)	9	(2)	2	8
Income tax relating to components of other comprehensive income	–	367	–	–	–	367
Change in share-based payments reserve	–	–	–	26	–	26
At end of the year	2,716	(844)	85	171	2	2,130

Retained earnings were reduced by £280 million at 31 December 2008 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

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). 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 2009 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 assets and liabilities, financial instruments 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 A5(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.

Judgments 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 A17.

The 31 December 2008 financial position has been restated to reduce both derivative financial assets and liabilities by an amount of £1,405 million and to increase both cash and cash equivalents and other liabilities by £305 million on a consistent basis to 31 December 2009, with a corresponding restatement made to the cash flows where applicable. In addition certain comparative information including segmentation has been revised in accordance with changes to presentation made in the current year. There was no impact on the consolidated net assets at 31 December 2008 as a result of the restatement. The 31 December 2007 statement of financial position has not been presented on the basis that there were no changes required to that statement as a consequence of the 2008 restatements.

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 other comprehensive income 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: 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'; and

→ 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.

A4: 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.

A5: 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 time frame 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 or 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; and
- 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 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.

(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, 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 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 quoted bid prices are unavailable 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.

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 counter parties 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 counter party;
- 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 counter party's financial difficulty, grants to the counter party a concession that the Group would not otherwise consider;
- it becoming probable that the counter party will enter bankruptcy or other financial reorganisation; or
- 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 counter parties 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.

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 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 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 A(8)).

A6: 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.

A7: 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 segment 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.

A8: 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.

A9: 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.

A10: 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 twelve-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.

A11: 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.

A12: 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.

A13: 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.

A14: 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.

A15: 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.

A16: 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; and
- No provision is made for future operating costs or losses.

A17: Critical accounting estimates and judgments

Critical accounting estimates are those which involve the most complex or subjective judgments or assessments. The areas of the Group's business that typically require such estimates are life insurance contract provisions, determination of the fair value for financial assets and liabilities, impairment charges, present values of acquired in-force for insurance and investment contract business, other intangible assets acquired as part of a business combination, deferred acquisition costs, deferred taxes and the non consolidation of the Group's wholly owned mutual life insurance undertaking.

Insurance contract accounting is discussed in note A4, and further detail of the key assumptions made in determining insurance contract provisions is included in note E8. Accounting for deferred acquisition cost assets is also discussed in note A4.

The fair values of financial assets and liabilities are determined in accordance with the policies set out in note A5. They are valued on the basis of quoted prices in active markets in so far as this is possible. In the current market environment, such price information is typically not available for all instruments and the Group therefore uses internal models and valuation techniques 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.

Fair values of certain financial instruments including 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.

Accounting for present values of acquired in-force insurance and investment contract business, together with other intangibles acquired as part of a business combination are discussed in note A7.

Assets are subject to regular impairment reviews as required. Impairments are recorded in the income statement in the period in which they occur. The Group's policy in relation to impairment testing in respect of Goodwill is detailed in note A7. The policy in respect of investment securities and purchased loans and receivables is described in note A5.

The accounting policy for deferred tax is detailed in note A6.

The Group does not consolidate its wholly owned mutual life insurance undertaking, Skandia Liv. For more information refer to the Subsidiary Undertakings (including Special Purpose Entities) accounting policy, note A3(a).

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. The operating segments are Emerging Markets, Nordic, Retail Europe, Wealth Management and US Life (collectively being the newly formed Long Term Savings) plus Nedbank, Mutual & Federal (M&F), US Asset Management and Other operating segments (comprising the Group head office functions). The Bermuda segment is treated as a non-core operation. The above reported segments have been revised during the year to reflect the change in the way that management and the Board of Directors consider information, 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) are classified as equity if they are 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 in 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 in the Group's statement of financial position 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 216 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 2009 annual financial statements

The following standards, amendments to standards and interpretations, which are relevant to the Group, have been adopted in these financial statements:

→ IFRS 2 'Share-based payment' (amendments effective 1 January 2010). The Group has 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 has 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. Mandatory adoption would have been required for the first time in the financial year ended 31 December 2010. 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 has 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.

→ IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2009). The Group has adopted the amendments to IFRS 7 'Financial Instruments: Disclosures', 'Improving Disclosures about Financial Instruments' issued in March 2009. The amendments principally require additional disclosures about the determination of fair values of financial assets and liabilities. See note E1 for the additional disclosures.

→ IAS 1 'Presentation of Financial Statements' (revised 2007) (effective 1 January 2009). The Group has adopted the provisions of the revised version of IAS 1 'Presentation of Financial Statements' issued in 2007, effective for accounting periods commencing on or after 1 January 2009. The principal change arising from the adoption of the standard is the inclusion of a new statement, a consolidated statement of comprehensive income, separately from the consolidated statement of changes in equity. Comparative information has been restated accordingly. There were no impacts on the Group's results or net assets as a result of the introduction of the revised standard.

→ IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective 1 January 2009). The amendment changes the recognition principle in IAS 27 'Consolidated and Separate Financial Statements' in respect of dividends received from subsidiaries, joint ventures and associates in the entity's own financial statements where those dividends are out of pre-acquisition reserves. Under the amendment, dividends out of pre-acquisition reserves are accounted for in the income statement rather than against the cost of investment. The amendment applies to accounting for investments by the Parent Company. There were no impacts in the Parent Company's financial statements.

→ 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 has 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 32 'Financial Instruments: Presentation' (amendments in respect of puttable financial instruments and obligations arising on liquidation, effective 1 January 2009). The Group has adopted the amendments relating to the statement of financial position classification of puttable instruments and obligations arising only on liquidation. The amendments had no impact on the Group's financial statements.

→ IAS 39 'Financial Instruments: Recognition and Measurement' (effective 1 July 2009). The Group has 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.

→ IFRIC 13 'Customer Loyalty Programmes' (effective 1 January 2009). The Group has adopted the provisions of IFRIC 13, which addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, they explain how entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. The amendments had an insignificant impact in the financial statements of Nedbank.

→ IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (IASB effective date 1 October 2008; EU: 1 July 2009). The Group has adopted the provisions of IFRIC 16 relating to the accounting for hedges of net investments in foreign operations. The interpretation had no impact on the Group's financial statements.

→ IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective 1 July 2009). The interpretation deals with the recognition and measurement principles for non-cash distributions to owners. The interpretation had no 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 8 'Operating Segments' (effective 1 January 2009) was adopted in the Group's 2007 financial statements. IFRS 8 replaced IAS 14 'Segment Reporting'. The key change from IAS 14 is to require segment information to be presented based on internal reports that are regularly reviewed by the entity's chief operating decision maker. The amount of each operating segment item reported is the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.
→ IFRS 2 'Share-based Payment' (amendment relating to vesting conditions and cancellations, effective 1 January 2009) was adopted in the Group's 2008 financial statements. The amendments clarify that vesting conditions are performance conditions and service conditions only. Other features of a share-based transactions are not vesting conditions. There were no impacts arising from the adoption of this amendment.
→ IFRIC14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective 1 January 2008). The amendment had no impact on the financial statements.

A26: Future standards, amendments to standards, and interpretations not early adopted in the 2009 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 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.
→ 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 US Life 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 January 2011). 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 not yet been endorsed by the EU, is not expected to have any impact on the Group's annual financial statements.

B: Segment information

B1: Basis of segmentation

The Group's core operations are Emerging Markets, Nordic, Retail Europe, Wealth Management and US Life (collectively Long Term Savings), Nedbank, Mutual & Federal, US Asset Management and Other operating segments (comprising the Group head office functions). The Bermuda operating segment is regarded as non core. This represents a change in structure from that reported in the previous financial year end 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. Comparative segment information has been changed accordingly. 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

US Life – life assurance

Nedbank – banking and asset management

Mutual & Federal – general insurance

US Asset Management – asset management

Other operating segments

Non core operations

Bermuda – 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 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 Old Mutual Market Consistent Embedded Value information presented on pages 340 to 389.

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.

B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2009

	Long Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Revenue					
Gross earned premiums	1,946	109	31	315	800
Outward reinsurance	(56)	(5)	(8)	(81)	(102)
Net earned premiums	1,890	104	23	234	698
Investment return (non-banking)	2,636	2,035	564	4,997	654
Banking interest and similar income	–	157	–	–	–
Banking trading, investment and similar income	–	–	–	–	–
Fee and commission income, and income from service activities	305	190	189	746	–
Other income	65	6	–	24	6
Inter-segment revenues	55	32	10	27	–
Total revenues	4,951	2,524	786	6,028	1,358
Expenses					
Claims and benefits (including change in insurance contract provisions)	(2,551)	(72)	(37)	(255)	(1,283)
Reinsurance recoveries	76	2	5	46	128
Net claims and benefits incurred	(2,475)	(70)	(32)	(209)	(1,155)
Change in investment contract liabilities	(1,040)	(1,972)	(554)	(4,775)	–
Losses on loans and advances	–	(5)	(1)	–	–
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(70)	–	–	–
Fee and commission expenses, and other acquisition costs	(184)	(53)	(79)	(394)	(78)
Other operating and administrative expenses	(768)	(215)	(96)	(380)	(67)
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)	–
Inter-segment expenses	(5)	(38)	(2)	(48)	(9)
Total expenses	(4,509)	(2,462)	(764)	(5,922)	(1,309)
Share of associated undertakings' profit/(loss) after tax	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	49
Tax expense	(130)	9	(8)	(20)	(9)
Non-controlling interests	(2)	–	–	–	–
Adjusted operating profit/(loss) after tax and non-controlling interests	314	71	14	86	40
Adjusting items net of tax and non-controlling interests	(200)	(4)	(228)	(225)	(120)
Profit/(loss) after tax attributable to equity holders of the parent	114	67	(214)	(139)	(80)

Of the total revenues, excluding intercompany revenues, £5,544 million was generated in UK (2008: £5,826 million loss), £3,938 million in rest of Europe (2008: £3,045 million loss), £10,084 million in South Africa (2008: £6,676 million), £2,201 million in the United States (2008: £2,194 million) and £81 million relates to Other operating segments (2008: £48 million).

£m

Total Long Term Savings	Nedbank	M&F	USAM	Other operating segments	Consolidation adjustments	Adjusted operating profit	Adjusting items (Note C1)	Non core operations – Bermuda	IFRS Income statement
3,201	–	612	–	–	–	3,813	–	7	3,820
(252)	–	(117)	–	–	–	(369)	–	–	(369)
2,949	–	495	–	–	–	3,444	–	7	3,451
10,886	–	58	13	91	509	11,557	(425)	484	11,616
157	3,832	–	–	–	–	3,989	–	–	3,989
–	168	–	–	–	–	168	–	–	168
1,430	663	22	429	–	(6)	2,538	(116)	–	2,422
101	70	1	7	–	1	180	–	22	202
124	31	29	6	21	(251)	(40)	–	40	–
15,647	4,764	605	455	112	253	21,836	(541)	553	21,848
(4,198)	–	(412)	–	–	–	(4,610)	–	(459)	(5,069)
257	–	72	–	–	–	329	–	(1)	328
(3,941)	–	(340)	–	–	–	(4,281)	–	(460)	(4,741)
(8,341)	–	–	–	–	–	(8,341)	–	(4)	(8,345)
(6)	(505)	–	–	–	–	(511)	–	–	(511)
–	–	–	–	(104)	–	(104)	(218)	–	(322)
(70)	(2,557)	–	–	–	–	(2,627)	–	–	(2,627)
(788)	(2)	(106)	(18)	–	(12)	(926)	167	(47)	(806)
(1,526)	(1,167)	(64)	(354)	(84)	(22)	(3,217)	97	(19)	(3,139)
–	–	–	–	–	–	–	(266)	–	(266)
–	–	–	–	–	(470)	(470)	–	–	(470)
–	–	–	–	–	–	–	(326)	–	(326)
(192)	–	–	–	–	–	(192)	192	–	–
(102)	(65)	(25)	–	(58)	251	1	–	(1)	–
(14,966)	(4,296)	(535)	(372)	(246)	(253)	(20,668)	(354)	(531)	(21,553)
4	2	–	–	(4)	–	2	–	–	2
–	–	–	–	–	–	–	(50)	–	(50)
685	470	70	83	(138)	–	1,170	(945)	22	247
(158)	(96)	(15)	(19)	(4)	–	(292)	(84)	11	(365)
(2)	(193)	(16)	–	(34)	–	(245)	23	–	(222)
525	181	39	64	(176)	–	633	(1,006)	33	(340)
(777)	15	–	(3)	(241)	–	(1,006)	1,006	–	–
(252)	196	39	61	(417)	–	(373)	–	33	(340)

B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2008

	Long Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Revenue					
Gross earned premiums	1,687	92	22	186	1,269
Outward reinsurance	(48)	(4)	(7)	(78)	(106)
Net earned premiums	1,639	88	15	108	1,163
Investment return (non-banking)	(420)	(2,317)	(997)	(6,610)	211
Banking interest and similar income	–	266	–	–	–
Banking trading, investment and similar income	–	24	–	–	–
Fee and commission income, and income from service activities	252	184	178	775	–
Other income	98	20	1	14	3
Inter-segment revenues	237	104	18	108	–
Total revenues	1,806	(1,631)	(785)	(5,605)	1,377
Expenses					
Claims and benefits (including change in insurance contract provisions)	(721)	(68)	(26)	(94)	(1,478)
Reinsurance recoveries	42	4	2	34	106
Net claims and benefits incurred	(679)	(64)	(24)	(60)	(1,372)
Change in investment contract liabilities	204	2,390	1,011	6,442	–
Losses on loans and advances	–	(4)	–	–	–
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(183)	–	–	–
Fee and commission expenses, and other acquisition costs	(174)	(49)	(72)	(401)	(158)
Other operating and administrative expenses	(563)	(193)	(82)	(388)	(68)
Goodwill impairment	–	–	–	–	–
Change in third party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	6	(52)	(1)	283	–
Inter-segment expenses	(188)	(126)	(18)	(121)	(9)
Total expenses	(1,394)	1,719	814	5,755	(1,607)
Share of associated undertakings' profit/(loss) after tax	3	–	–	–	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests	415	88	29	150	(230)
Tax expense	(138)	(11)	(10)	(57)	76
Non-controlling interests	(5)	–	–	–	–
Adjusted operating profit/(loss) after tax and non-controlling interests	272	77	19	93	(154)
Adjusting items net of tax and non-controlling interests	147	(122)	(28)	50	(341)
Profit/(loss) after tax attributable to equity holders of the parent	419	(45)	(9)	143	(495)

£m

Total Long Term Savings	Nedbank	M&F	USAM	Other operating segments	Consolidation adjustments	Adjusted operating profit	Adjusting items (Note C1)	Non core operations – Bermuda	IFRS Income statement
3,256	–	570	–	–	–	3,826	–	1,330	5,156
(243)	–	(91)	–	–	–	(334)	–	(1)	(335)
3,013	–	479	–	–	–	3,492	–	1,329	4,821
(10,133)	–	56	(3)	94	(713)	(10,699)	(108)	(771)	(11,578)
266	3,793	–	–	–	–	4,059	–	–	4,059
24	138	–	–	–	–	162	–	–	162
1,389	533	16	473	–	(1)	2,410	(97)	–	2,313
136	85	–	17	–	13	251	–	19	270
467	19	26	8	66	(586)	–	–	–	–
(4,838)	4,568	577	495	160	(1,287)	(325)	(205)	577	47
(2,387)	–	(401)	–	–	–	(2,788)	–	(822)	(3,610)
188	–	72	–	–	–	260	–	2	262
(2,199)	–	(329)	–	–	–	(2,528)	–	(820)	(3,348)
10,047	–	–	–	–	–	10,047	–	4	10,051
(4)	(315)	–	–	–	–	(319)	–	–	(319)
–	–	–	–	(140)	–	(140)	532	–	392
(183)	(2,684)	–	–	–	–	(2,867)	14	–	(2,853)
(854)	–	(101)	(10)	–	(44)	(1,009)	178	(106)	(937)
(1,294)	(928)	(59)	(388)	(38)	(34)	(2,741)	(77)	(16)	(2,834)
–	–	–	–	–	–	–	(74)	–	(74)
–	–	–	–	–	779	779	–	–	779
–	–	–	–	–	–	–	(361)	–	(361)
236	–	–	–	–	–	236	(236)	–	–
(462)	(71)	(12)	–	(37)	586	4	–	(4)	–
5,287	(3,998)	(501)	(398)	(215)	1,287	1,462	(24)	(942)	496
3	5	–	–	(9)	–	(1)	–	–	(1)
–	–	–	–	–	–	–	53	–	53
452	575	76	97	(64)	–	1,136	(176)	(365)	595
(140)	(123)	(17)	2	192	–	(86)	174	–	88
(5)	(227)	(19)	–	(21)	–	(272)	30	–	(242)
307	225	40	99	107	–	778	28	(365)	441
(294)	29	(49)	1	341	–	28	(28)	–	–
13	254	(9)	100	448	–	806	–	(365)	441

B: Segment information continued

B3: Gross earned premiums

£m

Year ended 31 December 2009	Long Term Savings				
	Emerging Markets	**Nordic**	**Retail Europe**	**Wealth Management**	**US Life**
Life assurance – insurance contracts	**1,287**	**109**	**31**	**315**	**800**
Life assurance – investment contracts with discretionary participation features	**659**	**–**	**–**	**–**	**–**
General insurance	**–**	**–**	**–**	**–**	**–**
Gross earned premiums	**1,946**	**109**	**31**	**315**	**800**
Life assurance – other investment contracts recognised as deposits	**2,726**	**1,199**	**733**	**4,906**	**171**

Year ended 31 December 2008	Long Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Life assurance – insurance contracts	1,163	92	22	186	1,269
Life assurance – investment contracts with discretionary participation features	524	–	–	–	–
General insurance	–	–	–	–	–
Gross earned premiums	1,687	92	22	186	1,269
Life assurance – other investment contracts recognised as deposits	1,409	976	690	5,236	115

B4: Impairments of financial assets

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Nordic	**5**	5
US Life	**248**	384
Total Long Term Savings	**253**	389
Nedbank	**504**	315
Bermuda	**13**	30
Total	**770**	734

£m

Total Long Term Savings	Nedbank	M&F	USAM	Total core operations	Non core operations – Bermuda	Total
2,542	**–**	**–**	**–**	**2,542**	**7**	**2,549**
659	**–**	**–**	**–**	**659**	**–**	**659**
–	**–**	**612**	**–**	**612**	**–**	**612**
3,201	**–**	**612**	**–**	**3,813**	**7**	**3,820**
9,735	**–**	**–**	**–**	**9,735**	**8**	**9,743**

Total Long Term Savings	Nedbank	M&F	USAM	Total core operations	Non core operations – Bermuda	Total
2,732	–	–	–	2,732	1,330	4,062
524	–	–	–	524	–	524
–	–	570	–	570	–	570
3,256	–	570	–	3,826	1,330	5,156
8,426	–	–	–	8,426	115	8,541

B: Segment information continued

B5: Funds under management

£m

As at 31 December 2009	Long Term Savings				
	Emerging Markets	**Nordic**	**Retail Europe**	**Wealth Management**	**US Life**
Life assurance policyholder funds	**25,454**	**9,221**	**3,569**	**34,721**	**6,689**
Unit trusts and mutual funds	**7,686**	**1,428**	**391**	**11,308**	**–**
Third party client funds	**8,229**	**–**	**–**	**–**	**–**
Total client funds under management	**41,369**	**10,649**	**3,960**	**46,029**	**6,689**
Shareholder funds	**2,130**	**360**	**210**	**830**	**–**
Total funds under management	**43,499**	**11,009**	**4,170**	**46,859**	**6,689**

As at 31 December 2008	Long Term Savings				
	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Life assurance policyholder funds	20,599	6,605	2,881	29,200	241
Unit trusts and mutual funds	7,678	1,000	416	8,777	–
Third party client funds	10,325	–	–	–	–
Total client funds under management	38,602	7,605	3,297	37,977	241
Shareholder funds	1,672	418	213	943	–
Total funds under management	40,274	8,023	3,510	38,920	241

£m

Total Long Term Savings	Nedbank	M&F	USAM	Total core operations	Non core operations – Bermuda	Total
79,654	**658**	**–**	**6,789**	**87,101**	**2,913**	**90,014**
20,813	**3,775**	**–**	**4,095**	**28,683**	**–**	**28,683**
8,229	**3,800**	**–**	**150,423**	**162,452**	**–**	**162,452**
108,696	**8,233**	**–**	**161,307**	**278,236**	**2,913**	**281,149**
3,530	**–**	**162**	**169**	**3,861**	**–**	**3,861**
112,226	**8,233**	**162**	**161,476**	**282,097**	**2,913**	**285,010**

Total Long Term Savings	Nedbank	M&F	USAM	Total core operations	Non core operations – Bermuda	Total
59,526	425	–	13,623	73,574	2,401	75,975
17,871	2,617	–	3,127	23,615	–	23,615
10,325	3,375	–	147,956	161,656	–	161,656
87,722	6,417	–	164,706	258,845	2,401	261,246
3,246	–	145	177	3,568	–	3,568
90,968	6,417	145	164,883	262,413	2,401	264,814

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	US Life
Assets						
Goodwill and other intangible assets	F1	106	1,035	563	1,602	94
Goodwill		91	219	204	656	–
Present value of acquired in-force business		–	624	265	671	89
Software development		6	1	3	35	5
Other intangibles		9	191	91	240	–
Mandatory reserve deposits with central banks		–	–	–	–	–
Property, plant and equipment	F2	336	7	4	19	1
Investment property	F3	1,518	–	–	2	–
Deferred tax assets	F8	54	108	17	23	183
Investments in associated undertakings and joint ventures	G5	20	2	–	–	–
Deferred acquisition costs	F4	123	49	275	778	1,671
Insurance contracts		–	2	–	50	1,671
Investment contracts		107	47	271	654	–
Asset management		16	–	4	74	–
Reinsurers' share of life assurance policyholder liabilities	E8	11	10	6	772	475
Insurance contracts		11	7	4	45	450
Unit-Linked investment contracts and similar contracts		–	–	–	717	–
Outstanding claims		–	3	2	10	25
Reinsurers' share of general insurance liabilities	E8	–	–	–	–	–
Deposits held with reinsurers	E8	–	108	–	–	35
Loans and advances	E3	340	4,209	2	148	54
Policyholder loans		58	2	2	148	53
Other loans and advances		282	4,207	–	–	1
Investments and securities	E4	27,603	10,836	3,693	35,120	10,045
Government and government-guaranteed securities		3,586	150	60	251	302
Listed other debt securities, preference shares and debentures		1,825	1,453	53	–	6,766
Unlisted other debt securities, preference shares and debentures		2,989	–	2	104	2,439
Listed equity securities		8,854	1	10	–	–
Unlisted equity securities		1,223	15	–	–	–
Listed pooled investments		457	547	–	437	3
Unlisted pooled investments		6,123	8,670	3,568	34,327	16
Short–term funds and securities treated as investments		2,543	–	–	1	519
Other securities		3	–	–	–	–
Current tax receivable		4	4	16	86	–
Client indebtedness for acceptances		–	–	–	–	–
Trade, other receivables and other assets	F5	630	155	58	232	213
Derivative financial instruments – assets	E6	327	9	–	–	187
Cash and cash equivalents		189	344	81	278	4
Non-current assets held-for-sale		–	–	–	–	–
Inter-segment assets		1,352	59	23	277	74
Total assets		32,613	16,935	4,738	39,337	13,036

£m

Total Long Term Savings	Nedbank	M&F	USAM	Bermuda	Other operating segments	Consolidation adjustments	Total
3,400	543	30	1,171	2	13	–	5,159
1,170	393	11	1,142	–	13	–	2,729
1,649	–	–	–	–	–	–	1,649
50	150	19	1	2	–	–	222
531	–	–	28	–	–	–	559
–	882	–	–	–	–	–	882
367	417	23	19	–	2	–	828
1,520	18	–	–	–	–	221	1,759
385	24	6	147	–	8	–	570
22	82	–	7	–	24	–	135
2,896	2	17	29	194	–	–	3,138
1,723	–	17	–	194	–	–	1,934
1,079	–	–	–	–	–	–	1,079
94	2	–	29	–	–	–	125
1,274	22	–	–	–	–	–	1,296
517	22	–	–	–	–	–	539
717	–	–	–	–	–	–	717
40	–	–	–	–	–	–	40
–	–	120	–	–	–	–	120
143	–	3	–	–	–	–	146
4,753	37,638	2	–	–	–	–	42,393
263	–	–	–	–	–	–	263
4,490	37,638	2	–	–	–	–	42,130
87,297	5,501	425	162	2,942	43	2,091	98,461
4,349	2,044	–	–	–	–	1,775	8,168
10,097	2,532	2	–	461	–	1,729	14,821
5,534	–	4	–	167	–	–	5,705
8,865	41	87	–	–	–	9,503	18,496
1,238	209	6	–	37	–	–	1,490
1,444	675	41	122	2,059	–	1,400	5,741
52,704	–	–	40	–	–	(12,678)	40,066
3,063	–	285	–	218	–	293	3,859
3	–	–	–	–	43	69	115
110	51	–	–	–	8	–	169
–	170	–	–	–	–	–	170
1,288	432	96	126	878	111	120	3,051
523	1,067	–	–	–	154	802	2,546
896	660	79	173	32	425	717	2,982
–	1	–	–	–	–	–	1
1,785	148	48	1	564	1,363	(3,909)	–
106,659	47,658	849	1,835	4,612	2,151	42	163,806

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	US Life
Liabilities						
Life assurance policyholder liabilities	E8	**28,655**	**9,514**	**3,689**	**35,554**	**11,625**
Insurance contracts		**11,783**	**74**	**121**	**901**	**10,787**
Unit-Linked investment contracts and similar contracts		**9,838**	**9,335**	**3,560**	**34,639**	**–**
Other investment contracts		**115**	**–**	**–**	**–**	**788**
Discretionary participating investment contracts		**6,639**	**–**	**–**	**–**	**–**
Outstanding claims		**280**	**105**	**8**	**14**	**50**
General insurance liabilities	E8	**–**	**–**	**–**	**–**	**–**
Third party interests in consolidated funds		**–**	**–**	**–**	**–**	**–**
Borrowed funds	E9	**272**	**26**	**–**	**–**	**–**
Senior debt securities		**–**	**26**	**–**	**–**	**–**
Mortgage backed securities		**–**	**–**	**–**	**–**	**–**
Subordinated debt securities		**272**	**–**	**–**	**–**	**–**
Provisions	F6	**147**	**11**	**8**	**33**	**–**
Deferred revenue	F7	**23**	**5**	**160**	**456**	**–**
Life assurance		**16**	**5**	**155**	**379**	**–**
Asset management		**7**	**–**	**5**	**77**	**–**
General insurance		**–**	**–**	**–**	**–**	**–**
Deferred tax liabilities	F8	**200**	**113**	**124**	**167**	**126**
Current tax payable		**70**	**20**	**2**	**37**	**–**
Trade, other payables and other liabilities	F9	**1,512**	**203**	**79**	**550**	**359**
Liabilities under acceptances		**–**	**–**	**–**	**–**	**–**
Amounts owed to bank depositors	E10	**–**	**5,448**	**–**	**–**	**–**
Derivative financial instruments – liabilities	E6	**141**	**22**	**–**	**–**	**9**
Non-current liabilities held-for-sale		**–**	**–**	**–**	**–**	**–**
Inter-segment liabilities		**51**	**37**	**–**	**181**	**170**
Total liabilities		**31,071**	**15,399**	**4,062**	**36,978**	**12,289**
Net assets		**1,542**	**1,536**	**676**	**2,359**	**747**
Equity						
Equity attributable to equity holders of the parent	F10	**1,540**	**1,536**	**676**	**2,359**	**747**
Non-controlling interests		**2**	**–**	**–**	**–**	**–**
Non-controlling interests – ordinary shares	F11(b)	**2**	**–**	**–**	**–**	**–**
Non-controlling interests – preference shares	F11(b)	**–**	**–**	**–**	**–**	**–**
Total equity		**1,542**	**1,536**	**676**	**2,359**	**747**

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £340 million (2008: £236 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

Total Long Term Savings	Nedbank	M&F	USAM	Bermuda	Other operating segments	Consolidation adjustments	Total
89,037	661	–	–	4,178	–	–	93,876
23,666	95	–	–	3,788	–	–	27,549
57,372	–	–	–	–	–	–	57,372
903	566	–	–	390	–	–	1,859
6,639	–	–	–	–	–	–	6,639
457	–	–	–	–	–	–	457
–	–	372	–	–	–	–	372
–	–	–	–	–	–	2,906	2,906
298	1,614	–	–	–	1,397	–	3,309
26	484	–	–	–	636	–	1,146
–	118	–	–	–	–	–	118
272	1,012	–	–	–	761	–	2,045
199	1	21	2	–	40	–	263
644	1	9	–	–	–	–	654
555	1	–	–	–	–	–	556
89	–	–	–	–	–	–	89
–	–	9	–	–	–	–	9
730	148	2	–	–	25	–	905
129	21	–	10	5	45	–	210
2,703	897	118	221	(9)	120	255	4,305
–	170	–	–	–	–	–	170
5,448	38,687	–	–	–	–	–	44,135
172	969	–	–	–	59	790	1,990
–	–	–	–	–	–	–	–
439	697	–	1,202	–	1,571	(3,909)	–
99,799	43,866	522	1,435	4,174	3,257	42	153,095
6,860	3,792	327	400	438	(1,106)	–	10,711
6,858	2,084	265	371	438	(1,552)	–	8,464
2	1,708	62	29	–	446	–	2,247
2	1,444	62	29	–	–	–	1,537
–	264	–	–	–	446	–	710
6,860	3,792	327	400	438	(1,106)	–	10,711

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2008

At 31 December 2008	Notes	Long Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Assets						
Goodwill and other intangible assets	F1	111	1,183	865	1,814	132
Goodwill		95	222	420	742	–
Present value of acquired in-force business		(2)	742	326	764	120
Software development		4	1	5	23	12
Other intangibles		14	218	114	285	–
Mandatory reserve deposits with central banks		–	–	–	–	–
Property, plant and equipment	F2	277	4	6	25	1
Investment property	F3	1,282	–	–	2	–
Deferred tax assets	F8	68	78	45	172	1,036
Investments in associated undertakings and joint ventures	G5	33	–	–	–	–
Deferred acquisition costs	F4	116	34	253	698	1,896
Insurance contracts		–	2	–	49	1,896
Investment contracts		96	32	248	585	–
Asset management		20	–	5	64	–
Reinsurers' share of life assurance policyholder liabilities	E8	6	13	5	607	505
Insurance contracts		6	10	3	42	477
Unit-Linked investment contracts and similar contracts		–	–	–	551	–
Outstanding claims		–	3	2	14	28
Reinsurers' share of general insurance liabilities	E8	–	–	–	–	–
Deposits held with reinsurers	E8	–	121	–	–	40
Loans and advances	E3	59	3,846	2	139	62
Policyholder loans		59	–	2	138	61
Other loans and advances		–	3,846	–	1	1
Investments and securities	E4	22,447	7,595	2,958	29,477	10,284
Government and government-guaranteed securities		3,769	214	–	699	97
Listed other debt securities, preference shares and debentures		1,805	813	26	2	7,021
Unlisted other debt securities, preference shares and debentures		2,113	–	45	22	2,488
Listed equity securities		6,932	–	–	1	–
Unlisted equity securities		885	12	5	26	–
Listed pooled investments		411	155	–	649	8
Unlisted pooled investments		4,263	6,401	2,882	28,078	18
Short-term funds and securities treated as investments		2,264	–	–	–	652
Other securities		5	–	–	–	–
Current tax receivable		6	–	6	81	–
Client indebtedness for acceptances		–	–	–	–	–
Trade, other receivables and other assets	F5	455	138	67	228	252
Derivative financial instruments – assets	E6	209	–	–	–	36
Cash and cash equivalents		467	372	134	236	(18)
Non-current assets held-for-sale		7	–	–	–	–
Inter-segment assets		1,326	264	10	238	46
Total assets		26,869	13,648	4,351	33,717	14,272

£m

Total Long Term Savings	Nedbank	M&F	USAM	Bermuda	Other operating segments	Consolidation adjustments	Total
4,105	425	29	1,305	5	13	–	5,882
1,479	308	10	1,271	–	13	–	3,081
1,950	–	–	–	–	–	–	1,950
45	117	19	1	5	–	–	187
631	–	–	33	–	–	–	664
–	734	–	–	–	–	–	734
313	316	24	26	–	3	–	682
1,284	15	–	–	–	–	179	1,478
1,399	25	8	158	–	–	–	1,590
33	75	–	–	–	3	–	111
2,997	2	15	40	145	–	–	3,199
1,947	–	15	–	145	–	–	2,107
961	–	–	–	–	–	–	961
89	2	–	40	–	–	–	131
1,136	9	–	–	3	–	–	1,148
538	9	–	–	3	–	–	550
551	–	–	–	–	–	–	551
47	–	–	–	–	–	–	47
–	–	115	–	–	–	–	115
161	–	3	–	–	–	–	164
4,108	31,634	2	–	–	1	–	35,745
260	–	–	–	–	–	–	260
3,848	31,634	2	–	–	1	–	35,485
72,761	5,043	322	177	3,676	88	1,455	83,522
4,779	2,255	–	–	–	–	1,942	8,976
9,667	2,172	1	–	534	–	1,695	14,069
4,668	–	2	–	202	–	175	5,047
6,933	38	67	–	–	–	7,938	14,976
928	152	5	–	118	–	–	1,203
1,223	426	36	135	2,085	–	1,310	5,215
41,642	–	–	42	–	–	(11,853)	29,831
2,916	–	211	–	737	–	125	3,989
5	–	–	–	–	88	123	216
93	25	–	–	–	–	–	118
–	220	–	–	–	–	–	220
1,140	486	68	139	789	96	419	3,137
245	1,627	–	–	21	226	1,109	3,228
1,191	631	56	220	29	79	997	3,203
7	–	–	–	–	–	–	7
1,884	19	46	99	377	1,339	(3,764)	–
92,857	41,286	688	2,164	5,045	1,848	395	144,283

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2008 continued

At 31 December 2008	Notes	Long Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Liabilities						
Life assurance policyholder liabilities	E8	23,261	6,884	2,973	29,603	13,337
Insurance contracts		10,619	71	92	694	12,365
Unit-Linked investment contracts and similar contracts		6,690	6,704	2,874	28,893	–
Other investment contracts		105	–	–	–	914
Discretionary participating investment contracts		5,646	–	–	–	–
Outstanding claims		201	109	7	16	58
General insurance liabilities	E8	–	–	–	–	–
Third party interests in consolidated funds		–	–	–	–	–
Borrowed funds	E9	237	–	–	1	–
Senior debt securities		–	–	–	1	–
Mortgage backed securities		–	–	–	–	–
Subordinated debt securities		237	–	–	–	–
Provisions	F6	132	203	8	29	–
Deferred revenue	F7	31	3	128	428	–
Life assurance		17	3	122	347	–
Asset management		14	–	6	81	–
General insurance		–	–	–	–	–
Deferred tax liabilities	F8	176	93	173	256	578
Current tax payable		98	22	–	28	(15)
Trade, other payables and other liabilities	F9	1,197	198	88	573	267
Liabilities under acceptances		–	–	–	–	–
Amounts owed to bank depositors	E10	–	4,622	–	–	–
Derivative financial instruments – liabilities	E6	31	–	–	1	–
Non-current liabilities held-for-sale		6	–	–	–	–
Inter-segment liabilities		66	174	39	259	2
Total liabilities		25,235	12,199	3,409	31,178	14,169
Net assets		1,634	1,449	942	2,539	103
Equity						
Equity attributable to equity holders of the parent	F10	1,626	1,449	942	2,539	103
Non-controlling interests		8	–	–	–	–
Non-controlling interests – ordinary shares	F11(b)	8	–	–	–	–
Non-controlling interests – preference shares	F11(b)	–	–	–	–	–
Total equity		1,634	1,449	942	2,539	103

The 31 December 2008 financial position has been restated to reduce both derivative financial assets and liabilities by an amount of £1,405 million and to increase both cash and cash equivalents and other liabilities by £305 million on a consistent basis to 31 December 2009. There was no impact on the consolidated net assets at 31 December 2008 as a result of the restatement.

£m

Total Long Term Savings	Nedbank	M&F	USAM	Bermuda	Other operating segments	Consolidation adjustments	Total
76,058	426	–	–	4,785	–	–	81,269
23,841	–	–	–	4,265	–	–	28,106
45,161	–	–	–	–	–	–	45,161
1,019	426	–	–	520	–	–	1,965
5,646	–	–	–	–	–	–	5,646
391	–	–	–	–	–	–	391
–	–	344	–	–	–	–	344
–	–	–	–	–	–	2,591	2,591
238	960	–	–	–	1,097	–	2,295
1	–	–	–	–	556	–	557
–	104	–	–	–	–	–	104
237	856	–	–	–	541	–	1,634
372	1	21	3	–	80	–	477
590	–	8	–	–	–	–	598
489	–	–	–	–	–	–	489
101	–	–	–	–	–	–	101
–	–	8	–	–	–	–	8
1,276	162	2	–	–	12	–	1,452
133	18	2	8	19	39	–	219
2,323	747	71	299	9	160	465	4,074
–	220	–	–	–	–	–	220
4,622	33,549	–	–	–	–	–	38,171
32	1,731	–	–	–	124	1,103	2,990
6	–	–	–	–	–	–	6
540	427	(1)	1,452	2	1,344	(3,764)	–
86,190	38,241	447	1,762	4,815	2,856	395	134,706
6,667	3,045	241	402	230	(1,008)	–	9,577
6,659	1,717	193	365	230	(1,427)	–	7,737
8	1,328	48	37	–	419	–	1,840
8	1,081	48	37	–	(27)	–	1,147
–	247	–	–	–	446	–	693
6,667	3,045	241	402	230	(1,008)	–	9,577

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.

£m

Year ended 31 December 2009	Notes	Long Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	C1(b)	**(1)**	**(12)**	**(243)**	**(167)**	**(14)**
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(51)**	**–**	**–**	**(7)**	**–**
Short-term fluctuations in investment return	C1(d)	**(38)**	**(1)**	**1**	**(88)**	**(150)**
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(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 losses on Group debt instruments	C1(h)	**–**	**–**	**–**	**–**	**–**
Total adjusting items		**(199)**	**(13)**	**(242)**	**(262)**	**(164)**
Tax on adjusting items	D1(d)	**(1)**	**9**	**14**	**37**	**44**
Non-controlling interest in adjusting items	F11(a)(ii)	**–**	**–**	**–**	**–**	**–**
Total adjusting items after tax and non-controlling interests		**(200)**	**(4)**	**(228)**	**(225)**	**(120)**

£m

Year ended 31 December 2008	Notes	Long Term Savings				
		Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	C1(b)	(1)	(195)	(46)	(100)	(96)
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	(11)	55	–	–	–
Short-term fluctuations in investment return	C1(d)	(95)	4	1	140	(248)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	234	–	–	–	–
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		127	(136)	(45)	40	(344)
Tax on adjusting items	D1(d)	20	14	17	10	3
Non-controlling interest in adjusting items	F11(a)(ii)	–	–	–	–	–
Total adjusting items after tax and non-controlling interests		147	(122)	(28)	50	(341)

£m

Total Long Term Savings	Nedbank	M&F	USAM	Other	Total
(437)	**(4)**	**–**	**(2)**	**–**	**(443)**
(58)	**–**	**–**	**1**	**7**	**(50)**
(276)	**–**	**(10)**	**–**	**(30)**	**(316)**
(109)	**–**	**–**	**–**	**–**	**(109)**
	–	**–**	**–**	**45**	**45**
–					
	–	**–**	**(1)**	**–**	**(1)**
–					
–	**–**	**–**	**–**	**(263)**	**(263)**
(880)	**(4)**	**(10)**	**(2)**	**(241)**	**(1,137)**
103	**–**	**3**	**2**	**–**	**108**
–	**19**	**7**	**(3)**	**–**	**23**
(777)	**15**	**–**	**(3)**	**(241)**	**(1,006)**

£m

Total Long Term Savings	Nedbank	M&F	USAM	Other	Total
(438)	–	–	–	–	(438)
44	1	(10)	1	17	53
(198)	–	(72)	–	(72)	(342)
234	–	–	–	–	234
–	–	–	–	43	43
–	–	–	7	–	7
–	14	–	–	489	503
(358)	15	(82)	8	477	60
64	(4)	14	–	(136)	(62)
–	18	19	(7)	–	30
(294)	29	(49)	1	341	28

(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 2009	**Emerging Markets**	**Nordic**	**Retail Europe**	**Wealth Management**	**US Life**	**Nedbank**	**USAM**	**Total**
Amortisation of acquired PVIF	**–**	**(106)**	**(37)**	**(86)**	**(14)**	**–**	**–**	**(243)**
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 (note F1)	**–**	**–**	**(187)**	**(79)**	**–**	**–**	**–**	**(266)**
	(1)	**(12)**	**(243)**	**(167)**	**(14)**	**(4)**	**(2)**	**(443)**

£m

Year ended 31 December 2008	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Nedbank	USAM	Total
Amortisation of acquired PVIF	–	(105)	(49)	(97)	(35)	–	–	(286)
Amortisation of acquired deferred costs and revenue	1	22	16	42	–	–	–	81
Amortisation of other acquired intangible assets	(1)	(24)	(13)	(37)	–	–	–	(75)
Change in acquisition date provisions	–	(76)	–	(8)	–	–	–	(84)
Goodwill impairment (note F1)	(1)	(12)	–	–	(61)	–	–	(74)
	(1)	(195)	(46)	(100)	(96)	–	–	(438)

(c) (Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments

On 6 March 2009 the Group disposed of its interest in Old Mutual Australia at a loss of £8 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 holds 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.

On 11 June 2008, the Group completed the disposal of its controlling shareholding in Palladyne, an asset management business, resulting in a profit on disposal of £17 million.

Part of the Nordic segment's banking business, Skandia's Nordic vehicle finance operation, Skandiabanken Bilfinans, was sold in the previous financial year, resulting in a profit on disposal of £55 million.

In the previous financial year, the Group has closed its project to develop a direct financial services capability in South Africa due to adverse market conditions. Costs relating to the closure amounting to £25 million have been excluded from the adjusted operating profit. Emerging Markets realised a profit of £4 million on the sale of its administration business and Nedbank recognised a £1 million profit on the disposal of Bond Choice.

(Loss)/profits on the disposal of subsidiaries, associated undertakings and strategic investments are analysed below:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Emerging Markets	**(51)**	(11)
Nordic	**–**	55
Wealth Management	**(7)**	–
Total Long Term Savings	**(58)**	44
Nedbank	**–**	1
M&F	**–**	(10)
USAM	**1**	1
Other	**7**	17
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	**(50)**	53

(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, Wealth Management and US Life, 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 £m 2009	Year ended 31 December £m 2008
Emerging Markets	**13.3%**	16.6%
Nordic	**1.8%**	3.5%
Retail Europe	**2.8%**	3.1%
Wealth Management	**5.0%**	5.0%
US Life	**5.9%**	5.9%
M&F	**13.3%**	16.6%

Analysis of short-term fluctuations in investment return

£m

Year ended 31 December 2009	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Total Long Term Savings	M&F	Other	Total
Long-term investment return	**126**	**1**	**1**	**109**	**539**	**776**	**60**	**91**	**927**
Less: Actual shareholder investment return	**88**	**–**	**2**	**21**	**389**	**500**	**50**	**61**	**611**
Short-term fluctuations in investment return	**38**	**1**	**(1)**	**88**	**150**	**276**	**10**	**30**	**316**

£m

Year ended 31 December 2008	Emerging Markets	Nordic	Retail Europe	Wealth Management	US Life	Total Long Term Savings	M&F	Other	Total
Long-term investment return	133	1	–	65	440	639	60	108	807
Less: Actual shareholder investment return	38	5	1	205	192	441	(12)	36	465
Short-term fluctuations in investment return	95	(4)	(1)	(140)	248	198	72	72	342

The actual investment return attributable to shareholders for US life assurance reflects total investment income, as a distinction is not drawn between shareholder and policyholder funds.

(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 2009 the investment return adjustment increased adjusted operating profit by £109 million (2008: decrease of £234 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 £45 million in the year ended 31 December 2009 (2008: £43 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 gain recognised in 2009 was £1 million (2008: loss £7 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 2009 these instruments were revalued, the impact of which was nil (2008: nil).

(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 £263 million (2008: gains due to widening of £489 million) on Other operating segments and £nil (2008: £14 million gain) 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 2009		
Rand	**13.1746**	**11.9172**
US Dollars	**1.5655**	**1.6148**
Swedish Kronor	**11.9743**	**11.5562**
Euro	**1.1227**	**1.1268**
31 December 2008		
Rand	15.2948	13.7194
US Dollars	1.8524	1.4575
Swedish Kronor	12.2209	11.4494
Euro	1.2594	1.0446

C3: Earnings 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.

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
(Loss)/profit for the financial year attributable to equity holders of the parent	**(340)**	441
Dividends declared to holders of perpetual preferred callable securities	**(32)**	(31)
(Loss)/profit attributable to ordinary equity holders	**(372)**	410

Total dividends declared to holders of perpetual preferred callable securities of £45 million in 2009 (2008: £43 million) are stated net of tax credits of £13 million (2008: £12 million).

	Year ended 31 December Millions 2009	Year ended 31 December Millions 2008
Weighted average number of ordinary shares in issue	**5,277**	5,294
Shares held in charitable foundations	**(7)**	(19)
Shares held in ESOP trusts	**(41)**	(45)
Adjusted weighted average number of ordinary shares	**5,229**	5,230
Shares held in life funds	**(236)**	(240)
Shares held in Black Economic Empowerment trusts	**(235)**	(235)
Weighted average number of ordinary shares	**4,758**	4,755
Basic earnings per ordinary share (pence)	**(7.8)**	8.6

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.

	Year ended 31 December Millions 2009	Year ended 31 December Millions 2008
Weighted average number of ordinary shares	**4,758**	4,755
Adjustments for share options held by ESOP trusts	**–**	61
Adjustments for shares held in Black Economic Empowerment trusts	**–**	235
	4,758	5,051
Diluted earnings per ordinary share (pence)	**(7.8)**	8.1

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.

(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 a long-term investment return, includes 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 (loss)/profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
(Loss)/profit for the financial year attributable to equity holders of the parent	**(340)**	441
Adjusting items	**1,137**	(60)
Non core operations – Bermuda	**(33)**	365
Tax on adjusting items	**(108)**	62
Non-controlling interest on adjusting items	**(23)**	(30)
Adjusted operating profit after tax attributable to ordinary equity holders	**633**	778
Adjusted weighted average number of ordinary shares – (millions)	**5,229**	5,230
Adjusted operating earnings per ordinary share – (pence)	**12.1**	14.9

(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.

	Year ended 31 December £m 2009		Year ended 31 December £m 2008	
	Gross	**Net**	Gross	Net
(Loss)/profit for the financial year attributable to equity holders of the parent	**(340)**	**(340)**	441	441
Dividends declared to holders of perpetual preferred callable securities	**(32)**	**(32)**	(31)	(31)
(Loss)/profit attributable to ordinary equity holders	**(372)**	**(372)**	410	410
Adjustments:				
Impairments of goodwill and intangible assets	**266**	**266**	100	100
Loss/(profit) on disposal of subsidiaries, associated undertakings and strategic investments	**50**	**53**	(53)	(67)
Realised gains/losses (including impairments) on available-for-sale financial assets	**239**	**239**	414	381
Headline earnings	**183**	**186**	871	824
Weighted average number of ordinary shares	**4,758**	**4,758**	4,755	4,755
Diluted weighted average number of ordinary shares	**5,109**	**5,109**	5,051	5,051
Headline earnings per share (pence)	**3.8**	**3.9**	18.3	17.3
Diluted headline earnings per share (pence)	**3.6**	**3.6**	17.2	16.3

C4: Dividends

Dividends paid were as follows:

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
2007 Final dividend paid – 4.55p per 10p share		–	227
2008 Interim dividend paid – 2.45p per 10p share		–	125
Dividends to ordinary equity holders		–	352
Dividends declared to holders of perpetual preferred callable securities	F10(b)	**45**	43
Dividend payments for the year		**45**	395

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 2009, £22 million and 23 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2008: £23 million and November 2008: £20 million).

A final dividend of 1.5 pence per 10p share has been recommended by the directors. Subject to shareholders' approval, the dividend will be paid on 25 June 2010 to shareholders on the register at the close of business on 14 May 2010. The dividend will absorb an estimated £81 million of shareholders' funds. The Company is planning to offer, for the first time, a scrip dividend alternative for eligible shareholders subject to finalising the associated logistics and timetable.

D: Other income statement notes

D1: Income tax expense/(credit)

(a) Analysis of total income tax expense/(credit)

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Current tax		
United Kingdom tax		
Corporation tax	**46**	93
Double tax relief	**–**	(145)
Overseas tax		
South Africa	**257**	264
United States	**–**	4
Europe	**49**	68
Secondary Tax on Companies (STC)	**13**	22
Prior year adjustments	**14**	1
Total current tax	**379**	307
Deferred tax		
Origination and reversal of temporary differences	**45**	(548)
Changes in tax rates/bases	**–**	(1)
Write down/recognition of deferred tax assets	**(59)**	154
Total deferred tax	**(14)**	(395)
Total income tax expense/(credit)	**365**	(88)

(b) Reconciliation of total income tax expense/(credit)

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Profit before tax	**247**	595
Tax at standard rate of 28% (2008: 28.5%)	**69**	169
Different tax rate or basis on overseas operations	**(9)**	(23)
Untaxed and low taxed income	**(86)**	(218)
Disallowable expenses	**180**	8
Net movement on deferred tax assets not recognised	**83**	123
Effect on deferred tax of changes in tax rates	**(2)**	(5)
STC	**19**	53
Income tax attributable to policyholder returns	**142**	(169)
Other	**(31)**	(26)
Total income tax expense/(credit)	**365**	(88)

(c) Income tax relating to components of other comprehensive income

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Fair value gains/(losses)	**428**	(383)
Shadow accounting	**(18)**	16
Currency translation differences/exchange differences on translating foreign operations	**–**	13
Other	**(13)**	(12)
Income tax expense/(credit) relating to components of other comprehensive income	**397**	(366)

(d) Income tax on adjusted operating profit

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Income tax expense/(credit)	**365**	(88)
Tax on adjusting items		
Impact of acquisition accounting	**40**	46
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	**(2)**	12
Short-term fluctuations in investment return	**83**	35
Income tax attributable to policyholders returns	**(192)**	236
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(13)**	(12)
Fair value gains and losses on group debt instruments	**–**	(143)
Tax on non-core operations	**11**	–
Income tax on adjusted operating profit	**292**	86

D2: Investment return (non-banking)

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Interest and similar income		
Loans and advances	**16**	34
Investments and securities	**1,701**	1,644
Government and government-guaranteed securities	**307**	253
Other debt securities, preference shares and debentures	**1,023**	916
Pooled investments	**80**	54
Short-term funds and securities treated as investments	**287**	290
Other	**4**	131
Cash and cash equivalents	**57**	108
Total interest and similar income	**1,774**	1,786
Dividend income – investments and securities	**387**	513
Equity securities	**324**	480
Pooled investments	**63**	33
Fair value gains and losses recognised in income	**9,410**	(13,790)
Investments and securities	**8,844**	(12,921)
Derivatives	**(343)**	249
Other	**909**	(1,118)
Rental income from investment property	**136**	71
Investment property	**(99)**	(143)
Foreign currency gains/(losses)	**8**	(15)
Total investment return recognised in income	**11,616**	(11,578)

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Total interest income for assets not at fair value through income statement	**681**	851
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held for trading (including derivatives)	**(343)**	249
Designated at fair value through income statement	**9,992**	(13,626)
Available-for-sale financial assets	**(239)**	(414)
Loans and receivables	**–**	1
	9,410	(13,790)
Realised fair value gains and losses included in the above	**(10)**	(2)

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 £261 million (2008: £414 million) which all relate to debt securities held by the Group's US Life and Bermuda businesses.

D3: Banking interest and similar income

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Interest and similar income		
Loans and advances	**3,635**	3,701
Mortgage loans	**1,852**	1,958
Finance lease and instalment debtors	**581**	545
Credit cards	**92**	89
Bills and acceptances	**3**	4
Overdrafts	**120**	149
Term loans and other	**987**	956
Investments and securities	**346**	345
Government and government-guaranteed securities	**261**	210
Other debt securities, preference shares and debentures	**85**	135
Cash and cash equivalents	**8**	13
Total interest and similar income	**3,989**	4,059
Total interest income for assets not at fair value through income statement	**3,518**	3,779
Total interest income on impaired financial assets	**180**	109

D4: Banking trading, investment and similar income

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Dividend income – investments and securities	**4**	16
Equity securities	**4**	14
Pooled investments	**–**	2
Rental income from investment property	**4**	3
Exchange and other non-interest income	**21**	43
Derivative income	**61**	49
Exchange	**(1)**	6
Securities dealing	**(42)**	(22)
Fair value gains	**3**	10
Net trading income	**139**	100
Foreign exchange	**88**	76
Debt securities	**58**	36
Equities	**(8)**	(12)
Other	**1**	–
Total banking trading, investment and similar income	**168**	162
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**35**	(61)
Designated at fair value through income statement	**(32)**	71
	3	10
Realised fair value gains included in the above	**4**	19

D5: Fee and commission income, and income from service activities

£m

Year ended 31 December 2009	Life assurance	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**

£m

Year ended 31 December 2008	Life assurance	Asset management	Banking	General insurance	Total
Fee and commission income	950	910	507	18	2,385
Transaction and performance fees	–	34	–	–	34
Change in deferred revenue	(109)	4	1	(2)	(106)
	841	948	508	16	2,313

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

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Interest payable on borrowed funds		**57**	89
Senior debt and term loans		**18**	26
Subordinated debt		**64**	65
Other		**(25)**	(2)
Fair value gains and losses on borrowed funds		**268**	(474)
Borrowed funds		**274**	(434)
Derivative instruments		**(6)**	(40)
Foreign currency gains and losses on borrowed funds		**(3)**	(6)
Reserve movements relating to debt and derivative instruments		**–**	(1)
Total finance costs excluding banking activities		**322**	(392)
Finance costs from banking activities	D7	**117**	79
Total interest expense included above for liabilities not at fair value through income statement		**21**	27
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:			
Held-for-trading (including derivatives)		**(6)**	(40)
Designated at fair value through income statement		**274**	(434)
		268	(474)

D7: Banking interest payable and similar expense

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Amounts owed to bank depositors	**2,458**	2,594
Deposits and loan accounts	**1,489**	1,698
Current and savings accounts	**119**	267
Negotiable certificates of deposit	**733**	550
Long-term debt instruments	**117**	79
Other liabilities	**169**	259
Total interest payable and similar expenses	**2,627**	2,853
Total interest expense included above for liabilities not at fair value through income statement	**2,202**	2,038

D8: Fee and commission expenses, and other acquisition costs

Year ended 31 December 2009	Life assurance	Asset management	General insurance	£m Total
Fees and commission expenses	**632**	**126**	**106**	**864**
Changes in deferred acquisition costs	**(111)**	**(3)**	**–**	**(114)**
Other acquisition costs	**52**	**4**	**–**	**56**
	573	**127**	**106**	**806**

Year ended 31 December 2008	Life assurance	Asset management	General insurance	£m Total
Fees and commission expenses	804	170	103	1,077
Changes in deferred acquisition costs	(184)	(7)	(2)	(193)
Other acquisition costs	46	7	–	53
	666	170	101	937

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.

D9: Other operating and administrative expenses

(a) Other operating and administrative expenses includes:

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Staff costs	D9(b)	**1,701**	1,463
Depreciation	F2	**86**	74
Software costs		**14**	24
Operating lease rentals – banking		**55**	44
Operating lease rentals – non-banking		**57**	58
Amortisation of intangibles		**275**	329
Impairment of goodwill and other intangible assets		**266**	100

(b) Staff costs

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Staff costs			
Wages and salaries		**1,196**	1,011
Social security costs		**58**	60
Retirement obligations			
Defined contribution plans		**50**	37
Defined benefit plans		**2**	(24)
Other retirement benefits		**4**	3
Bonus and incentive remuneration		**264**	200
Share-based payments			
Cash settled	G2(h)	**7**	3
Equity settled	G2(h)	**35**	21
Termination benefits		**2**	2
Long-term employee benefits		**3**	4
Other		**80**	146
		1,701	1,463
			Number
The average number of persons employed by the Group during the year was:			
Life assurance		**19,059**	20,814
Banking		**27,180**	27,257
Asset management		**4,832**	5,506
General insurance		**2,331**	2,703
Other		**304**	266
		53,706	56,546

(c) Fees to Group's auditors

Included in other operating expenses are fees paid to the Group's auditors. These can be categorised as follows:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Fees for audit services		
Group	**1.4**	1.5
Subsidiaries	**10.7**	9.7
Pension schemes	**0.3**	0.3
Total audit fees	**12.4**	11.5
Fees for non-audit services		
Taxation	**1.1**	0.9
Information technology	**0.1**	0.1
Other services pursuant to legislation	**0.1**	0.4
Valuation and actuarial	**0.1**	0.2
Any other services provided by auditors	**1.4**	2.7
Total non-audit services	**2.8**	4.3
Total Group auditors' remuneration	**15.2**	15.8

In addition to the above, fees of £2.9million (2008: £2.6 million) were payable to other auditors in respect of joint audit arrangements of Nedbank, the Group's banking subsidiary in South Africa.

(d) Operating lease payments

Payments under operating leases recognised as an expense in the year	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Banking	**44**	43
Non-banking	**28**	33
	72	76

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

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, and bond prices, 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

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 interest 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**

£m

At 31 December 2008	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	5,882	–	–	–	–	–	–	5,882
Mandatory reserve deposits with central banks	734	–	–	–	–	734	–	–
Property, plant and equipment	682	–	–	–	–	–	–	682
Investment property	1,478	–	–	–	–	–	–	1,478
Deferred tax assets	1,590	–	–	–	–	–	–	1,590
Investment in associated undertakings and joint ventures	111	–	–	–	–	–	–	111
Deferred acquisition costs	3,199	–	–	–	–	–	–	3,199
Reinsurers' share of life assurance policyholder liabilities	1,148	–	551	–	–	37	–	560
Reinsurers' share of general insurance liabilities	115	–	–	–	–	–	–	115
Deposits held with reinsurers	164	–	121	–	–	43	–	–
Loans and advances	35,745	760	2,548	–	–	32,437	–	–
Investments and securities	83,522	627	67,703	11,732	1,494	1,966	–	–
Current tax receivable	118	–	–	–	–	–	–	118
Client indebtedness for acceptances	220	–	–	–	–	–	–	220
Other assets	3,137	73	596	–	–	2,145	–	323
Derivative financial instruments – assets	3,228	3,228	–	–	–	–	–	–
Cash and cash equivalents	3,203	–	–	–	–	3,203	–	–
Non-current assets held-for-sale	7	–	–	–	–	–	–	7
	144,283	4,688	71,519	11,732	1,494	40,565	–	14,285
Liabilities								
Life assurance policyholder liabilities	81,269	1,833	45,691	–	–	–	1,434	32,311
General insurance liabilities	344	–	–	–	–	–	–	344
Third party interests in consolidation of funds	2,591	–	2,591	–	–	–	–	–
Borrowed funds	2,295	–	1,056	–	–	–	1,239	–
Provisions	477	–	–	–	–	–	–	477
Deferred revenue	598	–	–	–	–	–	–	598
Deferred tax liabilities	1,452	–	–	–	–	–	–	1,452
Current tax payable	219	–	–	–	–	–	–	219
Other liabilities	4,074	271	531	–	–	–	1,788	1,484
Liabilities under acceptances	220	–	–	–	–	–	–	220
Amounts owed to bank depositors	38,171	1,431	7,164	–	–	–	29,576	–
Derivative financial instruments – liabilities	2,990	2,990	–	–	–	–	–	–
Non-current liabilities held-for-sale	6	–	–	–	–	–	–	6
	134,706	6,525	57,033	–	–	–	34,037	37,111

In accordance with the provisions of the October 2008 amendment to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of reclassifications of financial assets, the Company's US subsidiary, US Life, in 2008 elected to reclassify 152 securities from the available-for-sale category to the loans and receivables category on the basis that the securities were no longer regarded as being traded in an active market. The reclassifications were made as at 1 July 2008 in accordance with the transitional provisions in the amendment.

The book values and fair values of the reclassified securities as at 1 July 2008 were £1,119 million and £926 million respectively. These securities had an aggregate carrying value and aggregate fair value as at 31 December 2009 of £1,001 million and £971 million respectively (2008: £1,262 million and £972 million respectively). The amount of accumulated unrealised losses on the reclassified securities already recognised in other comprehensive income as at the date of reclassification was £263 million. The amount of unrealised losses that would have been recognised in other comprehensive income had the reclassification not taken place would have been £29 million at 31 December 2009 (2008: £284 million).

The overall income statement impact of the reclassifications was nil, as the revised amortised effective interest on the reclassified securities was directly offset by the amortisation of the previously recognised unrealised losses to the income statement using the same amortisation pattern. At 1 July 2008, the effective rates of interest for the reclassified securities ranged from 4.39% to 15.23% and at that point the Group expected to recover £2.1 billion (based on exchange rate at 1 July 2008) in projected cash flows over the remaining lives of the reclassified securities.

(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 reprice 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 2009 to 2011, 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.

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 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**

Fair value hierarchy £m

Year ended 31 December 2008	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	4,688	1,206	3,390	92
Loans and advances	760	–	708	52
Investments and securities	627	–	587	40
Other assets	73	73	–	–
Derivative financial instruments – assets	3,228	1,133	2,095	–
Designated (fair value through income statement)	71,519	61,226	8,463	1,830
Reinsurers' share of life assurance policyholder liabilities	551	551	–	–
Deposits held with reinsurers	121	121	–	–
Loans and advances	2,548	–	2,548	–
Investments and securities	67,703	60,542	5,331	1,830
Other assets	596	12	584	–
Available-for-sale financial assets	11,732	1,871	9,521	340
Investments and securities	11,732	1,871	9,521	340
Total financial assets measured at fair value	87,939	64,303	21,374	2,262
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	6,525	1,372	3,310	1,843
Life assurance policyholder liabilities	1,833	–	–	1,833
Other liabilities	271	267	4	–
Amounts owed to bank depositors	1,431	–	1,431	–
Derivative financial instruments – liabilities	2,990	1,105	1,875	10
Designated (fair value through income statement)	57,033	37,020	19,188	825
Life assurance policyholder liabilities	45,691	35,964	8,902	825
Third party interests in consolidated funds	2,591	–	2,591	–
Borrowed funds	1,056	1,056	–	–
Other liabilities	531	–	531	–
Amounts owed to bank depositors	7,164	–	7,164	–
Total financial liabilities measured at fair value	63,558	38,392	22,498	2,668

£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 movement	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 assets											
Held-for-trading (fair value through income statement)	**92**	**(7)**	**(4)**	**–**	**(48)**	**–**	**(5)**	**8**	**36**	**(35)**	**13**
Loans and advances	**52**	**(7)**	**(4)**	**–**	**(33)**	**–**	**(5)**	**4**	**7**	**–**	**–**
Investments and securities	**40**	**(1)**	**–**	**–**	**(15)**	**–**	**–**	**4**	**28**	**(35)**	**13**
Derivative financial instruments – assets	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**
Designated (fair value through income statement)	**1,830**	**(13)**	**12**	**163**	**(186)**	**107**	**(225)**	**96**	**1,784**	**(22)**	**–**
Investments and securities	**1,830**	**(13)**	**12**	**163**	**(186)**	**107**	**(225)**	**96**	**1,784**	**(22)**	**–**
Available-for-sale financial assets	**340**	**(42)**	**20**	**118**	**(11)**	**95**	**(40)**	**(32)**	**448**	**–**	**–**
Investments and securities	**340**	**(42)**	**20**	**118**	**(11)**	**95**	**(40)**	**(32)**	**448**	**–**	**–**
Total Level 3 assets	**2,262**	**(62)**	**28**	**281**	**(245)**	**202**	**(270)**	**72**	**2,268**	**(57)**	**13**
Level 3 liabilities											
Held-for-trading (fair value through income statement)	**1,843**	**(225)**	**–**	**29**	**(113)**	**–**	**–**	**(169)**	**1,365**	**(560)**	**–**
Life assurance policyholder liabilities	**1,833**	**(227)**	**–**	**29**	**(113)**	**–**	**–**	**(170)**	**1,352**	**(551)**	**–**
Derivative financial instruments – liabilities	**10**	**2**	**–**	**–**	**–**	**–**	**–**	**1**	**13**	**(9)**	**–**
Designated (fair value through income statement)	**825**	**(79)**	**–**	**12**	**(27)**	**107**	**(225)**	**(17)**	**596**	**85**	**–**
Life assurance policyholder liabilities (investment contracts)	**825**	**(79)**	**–**	**12**	**(27)**	**107**	**(225)**	**(17)**	**596**	**85**	**–**
Total Level 3 liabilities	**2,668**	**(304)**	**–**	**41**	**(140)**	**107**	**(225)**	**(186)**	**1,961**	**(475)**	**–**

The transfers into Level 3 largely relate to 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.

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, principle 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 2009	Reflected in income statement		Reflected in comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Held-for-trading (fair value through income statement)	**1**	**1**	**–**	**–**
Loans and advances	**–**	**–**	**–**	**–**
Investments and securities	**–**	**–**	**–**	**–**
Derivative financial instruments – assets	**1**	**1**	**–**	**–**
Designated (fair value through income statement)	**404**	**481**	**–**	**–**
Investments and securities	**404**	**481**	**–**	**–**
Available-for-sale financial assets	**–**	**–**	**27**	**24**
Investments and securities	**–**	**–**	**27**	**24**
Total level 3 financial assets	**405**	**482**	**27**	**24**
Level 3 financial liabilities				
Held-for-trading (fair value through income statement)	**29**	**13**	**–**	**–**
Life assurance policyholder liabilities	**26**	**10**	**–**	**–**
Derivative financial instruments – liabilities	**3**	**3**	**–**	**–**
Designated (fair value through income statement)	**85**	**92**	**–**	**–**
Life assurance policyholder liabilities (investment contracts)	**85**	**92**	**–**	**–**
Total level 3 financial liabilities	**114**	**105**	**–**	**–**

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.

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 2009	Maximum exposure to credit risk	Change in fair value due to change in credit risk: Current financial year	Change in fair value due to change in credit risk: Cumulative
Loans and advances	**3,157**	**(1)**	**–**
Investments and securities	**8,842**	**(7)**	**(8)**
Other assets	**56**	**–**	**–**
	12,055	**(8)**	**(8)**

£m

At 31 December 2008	Maximum exposure to credit risk	Change in fair value due to change in credit risk: Current financial year	Change in fair value due to change in credit risk: Cumulative
Loans and advances	2,548	–	1
Investments and securities	6,622	(9)	(13)
Other assets	36	–	–
	9,206	(9)	(12)

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 2009	Fair value	Change in fair value due to change in credit risk: Current financial year	Change in fair value due to change in credit risk: Cumulative	Contractual maturity amount
Borrowed funds	**1,344**	**264**	**(276)**	**1,679**
Amounts owed to bank depositors	**6,235**	**(6)**	**(18)**	**6,290**
	7,579	**258**	**(294)**	**7,969**

£m

At 31 December 2008	Fair value	Change in fair value due to change in credit risk: Current financial year	Change in fair value due to change in credit risk: Cumulative	Contractual maturity amount
Borrowed funds	1,460	(503)	(565)	2,002
Amounts owed to bank depositors	7,164	10	11	7,169
	8,624	(493)	(554)	9,171

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 at 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 risk to changes in fair value in 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 at fair value through the income statement. The change in fair value due to credit risk of financial liabilities designated at 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, instead the overall exposures to changes in markets are monitored closely so that actions can be taken to re-establish hedging at short notice, 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 Market Consistent Embedded Value supplementary basis information section of the Annual Report and Accounts on pages 382 to 389.

(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 repricing 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

Historical VaR (one-day, 99%) by risk type	Average	Minimum	Maximum	Year-end
At 31 December 2009				
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**

£m

	Average	Minimum	Maximum	Year-end
At 31 December 2008				
Foreign exchange	0.4	0.1	1.3	0.2
Interest rate	0.9	0.5	1.6	1.3
Equity products	0.5	0.2	1.4	0.4
Other	0.4	0.2	0.6	0.4
Diversification	(0.9)	–	–	(0.8)
Total VaR exposure	1.3	1.0	4.9	1.5

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 reprice only on maturity;
- short-term demand-funding products reprice to different short-end base rates;
- certain ambiguous maturity accounts are non-rate-sensitive; and
- 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 a point-in-time interest income stress testing for parallel interest rate moves over a forward-looking 12-month period. At 31 December 2009 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 (2008: £31 million).

The table below shows the repricing profile of Nedbank's banking book, which highlights the fact that assets reprice quicker than liabilities following derivative hedging activities.

£m

Interest rate repricing gap	Up to 3 months	3<6 months	6 months <1 year	1<5 years	Over 5 years	Trading and non-rate	Total
At 31 December 2009							
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)**	**–**	**–**
Repricing profile	**2,853**	**(85)**	**(229)**	**751**	**(197)**	**(3,093)**	**–**
Cumulative repricing 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%**	**–**	**–**

£m

	Up to 3 months	3<6 months	6 months <1 year	1<5 years	Over 5 years	Trading and non-rate	Total
At 31 December 2008							
Total assets	30,900	635	137	2,759	1,598	5,301	41,330
Total liabilities and shareholders' funds	25,369	2,714	3,355	1,021	440	8,431	41,330
Interest rate hedging activities	(3,371)	1,768	3,093	(275)	(1,215)	–	–
Repricing profile	2,160	(311)	(125)	1,464	(57)	(3,131)	–
Cumulative repricing profile	2,160	1,849	1,724	3,188	3,131	–	–
Expressed as a % of total assets	5.2%	4.5%	4.2%	7.7%	7.6%	–	–

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.

(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. 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 dollars. 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 2009.

£m

At 31 December 2009	ZAR	GBP	USD	Euro	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	51	93	–	17	2	6	169
Client indebtedness for acceptances	141	–	10	19	–	–	170
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	22,445	8,708	10,216	6,509	153,095

£m

At 31 December 2008	ZAR	GBP	USD	Euro	SEK	Other	Total
Assets							
Goodwill and other intangible assets	479	1,670	1,392	1,065	1,146	130	5,882
Mandatory reserve deposits with central banks	686	46	–	–	–	2	734
Property, plant and equipment	594	27	28	5	3	25	682
Investment property	1,296	181	–	–	–	1	1,478
Deferred tax assets	97	166	1,194	44	73	16	1,590
Investments in associated undertakings and joint ventures	78	26	–	–	–	7	111
Deferred acquisition costs	117	624	2,082	234	29	113	3,199
Reinsurers' share of life assurance policyholder liabilities	15	607	508	1	6	11	1,148
Reinsurers' share of general insurance liabilities	100	–	–	–	–	15	115
Deposits held with reinsurers	3	–	161	–	–	–	164
Loans and advances	29,263	468	1,398	166	1,728	2,722	35,745
Investments and securities	23,251	27,969	17,845	4,595	7,799	2,063	83,522
Current tax receivable	29	80	1	6	–	2	118
Client indebtedness for acceptances	208	–	9	1	–	2	220
Other assets	983	311	1,396	54	297	96	3,137
Derivative financial instruments – assets	1,779	32	1,210	175	30	2	3,228
Cash and cash equivalents	1,057	645	657	180	293	371	3,203
Non-current assets held-for-sale	7	–	–	–	–	–	7
	60,042	32,852	27,881	6,526	11,404	5,578	144,283
Liabilities							
Life assurance policyholder liabilities	23,604	20,607	23,070	5,949	6,655	1,384	81,269
General insurance liabilities	316	–	–	–	–	28	344
Third party interests in consolidation of funds	374	1,068	129	–	1,020	–	2,591
Borrowed funds	1,184	279	316	455	61	–	2,295
Provisions	142	102	124	18	58	33	477
Deferred revenue	26	394	–	128	–	50	598
Deferred tax liabilities	329	235	578	194	87	29	1,452
Current tax payable	115	64	13	2	20	5	219
Other liabilities	1,996	842	754	182	180	120	4,074
Liabilities under acceptances	208	–	9	1	–	2	220
Amounts owed to bank depositors	30,298	645	1,724	282	2,261	2,961	38,171
Derivative financial instruments – liabilities	1,730	33	1,128	7	92	–	2,990
Non-current liabilities held-for-sale	6	–	–	–	–	–	6
	60,328	24,269	27,845	7,218	10,434	4,612	134,706

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 £318million (2008: £292 million), EUR £42 million (2008: £113 million), SEK £352 million (2008: £215 million) and ZAR £99 million (2008: an increase in consolidated equity holders' funds of £26 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 £48 million (2008: £10 million gain).

E2: Credit risk

Overall exposure to credit risk

Credit risk refers to the risk that 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 70% 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.

	At 31 December £m 2009	At 31 December £m 2008
Mandatory reserve deposits with central banks	**882**	734
Reinsurers' share of life assurance policyholder liabilities	**1,296**	1,148
Reinsurers' share of general insurance liabilities	**120**	115
Deposits held with reinsurers	**146**	164
Loans and advances	**42,393**	35,745
Investments and securities	**32,668**	32,297
Government and government-guaranteed securities	**8,168**	8,976
Other debt securities, preference shares and debentures	**20,526**	19,116
Short-term funds and securities treated as investments	**3,859**	3,989
Other	**115**	216
Other assets	**3,004**	2,681
Derivative financial instruments – assets	**2,546**	3,228
Cash and cash equivalents	**2,982**	2,862
Financial guarantees and other credit related contingent liabilities	**3,100**	1,989
Loan commitments and other credit related commitments	**4,602**	4,165
	93,739	85,128

(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 mortgages 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:

	At 31 December £m 2009	At 31 December £m 2008
Home loans	**16,474**	14,111
Commercial mortgages	**6,409**	5,325
Properties in possession	**74**	58
Credit cards	**657**	556
Overdrafts	**1,035**	895
Policyholder loans	**263**	260
Other loans to clients	**4,513**	4,443
Preference shares and debentures	**1,396**	1,142
Net finance leases and instalment debtors	**5,381**	4,474
Gross investment	**5,761**	4,948
Unearned finance charges	**(380)**	(474)
Factoring accounts	**183**	29
Trade, other bills and bankers' acceptances	**24**	78
Term loans	**5,852**	4,746
Remittances in transit	**9**	15
Deposits placed under reverse purchase agreements	**955**	192
Gross loans and advances	**43,225**	36,324
Provisions for impairment		
Specific provisions	**(660)**	(407)
Portfolio provision	**(172)**	(172)
Total net loans and advances	**42,393**	35,745

Non-performing loans included above had a book value less impairment provisions of £1,617 million (2008: £870 million).

Of the loans and advances shown above, £13,038 million (2008: £11,268 million) is receivable within one year of the reporting date and is regarded as current. £29,355 million (2008: £24,477 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.

	At 31 December £m 2009	At 31 December £m 2008
Neither past due nor impaired	**37,670**	32,065
Past due but not impaired	**3,279**	2,982
Past due but less than 1 month	**2,631**	2,198
Past due, greater than 1 month but less than 3 months	**566**	618
Past due, greater than 3 months but less than 6 months	**28**	6
Past due, greater than 6 months but less than 1 year	**36**	3
Past due more than 1 year	**18**	157
Impaired loans and advances individually impaired	**2,276**	1,277
Gross loans and advances	**43,225**	36,324
Provisions for impairment	**(832)**	(579)
Total net loans and advances	**42,393**	35,745

The neither past due nor impaired loans and advances can be further analysed by credit rating as follows:

£m

	At 31 December 2009				At 31 December 2008			
	Investment grade	**Sub-investment grade**	**Not rated**	**Total**	Investment grade	Sub-investment grade	Not rated	Total
Home loans	**220**	**9,358**	**3,980**	**13,558**	92	7,638	3,627	11,357
Commercial mortgages	**493**	**5,572**	**15**	**6,080**	580	4,637	–	5,217
Properties in possession	**–**	**–**	**–**	**–**	–	–	–	–
Credit cards	**91**	**434**	**44**	**569**	2	429	30	461
Overdrafts	**58**	**500**	**204**	**762**	46	568	160	774
Policyholder loans	**–**	**–**	**484**	**484**	–	–	153	153
Other loans to clients	**2,926**	**1,317**	**134**	**4,377**	2,115	1,895	211	4,221
Preference shares and debentures	**422**	**3,762**	**183**	**4,367**	167	3,780	46	3,993
Net finance leases and instalment debtors	**649**	**735**	**–**	**1,384**	449	685	4	1,138
Factoring accounts	**–**	**181**	**–**	**181**	1	21	–	22
Trade, other bills and bankers' acceptances	**13**	**11**	**–**	**24**	37	42	–	79
Term loans	**3,988**	**1,075**	**80**	**5,143**	3,179	1,185	79	4,443
Remittances in transit	**5**	**–**	**4**	**9**	9	–	6	15
Deposits placed under reverse purchase agreements	**732**	**–**	**–**	**732**	192	–	–	192
Gross loans and advances	**9,597**	**22,945**	**5,128**	**37,670**	6,869	20,880	4,316	32,065

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 2009			Year ended 31 December 2008		
	Specific impairment	**Portfolio impairment**	**Total impairment**	Specific impairment	Portfolio impairment	Total impairment
Loans and advances						
Balance at beginning of the year	**407**	**172**	**579**	322	130	452
Income statement charge	**528**	**(19)**	**509**	279	41	320
Amounts written off against the provision	**(378)**	**–**	**(378)**	(215)	(2)	(217)
Recoveries of amounts previously written off	**–**	**–**	**–**	25	–	25
Foreign exchange and other movements	**103**	**19**	**122**	(4)	3	(1)
Balance at end of the year	**660**	**172**	**832**	407	172	579

During the year under review, the Group recognised collateral in the amount of £74 million (2008: £58 million) in the statement of financial position. These amounts are being included in the loans and advances above as properties in possession.

(b) Finance lease and instalment debtors

£m

Amounts receivable under finance leases	Minimum lease payments receivable		Present value of minimum lease payments receivable	
	At 31 December 2009	At 31 December 2008	**At 31 December 2009**	At 31 December 2008
Within one year	**974**	882	**843**	741
In the second to fifth years inclusive	**4,771**	3,283	**4,525**	2,954
After five years	**16**	783	**13**	779
	5,761	4,948	**5,381**	4,474
Less: unearned finance income	**(380)**	(474)	**–**	–
Present value of minimum lease payments receivable	**5,381**	4,474	**5,381**	4,474

The accumulated allowance for uncollectable minimum lease payments receivable is £134 million (2008: £117 million).

E4: Investments and securities

	At 31 December £m 2009	At 31 December £m 2008
Government and government-guaranteed securities	**8,168**	8,976
Other debt securities, preference shares and debentures	**20,526**	19,116
Listed	**14,821**	14,069
Unlisted	**5,705**	5,047
Equity securities	**19,986**	16,179
Listed	**18,496**	14,976
Unlisted	**1,490**	1,203
Pooled investments	**45,807**	35,046
Listed	**5,741**	5,215
Unlisted	**40,066**	29,831
Short-term funds and securities treated as investments	**3,859**	3,989
Other	**115**	216
Total investments and securities	**98,461**	83,522

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, £48,226 million (2008: £40,905 million) is regarded as current and £50,235 million (2008: £42,617 million) are 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:

	At 31 December £m 2009	At 31 December £m 2008
Neither past due nor impaired	**32,346**	32,091
Impaired	**322**	206
Total debt instruments and similar securities	**32,668**	32,297

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 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**

£m

At 31 December 2008	Government and government-related securities	Other debt securities, preference shares and debentures	Short-term funds and securities	Other	Total
Investment grade (AAA to BBB)	7,029	14,969	3,601	–	25,599
Sub-investment grade (BB and lower)	–	312	–	–	312
Not rated	1,947	3,835	388	216	6,386
	8,976	19,116	3,989	216	32,297

In general, no collateral is taken in respect of the Group's holdings of debt instruments and similar securities.

United States

US Life incurred impairment losses of £248 million (2008: US Life & Bermuda £414 million) and cumulative net unrealised losses of £307 million (2008: US Life & Bermuda £1,800 million) and the following analysis on the US Life debt instruments and similar securities portfolio and of its fair value gains and losses gives further information as to the quality and spread of the investment portfolio. US Life are the only business unit where the investment portfolio is categorised as Available-for-sale.

US Life NAIC designation

For US statutory reporting, debt securities are classified into six categories specified by the National Association of Insurance Commissioners (NAIC). The categories range from class 1 (the highest) to class 6 (the lowest). Classes 1 to 5 are regarded as performing. Class 6 securities are regarded as in or near default. Generally, classes 1 and 2 are regarded as investment grade (by nationally recognised ratings agencies), classes 3, 4, 5 and 6 securities are non-investment grade securities.

£m

	At 31 December 2009		At 31 December 2008	
	US Life		US Life & Bermuda	
	Carrying value	**% of total**	Carrying value	% of total
1	**5,183**	**54.5%**	6,253	62.2%
2	**3,727**	**39.2%**	3,526	35.1%
3	**507**	**5.3%**	209	2.0%
4	**54**	**0.6%**	27	0.3%
5	**30**	**0.3%**	31	0.3%
6	**8**	**0.1%**	5	0.1%
	9,509	**100.0%**	10,051	100.0%

US Life Securities rating by sector

The following table analyses by carrying value the securities portfolio by sector and investment rating:

%

	US Life					
At 31 December 2009	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total**
Finance	**3**	**2**	**2**	**2**	**1**	**10**
Banking	**1**	**2**	**8**	**5**	**1**	**17**
Utility	**–**	**–**	**3**	**7**	**–**	**10**
Communications	**–**	**–**	**3**	**5**	**–**	**8**
Insurance	**–**	**–**	**3**	**4**	**1**	**8**
Energy	**–**	**–**	**1**	**4**	**–**	**5**
Manufacturing	**–**	**–**	**–**	**4**	**–**	**4**
Other	**17**	**5**	**5**	**8**	**3**	**38**
Total	**21**	**9**	**25**	**39**	**6**	**100**

%

	US Life and Bermuda					
At 31 December 2008	AAA	AA	A	BBB	BB and below	Total
Finance	–	1	7	5	1	14
Banking	1	1	7	5	–	14
Utility	–	–	2	6	–	8
Communications	–	–	3	4	–	7
Insurance	–	–	3	3	–	6
Energy	–	–	2	3	–	5
Manufacturing	–	–	1	1	–	2
Other	27	3	4	8	2	44
Total	28	5	29	35	3	100

US Life Securities by industry

The following table analyses by carrying value the securities portfolio by industry:

		%
	At 31 December 2009	At 31 December 2008
	US Life	US Life and Bermuda
Affiliated	**1**	4
Air transport	**–**	1
Asset backed	**4**	6
Automotive	**–**	1
Banking	**17**	14
Basic industries	**4**	2
Commercial Mortgage Backed Securities (CMBS)	**8**	10
Communications	**9**	6
Consumer cyclical	**2**	2
Consumer non-cyclical	**4**	2
Energy	**5**	5
Entertainment	**–**	1
Finance	**11**	14
Insurance	**7**	6
International	**–**	1
Manufacturing	**3**	2
Municipal	**1**	1
Residential Mortgage Backed Securities (RMBS)	**7**	10
Technology	**2**	1
Transportation	**2**	1
Treasury	**2**	1
Utility	**11**	9
Total	**100**	100

Further information on the book values, fair values and unrealised gains and losses within the debt securities portfolio held by the Group's US subsidiary, US Life, is given in the following tables.

US Life fair value gains and losses

	At 31 December £m 2009	At 31 December £m 2008
	US Life	US Life and Bermuda
Assets fair valued at below book value		
Book value	**5,634**	9,525
Unrealised loss	**(552)**	(1,935)
Fair value (as included in statement of financial position)	**5,082**	7,590
Assets fair valued at or above book value		
Book value	**4,182**	2,326
Unrealised gain	**245**	135
Fair value (as included in statement of financial position)	**4,427**	2,461
Total		
Book value	**9,816**	11,851
Unrealised loss	**(307)**	(1,800)
Fair value (as included in statement of financial position)	**9,509**	10,051

The above analysis includes unrealised losses in relation to those securities that were reclassified in accordance with the provisions of the October 2008 amendment to IAS 39 'Financial Instruments: Recognition and Measurement' which had an aggregate carrying value as at 31 December 2009 of £946 million (2008: US Life & Bermuda £1,262 million) and aggregate fair value as at 31 December 2009 of £918 million (2008: US Life & Bermuda £972 million).

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

£m

	At 31 December 2009		At 31 December 2008	
	US Life		US Life and Bermuda	
	Fair value	**Unrealised loss**	Fair value	Unrealised loss
Sub-prime	**214**	**(51)**	312	(141)
Alt-A	**27**	**(4)**	33	(10)
CMBS	**806**	**(49)**	973	(288)
RMBS	**390**	**(3)**	1,036	(39)
Total	**1,437**	**(107)**	2,354	(478)

US Life debt securities in an unrealised loss position

The following table excludes unrealised gains:

£m

At 31 December 2009	US Life	
	Fair value	**Unrealised loss**
Between 90% and 100%	**3,312**	**(109)**
Between 80% and 90%	**1,151**	**(204)**
Below 80%	**619**	**(239)**
Total	**5,082**	**(552)**

£m

At 31 December 2008	US Life and Bermuda	
	Fair value	Unrealised loss
Between 90% and 100%	2,686	(135)
Between 80% and 90%	1,814	(308)
Below 80%	3,090	(1,492)
Total	7,590	(1,935)

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

£m

At 31 December 2009	**US Life**	
	Fair value	**Unrealised loss**
Between 90% and 100%	**289**	**(12)**
Between 80% and 90%	**250**	**(46)**
Below 80%	**163**	**(77)**
Total	**702**	**(135)**

£m

At 31 December 2008	US Life and Bermuda	
	Fair value	Unrealised loss
Between 90% and 100%	738	(34)
Between 80% and 90%	232	(38)
Below 80%	554	(428)
Total	1,524	(500)

Aged analysis of unrealised losses for the time periods indicated

The following table excludes unrealised gains:

£m

At 31 December 2009	**US Life**		
	Investment grade	**Sub-investment grade**	**Total**
Less than 6 months	**(16)**	**(1)**	**(17)**
6 months to 1 year	**(16)**	**(11)**	**(27)**
Over 1 year	**(425)**	**(83)**	**(508)**
	(457)	**(95)**	**(552)**

£m

At 31 December 2008	US Life and Bermuda		
	Investment grade	Sub-investment grade	Total
Less than 6 months	(161)	(5)	(166)
6 months to 1 year	(667)	(47)	(714)
Over 1 year	(1,006)	(49)	(1,055)
	(1,834)	(101)	(1,935)

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:

	At 31 December £m 2009	At 31 December £m 2008
Amounts lent under securities lending		
Equity securities	**626**	430
Debt securities	**230**	522
	856	952
Amounts received as collateral for securities lending		
Cash	**782**	903
Debt securities	**74**	49
	856	952

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, £856 million (2008: £952 million) can be sold or repledged and £nil (2008: £nil) has been sold or repledged.

In addition the Group has provided £1 million in cash collateral and £92 million in debt securities collateral (2008: £322 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 to 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 (ie 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.

£m

	Notional principals		Fair values	
At 31 December 2009	**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**

£m

At 31 December 2008	Notional principals		Fair values	
	Positive values	Negative values	Assets	Liabilities
Equity derivatives				
Options written	–	863	–	114
Options purchased	803	1	33	–
Futures	251	215	8	4
	1,054	1,079	41	118
Exchange rate contracts				
Forwards	9,408	9,872	2,022	2,021
Swaps	1,912	1,483	274	154
Options purchased	357	–	47	–
Futures	–	–	–	–
Options written	–	358	–	49
	11,677	11,713	2,343	2,224
Interest rate contracts				
Swaps	14,397	10,621	485	430
Forward rate agreements	4,417	4,543	116	94
Options purchased	2,997	1,256	73	12
Options written	–	1,821	–	10
Futures	2,027	1,686	101	90
Caps	253	253	3	1
	24,091	20,180	778	637
Credit derivatives				
Credit linked notes	128	140	66	11
Credit default swaps	57	60	–	–
	185	200	66	11
Other derivatives	–	229	–	–
Total	37,007	33,401	3,228	2,990

The contractual maturities of the derivatives held are as follows:

£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**

£m

At 31 December 2008	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	2,990	1,152	926	582	420	–	3,080

An analysis of the credit rating (Standard & Poor's or equivalent) of the Group's derivative financial assets is as follows:

	At 31 December £m 2009	At 31 December £m 2008
Investment grade	**1,244**	1,854
Sub-investment grade	**–**	–
Not rated	**1,302**	1,374
Derivative financial instruments – assets	**2,546**	3,228

E7: Hedge accounting

Cash flow hedges

Cash flow hedge accounting is applied in respect of the Group's exposures to foreign currency risk. The Group hedges its foreign currency risk on one of its existing euro loan borrowings by entering into foreign currency swaps for USD. These swaps are separated, for accounting purposes, into a EUR/GBP swap and a GBP/USD swap. Cash flow hedge accounting is applied to the EUR/GBP swap. At 31 December 2009 the EUR/GBP swaps had a notional principal of £27 million (€30 million) (2008: £29 million (€30 million)) and a fair value of £5 million (2008: £7 million). The GBP/USD swap qualifies as a net investment hedge, as discussed below.

The maturity date of the final EUR/USD swap of €30 million is 11 July 2010 and matches the repayment of the corresponding bond. The cash flow hedge reserve will be released to the income statement over the remaining life of the swap to offset the currency movements on the loan.

An analysis of amounts in the financial statements relating to derivatives designated as cash flow hedges is shown in the table below:

	At 31 December £m 2009	At 31 December £m 2008
Fair value of derivatives designated as cash flow hedges at the reporting date		
Cross currency interest rate swap – €30 million Euro loan borrowing	**5**	7
	5	7
Analysis of movements in cash flow hedge reserve		
Cash flow hedge at beginning of the year	**2**	–
Amount recognised in equity during the year	**–**	2
Amount removed from equity and recognised in income statement during the year	**–**	–
Finance costs (borrowed funds)	**–**	–
Cash flow hedge reserve at end of the year	**2**	2

The cash flow hedge reserve is included in 'Other reserves' in the statement of changes in equity.

In respect of the cross currency swap discussed above, cash flows will occur annually on 11 July until 11 July 2010.

There was no ineffectiveness in respect of either of the above cash flow hedges during the financial year (2008: 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:

				£m
At 31 December 2009	**EUR**	**USD**	**ZAR**	**SEK**
Forward contracts	**113**	**–**	**95**	**–**
Currency swaps[1]	**–**	**321**	**–**	**353**
Debt[2]	**–**	**31**	**55**	**–**
	113	**352**	**150**	**353**

				£m
At 31 December 2008	EUR	USD	ZAR	SEK
Forward contracts	–	20	232	86
Currency swaps[1]	–	356	–	356
Debt[2]	96	303	–	–
	96	679	232	442

1 Excludes $35 million (2008: $35 million) of currency swaps that do not qualify for hedge accounting.
2 Excludes $750 million and €500 million (2008: $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:

	At 31 December £m 2009	At 31 December £m 2008
Fair value of financial instruments designated as net investment hedges at the reporting date		
€30 million cross currency swap – fair value of net investment hedge only	**–**	(2)
SEK forward foreign exchange contracts	**–**	(2)
ZAR forward foreign exchange contracts	**(4)**	(25)
£300 million cross currency swap	**(53)**	(57)
€750 million cross currency swap	**(53)**	(84)
	(110)	(170)

The €30 million Euro loan borrowing – cross currency swap is designated to hedge the foreign exchange currency exposure to USD assets in respect of the Group's investment in its US operations. The ZAR forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its South African operations. SEK forwards are used to hedge foreign currency risk in respect of the Group's investment in Skandia. 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 is used to hedge USD currency risk on the USD based assets in the Group's net investment in US operations.

E8: Policyholder liabilities

£m

	Gross	Reinsurance	At 31 December 2009 Net	Gross	Reinsurance	At 31 December 2008 Net
Life assurance policyholder liabilities						
Insurance contracts	**27,549**	**(539)**	**27,010**	28,106	(550)	27,556
Investment contracts						
Unit-linked investment contracts and similar contracts	**57,372**	**(717)**	**56,655**	45,161	(551)	44,610
Other investment contracts	**1,859**	**–**	**1,859**	1,965	–	1,965
Discretionary participating investment contracts	**6,639**	**–**	**6,639**	5,647	–	5,647
Outstanding claims	**457**	**(40)**	**417**	390	(47)	343
	93,876	**(1,296)**	**92,580**	81,269	(1,148)	80,121
General insurance liabilities						
Claims incurred but not reported	**49**	**(10)**	**39**	45	(8)	37
Unearned premiums	**94**	**(38)**	**56**	79	(26)	53
Outstanding claims	**229**	**(72)**	**157**	220	(81)	139
	372	**(120)**	**252**	344	(115)	229
Life assurance policyholder and general insurance liabilities	**94,248**	**(1,416)**	**92,832**	81,613	(1,263)	80,350

Of the £1,416 million (2008: £1,263 million) included in reinsurer's share of life assurance policyholder and general insurance liabilities is an amount of £919 million (2008: £705 million) which is classified as current, the remainder being non-current.

Of the £146 million (2008: £164 million) included in deposits held with reinsurers £110 million (2008: £124 million) is classified as current, the remainder being non-current.

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below.

(a) Insurance contracts

£m

	Gross	Reinsurance	Year ended 31 December 2009 Net	Gross	Reinsurance	Year ended 31 December 2008 Net
Balance at beginning of the year	**28,106**	**(550)**	**27,556**	23,637	(727)	22,910
Income						
Premium income	**2,549**	**(158)**	**2,391**	4,062	(152)	3,910
Investment income	**1,623**	**–**	**1,623**	(993)	–	(993)
Other income	**5**	**–**	**5**	2	–	2
Expenses						
Claims and policy benefits	**(3,369)**	**165**	**(3,204)**	(3,681)	147	(3,534)
Operating expenses	**(372)**	**–**	**(372)**	(290)	–	(290)
Currency translation loss/(gain)	**(97)**	**44**	**(53)**	4,320	(151)	4,169
Other charges and transfers	**(594)**	**(48)**	**(642)**	1,229	326	1,555
Taxation	**(19)**	**–**	**(19)**	12	–	12
Transfer to operating profit	**(283)**	**8**	**(275)**	(192)	7	(185)
Balance at end of the year	**27,549**	**(539)**	**27,010**	28,106	(550)	27,556

(b) Unit-linked investment contracts and similar contracts, and other investment contracts

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Balance at beginning of the year	**47,126**	53,745
New contributions received	**9,822**	8,616
Maturities	**(656)**	(762)
Withdrawals and surrenders	**(5,703)**	(5,470)
Fair value movements	**8,345**	(10,085)
Foreign exchange and other movements	**297**	1,082
Balance at end of the year	**59,231**	47,126

Of the liabilities shown in the above table, £1,178 million (2008: £1,434 million) are recorded at amortised cost with the remainder being designated at fair value through the income statement.

(c) Discretionary participating investment contracts

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Balance at beginning of the year	**5,647**	6,404
Income		
Premium income	**659**	524
Investment income	**774**	(362)
Currency translation losses/(gains)	**867**	(128)
	2,300	34
Expenses		
Claims and policy benefits	**(1,050)**	(641)
Operating expenses	**(68)**	(59)
Other charges and transfers	**(145)**	(31)
Taxation	**(4)**	3
	(1,267)	(728)
Transfer to operating profit	**(41)**	(63)
Balance at end of the year	**6,639**	5,647

(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 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**

£m

At 31 December 2008	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	28,106	1,046	2,426	12,912	31,690	48,074
Investment contracts						
Unit-linked investment contracts and similar contracts	45,161	41,555	369	666	2,970	45,560
Other investment contracts	1,965	39	112	590	1,282	2,023
Discretionary participating investment contracts	5,647	5,944	14	69	149	6,176
Outstanding claims	390	346	12	30	68	456
	81,269	48,930	2,933	14,267	36,159	102,289
General insurance liabilities						
Claims incurred but not reported	45	27	16	2	–	45
Unearned premium	79	4	49	26	–	79
Outstanding claims	220	145	57	18	–	220
	344	176	122	46	–	344
	81,613	49,106	3,055	14,313	36,159	102,633

(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; plus
- 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, expense margins in the pricing basis for Employee Benefits annuities;
- profit margins on Employee Benefits non-profit annuities to ensure that profit is released appropriately over the life of the policies;
- 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); and
- margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market-consistent basis to market interest rates 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 2009	At 31 December 2008
Fixed interest securities	**9.5**	7.5
Cash	**7.5**	5.5
Equities	**13.0**	11.0
Properties	**11.0**	9.0
Future expense inflation	**6.5***	4.5*

* 8.5 % (2008: 6.5%) for Individual Business administered on old platforms and 7.5% (2008: 5.5%) 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 yields or swap curve yields.

Assumptions are based upon experience as analysed in the following investigations:

Type of business	Type of investigation	Period of investigation
Individual Business	Flexi business mortality	2003 to 2006
	Conventional business mortality	1999 to 2000
	Annuitant mortality	2005 to 2007
	Greenlight mortality	2001 to 2007
	Dread Disease	2000 to 2002
	Disability	2000 to 2002
	Persistency – Flexi and Conventional	2008
	Persistency – Greenlight	2003 to 2008
Group Schemes	Mortality	2008
	Persistency	2008 to 2009
Employee Benefits	Annuitant Mortality	2000 to 2004
	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 2009 analysis of profit provides a measure of the aggregate experience in 2009. 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 have resulted in a net decrease in the value of liabilities of £61 million (2008: £11 million increase) on the Published basis. Lower expense assumptions reduced liabilities by £15 million, lower assurance mortality assumptions reduced liabilities by £45 million, and higher economic assumptions reduced liabilities by £11 million. Methodology changes and error corrections further reduced liabilities by £25 million. These were partially offset by a strengthening of persistency assumptions which increased liabilities by £35 million. A change in the rate of assumed future cover increased on certain risk products which reduced liabilities by £24 million. The assumed changes exclude the impact on new business sold in 2009, as this is valued on the new basis.

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.

In 2008 the liability for guarantees on the fixed indexed annuity product was reduced by £184 million due to the effect of changes in credit risk. Changes to lapse assumptions in the on-shore deferred annuity and fixed index annuity business resulted in a £68 million reduction in DAC. Segregation of the business led to an increase in liabilities in respect of the on-shore life contingent single premium immediate annuity (SPIA) product of £235 million as a result of changes to mortality assumptions.

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.

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 Sweden, together with death benefit risk cover in respect of unit-linked assurance products.

Insurance risk

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.

Insurance risk arises due to uncertainty in persistency, expenses and mortality and morbidity claim rates, relative to the actuarial assumptions made in the pricing process which may prevent the firm from achieving its profit objectives.

The Skandia UK group has developed an insurance risk policy which sets out the practices which are used to manage insurance risk and the management information and stress testing requirements. As well as management of persistency, expense and claims experience, the

insurance risk policy sets requirements and standards on matters such as underwriting and claims management practices, use of reinsurance to mitigate insurance risk, application of charges in respect of taxation and exercise of discretion.

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 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. 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 do not transact group protection business and there are no material concentrations of mortality and morbidity risk.

The operations manage mortality risks through their underwriting policy and external reinsurance arrangements where their 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.

The sensitivity of future earnings to changes in mortality, morbidity, persistency experience and management expense levels is regularly monitored through sensitivity analyses performed for MCEV reporting and business planning.

Persistency

Persistency risk is the risk that a policyholder surrenders, transfers or ceases premium payments for their contracts with the operations 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. For insurance business, the surrender value is never more than the current reported value of the contract liability.

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 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 are 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 company'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.

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. 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.

(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.

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.

(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) – life assurance in South Africa
- Old Mutual US Life – life assurance in the United States
- Old Mutual Bermuda – life assurance in Bermuda
- Mutual & Federal – general insurance in South Africa

The Group's other insurance operations include long-term insurance in Skandia's unit-linked assurance operations in Scandinavia, the United Kingdom, Continental Europe and Latin America, Namibia, and Rest of World, but do not give rise to significant insurance risks relative to the Group as a whole. Exposure to insurance risk in Skandia's unit-linked assurance operations is limited, as the unbundled insurance component of those products is insignificant in comparison to the rest of the Old Mutual Group.

The Group effectively manages its insurance risks through the following mechanisms:

- 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;
- actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used;
- guidelines for concluding 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; and
- the mix 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 – South Africa, United States 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:

South Africa

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	Some investment performance, cover and annuity guarantees	Varies*
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity	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.

United States

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	Secondary non-lapse guarantees (max of 15 years or to age 95); cost of insurance (mortality charge) guarantees	Yes, through the crediting rate
Equity 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, maximum spread, minimum interest guarantees	Yes, through the index
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	Secondary non-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 Annuities	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; flexible premiums	Persistency, Investment	Credited rate over specified period	Via credited rates and renewal rates on rate expiration
Fixed Index 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

In addition to the specific risks identified above, 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
Medical developments	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
Changing financial market conditions	Lower swap curves and higher volatilities cause investment guarantee reserves to increase	A discretionary margin is added to the value of guarantees, determined on a market-consistent stochastic basis and included in current reserves. A partial hedge is in place (South Africa). Fewer and lower guarantees are typically provided on new business (South Africa). Certain guarantees are reinsured (United States)
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

Risk	Definition	Risk management
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	A policyholder option to terminate the policy, which may cause the sale of assets at inopportune times. This creates the risk of capital losses and/or reinvestment risk if market yields have decreased	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 'Segment Analysis', 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; and
- the effect of locked-in assumptions under USGAAP 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 2009 has been estimated as follows:

	%	£m	£m	£m
Assumption	Change	South Africa	US	Bermuda
Mortality and morbidity rates – assurance	**10**	**209**	**16**	**–**
Mortality rates – annuities	**(10)**	**45**	**(4)**	**–**
Discontinuance rates	**10**	**(1)**	**15**	**26**
Expenses (maintenance)	**10**	**61**	**4**	**(1)**

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 £58 million (2008: £66 million). There is no impact for the US businesses as the valuation rate is locked-in.

South Africa

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 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 (eg non-profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

United States

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 would trigger a DAC unlocking. The assumption changes specified do not approach the levels necessary to trigger a change in liabilities or DAC.

Bermuda

Assumption changes on Bermuda business have counterbalancing effects. Lapses and partial withdrawals have the largest impact where increased activity hurts 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 (eg business with little or no guarantees redeem at a faster rate) presents the bigger challenge but it is accounted for in both the DAC and guarantee reserve calculations. Mortality plays a much smaller part in the Bermudian business 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.

South Africa

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

United States

Product category	Description of options and guarantees	Required shock to bring out-of-the-money policies in-the-money
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	24% of policies are currently in-the-money and being credited the minimum rate. A 300 basis points drop in interest rates would bring 79% 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 17% of policies are currently in-the-money. A year of flat equity markets with no equity credits would bring an additional 24% in-the-money. Two years of no equity credits would result in 26% 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 77% 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

Product category	Description of options and guarantees	Required shock to bring out-of-the-money policies in-the-money
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	17% of policies are currently in-the-money. This risk is reinsured

Bermuda

Product category	Description of options and guarantees	Required shock to bring out-of-the-money policies in-the-money
Index and Credited Rate Guarantees	Equity indexed annuities offer minimum 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 are guaranteed for specific durations. Upon expiration, renewal rates are set that reflect updated expected earned yields	For the index annuities that are out-of-the-money, it would require almost a 10% market increase to bring them in-the-money (ie an index credit would then be made)
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 (eg, 105% at year 5) with more elaborate versions offering dual guarantees (eg UGO guarantee promises at years 5/10 a 105%/120% minimum account value, respectively) with a highest anniversary in year 10 if elected	Approximately 15% of the contracts are out-of-the-money requiring over a 19% decrease in account values to bring such policies in-the-money

(vi) General insurance risks and sensitivities

Mutual & Federal writes the following types of business within its 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 £6.3 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; and
- 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 £36.1 million. Similarly, an increase of 10% in the ultimate number of claims would result in an additional loss of £36.1 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 £87 million of unrated exposures (2008: £17 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 2009	Group excluding Nedbank	Nedbank	At 31 December 2008
Senior debt securities and term loans	E9(a)	**662**	**484**	**1,146**	557	–	557
Mortgage backed securities	E9(b)	**–**	**119**	**119**	–	104	104
Subordinated debt securities (net of Group holdings)	E9(c)	**1,034**	**1,010**	**2,044**	779	855	1,634
Borrowed funds		**1,696**	**1,613**	**3,309**	1,336	959	2,295
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		
Gross debt (IFRS basis)		**2,842**			2,482		
Nominal value of gross debt		**3,162**			3,154		

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 2009	Group excluding Nedbank	Nedbank	At 31 December 2008
Less than 1 year	**219**	**156**	**375**	495	104	599
Greater than 1 year and less than 5 years	**1,413**	**1,226**	**2,639**	1,397	774	2,171
Greater than 5 years	**899**	**1,033**	**1,932**	238	666	904
Total	**2,531**	**2,415**	**4,946**	2,130	1,544	3,674

(a) Senior debt securities and term loans

£m

	Group excluding Nedbank	Nedbank	At 31 December 2009	Group excluding Nedbank	Nedbank	At 31 December 2008
Floating rate notes[1]	**114**	**265**	**379**	85	–	85
Fixed rate notes[2]	**548**	**219**	**767**	152	–	152
Revolving credit facility[3]	**–**	**–**	**–**	294	–	294
Term loan and other loans	**–**	**–**	**–**	26	–	26
Total senior debt securities and term loan	**662**	**484**	**1,146**	557	–	557

Senior debt securities and term loans comprise:

1 Floating rate notes
- £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%.
- US$50 million repayable September 2011 at 3 month LIBOR plus 0.50%.
- US$10 million repayable September 2009 at 3 month LIBOR plus 0.35% – repaid.
- SEK100 million repayable March 2009 at 3 month STIBOR plus 0.20% – repaid.
- €22 million repayable January 2010 at 3 month EURIBOR plus 0.35%.
- SEK50 million repayable March 2010 at 3 month STIBOR plus 0.38%.
- R1,000 million unsecured senior debt repayable September 2012 at 3 month JIBAR + 1.5%.
- R250 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).
- R550 million repayable August 2010 at 3 month ZAR – JIBAR-SAFEX + 4.5%.
- R100 million repayable February 2011 at 3 month ZAR – JIBAR-SAFEX + 4.5%.

2 Fixed rate notes
- €30 million Euro bond repayable July 2010, capital and interest swapped into fixed rate US dollars at 5.28%.
- €10 million Euro bond repayable December 2010, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 0.95%.
- €20 million Euro bond repayable August 2013, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 1.30%.
- €100 million Euro bond repayable December 2009 at 3.46% – repaid.
- R130 million unsecured senior debt repayable October 2024 at zero coupon.
- R2,000 million unsecured senior debt repayable September 2015 at 10.55%.
- R400 million unsecured senior debt repayable September 2019 at 11.39%.
- £500 million Euro bond repayable October 2016 at 7.125%.

The total fair value of the swap derivatives associated with the Senior notes is £12 million (2008: £11 million). These are recognised as assets and are included within note E6.

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 2009 £480 million (2008: £826 million) of this facility was utilised, £nil (2008: £294 million) in the form of drawn debt and £480 million (2008: £532 million) in the form of irrevocable letters of credit.

The Group has a SEK1,000 million revolving credit facility, which has a maturity date of 2 July 2010. At 31 December 2009 this facility was undrawn.

(b) Mortgage backed securities – Nedbank

	At 31 December £m 2009	At 31 December £m 2008
R291 million notes (class A1) repayable 18 November 2039 (11.467%)	**25**	22
R1.4 billion notes (class A2A) repayable 18 November 2039 (11.817%)	**84**	73
R98 million notes (class B note) repayable 18 November 2039 (12.067%)	**6**	5
R76 million notes (class C note) repayable 18 November 2039 (13.317%)	**4**	4
	119	104

(c) Subordinated debt securities

	At 31 December £m 2009	At 31 December £m 2008
Nedbank		
US$18 million repayable 31 August 2009 (6 month LIBOR less 1.5%) – repaid[1]	**–**	12
R1.5 billion repayable 24 April 2016 (7.85%)[2]	**126**	108
R1.8 billion repayable 20 September 2018 (9.84%)[3]	**149**	135
R515 million repayable on 4 December 2008 (13.5%)[4] – repaid	**–**	–
R500 million repayable on 30 December 2010 (8.38%)[5]	**41**	36
R650 million repayable 8 February 2017 (9.03%)[6]	**55**	49
R1.7 billion repayable 8 February 2019 (8.9%)[7]	**138**	125
R2.0 billion repayable 6 July 2022 (3 month JIBAR plus 0.47%)[8]	**171**	150
R500 million repayable 15 August 2012 (3 month JIBAR plus 0.45%)[9]	**42**	37
R1.0 billion repayable 17 September 2015 (10.54%)[10]	**84**	77
R500 million repayable 14 December 2017 (3 month JIBAR plus 0.70%)[11]	**42**	37
R120 million repayable 14 December 2017 (10.38%)[12]	**10**	9
R487 million repayable 20 November 2018 (15.05%)[13]	**41**	40
R1,265 million repayable 20 November 2018 (JIBAR plus 4.75%)[14]	**108**	94
R300 million repayable 4 December 2013 (JIBAR + 2.5%)[15]	**13**	11
US$100 million repayable 3 March 2022 (3 month USD LIBOR)[16]	**62**	–
	1,082	920
Less: banking subordinated debt securities held by other Group companies	**(72)**	(65)
Banking subordinated debt securities (net of Group holdings)	**1,010**	855
Group excluding Nedbank		
R3.0 billion repayable 27 October 2020 (8.9%)[17]	**252**	219
£300 million repayable 21 January 2016 (5.0%)[18]	**252**	239
R250 million preference shares repayable 9 June 2011[19]	**21**	18
€750 million repayable 18 January 2017 (4.5%)[20]	**509**	303
	1,034	779
Total subordinated liabilities	**2,044**	1,634

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 This instrument is matched either by advances to clients or covered against exchange rate fluctuations – repaid.
2 Unsecured secondary callable note was issued 24 April 2005 with a call date of 24 April 2011.
3 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.
4 Unsecured callable Bonds issued 10 June 2002.
5 Unsecured callable Bonds issued 30 March 2006.
6 Unsecured secondary callable note was issued 8 February 2007 with a call date of 8 February 2012.
7 Unsecured secondary callable note was issued 8 February 2007 at R1.0 billion. On 19 March 2007 an additional R0.7 billion was issued.
8 Unsecured secondary capital callable note issued 6 July 2007 and has a call date of 6 July 2017.
9 This bond issued on 15 August 2007 is an unsecured secondary capital callable floating rate note with a call date 15 August 2012.
10 This bond issued on 17 September 2007 is an unsecured fixed rate note with a term of 13 years (non-call 8 year).
11 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.
12 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.
13 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.
14 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.
15 This bond issued on 4 December 2008 is a floating rate note with a call date of 4 December 2013.
16 Dated Tier 2 notes issued 3 March 2009 with call date 2 March 2017.
17 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.
18 These bonds, issued on 20 January 2006, have a maturity date of 21 January 2016 and pay 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 has the option to repay the bonds at par on 21 January 2011 and at 6 monthly intervals thereafter.
19 These preference shares are redeemable on 9 June 2011 and pay a variable cumulative coupon of 61.0% of the Prime Rate as quoted by Nedbank Limited. The Group has the option to redeem the shares at par at any time before the final redemption date but after giving an agreed period of notice.
20 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

	At 31 December £m 2009	At 31 December £m 2008
Current accounts	**9,006**	7,916
Savings deposits	**1,283**	1,043
Other deposits and loan accounts		
Call and term deposits	**14,972**	14,035
Fixed deposits	**2,345**	1,894
Cash management deposits	**2,772**	2,635
Other	**3,800**	2,746
Negotiable certificates of deposit	**8,704**	6,369
Deposits received under repurchase agreements	**1,253**	1,533
	44,135	38,171

A contractual maturity analysis of the amounts owed to bank depositors is shown in the following table:

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
						£m
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**

Year ended 31 December 2008	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
						£m
Amounts owed to bank depositors						
Current accounts	7,916	7,756	35	–	–	7,791
Savings deposits	1,043	1,043	–	–	–	1,043
Other deposits and loan accounts	21,310	17,452	3,105	1,104	83	21,744
Negotiable certificates of deposit	6,369	2,287	4,392	373	–	7,052
Deposits received under repurchase agreements	1,533	1,533	–	–	–	1,533
Amounts owed to bank depositors	38,171	30,071	7,532	1,477	83	39,163

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 is 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.

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 2009 and throughout the year. As at the date of issue of these financial statements the unaudited pro-forma surplus was estimated to be £1.5 billion. The FGD position will be submitted to the FSA by 30 April 2010.

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 2009			At 31 December 2008		
	South Africa	**United States**	**Europe**	South Africa	United States	Europe
Equity shareholders' funds	**4,447**	**1,064**	**5,132**	3,455	339	3,745
Adjustments to a regulatory basis: Inadmissible assets	**(19)**	**(215)**	**(1,106)**	(15)	(276)	(1,066)
Other adjustments	**(487)**	**(449)**	**(2,684)**	(257)	232	(1,412)
Total available capital resources	**3,941**	**400**	**1,342**	3,183	295	1,267
Total capital requirements – local regulatory basis	**(977)**	**(303)**	**(242)**	(851)	(279)	(237)
Overall excess of capital resources over requirements	**2,964**	**97**	**1,100**	2,332	16	1,030

(unaudited) £m

	Year ended 31 December 2009			Year ended 31 December 2008		
	South Africa	**United States**	**Europe**	South Africa	United States	Europe
Capital position at beginning of the year	**3,183**	**295**	**1,267**	3,397	467	1,145
Earnings after tax	**718**	**(184)**	**376**	(233)	(751)	366
Change in admissible assets and other adjustments and other movements in reserves	**(182)**	**318**	**(229)**	276	(239)	(327)
New capital/(capital redemptions)	**–**	**–**	**–**	–	650	–
Dividends	**(281)**	**–**	**(55)**	(209)	–	(55)
Foreign exchange movements	**503**	**(29)**	**(17)**	(48)	168	138
Capital position at end of the year	**3,941**	**400**	**1,342**	3,183	295	1,267

South Africa

The amounts disclosed above represent the capital position of OMLAC(SA) and the life business in Namibia. 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 2009, OMLAC(SA)'s excess assets was 4.1 times (2008: 3.8 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 £2,634 million (2008: £1,690 million) and M&F £448 million (2008: £219 million). In addition, £690 million (2008: £904 million) is invested in the Group's loan notes and £561 million (2008: £335 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 (£0.3 million) (2008: 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 Old Mutual Financial Life Insurance Company, Old Mutual 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 in 2009 has been strengthened to 200% of Risked Based Capital) and Ireland and on the basis of FSA rules for Bermuda.

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.

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 2009		At 31 December 2008	
	Africa	**Europe**	Africa	Europe
Equity shareholder funds	**1,720**	**224**	1,434	218
Eligible subordinated debt	**598**	**104**	482	105
Inadmissible assets	**–**	**(2)**	–	(3)
Other adjustments	**(38)**	**(1)**	(18)	1
Total capital resources	**2,280**	**325**	1,898	321
Total capital requirement	**(1,659)**	**(197)**	(1,528)	(166)
Excess of capital resources over capital requirement	**621**	**128**	370	155

(unaudited) £m

	Year ended 31 December 2009		Year ended 31 December 2008	
	Africa	**Europe**	Africa	Europe
Capital position at beginning of the year	**1,898**	**321**	1,883	324
Earnings after tax and other increases in reserves	**181**	**71**	243	119
Change in admissible assets, other adjustments and other movements in reserves	**(28)**	**(56)**	(49)	(13)
New capital	**–**	**–**	–	–
Net (redemption)/issue of subordinated debt	**50**	**–**	(60)	–
Dividends paid	**(108)**	**(9)**	(104)	(149)
Foreign exchange movements	**287**	**(2)**	(15)	40
Capital position at end of the year	**2,280**	**325**	1,898	321

The above amounts represent the capital positions of Nedbank Limited (including the London branch), Imperial Bank Limited 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 'run on the bank'. Information on the nature of the investments and securities held is given in section E4. The Parent Company's existing revolving credit facility of £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 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 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	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Cost										
Accumulated amortisation and impairment losses at beginning of the year	**3,316**	2,762	**3,129**	2,736	**548**	423	**916**	804	**7,909**	6,725
Acquisitions through business combinations	**12**	40	**–**	–	**51**	–	**–**	–	**63**	40
Additions	**–**	–	**–**	–	**20**	82	**2**	–	**22**	82
Foreign exchange and other movements	**(71)**	496	**(100)**	393	**52**	12	**(35)**	114	**(154)**	1,015
Disposals or retirements	**(16)**	–	**–**	–	**(22)**	(3)	**(3)**	(2)	**(41)**	(5)
Transfer from/(to) Non-current assets held-for-sale	**–**	18	**–**	–	**–**	34	**–**	–	**–**	52
Balance at end of the year	**3,241**	3,316	**3,029**	3,129	**649**	548	**880**	916	**7,799**	7,909
Amortisation and impairment losses										
Balance at beginning of the year	**(235)**	(133)	**(1,179)**	(728)	**(361)**	(261)	**(252)**	(144)	**(2,027)**	(1,266)
Amortisation charge for the year	**–**	–	**(244)**	(286)	**(56)**	(43)	**(82)**	(75)	**(382)**	(404)
Impairment losses	**(266)**	(74)	**–**	–	**–**	(25)	**–**	(1)	**(266)**	(100)
Foreign exchange and other movements	**(12)**	(19)	**43**	(165)	**(32)**	(17)	**11**	(32)	**10**	(233)
Disposals or retirements	**1**	–	**–**	–	**22**	1	**2**	–	**25**	1
Transfer from/(to) Non-current assets held-for-sale	**–**	(9)	**–**	–	**–**	(16)	**–**	–	**–**	(25)
Accumulated amortisation and impairment losses at end of the year	**(512)**	(235)	**(1,380)**	(1,179)	**(427)**	(361)	**(321)**	(252)	**(2,640)**	(2,027)
Carrying amount										
Balance at beginning of the year	**3,081**	2,629	**1,950**	2,008	**187**	162	**664**	660	**5,882**	5,459
Balance at end of the year	**2,729**	3,081	**1,649**	1,950	**222**	187	**559**	664	**5,159**	5,882

Of the present value of acquired in-force business at the year end of £1,649 million (2008: £1,950 million), £1,561 million (2008: £1,832 million) relates to the Skandia business acquired during 2006 which is due to be amortised over a further 11 to 16 years.

Of the other intangible assets £365 million (2008: £439 million) relates to distribution channels and £108 million (2008: £117 million) brands associated with the Skandia business. The remaining periods over which these are being amortised are 6 years and 11 years respectively.

The acquisitions through business combinations comprises £5 million (2008: £3 million) in respect of various acquisitions by the Group's US Asset Management business, £nil (2008: £21 million) relating to the purchase of additional interests in Nedbank and £7 million (2008: £16 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.

	At 31 December £m 2009	At 31 December £m 2008
Nordic	**219**	222
Retail Europe	**204**	420
Wealth Management	**656**	741
Nedbank	**393**	308
US Asset Management	**1,142**	1,271
Other	**115**	119
Goodwill, net of impairment losses	**2,729**	3,081

Reorganisation of the former ELAM operating segment and recognition of impairment charges

As a result of the reorganisation of the Group's operating segments during the current financial year the goodwill previously allocated to the former ELAM operating segment (£574 million as at 31 December 2008) was reassigned to the Retail Europe (£420 million), Emerging Markets (£56 million) and Wealth Management (£98 million) operating segments. The reallocation of goodwill was based on relative values at the point of reallocation, in accordance with the requirements of IAS 36 'Impairment of Assets'.

Following a re-evaluation of the prospects for the former ELAM operating segment as part of the reorganisation, 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 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%.

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 2009, each CGU's recoverable amount has been determined by reference to its value-in-use.

Nordic, Retail Europe, 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 344 to 355. The differences between the key assumptions applied in the current year and in the prior year are disclosed on pages 360 to 373.

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. Projections beyond the plan period are extrapolated using inflation based growth rates. For Nordic, the banking and asset management cash flows are extrapolated for one year beyond the business plan period, whereas for Retail Europe and Wealth Management an additional two years are projected.

The cash flows are discounted at a market participant cost of capital, which is derived from the 10-year government bond/gilt rates relevant to the geographic region in question, adjusted to reflect the particular risks and uncertainties that would cause variations in the timing, amount or liquidity of the cash flows derived from the assets.

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 Riksbanken 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 3.1% applied to its life assurance business and of 2.3% for its asset management business. Wealth Management applied 1.9% to both its life assurance business and asset management business.
- 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. For the life assurance businesses, rates applied were 12.4% for Nordic, 15.7% for Retail Europe and between 14.1% and 15.7% for Wealth Management. A rate of 11.4% has been applied to the Nordic banking and asset management businesses. A rate of 11.2% was used for Wealth Management's asset management business and a rate between 10.4% and 11.2% was applied in Retail Europe's asset management businesses.

The directors are satisfied that any reasonable change in the assumptions would not cause the recoverable amounts of the Nordic and Wealth Management CGUs to fall below their carrying amounts. Having made the impairment in Retail Europe the directors are satisfied that any reasonable change in assumptions would not result in further impairment.

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 12.9%

(2008: 11%). 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 (2008: £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:

- An assumed growth rate of 6% (2008: 7%) was applied to the extrapolation of cash flows beyond the three-year business plan period. Extrapolation was performed for two years beyond the business plan period. A terminal value, using the same growth rate, is added for the value of cash flows beyond five years.
- The risk-adjusted discount rate applied was 13.3% (2008: 17%).

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 1.5%) for that CGU would be absorbed before the recoverable amounts fall below the carrying amounts. The value-in-use exceeds the carrying amount by £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 2009	Goodwill and intangible assets*	Amortisation	Impairment loss
Long term savings	**3,400**	**337**	**266**
Emerging Markets	**106**	**3**	**–**
Nordic	**1,035**	**133**	**–**
Retail Europe	**563**	**54**	**187**
Wealth Management	**1,602**	**127**	**79**
US Life	**94**	**20**	**–**
Nedbank	**543**	**37**	**–**
US Asset Management	**1,171**	**2**	**–**
Other	**45**	**6**	**–**
Total	**5,159**	**382**	**266**

£m

At 31 December 2008	Goodwill and intangible assets*	Amortisation	Impairment loss
Long term savings	4,105	374	100
Emerging Markets	111	3	8
Nordic	1,183	130	12
Retail Europe	865	62	–
Wealth Management	1,814	137	18
US Life	132	42	62
Nedbank	425	27	–
US Asset Management	1,305	2	–
Other	47	1	–
Total	5,882	404	100

* Goodwill and intangible assets discussed in the table above is net of amortisation and impairment losses.

In 2008 £62 million of impairment losses were recognised in respect of the US Life CGU, representing the full carrying amount of goodwill allocated to that CGU, and £8 million in respect of the Emerging Markets CGU. A further £12 million was recognised in the Nordic CGU as a result of an adjustment for deferred tax assets previously unrecognised. An impairment charge of £18 million was recognised in Wealth Management reflecting a write down in software development costs in relation to a platform that was not being used.

F2: Property, plant and equipment

£m

	Land		Buildings		Plant and equipment		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Gross carrying amount								
Balance at beginning of the year	**76**	73	**405**	360	**660**	547	**1,141**	980
Additions	**–**	–	**56**	16	**82**	83	**138**	99
Additions from business combinations	**–**	–	**1**	–	**2**	–	**3**	–
(Decrease)/Increase arising from revaluation	**(8)**	2	**(5)**	20	**–**	–	**(13)**	22
Disposals	**(1)**	–	**(21)**	–	**(76)**	(36)	**(98)**	(36)
Foreign exchange and other movements	**19**	–	**122**	(1)	**53**	32	**194**	31
Transfer from/(to) non-current asset held-for-sale	**–**	1	**–**	10	**–**	34	**–**	45
Balance at end of the year	**86**	76	**558**	405	**721**	660	**1,365**	1,141
Accumulated depreciation and impairment losses								
Balance at beginning of the year	**–**	–	**(13)**	(10)	**(446)**	(362)	**(459)**	(372)
Depreciation charge for the year	**–**	–	**(12)**	(8)	**(74)**	(66)	**(86)**	(74)
Disposals	**–**	–	**8**	–	**61**	28	**69**	28
Foreign exchange and other movements	**–**	–	**(20)**	6	**(41)**	(24)	**(61)**	(18)
Transfer from/(to) non-current asset held-for-sale	**–**	–	**–**	(1)	**–**	(22)	**–**	(23)
Balance at end of the year	**–**	–	**(37)**	(13)	**(500)**	(446)	**(537)**	(459)
Carrying amount								
Balance at beginning of the year	**76**	73	**392**	350	**214**	185	**682**	608
Balance at end of the year	**86**	76	**521**	392	**221**	214	**828**	682

The carrying value of property, plant and equipment leased to third parties under operating leases, included in the above is £82 million (2008: £33 million) and comprises land of £12 million (2008: £5 million) and buildings of £70 million (2008: £28 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 2009 Emerging Markets suffered revaluation losses of £10 million on land and £8 million on buildings (2008: revaluation gains of £1 million and £15 million respectively), while Nedbank made revaluation gains of £2 million on land and £3 million on buildings (2008: gains of £1 million and £5 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 £64 million (2008: £19 million) and £99 million (2008: £91 million) respectively for Emerging Markets and £21 million (2008: £12 million) and £97 million (2008: £92 million) for Nedbank respectively.

Capital expenditure and depreciation by segment

£m

Year ended 31 December 2009	Long term savings	Nedbank	M&F	US Asset Management	Other	Total
Capital expenditure, net of depreciation	**367**	**417**	**23**	**19**	**2**	**828**
Depreciation	**25**	**48**	**5**	**8**	**–**	**86**

£m

Year ended 31 December 2008	Long term savings	Nedbank	M&F	US Asset Management	Other	Total
Capital expenditure, net of depreciation	313	316	24	26	3	682
Depreciation	25	40	2	7	–	74

F3: Investment property

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Balance at beginning of the year	**1,478**	1,479
Additions	**82**	145
Additions from business combinations	**155**	–
Disposals	**(57)**	(13)
Net loss from fair value adjustments	**(54)**	(143)
Foreign exchange and other movements	**155**	10
Balance at end of the year	**1,759**	1,478

In 2009 additions of £237 million (2008: £144 million) related to OMSA and £nil (2008: £1 million) related to Nedbank. Of the net (loss)/gain arising from fair value adjustments on investment properties, a £105 million loss (2008: £31 million gain) related to OMSA, £nil gain (2008: £1 million gain) related to Nedbank, £6 million gain (2008: £5 million gain) related to other African businesses and £45 million gain (2008: £180 million gain) related to UK.

The fair value of investment property (freehold) leased to third parties under operating leases is as follows:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Freehold	**1,759**	1,478
Rental income from investment property	**106**	84
Direct operating expense arising from investment property that generated rental income	**(19)**	(16)
	87	68

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 £1,759 million (2008: £1,478 million), £1,535 million (2008: £1,296 million) is attributable to South Africa, £223 million (2008: £182 million) to Europe and £1 million (2008: £nil) to other.

F4: Deferred acquisition costs

£m

Year ended 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 from assets held-for-sale	**–**	**–**	**–**	**–**
Balance at end of the year	**1,934**	**1,079**	**125**	**3,138**

£m

Year end 31 December 2008	Insurance contracts	Investment contracts	Asset management	Total
Balance at beginning of the year	1,422	717	114	2,253
New business	234	286	47	567
Amortisation	(239)	(97)	(40)	(376)
Foreign exchange and other movements	677	55	10	742
Transfer to assets held-for-sale	13	–	–	13
Balance at end of the year	2,107	961	131	3,199

F5: Trade, other receivables and other assets

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Debtors arising from direct insurance operations		
Amounts owed by policyholders	**89**	63
Amounts owed by intermediaries	**86**	93
Other	**23**	49
	198	205
Debtors arising from reinsurance operations	**94**	90
Outstanding settlements	**252**	459
Other receivables	**1,598**	1,531
Accrued interest and rent	**433**	508
Trading securities and spot positions	**63**	62
Prepayments and accrued income	**134**	151
Other assets	**279**	131
Total trade, other receivables and other assets	**3,051**	3,137

Based on the maturity profile of the above assets, £2,849 million (2008: £2,693 million) is regarded as current and £202 million (2008: £444 million) as non-current. Of the above assets, £3,003 million (2008: £2,681 million) was exposed to credit risk (Standard & Poor's or equivalent), with £1,195 million (2008: £1,218 million) rated investment grade, £93 million (2008: £46 million) rated sub-investment grade and £1,716 million (2008: £1,417 million) not rated.

All amounts outstanding are short-term in nature. No significant balances are past due or impaired.

F6: Provisions

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Surplus property	**20**	23
Client compensation	**30**	27
Warranties on sale of business	**17**	111
Liability for long service leave	**49**	38
Provision for donations	**84**	80
Litigation claims	**–**	36
Other provisions	**95**	165
	295	480
Post employment benefits	**(32)**	(3)
Total	**263**	477

£m

Year ended 31 December 2009	Surplus property	Client compen-sation	Warranties on sale of business	Liability for long service leave	Provision for donations	Litigation claims	Other	Total
Balance at beginning of the year	**23**	**27**	**111**	**38**	**80**	**36**	**165**	**480**
Unused amounts reversed	**–**	**(2)**	**(54)**	**–**	**–**	**(11)**	**(41)**	**(108)**
Unwind of discount	**1**	**–**	**–**	**–**	**–**	**-**	**–**	**1**
Charge to income statement	**3**	**(3)**	**–**	**24**	**–**	**-**	**13**	**37**
Utilised during the year	**(7)**	**(2)**	**(26)**	**(20)**	**–**	**(6)**	**(59)**	**(120)**
Foreign exchange and other movements	**–**	**10**	**(14)**	**7**	**4**	**(19)**	**17**	**5**
Balance at end of the year	**20**	**30**	**17**	**49**	**84**	**–**	**95**	**295**

£m

Year ended 31 December 2008	Surplus property	Client compen-sation	Warranties on sale of business	Liability for long service leave	Provision for donations	Litigation claims	Other	Total
Balance at beginning of the year	29	19	87	34	82	64	183	498
Unused amounts reversed	(1)	(5)	(5)	–	–	–	(40)	(51)
Unwind of discount	1	–	–	–	–	–	–	1
Charge to income statement	–	8	22	4	–	37	20	91
Utilised during the year	(7)	(14)	(3)	1	(2)	(74)	(24)	(123)
Foreign exchange and other movements	1	19	10	(1)	–	9	26	64
Balance at end of the year	23	27	111	38	80	36	165	480

2009 provisions in relation to surplus property amounted to £20 million (2008: £23 million). These relate to the onerous costs of vacant properties leased by the Group of which £13 million (2008: £23 million) is estimated to be payable after more than 1 year.

Provisions in relation to client compensation were £30 million (2008: £27 million), primarily relating to possible mis-selling of guarantee contracts in Wealth Management. £5 million (2008: £6 million) is estimated to be payable after more than one year.

Provisions in relation to warranties on the sale of businesses amounted to £17 million (2008: £111 million). £9 million (2008: £9 million) is estimated to be payable after more than one year. During the year, settlement was reached in relation to certain outstanding litigations in connection with the acquisition of Skandia. Corresponding provisions have been accordingly utilised or released.

The liability for long service leave of £49 million (2008: £38 million) relates to provision for staff payments for long serving employees, all of which are estimated to be payable in less 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 £84 million (2008: £80 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.

At 31 December 2009 provisions in relation to litigation claims amounted to £nil (2008: £36 million). During the year £36 million of the provision was utilised, principally in respect of payments made in connection with the outcome of the Skandia Liv arbitration (note G3).

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 result in adjustments to the amounts recorded. Of the total provisions recorded above, £188 million (2008: £271 million) is estimated to be payable after more than one year.

F7: Deferred revenue

£m

Year ended 31 December 2009	Life assurance	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 assets held-for-sale	**2**	**(2)**	**–**	**–**
Balance at end of the year	**556**	**89**	**9**	**654**

£m

Year ended 31 December 2008	Life assurance	Asset management	General insurance	Total
Balance at beginning of the year	350	112	–	462
Fees and commission income deferred	120	32	–	152
Amortisation	(11)	(37)	–	(48)
Foreign exchange and other movements	30	(6)	2	26
Transfer to assets held-for-sale	–	–	6	6
Balance at end of the year	489	101	8	598

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 2009	At beginning of the year	Income statement (charge)/ credit	(Charged)/ credited to equity	Acquisition/ disposals 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**

£m

Year ended 31 December 2008	At beginning of the year	Income statement (charge)/ credit	(Charged)/ credited to equity	Acquisition/ disposals of subsidiaries	Foreign exchange and other movements	At end of the year
Insurance funds	71	158	–	2	67	298
Tax losses carried forward	139	140	–	(2)	69	346
Accelerated capital allowances	40	(29)	–	–	6	17
Available-for-sale securities	47	34	391	–	112	584
Other temporary differences	356	(165)	–	(5)	98	284
Netted against liabilities	(123)	78	–	–	(18)	(63)
Deferred fee income	153	21	–	–	(50)	124
	683	237	391	(5)	284	1,590

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 2009		31 December 2008	
	Gross amount	**Tax**	Gross amount	Tax
Unrelieved tax losses				
Expiring within one year	**–**	**–**	54	2
Expiring in the second to fifth years inclusive	**1,555**	**154**	1,222	109
Expiring after five years	**1,185**	**340**	1,826	541
Accelerated capital allowances	**84**	**24**	19	5
Other timing differences	**20**	**6**	28	8
	2,844	**524**	3,149	665

(b) Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

£m

Year ended 31 December 2009	**At beginning of the year**	**Income statement charge/ (credit)**	**Charged/ (credited) to equity**	**Acquisition/ disposals 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**

£m

Year ended 31 December 2008	At beginning of the year	Income statement charge/ (credit)	Charged/ (credited) to equity	Acquisition/ disposals of subsidiaries	Foreign exchange and other movements	At end of the year
Accelerated tax depreciation	25	(1)	–	–	–	24
Deferred acquisition costs	534	47	16	–	118	715
Leasing	80	(9)	–	–	(17)	54
PVIF	256	(32)	–	–	34	258
Other acquired intangibles	103	(12)	–	–	16	107
Available-for-sale securities	–	–	–	–	2	2
Other temporary differences	429	(169)	9	–	(13)	256
Policyholder tax	109	(60)	–	–	50	99
Netted against assets	(123)	78	–	–	(18)	(63)
	1,413	(158)	25	–	172	1,452

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 (2008: £3.2 billion).

F9: Trade, other payables and other liabilities

	At 31 December £m 2009	At 31 December £m 2008
Amounts payable on direct insurance business		
Funds held under reinsurance business ceded	**118**	15
Amounts owed to policyholders	**528**	535
Amounts owed to intermediaries	**80**	66
Other direct insurance operation creditors	**67**	46
Accounts payable on reinsurance business	**62**	64
Accruals and deferred income	**576**	749
Share-based payments – cash-settled scheme liabilities	**19**	15
Short trading securities, spot positions and other	**778**	494
Trade creditors	**297**	312
Outstanding settlements	**412**	592
Total securities sold under agreements to repurchase	**157**	299
Obligations in relation to collateral holdings	**295**	341
Other liabilities	**916**	546
	4,305	4,074

Included in the amounts shown above are £2,960 million (2008: £3,094 million) that are regarded as current, the remainder as non-current.

F10: Equity

(a) Share capital

Authorised and issued share capital	At 31 December £m 2009	At 31 December £m 2008
Authorised ordinary shares of 10p each	**750**	750
Issued ordinary shares of 10p each	**552**	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 (2008: £688 million) as at 31 December 2009. In accordance with IFRS accounting standards these instruments are classified as equity and disclosed within equity shareholders' funds as shown on page 187.

£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.

(c) Share buy back programme

In 2008, there were 161,559,272 shares repurchased on the LSE at an average price paid of 149.3p and 77,875,616 shares repurchased on the JSE at an average price paid of R20.23 in accordance with the share buy back programme announced on 3 October 2007. The shares repurchased have not been cancelled and are held by the Company as treasury shares. The share buy back programme was completed in 2008.

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 and general insurance businesses in South Africa. For the year ended 31 December 2009 the non-controlling interests attributable to ordinary shares was £158 million (2008: £188 million).

(ii) Preferred securities

	At 31 December £m 2009	At 31 December £m 2008
R2,000 million non-cumulative preference shares	**16**	14
R792 million non-cumulative preference shares	**6**	5
R300 million non-cumulative preference shares	**2**	1
US$750 million cumulative preferred securities	**38**	32
R364 million non-cumulative preference shares	**2**	2
Non-controlling interests – preferred securities	**64**	54

(iii) 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:

Reconciliation of non-controlling interests share of profit for the financial year	Year ended 31 December £m 2009	Year ended 31 December £m 2008
The non-controlling interests charge is analysed as follows:		
Non-controlling interests – ordinary shares	**158**	188
Goodwill impairment and impact of acquisition accounting	**1**	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**–**	2
Short-term fluctuations in investment return	**2**	11
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**23**	30
Fair value gains on group debt instruments	**–**	(6)
Income attributable to US Asset Management non-controlling interests	**(3)**	(7)
Non-controlling interests share of adjusted operating profit	**181**	218

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 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 2009 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £23 million (2008: £30 million).

(b) Statement of financial position

(i) Ordinary shares

Reconciliation of movements in non-controlling interests	Year to 31 December £m 2009	Year to 31 December £m 2008
Balance at beginning of the year	**1,147**	933
Non-controlling interests' share of profit	**158**	188
Non-controlling interests' share of dividends paid	**(80)**	(111)
Net acquisition of interests	**63**	25
Foreign exchange and other movements	**249**	112
Balance at end of the year	**1,537**	1,147

(ii) Preferred securities

	At 31 December £m 2009	At 31 December £m 2008
R2,000 million non-cumulative preference shares[1]	**140**	140
R792 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**	–
	723	706
Unamortised issue costs	**(13)**	(13)
Total in issue at 31 December	**710**	693

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 on 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 2009 and December 2009 on the same terms as the securities described in (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 2009	Year to 31 December 2008	**Year to 31 December 2009**	Year to 31 December 2008
Changes in projected benefit obligation				
Projected benefit obligation at beginning of the year	**778**	675	**158**	128
Benefits earned during the year	**8**	6	**5**	4
Interest cost on benefit obligation	**41**	41	**12**	10
Actuarial (gain)/loss	**25**	3	**15**	–
Benefits paid	**(43)**	(36)	**(5)**	(2)
Foreign exchange and other movements	**6**	89	**26**	18
Projected benefit obligation at end of the year	**815**	778	**211**	158
Change in plan assets				
Plan assets at fair value at beginning of the year	**828**	855	**160**	134
Actual return on plan assets	**99**	(18)	**9**	8
Company contributions	**14**	13	**–**	–
Employee contributions	**1**	1	**–**	–
Benefits paid	**(41)**	(34)	**(4)**	(2)
Foreign exchange and other movements	**52**	11	**10**	20
Plan assets at fair value at end of the year	**953**	828	**175**	160
Net (asset)/liability recognised in statement of financial position				
Funded status of plan	**(138)**	(50)	**36**	(2)
Unrecognised assets	**8**	18	**(4)**	2
Other amounts recognised in statement of financial position	**1**	–	**–**	2
Unrecognised actuarial gains	**61**	10	**4**	16
Net amount recognised in statement of financial position	**(68)**	(22)	**36**	18

(b) Expense/(Credit) recognised in the income statement

£m

	Pension plans		Other post-retirement benefit schemes	
	Year to 31 December 2009	Year to 31 December 2008	**Year to 31 December 2009**	Year to 31 December 2008
Current service costs	**8**	9	**3**	3
Interest cost	**31**	31	**12**	10
Expected return on plan assets	**(42)**	(51)	**(11)**	(10)
Net actuarial losses/(gains) recognised in the year	**5**	(15)	**–**	–
Losses/(gains) on curtailment	**–**	2	**–**	–
Total (included in staff costs)	**2**	(24)	**4**	3

(c) Principal actuarial assumptions

	%	
	Year to 31 December 2009	Year to 31 December 2008
UK pension schemes		
Discount rate	**5.7-5.8**	5.5-5.8
Expected return on plan assets:		
Equities	**7.5-8.4**	6.7-8.8
Debt	**4.5-5.8**	3.7-5.8
Cash	**0.5-5.7**	3.8-5.5
Annuities and other	**5.7-6.5**	5.5-8.8
Future salary increases	**4.8**	4.1-4.9
Pensions in payment and deferred pensions inflation	**3.8-4.3**	2.8-3.1
Price inflation	**3.8**	2.8-3.1
Europe pension schemes		
Discount rate	**4.0**	3.5
Expected return on plan assets:		
Equities	**5.8**	5.1
Debt	**2.8**	2.1
Property	**5.8**	5.1
Annuities and other	**5.8**	5.1
Future salary increases	**3.3**	3.3
Pensions in payment and deferred pensions inflation	**2.0**	2.0
Price inflation	**2.0**	2.0
African pension schemes		
Discount rate	**7.5-9.0**	5.8-9.0
Expected return on plan assets:		
Equities	**9.0-12.5**	8.8-11.5
Debt	**9.0-9.5**	5.8-9.0
Cash	**7.5-9.0**	3.8-6.5
Future salary increases	**5.0-6.0**	6.2
Pensions in payment and deferred pensions inflation	**1.4-6.0**	3.0-3.8
Price inflation	**4.0-6.0**	3.0-6.0
African other post retirement schemes		
Discount rate	**5.5-10.5**	7.3-9.0
Expected return on plan assets	**5.8-10.5**	7.3-8.5
Future salary increases	**5.8-9.0**	5.3-9.0
Price inflation	**3.5-9.0**	5.3-9.0
Health cost inflation	**7.3-9.0**	5.3-9.0

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 balance sheet date specific to the relevant locations.

The effect to the Group's obligation of a 1% increase and a 1% decrease in the assumed health cost trend rates would be an increase of £13 million and decrease of £11 million (2008: increase of £10 million and decrease of £8 million) respectively.

(d) Plan asset allocation

%

	Pension plans		Other post-retirement benefit schemes	
	At 31 December 2009	At 31 December 2008	**At 31 December 2009**	At 31 December 2008
Equity securities	**37.4**	38.4	**36.6**	45.1
Debt securities	**40.9**	37.4	**20.8**	24.5
Property	**6.8**	7.0	**5.6**	5.5
Cash	**3.6**	1.0	**26.1**	23.5
Annuities and other	**11.3**	16.2	**10.9**	1.4
	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 (2008: £0.1 million).

(e) Summary of Group pension plans

£m

	Year to 31 December 2009	Year to 31 December 2008	Year to 31 December 2007	Year to 31 December 2006	Year to 31 December 2005
Present value of defined benefit obligations	**(815)**	(778)	(675)	(758)	(497)
Fair value of plan assets	**953**	828	855	836	508
Surplus	**138**	50	180	78	11
Experience losses arising on defined benefit plan liabilities:					
Amount	**8**	2	(5)	(12)	(16)
As a percentage of plan liabilities	**(1.0)%**	0.0%	0.7%	1.6%	3.2%
Experience gains arising on defined benefit plan assets:					
Amount	**(8)**	(69)	39	50	40
As a percentage of plan assets	**(0.8)%**	(8.3)%	4.3%	6.0%	7.7%

Total contributions expected to be paid to the Group pension plans for the year ending 31 December 2010 are £14 million (subject to any reassessments to be completed in the year).

G2: Share-based payments

(a) Share-based payment arrangements

During the year ended 31 December 2009, 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	–	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]

	Description of award				Contractual life		Vesting conditions	
Scheme[1]	Restricted shares	Options	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
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	–	–
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]
Mutual & Federal Broad-based Employee Scheme	✓	–	✓	–	5	–	–	✓[6]
Mutual & Federal Namibia Share Option Scheme	✓	–	✓	–	6	3	–	–

Scheme[1]	Description of award				Contractual life		Vesting conditions	
	Restricted shares	Options	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
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 and Deferred Delivery Plan 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' 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. 'Mutual & Federal' schemes relate to shares in Mutual & Federal Insurance Company 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 2009		Year ended 31 December 2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**33,222,022**	**£1.20**	30,268,067	£1.24
Granted during the year	**58,992,582**	**£0.45**	17,480,275	£1.07
Forfeited during the year	**(12,451,662)**	**£1.05**	(7,440,893)	£1.33
Exercised during the year	**(1,940,138)**	**£0.94**	(6,191,349)	£0.86
Expired during the year	**(332,452)**	**£1.63**	(894,078)	£1.22
Outstanding at end of the year	**77,490,352**	**£0.66**	33,222,022	£1.20
Exercisable at 31 December	**6,234,171**	**£1.06**	9,765,796	£1.07

The options outstanding at 31 December 2009 have an exercise price in the range of £0.35 to £1.99 (2008: £0.60 to £1.99) and a weighted average remaining contractual life of 2.7 years (2008: 3.2 years). The weighted average share price at date of exercise for options exercised during the year was £1.12 (2008: £1.08).

Options over shares in Old Mutual plc (Johannesburg Stock Exchange)	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price	Year ended 31 December 2008 Number of options	Year ended 31 December 2008 Weighted average exercise price
Outstanding at beginning of the year	**42,623,552**	**R18.30**	33,704,154	R18.15
Granted during the year	**34,996,407**	**R7.79**	15,011,301	R18.31
Forfeited during the year	**(10,334,831)**	**R19.85**	(3,758,982)	R20.07
Exercised during the year	**(1,015,674)**	**R11.69**	(2,282,921)	R14.07
Expired during the year	**(2,499,125)**	**R13.68**	(50,000)	R15.15
Outstanding at end of the year	**63,770,329**	**R12.45**	42,623,552	R18.30
Exercisable at 31 December	**10,457,729**	**R14.10**	14,441,080	R14.28

The options outstanding at 31 December 2009 have an exercise price in the range of R7.45 to R23.40 (2008: R10.80 to R24.78) and a weighted average remaining contractual life of 4.3 years (2008: 3.7 years). The weighted average share price at date of exercise for options exercised during the year was R13.63 (2008: R18.14).

Options over shares in Nedbank Group Ltd	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price	Year ended 31 December 2008 Number of options	Year ended 31 December 2008 Weighted average exercise price
Outstanding at beginning of the year	**41,124,074**	**R121.61**	44,497,984	R119.05
Granted during the year	**1,976,504**	**R82.97**	2,152,253	R110.84
Forfeited during the year	**(1,577,822)**	**R115.88**	(2,051,134)	R114.27
Exercised during the year	**(4,207,864)**	**R78.78**	(2,089,408)	R68.49
Expired during the year	**(364,503)**	**R102.75**	(1,385,621)	R113.69
Outstanding at end of the year	**36,950,389**	**R124.86**	41,124,074	R121.61
Exercisable at 31 December	**6,599,248**	**R96.86**	5,240,727	R73.28

The options outstanding at 31 December 2009 have an exercise price in the range of R63.19 to R282.58 (2008: R78 to R282.58) and a weighted average remaining contractual life of 3 years (2008: 3.6 years). The weighted average share price at date of exercise for options exercised during the year was R113.21 (2008: R104.26).

Options over shares in Mutual & Federal Insurance Company Ltd	Year ended 31 December 2009 Number of options	Year ended 31 December 2009 Weighted average exercise price	Year ended 31 December 2008 Number of options	Year ended 31 December 2008 Weighted average exercise price
Outstanding at beginning of the year	**5,291,160**	**R17.33**	6,420,700	R14.49
Granted during the year	**1,614,690**	**R14.00**	1,595,020	R22.23
Forfeited during the year	**(359,940)**	**R16.80**	(793,580)	R17.93
Exercised during the year	**(489,570)**	**R10.60**	(1,712,050)	R9.03
Expired during the year	**(787,970)**	**R18.83**	(218,930)	R19.89
Outstanding at end of the year	**5,268,370**	**R16.40**	5,291,160	R17.33
Exercisable at 31 December	**2,483,650**	**R13.99**	2,248,450	R12.03

The options outstanding at 31 December 2009 have an exercise price in the range of R2.50 to R27.95 (2008: R1.50 to R27.98) and a weighted average remaining contractual life of 3.3 years (2008: 3.5 years). The weighted average share price at date of exercise for options exercised during the year was R16.15 (2008: R17.99).

(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 2009 which will have an IFRS 2 grant date of 1 January 2008, 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:

		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	**2009**	**35,270,546**	**£0.16**	**£0.44**	**£0.35**	**54.7%**	**3.7yrs**	**–**	**2.1%**
	2008	7,437,751	£0.26	£1.17	£0.90	27.1%	3.5yrs	5.8%	4.0%
UK Share Option and Deferred Delivery Plan	**2009**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2008	10,042,524	£0.21	£1.20	£1.20	29.5%	5.0yrs	5.8%	4.1%
Old Mutual plc Share Reward Plan – Share Options	**2009**	**12,367,231**	**£0.26**	**£0.47**	**£0.58**	**52.2%**	**5.0yrs**	**1.3%**	**2.8%**
	2008	1,315,789	£0.08	£0.57	£0.57	43.9%	5.0 yrs	12.3%	3.7%
UK Performance Share Plan – Share Option	**2009**	**11,354,805**	**£0.26**	**£0.54**	**£0.60**	**49.9%**	**4.7yrs**	**–**	**2.5%**
	2008	–	–	–	–	–	–	–	–
OMSA Management Scheme	**2009**	**34,254,956**	**R7.11**	**R7.80**	**R7.80**	**43.8%**	**5.3yrs**	**3.0%**	**8.6%**
	2008	14,713,200	R0.77	R18.35	R18.35	37.0%	5.4yrs	4.5%	7.5%
Old Mutual Namibia Management Scheme	**2009**	**741,451**	**R7.21**	**R7.52**	**R7.52**	**44.0%**	**5.3yrs**	**3.0%**	**8.6%**
	2008	298,101	R0.98	R16.24	R16.24	37.0%	5.5yrs	4.5%	7.5%
Nedbank Eyethu Black Executive Scheme	**2009**	**93,715**	**R23.88**	**R84.37**	**R116.19**	**45.5%**	**5.6yrs**	**6.9%**	**8.5%**
	2008	188,922	R20.45	R108.63	R111.56	28.0%	6.0yrs	7.9%	9.7%
Nedbank Eyethu Black Management Scheme	**2009**	**1,836,338**	**R22.80**	**R77.78**	**R100.50**	**48.7%**	**6.0yrs**	**7.2%**	**8.6%**
	2008	1,847,384	R20.52	R108.79	R112.01	28.0%	6.0yrs	7.9%	9.7%
Nedbank UK Long-term Incentive Plan	**2009**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2008	34,132	R19.01	R111.03	R120.62	27.0%	4.0yrs	8.1%	11.9%
Mutual & Federal Management Incentive Scheme	**2009**	**1,569,260**	**R3.97**	**R14.01**	**R14.01**	**34.0%**	**3.0yrs**	**4.5%**	**7.7%**
	2008	1,550,240	R6.62	R22.22	R22.22	34.2%	3.0yrs	4.5%	8.9%
Mutual & Federal Namibia Management Incentive Scheme	**2009**	**45,430**	**R4.05**	**R13.50**	**R13.50**	**34.0%**	**3.0yrs**	**4.5%**	**7.5%**
	2008	44,780	R6.75	R22.50	R22.50	34.1%	3.0yrs	4.5%	8.8%

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 2009, 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]	**2009**	**–**	**–**	**–**	**–**
	2008	–	–	–	–
	2007	28.57%	–	–	28.57%
OMAM Affiliate Equity Plan	**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 ($USm)[2]	**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 2010 in respect of the 2009 financial year has been determined to commence from 1 January 2009.

It is anticipated that instruments with a fair value of US$8.7 million (2008: US$3.5 million) will be granted during 2010 to firms participating in the OMAM Affiliate Equity Plan based on 2009 financial performance.

(f) Restricted share grants

The following summarises the fair value of restricted shares granted by the Group during the year:

		Number granted	Weighted average fair value
UK Restricted Share Plan	**2009**	**–**	**–**
	2008	7,013,741	£1.22
UK Share Reward Plan – Restricted Shares	**2009**	**8,713,091**	**£0.54**
	2008	–	–
UK Performance Reward Plan – Restricted Shares	**2009**	**3,091,695**	**£0.58**
	2008	–	–
OMSA Senior Black Management Scheme	**2009**	**7,737,889**	**R8.56**
	2008	3,546,385	R16.62
OMSA Management Scheme	**2009**	**27,739,043**	**R7.47**
	2008	10,924,260	R18.68
Old Mutual Namibia Management Scheme	**2009**	**643,089**	**R7.45**
	2008	112,596	R19.07
Old Mutual Namibia Senior Black Management Scheme	**2009**	**85,457**	**R8.18**
	2008	456,879	R14.69
Nedbank Group (2005) Matched Share Scheme	**2009**	**194,248**	**R67.77**
	2008	295,983	R95.26
Nedbank Eyethu Black Executive Scheme	**2009**	**31,791**	**R84.12**
	2008	92,666	R108.76
Nedbank Eyethu Black Management Scheme	**2009**	**168,313**	**R77.28**
	2008	167,864	R108.76
Nedbank Group (2005) Share Option Scheme	**2009**	**5,080,170**	**R75.36**
	2008	2,516,999	R111.53
Mutual & Federal Senior Black Management Scheme	**2009**	**101,880**	**R16.17**
	2008	167,378	R18.85
Mutual & Federal Management Incentive Scheme	**2009**	**1,599,220**	**R13.79**
	2008	1,777,790	R22.46
Mutual & Federal Black Business Partners Scheme	**2009**	**282,501**	**R13.63**
	2008	145,090	R26.35
Mutual & Federal Namibia Management Incentive Scheme	**2009**	**54,550**	**R13.50**
	2008	53,770	R22.50
Mutual & Federal Namibia Black Senior Business Management Scheme	**2009**	**810**	**R17.50**
	2008	–	–

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.

(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 12,523,680 options (2008: 10,770,000 options) and 12,643,027 restricted shares (2008: 8,420,000 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 R13.18 (2008: R7.60).

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 2009		Year ended 31 December 2008	
	Total fair value, £m	**Vesting period**	Total fair value, £m	Vesting period
Old Mutual plc performance share plans – restricted shares	**9**	**4.2 years**	3	4.2 years
Old Mutual plc performance share plans – options	**7**	**4.2 years**	1	4.2 years

(h) Financial impact

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Expense arising from equity settled share and share option plans	**35**	21
Expense arising from cash settled share and share option plans	**7**	3
	42	24
Closing balance of liability for cash settled share awards	**19**	15
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 168 and Corporate Governance Statement on page 150 respectively.

(b) Key management personnel remuneration and other compensation

	Year ended 31 December 2009		Year ended 31 December 2008	
	Number of personnel	**Value £000s**	Number of personnel	Value £000s
Directors' fees	**9**	**1,214**	8	1,124
Remuneration		**13,590**		9,924
Cash remuneration	**13**	**4,777**	12	5,971
Short-term employee benefits	**13**	**4,159**	17	1,285
Post employment benefits	**12**	**587**	8	665
Other long-term benefits	**3**	**7**	4	7
Share-based payments	**12**	**4,060**	11	1,996
		14,804		11,048

Share options	Year ended 31 December 2009		Year ended 31 December 2008	
	Number of personnel	**Number of options/ shares '000s**	Number of personnel	Number of options/ shares '000s
Outstanding at beginning of the year	**10**	**7,393**	11	12,592
Leavers	**3**	**(848)**	4	(7,706)
New appointments	**2**	**410**	1	1,316
Granted during the year	**9**	**10,803**	9	1,525
Exercised during the year	**3**	**(1,171)**	3	(191)
Lapsed during the year	**3**	**(974)**	3	(143)
Outstanding at end of the year	**11**	**15,613**	10	7,393

Restricted shares	Year ended 31 December 2009		Year ended 31 December 2008	
	Number of personnel	**Number of options/ shares '000s**	Number of personnel	Number of options/ shares '000s
Outstanding at beginning of the year	**9**	**4,020**	11	6,270
Leavers	**3**	**(724)**	4	(4,325)
New appointments	**1**	**60**	1	900
Granted during the year	**10**	**5,376**	8	1,741
Lapsed during the year	**1**	**(119)**	–	–
Released during the year	**5**	**(781)**	4	(566)
Outstanding at end of the year	**10**	**7,832**	9	4,020

(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 2009		Year ended 31 December 2008	
	Number of personnel	**Value £000s**	Number of personnel	Value £000s
Current accounts				
Balance at beginning of the year	**6**	**(11)**	6	40
Net movement during the year		**276**		(51)
Balance at end of the year	**7**	**265**	6	(11)
Credit cards				
Balance at beginning of the year	**4**	**12**	5	16
Net movement during the year		**10**		(4)
Balance at end of the year	**4**	**22**	4	12
Mortgages				
Balance at beginning of the year	**4**	**1,896**	5	2,014
Net movement during the year		**1,509**		421
Interest charged		**190**		194
Less repayments		**(863)**		(716)
Foreign exchange movements		**296**		(17)
Balance at end of the year	**5**	**3,028**	4	1,896
General insurance contracts				
Total premium paid during the year	**5**	**33**	5	25
Claims paid during the year	**2**	**3**	1	18
Life insurance products				
Total sum assured/value of investment at end of the year	**12**	**11,550**	12	8,397
Pensions, termination benefits paid				
Value of pension plan as at end of the year	**11**	**5,648**	10	9,500

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 the twelve months ended 31 December 2009 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 £73 million (2008: £52 million) for services rendered under this agreement.
- Premises – the Group rents office premises from Skandia Liv. The Group paid market rents of £15 million (2008: £15 million) for these premises.
- Occupational pensions – Skandia Liv provides occupational pensions for the employees of the Group, for which the Group paid £19 million (2008: £15 million).
- Agreement on IT services – the Group provides IT services to Skandia Liv. The amount charged to Skandia Liv was £7 million (2008: £9 million).
- Settlement with Skandia Liv regarding the arbitration settlement – In a ruling issued 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. As per 21 July 2009, an agreement has been 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 thereby less than the reserve provision booked as per July 2009. The difference was solved during the third quarter of 2009. The effect of this was a release of £10 million. The remaining provision of £17.8 million has been reclassified and is shown as a liability to Skandia Liv in the statement of financial position.

The balance outstanding at 31 December 2009 due from Skandia Liv is £1.6 million (2008: £13 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 the year a Group subsidiary, Nedbank Limited, provided funding to the Group. The funding was made through two loans of EUR 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.

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	84	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
Skandia UK Holdings 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% 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 £m 2009	At 31 December £m 2008
Capital & Reserves	**27**	25
Profit/(loss) after tax	**5**	(7)

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 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

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 2008.

£m

At 31 December 2008	Country of operation	% interest held	Carrying value	Group share of profit/(loss)
Clidet No. 638 (Pty) Ltd	Republic of South Africa	49%	19	–
Visigro Investments (Pty) Ltd	Republic of South Africa	30%	8	–
Odyssey Developments (Pty) Ltd	Republic of South Africa	49%	8	–
Kotak Mahindra Old Mutual Life Insurance Ltd	India	26%	13	(3)
Skandia BSAM	China	50%	11	(3)
All other associated undertakings			52	5
			111	(1)

(b) Aggregate financial information of investments in associated undertakings

The aggregate financial information for all investments in associated undertakings is as follows:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Total assets	**1,426**	1,131
Total liabilities	**1,002**	1,014
Total revenues	**603**	495
Net profit/(loss) after tax	**2**	(1)

(c) Aggregate Group investment in associated undertakings

The aggregate amounts for the Group's investment in associated undertakings are as follows:

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Balance at beginning of the year	**111**	81
Net additions of investment in associated undertakings	**4**	18
Share of profit/(loss) after tax	**2**	(1)
Dividends paid	**(6)**	(8)
Foreign exchange and other movements	**24**	21
Balance at end of the year	**135**	111

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 (2008: £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

	At 31 December 2009 £m	At 31 December 2008 £m
Guarantees and assets pledged as collateral security	**2,375**	1,839
Irrevocable letters of credit	**605**	760
Secured lending	**555**	383
Other contingent liabilities	**49**	393

The Group has pledged debt securities amounting to £1,253 million (2008: £1,533 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 Africa 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.

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.

	At 31 December 2009 £m	At 31 December 2008 £m
Investment property	**–**	–
Property, plant and equipment	**104**	37

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.

	At 31 December 2009 £m	At 31 December 2008 £m
Original term to maturity of one year or less	**1,983**	2,467
Original term to maturity of more than one year	**1,002**	115
Other commitments, note issuance facilities and revolving underwriting facilities	**63**	441

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 Groups' 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 2009			Year ended 31 December 2008		
	Banking	**Non-banking**	**Total**	Banking	Non-banking	Total
Within one year	**117**	**35**	**152**	38	36	74
In the second to fifth years inclusive	**212**	**115**	**327**	117	148	265
After five years	**240**	**72**	**312**	170	114	284
	569	**222**	**791**	325	298	623

(b) The Group as lessor

Assets subject to operating leases	At 31 December £m 2009	At 31 December £m 2008
Land	**12**	5
Buildings	**70**	28
Investment property	**1,759**	1,478
	1,841	1,511

Future minimum lease payments of contracts with tenants	At 31 December £m 2009	At 31 December £m 2008
Within one year	**62**	57
In the second to fifth years inclusive	**149**	132
After five years	**21**	27
	232	216

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 8 February 2010, Nedbank announced that it had received regulatory approval of the acquisition of Imperial Holdings' 49.9% indirect interest in Imperial Bank Limited, thereby satisfying all conditions precedent for the acquisition. The purchase consideration, of approximately £153 million will be settled out of the existing cash resources of Nedbank Limited over a period of six months, commencing from 8 February 2010. Nedbank intends to submit an application to the South African Reserve whereby it will amalgamate all the assets of Imperial Bank with those of Nedbank.

On 5 February 2010, the Group announced the completion of the acquisition of the remaining minority 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 listed on the London Stock Exchange in connection with the acquisition.

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	At 31 December £m 2009	At 31 December £m 2008
Assets			
Investments in Group subsidiaries	9	**8,993**	7,595
Investments in associated undertakings	10	**26**	26
Investments and securities	4	**–**	39
Other assets (including inter-company)	5	**1,644**	2,943
Derivative financial instruments – assets	2	**176**	197
Cash and cash equivalents		**414**	3
Total assets		**11,253**	10,803
Liabilities			
Borrowed funds	3	**1,406**	1,037
Provisions	7	**17**	20
Other liabilities (including inter-company)	6	**4,628**	4,679
Derivative financial instruments – liabilities	2	**58**	91
Total liabilities		**6,109**	5,827
Net assets		**5,144**	4,976
Shareholders' equity			
Equity attributable to equity holders		**5,144**	4,976

The Company's financial statements on pages 321 to 337 were approved by the Board of Directors on 11 March 2010.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY STATEMENT OF CASH FLOWS

At 31 December 2009

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Cash flows from operating activities		
Profit before tax	**139**	411
Capital gains included in investment income	**4**	6
Fair value movements on derivatives and borrowed funds	**230**	(489)
Foreign exchange movements on assets and liabilities	**(56)**	308
Other non cash amounts in profit	**–**	1
Non-cash movements in profit before tax	**178**	(174)
Other operating assets and liabilities	**87**	6
Changes in working capital	**87**	6
Net cash inflow from operating activities	**404**	243
Cash flows from investing activities		
Proceeds from sale and maturity of other investments	**11**	–
Acquisition of interests in subsidiaries	**–**	(3)
Purchase of interest in associates and joint ventures	**–**	(1)
Net cash inflow/(outflow) from investing activities	**11**	(4)
Cash flows from financing activities		
External interest received	**90**	91
External interest paid	**(129)**	(162)
Inter-company interest received	**–**	1
Inter-company interest paid	**(38)**	(33)
Dividends paid to:		
Ordinary shareholders of the Company	**–**	(214)
Preferred shareholders	**(45)**	(43)
Net proceeds from issue of ordinary shares	**4**	10
Net purchase of treasury shares	**(6)**	(5)
Redemption of own shares	**1**	(175)
Issue of subordinated and other debt	**542**	96
Other debt repaid	**(404)**	(64)
Loan financing received from/(paid to) Group companies	**(16)**	228
Net cash (outflow) from financing activities	**(1)**	(270)
Net increase/(decrease) in cash and cash equivalents	**414**	(31)
Effects of exchange rate changes on cash and cash equivalents	**(3)**	(7)
Cash and cash equivalents at beginning of the period	**3**	41
Cash and cash equivalents at end of the year	**414**	3

At 31 December 2009 and 2008 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 £658 million (2008: £343 million), of which only cash dividends from Skandia UK Holdings Limited of £55 million were received during the year ended 31 December 2009 (2008: £55 million).

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

Year ended 31 December 2009	Millions Number of shares issued and fully paid	Share capital	Share premium	Other reserves	Retained earnings*	£m 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**

Year ended 31 December 2008	Millions Number of shares issued and fully paid	Share capital	Share premium	Other reserves	Retained earnings*	£m Perpetual preferred callable securities	Total
Attributable to equity holders of the Company at beginning of the year	5,510	551	757	2,554	435	688	4,985
Profit for the year	–	–	–	–	368	43	411
Total recognised income and expense for the year	–	–	–	–	368	43	411
Dividends for the year	–	–	–	–	(214)	(43)	(257)
Shares repurchased in the buy back programme	–	–	–	–	(175)	–	(175)
Net purchase of treasury shares	–	–	–	–	(5)	–	(5)
Issue of share capital by the Company	–	–	5	–	–	–	5
Exercise of share options	6	1	4	–	–	–	5
Fair value of equity settled share options	–	–	–	7	–	–	7
Attributable to equity holders of the Company at end of the year	5,516	552	766	2,561	409	688	4,976

* Included within retained earnings of £563 million (2008: £409 million) are distributable reserves of £514 million (2008: £158 million).

Other reserves	At 31 December £m 2009	At 31 December £m 2008
Merger reserve	**2,532**	2,532
Share based payment reserve	**39**	29
Attributable to equity holders of Company at end of the year	**2,571**	2,561

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 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								
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**

£m

At 31 December 2008	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								
Investments in Group subsidiaries	7,595	–	–	–	–	–	–	7,595
Investment in associated undertakings	26	–	–	–	–	–	–	26
Investments and securities	39	–	39	–	–	–	–	–
Other assets (including inter-company)	2,943	–	–	–	–	2,839	–	104
Derivative financial instruments – assets	197	197	–	–	–	–	–	–
Cash and cash equivalents	3	–	–	–	–	3	–	–
	10,803	197	39	–	–	2,842	–	7,725
Liabilities								
Borrowed funds	1,037	–	541	–	–	–	496	–
Provisions	20	–	–	–	–	–	–	20
Other liabilities (including inter-company)	4,679	–	–	–	–	–	4,561	118
Derivative financial instruments – liabilities	91	91	–	–	–	–	–	–
	5,827	91	541	–	–	–	5,057	138

(b) Fair values of financial assets and liabilities

Analysis of instruments at fair value

£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				
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**	**–**

£m

At 31 December 2008	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	236	–	236	–
Investments and securities	39	–	39	–
Derivative financial instruments – assets	197	–	197	–
Total financial assets measured at fair value	236	–	236	–
Financial liabilities				
Held-for-trading (fair value through income statement)	91	–	91	–
Derivative financial instruments – liabilities	91	–	91	–
Designated (fair value through income statement)	541	541	–	–
Borrowed funds	541	541	–	–
Total financial liabilities measured at fair value	632	541	91	–

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. In the prior year, the maximum exposure to credit risk on investments and securities was £39 million.

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

		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**	**(200)**	**966**

£m

		Change in fair value due to change in credit risk		
At 31 December 2008	Fair value	Current financial year	Cumulative	Contractual maturity amount
Borrowed funds	541	(489)	(471)	1,017

(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 2009	GBP	ZAR	USD	Euro	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**

£m

At 31 December 2008	GBP	ZAR	USD	Euro	SEK	Other	Reclassification	Total
Assets								
Investments in associated undertakings	26	–	–	–	–	–	–	26
Investments and securities	39	–	–	–	–	–	–	39
Derivative financial instruments – assets[1]	11	–	13	24	–	–	149	197
Cash and cash equivalents	–	–	–	–	–	3	–	3
Other assets	7,745	–	1,408	50	1,311	24	–	10,538
Total assets	7,821	–	1,421	74	1,311	27	149	10,803
Liabilities								
Borrowed funds[2]	76	–	420	153	296	–	92	1,037
Derivative financial instruments – liabilities[3]	–	25	7	–	2	–	57	91
Other liabilities	2,530	–	1,847	279	35	8	–	4,699
Total liabilities	2,606	25	2,274	432	333	8	149	5,827

1 The reclassified derivative financial instruments of £129 million (2008: £149 million) represent currency hedges for borrowed funds and so have been reclassified and netted against USD borrowed funds.
2 The totals of £672 million (GBP) (2008: £76 million), £244 million (USD) (2008: £420 million) and £306 million (SEK) (2008: £296 million) of borrowed funds have been disclosed as net of hedges in derivative financial instruments of £88 million (2008: £114 million), £41m (2008: £35 million) and £54 million (2008: £57 million) respectively.
3 The derivative financial instrument of £54 million (2008: £57 million) represents a currency hedge for borrowed funds and so have been reclassed 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 an increase in the Company's equity holders' funds of £2 million (2008: increase of £23 million).

(e) Credit risk

The Company is principally exposed to credit risk through cash at bank and the ability of the subsidiaries to repay debts, 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.

The following table analyses the credit rating (Standard & Poor's or equivalent) by investment grade of financial assets bearing credit risk:

				£m
At 31 December 2009	**Investment Grade (AAA to BBB)**	**Sub-investment Grade (BB and lower)**	**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**

At 31 December 2008				£m
Investments in associated undertakings	–	–	26	26
Derivative financial instruments – assets	197	–	–	197
Investments and securities	–	–	39	39
Other assets (including inter-company)	–	–	2,943	2,943
Cash and cash equivalents	3	–	–	3
Financial assets bearing credit risk	200	–	3,008	3,208

(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).

(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 £1,142 million (2008: £2,167 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 and its customers 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 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**

£m

	Notional principals		Fair values	
At 31 December 2008	Positive values	Negative values	Assets	Liabilities
Exchange rate contracts				
Swaps	602	356	149	57
Forwards	205	544	7	34
	807	900	156	91
Interest rate contracts				
Swaps	1,041	–	41	–
Total	1,848	900	197	91

The contractual maturities of the derivatives held are as follows:

£m

At 31 December 2009	**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	**58**	**4**	**–**	**54**	**–**	**–**	**58**

£m

At 31 December 2008	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	91	34	–	57	–	–	91

3 Borrowed funds

	Notes	At 31 December £m 2009	At 31 December £m 2008
Senior debt securities and term loan	3(i)	**645**	496
Subordinated debt securities	3(ii)	**761**	541
Total borrowed funds		**1,406**	1,037

	At 31 December £m 2009	At 31 December £m 2008
Fair valued through income statement	**761**	541
Amortised cost	**645**	496
Total borrowed funds	**1,406**	1,037

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.

	At 31 December £m 2009	At 31 December £m 2008
Less than 1 year	**171**	463
Greater than 1 year and less than 5 years	**1,279**	1,242
Greater than 5 years	**536**	–
Borrowed funds	**1,986**	1,705

(i) Senior debt securities and term loan

	At 31 December £m 2009	At 31 December £m 2008
Floating rate notes	**89**	49
Fixed rate notes	**556**	153
Revolving credit facility	**–**	294
Total senior debt securities and term loan	**645**	496

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 2009, £480 million (2008: £826 million) of this facility was utilised, all in the form of irrecoverable letters of credit (2008: £532 million). In the current year there was no form of drawn debt (2008: £294 million).

During the year, the Company repaid a €100 million Eurobond note and $10 million USD bond.

In the current year the Company issued a £500 million bond note and two ZAR (R550 million and R100 million) floating rate bond notes.

(ii) Subordinated debt securities

	At 31 December £m 2009	At 31 December £m 2008
£300 million repayable 21 January 2016 (5.0%)[1]	**252**	239
€750 million repayable 18 January 2017 (4.5%)[2]	**509**	302
Total subordinated debt securities	**761**	541

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.
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 Investments and securities

	At 31 December £m 2009	At 31 December £m 2008
Equity securities at fair value through income statement		
Unlisted	**–**	38
Other	**–**	1
Total investments and securities	**–**	39

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 prior year amounts shown above £38 million were regarded as current and £1 million as non-current.

5 Other assets

	At 31 December £m 2009	At 31 December £m 2008
Other receivables	**10**	10
Corporation tax	**89**	27
Accrued interest and rent	**43**	65
Other prepayments and accrued income	**1**	2
Amounts owed by Group undertakings:		
Amounts falling due within one year	**162**	–
Amounts falling due after one year	**1,339**	2,839
Total other assets	**1,644**	2,943

6 Other liabilities

	At 31 December £m 2009	At 31 December £m 2008
Accruals and deferred income	**59**	98
Amounts owed to Group undertakings:		
Amount falling due within one year	**1,388**	2,012
Amount falling due after one year	**3,181**	2,549
Other liabilities	**–**	20
Total other liabilities	**4,628**	4,679

7 Provisions

	Note	At 31 December £m 2009	At 31 December £m 2008
Post employment benefits	8	**17**	20

8 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 (2008: 4) were directly employed by the Company. The costs for these Directors and ex-Directors are disclosed within the Remuneration Report on pages 167 to 168.

	Pension plans	
Liability for defined benefit obligations	**Year to 31 December £m 2009**	Year to 31 December £m 2008
Change in projected benefit obligation		
Projected benefit obligation at beginning of the year	**55**	56
Interest cost on benefit obligation	**3**	3
Actuarial gain/(losses)	**3**	(4)
Projected benefit obligation at end of the year	**61**	55
Change in plan assets		
Plan assets at fair value at beginning of the year	**35**	37
Actual return on plan assets	**2**	(6)
Company contributions	**4**	4
Plan assets at fair value at end of the year	**41**	35
Net liability recognised in statement of financial position		
Funded status of plan	**20**	20
Recognised actuarial loss	**(3)**	–
Net amount recognised in statement of financial position	**17**	20

	Pension plans	
Expense recognised in the income statement	**Year to 31 December £m 2009**	Year to 31 December £m 2008
Expected return on plan assets	**2**	2
Interest costs	**(3)**	(3)
Total	**(1)**	(1)

Principal actuarial assumptions	Pension plans Year to 31 December 2009	Pension plans Year to 31 December 2008
Discount rate	**5.7-5.8%**	5.5-5.8%
Expected returns on plan assets:		
Equities	**7.5-8.4%**	6.7-8.8%
Debt	**4.5-5.8%**	3.7-5.8%
Cash	**0.5-5.7%**	3.8-5.5%
Annuities and other	**5.7-6.5%**	5.5-8.8%
Future salary increases	**4.8%**	4.1-4.9%
Price inflation	**3.8-4.6%**	2.8-3.1%
Pensions in payment and deferred pensions inflation	**3.8%**	2.8-3.1%

Plan asset allocation	Pension plans Year to 31 December 2009	Pension plans Year to 31 December 2008
Equity securities	**37%**	34%
Debt securities	**60%**	62%
Other investments	**3%**	4%

					£m
	Year to 31 Dec 2009	Year to 31 Dec 2008	Year to 31 Dec 2007	Year to 31 Dec 2006	Year to 31 Dec 2005
Present value of defined benefit obligations	**(61)**	(55)	(56)	(56)	(55)
Fair value of plan assets	**41**	35	37	32	27
Deficit	**(20)**	(20)	(19)	(24)	(28)
Experience losses arising on defined benefit plan liabilities:					
Amount	**–**	(1)	–	–	–
As a percentage of plan liabilities	**0.0%**	2.0%	–	(0.4)%	–
Experience gains arising on defined benefit plan assets:					
Amount	**1**	(7)	(1)	–	3
As a percentage	**3.0%**	(18.5)%	(1.8)%	–	9.9%

9 Principal subsidiaries

	At 31 December £m 2009	At 31 December £m 2008
Balance at beginning of the year	**7,595**	4,792
Acquisitions	**–**	1,844
Additions	**1,417**	959
Impairments	**(19)**	–
Balance at end of the year	**8,993**	7,595

The Company purchased additional Ordinary shares in Commsale 2000 Limited during the year being 15,000,000 Ordinary shares and 5,000,000 Ordinary shares on 22 May 2009 and 21 December 2009 respectively.

On 16 June 2009, the Company increased its investment in the Ordinary shares of Skandia Europe and Latin America (Holdings) Limited by £350 million via a reduction in loan financing.

On 17 November 2009, the Company increased its investment in the Ordinary share capital of OM Group (UK) by £900 million via a reduction in loan financing.

During 2009, the Company made a further investment of £136,086,885 in Millpencil Limited via a reduction in loan financing.

Also, included within additions is the Company's investment in subsidiary undertakings in respect of movements on the share based payments (£10 million).

No companies were dissolved during the year.

Also during the year Papercoast Limited changed its name to Skandia Investment Group Holdings Limited.

The Company holds the following interests in Group companies:

At 31 December 2009	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%**
Skandia Investment Group Holdings	**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%**

10 Investments in associated undertakings

The company holds the following interest in associated undertakings:

	Country of operation	% interest held	At 31 December £m 2009	At 31 December £m 2008
Kotak Mahindra Old Mutual Life Insurance Limited	**India**	26%	**26**	26

11 Commitments and guarantees

	At 31 December £m 2009	At 31 December £m 2008
Commitments	**480**	532

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.

12 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.

There are no transactions entered into by the Company with associated undertakings.

Balance sheet information	£m Balance due from/(to)
At 31 December 2009	
Subsidiaries:	
OM Group (UK) Limited[1]	**1,335**
Primemajor	**4**
Old Mutual Holdings (Kenya)[14]	**10**
Global Edge Technologies Pty Limited[4]	**1**
Old Mutual International companies[3]	**4**
Fairbairn Trust Company Limited	**2**
Bermuda Holdings companies[5]	**(563)**
Skandia companies[2]	**(2,351)**
Old Mutual (SA) companies[6]	**(692)**
Old Mutual Financial Services companies[7]	**(79)**
Old Mutual Business Services Ltd[8]	**(126)**
Old Mutual Capital Funding L.P.[9]	**(453)**
Constantia Insurance Company (Guernsey) Limited	**(2)**
Old Mutual (Netherlands) BV	**(1)**
Pointspirit[10]	**(27)**
Nedbank[12]	**(124)**
Millpencil[13]	**(8)**
Other related parties:	
Fairbairn Trust Company Limited[11]	**33**

1 The loan with OM Group (UK) Limited includes loan advances of $1,518 million, £22 million and A$7 million (2008: $2,051 million, £700 million and A$38 million). The Dollar facility expires on 30 September 2010, whilst the Sterling facility expires on 30 June 2010 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 (2008: £350 million), with a term agreement of 6.75%, switching to floating rate (LIBOR +2.48%) after 12 years.

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. The Company has a term loan agreement with Skandia Insurance Company Ltd were 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 and consist of 2 deposits £13 million and £10 million, Skandia Invest Services GmBH (Austria) EUR 3 million, Skandia Vits SPA (Italy) EUR 2 million, Skandia Germany EUR 20 million, Skandia Holdings Ltd £76 million, SkandiaLink (Spain) EUR 321 million and Skandia Europe and Latin America (Holdings) Limited of £23 million. There is also a discount note with Skandia Financial Holdings BV of EUR 1.9 million with a maturity date of 16 April 2010.

3 The balance with Old Mutual International companies includes one contingent loan facility of £4 million (2008: £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 (2008: 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 two floating rate note totalling $604 million. Interest charged is USD LIBOR +0.45% margin and USD LIBOR +8.45% on the $82 million note and $522 million note respectively. The notes mature on 28 April 2013 and 1 December 2013 respectively. In addition there is a $100 million RCF and interest is charged at USD LIBOR +0.6%. This has an expiry date of 28 July 2010.

6 The balance with Old Mutual (SA) companies includes two floating rate notes totalling $1,097 million (2008: $1,261 million). Interest charged is USD LIBOR +0.45% margin and USD LIBOR +2.50% margin on the $1,037 million note and $60.7 million note respectively. The notes mature on 28 April 2013 and 17 December 2013 respectively.

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 and a £20 million RCF, on which interest is charged at LIBOR rate.

8 The loan with Old Mutual Business Services Limited represents a long-term loan advance with no maturity date of £126 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 2 loans, EUR 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 Old Mutual Holdings Limited resident in Kenya is a term loan of ZAR 122 million. This loan has no interest and has a maturity date of 30 May 2010.

Outstanding amounts	£m Balance due from/(to)
At 31 December 2008	
Subsidiaries:	
OM Group (UK) Limited	2,504
Primemajor	4
Skandia companies	(1,933)
Old Mutual International companies	4
Global Edge Technologies Pty Limited	1
Bermuda Holding companies	(430)
Old Mutual (SA) companies	(922)
Old Mutual Financial Services companies	(240)
Old Mutual Business Services Limited	(95)
Old Mutual Capital Funding L.P.	(501)
Constantia Insurance Company (Guernsey) Limited	(2)
Old Mutual (Netherlands) BV	(66)
Pointspirit	(36)
Sandlord Limited	(10)
Other related parties:	
Fairbairn Trust Company Limited	30

Income statement information	**£m** **Interest received/ (paid)**	**Ordinary dividends received/ (paid)**	**Other amounts received/ (paid)**
2009			
Subsidiaries	**88**	**658**	**(122)**

Income statement information	£m Interest received/ (paid)	Ordinary dividends received/ (paid)	Other amounts received/ (paid)
2008			
Subsidiaries	5	343	(68)

13 Post balance sheet events

On 5 February 2010, the Group announced the completion of the acquisition of the remaining minority 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 listed on the London Stock Exchange in connection with the acquisition.

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 2009 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 344;
- 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.

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 340 to 389 in respect of the year ended 31 December 2009. The supplementary information has been prepared in accordance with the CFO Forum MCEV Principles. The supplementary information should be read in conjunction with the Group financial statements which are on pages 180 to 320.

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 338, 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 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; and the overall presentation of the supplementary information.

Opinion on supplementary information

In our opinion, the MCEV basis supplementary information for the year ended 31 December 2009 has been properly prepared in accordance with the MCEV Principles using the methodology and assumptions as detailed in the basis of preparation of the supplementary information on page 344.

Alastair W S Barbour
for and on behalf of KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB
11 March 2010

GROUP MARKET CONSISTENT EMBEDDED VALUE STATEMENT OF EARNINGS

For the year ended 31 December 2009

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Long Term Savings			
Covered business		**554**	578
Asset management		**26**	42
Banking		**16**	23
		596	643
Nedbank			
Banking		**470**	575
Mutual and Federal			
General insurance		**70**	76
US Asset Management			
Asset management		**83**	97
Other operating segments			
Finance costs		**(104)**	(140)
Interest payable to non-core operations		**(40)**	–
Other shareholders' expenses		**(69)**	(19)
Adjusted operating Group MCEV earnings before tax from core operations		**1,006**	1,232
Bermuda non core operations			
Long term business		**8**	(254)
Adjusted operating Group MCEV earnings before tax*		**1,014**	978
Adjusting items	C1	**913**	(2,037)
Total Group MCEV earnings before tax for the financial year		**1,927**	(1,059)
Income tax attributable to shareholders		**(145)**	13
Total Group MCEV earnings after tax for the financial year		**1,782**	(1,046)
Total Group MCEV earnings for the financial year attributable to:			
Equity holders of the parent		**1,562**	(1,284)
Non-controlling interests			
Ordinary shares		**156**	184
Preferred securities		**64**	54
Total Group MCEV earnings after tax for the financial year		**1,782**	(1,046)
Basic total Group MCEV earnings per ordinary share (pence)		**31.3**	(25.7)
Weighted average number of shares – millions		**4,994**	4,995

* 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 excludes 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.

ADJUSTED OPERATING GROUP MCEV EARNINGS PER SHARE

For the year ended 31 December 2009

	Notes	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Adjusted operating Group MCEV earnings before tax		**1,014**	978
Tax on adjusted operating Group MCEV earnings	B2	**(209)**	(135)
Adjusted operating Group MCEV earnings after tax		**805**	843
Non-controlling interests			
Ordinary shares		**(179)**	(214)
Preferred securities		**(64)**	(54)
Adjusted operating Group MCEV earnings after tax attributable to ordinary equity holders		**562**	575
Adjusted operating Group MCEV earnings from core operations		**581**	813
Adjusted operating Group MCEV earnings from non-core operations		**(19)**	(238)
Adjusted operating Group MCEV earnings per share from core operations		**11.1**	15.5
Adjusted operating Group MCEV earnings per share from non-core operations		**(0.4)**	(4.5)
Adjusted operating Group MCEV earnings per share* (pence)		**10.7**	11.0
Adjusted weighted average number of shares – millions		**5,229**	5,230

* 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 INFORMATION

At 31 December 2009

Components of Group MCEV

	Notes	At 31 December £m 2009	At 31 December £m 2008
Adjusted net worth attributable to ordinary equity holders of the parent		**4,417**	3,462
Equity		**8,464**	7,737
Adjustment to include long-term business on a statutory solvency basis:			
Long Term Savings	C3	**(2,626)**	(2,244)
Bermuda	C3	**(6)**	(217)
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds		**268**	173
Adjustment to remove perpetual preferred callable securities and accrued dividends		**(688)**	(688)
Adjustment to exclude acquisition goodwill from the covered business:			
Long Term Savings	C3	**(995)**	(1,299)
Value of in-force business		**3,212**	1,800
Present value of future profits		**4,255**	2,580
Additional time value of financial options and guarantees		**(416)**	(261)
Frictional costs		**(221)**	(148)
Cost of residual non-hedgeable risks		**(406)**	(371)
Group MCEV		**7,629**	5,262
Group MCEV value per share (pence)		**144.5**	99.7
Return on Group MCEV (RoEV) per annum from core operations		**11.1%**	11.0%
Return on Group MCEV (RoEV) per annum from non core operations		**(0.4)%**	(3.2)%
Return on Group MCEV (RoEV) per annum		**10.7%**	7.8%
Number of shares in issue at the end of the financial year less treasury shares – millions		**5,279**	5,277

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, Mutual & Federal and inter-company loans). For some European countries and US Life 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 £562 million (year ended 31 December 2008: £575 million) divided by the opening Group MCEV.

COMPONENTS OF GROUP MCEV AND ADJUSTED GROUP MCEV INFORMATION

For the year ended 31 December 2009

Components of adjusted Group MCEV

	Notes	At 31 December £m 2009	At 31 December £m 2008
Group MCEV			
Pro forma adjustments to bring Group investments to market value		**7,629**	5,262
Adjustment to bring listed subsidiaries to market value		**805**	68
Nedbank		**623**	41
Mutual & Federal		**182**	27
Adjustment for value of own shares in ESOP schemes*		**71**	63
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**221**	169
Adjustment to bring external debt to market value		**302**	645
Adjusted Group MCEV	B1	**9,028**	6,207
Adjusted Group MCEV per share (pence)		**171.0**	117.6
Number of shares in issue at the end of the financial year less treasury shares – millions		**5,279**	5,277

* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2008 and 31 December 2009 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 2009 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the year.

Reconciliation of movements in Group MCEV (after tax)

£m

	Notes	Year ended 31 December 2009			Year ended 31 December 2008		
		Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Opening Group MCEV		**4,183**	**1,079**	**5,262**	6,349	1,010	7,359
Adjusted operating MCEV earnings		**492**	**70**	**562**	133	442	575
Non-operating MCEV earnings		**1,191**	**(191)**	**1,000**	(2,270)	411	(1,859)
Total Group MCEV earnings		**1,683**	**(121)**	**1,562**	(2,137)	853	(1,284)
Other movements in IFRS net equity	C2	**161**	**644**	**805**	(29)	(784)	(813)
Closing Group MCEV		**6,027**	**1,602**	**7,629**	4,183	1,079	5,262

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2009

A: MCEV policies

A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 340 to 389 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 2009. 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 and general insurance subsidiaries, 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. For the OMSA business, following the sale of the remaining stake in Nedlife to Nedbank, Nedlife is excluded from covered business from 2009 onwards although it is still included in comparative results for prior periods.

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
- 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 and general insurance subsidiaries, 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 (ie 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 and Europe capital determined with reference to internal management objectives is the most onerous and is the capital measure used. 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 2009			At 31 December 2008		
	Required capital (a)	**Regulatory capital (b)**	**Ratio (a/b)**	Required capital (a)	Regulatory capital (b)	Ratio (a/b)
Emerging Markets	**1,225**	**930**	**1.3**	1,075	820	1.3
Nordic*	**104**	**92**	**1.1**	105	66	1.6
Retail Europe**	**32**	**52**	**0.6**	64	46	1.4
Wealth Management	**213**	**119**	**1.8**	197	116	1.7
US Life***	**462**	**193**	**2.4**	550	211	2.6
Bermuda***	**363**	**–**	**n/a**	34	–	n/a
Total	**2,399**	**1,386**	**1.7**	2,025	1,259	1.6

* There has been a large increase in the regulatory capital within the Nordic region due to the strong correlation with funds under management which have increased significantly.

** 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, leading to a large decrease in the required capital from 31 December 2008 to 31 December 2009.

*** The Bermudan regulator allows intangible assets to be included as admissible regulatory capital. The total regulatory capital for US Life and Bermuda at 31 December 2008 has been restated from £245 million to £211 million due to refinement of the calculation.

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 (ie 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, ie 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 (eg 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.

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 2009 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 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 (eg to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (eg 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 can not 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.

The CNHR is calculated using a cost of capital approach, ie 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 rate. The cost of capital rate 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

	At 31 December £m 2009	At 31 December £m 2008
Emerging Markets	**606**	457
Nordic	**333**	189
Retail Europe	**143**	145
Wealth Management	**640**	386
US Life*	**661**	513
Bermuda*	**619**	517
Total	**3,002**	2,207

* The total capital held in respect of non-hedgeable risks for US Life and Bermuda at 31 December 2008 has been restated from £826 million to £1,030 million due to refinement of the calculation.

The economic capital included in the calculation of CNHR at 31 December 2008 was calculated with reference to the old European Embedded Value (EEV) methodology, whilst the economic capital included in the calculation of CNHR at 31 December 2009 was calculated with reference to the MCEV methodology. This has led to a step change in the calculation for all business units. To the extent that this change affected operating earnings, the impact is shown under 'other operating variance'.

In addition to the change in the underlying basis used for assessing economic capital from an EEV to MCEV basis, the increase in capital held in respect of CNHR for Europe from £720 million at 31 December 2008 to £1,116 million at 31 December 2009 is largely caused by an increase in the economic capital held for persistency risk in light of the turbulent economic market conditions and due to a change in methodology for waiver of premium products in Sweden to strengthen the economic capital held for morbidity risk.

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 2.6% 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.

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). 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, eg 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.

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.

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 (eg 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 recurring-premiums plus 10% of single premium.

PVNBP is calculated at point of sale using premiums before reinsurance and applying a valuation approach that is consistent with the calculation of VNB.

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; 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, ie 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 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 changes in taxation legislation.

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 2009 (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 2010 may differ form 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.

A3: Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (eg 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 (eg 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.
- Unallocated Group holding company expenses have been included to the extent that they relate to the covered business. The future expenses attributable to long-term business include 33% of the Group holding company expenses, with 16% allocated to Emerging Markets, 15% allocated to Europe and 2% allocated to US Life (31 December 2008: 35% of the Group holding company expenses, with 14% allocated to Emerging Markets, 17% allocated to Europe and 4% allocated to US Life and Bermuda). The allocation of these expenses aligns to the proportion that the management expenses incurred by the business bears to the total management expenses incurred in the Group.
- 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.

Legislative changes were introduced in Germany in 2008 specifying the proportion of miscellaneous profits to be shared with policyholders. According to the regulations, 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. From 31 December 2008 Skandia Leben in Germany 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, not 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 2009, 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 Retail Affluent 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 2009, such as 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 issues by state-owned enterprises. It is the directors' view that a significant proportion of corporate bond spreads at 31 December 2009 is attributable to a liquidity premium rather than credit and default risk 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 Retail Affluent 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 2009 by adding 100bps of liquidity premium for the US Life business (31 December 2008: 300bps) and adding 50bps of liquidity premium for OMSA's Retail Affluent Immediate Annuity business (31 December 2008: zero allowance) 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 Retail Affluent bond portfolios and the adjusted risk free reference rates still provide adequate implied margins for default. No liquidity adjustment is applied for other regions in light of the pending liquidity premium applicatin guidance from the CFO Forum.

When the liquidity premium adjustment was calibrated and introduced for US Life business at 31 December 2008, similar research was not yet concluded for South Africa to estimate the quantum of the liquidity premiums inherent in South African corporate bond spreads. In addition, the impact of a liquidity premium adjustment on US Life business was far more material than for OMSA's Retail Affluent Immediate Annuity business as the concentration of US Life's investments in the corporate bond market is far greater and the widening of corporate bond spreads has been more pronounced in the US compared to other regions. Hence the application of a liquidity premium adjustment was initially focussed on the US and an adjustment was only introduced for OMSA at 30 June 2009 for consistency in methodology.

At those durations where swap yields are not available, eg 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 (eg 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.

Risk free reference spot yields (excluding any applicable liquidity adjustments) %

	GBP	EUR	USD	ZAR	SEK
At 31 December 2009					
1 year	**0.9**	**1.3**	**0.7**	**7.3**	**0.8**
5 years	**4.7**	**2.8**	**3.0**	**8.9**	**2.9**
10 years	**4.8**	**3.6**	**3.5**	**9.2**	**3.7**
20 years	**4.0**	**4.1**	**4.0**	**8.2**	**4.1**
At 31 December 2008					
1 year	2.0	2.4	1.3	9.3	1.8
5 years	3.1	3.3	2.1	8.0	2.9
10 years	3.4	3.8	2.6	7.8	3.2
20 years	3.5	3.9	2.8	6.7	3.2

Expense inflation %

	GBP	EUR	USD	ZAR	SEK
At 31 December 2009					
1 year	**3.3**	**2.5-3.0**	**3.0**	**6.4**	**1.1**
5 years	**3.8**	**2.5-3.0**	**3.0**	**7.5**	**2.6**
10 years	**4.4**	**2.5-3.0**	**3.0**	**7.7**	**2.8**
20 years	**4.8**	**2.5-3.0**	**3.0**	**6.7**	**3.0**
At 31 December 2008					
1 year	0.1	2.0-3.0	3.0	6.1	0.2
5 years	1.5	2.0-3.0	3.0	5.4	1.0
10 years	2.8	2.0-3.0	3.0	5.5	1.8
20 years	4.1	2.0-3.0	3.0	4.6	2.1

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, eg 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.

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 2009						
Option term						
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**
At 31 December 2008						
1 year	30.8	32.9	30.8	26.9	37.6	23.2
5 years	35.1	33.6	30.3	25.1	31.6	19.0
10 years	32.9	30.2	25.9	19.8	29.2	15.6
20 years	25.4	22.5	18.7	13.9	28.1	15.4

* 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 2009				
Option term				
1 year	**62.3**	**36.8**	**30.1**	**25.9**
5 years	**26.9**	**24.7**	**22.6**	**20.6**
10 years	**18.6**	**18.3**	**17.9**	**16.3**
20 years	**15.6**	**14.6**	**14.3**	**12.8**
At 31 December 2008*				
1 year	44.9	34.1	27.7	24.7
5 years	23.9	22.8	21.2	20.1
10 years	18.3	17.9	17.1	16.3
20 years	16.1	16.0	15.4	14.5

* Due to limited liquidity in the USD swap market as at 31 December 2008, the market consistent asset model was calibrated by reference to volatility data as at 30 September 2008.

International equity volatilities (applicable to Old Mutual Bermuda)* %

	SPX	RTY	TPX	HSCEI	TWSE	KOSP12	NIFTY	SX5E	UKX	BCAI
At 31 December 2009										
Option term										
1 year	**22.1**	**28.6**	**28.3**	**33.5**	**22.9**	**23.3**	**26.5**	**24.7**	**23.1**	**n/a**
5 years	**26.7**	**37.1**	**30.5**	**34.7**	**29.2**	**24.8**	**25.4**	**25.6**	**24.7**	**n/a**
10 years	**25.2**	**32.6**	**31.9**	**41.2**	**27.7**	**31.3**	**32.3**	**27.8**	**26.3**	**n/a**
At 31 December 2008										
1 year	38	46	41	57	36	42	39	38	37	4
5 years	35	45	39	51	34	43	33	37	36	4
10 years	27	34	31	43	30	36	31	31	28	4

International equity volatilities (applicable to Old Mutual Bermuda)*	EEM	USAgg	EUAgg	APAgg
				%
At 31 December 2009				
Option term				
1 year	**31.6**	**4.5**	**12.0**	**11.6**
5 years	**29.9**	**4.5**	**12.0**	**11.6**
10 years	**38.0**	**4.5**	**12.0**	**11.6**
At 31 December 2008				
1 year	n/a	n/a	n/a	n/a
5 years	n/a	n/a	n/a	n/a
10 years	n/a	n/a	n/a	n/a

* These volatilities, as represented by their Bloomberg codes, refer to price indices. Due to ongoing enhancements in the fund mapping process, the indices referenced will 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 cash return equals the risk free reference rate less a deduction of 2% for Africa and 1% 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 2009 are set out below:

- OMSA – 33% (31 December 2008: 33%)
- Namibia – 0% (31 December 2008: 0%)
- Nordic – 4% (31 December 2008: 3%)
- Retail Europe – 28% (31 December 2008: 28%)
- Wealth Management – range of 4% to 21% (31 December 2008: 6% to 28%)
- US Life – 5% (31 December 2008: 0%)
- Bermuda – 10% (31 December 2008: 1%)

B: Segment information

B1: Adjusted Group MCEV presented per business line

	At 31 December £m 2009	At 31 December £m 2008
MCEV of the covered business	**6,027**	4,183
Adjusted net worth*	**2,815**	2,383
Value of in-force business	**3,212**	1,800
Adjusted net worth of the asset management businesses	**1,716**	1,570
Emerging Markets	**216**	391
Nordic**	**(75)**	(218)
Retail Europe	**12**	6
Wealth Management	**152**	204
US Asset Management	**1,411**	1,187
Value of the banking business	**2,948**	1,976
Nordic (adjusted net worth)	**314**	285
Nedbank (market value)	**2,634**	1,691
Market value of the general insurance business		
Mutual & Federal	**448**	219
Net other business	**123**	(154)
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**221**	169
Adjustment for value of own shares in ESOP schemes***	**71**	63
Perpetual preferred securities (US$ denominated)	**(385)**	(203)
Perpetual preferred callable securities	**(477)**	(304)
GBP denominated	**(224)**	(174)
Euro denominated	**(253)**	(130)
Debt	**(1,664)**	(1,312)
Rand denominated	**(290)**	(213)
USD denominated	**(338)**	(537)
GBP denominated	**(759)**	(191)
SEK denominated	**(256)**	(252)
Euro denominated	**(21)**	(119)
Adjusted Group MCEV	**9,028**	6,207

* 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.
*** Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2008 and 31 December 2009 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 2009 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the year.

B2: Adjusted operating MCEV earnings for the covered business

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Adjusted operating MCEV earnings before tax for the covered business	**562**	324
Long term savings	**554**	578
Emerging Markets	**272**	460
Nordic	**78**	164
Retail Europe	**(58)**	19
Wealth Management	**(40)**	325
US Life	**302**	(390)
Bermuda	**8**	(254)
Tax on adjusted operating MCEV earnings for the covered business	**(70)**	(191)
Long term savings	**(43)**	(207)
Emerging Markets	**(60)**	(117)
Nordic	**3**	(15)
Retail Europe	**14**	(5)
Wealth Management	**36**	(96)
US Life	**(36)**	26
Bermuda	**(27)**	16
Adjusted operating MCEV earnings after tax for the covered business	**492**	133
Long term savings	**511**	371
Emerging Markets	**212**	343
Nordic	**81**	149
Retail Europe	**(44)**	14
Wealth Management	**(4)**	229
US Life	**266**	(364)
Bermuda	**(19)**	(238)
Tax on adjusted operating MCEV earnings comprises		
Tax on adjusted operating MCEV earnings for the covered business	**(70)**	(191)
Tax on adjusted operating MCEV earnings for other business	**(139)**	56
Tax on adjusted operating MCEV earnings	**(209)**	(135)

B3: Components of MCEV of the covered business	At 31 December £m 2009	At 31 December £m 2008
MCEV of the covered business	**6,027**	4,183
Adjusted net worth	**2,815**	2,383
Value of in-force business	**3,212**	1,800
Long-Term Savings		
Adjusted net worth	**2,452**	2,007
Free surplus	**416**	16
Required capital	**2,036**	1,991
Value of in-force business	**3,377**	2,225
Present value of future profits	**4,156**	2,878
Additional time value of financial options and guarantees	**(220)**	(204)
Frictional costs	**(217)**	(147)
Cost of residual non-hedgeable risks	**(342)**	(302)
Emerging Markets		
Adjusted net worth*	**1,305**	983
Free surplus	**80**	(92)
Required capital	**1,225**	1,075
Value of in-force business	**1,158**	1,090
Present value of future profits	**1,424**	1,287
Additional time value of financial options and guarantees	**–**	–
Frictional costs**	**(181)**	(117)
Cost of residual non-hedgeable risks	**(85)**	(80)
Nordic		
Adjusted net worth	**195**	163
Free surplus	**91**	58
Required capital	**104**	105
Value of in-force business	**1,114**	882
Present value of future profits	**1,196**	943
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(11)**	(8)
Cost of residual non-hedgeable risks	**(71)**	(53)
Retail Europe		
Adjusted net worth	**78**	79
Free surplus	**46**	15
Required capital	**32**	64
Value of in-force business	**453**	517
Present value of future profits	**507**	582
Additional time value of financial options and guarantees	**(6)**	(12)
Frictional costs	**(7)**	(12)
Cost of residual non-hedgeable risks	**(41)**	(41)

B3: Components of MCEV of the covered business	At 31 December £m 2009	At 31 December £m 2008
Wealth Management		
Adjusted net worth	**376**	317
Free surplus	**163**	120
Required capital	**213**	197
Value of in-force business	**1,468**	1,461
Present value of future profits	**1,540**	1,514
Additional time value of financial options and guarantees	**(1)**	–
Frictional costs	**(12)**	(8)
Cost of residual non-hedgeable risks	**(59)**	(45)
US Life		
Adjusted net worth	**498**	465
Free surplus	**36**	(85)
Required capital	**462**	550
Value of in-force business	**(816)**	(1,725)
Present value of future profits	**(511)**	(1,448)
Additional time value of financial options and guarantees	**(213)**	(192)
Frictional costs	**(6)**	(2)
Cost of residual non-hedgeable risks	**(86)**	(83)
Bermuda		
Adjusted net worth	**363**	376
Free surplus	**–**	342
Required capital	**363**	34
Value of in-force business	**(165)**	(425)
Present value of future profits	**99**	(298)
Additional time value of financial options and guarantees	**(196)**	(57)
Frictional costs	**(4)**	(1)
Cost of residual non-hedgeable risks	**(64)**	(69)

* 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.

** For the OMSA business there has been a material change in the asset allocation of assets backing the Capital Adequacy Requirement (capital definition to meet internal management objectives) from 31 December 2008 to 31 December 2009. As at 31 December 2009 the asset allocation is 75% cash/25% equity compared to 60% cash/40% equity at 31 December 2008. This resulted in a decrease in the Capital Adequacy Requirement, but an increase in frictional tax costs as interest bearing assets are subjected to higher tax rates than equities.

B4: Analysis of covered business MCEV earnings (after tax)

£m

Total covered business	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**358**	**2,025**	**2,383**	**1,800**	**4,183**	515	1,906	2,421	3,928	6,349
New business value	**(473)**	**170**	**(303)**	**470**	**167**	(608)	172	(436)	540	104
Expected existing business contribution (reference rate)	**7**	**114**	**121**	**142**	**263**	63	117	180	289	469
Expected existing business contribution (in excess of reference rate)	**32**	**6**	**38**	**355**	**393**	4	15	19	81	100
Transfers from VIF and required capital to free surplus	**813**	**(244)**	**569**	**(569)**	**–**	939	(189)	750	(750)	–
Experience variances	**54**	**(111)**	**(57)**	**(120)**	**(177)**	160	(75)	85	(250)	(165)
Assumption changes	**(3)**	**(22)**	**(25)**	**(258)**	**(283)**	(55)	–	(55)	(375)	(430)
Other operating variance	**(191)**	**301**	**110**	**19**	**129**	172	(156)	16	39	55
Operating MCEV earnings	**239**	**214**	**453**	**39**	**492**	675	(116)	559	(426)	133
Economic variances	**(29)**	**93**	**64**	**940**	**1,004**	(722)	5	(717)	(1,485)	(2,202)
Other non-operating variance	**39**	**(20)**	**19**	**168**	**187**	(111)	43	(68)	–	(68)
Total MCEV earnings	**249**	**287**	**536**	**1,147**	**1,683**	(158)	(68)	(226)	(1,911)	(2,137)
Closing adjustments	**(191)**	**87**	**(104)**	**265**	**161**	1	187	188	(217)	(29)
Capital and dividend flows	**(189)**	**(1)**	**(190)**	**–**	**(190)**	(22)	–	(22)	–	(22)
Foreign exchange variance	**(15)**	**85**	**70**	**289**	**359**	23	187	210	(217)	(7)
MCEV of acquired/sold business	**13**	**3**	**16**	**(24)**	**(8)**	–	–	–	–	–
Closing MCEV	**416**	**2,399**	**2,815**	**3,212**	**6,027**	358	2,025	2,383	1,800	4,183
Return on MCEV (RoEV) % per annum					**11.8%**					2.1%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**(57)**	**(120)**	**(177)**
Persistency	**(87)**	**(72)**	**(159)**
Risk	**31**	**17**	**48**
Expenses	**(49)**	**13**	**(36)**
Other	**48**	**(78)**	**(30)**
Assumption changes	**(25)**	**(258)**	**(283)**
Persistency	**(29)**	**(210)**	**(239)**
Risk	**30**	**64**	**94**
Expenses	**10**	**(190)**	**(180)**
Other	**(36)**	**78**	**42**

£m

Total covered business	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**14**	**78**	**92**	**170**	**262**
Expected existing business contribution (in excess of reference rate)	**1**	**25**	**26**	**163**	**189**

Return on MCEV for total covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Long Term Savings (LTS)	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**16**	**1,991**	**2,007**	**2,225**	**4,232**	494	1,873	2,367	3,869	6,236
New business value	**(473)**	**170**	**(303)**	**470**	**167**	(567)	162	(405)	563	158
Expected existing business contribution (reference rate)	**2**	**113**	**115**	**146**	**261**	62	116	178	281	459
Expected existing business contribution (in excess of reference rate)	**(1)**	**6**	**5**	**316**	**321**	4	15	19	70	89
Transfers from VIF and required capital to free surplus	**818**	**(240)**	**578**	**(578)**	**–**	917	(187)	730	(730)	–
Experience variances	**126**	**(111)**	**15**	**(99)**	**(84)**	162	(58)	104	(277)	(173)
Assumption changes	**33**	**(22)**	**11**	**(212)**	**(201)**	13	–	13	(278)	(265)
Other operating variance	**154**	**(44)**	**110**	**(63)**	**47**	172	(156)	16	87	103
Operating MCEV earnings	**659**	**(128)**	**531**	**(20)**	**511**	763	(108)	655	(284)	371
Economic variances	**(131)**	**93**	**(38)**	**773**	**735**	(460)	5	(455)	(1,227)	(1,682)
Other non-operating variance	**39**	**(20)**	**19**	**168**	**187**	(111)	43	(68)	–	(68)
Total MCEV earnings	**567**	**(55)**	**512**	**921**	**1,433**	192	(60)	132	(1,511)	(1,379)
Closing adjustments	**(167)**	**100**	**(67)**	**231**	**164**	(670)	178	(492)	(133)	(625)
Capital and dividend flows	**(189)**	**(1)**	**(190)**	**–**	**(190)**	(618)	–	(618)	–	(618)
Foreign exchange variance	**9**	**98**	**107**	**255**	**362**	(52)	178	126	(133)	(7)
MCEV of acquired/sold business	**13**	**3**	**16**	**(24)**	**(8)**	–	–	–	–	–
Closing MCEV	**416**	**2,036**	**2,452**	**3,377**	**5,829**	16	1,991	2,007	2,225	4,232
Return on MCEV (RoEV) % per annum					**12.1%**					5.9%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**15**	**(99)**	**(84)**
Persistency	**(35)**	**(59)**	**(94)**
Risk	**31**	**17**	**48**
Expenses	**(39)**	**12**	**(27)**
Other	**58**	**(69)**	**(11)**
Assumption changes	**11**	**(212)**	**(201)**
Persistency	**(29)**	**(145)**	**(174)**
Risk	**30**	**64**	**94**
Expenses	**10**	**(161)**	**(151)**
Other	**–**	**30**	**30**

£m

Long term savings (LTS)	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**14**	**75**	**89**	**161**	**250**
Expected existing business contribution (in excess of reference rate)	**1**	**(3)**	**(2)**	**131**	**129**

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Emerging Markets*	**Year ended 31 December 2009**					Year ended 31 December 2008				
	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	**(92)**	**1,075**	**983**	**1,090**	**2,073**	315	1,160	1,475	1,204	2,679
New business value	**(136)**	**110**	**(26)**	**91**	**65**	(86)	72	(14)	75	61
Expected existing business contribution (reference rate)	**(7)**	**85**	**78**	**129**	**207**	27	101	128	148	276
Expected existing business contribution (in excess of reference rate)	**–**	**5**	**5**	**16**	**21**	4	14	18	13	31
Transfers from VIF and required capital to free surplus	**314**	**(146)**	**168**	**(168)**	**–**	296	(134)	162	(162)	–
Experience variances	**(9)**	**(9)**	**(18)**	**(35)**	**(53)**	13	(19)	(6)	(18)	(24)
Assumption changes	**40**	**(29)**	**11**	**(90)**	**(79)**	22	–	22	(20)	2
Other operating variance	**46**	**(27)**	**19**	**32**	**51**	160	(156)	4	(7)	(3)
Operating MCEV earnings	**248**	**(11)**	**237**	**(25)**	**212**	436	(122)	314	29	343
Economic variances	**54**	**1**	**55**	**(39)**	**16**	(154)	51	(103)	(139)	(242)
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	(1)	–	(1)	17	16
Total MCEV earnings	**302**	**(10)**	**292**	**(64)**	**228**	281	(71)	210	(93)	117
Closing adjustments	**(130)**	**160**	**30**	**132**	**162**	(688)	(14)	(702)	(21)	(723)
Capital and dividend flows	**(146)**	**(3)**	**(149)**	**–**	**(149)**	(645)	–	(645)	–	(645)
Foreign exchange variance	**3**	**160**	**163**	**156**	**319**	(43)	(14)	(57)	(21)	(78)
MCEV of acquired/sold business	**13**	**3**	**16**	**(24)**	**(8)**	–	–	–	–	–
Closing MCEV	**80**	**1,225**	**1,305**	**1,158**	**2,463**	(92)	1,075	983	1,090	2,073
Return on MCEV (RoEV) % per annum					**9.8%**					14.4%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**(18)**	**(35)**	**(53)**
Persistency	**(9)**	**(44)**	**(53)**
Risk	**16**	**–**	**16**
Expenses	**(30)**	**11**	**(19)**
Other	**5**	**(2)**	**3**
Assumption changes	**11**	**(90)**	**(79)**
Persistency	**(29)**	**(55)**	**(84)**
Risk	**30**	**20**	**50**
Expenses	**10**	**(55)**	**(45)**
Other	**–**	**–**	**–**

£m

Emerging Markets	**Year ended 31 December 2010**				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**5**	**63**	**68**	**104**	**172**
Expected existing business contribution (in excess of reference rate)	**–**	**(3)**	**(3)**	**14**	**11**

* The MCEV for Emerging Markets is presented after the adjustment for market value of life fund investments in Group equity and debt instruments.

B4: Analysis of covered business MCEV earnings (after tax) continued

The decrease in 'expected existing business contribution (reference rate)' from 2008 to 2009 is mainly attributable to a lower one-year swap rate at 31 December 2008 (9.3%) compared to 31 December 2007 (11.5%) and a lower opening MCEV.

Adverse persistency experience resulted from the tough economic conditions during 2009. Expense experience losses are mainly attributable to one-off project expenditure. These adverse experience variances were partially offset by favourable Retail Mass mortality and longevity experience.

Operating assumption changes were implemented to strengthen persistency assumptions, part of which are temporary short-term changes, and to capitalise special project expenditure. These changes were partially offset by positive mortality assumption changes due to continued improvement in Retail Mass mortality experience.

The other operating variances mainly relate to management actions and various methodology changes and error corrections. The management actions include a reduction in the rate of future cover increases on certain risk products in the Retail Mass segment to achieve better alignment between the cost of providing benefits and the value of the corresponding premium increase, offset by a reduction in the equity allocation of shareholder assets which resulted in an increase in frictional tax costs as interest bearing assets are subjected to higher tax rates than equities.

The positive economic variances were caused by investment returns on policyholder and shareholders funds being greater than expected and the introduction of a liquidity premium for Retail Affluent Immediate Annuity business. This was partially offset by economic assumption changes (mainly an increase in medium- to long-term swap yields).

The capital and dividend flows mainly consist of dividends paid that were partly offset by inter-company dividends received.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in rand (including conversion of results for Mexico to rand).

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Nordic	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**58**	**105**	**163**	**882**	**1,045**	47	75	122	992	1,114
New business value	**(57)**	**6**	**(51)**	**95**	**44**	(50)	3	(47)	79	32
Expected existing business contribution (reference rate)	**4**	**–**	**4**	**18**	**22**	2	2	4	50	54
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**14**	**14**	–	–	–	23	23
Transfers from VIF and required capital to free surplus	**81**	**(17)**	**64**	**(64)**	**–**	85	1	86	(86)	–
Experience variances	**28**	**(7)**	**21**	**10**	**31**	10	18	28	(17)	11
Assumption changes	**3**	**–**	**3**	**(30)**	**(27)**	–	–	–	32	32
Other operating variance	**–**	**–**	**–**	**(3)**	**(3)**	(1)	–	(1)	(2)	(3)
Operating MCEV earnings	**59**	**(18)**	**41**	**40**	**81**	46	24	70	79	149
Economic variances	**(5)**	**17**	**12**	**192**	**204**	9	(20)	(11)	(296)	(307)
Other non-operating variance	**18**	**–**	**18**	**1**	**19**	(85)	19	(66)	(3)	(69)
Total MCEV earnings	**72**	**(1)**	**71**	**233**	**304**	(30)	23	(7)	(220)	(227)
Closing adjustments	**(39)**	**–**	**(39)**	**(1)**	**(40)**	41	7	48	110	158
Capital and dividend flows	**(37)**	**–**	**(37)**	**–**	**(37)**	31	–	31	–	31
Foreign exchange variance	**(2)**	**–**	**(2)**	**(1)**	**(3)**	10	7	17	110	127
Closing MCEV	**91**	**104**	**195**	**1,114**	**1,309**	58	105	163	882	1,045
Return on MCEV (RoEV) % per annum					**8.1%**					12.9%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**21**	**10**	**31**
Persistency	**(2)**	**5**	**3**
Risk	**6**	**(1)**	**5**
Expenses	**3**	**(1)**	**2**
Other	**14**	**7**	**21**
Assumption changes	**3**	**(30)**	**(27)**
Persistency	**–**	**(29)**	**(29)**
Risk	**–**	**19**	**19**
Expenses	**–**	**(18)**	**(18)**
Other	**3**	**(2)**	**1**

£m

Nordic	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**1**	**–**	**1**	**15**	**16**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**24**	**24**

B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant. This is reasonable for business comprised mostly of unit-linked products where most of the profits emanate from premium charges, acquisition charges and fund based fees. Such fees and charges are largely captured in the 'expected existing business contribution (reference rate)'.

The positive experience variances were largely caused by lower than expected tax payments and higher than expected fee income. In addition, there were maintenance expense underruns in the Swedish unit-linked business. There were no one-off expense variances.

Operating assumption changes were made to recognise one-off developmental project costs and lower mortality experience mainly on drawdown annuity products. In addition changes were made to persistency assumptions, despite overall positive persistency experience during the year, to allow further for higher transfer rates given the change on 1 May 2008 in Swedish legislation to reinstate pension transfer rights.

The economic variances are mainly due to the positive effect of market movements on funds under management.

The other non-operating variance mainly results from a release of provisions following the favourable resolution of certain longstanding litigation matters.

The capital and dividend flows mainly represent dividends, repayment of loans and capital injections.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Swedish krona.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Retail Europe	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**15**	**64**	**79**	**517**	**596**	16	38	54	444	498
New business value	**(74)**	**1**	**(73)**	**68**	**(5)**	(80)	1	(79)	89	10
Expected existing business contribution (reference rate)	**1**	**–**	**1**	**10**	**11**	–	1	1	20	21
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**3**	**3**	–	–	–	4	4
Transfers from VIF and required capital to free surplus	**97**	**7**	**104**	**(104)**	**–**	111	2	113	(113)	–
Experience variances	**(20)**	**1**	**(19)**	**(4)**	**(23)**	(1)	–	(1)	(12)	(13)
Assumption changes	**–**	**–**	**–**	**(26)**	**(26)**				(13)	(13)
Other operating variance	**18**	**(19)**	**(1)**	**(3)**	**(4)**	–	–	–	5	5
Operating MCEV earnings	**22**	**(10)**	**12**	**(56)**	**(44)**	30	4	34	(20)	14
Economic variances	**(1)**	**4**	**3**	**26**	**29**	10	(12)	(2)	(30)	(32)
Other non-operating variance	**20**	**(20)**	**–**	**3**	**3**	(17)	12	(5)	(4)	(9)
Total MCEV earnings	**41**	**(26)**	**15**	**(27)**	**(12)**	23	4	27	(54)	(27)
Closing adjustments	**(10)**	**(6)**	**(16)**	**(37)**	**(53)**	(24)	22	(2)	127	125
Capital and dividend flows	**(10)**	**(3)**	**(13)**	**–**	**(13)**	(25)	–	(25)	–	(25)
Foreign exchange variance	**–**	**(3)**	**(3)**	**(37)**	**(40)**	1	22	23	127	150
Closing MCEV	**46**	**32**	**78**	**453**	**531**	15	64	79	517	596
Return on MCEV (RoEV) % per annum					**(7.9)%**					2.6%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**(19)**	**(4)**	**(23)**
Persistency	**(1)**	**(1)**	**(2)**
Risk	**3**	**1**	**4**
Expenses	**(5)**	**–**	**(5)**
Other	**(16)**	**(4)**	**(20)**
Assumption changes	**–**	**(26)**	**(26)**
Persistency	**–**	**2**	**2**
Risk	**–**	**1**	**1**
Expenses	**–**	**(22)**	**(22)**
Other	**–**	**(7)**	**(7)**

£m

Retail Europe	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**–**	**–**	**–**	**8**	**8**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**3**	**3**

B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant. This is reasonable for business comprised mostly of unit-linked products where most of the profits emanate from premium charges, acquisition charges and fund based fees. Such fees and charges are largely captured in the 'expected existing business contribution (reference rate)'.

Experience variances are mainly due to higher than anticipated profit sharing on participating contracts in Germany in 2009 as a result of lower than expected new business volumes as well as the settlement of profit sharing liabilities relating to the years 2005-2008. There were no one-off expense variances. Mortality and morbidity experience was positive across all Retail Europe countries.

Operating assumption changes were made to recognise one-off developmental project costs and to make allowance for planned short-term expense overruns relative to long-term maintenance expense assumptions. In addition, although a change in methodology was made in 2008 to recognise profit sharing in Germany, this allowance has been revised upwards given the adverse experience in 2009.

The economic variances are mainly due to the positive effect of market movements on funds under management.

The capital and dividend flows mainly represent dividends, repayment of loans and capital injections.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in euro.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Wealth Management	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**120**	**197**	**317**	**1,461**	**1,778**	56	209	265	1,331	1,596
New business value	**(171)**	**12**	**(159)**	**208**	**49**	(215)	3	(212)	279	67
Expected existing business contribution (reference rate)	**7**	**7**	**14**	**34**	**48**	32	1	33	61	94
Expected existing business contribution (in excess of reference rate)	**(1)**	**–**	**(1)**	**26**	**25**	–	–	–	21	21
Transfers from VIF and required capital to free surplus	**274**	**(30)**	**244**	**(244)**	**–**	319	(17)	302	(302)	–
Experience variances	**(10)**	**7**	**(3)**	**(35)**	**(38)**	25	(16)	9	3	12
Assumption changes	**(10)**	**7**	**(3)**	**(96)**	**(99)**	(3)	–	(3)	51	48
Other operating variance	**90**	**2**	**92**	**(81)**	**11**	13	–	13	(26)	(13)
Operating MCEV earnings	**179**	**5**	**184**	**(188)**	**(4)**	171	(29)	142	87	229
Economic variances	**2**	**12**	**14**	**38**	**52**	(58)	(14)	(72)	27	(45)
Other non-operating variance	**1**	**–**	**1**	**164**	**165**	(8)	12	4	(10)	(6)
Total MCEV earnings	**182**	**17**	**199**	**14**	**213**	105	(31)	74	104	178
Closing adjustments	**(139)**	**(1)**	**(140)**	**(7)**	**(147)**	(41)	19	(22)	26	4
Capital and dividend flows	**(142)**	**5**	**(137)**	**–**	**(137)**	(34)	–	(34)	–	(34)
Foreign exchange variance	**3**	**(6)**	**(3)**	**(7)**	**(10)**	(7)	19	12	26	38
Closing MCEV	**163**	**213**	**376**	**1,468**	**1,844**	120	197	317	1,461	1,778
Return on MCEV (RoEV) % per annum					**(0.3)%**					14.3%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**(3)**	**(35)**	**(38)**
Persistency	**(6)**	**(39)**	**(45)**
Risk	**6**	**–**	**6**
Expenses	**(24)**	**2**	**(22)**
Other	**21**	**2**	**23**
Assumption changes	**(3)**	**(96)**	**(99)**
Persistency	**–**	**(81)**	**(81)**
Risk	**–**	**12**	**12**
Expenses	**–**	**(66)**	**(66)**
Other	**(3)**	**39**	**36**

£m

Wealth Management	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**8**	**3**	**11**	**18**	**29**
Expected existing business contribution (in excess of reference rate)	**1**	**–**	**1**	**11**	**12**

B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant. This is reasonable for business comprised mostly of unit-linked products where most of the profits emanate from premium charges, acquisition charges and fund based fees. Such fees and charges are largely captured in the 'expected existing business contribution (reference rate)'.

Adverse persistency and expense variances were partially offset by positive risk and other variances. Approximately £9 million of the expense variance relates to development and restructuring costs. The 'other' variances include fee income being higher than expected and a tax variance on the transfer from VIF to adjusted net worth arising through the removal of dividend tax in respect of Skandia International.

Operating assumption changes were made to strengthen persistency and expense assumptions. The expense assumption changes are largely caused by capitalisation of development expenditure that is expected to arise through the restructure of Wealth Management and other one-off developmental projects. The 'other' operating assumption change reflects increased recognition of fee income in the United Kingdom in light of the positive experience.

The other operating variances reflect the impact of modelling and methodology changes and the impact of the Munich Re treaty that was effected by Skandia International to finance new business strain and repay internal loans.

The economic variances were driven by market and exchange rate movements.

The other non-operating variance relates to the effect on VIF of the removal of dividend tax in Skandia International as dividends received by United Kingdom companies from overseas trading subsidiaries are now exempt from United Kingdom corporation tax.

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.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

US Life	Year ended 31 December 2009					Year ended 31 December 2008				
	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	**(85)**	**550**	**465**	**(1,725)**	**(1,260)**	60	391	451	(102)	349
New business value	**(35)**	**41**	**6**	**8**	**14**	(136)	83	(53)	41	(12)
Expected existing business contribution (reference rate)	**(3)**	**21**	**18**	**(45)**	**(27)**	1	11	12	2	14
Expected existing business contribution (in excess of reference rate)	**–**	**1**	**1**	**257**	**258**	–	1	1	9	10
Transfers from VIF and required capital to free surplus	**52**	**(54)**	**(2)**	**2**	**–**	106	(39)	67	(67)	–
Experience variances	**137**	**(103)**	**34**	**(35)**	**(1)**	115	(41)	74	(233)	(159)
Assumption changes	**–**	**–**	**–**	**30**	**30**	(6)	–	(6)	(328)	(334)
Other operating variance	**–**	**–**	**–**	**(8)**	**(8)**	–	–	–	117	117
Operating MCEV earnings	**151**	**(94)**	**57**	**209**	**266**	80	15	95	(459)	(364)
Economic variances	**(181)**	**59**	**(122)**	**556**	**434**	(267)	–	(267)	(789)	(1,056)
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**(30)**	**(35)**	**(65)**	**765**	**700**	(187)	15	(172)	(1,248)	(1,420)
Closing adjustments	**151**	**(53)**	**98**	**144**	**242**	42	144	186	(375)	(189)
Capital and dividend flows	**146**	**–**	**146**	**–**	**146**	55	–	55	–	55
Foreign exchange variance	**5**	**(53)**	**(48)**	**144**	**96**	(13)	144	131	(375)	(244)
Closing MCEV	**36**	**462**	**498**	**(816)**	**(318)**	(85)	550	465	(1,725)	(1,260)
Return on MCEV (RoEV) % per annum					**22.7%**					(97.6)%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**34**	**(35)**	**(1)**
Persistency	**(17)**	**20**	**3**
Risk	**–**	**17**	**17**
Expenses	**17**	**–**	**17**
Other	**34**	**(72)**	**(38)**
Assumption changes	**–**	**30**	**30**
Persistency	**–**	**18**	**18**
Risk	**–**	**12**	**12**
Expenses	**–**	**–**	**–**
Other	**–**	**–**	**–**

£m

US Life	Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**–**	**9**	**9**	**16**	**25**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**79**	**79**

B4: Analysis of covered business MCEV earnings (after tax) continued

The segment results of US Life include allowance for Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States Life Companies.

The operating MCEV earnings were largely caused by the 'expected existing business contribution (in excess of reference rate)', ie by 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 experience variances were largely caused by positive mortality variance, from the immediate annuity business, and expense variance, which was positive relative to the additional provision set up at the end of 2008 based on the overruns at the time. These were partially offset by an overall increase in guarantee costs relative to expectations. Persistency experience was roughly neutral. There were no large one-off items of expense variance.

The operating assumption changes consisted of changes to the persistency assumptions on the Fixed Indexed Annuity (FIA) business and the slight weakening of mortality assumptions on the Single Premium Immediate Annuity (SPIA) business to align with IFRS assumptions.

The other operating variances include a refinement in the calculation of the time value of financial options and guarantees, changes to the methodology for calculating the non-hedgeable risk capital and a model revision in respect of the dynamic lapse methodology.

The economic variances were largely driven by the reduction in corporate bond spreads during 2009.

The capital and dividend flows were due to a capital injection made in February 2009.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollar.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Bermuda	**Year ended 31 December 2009**					Year ended 31 December 2008				
	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	**342**	**34**	**376**	**(425)**	**(49)**	21	33	54	59	113
New business value	**–**	**–**	**–**	**–**	**–**	(41)	10	(31)	(23)	(54)
Expected existing business contribution (reference rate)	**5**	**1**	**6**	**(4)**	**2**	1	1	2	8	10
Expected existing business contribution (in excess of reference rate)	**33**	**–**	**33**	**39**	**72**	–	–	–	11	11
Transfers from VIF and required capital to free surplus	**(5)**	**(4)**	**(9)**	**9**	**–**	22	(2)	20	(20)	–
Experience variances	**(72)**	**–**	**(72)**	**(21)**	**(93)**	(2)	(17)	(19)	27	8
Assumption changes	**(36)**	**–**	**(36)**	**(46)**	**(82)**	(68)	–	(68)	(97)	(165)
Other operating variance	**(345)**	**345**	**–**	**82**	**82**	–	–	–	(48)	(48)
Operating MCEV earnings	**(420)**	**342**	**(78)**	**59**	**(19)**	(88)	(8)	(96)	(142)	(238)
Economic variances	**102**	**–**	**102**	**167**	**269**	(262)	–	(262)	(258)	(520)
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**(318)**	**342**	**24**	**226**	**250**	(350)	(8)	(358)	(400)	(758)
Closing adjustments	**(24)**	**(13)**	**(37)**	**34**	**(3)**	671	9	680	(84)	596
Capital and dividend flows	**–**	**–**	**–**	**–**	**–**	596	–	596	–	596
Foreign exchange variance	**(24)**	**(13)**	**(37)**	**34**	**(3)**	75	9	84	(84)	–
Closing MCEV	**–**	**363**	**363**	**(165)**	**198**	342	34	376	(425)	(49)
Return on MCEV (RoEV) % per annum					**(41.0)%**					(195.3)%

£m

	Adjusted net worth	**Value of in-force**	**MCEV**
Experience variances	**(72)**	**(21)**	**(93)**
Persistency	**(52)**	**(13)**	**(65)**
Risk	**–**	**–**	**–**
Expenses	**(10)**	**1**	**(9)**
Other	**(10)**	**(9)**	**(19)**
Assumption changes	**(36)**	**(46)**	**(82)**
Persistency	**–**	**(65)**	**(65)**
Risk	**–**	**–**	**–**
Expenses	**–**	**(29)**	**(29)**
Other	**(36)**	**48**	**12**

£m

Bermuda	**Year ended 31 December 2010**				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**–**	**3**	**3**	**9**	**12**
Expected existing business contribution (in excess of reference rate)	**–**	**28**	**28**	**32**	**60**

B4: Analysis of covered business MCEV earnings (after tax) continued

The experience variances were largely caused by adverse persistency experience, with fewer surrenders than expected on Variable Annuity contracts with heavily in-the-money guarantees, an increase in the cost of non-hedgeable risks and a negative expense variance. There were no large one-off items of expense variance.

The operating assumptions changes consisted of a strengthening of the persistency assumptions on the Variable Annuity business with guaranteed rider benefits, a strengthening of expense assumptions in light of this year's adverse expense experience, and some changes to guarantee cost assumptions. There were no large one-off expense items.

The other operating variance includes a positive variance due to an amendment of a DAC write-down made in the previous reporting period, a refinement in the calculation of the time value of financial options and guarantees, changes to the methodology for calculation of the non-hedgeable risk capital and improvements to the modelling of guarantee costs.

The economic variances were largely driven by the recovery in equity markets during the period and the increase in the US swap yield curve.

The increase in required capital to equal the full adjusted net worth as at 31 December 2009 is as a result of a more conservative view, relative to 31 December 2008, of the level of capital considered by the directors to be appropriate to manage the business.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollars.

C: Other key performance information

C1 Adjustments applied in determining total Group MCEV earnings before tax

£m

Analysis of adjusting items	Year ended 31 December 2009			Year ended 31 December 2008		
	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	**–**	**65**	**65**	–	(12)	(12)
Economic variances	**1,108**	**(10)**	**1,098**	(2,480)	(72)	(2,552)
Other non-operating variances	**18**	**–**	**18**	(79)	–	(79)
Acquired/divested business	**–**	**(48)**	**(48)**	–	53	53
Closure of unclaimed share trust	**–**	**–**	**–**	–	–	–
Dividends declared to holders of perpetual preferred callable securities	**–**	**45**	**45**	–	43	43
Adjusting items relating to US Asset Management equity plans and non-controlling interests	**–**	**(1)**	**(1)**	–	7	7
Fair value gains on Group debt instruments	**–**	**(264)**	**(264)**	–	503	503
Adjusting items	**1,126**	**(213)**	**913**	(2,559)	522	(2,037)

C2: Other movements in IFRS net equity impacting Group MCEV

£m

	Year ended 31 December 2009			Year ended 31 December 2008		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Fair value gains/(losses)	**–**	**2**	**2**	–	–	–
Net investment hedge	**–**	**(41)**	**(41)**	–	(281)	(281)
Currency translation differences/exchange differences on translating foreign operations	**359**	**197**	**556**	(7)	59	52
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**13**	**13**	–	(1)	(1)
Correction to transfers*	**–**	**316**	**316**	–	–	–
Other movements	**(8)**	**(7)**	**(15)**	–	(49)	(49)
Net income recognised directly into equity	**351**	**480**	**831**	(7)	(272)	(279)
Capital and dividend flows for the year	**(190)**	**145**	**(45)**	(22)	(373)	(395)
Share buy back	**–**	**–**	**–**	–	(175)	(175)
Net issues of ordinary share capital by the Company	**–**	**2**	**2**	–	5	5
Exercise of share options	**–**	**3**	**3**	–	5	5
Change in share based payment reserve	**–**	**14**	**14**	–	26	26
Other movements in net equity	**161**	**644**	**805**	(29)	(784)	(813)

* Refinement arising from allocation of assets between covered and non-covered business at December 2008

C3: 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 2009	Total	Long-Term savings	Emerging Markets	Nordic	Retail Europe	Wealth Manage-ment	US Life	Bermuda
IFRS net asset value*	**6,103**	**5,734**	**821**	**1,222**	**664**	**2,141**	**886**	**369**
Adjustment to include long-term business on a statutory solvency basis	**(2,632)**	**(2,626)**	**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**	**2,452**	**1,305**	**195**	**78**	**376**	**498**	**363**

£m

At 31 December 2008	Total	Long-Term savings	Emerging Markets	Nordic	Retail Europe	Wealth Manage-ment	US Life	Bermuda
IFRS net asset value*	5,907	5,314	620	1,323	934	2,340	97	593
Adjustment to include long-term business on a statutory solvency basis	(2,461)	(2,244)	136	(973)	(435)	(1,340)	368	(217)
Inclusion of Group equity and debt instruments held in life funds	236	236	236	–	–	–	–	–
Goodwill	(1,299)	(1,299)	(9)	(187)	(420)	(683)	–	–
Adjusted net worth attributable to ordinary equity holders of the parent	2,383	2,007	983	163	79	317	465	376

* 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.

C4: 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 recurring-premiums plus 10% of single-premiums.

As mentioned earlier for the OMSA business, Nedlife is not recognised as part of the VNB of covered business in 2009. A similar consideration applies to other new business measures such as PVNBP and APE in order to provide a better indication of future expected 'normalised' earnings. However note that in the tables below Nedlife is still incorporated in the comparative results for the year ended 31 December 2008.

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
Annualised recurring-premiums		
Long Term Savings (LTS)	**699**	732
Emerging Markets	**249**	230
Nordic	**183**	174
Retail Europe	**62**	84
Wealth Management	**191**	211
US Life	**14**	33
Bermuda	**–**	–
	699	732
Single-premiums		
Long Term Savings (LTS)	**6,806**	7,327
Emerging Markets	**1,437**	1,321
Nordic	**527**	384
Retail Europe	**53**	75
Wealth Management	**4,240**	4,520
US Life	**549**	1,027
Bermuda	**15**	1,448
	6,821	8,775
PVNBP		
Long Term Savings (LTS)	**10,202**	10,814
Emerging Markets	**2,834**	2,482
Nordic	**1,150**	991
Retail Europe	**537**	555
Wealth Management	**5,042**	5,540
US Life	**639**	1,246
Bermuda	**15**	1,448
	10,217	12,262
PVNBP capitalisation factors*		
Long Term Savings (LTS)	**4.9**	4.8
Emerging Markets	**5.6**	5.0
Nordic	**3.4**	3.5
Retail Europe	**7.8**	5.7
Wealth Management	**4.2**	4.8
US Life	**6.6**	6.7
Bermuda	**n/a**	n/a

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2009 continued

	Year ended 31 December £m 2009	Year ended 31 December £m 2008
APE		
Long Term Savings (LTS)	**1,380**	1,466
Emerging Markets	**393**	362
Nordic	**235**	213
Retail Europe	**67**	91
Wealth Management	**617**	664
US Life	**68**	136
Bermuda	**1**	145
	1,381	1,611
VNB		
Long Term Savings (LTS)	**167**	158
Emerging Markets**	**65**	61
Nordic	**44**	32
Retail Europe	**(5)**	10
Wealth Management	**49**	67
US Life	**14**	(12)
Bermuda	**–**	(54)
	167	104
PVNBP margin		
Long Term Savings (LTS)	**1.6%**	1.5%
Emerging Markets***	**2.3%**	2.5%
Nordic	**3.8%**	3.3%
Retail Europe	**(1.0)%**	1.8%
Wealth Management	**1.0%**	1.2%
US Life	**2.2%**	(0.9)%
	1.6%	0.8%
APE margin		
Long Term Savings (LTS)	**12%**	11%
Emerging Markets****	**16%**	17%
Nordic	**19%**	15%
Retail Europe	**(8)%**	11%
Wealth Management	**8%**	10%
US Life	**20%**	(8)%
	12%	6%

* The PVNBP capitalisation factors are calculated as follows: (PVNBP – single-premiums)/annualised recurring-premiums.
** The comparative result excluding Nedlife is £53m for the year ended 31 December 2008.
*** The comparative result excluding Nedlife is 2.2% for the year ended 31 December 2008.
**** The comparative result excluding Nedlife is 16% for the year ended 31 December 2008.

C4: Value of new business (after tax) continued

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.

Gross premium excluded from value of new business	**Year ended 31 December £m 2009**	Year ended 31 December £m 2008
Emerging Markets*	**1,625**	458
Wealth Management	**153**	239

* New business premiums not valued are higher than in 2008, mainly because single premium new business figures include inflows relating to in-force business following OMSA's acquisition of Future Growth and Acsis Life.

C5: Product analysis of new covered business premiums

£m

Emerging Markets	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single
Total business	**249**	**1,437**	230	1,321
Individual business	**220**	**716**	216	644
Savings	**50**	**539**	58	481
Protection	**56**	**21**	68	18
Annuity	**–**	**155**	–	144
Retail mass market	**114**	**1**	90	1
Group business	**29**	**721**	14	677
Savings	**13**	**564**	6	444
Protection	**16**	**–**	8	1
Annuity	**–**	**157**	–	232

£m

Nordic	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single
Unit-linked assurance	**183**	**527**	174	384

£m

Retail Europe	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single
Unit-linked assurance	**62**	**53**	84	75

£m

Wealth Management	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single
Total business	**191**	**4,240**	211	4,520
Unit-linked assurance	**187**	**4,039**	205	4,260
Life	**4**	**201**	6	260

£m

US Life	Year ended 31 December 2009 Recurring	Year ended 31 December 2009 Single	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single
Total business	**14**	**549**	33	1,027
Fixed deferred annuity	**–**	**30**	–	228
Fixed indexed annuity	**–**	**383**	–	611
Variable annuity	**–**	**–**	–	6
Life	**14**	**13**	33	43
Immediate annuity	**–**	**123**	–	139

D: Other income statement notes

D1: Drivers of new business value for covered business

PVNBP Margin	Year ended 31 December 2009 %	Year ended 31 December 2008 %
Total covered business*		
Margin at the end of comparative period	**0.8**	1.7
Change in volume	**0.8**	0.1
Change in product mix	**–**	(0.2)
Change in country mix	**–**	–
Change in operating assumptions	**0.1**	(0.3)
Change in economic assumptions	**–**	(0.3)
Change in tax/regulation	**0.1**	–
Exchange rate movements	**(0.2)**	(0.2)
Margin at the end of the period	**1.6**	0.8
Long Term Savings		
Margin at the end of comparative period	**1.5**	1.6
Change in volume	**(0.1)**	0.1
Change in product mix	**–**	–
Change in country mix	**–**	–
Change in operating assumptions	**0.1**	0.1
Change in economic assumptions	**–**	(0.2)
Change in tax/regulation	**0.1**	–
Exchange rate movements	**–**	(0.1)
Margin at the end of the period	**1.6**	1.5
Emerging Markets**		
Margin at the end of comparative period	**2.5**	2.4
Opening adjustment to the margin at the end of the comparative period for the removal of Nedlife	**(0.3)**	–
Adjusted margin at the end of the comparative period	**2.2**	2.4
Change in volume	**(0.1)**	0.2
Change in product mix	**(0.2)**	(0.1)
Change in country mix	**–**	–
Change in operating assumptions	**0.4**	0.1
Change in economic assumptions	**–**	(0.1)
Margin at the end of the period	**2.3**	2.5
Nordic***		
Margin at the end of comparative period	**3.3**	3.3
Change in volume	**(0.1)**	0.4
Change in product mix	**–**	0.2
Change in country mix	**–**	–
Change in operating assumptions	**0.4**	(0.5)
Change in economic assumptions	**0.2**	(0.1)
Margin at the end of the period	**3.8**	**3.3**

D1: Drivers of new business value continued

	%	
	Year ended 31 December 2009	Year ended 31 December 2008
Retail Europe ****		
Margin at the end of comparative period	**1.8**	5.2
Change in volume	**(2.1)**	(1.1)
Change in product mix	**(0.8)**	(0.5)
Change in country mix	**(0.1)**	(0.1)
Change in operating assumptions	**0.5**	(1.6)
Change in economic assumptions	**(0.3)**	(0.1)
Margin at the end of the period	**(1.0)**	1.8
Wealth Management*		
Margin at the end of comparative period	**1.2**	1.2
Change in volume	**(0.2)**	–
Change in product mix	**–**	–
Change in country mix	**–**	–
Change in operating assumptions	**(0.2)**	0.1
Change in economic assumptions	**–**	(0.1)
Change in tax/regulation	**0.2**	–
Margin at the end of the period	**1.0**	1.2
US Life *****		
Margin at the end of comparative period	**(0.9)**	(0.5)
Change in volume	**–**	–
Change in product mix	**1.5**	(0.4)
Change in country mix	**–**	–
Change in operating assumptions	**–**	1.9
Change in economic assumptions	**1.6**	(1.9)
Margin at the end of the period	**2.2**	(0.9)

* The PVNBP margin changes are calculated in sterling.
** The PVNBP margin changes are calculated in rand, and exclude Nedlife for the comparative year ending 31 December 2008.
*** The PVNBP margin changes are calculated in krona.
**** The PVNBP margin changes are calculated in euro.
***** The PVNBP margin changes are calculated in dollar.

E1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2009 and the value of new business for the year ended 31 December 2009 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 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.

Total covered business

£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**

Emerging Markets

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**2,463**	**1,158**	**65**
Effect of:			
Required capital equal to the minimum statutory requirement	**2,506**	**1,201**	**68**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**2,432**	**1,125**	**61**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**2,483**	**1,179**	**67**
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	**2,470**	**1,165**	**66**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**2,567**	**1,225**	**66**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**2,358**	**1,090**	**63**
50bps contraction on corporate bond spreads	**2,478**	**1,157**	**65**
25% multiplicative increase in equity and property implied volatilities	**2,440**	**1,135**	**65**
25% multiplicative increase in swaption implied volatilities	**2,456**	**1,150**	**65**
Voluntary discontinuance rates decreasing by 10%	**2,507**	**1,202**	**82**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**2,564**	**1,258**	**72**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**2,536**	**1,231**	**74**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges*	**2,451**	**1,145**	**64**
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**	**57**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**60**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**2,482**	**1,176**	**66**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**2,444**	**1,138**	**63**

* No impact on with-profit annuities as the mortality risk is borne by policyholders.

Nordic

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**1,309**	**1,114**	**44**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,309**	**1,114**	**44**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,284**	**1,088**	**43**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,336**	**1,141**	**45**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,389**	**1,194**	**48**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,228**	**1,033**	**40**
50bps contraction on corporate bond spreads	**1,309**	**1,114**	**44**
25% multiplicative increase in equity and property implied volatilities	**1,309**	**1,114**	**44**
25% multiplicative increase in swaption implied volatilities	**1,309**	**1,114**	**44**
Voluntary discontinuance rates decreasing by 10%	**1,348**	**1,153**	**52**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**1,345**	**1,150**	**46**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**1,310**	**1,115**	**44**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**1,307**	**1,112**	**44**
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**	**42**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**47**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,324**	**1,129**	**45**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**1,294**	**1,099**	**43**

Retail Europe

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**531**	**453**	**(5)**
Effect of:			
Required capital equal to the minimum statutory requirement	**528**	**451**	**(5)**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**513**	**436**	**(8)**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**549**	**471**	**(3)**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**541**	**463**	**(5)**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**521**	**444**	**(5)**
50bps contraction on corporate bond spreads	**531**	**453**	**(5)**
25% multiplicative increase in equity and property implied volatilities	**531**	**453**	**(5)**
25% multiplicative increase in swaption implied volatilities	**522**	**444**	**(5)**
Voluntary discontinuance rates decreasing by 10%	**545**	**468**	**(4)**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**553**	**476**	**(3)**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**534**	**456**	**(5)**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**531**	**453**	**(5)**
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**	**(8)**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**(4)**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**535**	**458**	**(5)**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**525**	**447**	**(6)**

Wealth Management

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**1,844**	**1,468**	**49**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,848**	**1,472**	**49**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,820**	**1,460**	**46**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**1,916**	**1,521**	**54**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,900**	**1,524**	**56**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**1,810**	**1,434**	**46**
50bps contraction on corporate bond spreads	**1,844**	**1,468**	**49**
25% multiplicative increase in equity and property implied volatilities	**1,844**	**1,468**	**49**
25% multiplicative increase in swaption implied volatilities	**1,844**	**1,468**	**49**
Voluntary discontinuance rates decreasing by 10%	**1,932**	**1,556**	**64**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**1,906**	**1,530**	**59**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**1,889**	**1,513**	**57**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**1,844**	**1,468**	**49**
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**	**47**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**54**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,853**	**1,477**	**51**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**1,826**	**1,450**	**48**

US Life

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**(318)**	**(816)**	**14**
Effect of:			
Required capital equal to the minimum statutory requirement	**(315)**	**(813)**	**14**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**(575)**	**(1,073)**	**20**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**(67)**	**(565)**	**3**
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	**(271)**	**(769)**	**15**
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*	**(90)**	**(588)**	**20**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**(318)**	**(816)**	**14**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**(318)**	**(816)**	**14**
50bps contraction on corporate bond spreads	**(12)**	**(510)**	**14**
25% multiplicative increase in swaption implied volatilities	**(420)**	**(918)**	**8**
Voluntary discontinuance rates decreasing by 10%	**(290)**	**(788)**	**16**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**(302)**	**(800)**	**14**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**(302)**	**(800)**	**15**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**(342)**	**(840)**	**14**
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**	**12**
Value of new business calculated on economic assumptions at the end of reporting period	**n/a**	**n/a**	**(4)**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**(269)**	**(767)**	**16**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**(338)**	**(836)**	**13**

* At 31 December 2009 the size of the base liquidity premium adjustment for US Life business of 100bps is greater than the base liquidity premium adjustment for OMSA's Retail Affluent Immediate Annuity business of 50bps. 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.

Bermuda

£m

At 31 December 2009	MCEV	Value of in-force business	Value of new business
Central assumptions	**198**	**(165)**	**–**
Effect of:			
Required capital equal to the minimum statutory requirement	**202**	**(163)**	**–**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**272**	**(171)**	**–**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**130**	**(158)**	**–**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**322**	**(143)**	**–**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**72**	**(188)**	**–**
50bps contraction on corporate bond spreads	**210**	**(153)**	**–**
25% multiplicative increase in equity and property implied volatilities	**123**	**(164)**	**–**
25% multiplicative increase in swaption implied volatilities	**196**	**(167)**	**–**
Voluntary discontinuance rates decreasing by 10%	**170**	**(97)**	**–**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**203**	**(159)**	**–**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**199**	**(163)**	**–**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**198**	**(165)**	**–**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**235**	**(128)**	**–**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**183**	**(179)**	**–**

Total covered business

£m

At 31 December 2008	MCEV	Value of in-force business	Value of new business
Central assumptions	**4,183**	**1,800**	**104**
Effect of:			
Required capital equal to the minimum statutory requirement	**4,182**	**1,836**	**108**
Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**4,185**	**1,810**	**121**
Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately	**4,134**	**1,745**	**58**
Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged	**4,421**	**2,000**	**n/a**
Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged	**3,953**	**1,610**	**n/a**
10bps contraction on corporate bond spreads	**4,249**	**1,864**	**n/a**
25% multiplicative increase in equity and property implied volatilities	**5,466**	**3,924**	**171**
25% multiplicative increase in swaption implied volatilities	**3,755**	**1,373**	**84**
Voluntary discontinuance rates decreasing by 10%	**4,429**	**2,047**	**140**
Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges	**4,379**	**1,997**	**122**
Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges	**4,267**	**1,885**	**115**
Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges	**4,150**	**1,768**	**104**
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**	**81**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**4,315**	**1,933**	**123**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model	**4,095**	**1,713**	**96**

FINANCIAL HISTORY

For the year ended 31 December 2009

	2009	2008	2007	2006	£m 2005
Consolidated income statement					
Revenue					
Gross earned premiums	**3,820**	5,156	5,566	4,713	4,473
Outward reinsurance	**(369)**	(335)	(293)	(267)	(197)
Net earned premiums	**3,451**	4,821	5,273	4,446	4,276
Investment return (non-banking)	**11,616**	(11,578)	6,318	10,439	6,569
Banking interest and similar income	**3,989**	4,059	3,190	2,441	2,018
Banking trading, investment and similar income[1]	**168**	162	170	–	–
Fee and commission income, and income from service activities	**2,422**	2,313	2,475	2,262	1,274
Other income	**202**	270	245	324	215
Total revenues	**21,848**	47	17,671	19,912	14,352
Expenses					
Claims and benefits (including change in insurance contract provisions)	**(5,069)**	(3,610)	(7,193)	(7,999)	(7,795)
Reinsurance recoveries	**328**	262	236	245	226
Net claims and benefits incurred	**(4,741)**	(3,348)	(6,957)	(7,754)	(7,569)
Change in investment contract liabilities	**(8,345)**	10,051	(2,618)	(4,655)	(1,202)
Losses on loans and advances	**(511)**	(319)	(157)	(123)	(103)
Finance costs	**(322)**	392	(50)	(91)	(40)
Banking interest payable and similar expenses	**(2,627)**	(2,853)	(2,053)	(1,461)	(1,254)
Fee and commission expenses, and other acquisition costs	**(806)**	(937)	(778)	(714)	(389)
Other operating and administrative expenses	**(3,139)**	(2,834)	(2,813)	(2,826)	(2,155)
Goodwill impairment	**(266)**	(74)	(3)	(8)	(5)
Change in third party interest in consolidated funds	**(470)**	779	(156)	(278)	(80)
Amortisation of PVIF and other acquired intangibles	**(326)**	(361)	(360)	(379)	(24)
Total expenses	**(21,553)**	496	(15,945)	(18,289)	(12,821)
Share of associated undertakings' profit/(loss) after tax	**2**	(1)	(1)	6	17
(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments	**(50)**	53	25	85	58
Profit before tax	**247**	595	1,750	1,714	1,606
Income tax (expense)/credit	**(365)**	88	(504)	(621)	(484)
(Loss)/profit after tax for the financial year	**(118)**	683	1,246	1,093	1,122
Attributable to:					
Equity holders of the parent	**(340)**	441	972	836	867
Non-controlling interests					
Ordinary shares	**158**	188	224	207	203
Preferred securities	**64**	54	50	50	52
(Loss)/profit after tax for the financial year	**(118)**	683	1,246	1,093	1,122
Earnings per share					
Basic earnings per ordinary share (pence)	**(7.8)**	8.6	19.2	17.0	25.1
Diluted earnings per ordinary share (pence)	**(7.8)**	8.1	18.1	16.1	24.3
Weighted average number of shares – millions	**4,758**	4,755	4,894	4,705	3,456

1 2005 and 2006 included in Banking interest and similar income

FINANCIAL HISTORY

For the year ended 31 December 2009 continued

	2009	2008	2007	2006	£m 2005
Consolidated statement of comprehensive income					
(Loss)/profit after tax for the financial year	**(118)**	683	1,246	1,093	1,122
Other comprehensive income					
Fair value (losses)/gains:					
Property revaluation	**(10)**	16	96	28	27
Net investment hedge	**(41)**	281	(13)	75	(78)
Available-for-sale investments:[1]					
Fair value gains/(losses)	**1,087**	(1,635)	(197)	(111)	(249)
Recycled to the income statement	**239**	414	36	17	
Shadow accounting	**27**	26	25	28	117
Currency translation differences/exchange differences on translating foreign operations	**272**	429	133	(1,060)	275
Other movements	**51**	68	(4)	(4)	(28)
Income tax relating to components of other comprehensive income	**(397)**	366	34	14	34
Total other comprehensive income	**1,228**	(35)	110	(1,013)	98
Total comprehensive income	**1,110**	648	1,356	80	1,220
Equity holders of the parent	**709**	305	1,077	73	930
Non-controlling interests[2]					
Ordinary shares	**334**	299	229	(43)	236
Preferred securities	**67**	44	50	50	54
Total comprehensive income	**1,110**	648	1,356	80	1,220

Year ended 31 December	2009	2008	2007	2006	£m 2005
Adjusted operating profit	**1,170**	1,136	1,624	1,459	1,261
Adjusted operating earnings per share					
Adjusted operating earnings per ordinary share (pence) – H1	**5.3**	8.7	8.2	8.5	8.7
Adjusted operating earnings per ordinary share (pence) – H2[3]	**6.8**	6.2	8.7	6.6	9.8
Adjusted operating earnings per ordinary share (pence)[4]	**12.1**	14.9	16.9	15.1	18.5
Adjusted weighted average number of shares – H1	**5,232**	5,245	5,407	5,063	3,753
Adjusted weighted average number of shares – H2	**5,226**	5,215	5,415	5,379	3,927
Adjusted weighted average number of shares	**5,229**	5,230	5,411	5,222	3,840

1 No split available for 2005
2 2007-2005 restated from reported to reflect ordinary share and preferred securities
3 Calculated based on full year less 1st half year
4 2008 and 2009 H1 has been restated to reflect Bermuda treated as a non-core operation as per the 2009 financial accounts.

£m

	2009	2008	2007	2006	2005
Consolidated statement of financial position[1]					
Assets					
Goodwill and other intangible assets	**5,159**	5,882	5,459	5,367	1,570
Mandatory reserve deposits with central banks	**882**	734	615	665	568
Property, plant and equipment	**828**	682	608	499	538
Investment property	**1,759**	1,478	1,479	804	847
Deferred tax assets	**570**	1,590	683	511	458
Investments in associated undertakings and joint ventures	**135**	111	81	83	93
Deferred acquisition costs	**3,138**	3,199	2,253	1,578	1,089
Reinsurers' share of life assurance policyholder liabilities	**1,296**	1,148	1,394	763	455
Reinsurers' share of general insurance liabilities	**120**	115	–	–	–
Deposits held with reinsurers	**146**	164	213	–	–
Loans and advances	**42,393**	35,745	30,687	22,804	18,456
Investments and securities	**98,461**	83,522	89,627	86,452	49,407
Current tax receivable	**169**	118	83	60	29
Client indebtedness for acceptances	**170**	220	165	–	–
Other assets	**3,051**	3,137	2,774	3,635	2,373
Derivative financial instruments – assets	**2,546**	3,228	1,527	1,238	1,604
Cash and cash equivalents	**2,982**	3,203	3,469	2,951	3,051
Non-current assets held-for-sale	**1**	7	1,623	1,165	36
Total assets	**163,806**	144,283	142,740	128,575	80,574
Liabilities					
Life assurance policyholder liabilities	**93,876**	81,269	84,251	80,081	44,445
General insurance liabilities	**372**	344	–	–	–
Third party interests in consolidated funds	**2,906**	2,591	3,547	3,041	966
Borrowed funds	**3,309**	2,295	2,353	1,676	1,433
Provisions	**263**	477	499	542	285
Deferred revenue	**654**	598	462	311	138
Deferred tax liabilities	**905**	1,452	1,413	1,393	611
Current tax payable	**210**	219	320	283	178
Other liabilities	**4,305**	4,074	6,180	5,266	3,320
Liabilities under acceptances	**170**	220	165	–	–
Amounts owed to bank depositors	**44,135**	38,171	31,817	25,052	21,145
Derivative financial instruments – liabilities	**1,990**	2,990	1,716	1,060	1,634
Non-current liabilities held-for-sale	**–**	6	420	1,107	–
Total liabilities	**153,095**	134,706	133,143	119,812	74,155
Net assets	**10,711**	9,577	9,597	8,763	6,419
Shareholders' equity					
Equity attributable to equity holders of the parent	**8,464**	7,737	7,961	7,237	4,751
Non-controlling interests					
Ordinary shares	**1,537**	1,147	933	848	1,012
Preferred securities	**710**	693	703	678	656
Total non-controlling interests	**2,247**	1,840	1,636	1,526	1,668
Total equity	**10,711**	9,577	9,597	8,763	6,419

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 and 2005 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

For the year ended 31 December 2009 continued

	2009	2008	2007	2006	£m 2005
Additional information					
IFRS book value per share					
Equity attributable to equity holders of the parent	**8,464**	7,737	7,961	7,237	4,751
Less: Perpetual preferred callable securities	**(688)**	(688)	(688)	(688)	(688)
	7,776	7,049	7,273	6,549	4,063
Shares issued and fully paid	**5,518**	5,516	5,510	5,501	4,090
Less: Treasury shares in issue	**(239)**	(239)	(105)	–	–
	5,279	5,277	5,405	5,501	4,090
IFRS book value per share (pence)	**147**	134	135	119	99
Funds under management	**285,010**	264,814	278,878	239,433	182,166
Earnings after tax attributable to ordinary equity holders					
Adjusted operating Group MCEV	**562**	575	922	–	–
Adjusted operating Group EEV	**–**	–	–	929	796
Adjusted operating Group MCEV earnings per share	**10.7**	11.0	17.0	–	–
Adjusted operating Group EEV earnings per share	**–**	–	–	17.8	20.7
Market consistent embedded value	**7,629**	5,262	7,359	–	–
European embedded value	**–**	–	–	7,117	5,808
MCEV per share	**144.5**	99.7	136.2	–	–
EEV per share	**–**	–	–	129.4	142.0

Rates used to translate the operating results, assets and liabilities of key foreign business segments to Sterling are:

Year ended 31 December	2009	2008	2007	2006[1]	2005
Exchange rates					
Income statement (average rate)					
Rand	**13.1746**	15.2948	14.1109	12.4740	11.5812
US Dollars	**1.5655**	1.8524	2.0014	1.8429	1.8195
Swedish Kronor	**11.9743**	12.2209	13.5253	13.5918	
Euro	**1.1227**	1.2594	1.4602	1.4671	
Statement of financial position (closing rate)					
Rand	**11.9172**	13.7194	13.6043	13.6746	10.8923
US Dollars	**1.6148**	1.4575	1.9827	1.9569	1.7187
Swedish Kronor	**11.5562**	11.4494	12.832	13.3924	
Euro	**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 acquisition date of 1 February 2006.

SHAREHOLDER INFORMATION

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 2009 and 2008 were as follows:

	2009		2008	
	High	**Low**	High	Low
London Stock Exchange	**121.3p**	**30.8p**	169.3p	39.0p
JSE	**R14.86**	**R4.80**	R20.15	R6.97

At 31 December 2009, the geographical analysis and shareholder profile of the Company's share register were as follows:

Register	Total shares	% of whole	Number of holders
UK	2,943,298,487	53.34	11,744
South Africa	2,244,993,592	40.68	31,209[1]
Zimbabwe	69,419,901	1.25	32,242[1]
Namibia	15,782,106	0.29	572[1]
Malawi	5,323,976	0.10	4,779[1]
Treasury shares (UK)	239,434,888	4.34	1
Total	**5,518,252,950**	**100**	**80,547**

Source: Computershare Investor Services

Size of holding	Total shares	% of whole	Number of holders
1-1,000	24,010,752	0.44	67,976
1,001-10,000	29,116,204	0.53	10,706
10,001-100,000	34,446,650	0.62	1,134
100,001-250,000	37,002,769	0.67	226
250,001+	5,154,241,687	93.40	504
Treasury shares (UK)	239,434,888	4.34	1
Total	**5,518,252,950**	**100**	**80,547**

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 1,846,383,653 shares, including 372,445,793 shares held for the Company's sponsored nominee, Old Mutual (South Africa) Nominees (Pty) Limited, for the benefit of 449,208 underlying beneficial owners. The registered shareholdings on the Zimbabwe branch register included Old Mutual Zimbabwe Nominees (Pvt) Limited, which held a total of 781,550 shares as nominee for 3,515 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 8,190,083 shares as nominee for 7,193 underlying beneficial owners. The registered shareholdings on the Malawi branch register included Old Mutual (Blantyre) Nominees Limited, which held a total of 48,300 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
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BS99 6ZY
Tel: +44 (0)870 707 1212
Website : www.investorcentre.co.uk/contactus

South Africa

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Malawi

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Namibia

Transfer Secretaries (Pty) Limited
Kaiser Krone Centre
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Tel: +264 (0)61 227 647

Sweden

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Tel: +46 8 402 9000

Zimbabwe

Corpserve (Private) Limited
2nd Floor, Intermarket Centre
Corner 1st Street and
Kwame Nkrumah Avenue, Harare
(PO Box 2208, Harare)
Tel: +263 (0)4 751559/61
Fax:+263 (0)4 752629
email: corpserve@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. A bank debit card 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 percent, subject to a minimum charge of £15. 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. Shareholders should have their Shareholder Reference Number (SRN) ready when calling about sales. The SRN appears on share certificates. A bank debit card will be required for purchases. Detailed terms and conditions are available on request by telephoning 0870 873 5836. At present, this service is only available to shareholders resident in the UK and Ireland.

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.

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 +27 (0)861 100 940 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) has 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.fsa.gov.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/overseas.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.fsa.gov.uk

Financial calendar

The Company's financial calendar for the forthcoming year is as follows:

Currency conversion date for the final dividend	5 May 2010
Local currency equivalents and scrip dividend alternative calculation announced	6 May 2010
Annual General Meeting and First Quarter Interim Management Statement	13 May 2010
Record date for the final dividend	14 May 2010
Final dividend payment date and issue of shares under the scrip dividend alternative	25 June 2010
Interim results	6 August 2010
Third Quarter Interim Management Statement	4 November 2010
Final results for 2010	March 2011

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. At 31 December 2009, 25,900 of the Company's shares were held in the form of Rule 144A ADRs. 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

If you would like to receive future communications from the Company by email, please log on to our website, www.oldmutual.com, select the "Shareholder Information" section, click on "Electronic Communications" 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 (but not voting instruction forms) 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 not, however, 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.

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.

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).

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
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.

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.

GLOSSARY

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.

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.

Mark-to-market adjustment
An accounting adjustment to the book value of an asset or liability to reflect its market value.

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.

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.

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.

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 (ISA), Self-Invested Pension Plans (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.

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.

GLOSSARY

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 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.

WHAT'S ONLINE

■ Annual Report 2009

http://www.oldmutual.com/annualreport2009

■ Corporate site

http://www.oldmutual.com

- → About Old Mutual
- → Old Mutual Worldwide
- → Investor Relations
- → Corporate Responsibility
- → Media Centre

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.

Acknowledgements

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