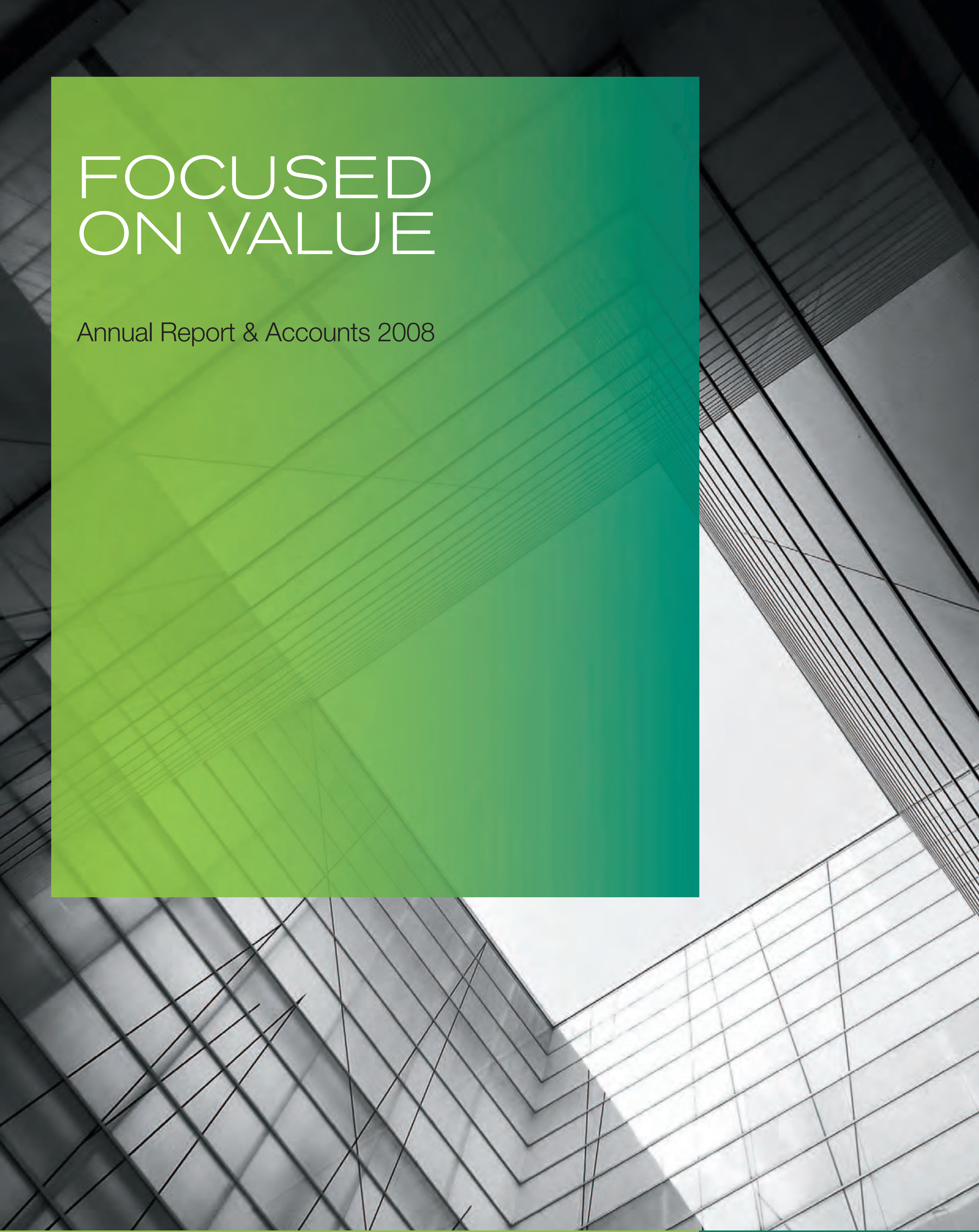
FOCUSED ON VALUE

Annual Report & Accounts 2008



OLD MUTUAL

Old Mutual is focused on long-term savings, with valuable asset management and banking assets. Recognising the scale and synergy benefits that an aligned structure brings, we apply disciplined controls and governance to all our companies, which are grouped around common business lines. Our key competencies include our skills and experience in long-term savings, our brand and market strength in Sweden and South Africa, and our leading-edge Skandia open-architecture platform. Together, these position us well to respond to the universal savings needs of the markets in which we operate – and to grow with them.

CONTENTS

HIGHLIGHTS

2008 HIGHLIGHTS

- Solid performance in SA and Europe with challenges in US Life
- The Group is well capitalised with an FGD surplus of more than £0.7 billion Each of our individual business units has a strong capital surplus
  – UK: 2.6 times required capital
  – Nordic: 9.9 times required capital
  – OMLACSA: 3.8 times required capital
  – Nedbank: Tier 1 capital at 9.6%
  – US Life: RBC ratio of 305% in onshore and significant excess capital in offshore
- Improved business structure, including new long-term savings division
- Enhanced governance and operational oversight from the centre

Net client cash flows £bn

2008	1.2 (outflow)
2007	23.4 (inflow)

Adjusted operating earnings per share (IFRS basis) p

2008	12.2
2007	16.9

Funds under management £bn

2008	264.8
2007	278.9

Basic earnings per share (IFRS) p

2008	8.6
2007	19.2

Profit before tax (IFRS) £m

2008	595
2007	1,750

Adjusted operating profit before tax (MCEV basis) £m

2008	978
2007	1,631

Adjusted operating profit before tax (IFRS basis) £m

2008	999
2007	1,624

Adjusted MCEV per share p

2008	117.6
2007	166.3

OUR BUSINESS AT A GLANCE

Our vision is to become the international long-term savings provider of choice and the premier financial services provider in South Africa.
We provide life assurance, asset management, banking and general insurance in our main areas of operation, represented on the map below.

*IFRS Adjusted operating profit (before tax)

North America

(£270m)*

Asset Management
Life

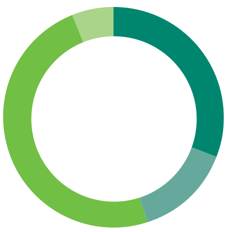
see page 58

Bermuda
Canada
USA

LATIN AMERICA

Chile
Colombia
Mexico

2008 Group adjusted operating profit of £999 million**

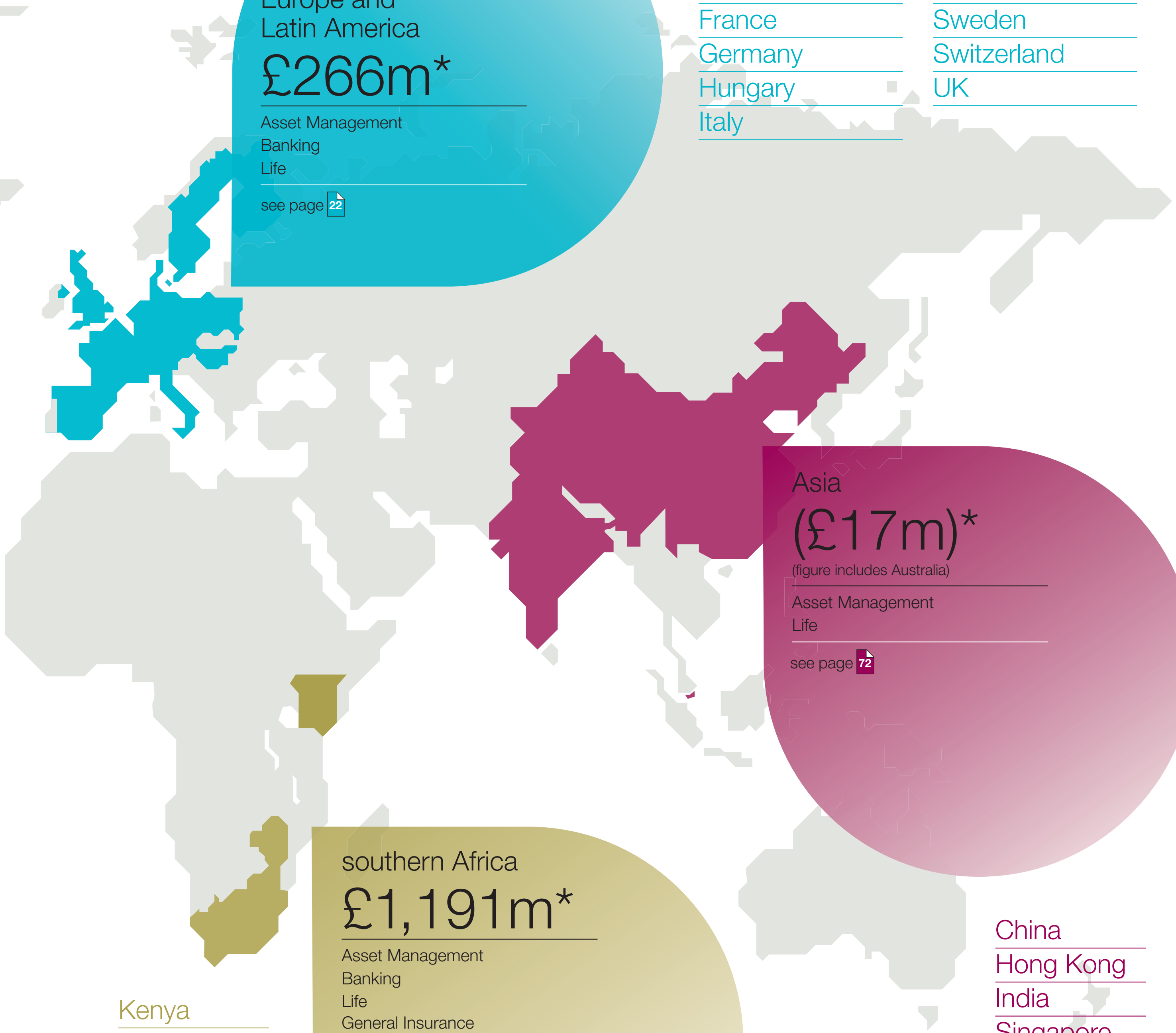


- Life Assurance 31%
- Asset Management 14%
- Banking 49%
- General Insurance 6%

**Includes -£271m of debt and head office costs.

Useful link:

www.oldmutual.com



Europe and Latin America

£266m*

Asset Management
Banking
Life

see page 22

EUROPE

- Austria
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Hungary
- Italy
- Netherlands
- Norway
- Poland
- Spain
- Sweden
- Switzerland
- UK

Asia

(£17m)*

(figure includes Australia)

Asset Management
Life

see page 72

- China
- Hong Kong
- India
- Singapore

southern Africa

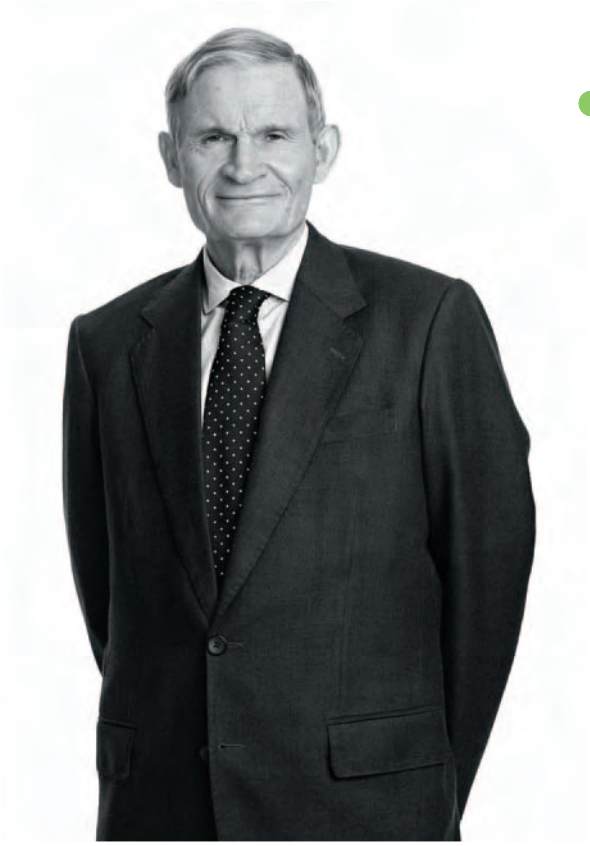
£1,191m*

Asset Management
Banking
Life
General Insurance

see page 38

- Kenya
- Malawi
- Namibia
- South Africa
- Swaziland
- Zimbabwe

CHAIRMAN'S STATEMENT



> The Board is grateful to all Old Mutual people, who have worked very hard throughout this difficult year.

Christopher Collins Chairman

OVERVIEW OF 2008

2008 was a challenging year for Old Mutual. While operations in Europe and our heartland of South Africa were resilient, our US Life onshore business and operations at Old Mutual Bermuda experienced difficulties, particularly in the second half of the year. This led to a disappointing decline in our adjusted operating earnings per share on an IFRS basis, which fell by 28 percent compared to 2007, to 12.2p.

Board

In September our Group Chief Executive, Jim Sutcliffe, resigned. He was replaced by Julian Roberts, formerly Chief Executive of our European businesses. Jonathan Nicholls, our Group Finance Director, also left us towards the end of the year and was replaced by Philip Broadley, former Finance Director of Prudential plc. Together, they have made a positive start in addressing the challenges that the Group faces.

The Board is grateful to all Old Mutual people, who have worked very hard throughout this difficult year.

Dividend

The Group's capital and liquidity positions are being closely monitored. While they are currently satisfactory, we have taken the view, in the light of continuing market volatility and the uncertain economic outlook, that the Company should preserve its capital by not paying dividends during 2009. Although we know this will be disappointing for shareholders, we believe that this is the prudent and correct course for the Company to take at this time of unusual economic stress.

Annual General Meeting 2009

This year's Annual General Meeting (AGM) will be held at our offices in London on Thursday, 7 May 2009. The Notice of AGM is enclosed with this document and includes details of the resolutions to be proposed at the meeting.

Future

This is my last year as Chairman, as I am planning to step down at the end of December ahead of my seventieth birthday. A process to select my successor, chaired by Rudi Bogni, our Senior Independent Director, is now underway.

The Board is determined to do everything in its power during 2009 to establish Old Mutual firmly on the road to recovery.

Christopher Collins
Chairman
4 March 2009

GROUP CHIEF EXECUTIVE'S STATEMENT

"Overall, we delivered a solid set of results with some parts of the Group performing well. The Group and its businesses are well capitalised and our liquidity position remains strong. We have considerably strengthened our risk management and governance from the centre."

Julian Roberts Group Chief Executive

OVERVIEW

2008 presented major challenges for the Group. The rapid deterioration in global financial markets, most notably in the fourth quarter, resulted in an extremely difficult operating environment, while we faced a number of specific issues in our US Life businesses. Despite these setbacks, we delivered a strong performance across many parts of the Group, especially in the markets where we have significant scale and strong market positions.

During the second half of the year, we took major strides to address the issues in our US Life offshore business and, with these largely contained, toward the end of the year we turned our attention to the future and began a full review of the Group's activities. During that time we welcomed Philip Broadley to Old Mutual as our new Group Finance Director and we are already benefiting from his experience and skills. The actions following this review are outlined in more detail below.

Capital adequacy position

The Group's pro-forma FGD surplus at 31 December 2008 was in excess of £0.7 billion. This is in line with our self-imposed target range which ensures we have sufficient headroom to cover any capital issues across the Group's operations.

GROUP CHIEF EXECUTIVE'S STATEMENT continued

Our Nordic and UK businesses are well capitalised with solvency ratios of 9.9 times and 2.6 times the required level respectively. Our European businesses are capital light by their nature and therefore present very little capital risk. In South Africa, we have the strongest capital position and credit rating in the long-term insurance industry, with a surplus in OMLACSA of 3.8 times the required level. Nedbank's key ratios also demonstrate its capital strength. In the case of US Life, during 2008 we took action to maintain capital in the onshore business at three times its required level. £314 million of cash was injected into the US Life offshore business during 2008. This business now has significant excess capital over its regulatory requirement.

We have carried out significant capital stress testing. Historically, the highest global default rates during a recession have averaged 1.6 percent for investment grade (*Source: Moody's*). Applying these historical high default rates to our portfolio would generate losses which can be absorbed within our FGD surplus. Actual defaults on our corporate bonds for the year were £85 million resulting in a default rate of approximately 1.3 percent on our corporate bond portfolio. Our FGD surplus would enable us to withstand eight times that rate in a single year.

The Group has available cash and facilities of over £600 million as at 31 December 2008.

Dividend
During 2008 we paid an interim dividend of 2.45p per share. However, in view of the unpredictability of market conditions and continued uncertainty around the performance of financial markets, we believe it is prudent for us to conserve our capital and retain cash. Accordingly, the Board has determined that in order to conserve cash and capital during the current period of economic stress, no dividends will be paid by the Company during 2009. The Board will consider the position in respect of a final dividend for 2009 at the appropriate time in light of the then prevailing market and economic conditions. Longer term, the Board will look to pay a dividend based on the Group's capital, cash flow and earnings, with a view to maintaining cover of at least two times.

We have carried out a thorough review of the Group's activities. While we have some valuable businesses with high quality people, there is a fundamental need for change. We will look for opportunities to streamline our portfolio of businesses as market conditions allow and we can create value for shareholders.

Strong sales and earnings growth in South Africa
In the markets where our businesses are highly developed and we have strong brands, we delivered excellent growth in both sales and profit. In South Africa, life and unit trust sales in local currency grew by 14 percent and 33 percent respectively and there was a significant reduction in net client cash outflows. The boutique model of our South African investment management business has continued to bed down well, with the majority of our boutiques delivering a better investment performance than in 2007. Old Mutual South Africa's adjusted operating profit on an IFRS basis was up 14 percent to R8 billion and the return on equity was up nearly four percentage points to 27.8 percent. This is an excellent result given the fall in equity markets and tightened consumer spending, and demonstrates the strength of our diverse product offering and our ability to adapt to an ever-changing market environment.

In contrast to the negative forecast GDP in the UK and US, the South African economy is forecast to grow by 1.2 percent in 2009 *(Source: South Africa National Treasury)* and, while it is facing its own challenges, the South African banking sector remains in good health, with the inter bank lending market continuing to operate efficiently. Despite an increased level of impairments, Nedbank delivered an adjusted operating profit on an IFRS basis of R8.8 billion, down just 5 percent on 2007, and a return on equity of 17.7 percent with Tier 1 capital at 9.6 percent.

Skandia building market share across Europe
Skandia saw positive net client cash flows across all its divisions and the drop in funds under management relative to the much larger fall in the equity markets was very pleasing, reflecting good product innovation and investment performance. In Nordic, strong cash inflows were driven by a 30 percent increase in life sales to SEK2.6 billion and adjusted operating profit on an IFRS basis was up 23 percent to SEK1.1 billion. This was largely as a result of the introduction of new products and, in particular, growth in the unit-linked business in Sweden. This was very much against the trend seen in the UK and across the rest of Europe, given the general flight from equities which resulted in a significant drop in unit-linked sales. However, across Europe, we increased our market share, which will stand us in good stead when equity markets recover.

In the UK, the relative decline in sales was largely due to reduced demand for unit-linked products, especially bonds and single-premium pensions, although Skandia's market share across the entire pensions market, and especially single-premium personal pensions, remained strong. The core of our business is providing customers with a choice of products which are transparent, flexible and tailored to their specific needs and risk appetite, but which also provide attractive returns. Therefore, unlike many of the UK life insurers, we do not undertake any with-profits or bulk annuity business and therefore our capital requirement is much lower. While our sales have been affected by market volatility in the short-term, we believe that Skandia's open-architecture model is at the forefront of the modern savings and investment market and that this will deliver excellent long-term value.

We also launched a re-pricing initiative in order to build our share of the platform market, while increasing the range of investment solutions to create wider customer appeal during this period of market volatility. For example, the *Spectrum* range of risk-controlled funds launched in April attracted more than £120 million of subscriptions by the year-end and the *UK Strategic Best Ideas Fund* was the best performing UK fund in the IMA UK All Companies Sector in 2008.

Resilient net client cash flows in US Asset Management

US Asset Management continued to deliver strong long-term investment performance and our diversified asset mix provided resilience in difficult markets. Fixed income and alternatives make up over half of the total funds under management, which were down 28 percent to $240 billion compared to an overall US market decline of approximately 40 percent. Excluding the cessation of securities-lending at Dwight Asset Management, net client cash flows were positive. This is an excellent result at a time when significant net outflows are being experienced across the industry. However, the equity market decline, especially in the fourth quarter, caused a significant reduction in performance fees, although this was partially offset by a much reduced cost base.

Actions to stabilise US Life and return to profitability

Overall, the performance of our US Life businesses were heavily impacted by increased reserves related to certain single-premium immediate annuities, write-downs in relation to deferred acquisition costs and hedge losses related to variable annuity products. Difficult credit markets resulted in higher impairment losses than in 2007 and market conditions had a major impact on the level of unrealised losses on our fixed income portfolio, as is the case across the industry. Both oversight and governance have been strengthened considerably and the management team has taken a number of actions in the second half of 2008 aimed at de-risking the business and generating profitable returns.

We are in the process of transforming our onshore business into a sustainable operation, based on lower but more profitable sales, from a considerably reduced cost base. We have eliminated unprofitable product lines, and are focused on selling less capital-intensive, more customer-centric products through closer relationships with our core distribution partners. We have consolidated a number of locations from which the business operated and reduced headcount. A strong expense discipline has been established along with a more conservative risk culture.

In the offshore business more precise fund-mapping has improved our hedging, which was 92 percent effective during the fourth quarter, and we have a much better understanding of sensitivities to further market and currency movements. Whilst sales have fallen dramatically due to the withdrawal of problem products, we are now focused on rebuilding this business through writing sensible, specialist investment products tailored to our international customers' needs, which will underpin a good recovery in future profitability.

Review of Business

Over the last four months, with the help of management consultants, we have conducted a thorough review of every part of our business. Our overriding conclusion is that while we have some valuable businesses with high quality people, there is a fundamental need for change. We have therefore identified five key priority areas.

1. Maintain and strengthen our capital position

As outlined above, our capital and liquidity position remains healthy. However, in the current environment, continuing to manage our capital responsibly must be our top priority.

2. Streamline the portfolio over time

We recognise that our portfolio of businesses is too broad. We operate in too many geographies and have too many lines of business, a number of which are sub-scale in their respective markets. This makes the Group complex and difficult to manage on a decentralised basis as we have done in the past. It therefore requires simplification.

However, in the current environment, major rationalisation of our portfolio of businesses would be extremely difficult and, if achievable, would almost certainly destroy value for our shareholders. At this stage, we have therefore concluded that it will take some time to achieve our optimal business structure. That said, we have already taken some actions where it has been sensible to do so, namely:

- We have agreed to the sale of our Australian business
- We have exited Portugal
- We have rationalised our businesses in continental Europe, creating two hubs based in Berlin and Paris for the mass market and affluent markets respectively

GROUP CHIEF EXECUTIVE'S STATEMENT continued

- While we remain committed to our established businesses in India and China, we will scale back significantly our aspirations in the Far East and will therefore close our office in Hong Kong.

We are also moving the governance of our businesses to a more centralised model which we believe will reduce risk and bring better control.

We will look for opportunities to make further changes as market conditions allow and we can create value for shareholders. We do not need asset sales in order to raise capital and any streamlining activity will be based on enhancing efficiency and our strategic focus.

3. Leverage scale in our long-term savings businesses

We intend to bring all our long-term savings businesses into a single operating structure. Skandia, OMSA, US Life and Asia Pacific will report to a single executive, Paul Hanratty, who will relocate to London as Head of Long-Term Savings.

We believe that there is a significant amount of value that can be unlocked by these businesses working more closely together. For example:

- We can deploy the distinctive technology and capabilities within our South African, UK and Nordic platform businesses more effectively across the Group
- We believe there are operational cost efficiencies that can be achieved
- We have product capability that can be used across the business.

4. Drive value creation within, and between our South African businesses

We have already created significant value through co-operation between Nedbank and OMSA, delivering synergies in excess of R1 billion in annual pre-tax profit. We now have a firm commitment to all our South African businesses and believe that there is more value that can be achieved through their closer co-operation.

Tom Boardman remains a member of my Group Executive Committee and both he and Paul Hanratty will be tasked with delivering greater synergies between Nedbank and OMSA as well as agreeing and delivering on new bancassurance targets.

Nedbank, which has several wealth management joint ventures with Old Mutual, may also acquire those joint ventures during the year, in exchange for Old Mutual taking an increased shareholding in Nedbank.

Mutual & Federal will focus on increasing profitability, strengthening the balance sheet and driving greater co-operation with Nedbank and OMSA.

5. Strengthen governance and risk management

In 2008 we started to invest in additional risk resources (people and systems) and, as a result, our risk and governance processes have been significantly strengthened. The next priority is to embed those processes across the Group. One consequence of these initiatives is that we are rolling out a business level risk appetite, which sets the mandatory risk levels each business must adhere to.

We have also formed iCRaFT – "integrated Capital, Risk and Financial Transformation". This programme is essentially aimed at ensuring we become fully compliant with Solvency II, the new regulatory regime being introduced for all European-domiciled insurers. Over and above compliance, our programme aims to implement best practice in the way that we measure and manage risk, capital and financial performance. We then integrate these in the way that we run our businesses, and in the implementation of best practice financial controls.

To ensure we manage these various Group initiatives effectively, we have appointed Paul Maddox on secondment from Ernst and Young as Head of Strategic Implementation. Paul will be a member of the Group Executive Committee with responsibility for driving through the change programme.

Outlook

Many of our businesses have performed well in a very difficult operating environment. This performance provides us with an excellent base from which to deal with the challenges presented by the current economic climate and the continued financial market volatility.

Going forward, I am determined to rigorously drive performance improvement and strengthen governance, while at the same time looking for opportunities to reshape the Group.

Julian Roberts
Group Chief Executive
4 March 2009

Philip Broadley
Group Finance Director

Julian Roberts
Group Chief Executive

When a complex and diverse group changes tack and begins to redefine and simplify itself, it is easy to obscure good intentions with business jargon. In this short Q&A, **Julian Roberts**, Group Chief Executive, and **Philip Broadley**, Group Finance Director, clarify some of the strategic decisions.

With the announcement of your new priorities and structure, what's really different?

What's changed most significantly is the formation of a new international division focusing on long-term savings business as our central capability. Of course asset management is very important to us and the new organisational structure makes this clear.

We are also measuring success in terms of profit rather than size.

Previously, we had structured around regions and countries, effectively isolating similar businesses in different countries from each other. Now, in identifying and creating the long-term savings structure, we have grouped these homogeneous businesses into a single division under a single head. We believe that this will allow us to leverage and share the capabilities, marketing know-how and people across geographic boundaries and minimise duplication.

The operating model has also been revised. To date, the businesses have operated in a federal, decentralised basis, with the centre playing a relatively light role in governance, risk and human resources. That will no longer be the case. Our newly constituted Group Executive Committee reflects these changes and has the skills and experience to achieve the levels of control required to make this model work.

Finally, we are moving to an increasingly streamlined group and will execute on this as and when the market becomes more benign and transactions become economically viable.

With the focus on long-term savings, how does Nedbank fit into the Group's plans?

The particular shape and history of Old Mutual in our heartland, South Africa, makes Nedbank an extremely important element of our comprehensive financial services offering there.

Not only are the financial needs of both Old Mutual and Nedbank's customers comprehensively covered through the products and services of both companies, but the potential for each company to sell to each other's customer base is enormous.

In addition, real annual savings realised through synergies between Mutual and Federal, Nedbank and Old Mutual (South Africa) account for over R1bn. The untapped potential for even further synergies is a prize worth fighting for. Tom Boardman sits on the Old Mutual Group Executive Committee precisely because the extraction of this value is too much of a priority not to have the bank represented at the highest levels of the parent company.

Nedbank is a very well run business and – within the disciplined and prudent banking environment which is the South African banking regime – has weathered the effects of the global credit crunch well. South Africa this year is predicting a positive rate of GDP growth and the growing middle markets are more and more coming into the banking system. As the needs of this group develop, the broader financial services and products, provided by Nedbank, Old Mutual and Mutual and Federal in a co-ordinated and planned way positions us well to capture a greater share of this market.

How do you intend to create value – what's your investment proposition?

One aspect of creating value will be the building of our core capabilities into markets where we are under- or un-represented. Old Mutual's brand and reach, and its competencies in the long-term savings arena are highly regarded in South Africa and these can be deployed elsewhere.

South Africa itself is a strong and resilient economy and we expect growth there for some time. Africa as a whole is also presenting new opportunities for both banking and long-term savings and there is every reason to believe that Old Mutual can capture a significant share of this.

Skandia, also in the long-term savings cluster, has a leading open-architecture platform perfectly suited to the growing swathes of customers and intermediaries requiring flexibility, transparency, value for money and choice. Skandia is dominant in Sweden and the UK. Our growing presence in selected European countries is encouraging and will develop even further.

Value will be created through using the excellent group competencies productively. We are able to use our scale to reduce our unit costs. We are able to deploy our skills developed in one part of the world to bolster capabilities in others.

When you buy into the Old Mutual Group you are buying scale, management's ability to extract value from their own business – and through synergies and co-operation with other businesses. Our incentive structure is designed to encourage this group behaviour.

Most companies claim that their people are their most important asset. How important are people in the delivery of your high priority objectives?

People are extremely important to Old Mutual. We know no other way of delivering our results. We recognise in particular the contribution that effective teams as well as talented individuals make to Old Mutual.

We have built programmes for each and every level of employee to take care of their personal growth and team development as valuable and valued individuals. And while we acknowledge an employee's first allegiance will always be to his or her local business, the influence and role of the greater Group are always prominent in this sense of belonging. Incentive structures stress the importance of the Group performance as well as that of local businesses.

Being international gives employees the chance to avail themselves of international opportunities across the Group adding to the richness of our diversity and leveraging specific talents where we can.

We take our Corporate Responsibility very seriously. We believe that personal involvement in causes and issues gives our employees an added sense of purpose and feeling of giving back to the society in which they live.

Whether this is building houses for the homeless in South Africa or rowing a boat from Perth to Mauritius in aid of a charitable foundation, Old Mutual encourages and supports its people and their personal and corporate role in society as part of their membership of the Group.

What factors influenced the final structure of the Group?

We are in eye of an unprecedented global financial storm. The choices we make about how we operate and the shape we would like to adopt have been taken in the context of the current market turmoil.

One of our priorities is to streamline our portfolio, which means we will have to make tough choices where there are businesses that don't fit with our longer-term focus, are subscale with little prospect of achieving critical mass or create a dilution of management focus and create unacceptable risk. But we are not prepared to streamline in an environment where there is little appetite for corporate transactions or when asset sales result in value destruction.

So we have to wait until markets stabilise or unusually attractive terms are presented. We will not compromise the creation of shareholder value just for elegant strategic alignment.

In the meantime, businesses which may fall into this category continue to be well managed and contribute to the Group.

RISK MANAGEMENT

“The practice of risk management in Old Mutual has improved significantly over the past two years. The risk management team will continue to develop and strengthen oversight of the operating businesses as the Group changes in the wake of the strategic review.”

Rosie Harris Group Risk Director, Old Mutual plc, from April 2007 to March 2009

Approach to Risk Management

Old Mutual is committed to the objective of increasing shareholder value by operating in a manner consistent with our risk appetite. Risk management is not limited solely to consideration of downside impacts or risk avoidance, but also encompasses taking risk knowingly for competitive advantage.

Responsibility for risk management resides at all levels within the Group, from the Board of Directors and Group Chief Executive, to Business Unit Chief Executives through to business managers via a Scheme of Delegated Authority.

Rosie Harris, Group Risk Director, left Old Mutual at the end of March 2009. Andrew Birrell has taken up the role of Group Risk Director in addition to his responsibilities as Group Chief Actuary.

The primary objective of the Group Risk Director is to facilitate alignment of strategic decisions with risk appetite and to provide the necessary framework and oversight tools to help protect Old Mutual from events that could hinder our objectives.

A new role, Head of Governance and Regulatory Compliance, has also been created, which will encompass Rosie Harris’ previous responsibilities for these areas. Susan Crichton, formerly in Skandia International has joined the Group team to take on the role.

Both Andrew and Susan are committed to Old Mutual’s enterprise-wide approach to risk management. Our approach is designed so that risk management is not confined to the activities of specific risk management or specialist departments but incorporated in the day-to-day management of the business.

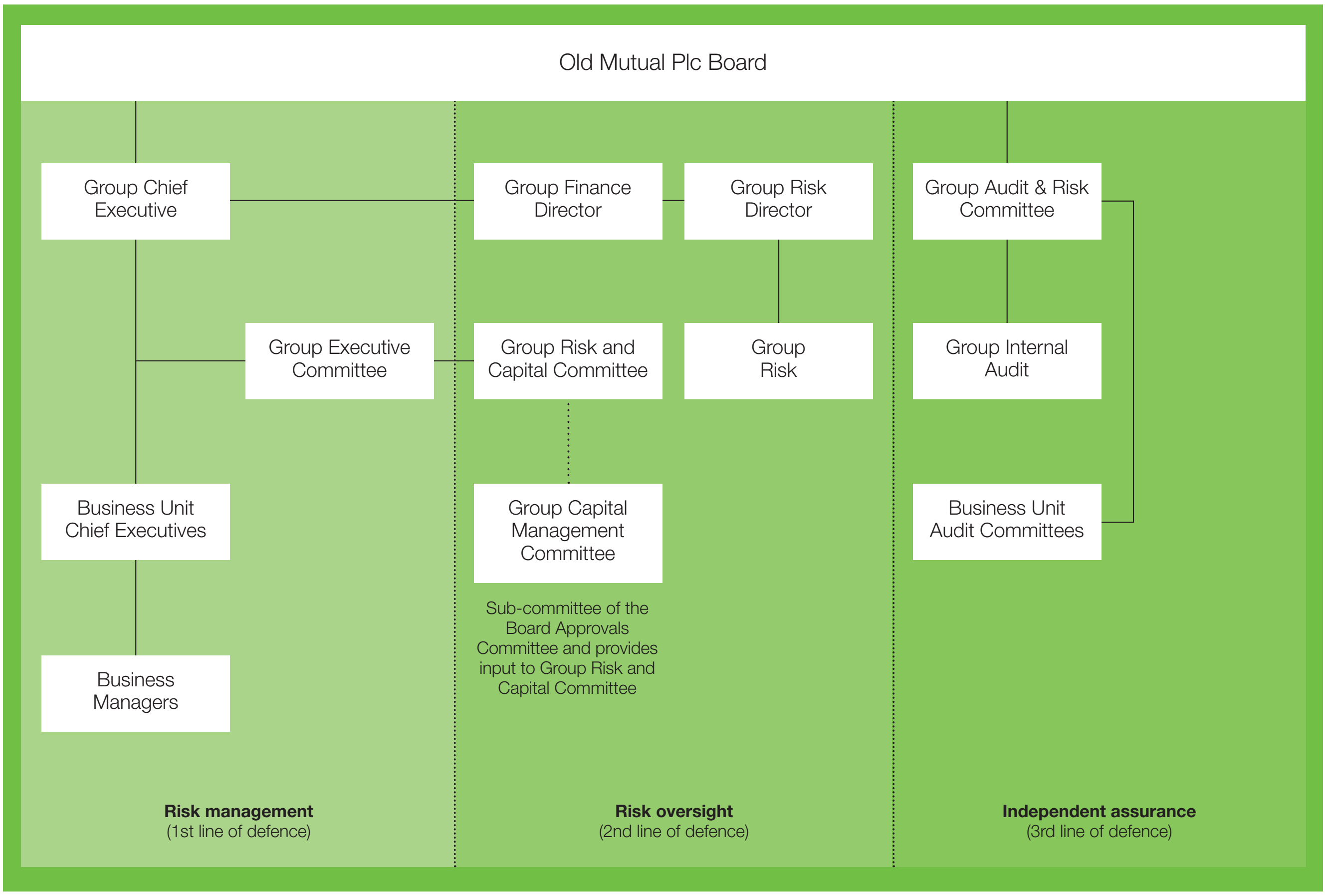
Strengthening Risk Management

The issues that emerged in our Old Mutual Bermuda business during 2008 highlighted certain weaknesses in our risk management and business model. Addressing these has been a top priority for the Board and the Group Executive Committee. An independent review of risk management across Old Mutual involving external experts was completed during 2008, and we have implemented a number of initiatives to improve our governance, risk management and internal control processes including implementation of an Enterprise Risk Management programme. These improvements include:

- Recruitment of significant additional risk and compliance personnel at Group and Business Unit level
- Development and roll-out of a global risk appetite framework
- Development of comprehensive and focused risk reporting, including introduction of a risk recording and reporting tool
- Implementation of a revised and more comprehensive risk categorisation model
- Revision of the Old Mutual policy suite and framework to reflect increased oversight from Group over Business Units; and
- Development of formal standards for internal loss data collection and increased use of Key Risk Indicators.

Our priority for 2009 is to embed these enhancements and further strengthen our system of risk management.

Risk governance framework



Risk governance

The Group's risk governance framework is based on the three lines of defence model. This model distinguishes between:

- functions owning and managing risk
- functions overseeing the management of risk; and
- functions providing independent assurance.

The Board is responsible for setting the Group's risk appetite and for approving the strategy for managing risk.

Risk management

- As part of the first line of defence, the Group Chief Executive, supported by the Business Unit Executives, has overall responsibility for the management of risk
- Management and staff within each business are responsible for the identification, assessment, management, monitoring and reporting of risks arising within their respective areas.

Risk oversight

- The second line of defence comprises the Group Risk Director supported by the Group Risk function as well as Business Unit Chief Risk Officers and their risk functions
- 2008 saw the creation of the Group Risk and Capital Committee. Its mandate is to support the Group Executive Committee in understanding the exposure and management of risks impacting the Group, having regard to the Group's risk appetite. The Group Risk and Capital Committee brings together senior executives across the Group functions including Risk, Finance, Actuarial, Capital and Compliance. This Committee is described in further detail in the Directors' report on corporate governance.

Independent assurance

- The third line of defence is designed to provide independent assurance on the effectiveness of systems of governance, risk management and internal control in relation to the most significant risks which threaten the achievement of the Group's business objectives. Group Internal Audit (GIA) plays a key part in the third line of defence and provides assurance to the Group Audit and Risk Committee. GIA is described in further detail in the Directors' report on corporate governance.

RISK MANAGEMENT
continued

RISK CATEGORISATION MODEL

Risk Category	Definition
Market risk	The risk of loss as a result of adverse changes in the market value of assets and liabilities.
Credit risk	The risk of loss as a result of an asset against a counterparty not being repaid at the due and stipulated time.
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.
Underwriting risk	The risk of loss caused by events that result in predetermined exposures being exceeded.
Operational risk	The risk of loss due to failure of people, process, system and / or external events.
Compliance risk	The risk that laws, regulations and policies will be breached. Although technically a sub-category of operational risk, compliance risk has been elevated to its own category for reporting purposes due to the focus on and importance of this area.
Human Resources risk	The risk that the firm will not have the human capital to sustain business performance.
Business risk	The risk that business performance will be below projections as a result of negative variances in new business volumes, margin, lapse experience and expenses.
Strategic risk	The risk that strategic decisions will adversely affect future sustainable growth.

Risk categorisation

During 2008, Old Mutual refined and implemented an updated risk categorisation model which Business Units have aligned to. Using a common risk language across the Group will enable meaningful comparisons to be made between Business Units and we consider the risk categorisation model a fundamental building block to achieve this. Risk events are categorised as shown in the table above, with more detailed sub-categories used for reporting and analysing.

Risk appetite metrics

Capital at Risk	Earnings at Risk
The reduction in Net Asset Value ("capital") over a one-year forward-looking time horizon that should only be exceeded 1-in-10 years. This category has both a regulatory and economic capital dimension.	**The 1-in-10 negative deviation from expected (accounting) earnings over a one-year time horizon that should only be exceeded 1-in-10 years.**
Cashflow at Risk	**Operational Risk**
The reduction in the best estimate of operational cash remitted to plc by Business Units, in a 1-in-10 downside outcome.	**The negative deviation of Economic Value driven by operational loss events over a one-year forward-looking time horizon that should only be exceeded 1-in-10 years.**

Risk appetite

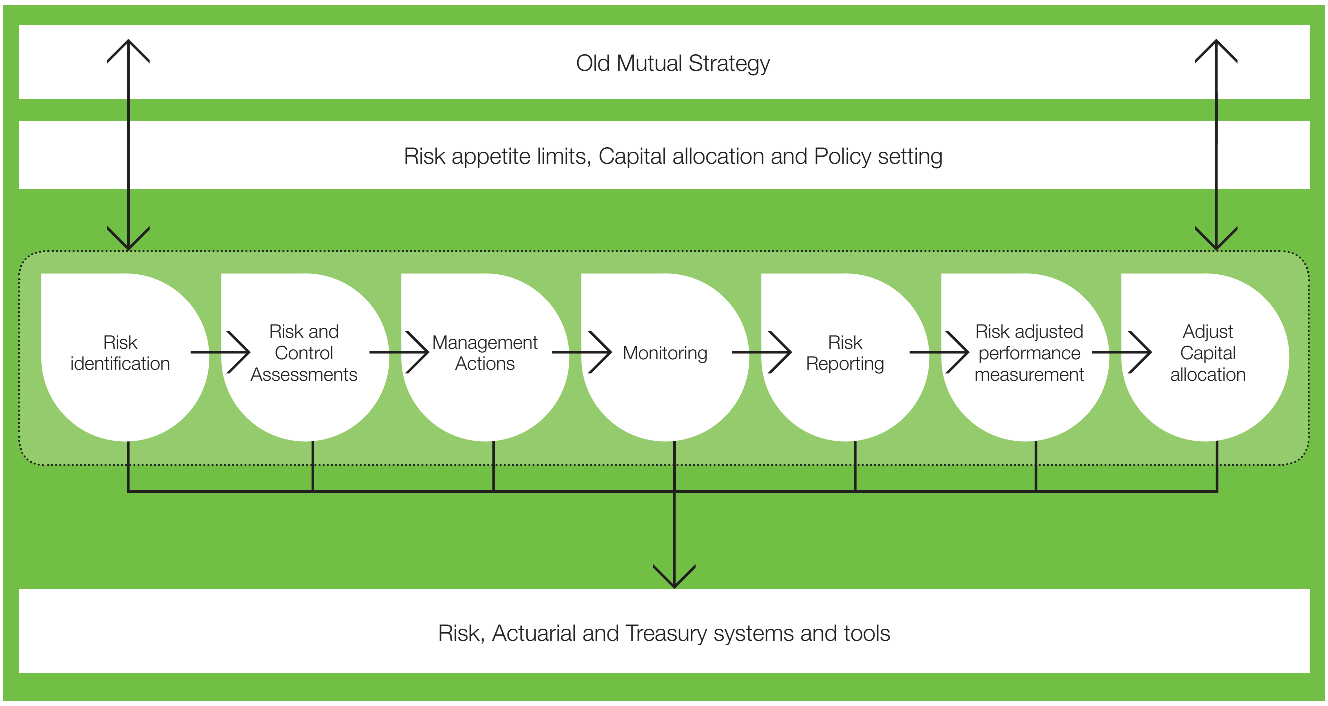
The risk appetite framework provides a basis for formally reviewing and controlling business activities to ensure that they are aligned to stakeholder expectations and are of an appropriate scale (relative to the risk and reward of the underlying activities). Once fully embedded, the framework will give the Group clearer sight and better control over risk-taking throughout the organisation.

The Group's risk appetite defines the Group's willingness to balance risk exposures with reward, and the management and monitoring of these exposures. During 2008, a Group-wide risk appetite programme was implemented to enable consistent calculation of risk exposure against appetite using a variety of metrics. We are continuing to refine our framework and set limits at increasing levels of granularity. We expect to see significant embedding of the use of risk appetite during 2009.

During 2009 the risk profile of the Group will be monitored against agreed limits on an ongoing basis by Group Risk. Business Units report on risk exposure levels on a regular basis and our systems will enable us to proactively identify when we are approaching our risk appetite limits. The use of these early warning triggers and Key Risk Indicators will enable Old Mutual to avoid risk concentrations that could prove a threat to the organisation.

Risks or events outside the agreed risk appetite are identified and reviewed, with remedial action agreed with the relevant Business Unit and oversight provided by Group Risk. Depending on the significance of the issue, the remedial action may require the approval

Risk management processes



of the Group Risk and Capital Committee, Group Executive Committee or the Board. The risk appetite limits of the Group will be reviewed regularly for continuing appropriateness in light of changing market conditions and stakeholder expectations.

Risk policies

Group policies set out the minimum requirements that Business Units must follow and are considered a key entity-level control. Business Units have their own policies, which are more detailed than the Group minimum requirements and take local regulation into account. The Group policies and framework have been reviewed and revised during 2008 to strengthen our Group-wide controls and these revisions will be embedded during 2009.

Risk management processes

The Group conducts a number of activities as part of the risk management framework. The principal elements are described below.

Risk identification

Strategic objectives, reflecting management's choice as to how the Group will seek to create value for its stakeholders, are translated into Business Unit objectives. Risks that would prevent the achievement of both the strategic and business objectives are then identified. Risk identification is an integral part of our annual business planning process as well as an ongoing activity.

Risk and control assessments

Various means of assessing, categorising and measuring enterprise risks and risk events are used throughout the Group. These include estimating the impact and the likelihood of risk occurrence, taking into account both financial and qualitative factors such as reputational or regulatory impacts.

The Board, Group Audit and Risk Committee and the Group Risk and Capital Committee regularly receive and review reports on risks and controls across the Group. Management teams in each Business Unit perform reviews of the control environment in their business, using techniques such as Risk and Control Self-Assessments.

During 2008 we revised our minimum standards for qualitative risk assessments (including the Risk and Control Self-Assessment process) across the Group and will be implementing these during 2009.

Management actions

Actions to implement the risk management strategy in respect of key risks, risk appetite limit breaches or to remedy a material breakdown in control are recorded on risk and control logs maintained by each Business Unit, along with the expected date for completion of the action and the responsible executive.

The outcome of independent reviews, including internal and external audit reviews are integrated into risk management activities and action plans.

Monitoring and reporting

In addition to the Risk monitoring undertaken at Group and Business Unit level by management and specialised risk functions, the following are some of the other processes for risk monitoring used around the Group:

RISK MANAGEMENT continued

We believe that maintaining the trust and respect of our stakeholders is fundamental. Our Board and Group Executive Committee are committed to optimising the financial performance of the Group on a consistent, risk-adjusted basis.

- The Group Finance Director provides the Board with monthly performance information, which includes key performance indicators
- Items on risk logs and control logs (which contain details of any control failures) are reported via an escalation protocol to the appropriate level of management board or committee, where rectification procedures and progress are closely monitored
- Exposure and risk appetite reporting, risk concentrations and solvency and capital adequacy reports are submitted to the relevant Business Unit credit and capital management committees in the normal course of business
- Our Quarterly Business Review process acts as a key forum for oversight over Business Units and specifically includes discussion and challenge over the risks identified by each Business Unit
- The Internal Review Committee, a Group forum which provides a robust assessment of financial reporting from Business Units, is central in managing and monitoring risks associated with the financial reporting process
- The Internal Actuarial Review Committee is a Group forum which provides oversight of the actuarial assumptions utilised by Business Units in the determination of their long-term insurance liabilities.

We will continue to enhance risk reporting through the development of Key Risk Indicators and introduction of more formal internal and external loss data analysis.

Treasury management

The Group operates a treasury function which is responsible for recommending and implementing the funding strategy for the Group, including the management of debt facilities, relationships with banks and ratings agencies and Old Mutual plc's operational cash flow requirements. During the course of 2009, Group Treasury will be adopting greater oversight of Business Unit treasury activities.

Economic capital

Old Mutual defines its Economic Capital requirement as the value of assets required to ensure that it can meet in full its obligations to policyholders and senior creditors at a 99.93 percent confidence level, which is the probability placed on a target A-rated bond not defaulting in the next year.

Economic Capital plays a significant role in risk monitoring and risk control across the Group and is closely linked with the risk appetite framework.

The Group's Economic Capital framework has evolved considerably over the last few years and has become a valuable management tool that informs and guides risk and capital management strategy. The following are the main areas where Economic Capital impacts are considered:

- in risk-based pricing and product development to set pricing terms and charging structures
- in reinsurance to help set retention levels for new and renewed reinsurance treaties
- for risk-based capital allocation setting across the Group's business
- in decisions regarding portfolio management and optimisation; and
- to measure and monitor performance of Business Units, allowing for risk and the cost of Economic Capital to support that risk.

The Economic Capital framework is measured, monitored and reported under a rigorous governance process involving senior executives and the Board.

RISK MANAGEMENT
Appointment of a new Group Risk Director

“My ambition is for an integrated global approach to risk management, embedded in everyone’s role and purpose, and demonstrated by the quality of strategic, capital allocation and day-to-day business decisions.”

Andrew Birrell Group Risk Director and Group Chief Actuary

From the 20 March 2009, Andrew Birrell added the Group Risk Director role to his responsibilities as Group Chief Actuary, giving him an overview of financial and non-financial risks and issues. This will be extremely valuable with regard to our ambition to approach finance, risk and capital management in an integrated way.

Initiatives to transform risk management

During 2008, Old Mutual embarked on a new programme called iCRaFT, which stands for “integrated Capital, Risk and Financial Transformation”.

iCRaFT will elevate capital, risk, financial and performance management methodologies, their application and integration, to best practice levels by the end of 2012, while ensuring Solvency II and Basel II compliance. We refer to this as a “culture of managing for value”.

The programme will build upon and further integrate much of the other work underway across the risk, actuarial, finance and business areas in order to help optimise the financial performance of the Group on a consistent, risk-adjusted basis.

The end-state vision for iCRaFT has been agreed and a comprehensive gap analysis has been produced for each of the principal subsidiaries.

One of the main objectives of iCRaFT is to ensure that the data and systems we use, the tools we are developing and the way in which we organise ourselves come together in order to provide key business applications in the following areas:

- Strategic planning and capital allocation
- Asset and liability management
- Risk optimisation and the allocation of risk budgets
- Solvency and liquidity funding
- Product design, pricing and underwriting
- External communication; and
- Performance management and executive compensation.

During 2009, further work will be carried out in order to prioritise the new activities, align with existing activities and to begin to produce tangible business benefits.

In addition to our iCRaFT programme, our global finance control project, initiated in 2008, is an important part of achieving our ambition to demonstrate best practice capital and risk management. This project aligns existing financial control practices across the Group with best practice principles to ensure uniform standards.

The global finance control project will deliver a more tightly focused, robust and consistent approach to finance reporting, risk and control, and will enhance management oversight in relation to the quality of local and Group financial reporting. One design principle in the development of the financial control framework will be the implementation of technology to support the efficient oversight and management of financial reporting risk.

Our commitment to risk management

We believe that maintaining the trust and respect of our stakeholders is fundamental. Our Board and Group Executive Committee are absolutely committed to transforming the way we manage risk and capital and we believe our iCRaFT and finance control programmes will take us to new levels of maturity and robustness for our risk management and systems of internal controls.

Significant risks facing Old Mutual

Business Conditions and General Economic Environment

2008 presented Old Mutual with some extremely challenging market conditions and they are expected to remain difficult during 2009. The impact on the sectors and geographies in which we operate will continue to be one of our main areas of focus. A detailed analysis of financial risks is provided in Notes 47 and 48 to the Consolidated Financial Statements. The most significant risks, including those connected with the current challenging economic environment, are summarised below.

KEY RISKS

Risk	Description	Mitigating actions
Liquidity Risk	This is 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. This includes the possibility of market disruption causing normally liquid assets to become illiquid and the risk that counterparties will withdraw or not roll-over funding arrangements.	We aim to maintain a prudent level of liquidity consistent with regulatory expectations. Old Mutual has a Group-wide liquidity policy, which 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 and Capital Committee providing additional oversight and challenge.
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 defaults on repayments.	Credit exposures are monitored within each Business Unit and limits are in place in each Business Unit, reducing our risk exposure by mandating that counterparties should have a certain credit rating. Credit risk is one of the most significant risk types facing Nedbank and this is managed through Nedbank's credit risk management framework. Management actions to manage impairments include focusing on collections and refining credit assessment policies. The Nedbank Credit Committee is involved with establishing appropriate credit limits and monitoring exposures against these limits.
Market Risk	The Group is subject to the risk of falling market values of equities and other assets within the Group's portfolios. Our risk profile also includes the risks associated with changing interest rates and their potential impact on the profitability of products we sell and the value of our investments. Our global reach exposes us to the impact arising from currency fluctuations, with the most significant exposures being the South African Rand and US Dollar. Some of our life assurance businesses contain investment guarantees and options. A reduction in interest rates and in equity markets can cause more of these guarantees to be in-the-money.	Business Units have policies in place to manage market risk which take account of the structure of their asset and liability portfolios as well as the local regulatory environment and Group policy requirements. The activities used by individual Business Units to manage market risk include asset-liability matching to manage interest rate risk, and reducing currency risk through the use of currency swaps, currency borrowings and forward foreign exchange contracts.

KEY RISKS

Risk	Description	Mitigating actions
Underwriting Risk	We are exposed to underwriting risk by issuing insurance contracts. The Business Units which incur underwriting risk include Skandia, Old Mutual South Africa and US Life which provide long-term insurance, and Mutual & Federal, which provides general insurance.	We have a Group liability risk policy which sets out the internal controls and processes that Old Mutual must follow with respect to long-term and general insurance risk. Business Units have more detailed underwriting policies. Actuarial modelling is used to calculate premiums and monitor claims patterns and the internal controls designed to mitigate operational risks help ensure that robust data are fed into our models.
Business Risk	We operate in a highly competitive environment and in the event that we are not able to compete successfully there is a risk of reduced market share, revenues or profitability. Changes to the distribution environment could have an impact on our business, whether they are driven through regulation or the failure of distribution providers. The profitability of our businesses could also be adversely affected by a worsening of economic conditions. This could manifest itself as reduced product profitability or lower levels of customer activity (for example in savings or life products), leading to failure to meet financial targets. Underperformance of investment funds could have a detrimental impact on new and existing business.	We offer innovative products to suit different customer needs, enabling us to find opportunities even in these challenging market conditions. Lapse rates and persistency information are closely monitored, enabling us to adapt our business approach. We monitor developments in the distribution sectors across all geographies and, through our strategic planning and research teams, are able to position ourselves to reduce this risk. Each of our Business Units closely monitors investment performance using Key Performance Indicators and in some instances, reports to local Investment Committees as well as to Group executives via a regular business review and challenge process. Old Mutual is diversified across geographies and product lines, minimising the impact of sector or territory-specific economic downturns.
Strategic Risk	Old Mutual expanded to its current size and profile during a period of relative global economic stability. The future outlook is less clear and it is appropriate to reconsider strategy in that light. Ensuring that our strategy is clear and will deliver shareholder value has been a top priority for the Board and Group Executive Committee.	The Group Chief Executive, in conjunction with the Board and the Group Executive Committee, has taken a fresh and objective look at our strategy and identified a number of initiatives to position the Group for sustainability and growth for the future. Significant changes have been made, including changes to the operating model of Old Mutual. Historically our operating model has been decentralised, but stronger central oversight is a feature of our new approach, which will be rolled out during 2009.

RISK MANAGEMENT continued

KEY RISKS

Risk	Description	Mitigating actions
Compliance Risk	The regulatory landscape across all territories in which we operate has seen significant change during 2008, and this trend is likely to continue. Regulatory change could also significantly impact our businesses (including our costs, capital requirements, distribution or products).	We closely monitor regulatory developments through our Group and Business Unit Compliance teams. Group Compliance has been significantly strengthened through additional resource and increased oversight and monitoring activities. A dedicated team for Financial Crime Prevention focuses on areas such as Anti-Money Laundering, Anti-Bribery and Corruption, and Sanctions compliance. Our proactive approach to regulatory change includes participating in Quantitative Impact Surveys for Solvency II.
Human Resources Risk	Attraction and retention of talent is a priority for Old Mutual. Loss of key staff and inadequate succession planning could result in significant business disruption through loss of knowledge and expertise.	We have established a number of Group-wide initiatives including the Management Development Programme and the Business Development Programme (the latter targeting more senior individuals). 'Rising stars' are identified through talent reviews and a formal succession planning process is in place. The Executive Remuneration Committee was created during 2008 which enables stronger focus on and oversight of incentivisation across the Group.
Operational Risk	Our businesses rely on their respective systems, operational processes and infrastructure to help process numerous transactions on a daily basis across various different markets. Our operational risk includes the possibility of a breakdown in an operational process (e.g. human error or employee misconduct), a malfunction of systems, or external events beyond our control (such as a natural disaster).	We use scenario analysis to assess our operational risk exposure and progress in mitigating the most significant risks is monitored regularly. Operational risk is one of the four risk appetite metrics and during 2009 all Business Units will report their operational risk exposure against limits set by the Board. An operational risk policy is in place, which sets out methodologies for identification and assessment as well as key principles for specific areas such as outsourcing and project management.

ONE GROUP
STRONG BRANDS
MANY SYNERGIES

OLD MUTUAL

1.0 Europe and Latin America

1.1 UK and Offshore
1.2 Nordic
1.3 ELAM
1.4 Skandia Investment Group

2.0 Southern Africa

2.1 Old Mutual South Africa
2.2 Nedbank
2.3 Mutual & Federal Insurance

3.0 North America

3.1 US Life
3.1.1 US Life onshore
3.1.2 Bermuda
3.2 US Asset Management

4.0 Asia

4.1 China and India

1.0 BUSINESS REVIEW
EUROPE AND LATIN AMERICA

Nick Poyntz-Wright CEO, Skandia UK
Bertil Hult CEO, Skandia Nordic
Bob Head Regional Director, Old Mutual Europe
Rafael Galdón CEO, Skandia ELAM

KEY FACTS

Adjusted operating profit (IFRS basis) 2008

£266m

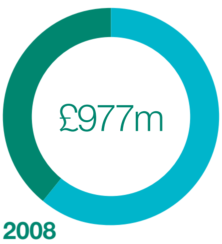
2007: £268m

Funds under management 2008

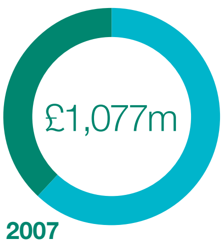
£52.8bn

2007: £60.6bn

Life sales (APE basis)

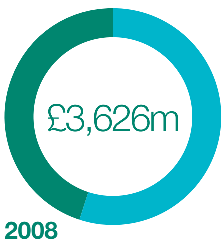


2008

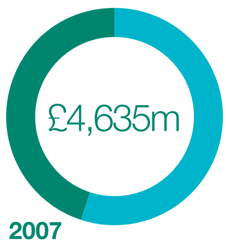


2007

Unit trust sales



2008



2007

Number of countries

14

Number employed

6,055

The Skandia group of companies, acquired by Old Mutual in 2006, has been led by Bob Head since Julian Roberts' appointment as Old Mutual Group Chief Executive in September 2008. It is divided into three business units: UK and Offshore, Nordic and Europe and Latin America (ELAM). In addition Skandia Investment Group (SIG) provides investment management services to the three Skandia businesses as well as other businesses across the Group. Skandia's heritage lies in the Swedish market, where it has operated for over 150 years. It is a strong and well-respected brand.

1.1 UK and Offshore

This business provides products that serve the needs of long-term investors in the UK and international offshore markets. With over a million customers and £35 billion of funds under management at 31 December 2008, we are a leading player in the offshore savings market and a major investment platform company in the UK.

Our main UK operations are investment-led businesses: a life and pensions operation, Skandia Life; an investment platform company, Skandia Investment Solutions; an asset manager creating multi-manager blended solutions, Skandia Investment Management Ltd; and an adviser distribution and support service company, Bankhall.

Skandia's success in the UK has been built by establishing a strong financial adviser franchise offering excellent service and a distinctive proposition. It introduced the multi-manager concept to the UK and has built a strong position in the high-growth open-architecture segment of the UK market. It has a track record and reputation for bringing innovative ideas to market.

Skandia Investment Solutions is an investment platform (often referred to as a fund supermarket). It combines the reputation and strengths of the Selestia business, owned by Old Mutual before we acquired Skandia, with Skandia's MultiFUNDS platform. This platform gives advisers and their customers access to Individual Savings Accounts (ISAs), PEPs and Collective Investment Accounts, which are provided by Skandia MultiFUNDS Limited. In addition, the platform offers an approved pension wrapper and UK and offshore life assurance bonds.

Skandia Investment Management Ltd (SIML) is our asset management company. It provides innovative multi-manager funds created by Skandia Investment Group, the part of the Skandia group that specialises in investment research and the construction of multi-manager funds. The SIML funds make use of the investment research capability of third-party managers by creating 'blended' solutions of third-party managers with different styles and processes. Since SIML's launch in March 2003, funds under management have grown from around £750 million (including funds held on behalf of other Group companies) to £3.2 billion. The number of funds has expanded from 10 to 48, increasing diversification and appealing to a wider customer base.

Skandia International is our offshore and cross-border specialist, working in partnership with other Skandia and Old Mutual businesses. It includes Royal Skandia, based in the Isle of Man, Skandia Life Ireland based in Dublin, Old Mutual International based in Guernsey and Skandia Leben based in Liechtenstein.

1.0 BUSINESS REVIEW EUROPE AND LATIN AMERICA

Providing investment solutions in more than 25 countries, Skandia International has generated significant sales and profit growth for almost a quarter of a century. Its continuing high growth potential is based on a number of factors, including the continued growth of its target customer segment, very strong distribution relationships and attractive new market and product development opportunities. In addition to its own growth, Skandia International generates benefits within the Group by working in partnership with fellow Skandia and Old Mutual businesses to create growth opportunities in domestic markets using international products and expertise.

Bankhall is a standalone division within the UK and Offshore business. It mainly provides support services, including compliance consultancy, to directly-regulated financial advisers. It has maintained a market-leading position by providing demonstrable value to advisers.

Through our market-leading platform, a comprehensive range of investment solutions and tax wrappers manufactured in-house, and the competitive advantage achieved through scale, we are well placed to benefit from the growth in platform business and increasing use of platforms by the UK financial services industry.

Markets and products

Skandia UK

Skandia UK focuses on long-term investments. Unlike traditional with-profits providers, it allows each customer to have a personalised and flexible investment portfolio, suited to their goals and risk appetite.

We provide tools for customers to analyse and construct the ideal portfolio using open-architecture solutions which give access to over 1,000 funds from more than 50 top fund management companies – as well as manager-of-managers funds created both in-house and externally. Our buying power enables us to offer these funds to customers at very competitive prices.

Since 2003 we have been at the forefront of the UK fund management industry, introducing innovative funds that have proved popular with advisers and investors. Following the launch of the *Global Best Ideas Fund* in 2006 and *UK Strategic Best Ideas Fund* in 2007, the range was enhanced in 2008 with the launch of the *Skandia Alternatives Investment Fund* and the creation of the *Spectrum* risk-rated funds launched in April 2008 which attracted over £100 million in their first eight months.

Our target market in the UK is medium- to high-net worth individuals and products are distributed through independent financial advisers (IFAs). Most customer investments come through consolidation – bringing together investments built up across a number of providers to take advantage of the increased investment flexibility that we offer.

Pensions

We provide a range of pension wrappers to meet the retirement-planning needs of individuals, employers and trustees. Our pension products offer wide investment choice in funds where the underlying investments are through third-party fund managers: 80 percent of assets are invested directly into funds and 20 percent are invested through its own manager-of-managers blended investment solutions. Pensions business represents £9.4 billion of assets under management.

Investment bonds

We offer a single-premium investment bond which is tax-efficient for certain consumer segments. As with pensions, the bond offers access to third-party funds and blended investment solutions, all managed by third-party fund managers.

Protection

We also offer premium protection solutions in the form of a unit-linked whole life product and critical illness cover and we have significant market share in these markets. 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. Protection accounts for about 3.4 percent of UK Life sales on an APE basis.

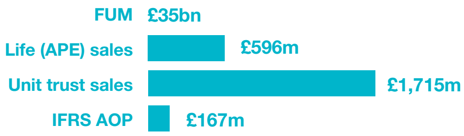
Skandia International

Skandia International provides a range of award-winning single and regular-premium insurance wrappers designed for private, trustee and corporate investors, local residents in selected markets and expatriates. All its products offer tax efficient investment growth from secure and stable offshore centres. The business is focused on six core geographic regions: Asia, Middle East, UK, South Africa, South America and Europe. These regions have varying levels of market maturity, competition and consumer needs. The common factor is the target customer base: English-speaking expatriates and selected local nationals from the affluent advice-seeking sector.

The product range includes an award-winning portfolio bond and a number of single and regular-premium savings and investment vehicles. The flexibility of the portfolio bond enables customers to invest in virtually any tradeable fund and in a variety of currencies. Our products are supported by a comprehensive suite of trust options, e-business facilities and first-class service.

UK and Offshore

Financial scale:



Number of employees

2,220

Key geographies

- UK
- Countries of Asia, Middle East, South Africa, South America and Europe

Major brands

- Skandia
- Skandia International
- Skandia Investment Group

Products

- Pensions
- Investment bonds
- Premium protection solutions
- Single and regular-premium insurance wrappers

Useful link:

www.skandia.com

Market overview
The UK has a sophisticated financial services market, with a well developed advice channel that accounts for the majority of new business in the market. It is highly regulated by the Financial Services Authority (FSA), which is moving towards a more principles-based regulation regime and a focus on outcomes that demonstrate fair treatment of the customer. In 2006 the FSA began its Retail Distribution Review, a major initiative to review the way financial services are distributed in the UK. Following discussions and consultations, the FSA is proposing to introduce a number of measures over the next four years to build consumer confidence in financial services. In particular, these aim to clarify the services being provided and have a requirement for charges to be agreed between the adviser and the customer. Our modern solutions already meet some of the new requirements and we will develop our proposition further to offer the necessary flexibility.

Despite the majority of platform assets being equities, which have fallen in value by 35 percent since October 2007, platforms have grown successfully their total assets by 20 percent during the period. This is the result of collectives' continuing success as investment vehicles, investors' desire to consolidate their portfolios and the tax-efficient wrappers now available on platforms. It is estimated that assets on platforms could grow to £300 billion within the next five years *(Source: Navigant Consulting)*.

The financial crisis is reducing customers' appetite for investing new money. However, the majority of investments made into Skandia are consolidations of existing portfolios. It is estimated that in the UK there are £3 trillion of wrappable assets in traditional savings and investments and it is expected that more of this will be moved onto platforms in future.

Compared with single domestic markets, the offshore financial services market offers greater diversity of geography, distribution and risk management – as well as the opportunities generated by variable macro and micro conditions. Such diversity gives Skandia International greater resilience against regional market effects.

Skandia International conducts all business through advised intermediary channels and its distribution proposition is structured according to the needs and regulatory environment of its principal markets. Long-term global and local distribution partnerships are critical to its success and remain a core strength of the business.

Skandia International's broad geographic coverage is supported by a robust regulatory and compliance framework which ensures strong and close relationships with all its regulators. As in the UK, regulators throughout the world are expected to heighten their supervision of the financial services industry – which may lead to some convergence of regulations across markets.

Strategy for growth
We aim to build on our current position as a leader in the UK platform market by maintaining a customer-centred proposition with a full range of investment solutions, simple and transparent charges and flexible remuneration options.

Increasingly, advisers are adopting one platform for the majority of their business. To ensure that Skandia is selected as the preferred platform, our sales force is working closely with advisers to embed the platform into their businesses.

Skandia International will continue to provide leading offshore and cross-border investment solutions to affluent advice-seeking investors worldwide. We will enhance the value proposition by developing a closer relationship with our customers to improve their experience with us. We aim to grow across all core regions through continued strength of service and distribution relationships.

1.0 BUSINESS REVIEW EUROPE AND LATIN AMERICA

Performance in 2008

Highlights (£m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**167**	173	(3)
Return on Equity	**5.0%**	6.8%	
Return on Equity (excluding goodwill)	**12.0%**	21.4%	
Adjusted operating profit (covered business) (MCEV basis) (post-tax)	**235**	206	14
Return on embedded value (covered business)	**15.3%**	15.5%	
Total life assurance sales (APE)	**596**	740	(19)
UK life assurance sales (APE)	**335**	468	(28)
Offshore life assurance sales (APE)	**261**	272	(4)
Unit trust/mutual fund sales	**1,715**	2,275	(25)
Value of new business	**67**	81*	(17)
APE margin	**11%**	11%*	
PVNBP	**4,902**	6,311*	(22)
PVNBP margin	**1.4%**	1.3%*	
Net client cash flows (£bn)	**1.7**	3.9	(56)
Funds under management (£bn)	**34.9**	41.9	(17)

*Restated, as now reporting on an MCEV basis.

Positive net client cash flows despite low investor confidence

Skandia UK and Offshore continued to deliver positive net client cash flows for the year with net inflows of £1.7 billion representing four percent of opening funds under management. This comprised strong International net inflows and positive UK net inflows which were lower than 2007. The market downturn contributed to a 17 percent decrease in funds under management but this compared favourably with the 31 percent drop in the FTSE 100 in 2008. Investment performance was driven by the diversity of our offering with significant changes in asset mix occurring as investors moved into cash based investments. Foreign currency denominated funds benefited from the weakened sterling.

Investment volatility affects sales

Life assurance sales APE declined in line with the market. The largest relative falls in sales were in the bonds and single-premium pensions products and because the 2007 pensions business figure benefited from the lingering benefits of pensions 'A-day' and higher investor confidence at the time. In 2008 the market for single-premium bonds was affected by the introduction of 18 percent flat rate of CGT confirmed in the March 2008 Budget. Skandia's market share across the entire pensions market remained strong particularly in the core product area of single-premium personal pensions. Regular-premium business held up better, ending the year nine percent up on 2007.

Skandia International performed very well in 2008 due to its geographical diversity, full open-architecture proposition, strong distribution relationships and a focus on high net worth customers. Product and e-business developments greatly enhanced our customer proposition in 2008.

Unit trust performance impacted by volatile markets

Unit trust sales were down 25 percent on 2007 as a result of one of the lowest ISA seasons on record for the whole industry and again a reflection of the turbulent market conditions. Within this, institutional mutual fund business of £239 million was up by 45 percent over 2007. Our market share in platform business fell marginally in the year but there were indications that the re-pricing of the platform business in the latter part of the year was starting to have a positive impact on sales. We continue to increase investment solutions on the platform to create wider appeal, especially during periods of market volatility.

New business contribution

VNB fell by 17 percent to £67 million due to lower new business volumes. The reduction was partially mitigated by a strengthening of the assumptions for the amount of fee income rebated from fund managers, aligning Skandia more closely to the market. New business contribution was also positively impacted by the mix of business effects, with a shift towards sales of more profitable portfolio bond charging structures within Skandia International. The new business margin ended the year at 11 percent, in line with 2007.

Adjusted operating profit (IFRS basis) level with 2007 despite market conditions

An excellent adjusted operating profit (IFRS basis) was generated in spite of the current climate with a decrease of three percent to £167 million for the year, in part reflecting the reduction in funds under management and sales. This was partially offset by changes to the policyholder taxation basis for Skandia UK following the market falls experienced in 2008. Additional integration costs were incurred in 2007, as previously communicated. A favourable variance of £33 million arose following the implementation of PS06/14 – the prudential reserving requirements that permit non-linked insurance business to be valued on a more realistic basis.

Increase in adjusted operating profit (covered business) (MCEV basis)

The adjusted operating profit (MCEV basis), on covered business after tax, increased by 14 percent to £235 million. This increase includes a positive impact of £56 million from operating assumption changes. This mainly resulted from the recognition of retained unit trust company rebates (referred to above) as we outsource the investment of policyholder funds to unit trust companies. Other operating assumption changes included adjustments to expense assumptions to reflect current maintenance expense experience and modeling improvements. Experience variances were positive in aggregate at £17 million due to impacts on charges and continued positive experience in relation to retained rebates assumptions.

Capital

Current levels of statutory capital for Skandia UK and Skandia International are within or above the target ranges set by management. The businesses are well capitalised with a solvency ratio of 2.6 times the required level.

Continued investment innovation at Skandia

During the year, we continued our track record of innovation in multi-manager investment solutions. The *Spectrum* range of risk-controlled funds was launched in April 2008 and attracted over £120 million of gross subscriptions by 31 December 2008. In the volatile market, the risk controlled nature of the funds proved very effective from both a return and risk perspective. In June 2008, we launched the *Skandia Alternative Investments Fund* which has an absolute return focus and has funds under management in excess of £30 million. The high profile *Best Ideas* fund range continued to attract new sales with funds under management of over £391 million at 31 December 2008. The *UK Strategic Best Ideas Fund* had funds under management of £80 million at 31 December, and continues to be one of the best-selling funds. Amid deteriorating equity markets the *UK Strategic Best Ideas Fund* has continued to perform exceptionally well, with the fund being the best performing UK fund *in* the IMA UK ALL Companies Sector during 2008 (a universe of over 320 funds).

Skandia supports changes in the UK distribution landscape

The FSA published its paper on the Retail Distribution Review on 25 November 2008 moving the Review from the consultation phase into the implementation stage. The paper focused on the clarity of the service (distribution channels), remuneration, professional standards and prudential requirements. We have already started to support our distributors through offering assistance in preparing our businesses for the change and assisting advisers in obtaining the necessary qualifications. The intention of the FSA is to consult with the industry on implementing the proposed changes over a period running through to 31 December 2012.

On 3 November 2008 we announced that we are ending our membership of the Association of British Insurers ("ABI"). Our proposition is clearly differentiated from old-style life and pensions companies, finding little alignment of interests with the broader ABI membership.

We announced a new pricing structure in September 2008 removing the initial charge on platform sales. This move not only made our proposition very competitively priced but it also made the charging structure simple and transparent. The price changes have been positively received by financial advisers.

Marketing

The volume of business placed electronically has continued to increase. Alongside the competitive terms that we negotiate from the fund management groups, this enabled Skandia UK to re-price its proposition in September 2008, making it highly competitive.

Skandia International enhanced its proposition by developing a new Swedish pension and adding to its online capability.

Customer service

We continued to focus on excellent customer service, which is seen as a major differentiator in financial services.

In recognition of our outstanding customer service we achieved a five-star rating in the industry Financial Adviser Awards for the eleventh year running and became the first company to win the Outstanding Achievement Award for Pensions and Investments. We have now won more than 30 five-star awards in the 18-year history of the Financial Adviser Awards.

We won the MultiManager of the Year award at the annual Investment Life & Pension Moneyfacts Awards in September 2008 and were also Commended in the Best Unit Trust/OEIC Provider category. These awards recognise the outstanding achievements of providers who manage to stand out from the crowd by offering high calibre products and delivering first-class service.

Skandia International continues to meet customers' service expectations through a programme of operational improvements, including establishing an optimum service model for overseas branches. Technological enhancements will support the continuing drive for greater operational efficiency.

Principal risks and uncertainties

The principal risks to Skandia UK arise from operational experience, along with market risk as Skandia UK derives income from fees which are charged as a percentage of funds under management. The Broader financial risks are limited. Skandia UK does not offer material investment guarantees. Although we offer protection business, and so have exposure to mortality and morbidity risk, the majority of the risk is transferred to reinsurance counterparties. Credit risk exposures are small; the main exposures are the risk of default on the investment of company assets. Skandia UK has exposure to risk arising from operating experience in respect of factors including persistency and management expenses. These risks are managed within the operational functions which have primary responsibility for the identification, mitigation and monitoring of risks. Risks exceeding pre-determined thresholds are escalated and reported to management and to the Group Chief Risk Officer, along with details of the mitigating management action. Recent falls in investment markets have adversely impacted fund-related revenues and new business volumes. The profitability and capital position of Skandia UK remain strong.

Outlook for 2009

Details of the changes to be introduced as part of the FSA's Retail Distribution Review are still under discussion. Meanwhile, we are already preparing to incorporate the changes that the FSA wishes to include, with the aim of optimising our position in the new model of financial services and the distribution landscape that is likely to emerge. It will be particularly important to secure significant funds under management to ensure scale in the platform market that this review will stimulate. To secure assets on our platform we are running an aggressive campaign of activity which began in 2008 with the removal of the initial margin on platform products to make our costs highly competitive.

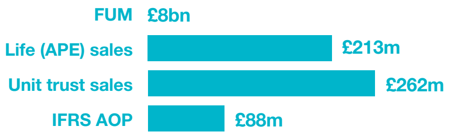
Our offshore business is geographically diversified, with sales in Europe, the Middle East, the Far East, Africa and Latin America, as well as in the UK. It is well positioned for further growth in 2009 and beyond. Investment in the operating infrastructure to drive efficiencies and continued excellence in customer services will support further market, product and distribution opportunities. Whilst 2009 will be a challenging year, Skandia International remains confident about long-term future growth prospects owing to a growing customer base, robust regulatory and compliance infrastructure and a strong offshore brand.

Priorities for 2009

- → Continue to build our position as a leading platform by widening customers' investment choices, offering greater flexibility and access to more investments, and providing simple, transparent pricing
- → Work more closely with distributors to help them meet the new requirements of the Retail Distribution Review
- → Maintain our high level of customer service and continue to improve efficiency by increasing our ability to process business electronically
- → Generate growth for Skandia International in new and existing markets through product and distribution efforts and building on the operational infrastructure to facilitate new product development.

Nordic

Financial scale:



Number of employees

1,912

Key geographies

→ Sweden, Norway, Denmark

Major brands

→ Skandia Link
→ Skandia Liv
→ SkandiaBanken

Products

→ Unit-linked
→ Traditional life
→ Banking products
→ Health and protection

1.2 Nordic

This business operates in Sweden, Denmark and Norway, offering a wide range of products for both retail and corporate customers including traditional life, unit-linked, healthcare insurance, banking, financial advisory and mutual funds. Our vision is to have the most satisfied customers in the Nordic savings market.

Our operations focus on four end-customer groups, which we class as Private Sweden, Corporate Sweden, Private Norway and Corporate Denmark.

Skandia Liv is a traditional life assurance company serving customers in Sweden and Denmark. It is a wholly owned subsidiary of Skandia but 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 to the holding company. Consequently, Skandia Liv is not consolidated in the Old Mutual Group accounts.

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

SkandiaBanken was initially a niche player in the Nordic banking market but has now become 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 savings products.

Together, the Skandia Nordic divisions have a broad product mix, a range of insurance, banking and investment business, market-leading expertise and a proven business model. This combination differentiates us and gives us competitive advantage.

Markets and products

We have a combined Nordic customer base of around 2.5 million customers and, with our full range of product offerings, are well positioned in a challenging 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. Corporate Sweden and Denmark offer products and financial advice from our unit-linked, traditional life and healthcare businesses.

The Retail business operates in Norway and Sweden, targeting affluent and mass affluent private customers. This market is served mainly through our directly employed advisers, the internet and IFAs. Private Sweden offers savings products and financial advice from our banking, unit-linked, mutual funds and traditional life business. Private Norway offers products and financial advice from our bank and healthcare businesses.

Unit-linked

We offer a wide range of unit-linked funds in various classes and with varying risk profiles. Funds, including those offered by our own fund companies, are managed externally and managers are selected and monitored using our proprietary evaluation process.

Traditional life

Traditional life products are an important part of the integrated product offering in the Swedish market. As the market's largest life company, Skandia Liv is active in both the private and corporate pensions segments of the Swedish traditional life market. We provide insurance products with a security profile featuring long-term savings with a guaranteed yield plus protection. In 2008 Skandia Liv was ranked top traditional life assurer by independent Swedish consultants and distributors.

Mutual funds

We offer unit trust products through our banking subsidiary, SkandiaBanken. Skandia Fund Products' offerings are available to customers via SkandiaBanken for unit-linked savings, direct savings and individual pension savings. Customers can access premium pension savings via the national PremiePensionMyndigheten (PPM) system and decide how they wish their money to be managed by choosing from PPM's range of funds.

Banking

SkandiaBanken offers a full online retail banking service. It is focused on strengthening its offering to small enterprises and private individuals by selling non-insurance products. It also serves as a direct distribution channel, targeting self-service customers with a full range of savings products through a new online platform. In 2008 SkandiaBanken won several awards in Norway and Sweden for outstanding service. During the year the savings offering was further strengthened by the widening of the fund range, introducing discounted share trading and launching new saving products.

Private healthcare

We offer private healthcare products to companies and their employees. Our healthcare division also provides support to our unit-linked and traditional life business in Sweden and Denmark, adding value to the pension scheme products and providing cross-selling opportunities for further business.

Market overview

The Swedish savings and pension market has three pillars: individual, employer-generated and state-generated savings. In 2008 the individual market held about 50 percent of assets while employer-generated and state-generated savings each held about 25 percent. The figure for state-generated savings includes only the PPM part, as this is the only part of the public pension system where the individual decides on the investment.

Traditionally, we have been very strong in corporate pensions, the dominant segment of the Swedish life market. However, the corporate market is changing. Our strategies to increase sales in this segment must now take account of pricing pressures and collective agreement procurements. Swedish brokers are shifting their focus to small- and mid-size companies and individuals.

The individual market is expected to continue growing in significance. Factors such as reduced state and employer pension benefits will require people to take more responsibility for their future financial security. We see this growth and the demand for advice and self-directed solutions in the private business area as major business opportunities. The individual market is characterised by multiple savings instruments and varying customer preferences. The main savings forms are insurance (SEK700 billion), bank deposits (SEK700 billion), mutual funds (SEK600 billion), equity (SEK600 billion) and bonds (SEK100 billion). Revenue in the total individual savings market is expected to grow from SEK40-50 billion in 2008 to SEK70-80 billion by 2015, driven primarily by market appreciation, increasing disposable income and asset reallocation.

The current growth of advisory services in the individual market offers us a huge potential opportunity – but it will be important to manage our relationships with IFAs effectively.

The 2008 financial crisis created a move towards more traditional savings products. While the major banks lost customers to small niche banks, SkandiaBanken increased their customer numbers by 24 percent and grew market share from 12 percent to 16 percent by offering new products with high interest rates. The major banks lost funds under management of SEK35 billion in 2008, while the niche banks gained SEK11 billion.

In the Nordic countries the crisis led to government-led initiatives including increased bank guarantees and lowered repossession rates. It is expected that further legislative change will follow.

Interest in complementary and alternative solutions to national healthcare systems remains great in the Nordic countries. However, competition in this area has intensified considerably.

Strategy for growth

Our vision is to have the most satisfied customers in the Nordic savings market. To achieve this, we will move from our current position as a product supplier mainly offering insurance products to become a more customer-oriented financial solutions provider. We will improve and develop our customer interface, enhance our product offering and make our products available to customers via different channels.

The principal challenge is to build attractive offerings that provide both end-customers and distributors with advisory tools and top quality advice, innovative products, top-quartile returns and the market's best customer service.

Performance in 2008

Highlights (SEKm)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**1,076**	874	23
Return on Equity	**5.6%**	4.3%	
Return on Equity (excluding goodwill)	**17.0%**	16.3%	
Adjusted operating profit (covered business) (MCEV basis) (post-tax)	**1,839**	880	109
Return on embedded value (covered business)	**12.9%**	7.6%	
Life assurance sales (APE)	**2,599**	1,992	30
Unit trust/mutual fund sales	**3,207**	3,474	(8)
Value of new business	**397**	313*	27
APE margin	**15%**	16%*	
PVNBP	**12,108**	9,329*	30
PVNBP margin	**3.3%**	3.3%*	
Net client cash flows (SEKbn)	**7.0**	2.7	159
Funds under management (SEKbn)	**91.9**	116.7	(21)

*Restated, as now reporting on an MCEV basis.

Strong net client cash flows

Net client cash flows for the year were an exceptional SEK7.0 billion, representing six percent of opening funds under management. The positive performance was largely driven by strong net inflows in the life business benefiting from an excellent sales performance and reduced outflows. However, volatile equity markets negatively impacted asset growth during the year, with funds under management at 31 December 2008 down 21 percent to SEK91.9 billion.

Sales performance continued to improve

We delivered excellent growth in sales during 2008 with life sales on an APE basis up 30 percent mainly due to strong sales in Sweden. The broker sales channel accounted for the majority of this increase as a result of strengthened relationships, supported by the new investment portfolio product and faster introduction of new funds to the market. A focus on the selling of unit-linked products has continued throughout the internal sales force which together with several sales initiatives, contributed to the improved sales. The very strong upward trend in new sales continued throughout 2008 and so far there have been no negative effects on sales performance from the volatile markets.

Mutual fund sales were down eight percent on 2007, mainly due to lower inflows to fund deposits within our bank offering, partially offset by growth through other channels. This growth was mainly through deposits in fixed income and money market funds and through a hedge fund launched in the third quarter.

VNB grew strongly in 2008

VNB of SEK397 million for the year was up 27 percent on 2007, in line with the excellent life sales. In addition to strong volume growth, the APE margin benefited from the introduction of currency spreads and tighter cost controls. These largely offset the business mix impact in Sweden, particularly from the removal of Kapitalpension product tax advantages as well as the strengthened retention assumptions in 2008 and the negative economic changes in 2007. The life new business margin ended the year at 15 percent just below the margin in 2007. In the medium term, the new business margin is expected to improve to reach the high teens.

Strong underlying adjusted operating profits despite market turbulence

Adjusted operating profit (IFRS basis) increased 23 percent over 2007 despite the equity market downturn. This was largely due to excellent cost control and SkandiaBanken continuing to benefit from an improved interest margin.

The adjusted operating profit (MCEV basis) was up 109 percent on 2007, mainly due to strong VNB growth and the positive effect from assumption changes. In 2007 there was a negative effect of SEK526 million relating to strengthened retention assumptions and lower fund charges on “tick-the-box” collective agreements and tendered corporate business. In 2008 the effect from operating assumption changes was SEK391 million. This was mainly attributable to the introduction of currency spreads and increased assumption for the take-up rate for unit-linked contracts on retirement, partly offset by strengthened retention assumptions. Experience variances in 2008 of SEK142 million were driven by a higher level of fee income than assumed and tax and profits not valued within the value of in-force (e.g. Healthcare Business). Both were partly offset by a negative retention effect mainly caused by premium reductions due to a Swedish legislative change relating to the level of tax deductible pension savings contributions.

Continued growth in banking business benefiting from market conditions with improved interest margin

SkandiaBanken is completely funded by deposits and therefore has a unique liquidity position enabling it to benefit from the current market situation with an improved interest margin and increased business volumes. SkandiaBanken has sufficient surplus liquidity and management continue to ensure that the liquidity position remains strong. The capital ratio as at 31 December 2008 was 14.1 percent (Basel II, pillar one). SkandiaBanken's lending portfolio has been built on sound lending practices and comprises of 95 percent mortgages which have excellent credit worthiness with the remaining five percent comprised of unsecured loans. The average loan-to-value in the portfolio at the end of the year was approximately 40 to 45 percent. As a consequence, the bank has been only marginally affected by the market turbulence. The credit loss ratio (credit losses as a percentage of the opening lending balance) remains low at only 0.13 percent. The net interest margin was 1.67 percent in 2008 compared to 1.32 percent in 2007. We are confident that SkandiaBanken's conservative lending policy means it is well positioned to respond to any adverse market developments.

Both deposit and loan books at SkandiaBanken increased in 2008. Excluding the divested car finance business, lending increased to SEK43.8 billion, up nine percent since 2007. The increase related mainly to successful mortgage campaigns during the year in Sweden, together with a highly competitive floating interest rate which led to increased lending volumes. As a consequence of the turbulent market conditions, customers have been switching funds from ordinary saving accounts with variable interest rates to saving accounts with fixed interest rates. Deposits of SEK52.0 billion were up three percent since 2007 and the number of customers increased seven percent over 2007. SkandiaBanken's operating profit for 2008 was SEK283 million, 48 percent higher than 2007.

Capital

Skandia Nordic's capital position is stable with sufficient surplus equity exceeding both external requirements and internal buffers. The businesses are well capitalised with a surplus 9.9 times the required level.

Other

Our integration of Skandia, Skandia Liv and SkandiaBanken continued during 2008. We implemented a new operating structure in the private and corporate business areas where there are strong potential synergies in terms of scale, brand, cross-selling and administration. Restructuring and other activities resulted in cost reductions of SEK150 million in 2008, making a significant contribution to the year's good result.

During the year we announced that Skandia and Livfösäkringsaktiebolaget Skandia (publ) (Skandia Liv) are reviewing the potential benefits to both the Group and to Skandia Liv policyholders of demutualising Skandia Liv. The review is at a very preliminary stage and a conclusion is not likely before late 2009.

As announced on 3 October 2008, a ruling has been passed in respect of the arbitration proceedings between Skandia AB and Skandia Liv. The arbitration board did not accept Skandia Liv's claim to any part of the purchase price paid, but ruled that Skandia AB is obliged to pay Skandia Liv a total sum of SEK580 million (£47 million) plus interest by way of compensation in relation to fees under the asset management agreement which Skandia Liv deemed to be higher than prevailing market rates. Old Mutual had already set aside SEK500 million (£41 million) to cover the arbitration within our pre-acquisition balance sheet. Skandia AB will also have to compensate Skandia Liv for future payments to DnB NOR that are higher than prevailing market rates until the contract with DnB NOR expires in 2013. A new provision of SEK426 million has therefore been set up.

In 2008, Skandia Link won the Risk & Försäkring award for Best Average Return to Clients Over Three and Five Years in the Swedish Market, and SkandiaBanken Sweden won Privata Affärer's Initiative of the Year award.

Marketing

We successfully launched a number of innovative market-facing products including the insurance-wrapper Skandia Investment portfolio, unit-linked mutual funds such as Swedish Stars and Skandia Global Hedge, Skandia Lifeline child insurance and a number of banking products.

Customer service

Our focus on enhancing customer service delivery earned SkandiaBanken Sweden the runner-up position in the award for Best Home Loan Institute and SkandiaBanken Norway the award for Most Client-Friendly and Service-Minded Internet Bank for the seventh year running. Skandia Sweden also reclaimed top position in the broker satisfaction index.

EUROPE AND LATIN AMERICA

Financial scale:

Number of employees

1,923

Key geographies

- Germany, Austria, Switzerland, Poland, Italy, France
- Colombia, Mexico, Chile

Major brands

- Skandia

Products

- Unit-linked life insurance
- Mutual Funds

Principal risks and uncertainties

Nordic's main risks relate to strategic and operational risks as well as market risks. The market risks mainly relate to asset based income which reduces when the value of the unit-linked funds declines. Having a diversified product range and a wide range of investment options addresses some of the market risks. Risks arising from operating experience (e.g. persistency and management expenses) are managed through the risk framework which includes a three-lines-of-defence model and risks exceeding pre-defined risk tolerance levels are escalated to the Group Chief Risk Officer. Political and regulatory changes which could have an impact on the businesses are continuously monitored and managed.

Outlook for 2009

The continuing financial crisis will make 2009 a challenging year. In addition, there will be more legislative changes that will impact on our business.

Our corporate customers have been affected by the economic downturn and the effects of that will start to be seen in 2009. The private client market is now already under pressure and customer behaviour will be impacted. This could lead to lower customer activity during the year, however we continue to focus on developing innovative financial product solutions to address customer needs in the current economic climate.

We continue to benefit from a combination of a broad product mix, a range of insurance, banking and investment business, market-leading expertise and a proven business model. We believe ourselves to be well positioned to handle the challenges ahead, as demonstrated by the delivery of excellent results in 2008 despite the market turbulence.

Priorities for 2009

- Top quality customer service
- High quality, innovative offers for our end-customers and distributors through advisory tools and top quality advice, innovative products, top quartile returns and excellent customer service
- New investment portfolio products
- Cost control.

1.3 EUROPE AND LATIN AMERICA

Our Europe and Latin America business (ELAM) provides long-term insurance and savings products across continental Europe and in Latin America. Our entrepreneurial approach and leadership style has enabled us to deliver strong growth since start-up in the late 1990s. We have a strongly local distribution focus, while continuously seeking to exploit the scale and revenue enhancement opportunities that come from being part of the Old Mutual Group.

From January 2009 we have restructured the business in continental Europe to reflect our principal customer segments in order to leverage capabilities and operational efficiencies across geographies. The transition to two main business structures will take place throughout 2009:

- Affluent: targets the affluent segment and currently comprises the businesses in France, Italy and Spain
- Mass Retail: meets the savings needs of this significant part of the population and comprises the businesses in Germany, Austria, Switzerland, Poland and Eastern Europe.

This foundation for efficiency in Central Europe and the integration of the Southern European businesses will allow us to take advantage of further efficiency opportunities in the future in the Mass Retail and Affluent businesses.

Latin America continues to serve a mix of customer segments, primarily through tied financial planners.

Markets and products

Our products include both unit-linked insurance and mutual funds. These are invested through a wide range of open-architecture funds in various asset classes, including funds selected and tracked using our 4P (Philosophy, Process, People, Performance) process. Our managed funds allow asset allocation in line with customers' risk profiles.

To meet customer demand our offer includes both regular-premium products with optional top-ups and single-premium products. Regular-premium products create a steady flow of lower-value premium amounts with a high embedded value, while single-premium products create larger but more volatile net client cash flows.

1.0 BUSINESS REVIEW EUROPE AND LATIN AMERICA

1.0 2.0 3.0 4.0

We sell through a number of channels. In Europe we distribute via independent financial advisers (IFAs), sales organisations, banks and networks. In Latin America most of the business is distributed via our tied financial planners. We employ a segmentation approach to distribution, understanding that each channel has different needs, objectives and drivers.

Market overview

Our external market environment is strongly regulated. Over recent years government policy has driven growth in private long-term savings as well as improved transparency for customers. This has generally been favourable to us – though some regulations aimed at the market as a whole, such as Germany's Mindestuzführungsverordnung, have not matched our niche offering well.

We believe the fundamentals of the European market remain positive over the long term. Shortfalls in public pension systems and transfer of wealth to the next generation provide opportunities for investment from individuals. Similar opportunities should emerge in Latin America as its economies mature.

In the short term, the global economic crisis is offsetting these positive market fundamentals. Government interventions in European financial markets in 2008 dampened the demand for long-term savings products through the securing of bank deposits and stimulation of private spending rather than savings.

The unit-linked segment continues to attract competition from traditional players – an indication of its relevance and future potential. In the short term, traditional life has increased its relative importance as investors seek guarantees. We believe that this is a temporary effect and that the unit-linked segment will regain ground as the market recovers.

The IFA channel remains important and is expected to continue growing, with banks and sales organisations continuing to be strong players. Consolidation in these channels will change the landscape over the longer term and will make strong relationships even more important.

Technology continues to offer interesting opportunities for reaching and serving customers and distributors. While online direct sales are not a big driver of life insurance sales, the servicing and communication opportunities should allow providers to reduce operational costs while delivering improved service and convenience. Effective use of technology linking distributors and suppliers to make product delivery simpler is a cornerstone of the open-architecture model.

Strategy for growth

We believe that success comes from serving customers and distributors effectively through constant innovation.

Our strategy is to place the customer at the centre of what we do and to fully focus the business on meeting customer needs. Focusing our product and service offer on specific customer segments will allow us to meet their expectations better. The key drivers for success in the Affluent segment are breadth of offer and quality of advice and service. Mass Retail business is driven by efficiency and simplicity. Institutional business is driven by investment performance and access to products.

We remain focused on building scale in funds under management through net client cash flows and increased market share, as well as securing profitability through cost efficiency.

Performance in 2008

Highlights (€m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**14**	43	(67)
Return on Equity	**(0.3%)**	1.5%	
Return on Equity (excluding goodwill)	**(1.3%)**	7.3%	
Adjusted operating profit (covered business) (MCEV basis) (post-tax)	**5**	13	(62)
Return on embedded value (covered business)	**0.6%**	1.5%	
Life assurance sales (APE)	**211**	276	(24)
Unit trust/mutual fund sales	**2,077**	3,071	(32)
Value of new business	**13**	57*	(77)
APE margin	**6%**	20%*	
PVNBP	**1,559**	2,182*	(29)
PVNBP margin	**0.8%**	2.6%*	
Net client cash flows (€bn)	**1.1**	1.8	(39)
Funds under management (€bn)	**10.3**	13.0	(21)

*Restated, as now reporting on an MCEV basis.

Strongly positive net client cash flow during market volatility

Net client cash flows were robust considering the market volatility, especially in the highly unstable fourth quarter of 2008. With the market in some of our operating countries, for example France and Italy, showing substantial outflows during the fourth quarter, our own performance compares strongly. Strong persistency, driven by pro-active retention campaigns and the ability for clients to switch to more conservative portfolios, provided support to strong net client cash flows.

Funds under management ended the year 15 percent below 2007 on a like-for-like basis (net of Palladyne which was divested during 2008). This included negative market movements on portfolio values of 27 percent of opening funds under management, reflecting the fall in financial markets across the globe throughout 2008. In comparison, the majority of European equity indices fell between 30 percent and 50 percent in 2008. Funds under management were partially supported by the effective asset mix of the portfolio which incorporates non-equity asset classes and reflects the investment appetite of customers that shifted further during 2008 towards guaranteed funds and other less risky asset classes.

Life sales impacted by constrained sales environment

Life sales on an APE basis were down throughout the year but especially in the fourth quarter due to negative investor sentiment. This effect was stronger in single-premium business, where investors typically have access to a wider range of investment opportunities and seem to have been taking a “wait-and-see” approach to investing under the current conditions. Regular-premium business has been relatively more stable, reflecting the smaller premium sizes and habitual nature of saving on a regular-premium basis. Nevertheless, regular-premium sales have also been under pressure during the year, and the market volatility had a dampening effect on the traditional European seasonal ramp-up in sales in the final quarter, with the fourth quarter falling short of prior year levels.

Focused activity to support mutual fund sales

Given the market volatility and our core differentiator of this business line being international equities, mutual fund sales provided a solid contribution, although down 20 percent compared with 2007 on a like-for-like basis. We continued our efforts to deliver innovative products and quality service. During 2008, much focus was placed on improving the productivity of financial planners in Latin America. Increased training, new product offers and planning tools assisted financial planners in generating sales in the current conditions.

Value of new business and profit margins down

VNB of €13 million was down 77 percent over 2007, mainly as a result of lower sales in 2008 in light of the market crisis. In addition, VNB was negatively affected by changes in operating assumptions, where in particular the changed regulation on policyholder profit participation reduced German VNB. The APE margin deteriorated to six percent from 20 percent in 2007. This was attributed to lower APE sales, which for the more recently established businesses was aggravated by a relatively fixed expense base leading to acquisition expense over-runs. In addition, the strong sales of high margin business in Poland in 2007 was not sustained in 2008.

1.0 BUSINESS REVIEW
EUROPE AND LATIN AMERICA

Adjusted operating profit (IFRS basis) impacted by wider market environment

We generate a significant element of our revenues from funds under management and these fees were lower in line with reduced levels of funds under management. This negative impact was partially offset by the growth of the in-force book of business during the year. Furthermore the revised policyholder participation regulations implemented in Germany during 2008 both widened the definition of revenues to be shared with policyholders and increased the level of participation. This had a €20 million impact on the IFRS adjusted operating profit for the year. This calculation is net of acquisition expenses and these were lower, in line with new sales levels, and so policyholder participation levels were relatively high. To protect the bottom line, we maintained our expense base at 2007 levels, identifying efficiencies to offset growth in sales force and inflationary impacts.

Adjusted operating profit (MCEV basis) suffered from weak new business contribution and negative experience variances

MCEV adjusted operating profit was €5 million for 2008, 62 percent lower than 2007. This was largely due to lower VNB and poorer experience variances which included divisional restructuring costs. The operating assumption changes had a negative impact on the adjusted operating profit, but not to the same magnitude as for 2007. Changes have been made to persistency rates and expense levels, both of which have been strengthened.

Capital

ELAM's businesses continue to measure and monitor their capital resources on an ongoing basis to ensure compliance with the minimum capital requirements of the regulators in each territory in which we operate. Internally we manage our businesses to maintain a buffer of at least 25 percent in excess of the local requirements. Due to the decrease in funds under management levels, solvency requirements across our markets reduced while our capital employed increased, and therefore solvency coverage increased significantly over the year.

Marketing

The volatility of international financial markets increased the importance of marketing to reinforce our sales message in three areas:

Product innovation

Innovation focused on protecting investments to retain existing business and generate new sales. Examples included launching our own traditional life fund in France offering customers capital security and a product with annuity features in Germany.

Expansion of distribution

We continued to grow our distribution base across all our markets. In Italy we added a number of large distributors and in Spain we launched an internal sales force.

Branding

All our businesses operate under the Skandia brand name in their local markets. We carried out the first wave of rebranding to the new Skandia green brand in several markets; this enabled us to re-emphasise the benefits of our offer even in the current negative financial market environment.

Customer service

We continued to focus strongly on our customers, delivering a number of new products and service innovations throughout the year. Examples include annuity features in Germany, a second Easy Plan product in Switzerland, various distributor products in Italy and France, dollar-cost averaging and rebalancing features in Europe and new investment alternatives in Latin America. We also improved service to our customers and distributors through differentiated service offers to top distributors, pro-active service and retention campaigns, and improved distributor tools.

These innovations have been well received by the market, as can be judged from the various product and service awards won during the year, including:

- Austria: FONDS Professionell Service Award
- Germany: Runner-up, AssCompact Fondspolicen Award
- France: Gold Pyramid, Investissement Conseils Awards
- Spain: Winner, Expansion Mutual Funds Portfolio Competition
- France: Gold Medal, Dossiers de l'Epargne Awards
- France: Bronze Trophy, Le Revenu Awards.

Principal risks and uncertainties

ELAM's business model carries limited guarantee and liability risk. Strategic and operational risk is reviewed regularly and managed through our risk framework. Our ongoing focus to build and diversify distribution aims to reduce concentration risk. The existing concentration levels remain within a reasonable range and we expect that future planned activities will assist us to manage this risk further.

ELAM's business mix, which includes regular- and single-premium, retail and institutional business, provides mitigating support to impacts on business results in the current volatile market conditions. However, uncertainty about the future extent and length of a global recession remains and market trends remain difficult to predict. ELAM's geographic diversity reduces the economic, market political and legal/regulatory risks that would typically exist in single-market businesses. The transition to our new business line structure carries some change risk. A strong change management programme has been defined to reduce impacts to new and existing business.

Outlook for 2009

The global financial crisis and recessionary pressures are expected to be the main influence on the market in 2009. We expect new business to be constrained as investor confidence remains suppressed.

Guaranteed products are likely to remain important to investors in 2009, temporarily slowing the growth of the unit-linked segment compared with traditional life. Products such as our traditional life fund in France and our rebalancing features will help us win sales in the current climate.

Regular-premium business – which has been relatively unaffected by the market crisis – is expected to help our sales development in 2009, as the averaging effect of regular-premium investments should support our sales propositions.

Our strong performance in net client cash flow and client asset values compared to the market has been positive for our market share. We believe that we will be able to capitalise on this further once confidence returns and markets return to growth.

Priorities for 2009

- → Rapid transition to the new business structure, building on existing expertise and improving operational scale efficiencies while retaining day-to-day focus on customers and distributors
- → Further develop the platform for reaching and servicing the Affluent segment, including products, distribution, advice and service
- → Improve efficiency in the Mass Retail business, focusing on simplification and matching the offer to the market, improving profitability and increasing market share
- → Innovative solutions for customers and distributors to support them through the difficult times.

1.4 Skandia Investment Group

Skandia Investment Group (SIG) is our investment management organisation. It brings together all Skandia's investment research, analysis, portfolio management, open-architecture and investment product expertise. SIG encompasses Skandia's three in-house investment management companies: Skandia Global Funds, Skandia Fonder and Skandia Investment Management Limited (SIML).

The formation of SIG created one of the world's largest multi-manager investment organisations, managing assets of around £53 billion across a variety of multi-manager and open-architecture investment products.

2.0 BUSINESS REVIEW
SOUTHERN AFRICA

Paul Hanratty Head, Long-Term Savings and Managing Director, Old Mutual South Africa
Keith Kennedy Managing Director, Mutual & Federal
Tom Boardman CEO, Nedbank

KEY FACTS

Adjusted operating profit (IFRS basis) 2008

£1,191m

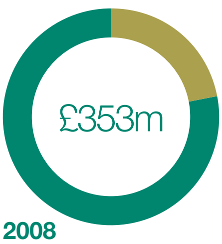
2007: £1,245m

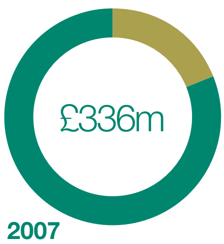
Funds under management 2008

£41bn

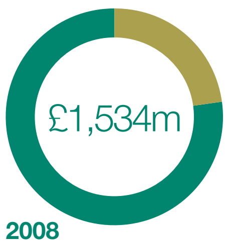
2007: £41.7bn

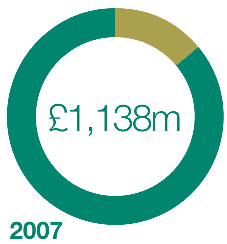
Life sales (APE basis)





Unit trust sales





Number of countries

7

Number employed

48,072

We operate the largest financial services business in South Africa, providing wealth management, investment products, retirement savings, life, disability and health insurance to individuals and groups. We also offer financial services in other parts of Africa through operations in Namibia, Zimbabwe, Malawi, Kenya and Swaziland. Our banking business in Africa is conducted by Nedbank Group, in which we have a 55 percent controlling interest. Nedbank is one of the four largest banks listed on the Johannesburg Stock Exchange (JSE). We also have a 74 percent controlling interest in Mutual & Federal Insurance Company Limited, the South African general insurance company.

2.1 Old Mutual South Africa (OMSA)

Old Mutual South Africa (OMSA) comprises asset management and life operations and has one of the largest advice-based distribution capabilities in the South African industry. The Retail division covers both the Affluent and Mass markets, while the Corporate division provides products and services to corporate, institutional and public sector customers.

Our asset management operations in South Africa are represented by Old Mutual Investment Group South Africa (OMIGSA). This multi-boutique asset management business, currently comprising 13 individual boutiques, was formed in 2007 in response to a growing demand for core and specialist investment capabilities. Our boutiques provide a range of investment capabilities designed to meet a variety of retail and institutional customer needs. We offer investment capabilities to the pension fund and corporate market, as well as managing a range of retail portfolios which individuals can access through the various Old Mutual products.

The Old Mutual brand has very high awareness, trust and loyalty among South African consumers across all market segments. In 2008 it was rated number one for life assurance (2008 Markinor Brands Survey) and for after-sales service (2008 Ask Afrika Orange Index).

Established in 2003, Old Mutual Service Technology and Administration (OMSTA) provides a single, cost-effective point of service, technology and administration for the Retail Affluent, Retail Mass and Corporate customer-facing businesses. It services all our customers, intermediaries and retirement fund members across our full product range through our extensive branch network, call centres, web capabilities and back office. In addition it offers technological infrastructure for OMSA, along with application development for both OMSA and other Old Mutual Group companies internationally.

Markets and products

Retail

Our Retail division covers both the Affluent and Mass markets, offering life, disability, retirement annuities, savings and investment products. We distribute these through independent brokers (IFAs), bank brokers, tied distribution (personal financial advisers for the Affluent segment and salaried sales force for the Mass segment), a direct distribution channel and other retail partnerships. Bancassurance through Nedbank's financial advisers and staff is another important channel.

Our key Retail product offerings include *Greenlight*, a flexible and comprehensive range of life, disability, and future-needs cover. We provide a range of retirement savings plans, annuities, investment and income products through different wrappers – including the *Max, Investments Frontiers* and *Galaxy* product ranges. In the Mass segment we offer customers savings, retirement and funeral cover products.

To ensure products are appropriate for today's environment, our more recent investment and savings products feature significantly lower charges and capital requirements and have greater transparency and flexibility.

Our investment offering is open-architecture, but Old Mutual managed funds form a large part of the underlying assets managed for Retail customers.

Corporate

Our Corporate division sells investment, retirement, insurance, structured products and advisory services to corporate, institutional and public sector customers. Under a life wrapper, we provide underwritten investment products for retirement funds, and group life and disability insurance to retirement funds established by employers for their employees and by trade unions for their members.

Group assurance products provide life cover to employees in the event of death, funeral cover and funeral support services, and a full range of disability solutions.

We customise investment products to meet our individual customers' requirements. These include smoothed bonus portfolios, absolute return portfolios, structured solutions and annuity products, and 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.

Asset management

Old Mutual Investment Group (South Africa) (OMIGSA) investment boutiques collectively span all major asset classes and employ unique strategies to meet our customers' different needs and risk profiles. Together, they give customers access to a comprehensive range of savings and investment solutions. We are building on our traditional South African customer base by offering property, exchange traded funds (ETFs) and hedge-fund solutions that also meet the needs of international investors.

Our investment boutiques include:

- Specialist equity businesses
- Futuregrowth (fixed income)
- Umbono Fund Managers (index tracking)
- OMIG Property Investments (property asset management and property management)
- SYmmETRY (multi-manager portfolios for institutional investors across multiple asset classes)
- Private equity and infrastructure investment
- Old Mutual Specialised Finance (corporate advisory, corporate lending, securities lending and structured products).

Market overview

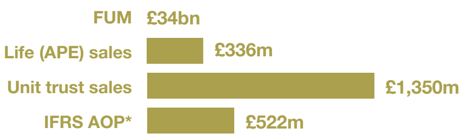
In 2008 local markets followed a similar pattern to international markets, with a dramatic fall followed by a marginal recovery at the end of the year. The Johannesburg All Share index lost over a quarter of its value, with dramatic variances between sectors. Inflation continued to rise through the first three quarters of the year but fell back in the last quarter, prompting a reduction in interest rates at the end of the year. These factors, combined with slower global growth and lower demand for South African exports, slowed local economic growth in 2008 – after four years of strong expansion.

The financial services sector has so far remained largely unaffected by the global financial crisis. Competition has continued to increase as banks, life assurers and asset managers expand their product ranges in an effort to grow market share. New entrants challenge existing practices without the burden of legacy issues.

Following the changes in the leadership of the African National Congress (ANC) at the end of 2007, 2008 was an eventful year on the political front. The most notable change was the replacement of Thabo Mbeki by Kgalema Motlanthe as State President in the second half of 2008. We view the peaceful change in ANC and state leadership and the subsequent emergence of a new political party as encouraging signs of the development of democracy in the country.

OLD MUTUAL SOUTH AFRICA

Financial scale:



Number of employees

15,970

Key geographies

- South Africa

*This includes the long-term investment return (LTIR) plus other shareholder income and profit from OMSTA. The LTIR is the long-term return that we assume can realistically be earned on investible shareholder assets when deriving a smoothed operating result.

Major brands

- Old Mutual
- Old Mutual Investment Group

Products

- Retirement savings plans
- Annuities
- Investment products
- Savings products
- Group life and disability insurance
- Group assurance products

Useful links:

www.oldmutual.co.za

www.omigsa.com

The regulatory regime has been evolving to provide greater transparency and protection to the consumer. New commission regulations, effective from 1 January 2009, represent one of the most profound changes to the long-term insurance sector for many years.

The overall savings rate in South Africa remains low, and a large proportion of savings is being channelled into non-financial investment vehicles such as property. The economic growth of recent years has fuelled growth in the emerging and middle-income market segments; these segments will continue to present opportunities going forward, albeit with growth at lower levels.

The long-term outlook for the savings and investment environment is positive for a number of reasons:

- The prudent fiscal and monetary policies of recent years are expected to continue and to guide the economy back to robust growth
- The growing black middle class and affluent markets supported by economic expansion and Black Economic Empowerment efforts will sustain growth in consumer spending
- The Government is continuing to invest in infrastructure
- There are Government plans for a mandatory retirement savings framework
- The level of financial awareness and the transparency of financial products is improving.

Strategy for growth

Our strategic aim is to move from being a traditional life insurer to become a leading provider of investment and savings solutions to each and every South African.

To achieve this, we are working to become a consistently top-performing asset manager in every asset class through our range of investment boutiques – which we will expand to cover more niche positions.

We are already recognised as the number 1 long-term insurance brand in the market and are building recognition and awareness as a leading savings and investment brand. We will broaden our financial services offerings, and update existing products, to satisfy a demanding customer base and new regulations. We will also add products aimed at the Foundation Market. At a time when others are expected to make cutbacks, we will unlock competitive advantage by growing access to customers and distribution ahead of our competitors. And we will use our strong operating position in southern Africa to expand selectively into other parts of Africa that offer high growth potential.

Operational excellence and cost control are essential if we are to provide our customers with affordable and competitive products at a sustainable margin. Through OMSTA, we will continue reducing the operational cost of the business, making better use of IT to improve customer service and provide a solid platform for growth.

We also want to 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. We will continue doing this through broad-based initiatives aimed at creating opportunities for disadvantaged people and businesses alike.

2.0 BUSINESS REVIEW SOUTHERN AFRICA

Performance in 2008

Highlights (Rm)	2008	2007	% Change
Long-term business adjusted operating profit	**3,390**	3,082	10
Asset management adjusted operating profit	**1,078**	946	14
Long-term investment return (LTIR)	**3,521**	2,988	18
Adjusted operating profit (IFRS basis) (pre-tax)	**7,989**	7,016	14
Return on allocated capital	**27.8%**	24.0%	
Adjusted operating profit (covered business) (MCEV basis) (post-tax)	**4,972**	3,857	29
Return on embedded value (covered business) (post-tax)	**14.4%**	11.7%	
Life assurance sales (APE)*	**5,145**	4,516	14
Unit trust/mutual fund sales**	**20,648**	15,547	33
Value of new business	**831**	694^	20
APE margin	**16%**	15%^	
PVNBP	**35,440**	32,010^	11
PVNBP margin	**2.3%**	2.2%^	
Net client cash flows (Rbn)	**(5.5)**	(18.7)	71
SA client funds under management (Rbn)	**443.0**	445.0	–

*Life sales now exclude healthcare business. 2007 sales have been restated from R4,699m.
**Unit trust/mutual fund sales now include Marriott.
^Restated as now reporting on MCEV basis.

Funds under management were flat over 2007 mainly due to lower asset values in volatile markets and improved net client cash outflows of R5.5 billion offset by the inclusion of Futuregrowth's R35 billion of funds under management. The acquisition of Futuregrowth has resulted in an expanded set of fixed income products available to the Old Mutual customer base. Retention of third-party assets has improved significantly with the bedding down of the OMIGSA boutique structure leading to the overall reduction in client outflows relative to 2007. Outflows remained a challenge, affected by higher bonuses declared in 2007 and early 2008, which increased the level of normal benefit payments, particularly in Employee Benefits (EB), as well as higher member withdrawals from pension funds as a result of the deteriorating economic environment.

Life assurance sales increased 14 percent in 2008. This improvement was particularly pleasing considering the effect of the current economic climate on consumer spend. We achieved excellent growth in life single-premium sales of 26 percent compared to 2007, but we experienced a slow down in single-premium sales in the fourth quarter. Savings products sales grew by 12 percent as investors opted for more conservative fund options under the life wrapper in response to volatile investment markets, particularly in the Retail Affluent market. Annuity sales were up 85 percent with some good flows in the Corporate Segment's new guaranteed-term annuity product as well as with-profit annuities. Our focus on working closely with consultants advising institutional investors has helped us grow our sales pipeline, although the sales process is longer as investors are more cautious in the current markets before deciding to move assets.

Life recurring-premium sales were strong, up eight percent over 2007. Sales of recurring-premium savings products increased by 16 percent compared to 2007 driven by an expansion in the Retail Mass segment sales force. High interest rates adversely affected our credit life sales through the banking channel as loan advances dropped. Sales of risk products to the Retail Affluent market were largely flat over 2007 as customers faced affordability problems. In December 2008 we reached an agreement to sell our healthcare business to Lethimvula. As a result we now exclude healthcare sales from our life sales and from our embedded value calculations.

Unit trust sales of R20.6 billion were 33 percent higher than in 2007, showing excellent growth, albeit from a low base with investors moving to lower risk money market funds. We continue to focus on improving investment performance, as well as focus on the alignment of our unit trust fund offering to our boutique capability and allowing the OMIGSA boutiques to operate with independent investment philosophies and processes.

VNB grew 20 percent over 2007 driven by the increase in sales and the increase in the margin as a result of strong with-profit annuity sales in the Corporate Segment where the APE margin increased from 15 percent in 2007 to an outstanding 23 percent for 2008. The contribution of the with-profit annuity sales to the APE margin was partly offset by the higher frictional tax costs after reducing the proportion of capital invested in equities. The Retail Affluent margin also declined as a result of the lower proportion of high margin risk business following the fall in credit life sales.

Adjusted operating profit (IFRS basis) increased strongly, up 14 percent over 2007. Despite challenging markets, our long-term business profits increased 10 percent, driven by lower costs due to sound management of expenses with the lower Old Mutual plc share price impacting incentive costs. In addition we gained some significant non-repeating items including a reduction in employee benefit obligations of R128 million, interest on SARS refund of R64 million and an insurance claim of R37 million. We also saw improved general experience variances. Although we increased our allowance for worsening persistency and we increased our investment guarantee reserve (IGR) by R409 million during the year, these assumption changes were not as adverse as in 2007 when we determined the IGR on a market-consistent basis for the first time. These positive factors were partially offset by lower capital charges as a result of lower asset values and the move to lower margin products such as the move by Old Mutual Staff Fund to *Absolute Growth Portfolios* as well as negative termination experience especially in the mass market segment.

Our asset management adjusted operating profit was up 14 percent due to lower expenses attributable to the impact of a lower Old Mutual plc share price on incentive costs. The impact of the move to performance based income in the current environment resulted in lower asset management fee income which was offset by strong performance in our credit operation (OMSFIN).

The LTIR increased by 18 percent after increasing the rate applied at the beginning of the year by 100bps to 16.6 percent, reflecting the high investment returns on shareholder funds achieved in 2007 and higher investible asset balances.

Adjusted operating profit (MCEV basis) increased by 29 percent over 2007, mainly due to higher expected return (based on higher one-year swap rates), higher new business contribution and the higher adjusted operating profits (IFRS basis) discussed above. These positive factors were partly offset by the impact of adverse termination experience particularly in the Retail segments as a result of the tougher economic environment.

Capital position

Rm	2008	2007	% Change
Admissible capital	**42,582**	45,039	(6)
Statutory capital adequacy requirement (SCAR)	**11,176**	11,739	(4)
Statutory capital cover	**3.8 times**	3.8 times	

OMSA's life company capital position remains strong in spite of turbulent markets. The statutory capital cover remained stable at 3.8 times since December 2007. Admissible capital was lower than December 2007 levels due to a fall in market values, offset by the effect of our hedging programme and increased cash holdings.

At 31 December 2008 the statutory capital requirement reduced four percent to R11,176 million as a result of a decision to hold more cash and reduce our exposure to equities. The impact of lower equity markets and the new regulatory requirement to include allowance for operational risk, credit risk and investment guarantee reserve sensitivity in capital requirements, were offset by higher assumed management actions in the investment resilience scenario used for calculating the capital requirement.

Retail Mass

Rm	2008	2007	% Change
Life sales (APE)			
Savings	**736**	613	20
Protection	**576**	477	21
Total	**1,312**	1,090	20
Value of new business	**270**	240^	13
APE margin	**21%**	22%^	
Net client cash flows (Rbn)	**2.0**	1.9	5

^Restated, as now reporting on an MCEV basis.

Retail Mass sales were up a pleasing 20 percent over 2007 largely due to strong growth in salaried adviser manpower. The broker and direct channels also delivered strong sales growth. Net client cash flows were five percent ahead of last year. The impact of higher surrenders (indicative of the current economic conditions) and greater volumes of maturing savings business (introduced ten years ago and short-term savings business introduced five years ago) was offset by favourable mortality experience.

VNB increased at a slower rate than sales due to the re-pricing of our protection product range and the impact of lower expected returns (based on assumed lower future swap yields) on the value of future profits on the segment's protection products.

Retail Affluent

Rm	2008	2007	% Change
Life sales (APE)			
Savings	**1,428**	1,321	8
Protection	**996**	1,056	(6)
Annuity	**219**	197	11
Total	**2,643**	2,574	3
Life sales (APE)			
Single	**907**	868	4
Recurring	**1,736**	1,706	2
Non-life sales			
Unit trust/ mutual fund sales	**17,978**	13,339	35
Other non-life sales	**4,782**	4,871	(2)
Value of new business	**320**	336^	(5)
APE margin	**12%**	13%	
Net client cash flows (Rbn)	**(1.1)**	(2.7)	59

^Restated, as now reporting on an MCEV basis.

Net client cash outflows improved over 2007 but remained negative, as the prevailing adverse economic environment increased client withdrawals.

Total Retail Affluent life sales on an APE basis increased a solid three percent. Recurring-premium sales experienced challenges, with inflationary pressures and higher interest rates which impacted negatively on consumer disposable income. Recurring-premium savings sales grew by 13 percent with *Max Investment* recurring-premium sales up six percent and a full year contribution from Nedlife's *Dreammaker*, launched in the middle of 2007, producing a 112 percent increase albeit off a low base.

The shift from life-wrapped savings business to other wrappers continues with non-life recurring-premiums up 32 percent from a relatively low base. Greenlight sales grew by one percent as a result of affordability issues among customers and credit life sales declined on 2007 after the reduction in loan volumes as a result of the high interest rate regime and the impact of the National Credit Act.

Life single-premium sales were up four percent with living annuities up 20 percent on 2007. Conventional annuity sales were also solid as a result of the continued competitiveness of our annuity rates, enhanced by a recent repricing exercise. Total annuity sales including living annuities were up 11 percent on 2007. However, *Max Investment* and *Investment Frontiers* single-premium sales were down 10 percent and one percent respectively on 2007 as a result of the impact of market volatility on single-premium investments.

Non life single-premium savings business was up 25 percent on 2007 due to investors moving to money market funds in the volatile investment markets and the relaunch of *Galaxy Elite*, an upgrade to our existing investment platform.

VNB decreased by five percent despite the overall increase in sales. In addition to the higher frictional tax costs following the change in shareholder investment mandate (more cash, fewer equities) the decline was also caused by the lower credit life sales, which have high margins.

Corporate Segment

Rm	2008	2007	% Change
Life sales (APE)			
Savings	**386**	346^	12
Protection	**125**	145	(14)
Annuity	**350**	111	215
Total	**861**	602	43
Life sales (APE)			
Single	**671**	393	71
Recurring	**190**	209	(9)
Value of new business	**201**	91^	121
APE margin	**23%**	15%^	
Net client cash flows (Rbn)	**(4.0)**	(4.1)	2

^Restated, as now reporting on an MCEV basis.

Corporate life sales on an APE basis were 43 percent higher in 2008, driven by higher sales in Employee Benefits savings and annuity products. Single-premiums were excellent. The introduction of the *Guaranteed Term Certain* product boosted annuity sales, and there were also good flows into *Smoothed Bonus* products. Sales of protection products were below 2007 as insurers stepped up efforts to retain business thereby reducing potential new business. Our retention of protection business also improved in 2008.

VNB increased significantly in 2008 relative to the increase in sales. This was because of higher sales volumes in EB combined with the favourable mix of sales, notably the higher proportion of with-profit annuity sales. This had a flow on impact in the new business margin improving relative to 2007.

Net client cash flows in the EB arena were marginally better than in 2007. Higher inflows were almost offset by higher outflows. Terminations were similar to 2007 levels, but benefit payments were much higher. Higher bonus declarations during 2007 (smoothed bonus) and early 2008 (annuities) increased the level of normal benefits. In addition to this, a trend of increased benefit withdrawals from funds as a result of current economic pressures contributed to increased outflows.

Customers continued to transfer from the old smoothed bonus products to the *Absolute Growth Portfolios* launched in 2007. Transfers of R21 billion occurred during the year. These transfers are not counted as new business.

Old Mutual Investment Group South Africa (OMIGSA)

Rm	2008	2007	% Change
Life sales (APE)	**329**	250	32
Unit trust/mutual fund sales	**2,669**	2,208	21
Value of new business	**40**	28	43
APE margin	**12%**	11%	
Net client cash flows (Rbn)	**(2.4)**	(13.8)	83

Funds under management

Rbn	2008	2007	% Change
Life	**296**	319	(7)
Unit trusts	**45**	48	(6)
Third party	**110**	88	25
Total OMIGSA managed assets	**451**	455	(1)
Funds managed by external fund managers	**29**	34	(15)
Total OMSA funds under management	**480**	489	(2)
Less: managed by Group companies for OMSA	**(37)**	(44)	(16)
Total OMSA client funds managed in SA	**443**	445	–

Life sales were ahead of 2007 as a result of good repeat investments by existing customers in SYmmETRY. Non-life sales were higher than 2007 as a result of better unit trust flows on the back of improved stability of our investment professional teams in the boutiques. Net client cash outflows were largely from institutional customers to fund benefit payments.

As our boutique structure has bedded down, our teams have stabilised. We have set strong foundations over the last two years and are seeing improving levels of acceptance and confidence in individual boutique investment philosophies and processes. The acquisition of Futuregrowth and merger of the OMIGSA Fixed Income and Futuregrowth teams has proceeded smoothly, with minimal disruption to their investment processes.

The South Africa equity market (JSE All Share Index) fell 26 percent during 2008. The outperformance of resources during the six months to the end of June reversed abruptly in the second half of the year, with resources down 46 percent relative to a -1 percent return from financial stocks. Compelling valuations in the financial sector meant that a number of OMIGSA boutiques were underweight resources and overweight financials from the last quarter of 2007. This positioning led to improved performance over the second half of 2008, with some of the ground lost since September 2007 regained. Performance in our fixed income area was very good. The *Old Mutual Income Fund* and *Mining and Resources Fund* won certificates for top straight performance in their respective categories for the three years ended 31 December 2008 at the *Raging Bull Awards*.

Investment performance across our diverse boutiques was mixed. Our relative fund performance across the majority of boutiques nevertheless ended the year better than at the end of 2007, albeit below our target levels. Over one year to the end of 2008, 57 percent of peer group funds outperformed the median (compared to 39 percent as at the end of 2007). Over three years to the end of 2008, we improved from 31 percent outperforming to the end of 2007 to 40 percent above median at end 2008, and similarly measured over five years improved from 36 percent to 54 percent above median. Compared to industry median, overall, 55 percent of unit trust funds were above median over one year, 35 percent over three years and 45 percent over five years to the end of December 2008.

On the benchmark performance front, the difficulty of beating inflation and cash-plus benchmark in an environment where growth assets are very negative, weighed heavily on the delivery of funds which are measured mostly against an absolute benchmark. At the end of 2008, 38 percent of funds measured against benchmark were outperforming over one year, compared to 50 percent at the end of 2007. However, over the longer term period of five years we improved slightly, with 55 percent of funds outperforming benchmarks compared to 50 percent for the five years to end 2007.

Marketing
Recognising the increasingly competitive environment and the need to reach new markets, we increased our marketing investment – improving our brand presence and product support, making progress in promoting the new OMIGSA boutique model, and reaching the previously under-serviced Foundation Market which we see as central to the success of the South African economy in years to come. We launched *Max II*, our recurring-premium product range, to meet new commission regulations. Our aim in product development is to exceed customer expectations: hence *Galaxy Elite*, an investment product that delivers excellent value for high net worth retail customers, and our *Absolute Growth Portfolios* product, which is now a market leader in the corporate segment.

We also used the uncertainty in the financial markets towards the end of the year to highlight the benefits of our smoothed bonus and guarantee products as well as our strong capital position and credit rating through the 'Certain friend in uncertain times' campaign.

This above-the-line activity supports our extensive face-to-face distribution in the retail and corporate markets.

Customer service
Customers are at the heart of our business. In 2008 we revitalised our retail sales and customer services branches. We set a new benchmark in convenient financial services by moving into retail shopping areas and opening 19 Greenzones – one-stop shops offering banking, assurance, insurance and investment products. We extended our reach by significantly growing tied distribution and increasing our activity in both the broker and direct markets. In the corporate segment, focus on relationships with consultants is building our pipeline and sales.

We have combined all customer servicing for our Retail Affluent, Mass Retail and Corporate customer-facing businesses into OMSTA. We continually drive service levels higher through LEAN process re-engineering methodology.

Customers and intermediaries are serviced via a combination of call-centres, web capabilities and the extensive branch infrastructure. By applying OMSTA's IT expertise we reduced servicing cost per policy while improving service levels and were voted No1 for after-sales service in the 2008 Ask Afrika Orange Index.

Principal risks and uncertainties
As we go into 2009 we face a number of risks from the economic environment. These include a weak equity market and the possibility of further equity falls adversely affecting our earnings, our embedded value and our sales (as customers avoid investment and savings products with equity content). In addition, increased terminations due to the current economic climate put more pressure on the net client cash flow position, earnings and embedded value. Lower sales may eventuate as a result of job losses and concerns about the global economic outlook. Further decline in longer-term swap yields and further increase in equity and swaption volatilities, which would increase the size of the Investment Guarantee Reserve.

Outlook for 2009
National Treasury expects growth in the economy for 2009 to be 1.2 percent. This growth rate is vulnerable to demand for South African exports from developed markets and how that will impact on manufacturing output as well as levels of commodity prices and their impact on our mining sector. Growth will continue to be supported by the Government's infrastructure drive.

The current economic environment has led to a significant decline in consumer confidence in the investment markets and increase in concerns about job security. There has been a shift in demand from investment vehicles with high levels of market exposure to more traditional smoothed bonus and guaranteed products, which will benefit OMSA. However, the overall pressure on the consumer will restrict sales growth until concern over the market settles and consumers start feeling the benefits of falling inflation and interest rates.

We have received notification to terminate early in 2009 the existing mandate to manage the Public Investment Corporation's (PIC) assets worth about R25 billion. This will adversely affect net client cash flows and reduce operating profit by approximately R21 million for 2009.

New regulations on commission, implemented at the start of 2009, are revolutionising the retail market. Changes include minimum early termination values on long-term savings contracts and a move to spread commission over the term of a policy, rather than the current front-loaded structure. We have already launched a set of products that meet the new requirements and have been working with intermediaries to help them move to the new environment. The legislation presents us with opportunities as our infrastructure is well equipped to deal with changes of this magnitude.

The year ahead will challenge consumers, businesses and policymakers to adapt their thinking and behaviour to a changing and more challenging economic environment. OMSA's strong capital position, brand loyalty and dominant presence will allow us to compete more aggressively in a market with declining margins and capital restrictions. Our capital position, at 3.8 times the required level, and our AAA credit rating are the best in the long-term insurance industry. As a result, we still see opportunities for growth, albeit at lower levels than in the recent past.

Priorities for 2009

- Continue our transition from a traditional life insurer to a modern savings and investment business
- Continue to grow the business and net client cash flows
- Focus on growing distribution while improving investment performance, service levels and managing our costs.

Rest of Africa

Kenya

Launched eighty years ago, Old Mutual pioneered unit trusts and offshore investments in Kenya. We continue to lead the market in both asset management and unit trusts and have been the fastest growing life assurer in Kenya. We offer a diverse product set, ranging from unit trusts, group life cover and annuities, pension fund management and third-party administration in the corporate segment, to private wealth management, unit trusts, risk products and annuities in the Retail segments. We recently launched Kenya's first ever low-cost mass market risk product, ensuring that it remains relevant to this market's financial needs.

Malawi

The operation in Malawi was established in 1930. We are the market leader in asset management, life assurance, third-party asset management, pension fund administration and management, and property investment. Historically, we have focused on the corporate segment of the market and sell group life cover and annuities, pension fund management, credit life and funeral cover. We currently sell life cover to individuals in the retail segment and are developing additional products to meet the needs of this segment.

Namibia

Old Mutual Namibia was launched over 80 years ago and is the country's leading financial services company, dominating both the life assurance and asset management industries. We are a leader in pension fund administration and are developing the property investment side of the business. Our unit trust business offers solutions to both corporate and retail customers. We provide life, disability, retirement savings and investment products to individuals in the Retail market segment.

Zimbabwe

Our business in Zimbabwe has operated for just over 100 years and is the largest financial services company in the country, having captured the largest market share of the life assurance and asset management industries. We also own the country's largest building society. We provide life, disability, retirement savings and investment products for both corporate and retail customers.

Swaziland

We launched our business in Swaziland in May 2008. With ambitious plans, the business strives to be the leader in asset management, life assurance and property investment by providing relevant goal-based advice and value-for-money products. While the business launched with a focus on the retail segment of the Swazi market, solutions for the corporate market will be introduced in the near future.

2.2 Nedbank

Nedbank Group Limited (Nedbank) is a bank holding company 55 percent owned by Old Mutual. It is one of South Africa's four largest banking groups through its principal banking subsidiaries, Nedbank Limited and Imperial Bank Limited, in which Nedbank has a 50.1 percent interest. Its shares have been listed on the JSE since 1969.

Nedbank focuses on southern Africa, positioned as a bank for all. It offers a wide range of wholesale and retail banking services through four main divisions: Nedbank Corporate, Nedbank Capital, Nedbank Retail and Nedbank Business Banking – which separated from Nedbank Corporate in January 2009.

Nedbank is based in Sandton, Johannesburg, with large operational centres in Durban and Cape Town complemented by a regional network throughout South Africa. It also has facilities in other southern African countries which are operated through its 10 subsidiary and/or affiliated banks, and branches and representative offices in key global financial centres that exist to serve the international banking requirements of its South African-based multinational customers.

Markets and products

Nedbank Corporate

This comprises the Corporate Banking, Property Finance and Nedbank Africa businesses, and the specialist Transactional Banking and Corporate Shared Services businesses. These provide lending, deposit-taking and transactional banking services to Nedbank's Wholesale banking customers. Nedbank Corporate has a strong customer base and is well placed to take advantage of opportunities, both internally through cross-selling services offered by other divisions of Nedbank and the wider Old Mutual Group, and externally in the private and public sector markets.

Nedbank Business Banking

Business Banking focuses on businesses with turnover between around R7.5 million and R400 million. It provides a full spectrum of banking products and solutions as well as advisory services and specialist solutions. To make Business Banking easily accessible to its customers, its 14 regions and over 70 area offices are organised around four geographically defined business units run as decentralised, regional, customer-centered businesses.

Nedbank Capital

Nedbank's investment banking business consists of divisions that together manage structuring, lending, underwriting, corporate finance, private equity and trading operations. It provides a full product range, from equity research to long-term project financing, enabling it to compete effectively in southern Africa and in niche areas throughout Africa. It seeks to provide seamless specialist advice, and debt and equity raising, execution and trading in all the major South African business sectors. Principal customers include a significant number of the top 200 domestic corporates, as well as public sector bodies, leading financial institutions, non-South African multinationals and customers undertaking major infrastructure and mining projects in Africa, and emerging Black Economic Empowerment consortia.

Nedbank Retail

This division provides transactional, credit card, lending, investment and insurance products and services to individuals and small businesses. It groups its customers into five primary segments: high net worth, affluent, middle, mass and small business. It is further organised around its principal product areas: card, home loans, personal loans, bancassurance and wealth, vehicle and asset-based finance, and transactional banking.

Imperial Bank

Imperial Bank focuses on motor vehicle finance, marketed through its Motor Finance Corporation brand. It also offers property, medical, aviation and supplier asset finance.

Market overview

South African banking is currently impacted by a slowing domestic economic cycle coupled with political change and the secondary effects of the global financial crisis. Increased infrastructure spending and moderate fiscal stimulus are expected to provide some opportunities for growth. The outlook for domestic inflation has improved, with the first interest rate cut of 50 basis points since April 2005 providing some relief for consumers.

Operating conditions have become increasingly difficult for Nedbank Retail, with signs of slowing growth extending to the small and medium size business sector. The tough trading conditions have also affected investment banking and debt and equity trading, resulting in lower earnings in Nedbank Capital.

The principal challenges for local banking come from pressure on margins due to the industry's reliance on wholesale funding; the increased cost of funding in international debt capital markets; rising non-performing loans and weaker recoveries in retail banking as household finances remain strained and house prices come under increased pressure; and sharply slower Retail advances, partly offset by robust Wholesale advances.

But there are also opportunities, driven by growth in the mass, black middle and SME markets; growth in Africa generally; growth in retail deposits and other funding; increases in transactional banking fees; and improving asset margins.

Nedbank

Financial scale:

Key geographies
- southern Africa

Major brands
- Nedbank, BOE

Number of employees

27,570

Products
- Transactional banking services
- Lending
- Investment banking

Useful link:
www.nedbankgroup.co.za

Strategy for growth

Nedbank's strategy is based on growing its share of economic profit in South African financial services and making the most of the increasing opportunities that emerge in selected African markets. It concentrates resources on the businesses best positioned to increase economic profit based on their capabilities and related industry growth. Businesses with lower economic profit characteristics are managed for value through strong focus on profitability. Initiatives across the various divisions include selectively growing assets, passing increased funding costs onto customers, managing risks, increasing cross-selling and transactional income, smart cost management and reacting flexibly and nimbly to opportunities.

Nedbank will also continue to investigate opportunities to expand into the southern African Development Community region. This work will be supported by its recently established regional offices in Angola and Kenya, along with its new strategic alliance with Ecobank which has operations in 25 countries mainly in Western, Central and Eastern Africa.

In addition, Nedbank will continue to grow its Retail franchise, strive for leadership in business banking, gain more public sector business and remain a top three player in the Wholesale banking market.

Performance in 2008

For key figures see highlights table on page 50.

Banking environment

The local banking environment faced a number of challenges in 2008. These included, firstly, pressure on margins as the overall cost of longer-term funding increased. It was pleasing to note that, throughout the year, rand liquidity remained stable, with the interbank lending market continuing to operate efficiently. Local banks have been able to finance new assets in the normal course of business. Secondly, reduced capacity and increased cost of funding in the domestic debt capital markets. Thirdly, rising non-performing loans and lower levels of recoveries, especially in the Retail environment as household finances remained strained and asset prices came under pressure. This trend intensified in the second half of 2008 and has been increasingly affecting small and medium-sized businesses, and will undoubtedly also impact some larger corporates going forward. Finally, sharply slower retail advances growth, partly offset by reasonable Wholesale advances growth.

The progress made during the recovery programme and over the recent past to build a sustainable business continues to benefit Nedbank and has resulted in a number of factors including ongoing growth in the Retail Mass and middle-income segments and Corporate markets, solid growth in Retail deposits, pleasing growth in transactional banking volumes, improved margins on new advances through risk-based pricing and increased client activity in foreign exchange and interest rate markets as well as an intensified focus on improving client service levels.

The Competition Commission inquiry into bank charges issued a detailed report in December 2008. Industry stakeholders have been given an opportunity by National Treasury to comment on the recommendations contained in the report. This input will be discussed by National Treasury with the Department of Trade and Industry, the South African Reserve Bank and the Competition Commission and it is anticipated that the final outcome of the banking inquiry process and the impact on the banking industry will be finalised during 2009. Nedbank remains committed to an outcome that provides real benefit to consumers and ensures the ongoing competitiveness and stability of the financial services industry.

Basel II was successfully implemented on 1 January 2008 and was used as a catalyst to enhance the management of risk and capital across the industry.

Financial performance

Given the turmoil in the global financial markets and the slower domestic economy Nedbank is currently adopting a more conservative approach across its operations. We have intensified our focus on increasing capital levels, growing deposits and liquidity, proactive risk management, selectively growing assets in businesses that are well positioned to increase economic profit, continuing to manage for value in those businesses that have lower economic profit profiles and managing down positions in riskier lines of businesses. At the same time we continue to invest for the future and we are not seeking to maximise short-term profitability at the expense of longer-term sustainability at this point in the cycle.

Highlights (Rm)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**8,800**	9,220	(5)
Headline earnings*	**5,765**	5,921	(3)
Net interest income*	**16,170**	14,146	14
Non-interest revenue*	**10,729**	10,445	3
Net interest margin*	**3.66%**	3.94%	
Cost to income ratio*	**51.1%**	54.9%	
ROE*	**17.7%**	21.4%	
ROE* (excluding goodwill)	**20.1%**	24.8%	

*As reported by Nedbank in their report to shareholders as at 31 December 2008.

Adjusted operating profit (IFRS basis) was down five percent to R8,800 million with headline earnings down three percent to R5,765 million. Basic earnings grew by six percent to R6,410 million (2007: R6,025 million). Diluted headline earnings per share (EPS) decreased by two percent from 1,429 cents to 1,401 cents. Diluted EPS grew seven percent from 1,454 to 1,558 cents, driven largely by the R622 million after-tax profit on the sale of Visa shares in the first half of the year.

Nedbank's return on average ordinary shareholders' equity (ROE), excluding goodwill, decreased from 24.8 percent to 20.1 percent. ROE dropped from 21.4 percent to 17.7 percent for the year. These declines were caused by slightly lower headline earnings, mainly as a result of increasing Retail impairment levels that reduced the return on assets, together with higher capital levels as capital adequacy ratios increased during 2008.

Credit quality deteriorated throughout 2008 with Nedbank Retail's impairments worsening significantly, while the Wholesale banking portfolios showed a moderate deterioration in the second half of 2008. Overall impairments have increased, although the impact on earnings was partially offset by controlled cost growth. The momentum built from disciplined cost management over the past few years continued into 2008 and contributed towards the efficiency ratio improving from 54.9 percent in 2007 (54.3 percent excluding Bond Choice) to 51.1 percent in 2008 and the 'jaws' ratio growing to 7.5 percent (2007: 6.9 percent).

We continued to see a steady inflow of customer deposits, resulting in Retail deposits growing in line with Retail advances. Pressure on short-dated maturities has been partially alleviated by market expectations of decreasing interest rates and a strategy of increasing deposit duration, particularly in the second half of the year. Given our domestic focus and small foreign-funding requirements (foreign deposits are 1.3 percent of total Nedbank deposits), our funding and liquidity levels have remained sound with limited impact from the global financial crisis.

Net interest income (NII)

NII grew 14 percent to R16,170 million on the back of growth in average interest-earning banking assets of 23 percent. Nedbank's net interest margin for the year was 3.66 percent, down from 3.94 percent in 2007. The positive endowment impact of interest rate increases on capital and current and savings accounts was offset by a number of factors including liability margin compression, reflecting the higher cost of term funding, and asset margin compression from a changing asset mix. Asset pricing continues to be a key focus for improving margins, with higher margins being generated on new assets. Further offsets include the cost of holding additional liquidity buffers deemed prudent in the current environment; and debits relating to the accounting for historic structured-finance transactions with related credits offset in taxation.

Impairments charge on loans and advances

The credit loss ratio increased from 0.62 percent in 2007 to 1.17 percent for the year. The growth in advances and the increase in the credit loss ratio are reflected in a 123 percent increase in the impairments charge from R2,164 million to R4,822 million. Retail credit loss ratios have deteriorated since June 2008 and remain above expected through-the-cycle levels, largely as a result of continuing increases in defaulted advances in the Nedbank Retail Home Loan and Vehicle and Asset Finance divisions. Wholesale banking credit loss ratios remain below expected through-the-cycle levels, although the credit loss ratio in Business Banking increased as expected. The credit quality in the Corporate and Investment Banking books remains good but is expected to be impacted by worsening credit quality in the year ahead, resulting in increased credit loss ratios on these books. Notwithstanding seasonal effects, the unsecured Retail portfolio reflected encouraging signs of improvement in the latter part of 2008.

Defaulted advances increased by 75 percent from R9,909 million to R17,301 million and total impairment provisions increased by 29 percent from R6,078 million to R7,859 million.

Non-interest revenue (NIR)

NIR, excluding Bond Choice's commission and sundry income from the 2007 base, grew by nine percent on a like-for-like basis. Total NIR (including Bond Choice in the 2007 base) increased by three percent to R10,729 million.

Commission and fee income grew by 14 percent on a like-for-like basis (five percent including Bond Choice), mainly from volume growth and transactional price increases. Cheque processing fees continue to decrease with the NetBank electronic banking system now implemented for all Business Banking clients and a process of migration initiated for Corporate Banking clients. Cash handling fees and transactional banking volumes grew strongly due to the growth in customer numbers, reflecting the success of Nedbank's strategy to increase delivery channels, improve customer service and strengthen brand positioning. The sale of Bond Choice reduced commission and fee income by R578 million.

Trading income increased by 16 percent from R1,334 million in 2007 to R1,553 million in 2008, reflecting good trading activity in the foreign exchange and global market businesses, although equity and debt trading both had a disappointing year. Adjusting for the loss in the first six months of 2007 in respect of the Macquarie business alliance, trading income would be at similar levels year-on-year.

The sharp fall in equity markets resulted in historic unrealised gains in mark-to-market private equity positions reducing. In spite of these challenging markets Nedbank managed to record a positive NIR of R303 million from its private-equity portfolios on the back of revaluations, realisations and dividend income.

Expenses

Nedbank continues to invest in its franchise while maintaining a disciplined approach to expenses. Despite high inflation and the increased distribution footprint, expenses continued to be tightly controlled, increasing by two percent to R13,741 million (2007: R13,489 million). On a like-for-like basis, excluding Bond Choice, expenses increased by five percent.

Taxation

The taxation charge decreased by 25 percent from R2,336 million in 2007 to R1,757 million. The effective tax rate decreased from 26.3 percent in 2007 to 21.6 percent, mainly due to a reduction in the corporate taxation rate in South Africa from 29 percent to 28 percent, a change in tax legislation impacting investments held in private equity portfolios and increase dividend income.

Non-trading and capital items

Income after taxation from non-trading and capital items increased from R104 million in 2007 to R645 million for the year. The main contributions were the R622 million after-tax profit on the sale of Visa shares and the R15 million profit on the sale of 33.5 percent in Bond Choice.

Capital adequacy

Nedbank has strengthened capital ratios significantly, with a Tier 1 capital adequacy ratio of 9.6 percent (December 2007: 8.2 percent pro-forma Basel II) and a total capital adequacy ratio of 12.4 percent (December 2007: 11.4 percent pro-forma Basel II). These ratios are now above the Group's historic target ranges. The core Tier 1 capital adequacy ratio was 8.2 percent (December 2007: 7.2 percent pro forma Basel II). Nedbank currently holds a surplus of R9.5 billion against its regulatory capital adequacy requirements.

Advances and deposits

Total assets increased by 16 percent to R567 billion (2007: R489 billion). Growth in average interest-earning banking assets slowed to 23 percent (2007 growth: 29 percent). Advances increased by 16 percent, reflecting ongoing growth in Nedbank Corporate but slower growth from Nedbank Retail and a drop in advances in Nedbank Capital. Nedbank Capital's client loan book grew strongly, but this growth was more than offset by a reduction in the advances in the trading portfolio. Imperial Bank showed strong growth through most of the year.

Overall deposits increased by 21 percent from R385 billion to R467 billion at December 2008, with higher interest rates increasing demand for savings and investment products.

Despite strong growth in Retail funding, deposit growth was still largely concentrated in the Wholesale market. Management has remained focused on optimising the funding mix and profile of the Group through utilising alternate funding sources, concentrating especially on the Retail and Business Banking deposit bases, while pricing competitively for term deposits.

Nedbank's liquidity remains sound. The impact of the global financial crisis on South African markets has, to date, been largely limited to an increased cost of international funding as a result of the reduction in international liquidity. This decreased the bank's ability to access such funding and has led to an increase in the cost of – and decrease in appetite for – capital market debt. Given Nedbank's domestic focus, international funding has traditionally not been a large portion of the Group's funding base, while the increase in the pricing of capital market debt has increased the cost of rolling over conduit paper and new subordinated-debt issues, with volumes issued in this market also being lower.

During 2008 Nedbank successfully issued hybrid debt, raising R1.75 billion. In addition, to diversify the funding base, raise further foreign funding and lengthen the bank's existing funding profile Nedbank issued foreign syndicated club loans of $165 million and €165 million; registered a $2 billion European medium-term note (EMTN) programme; obtained a $100 million credit line from African Development Bank; and continues to focus on the Retail deposit base through competitive products and pricing.

Key performance indicators

The global economic crisis and cyclical downturn in the South African market prevented Nedbank from achieving some of its medium-term targets. The fact that it still met its targets relating to efficiency ratio, capital adequacy ratios and dividend cover reflects the conservative and risk-averse stance it has taken in these challenging times.

Marketing

Nedbank supported its positioning as a bank for all through soccer sponsorship and expanded further into the mass market by locating over 60 percent of all new ATMs and branches in previously under-serviced areas. It continues to be the most affordable bank at the lower end of the market as a result of fee cuts in 2005 and 2006.

	Medium- to long-term financial target	Performance in 2008
Return on shareholders' equity (excluding goodwill)	10% above monthly weighted average cost of ordinary shareholders' equity (New target: 5% above)	20.1%
Efficiency ratio	Maintain ratio below 55% (New target: below 50%)	51.2%
Fully diluted headline earnings per share (HEPS)	Growth in fully diluted HEPS of at least average CPIX plus GDP growth plus 5%	(1.7%)
Impairment charge	Between 0.55% and 0.85% of average advances	1.17%
Capital adequacy ratios	Tier 1: 8.0% to 9.0% Total: 11.0% to 12.0% (New targets: Core Tier 1: 7.5%-9.0%; Tier 1: 8.5%-10.0%; Total: 11.5%-13.0%	Tier I: 9.6% Total: 12.4%
Economic capital adequacy	Adequately capitalised to a 99.9% confidence interval on economic capital basis (target debt rating A- including 10% buffer)	A-
Dividend cover	2.25 to 2.75 times cover	2.29 times

To attract more deposits, it launched a new deposit account for individuals and small businesses *Park-It*, offering extremely competitive interest rates and short-term accessibility.

Nedbank's positioning as a caring brand is important to its commercial success. It continued to demonstrate this aspect of the brand through its Local Heroes programme – through which it supports causes that its customers and staff are involved in – and its Ask Once service promise ("You only have to ask once. The person you talk to will take responsibility for ensuring your request is resolved").

Customer service

Initiatives such as the Nedbank Retail Ask Once service promise are helping to position Nedbank as a leader in customer service. To ensure that it is equipped to deliver on its promises, it has employed Client Management Assessment Tool (CMAT) methodology since 2006. This framework allows it to benchmark its capability against some 700 other organisations using CMAT worldwide, and to identify and address weaknesses. In 2008 its CMAT scores remained in the top quartile for financial services companies worldwide – and for the second year running Nedbank was ranked number one among South African banks for customer service in the 2008 Ask Afrika Orange Index.

The move to a more decentralised decision-making process in Business Banking is also being appreciated by customers: customer satisfaction surveys showed upward trends in relationship quality and loyalty.

Principal risks and uncertainties

The appropriate level of capital for a bank is a function of its strategy, individual risk appetite and risk profile. This aligns with one of the key objectives of Basel II which is to differentiate capital requirements and capital buffers above the regulatory minimum, to reflect the unique risk profile on a bank-by-bank basis, rather than following the "one-size-fits-all" approach that Basel I engendered.

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 reference to a number of factors including having neither direct exposure to US sub-prime credit assets nor associated credit derivative transactions and having conservative credit underwriting practices which have culminated in a high-quality, well-collateralised Wholesale book and further tightening of credit criteria in our Retail book since 2007 in anticipation of the economic downturn and resulting from the introduction of the National Credit Act. We have reasonable credit concentration risk levels in relation to the South African market, with counterparty credit risk being restricted to non-complex, vanilla banking transactions. We have a strong, well-diversified funding deposit base (including a strong retail deposit franchise) and limited offshore funding, low securitisation risk exposure compared to global banks, low leverage ratio compared to global banks and higher ratio of risk-weighted assets to total assets ratio than that of peers, indicative of our appropriately conservative measurement of risk. In addition, we have a low level of assets and liabilities exposed to the volatility of IFRS fair value accounting, our small market trading risk in relation to total bank operations, we have a low interest rate risk in the banking book and we have low equity (investment) risk exposure, having successfully completed our non-core asset disposal strategy in 2007. We have low currency translation risk and an optimal offshore capital structure. Our earnings streams across our full commercial banking activities are well-diversified and our well-diversified subordinated debt profile has maturities of existing Tier 2 regulatory capital until 2011. We undertake comprehensive stress and scenario testing to confirm the adequacy of our capital ratios and accompanying capital buffers.

Against this background, we believe that capital levels (both regulatory capital and internal capital assessment, based on economic capital) and provisioning for credit impairments are appropriate and conservative, and that Nedbank and its subsidiaries are appropriately capitalised relative to our business activities, strategy, risk appetite, risk profile and the external environment in which we operate. Additionally, Nedbank is currently not holding excess capital for acquisitions.

1.0 2.0 3.0 4.0

2.1 Old Mutual South Africa
2.2 Nedbank
2.3 Mutual & Federal Insurance

Outlook for 2009

The global financial crisis and resultant recessionary conditions will place more pressure on an already slowing domestic economy. Weaker international trade, lower commodity prices and continued volatility on major financial markets are expected to restrict corporate activity. Consumer finances are likely to remain strained as a result of continued pressure on disposable income, falling asset prices, increasing unemployment and the weaker rand. Lower economic activity is also placing increasing strain on corporates.

Further interest rate cuts are anticipated during the course of 2009. The benefits of these would be expected to impact positively on the South African banking environment only in 12 to 18 months' time. In the short term the decrease in interest rates will have a negative endowment effect on banking interest margins, while impairments are likely to continue to deteriorate.

Priorities for 2009

- Focus on liability growth and the bank's strong depositor franchise
- Slow down growth in advances and focus on more profitable business
- Increase capital levels to the top end of the target ranges
- Price for risk and increased cost of funding
- Refine credit and risk parameters
- Focus on growing primary customer and transactional income
- Strengthen cross-selling
- Emphasise smart cost management
- Stay agile and alert to opportunities.

2.3 Mutual & Federal

Old Mutual plc owns 74 percent of Mutual & Federal Insurance Company Limited (Mutual & Federal), whose shares are publicly listed on the JSE.

Mutual & Federal is one of the leading insurance companies in southern Africa, providing tailored short-term insurance services to the personal, commercial, corporate and agricultural markets in South Africa, Namibia, Botswana and Zimbabwe.

The business has three main portfolios: Commercial, Personal and Risk Finance. The Commercial portfolio comprises Large Corporate, Credit and Agricultural accounts.

Markets and products

Mutual & Federal offers insurance products and advice to individual and corporate customers, mainly via brokers. Our professional and highly experienced brokers offer customers personal service and advice on purchasing policies, and practical assistance with claims.

Commercial

The Commercial portfolio provides comprehensive insurance services – including domestic and export credit risk, insurance against property, accident, marine, engineering, liability and motor risks and crop insurance services – to a diverse range of customers for small- and medium-sized businesses to large corporations.

Personal

The Personal portfolio provides domestic household, motor, and all-risks short-term insurance products to individual customers through white-labelled intermediary-branded and in-house products. One of our in-house products, *Allsure*, offers comprehensive cover by combining homeowners, household goods, personal accident and motor insurance into one policy. The portfolio also offers hospital cash plans and personal accident policies. For the budget end of the personal market it offers policies covering livestock and informal dwellings.

Risk Finance

The Risk Finance portfolio has a significant position in the South African market. It continues to enjoy a positive profile within the industry and is one of the largest suppliers of risk financing solutions in Africa, providing all types of alternative risk transfer products.

Market overview

The southern African short-term insurance market remained competitive during 2008. There was strong growth in the direct channels, driven by individuals' and small companies' growing preference for dealing with direct channel insurers. Broker-based insurers lost business to this channel, albeit more slowly than in

Mutual & Federal

Financial scale:

IFRS AOP £76m

Number of employees

2,703

Key geographies

- South Africa
- Namibia
- Botswana
- Zimbabwe

Major brands

- Mutual & Federal

Products

- Short-term insurance including: domestic; household; motor; personal

Useful link:

www.mf.co.za

previous years. Growth in the overall insurance market was reduced by a slowdown in economic activity, particularly in the sale of new motor vehicles. Lower sales of furniture and other luxury items meant that the personal market in particular did not keep pace with inflation.

Overall underwriting returns reduced slightly for the third year running, after the record levels achieved in 2004 and 2005. Although current levels have allowed participants to deliver satisfactory returns overall, a number of sectors of the industry remain substantially underrated. Significant remedial measures and rate increases are required to return these portfolios to profitability and it is hoped that 2009 will see a return to responsible underwriting standards.

The motor books of most broker-based insurers have been either unprofitable or marginally profitable, and correction of the motor book remains a strong challenge for insurers. An increase in the number and severity of large corporate fires has made this portion of every insurer's portfolio unprofitable: fire risks remain underrated and correction will be required in 2009.

Strategy for growth

Our vision is to be the strongest and most successful short-term insurer in our chosen markets. These include all classes of general insurance except those that carry long-tail claims liabilities. To achieve this, we are focusing on profitability while pursuing growth through new and existing markets and channels, new regions and acquisitions, and new products.

We remain committed to continued development of the intermediary channel and the further development of relationships with brokers.

We will continue to focus on our key financial targets of sustaining a long-term average underwriting ratio of five percent and delivering a return on capital above 20 percent, while maintaining service excellence to intermediaries and policyholders. To enhance underwriting profit we will apply responsible underwriting standards in setting rates commensurate with risks. We will be rigorously disciplined in managing expenses and will carefully control claims costs through strict monitoring and management of the claims supply chain. The operational improvements following the restructuring of operations during 2008 will help us meet these goals.

Performance in 2008

For key figures see highlights table on page 56.

Profits impacted by financial turmoil in the investment environment negatively impacting investment returns

Adjusted operating profit (IFRS basis) declined following the lower underwriting margin, but was partially offset by the impact of a higher LTIR. This added R57 million to our Adjusted operating profit. The profit attributable to equity shareholders declined 117 percent, primarily as a result of a reduction in the value of listed equities. The underwriting surplus for the year declined by 18 percent but the 2007 result was positively impacted by the release of R96 million from reserves following refinements to estimation methods. Without this adjustment, underwriting profit increased by 11 percent. Although there were further increases in the frequency and severity of industrial fire claims in the first half of the year, trading conditions improved during the second half. This, together with corrective measures on the underperforming group schemes portfolio resulted in satisfactory levels of underwriting profitability being achieved for the full year. Gross premium income declined by two percent as growth in the commercial portfolios was offset by the cancellation of a number of personal group schemes and a contraction in the risk finance portfolio.

Investment income reduced sharply during the year following a decline of approximately 27 percent in the value of listed equities which was in line with the JSE. Whilst dividend income declined slightly, interest income increased strongly as a result of higher levels of cash holdings during the year and higher interest rates.

Restructuring undertaken during the year

During the year Mutual & Federal undertook a substantial restructure to promote customer service and operating efficiency. Staff numbers declined by more than 600 as a result of the restructure and R55 million in retrenchment costs were paid. A further non-recurring expense of R147 million was incurred from the closure of a channel development project. This project was undertaken to seek growth opportunities from a number of different channels but was prudently abandoned when it proved to be too ambitious and ill-timed.

2.0 BUSINESS REVIEW SOUTHERN AFRICA

1.0 2.0 3.0 4.0

Highlights (Rm)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**1,169**	1,256	(7)
Gross premiums*	**9,159**	9,323	(2)
Earned premiums*	**7,669**	7,948	(4)
Claims ratio*	**67.1%**	65.8%	
Combined ratio*	**96.1%**	95.4%	
Solvency ratio*	**41.0%**	42.0%	
Return on capital* (3 year average)	**33.9%**	31.7%	

*As reported by Mutual & Federal in their report to shareholders as at 31 December 2008.

Solvency margin in the target range

As a result of the decline in the value of investments, the net asset value per share declined by 13 percent during the year to R10.92 at 31 December 2008. The solvency margin (being the ratio of net assets to net premiums) declined to 41 percent at 31 December 2008 but remains in the target range adopted by Mutual & Federal.

Marketing

Our business restructuring aimed to provide better service to customers, more customer-facing sales staff and cost efficiencies that allow us to price more competitively. We have been working to make significant inroads into specialist insurance markets, and appointed two new underwriting agencies specialising in classes of business that we had previously not underwritten.

We appointed a new advertising agency, which also took over the Company's PR function. An entirely new advertising strategy has been devised with the intention to enhance Mutual & Federal's brand profile in the market. Work began on refreshing the Company brand for launch in 2009 and 2010.

We also established a dedicated team to grow our share of the growing black consumer market.

Customer service

A specific goal of the business restructuring was to enhance customer service and shorten turnaround times for settling claims and issuing policies. New business processing systems introduced in 2008 are moving us rapidly towards becoming paperless, and in 2009 a state-of-the-art underwriting system will further enhance our service levels.

Principal risks and uncertainties

There are two main risks and uncertainties facing the business. The first is operational risk and the second is a credit risk item. Operational risk arises from the introduction of a new computer system across all operations and branches taking place in 2009. A smooth transition and introduction of the new operating environment is critical to the future profitability and success of the business, to the degree that some business may be lost if the conversion fails. While the re-insurance panel of the Company is graded on average 'A' and above (Standard and Poors), the failure of a re-insurer could cause significant solvency strain and going-concern problems to the business.

Outlook for 2009

The impact of the turmoil experienced at the end of 2008 in Europe and the United States is expected to be felt in South Africa in 2009. Economic growth will be challenged as commodity prices continue to fall. This will further dampen South African consumer spending in 2009 and inevitably inhibit growth in the short-term insurance industry. While Government infrastructure spending and the anticipated 2010 FIFA Football World Cup may provide some growth opportunities, much of this business is inadequately rated and will decline. As consumers are stretched, we are unlikely to see meaningful growth in existing personal portfolios.

If commodity prices stay low the local currency will remain weak, particularly if the Reserve Bank follows the example of Europe and the United States with aggressive interest rate cuts. Any decline in the value of the rand threatens to increase claims costs because of the large imported component in motor vehicles and replacement plant and equipment.

Despite these factors, we remain committed to producing underwriting profits in 2009 and, although the economic downturn may subdue growth, our streamlined structure should provide us with a competitive advantage.

Priorities for 2009

- New products and exploration of alternative distribution channels and emerging markets
- Profitable premium growth; cancel persistently unprofitable portfolios
- Evaluate opportunities in the direct insurance market, where we do not currently compete. Growth in this market has outpaced the broker-based market in recent years, and margins are higher as direct insurers can select risks more rigorously and apply policy conditions more strictly
- Achieve operational efficiencies through new business processes and technology: our new systems and revised structure should significantly reduce the cost of delivering products and time taken to implement new products
- Improve employee satisfaction and realise significant transformation in the workplace
- Rejuvenate the brand to meet the challenges of the current and future markets.

3.0 BUSINESS REVIEW NORTH AMERICA

Tom Turpin President and CEO, Old Mutual Asset Management (US)
Chris Chapman CEO, US Life

KEY FACTS

Adjusted operating profit (IFRS basis) 2008

(£270m)

2007: £260m

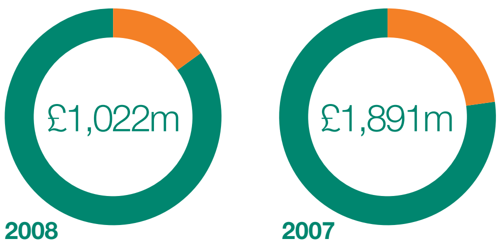
Funds under management 2008

£167.5bn

2007: £170.1bn

Life sales (APE basis)

Unit trust sales



Number of countries

2

Number employed

1,952

Our activities in North America span annuities, life insurance and asset management.

Headquartered in Baltimore, US Life offers a diverse portfolio of annuities and life insurance products distributed through agents across the United States. Old Mutual (Bermuda), part of US Life, is an offshore business that develops and distributes investment products to non-US customers in a variety of markets around the world.

US Asset Management, based in Boston, comprises 20 investment boutiques offering high-quality, actively managed investment products in all the major asset classes and investment styles for individual and institutional customers.

3.1 US Life

Our US Life business consists of two businesses: US Life onshore, and our offshore, Bermudan, business. They serve different customer groups, offering different products to each as detailed in the relevant sections below.

We entered the US life insurance market in 2001 by acquiring several established insurance companies, the largest being Fidelity and Guaranty Life Insurance Company (now OM Financial Life Insurance Company).

Our Bermudan business enjoys a progressive regulatory environment. Bermuda is a major offshore financial centre with a reputation for high quality business. It offers a well-developed legal framework, providing certainty and effectiveness in accordance with international standards of best practice and offers a highly sophisticated infrastructure with efficient banking, trust, investment, accounting, custodial and legal services.

Performance in 2008

For key figures see highlights table on page 60.

Decrease in funds under management driven by unprecedented equity and credit market movements

Despite the turbulent markets, net client cash flows were four percent of opening funds under management. Funds under management ended the year at $20.7 billion, down 14 percent from the opening position primarily due to a 21 percent decrease in the market value of funds under management. The net unrealised loss on the fixed income portfolio increased by $2.3 billion to $2.6 billion and Old Mutual Bermuda (OMB) variable annuity separate account asset values decreased by $2.4 billion. The market value decrease was mainly the result of widening credit spreads in the bond markets and dramatic declines in global equity markets.

Sales driven by variable annuities

Total life sales on an APE basis were $519 million, down 23 percent from 2007. Sales by OMB were the largest contributor to APE. However as a consequence of the high cost of guarantees in the volatile environment, we withdrew products during the year and therefore the OMB sales in the last four months of the year were significantly lower.

Fixed indexed annuity sales, down 40 percent from 2007, were affected by difficult market conditions. However, fixed annuity sales of $60 million were up 216 percent from 2007, following the industry trend as customers seek fixed interest guarantees during this period of extreme equity market volatility and economic instability.

Highlights ($m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**(679)**	195	(448)
Return on equity	**(50.0%)**	5.9%	
Adjusted operating (loss)/profit (covered business) (MCEV basis) (post-tax)	**(1,112)**	65	(1,811)
Return on embedded value (covered business)	**(121.4%)**	4.1%	
Life assurance sales (APE)	**519**	671	(23)
Value of new business	**(122)**	63*	(294)
APE margin	**(23.0%)**	9.0%*	
PVNBP	**4,990**	6,375*	(22)
PVNBP margin	**(2.4%)**	1.0%*	
Net client cash flows ($bn)**	**1.0**	1.6	(38)
Funds under management ($bn)**	**20.7**	24.1	(14)

*Restated, as now reporting on an MCEV basis.
**Stated on a start manager basis as USAM manages funds on behalf of US Life.

Value of new business (VNB)

VNB reduced by $185 million in 2008 compared to 2007, with a margin of negative 23 percent compared to nine percent in 2007. The decrease in margin was mainly due to (a) the reduction in swap rates which reduces the investment returns relative to guaranteed minimum crediting rates in US Life onshore; and (b) the additional provisions for non-modelled risks and higher guarantee costs in respect of the offshore variable annuity business.

Review of reserving basis

We continually monitor our assumptions and make adjustments based on experience as appropriate. During 2008 we lowered the mortality assumption for life contingent single-premium immediate annuities (SPIA), which increased the IFRS reserve and reduced embedded value. We modified the expected lapse rates for deferred and indexed annuities to reflect higher expected surrenders when the contracts exit the surrender charge period, which resulted in the unlocking of a portion of deferred acquisition costs (DAC). We also included a non-performance risk factor in discount rates used to determine the indexed annuity embedded derivative liability and the variable annuity guaranteed minimum accumulation benefit (GMAB) liability, which decreased the liabilities. Finally, we updated the variable annuity GMAB assumptions related to fund indices, mortality, free partial withdrawal utilisation, services fees and volatility, which resulted in a net decrease in the liability.

Underlying adjusted operating profit (IFRS basis) results

Adjusted operating profit (IFRS basis) decreased $874 million from the level at 2007 to a loss of $679 million for 2008. The 2008 loss reflects $436 million of additional mortality reserves related to life SPIAs, a $295 million charge in the fourth quarter for revisions to estimates of future gross profits which resulted in an ‘unlocking’ of the deferred acquisition cost asset (DAC), and $126 million of hedge losses related to variable annuity product guarantees. The latter was part of a total IFRS pre-tax and pre-DAC charge of $508 million relating to the variable annuity product with $382 million flowing through the short-term fluctuations line.

Difficult credit markets resulted in higher impairment losses and volatile equity markets increased the costs associated with the guaranteed benefits on our variable annuity contracts.

Market Consistent Embedded Value (MCEV) results

Adjusted operating profit (MCEV basis) was significantly lower in 2008 than in 2007, mainly due to the large negative assumption changes made in 2008: strengthening of SPIA mortality reduced the VIF by $280 million, an increase in expense assumptions reduced the VIF by a further $291 million, and the strengthening of OMB GMAB reserves reduced the ANW by $126 million. Experience variances were also significantly adverse, due largely to higher than expected lapses and the impact of reinsurance deals which had been priced to be broadly cost-neutral on a real world basis. Other negative experience variances included lighter than expected SPIA mortality and an expense overrun, which resulted in the operating assumption changes already outlined.

Credit update

The markets finished the year on a slightly positive note, as credit spreads tightened from historical wide levels in November. Overall, the markets remained fragile as continued financial sector rescue and economic stimulus initiatives were required to boost economic activity and confidence. The recessionary environment projected for 2009-2010 depressed all market sectors.

US Life's fixed income portfolio aggregate credit experience continued to be affected by poor economic and financial market conditions. For 2008, impairments total $768 million on 43 securities with three of the 43 being subprime asset-backed securities and another 15 indirectly linked to sub-prime or monoline insurer exposures. 3.4 percent of US Life's fixed income portfolio has direct exposure to sub-prime mortgage collateral. The majority of the sub-prime exposure remains highly rated but has experienced several ratings downgrades. Of sub-prime holdings at 31 December 2008, 67 percent was rated AAA, 80 percent AA and higher, 93 percent A and higher with an aggregate 68 percent fair value-to-book value ratio.

Approximately 2.9 percent of US Life's fixed income portfolio has exposure to monoline insurers, of which $508 million (89 percent of the total exposure) is indirect (wrapped) exposure, with an 82 percent fair value-to-book value ratio, and $64 million is direct (unsecured) exposure, with a 56 percent fair value-to-book value ratio. The indirect exposures include $197 million of sub-prime asset-backed securities which are wrapped by monoline guarantees.

Many large, high profile financial firms suffered failures and regulatory interventions during the year, resulting in creditor losses, almost completely illiquid credit markets, dramatically wider credit spreads and lower bond prices in all sectors. In line with other US insurers, our fixed income portfolio aggregate credit experience and current unrealised loss position have been affected by these events and market conditions. US Life's fixed income portfolio recorded impairments of $237 million in the fourth quarter of 2008, contributing to total impairments of $768 million for the 2008 year. The main components of this were public fixed income security losses principally in respect of Washington Mutual ($78 million), Lehman Brothers ($50 million), three foreign financial institutions ($98 million), several structured securities ($165 million), three monoline insurers ($38 million) and losses on preferred stocks ($225 million) of which Freddie Mac and Fannie Mae was the majority ($151 million). US Life's net unrealised losses on the fixed income security portfolio was $2.6 billion at 31 December 2008 reflecting the market-wide repricing of credit spreads and continuing fallout from the sub-prime mortgage crisis. Actual defaults on our corporate bonds for the year were $158 million resulting in a default rate of approximately 1.3 percent on our corporate bond portfolio. The value of our US investment portfolio at 31 December 2008, after recognition of these impairments, totalled $20,347 million.

Useful link:
www.omfn.com

Highlights (US Life onshore) ($m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**(425)**	111	(483)
Life assurance sales (APE)	**251**	312	(20)
Value of new business	**(21)**	(13)	(62)
APE margin	**(8%)**	(4%)	
PVNBP	**2,307**	2,778	(17)
PVNBP margin	**(0.9%)**	(0.5%)	
Funds under management ($bn)	**14.9**	18.1	(18)

3.1.1 US Life onshore

Our US Life onshore business consists of OM Financial Life Insurance Company and its subsidiary, OM Financial Life Insurance Company of New York.

US Life's fixed income investments are managed by our US Asset Management business on a commercial basis. The majority of its administrative functions are outsourced to third-party service providers.

Markets and products

Implementation of our core product strategy was completed by the beginning of 2009. We have pared back the range of fixed annuity products we offer and stopped selling seven life products and our US variable annuity product, to focus our range on indexed annuities, fixed annuities including immediate annuities, and protection products such as indexed universal life and mortgage term life. These are designed to deliver higher profitability while providing customers with transparency and value-driven benefits.

Fixed indexed annuities (FIAs)

Our FIA product has been rated in the top five of its US product segment by LIMRA International for most of the past few years. It guarantees 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. The potential equity index upside is hedged using equity index options and futures, enabling us to provide the potential for gains while managing exposure to loss of principal.

Fixed annuities

Under these fixed-rate contracts we invest in a portfolio of bonds 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.

Protection products

We offer two principal protection product lines: term life protection and fixed indexed universal life products. These provide flexible life assurance protection in the event of death or disability. Quick underwriting turnaround times and the introduction of product features such as return of premium benefits enabled these products to maintain market share in 2008 despite the rapidly declining housing market. The indexed universal life designs specialise in providing supplementary retirement income options for customers who use preferred loan features on a tax advantaged basis.

Our products are distributed through various channels. The majority of sales are generated through established groups of managing general agents (MGAs) who typically offer agents a range of annuity and life assurance products from various providers.

Market overview

Although the economic downturn has hit sales of high net worth and middle market products, US life insurance remains a fundamentally attractive market with significant prospects. Demographic and economic changes (increasing life expectancy and earlier retirement) will continue to generate new customers and new needs and to increase the average time people spend in retirement. The Baby Boomer generation represent a huge opportunity for the next 20 to 30 years as they head towards retirement and look for products with income and risk management features. While discretionary spending is likely to fall in 2009, 75 percent of middle-income consumers see life insurance and retirement savings as necessary.

US sales of individual annuities continued at a record pace in 2008, reaching $197.1 billion through the first three quarters. Variable annuities were down 18 percent on the previous year but fixed annuity sales rose dramatically, up 46 percent. Traditional fixed annuities saw the most dramatic increases (81 percent) while fixed indexed annuity gains were more modest (five percent).

US Life onshore

Financial scale:

Number of employees

329

Key geographies

- All 50 states of the USA
- District of Columbia

Major brands

- Old Mutual

Products

- Fixed indexed annuities
- Fixed annuities
- Term life insurance
- Fixed indexed universal life products

Most fixed annuities are sold through independent agents and banking channels, but the channel mix is changing: bank sales in 2008 increased by 90 percent from the previous year while sales through independent agents increased by only 16 percent.

Although demand for the guarantees offered by insurance products is growing, the capital available to support them is not. This has led many significant insurance industry players to apply to buy regional banks so as to qualify for Troubled Asset Relief Program (TARP) funds. The difficulties insurance companies face in hedging guarantees has led many to restructure their products by repricing them and simplifying product features.

There is a push for federal regulation of the insurance business to assure 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 expense (upfront cost and new business strain) involved.

A regulatory change 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 licences.

Strategy for growth

We are well placed to take advantage of current demographic trends and are striving to develop innovative product solutions, deliver strong investment performance and enhance our retail presence.

In the fourth quarter of 2008 we launched a major transformation initiative to improve profitability and dramatically reduce our cost structure. We streamlined product offerings to focus on profitable core products, and revised sales targets downwards to achieve capital management and profitability goals.

The cost structure was re-engineered for lower sales volumes, with specific action to consolidate locations, comprehensively restructure the organisation and reduce headcount. With these changes made, the business is on a better footing to tackle the challenges ahead in 2009.

Performance in 2008

For key figures see highlights table on page 62.

We are focused on transforming and scaling our business to improve performance by drawing back to reduced volume but more profitable sales, lowering new business capital strain and reducing operating expenses while creating a more efficient foundation for potential future business growth.

The key focus will be on the successful implementation of the business transformation strategy. The new product profile will be less capital intensive through streamlining the current product portfolio and eliminating unprofitable lines. The sales strategy will centre on core distribution partners to produce more effective relationships. In addition to the consolidation of locations and reduced headcount, a strong expense discipline will be employed throughout the organisation. We will embed a risk management framework that reinforces a conservative risk culture into the business operations.

An additional capital injection of $225 million was made in February 2009 to US Life onshore from the Group to maintain the Risk Based Capital in line with the operating target. The total capital injection for 2008 and early 2009 was $325 million, resulting in a RBC ratio of 305 percent.

Marketing

Throughout 2008, US Life collaborated with US Asset Management in a drive to make Old Mutual a household name in the US. Targeting key distribution segments, prospective partners and, for the first time, consumers, this integrated approach significantly increased visibility with the target audiences.

The two business units also teamed-up on several high profile sponsorships including the 2008 Tavistock Cup, 2008 Masters Champion Trevor Immelman and all the Triple Crown Thoroughbred events. These events doubled as hospitality opportunities for our key distribution partners, affiliates and strategic partners – and we achieved significant efficiencies by building milestone and planning meetings into the event timetables.

A US Life roadshow, which visited over 30 cities, allowed leaders from the sales and compliance areas to demonstrate best sales practices, dos and don'ts, suitability examples and motivational techniques. It attracted higher attendance by existing and prospective distributors than the previous two years' roadshows.

Customer service

A service platform that fosters exceptional customer experiences is the foundation for attracting and retaining customers.

Our 2008 operational initiatives aimed to provide an 'experience' rather than merely service for customers calling our service centres. Competitive benchmarking studies show that service levels have improved on average by 17 percent since 2007. Our reputation for treating all customers professionally and fairly continues to improve, and we are confident that this will aid the growth and retention of customers. At the same time, we continued to improve our monthly unit costs in respect of our one million in-force policyholders.

As part of enhancing the services we provide to our MGAs, we implemented online self-service capabilities for key distribution partners, allowing them to aggregate data from our systems and present a consolidated portfolio for their customers. Our distribution partners can now also contract and license new agents electronically via our secure internet portals.

Principal risks and uncertainties

US Life onshore is exposed to a number of risks, including the attraction and retention of key staff during the business restructure, retaining the capital required to meet target risk-based capital levels, funding and meeting product guarantees, and asset liability management, including the need to maintain sufficient liquidity to protect the bond portfolio from crystallising losses in the current volatile market. In addition, defaults, downgrades or other events impairing the value of our fixed maturity securities portfolio may reduce our earnings. Changes in market interest rates may significantly affect our profitability and a downgrade in our financial strength or credit rating could result in a loss of business. A further decline in equity markets or a sustained increase in volatility may adversely affect sales of our investment products and our profitability.

Outlook for 2009

Despite the economic conditions we remain optimistic about our core products, which offer customers guarantees, flexibility and transparency as we work with them to meet their risk and retirement needs.

Experience in previous recessions suggests that this economic downturn may have only a limited effect on sales in the life industry. During the last recession, total new premiums for individual life insurance dipped but were trending upward again before the recession ended.

We expect traditional insurance sales to small businesses to be strong as companies recognise the need for asset protection and indemnification and look for simpler solutions to meet their objectives.

We will continue working proactively to improve capital efficiency and investment portfolio performance. Measures to do this include the defensive restructuring of the asset portfolio, reducing the concentration of exposures to corporations in recession prone sectors, reducing financial credit exposures, upgrading commercial mortgage-backed security and sub-prime portfolios and increasing treasury and liquidity balances.

Priorities for 2009

- Continue the transformation of the business
- Maintain current risk-based capital levels, aided by the streamlined and less capital-intensive product profile
- Focus sales strategy on core distribution partners to build more effective relationships
- Consolidate locations, reduce headcount, and maintain strong cost discipline throughout the organisation
- Embed into the business a risk management framework that reinforces a conservative risk culture
- Continue to concentrate on the most appropriate markets and distribution channels to create a foundation for future growth.

Old Mutual Bermuda

Financial scale:

Key geographies

- 150 countries worldwide

Major brands

- Old Mutual Bermuda

Products

- Universal Investment Plan
- Guaranteed Investment Plan
- Guaranteed Rate Plan

Number of employees

23

3.1.2 Old Mutual (Bermuda) Limited

Old Mutual (Bermuda) Limited (OMB) provides investment products to international, non-US and non-US resident customers seeking a wide range of investment choices including fixed rate accounts and international mutual funds quoted in US dollars. A significant attraction for customers is the fact that the assets are held in segregated accounts and the investment plans are held within a trust structure outside their own country.

Our core competency lies in building and developing relationships with large financial institutions, meeting their needs by providing innovative and competitive products on an open-architecture platform.

Markets and products

We distribute through over 70 institutions, primarily international banks, as well as serving a range of private and institutional customers in over 150 countries. As a leading and innovative provider of investment products for international banks' high net worth and affluent customers, we focus on developing customised products. Customisation generally involves tailoring a proprietary product to each distributor's branding guidelines, giving it the look and feel of the institution's own products.

The current product mix comprises three investment plans:

- 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. The 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 percent of the amount invested. The plan provides investors with 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. The plan enables investors to diversify by allocating into multiple guarantee periods.

Market overview

Record low levels of consumer and business confidence are creating a difficult operating environment with consumers switching their investments away from equity-based products into safer deposit options.

Weak equity markets, lower bond yields and higher volatility have reduced variable annuity (VA) profitability in the marketplace – highlighting that companies have not been effectively hedging all risks associated with associated guaranteed rider products.

The largest unhedged risk that companies providing such products are facing is that of policyholder behaviour. As expected, there has been an increase in the use of guaranteed withdrawals to help distressed customers meet their cash needs.

Lower equity markets and yields, coupled with increased hedge costs, are likely to lead to significant changes to VA pricing and product design. This could significantly change the competitive landscape and weaken overall consumer demand. Trust needs to be rebuilt through leadership, with a clear focus on delivering the right products to meet changing market needs.

Strategy for growth

While falling asset values and actions to de-risk the existing book have adversely affected sales and funds under management in the short-term, we believe our open-architecture platform and distribution capability place us in a strong position for the future.

We have a number of strategies for building our market presence and enhancing profitability. We aim to rebuild distribution with a more customer-centred focus on increasing sales to institutions. Increased use of index funds and fixed income options, as well as the introduction of asset allocation and/or volatility-controlled funds, will enable effective hedging and help us to provide cost-effective guarantees. Our newly-developed multi-currency capability will allow customers to invest in currencies other than the US dollar, and we are introducing products specifically designed to meet retirement needs. We are also undertaking a range of cost management initiatives.

Performance in 2008

Highlights ($m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**(254)**	84	(402)
Life assurance sales (APE)	**268**	359	(25)
Value of new business	**(101)**	76	(233)
APE margin	**(38%)**	21%	
PVNBP	**2,683**	3,597	(25)
PVNBP margin	**(3.8%)**	2.1%	
Funds under management ($bn)	**5.8**	6.0	(3)

During the year, continuing market volatility and significant strengthening of the US dollar led to further increases in guarantee reserves in respect of variable annuity contracts. In 2008, we recognised a total loss in respect of this business of $508 million, of which $126 million was recognised in adjusted operating profit. Cash of $582 million was transferred to OMB during 2008; it now has a significant excess to the minimum Bermuda regulatory capital requirement.

The Universal Guarantee Option (UGO), launched in January 2007, was an optional benefit connected to the Universal Investment Plan (UIP). It provided a Guaranteed Minimum Accumulation Benefit (GMAB), guaranteeing that the policyholder's account value would grow by at least five percent over five years (i.e. if the fund is below 105 percent of the initial premium, we would "top it up") and by 20 percent over 10 years. There was also in some cases a Highest Anniversary Value (HAV) guarantee on death and/or maturity. The UGO was withdrawn from the Hong Kong book in May, and from the rest of the market on 15 August 2008.

The death and living benefit guarantees, which are embedded within the variable annuity products issued by OMB, mean that OMB bears the risk associated with market downturns. In addition, since the guarantees are defined in US dollars but are backed by funds that are invested in foreign currency denominated securities, OMB bears foreign currency exchange risk in connection with these exposures. The funds backing the guarantees are not directly hedgeable, and therefore linear combinations of liquid market indices are used to proxy the return of every fund in a technique known as fund mapping. For effective hedging, the correlation between the funds and the chosen set of hedgeable indices should be as high as possible.

The turbulent economic conditions and failure to fully hedge certain risks, coupled with hedge ineffectiveness, meant that the cost of providing the guarantees increased substantially in 2008. This resulted in swift and decisive action in the second half, including senior management changes, the withdrawal of the UGO, strengthening of governance and risk management practices, the adoption of more conservative assumptions, implementation of improved fund mapping and the launch of the "Accelerated Universal Guarantee Option (UGO)" offer.

Improved fund mapping has enabled us to have a much clearer understanding of our exposures in terms of the guarantees we have offered. Whilst it is not possible to eliminate risk entirely, we have been able to improve significantly hedge effectiveness, from around 75 percent measured over the full year, to around 92 percent in the fourth quarter of 2008. We have also taken action which has given us a better understanding of the sensitivity of our reserves to changes in the underlying markets. As a general guidance: a one percent decrease in equity markets results in a loss of approximately $10 million; a one percent strengthening in the US dollar results in an adverse impact of around $4 million; and a one percent parallel increase in volatility costs approximately $15 million.

Better asset and liability management of the margin and bank accounts was instituted in the fourth quarter of 2008 to help increase yields, reduce counterparty exposure and minimise unintentional currency exposure. As market turmoil increased worldwide, we introduced 24-hour monitoring and trading in October 2008 to improve our reaction time. We enhanced our valuation methodologies to ensure assets and liabilities are calculated on a consistent basis, reducing unnecessary profit and loss volatility. A new product development process has been implemented, which includes the sign-off of products by the Group Chief Actuary, as well as the sign-off of the hedging strategy and hedge cost by the Chief Investment Officer and risk tolerance by the Chief Risk Officer.

Many customers who had opted for UGO guarantees had seen their initial investments fall substantially as a result of market falls. In November we offered to accelerate these guarantees for direct customers (i.e. excluding the Hong Kong book, on which OMB is the reinsurer). The offer was to restore their account value to 85 percent of their initial investment, less any subsequent redemptions. In return, all guarantees would be terminated and the associated fees would no longer be charged. In little over three weeks, 14 percent of policyholders receiving the offer accepted. This was a further step in de-risking the business. It resulted in a cash payout of $94.5 million, and a release of reserves of $133.4 million.

We also delivered significant operational improvements, including the development of a multi-currency facility and the implementation of process improvements that will substantially eliminate breakage (costs arising from a mismatch in the pricing contractually agreed with a customer and the actual price achieved, resulting from inefficiency of systems and/or processes).

Looking forward, further action will be taken on a number of fronts, including restructuring the business to further improve governance, risk management and accountability; further de-risking the existing book through improved hedge performance and regular monitoring of fund performance and the soft closing of funds that exhibit poor hedging characteristics. Further action will also be taken in the development of new investment and insurance products that meet customers' needs, such as Shariah compliant funds and guaranteed funds based on quoted indices, asset allocation models or volatility-controlled funds that facilitate effective hedging.

Marketing

We continue to target international bank customers interested in wealth accumulation, wealth preservation, estate planning and trust management, primarily through our relationships with global banks and financial intermediaries.

We are also committed to serving the needs of our distribution partners: partnering with them enables us to deliver our promise of creating innovative products aimed at meeting the needs of international investors.

Customer service

We made major service improvements during the year, including the enhancement of websites catering for seven languages, and the offshore hosting of our production web portal in Geneva.

Having confronted the challenges of 2008 we are able to return to our global bank partners who have, themselves, been addressing the consequences of the global economic crisis with new offerings that provide the security of confidential investment in a wide selection of underlying assets. One of the benefits of our approach is that accumulated investments can be passed on from generation to generation, with guarantees that can be delivered whatever the economic environment.

Principal risks and uncertainties

OMB is primarily exposed to risks which include basis risk, being the risk that customers' investments in the underlying mutual funds underperform relative to the liquid market indices used to hedge the exposure, or the assumptions as to currency exposure prove to be inaccurate; and credit risk in connection with its fixed account assets. Another risk is an increase in the cost of hedging as a result of increased market volatility. OMB does not currently hedge volatility, but would look to hedge on a strategic basis, should this be deemed appropriate. One further risk is that of further reductions in terms of fee income should the value of the assets under management upon which the company earns fees continue to fall.

Outlook for 2009

In 2009, we aim to rebuild our position as a leading distribution platform while maintaining high levels of customer service.

A return to more normal market conditions and the launch of a range of new hedgeable products will underpin a good recovery in profitability, although we still expect some modest volatility in earnings in the medium term.

Priorities for 2009

- Restructure to further improve governance, risk management and accountability
- Further de-risk the existing book through better hedge performance, supported by improved fund mapping, regular monitoring of fund performance and the soft closing of funds that exhibit poor hedging characteristics
- Develop new investment and insurance products that meet customers' needs, such as Sharia-compliant funds and guaranteed funds based on quoted indices, asset allocation models or volatility-controlled funds, which facilitate effective hedging.

3.2 US Asset Management

We have built a significant asset management business in North America through acquisitions as well as strong organic growth over the past seven years. We have created an environment in which unique, entrepreneurial asset management boutiques can thrive.

US Asset Management, based in Boston, consists of 20 distinct boutique firms, including asset managers who specialise in high-quality, active investment strategies for institutional customers, high net worth individuals and retail investors around the world. Our boutiques are located mainly throughout North America, with two in London. Dwight Asset Management, a fixed income manager, is the largest with 27 percent of total funds under management. Barrow, Hanley, Mewhinney & Strauss, a value equity manager accounts for 19 percent and Acadian Asset Management, an international equities firm, holds another 18 percent. Over time, the size rankings within the business may change, depending on the market environment and investment styles in favour at the time.

Collectively, we offer over 100 distinct investment strategies. Individually, each boutique has its own vibrant, entrepreneurial culture and capabilities focused on its own area of expertise.

Our structure combines the investment focus of boutique managers with the stability and resources of a large, international firm. This delivers significant benefits – for example, offering a diversity of investment styles which minimises exposure to the changing preferences of investors. It provides the efficiency savings that come from central capabilities in product development, infrastructure and distribution. The boutiques themselves are free to focus on delivering strong investment performance and customer service.

Most of the boutiques now operate under profit-sharing arrangements under which we pay them a percentage of operating profit, after overheads and salaries. Long-term equity plans have also been implemented within most of them, with final implementation planned for 2009. This model differentiates us from competitors and the combination of profit-sharing and equity plans ensures that the interests of the boutiques are closely aligned with those of our shareholders and customers.

Markets and products

Institutional accounts

We offer actively managed investment products in all the major asset classes and investment styles. Our investment capabilities span US and global equities, fixed income, property and alternative asset classes. Separate accounts and actively managed commingled accounts are offered across a range of asset classes and investment strategies. We have been a pioneer in 130/30 and similar strategies that seek to enhance the alpha produced through active management. Several of our affiliates manage assets in this fast-growing area for investors, where products typically command higher fees. Our customer base is now diversifying, with a significant proportion of our net client cash flows coming from investors outside the US.

Retail accounts

The *Old Mutual Advisor Funds* offered through our retail distribution arm (Old Mutual Capital) allow individual investors access to institutional-quality management in a mutual fund format.

We offer individual mutual funds in a wide range of asset classes and investment styles. Funds are offered as single-strategy mutual funds, or alternatively as diversified asset allocation funds under the Pure Portfolio brand. We currently offer single-strategy mutual funds in US equities, fixed income, international equities, emerging markets, property investment trusts and money markets. In addition, we offer multi-strategy funds that draw on the capabilities of our boutiques as well as those of selected outside managers.

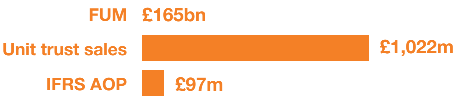
Market overview

The current market environment presents significant challenges for the asset management industry. Earnings pressure exists across the industry due to the steep drop in asset levels resulting from depressed global markets. Few indexes have remained positive and most of the major indexes have had negative three- and five-year returns as a result of 2008 market performance. A general lack of confidence and liquidity continues to inhibit recovery.

Investment firms with undiversified portfolios, heavy equity weightings or performance fees with high thresholds are the most susceptible to earnings pressure. A significant number of asset management firms restructured during the fourth quarter of 2008 to alleviate anticipated margin pressure. But many are wary of cutting deeper than necessary in the short term and so risking their market positioning for the next wave of growth.

US Asset Management

Financial scale:



Number of employees

1,600

Key geographies

→ North America

Major brands

→ Acadian; Analytic Investors; Ashfield Capital Partners; Barrow, Hanley, Mewhinney & Strauss; Clay Finlay; Copper Rock Capital Partners; Dwight Asset Management Company; Heitman; Investment Counselors of Maryland; Larch Lane Advisors; Lincluden; Old Mutual Asset Managers (UK); Rogge; The Campbell Group; Thompson Siegel & Walmsley; Thomson Horstmann & Bryant, Inc; 2100 Xenon; 300 North Capital.

Products

→ Actively managed investment products in all major asset classes and geographies.

Useful link:

www.oldmutualus.com

Competition in North America is strong, and each of our boutiques faces significant competition from other specialist providers. The differentiating factors between firms are often investment performance and product capabilities. Our investment managers have a record of excellent long-term performance, and by applying the diverse styles of our individual firms we can target new investment opportunities to broaden our product offering.

The significant losses incurred by investors as a result of hedge fund strategies are prompting pressure for tougher regulation of the asset management industry. The new US Presidential Administration is expected to push for a significant overhaul of the US financial regulatory framework. As a result, fringe strategies and non-transparent hedge strategies are experiencing great market pressure – which presents opportunities for traditional asset management models to gather assets and institutionalise alternative offerings for clients.

Strategy for growth

We are focused on optimising the multi-boutique investment management model to deliver high-quality investment solutions to our customers, grow profitably and deliver exceptional returns to shareholders. Our business is well placed to take advantage of market, demographic and other related trends as we continue working to develop innovative products, deliver strong investment performance and grow our business. We continue to maintain expertise in sourcing, cultivating and integrating investment talent and capabilities within our business. We have also concentrated effort on delivering thought leadership in product development, packaging and distribution while enabling our investment professionals to focus on investment management and delivering superior investment results for customers.

Performance in 2008

For key figures see highlights table on page 70.

Investment performance strong through a difficult investing environment

Aggregate long-term investment performance from our boutiques remained strong. Over three years, 53 percent of institutional assets had outperformed their benchmarks and 54 percent of institutional assets were ranked above the median of their peer group over the trailing three-year period. These numbers represent significant improvement from the third quarter and demonstrate that our affiliates' disciplined investment processes, based on sound valuation and business fundamentals, continue to deliver for clients.

Net flows and funds under management impacted by market turbulence

Net client cash flows for the year were a solid $1.5 billion. Including securities lending at Dwight Asset Management, which we suspended in the third quarter, total outflows were $5.2 billion. Given the difficult market conditions and the net outflows being experienced across the industry, our result for the year was encouraging and compares favourably to our peers. Our track record of investment performance coupled with our diverse multi-boutique model positions us well to continue to attract net inflows despite the current market climate.

Funds under management ended the year at $240.3 billion, a 28 percent decrease from 2007. $89 billion (96 percent) of the reduction was due to negative market returns. Our diversified asset mix helped to lessen the impact with fixed income and alternatives being less volatile and uncorrelated in periods of market instability. Such asset classes represented over half of the total funds under management at year end. On 1 July 2008, Rogge Global Partners acquired ING Ghent, which contributed $1.5 billion to funds under management during the year.

Retail sales challenges

Like most of our competitors, retail sales faced a challenging year in 2008. OMAM UK unit trust sales and Old Mutual Capital mutual fund sales for the year were $1.1 billion and $831 million, respectively, down a combined $1.9 billion (50 percent) from 2007. At 31 December 2008, 12 of Old Mutual Capital's mutual funds carried four- or five-star rankings by Morningstar, and we remain confident in the competitiveness of the underlying products we offer.

3.0 BUSINESS REVIEW NORTH AMERICA

1.0 2.0 3.0 4.0

Highlights ($m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**181**	324	(44)
Return on capital	**7.2%**	11.3%	
Operating margin	**20%**	27%	
Unit trust/mutual fund sales	**1,892**	3,782	(50)
Net client cash flows ($bn)	**(5.2)**	35.2	(115)
Funds under management ($bn)	**240.3**	332.6	(28)

Adjusted operating profit (IFRS basis) down 44 percent

Adjusted operating profit for the year was down 44 percent from 2007. The decrease was primarily a result of lower management fees as well as performance fees, both of which were negatively impacted by the volatile markets. In addition, while we recorded $11 million in realised gains on seed investments in 2008, we also recorded $35 million of unrealised losses in adjusted operating profit. The operating margin, which is calculated inclusive of minority interest expense, also declined from 2007. Actions were taken to reduce costs across the business in the fourth quarter, and we remain committed to managing expenses through the current operating climate.

Continued focus on product development and distribution

We remain committed to the delivery of unique and innovative investment options. Recent product focus has included asset allocation and risk-adjusted return objectives which have positioned us well in the current market environment. Specifically, we recently launched *Old Mutual Target Plus Portfolios*, the only target-retirement mutual funds with three risk-specific asset allocation strategies. These funds enable Old Mutual to capitalise on the trend of target date funds as retirement plan default options.

To capitalise on the movement of asset flows towards both global and alternative products we launched the following strategies: Copper Rock International Small Cap Growth (managed by a newly acquired team), Barrow Hanley International Value, Thompson Siegel & Walmsley Global Equity, Acadian Emerging Market Debt, 2100 Managed Futures, and 300 North Capital Long/Short.

In addition to our continued focus on product quality we have begun to build out the next generation distribution model adding several new team members covering Alternatives, Defined Contribution Investment Only, and Wall Street and Global Distribution. This is an example of our commitment to grow the business and bring in talented experienced people to serve the evolving needs of our customers.

Marketing

In addition to partnering with US Life on a number of sponsorships, we hosted industry events showcasing our boutiques' investment capabilities in key market areas. We hosted a 130/30 conference in February to showcase several of our boutiques and emphasise our leadership in this field. We also continued to seed new investment strategies to broaden our capabilities in areas of high demand and support continued growth.

Customer service

Our boutiques enhanced their customer service and took extra steps in communicating with customers during the market volatility. The success of these efforts is evident in our net client cash flows relative to our peers.

Principal risks and uncertainties

The broad market downturn had, and will continue to have, an impact on the US asset management business (OMAM). The exposure to current market fluctuation continues to impact assets under management, revenues and earnings targets, thereby affecting our ability to execute against the overall business strategy. In addition, given activities over the last year, there is a high likelihood of regulatory reform across the financial services industry. In aggregate, these factors create an environment that could result in OMAM facing continuing pressure on earnings as well as higher than normal levels of litigation and reputational risks.

Outlook for 2009

We see good potential both in the US and globally. Difficulties within financial institutions have created a significant opportunity to attract investment talent within the US. Market volatility also creates opportunities for managers to provide outperformance for customers at a time when the gap between the top and bottom quartile performers has widened.

Before the current market difficulties, client cash flows were driving asset allocation decisions towards international, global and alternative strategies. We believe these trends will continue in 2009, but many customer searches have been halted given the recent volatility. Search activity should return with client cash flow as the volatility in the financial markets subsides, but customers will remain wary. They will put a premium on companies that are truly institutional in quality and offer effective risk management, continuity of staff, strong ownership structures, transparency of investment process and longevity of performance.

Until global equity markets recover, our earnings growth will be restricted. However, our investment track record has positioned us well relative to competitors, and our diversified asset mix will continue to help us weather market volatility.

Priorities for 2009

- Maximise the value of the multi-boutique portfolio and maximise its value by delivering consistently high-quality investment performance and retaining assets with consistently active management
- Maintain a co-ordinated strategy aimed at managing the portfolio of companies to meet the changing demands of the market
- Continue to build on existing global success by sharing best practice in managing boutique investment firms and driving greater global distribution for our existing boutiques
- Continually energise excellence in our distribution and customer service model by supporting the boutiques' distribution efforts; augment those efforts for products – such as investment-only defined contribution – or distribution channels that are not easily serviced by traditional institutional asset management firms
- Continue to diversify the core of our business, which is based in institutional asset management, by sourcing investment teams and firms, identifying new distribution channels and creating innovative products
- Achieve all this within a framework of strong financial and capital management focused on cost management, prioritising efficient capital spending, and our seed capital programme.

4.0 BUSINESS REVIEW
ASIA

Steffen Gilbert President, Asia

KEY FACTS

Adjusted operating profit (IFRS basis) 2008

(£17m)

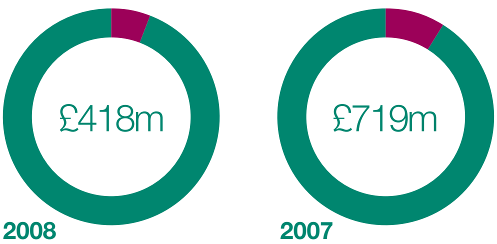
2007: £2m

Funds under management 2008

£3.5bn

2007: £6.5bn

Unit trust sales



2008 **2007**

Number of countries

2

Number employed

467

The Asia region consists of operations in two countries, China and India, which are managed through joint ventures. In 2008 the region also included operations in Australia but in March 2009 Old Mutual announced the sale of its Australian businesses.

4.1 Asia

China

Our business in China, Skandia:BSAM is a 50:50 life insurance joint venture established in 2004 with the Beijing State-Owned Asset Management Company (BSAM). It provides retail unit-linked assurance solutions for high net worth individuals and operates in Beijing, Shanghai, Jiangsu Province and Guangdong Province. Distribution is exclusively through third parties including banks, securities houses and brokers.

India

Kotak Mahindra Old Mutual Life Insurance Ltd, our joint venture with Kotak Mahindra Bank (one of India's leading financial services groups), was established in 2001 and is expanding rapidly. It has nearly 200 branches in 142 cities across India and more than 5,500 employees. It sells predominantly unit-linked investment policies and offers a complete range of traditional life assurance products. We currently own a 26 percent stake, with an option to increase this to 48 percent when legislation permits.

In July 2008 we established an office in Bangalore to support the development of wealth management and asset gathering opportunities in India under the Old Mutual brand.

Markets and products

China

In China, we sell retail unit-linked and universal life products through banks and independent advisers. We continue to expand our distribution footprint, geographically as well as by channel, and are broadening our product range.

India

Kotak Mahindra Old Mutual Life Insurance offers a full range of assurance products although, in common with the rest of the industry, most of its sales over the past few years have been unit-linked investment products. It distributes through multiple channels – a large tied-agency force, exclusive bancassurance relationships with local banks, and other alternative and direct channels.

4.0 BUSINESS REVIEW ASIA

Highlights (£m)	2008	2007	% Change
Adjusted operating (loss)/profit (IFRS basis) (pre-tax)	**(17)**	2**	(950)
Australia unit trust/mutual fund sales	**418**	719	(42)
Australia institutional sales	**123**	115	7
Skandia:BSAM (China) Gross Premiums*	**28**	122	(77)
KMOM (India) Gross Premiums*	**279**	163	71
Net client cash flows (£bn)	**(1.6)**	–	(100)
Funds under management (£bn)	**3.5**	6.5	(46)

*This represents 100 percent of the businesses; OM owns 50 percent of Skandia:BSAM and 26 percent of KMOM.
**Includes Bermuda Asset Management (now included in USAM).

Market overview

China

China's economy is already the world's second largest in terms of purchasing power parity. A number of studies have already predicted that Asia, particularly China, will significantly outpace the rest of the world in growth in GDP and power consumption. A recent Economist Intelligence Unit study forecast that by 2020, China's economy measured at purchasing power parity exchange rates will be on a par with the US and Asia's overall share of the global economy will rise to 43 percent from about 30 percent today.

China's industry assets under management (AUM) grew by 5.2 percent over the final quarter of 2008 to RMB1.94 trillion after three consecutive quarters of double-digit declines. This was however, well below the 2007 year-end AUM of RMB3.27 trillion.

India

India has one of the world's fastest growing economies, achieving over 8.5 percent GDP growth in both 2006 and 2007. In terms of purchasing power parity, it is the fourth largest global economy. It has a large and growing middle to upper income population and well-developed money, debt, foreign exchange and equities markets.

The Insurance Amendment Bill, which would increase the foreign direct investment limit from 26 percent to 49 percent, has already been introduced to Parliament – although its adoption remains uncertain.

Funds under management across the industry have shown compound annual growth of 47 percent over the past five years – consistently outgrowing the stock market index, indicating a significant flow of funds into the mutual fund industry.

Strategy for growth

Our strategy in Asia aims to maximise the performance and potential of our existing businesses and to seek new opportunities to extend our portfolio in India and the Greater China region.

Our existing businesses in India and China are making good progress but are still young and, like all start-ups, have some ground to cover before becoming significant contributors to the Group's overall profitability.

In India, we increased our KMOM business branch network with 197 branches now open across the country compared to 106 in 2007.

Performance in 2008

For key figures see highlights table above.

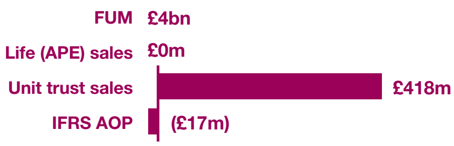
Results impacted by current market conditions

A combination of stock market volatility and increased competition resulted in tough business conditions for the year. Sales and net client cash flows were disappointing with total outflows of £1.6 billion, primarily as a result of the lower equity markets and the impact of large institutional client redemptions in Australia. Funds under management reduced accordingly, partially offset by the strengthening of local underlying currencies against sterling.

We incurred an adjusted operating loss (IFRS basis) for the year of £17 million. This was largely due to lower revenues which were impacted by weakened sales and significant market value depreciation caused by the market downturn. Non-recurring expenses relating to the new regional office set-up and the inclusion of costs for new initiatives contributed to the higher operating losses.

Asia

Financial scale:



Number of employees

467*

Key geographies

→ China
→ India

*Not including Kotak Life Insurance.

Major brands

→ Kotak Life Insurance (joint venture)
→ Skandia:BSAM

Products

→ Unit linked assurance
→ Unit linked investment products
→ Universal life products

Useful link:
www.oldmutual.com

Marketing
Skandia:BSAM established a three-year branding strategy and launched a new investment education brand – SWV (Skandia Wealth Vision). We produced our first TV commercial for China. We enhanced the Company's brand influence and set up distribution marketing, investment marketing and product marketing functions which gave great support to both internal communication and external business. Following the Sichuan earthquake in 2008 we made a substantial donation to the affected areas.

Customer service
Throughout 2008, we won awards for customer service and staff engagement. In September we were recognised as one of the 10 Best Industrial Employers in China and in early December we were rated among the top five in the CIRC's 2008 Life Insurance Customer Satisfaction Survey.

Principal risks and uncertainties
As uncertainties in market and economic conditions persist, the market downturn may continue to impact on the growing economies of emerging markets. The Chinese local regulator, CIRC, has placed stricter regulations on the distribution of unit-linked products and has also suspended all new branch openings, new products and funds, placing further strain on business performance. Given that some of our businesses or investments in the region are with joint venture partners, our challenges remain on managing risks through adequate representation on the relevant boards, audit committees and working reports from internal and external auditors.

Outlook for 2009
Although we believe there is good long-term growth potential in the Asia Pacific region, we have decided for the foreseeable future to scale back our aspirations for this area. We have therefore reached an agreement to sell our Australian businesses (Skandia Australia and Intech Investments) and intend to rein back our expansion plans to focus on our established businesses in India and China.

Priorities for 2009
→ Continue to support organic growth of our existing businesses in China and India
→ Seek to distribute more Old Mutual products in India and capture a greater share of total assets under management
→ Evaluate opportunities to extend our portfolio in the Greater China region.

GROUP FINANCE DIRECTOR'S STATEMENT

"The Group has a sound capital footing and we are well placed to withstand the risks to which our business is exposed. Each of our businesses has sufficient capital to continue writing new business and growing according to its current plans."

Philip Broadley Group Finance Director

Funds under management held up well during year of market volatility
During 2008, Old Mutual delivered robust investment performance in challenging markets. Although net client cash flows were negative overall, we produced positive flows of £3.2 billion in our Skandia businesses and £0.1 billion in our combined South Africa businesses. However, these were offset by outflows in our US and Asia Pacific businesses. Excluding the outflows due to a cessation of securities lending which one of our US Asset Management affiliates suspended during the year, net client cash flows were £2.4 billion for the year. The result is pleasing, considering the challenges of delivering on absolute investment performance in the extremely volatile markets in 2008. This is demonstrated through our closing funds under management, which held up well in the year overall, down five percent to £264.8 billion, in a period when markets such as the FTSE 100, the JSE Africa All Share Index and S&P 500 all fell more than 25 percent.

Breadth of sales product offering in diverse geographic markets
Overall life sales on an APE basis held up well, supported by our businesses in Nordic and South Africa. We continued to see the benefits of our investment in the Nordic sales channel, where life APE sales were up 30 percent in local currency. South Africa life sales were up 14 percent in rand terms.

GROUP RESULTS

Group Highlights (£m)	2008	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**999**	1,624	(38)
Adjusted operating earnings per share (IFRS basis)	**12.2p**	16.9p	(28)
Profit before tax (IFRS)	**595**	1,750	(66)
Basic earnings per share (IFRS)	**8.6p**	19.2p	(55)
Adjusted operating profit (MCEV basis) (pre-tax)	**978**	1,631	(40)
Adjusted operating profit (MCEV basis) (post-tax)	**575**	922	(38)
Adjusted operating earnings per share (MCEV basis)	**11.0p**	17.0p	(35)
Adjusted group embedded value (£bn)	**6.2**	9.0*	(31)
Adjusted group embedded value per share	**117.6p**	166.3p*	(29)
Life assurance sales (APE)	**1,611**	1,748*	(8)
Unit trust/mutual fund sales	**6,600**	8,383**	(21)
Value of new business	**104**	230*	(55)
PVNBP	**12,262**	14,046*	(13)
Net Client Cash Flows (£bn)	**(1.2)**	23.4	(105)
Funds under management (£bn)	**264.8**	278.9	(5)
Total shareholders equity	**9,577**	9,597	
Return on equity***	**9.0%**	13.2%	
Return on embedded value	**7.8%**	13.7%	
Full dividend in respect of the financial year 2008	**2.45p**	6.85p	

*Restated, as now reporting on an MCEV basis.
**Restated net of Institutional sales in Australia.
***Return on equity is calculated using adjusted operating profit after tax and minority interests on an IFRS basis with allowance for accrued coupon payments on the Group's hybrid capital. The average shareholders' equity used in the calculation excludes minorities and hybrid capital.

However in the US, sales were constrained, down 23 percent in local currency. UK and Offshore sales were disappointing, down 19 percent, with single-premium sales being impacted by the market conditions mainly through lower pension sales.

Southern Africa unit trust sales were up an impressive 46 percent in local currency with investors moving to lower risk money market funds, but declines in unit trust sales in all other regions more than offset these gains due to the ongoing tough market conditions.

Value of new business

The value of new business (VNB) was down 55 per cent to £104 million but excluding US Life, at negative £66 million, was down 15 percent for the year on a like-for-like basis. Excellent volumes in Nordic and a strong contribution from OMSA were offset by lower volumes in the UK, ELAM and US Life. The APE profit margin was six percent. The margin was steady in the UK and South Africa compared with 2007, but down marginally in Nordic and to a greater extent in ELAM, where it fell to six percent mainly due to lower volumes and a change in product mix. The US Life margin was negative because of a reduction in the margin of variable annuities as a result of increased guarantee costs and the exclusion of capitalised corporate bond spreads in the Old Mutual MCEV methodology.

Adjusted operating earnings (IFRS basis)

Adjusted operating profit for the year held up in most regions with good contributions from our African, European and US Asset Management businesses, however, profits were adversely impacted by adjustments in our US Life businesses. Credit markets remained under stress at the end of 2008. Following review of our asset portfolio we impaired a total of £414 million, of which £28 million affected the 2008 adjusted operating profit as the total impairments are amortised over five years through adjusted operating profit. We are reviewing this policy for US Life and expect to move to an "expected return" approach for impairments from 2009 onwards.

We also reviewed our deferred acquisition costs balances and accelerated amortisation by £159 million for the combined US Life businesses. Further, in our onshore business we stopped selling the single-premium immediate annuities (SPIA) block of business and made a £235 million adjustment in respect of additional mortality reserves where we have increased our life expectancy assumption to over 90 years. Finally in our offshore business we incurred a charge of £68 million which reflects the inefficiency of hedge mapping. A further charge of £206 million was made below the line which reflects market volatility, in line with standard industry practice.

GROUP FINANCE DIRECTOR'S STATEMENT continued

Group Highlights (£m)	2008	2007	2007 restated at 2008 rates
Adjusted operating profit (IFRS basis) (pre-tax)			
Europe	**266**	268	280
Africa	**1,191**	1,254	1,157
United States	**(270)**	260	281
Asia Pacific	**(17)**	2*	2
	1,170	1,784	1,720
Finance costs	**(140)**	(119)	(119)
Other shareholders' expenses	**(31)**	(41)	(41)
Adjusted operating profit before tax and minority interests	**999**	1,624	1,560
Tax	**(86)**	(418)	(401)
Minority interests	**(272)**	(292)	(271)
Adjusted operating profit after tax and minority interests	**641**	914	888
Adjusted operating EPS (pence)	**12.2**	16.9	16.4

*Includes Bermuda Asset Management (now included in USAM).

Rand currency depreciation substantially contributed to lower earnings however, this was partially offset by US dollar, Euro and Swedish Krona strengthening and in total the Group delivered adjusted operating profit before tax and minority interests 38 percent below 2007 and 36 percent below on a constant currency basis.

Assuming constant exchange rates, 2007 adjusted operating EPS would have been 16.4p with the currency impact being negative 0.5p. Financing costs increased over 2007 mainly due to foreign exchange as the sterling value of non-sterling-denominated debt payments increased. Other shareholders' expenses principally comprise head office costs.

Taxation

The Group's effective adjusted operating profit (IFRS basis) tax rate decreased to nine percent from 26 percent in the comparative period. This tax rate is anomalously low due to the unprecedented market conditions in 2008 coupled with a reduced adjusted operating profit which magnifies the rate effect of any adjustment. The reduction in the tax rate is due to a number of factors. These include releases of tax provisions as a result of the closing of issues being agreed with tax authorities, consistent levels of tax exempt dividend income now representing a greater proportion of the reduced adjusted operating profit, the effect of the different basis of taxation of life tax companies, non-taxable foreign exchange gains, reduction in tax rates and more profits being earned in lower taxed jurisdictions and the utilisation of previously unrecognised deferred tax assets. These factors were partially offset by increased secondary tax on companies' charges and a decreased adjusted operating profit, non-recognition of deferred tax assets arising in US Life and adjustments in respect of prior periods.

In the longer term, it is expected that the tax rate would tend to return to the 2007 level.

Return on equity

Return on equity for the Group declined to 9.0 percent in 2008 from 13.2 percent in 2007, primarily due to losses from the US Life businesses. This contained some very satisfactory performances from our South African businesses where OMSA achieved a return on allocated capital of 27.8 percent, Nedbank a return on equity (excluding goodwill) of 20.1 percent and Mutual & Federal achieved a return on capital of 33.9 percent.

Shareholders' equity

Throughout the year, shareholders' equity remained steady with retained profits and foreign exchange gains on consolidation being offset by unrealised losses in the US Life businesses and the payment of dividends.

Old Mutual Market Consistent Embedded Value (MCEV)

The Market Consistent Embedded Value Principles (the "Principles") were published in June 2008 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers, and compliance with these Principles is mandatory in 2009. These Principles provide a framework intended to improve comparability and transparency in Embedded Value reporting across Europe. Old Mutual plc has published European Embedded Value (EEV) results since 2004. The Principles have been fully complied with for all businesses as at 31 December 2008, with the exception of the use of an adjustment of 300 basis points in the risk free rate due to current market conditions for the US Life onshore business. This adjustment reflects a liquidity premium as at 31 December 2008, and has been determined after reviewing published and proprietary literature and data relating to corporate bond spreads within the US Life corporated bond portfolio. The Group has replaced the EEV basis with the MCEV basis for the covered business and figures for 31 December 2007 have been restated accordingly, and comply fully with all of the Principles. The MCEV supplementary information provides details on the methodology, assumptions and results of the MCEV for the Old Mutual Group in accordance with the disclosure requirements of the Principles and includes conversion of comparative supplementary information for 2007, previously prepared on the EEV basis, to a MCEV basis.

The impact as at 31 December 2007 of moving from an EEV to a MCEV methodology is a reduction in Embedded Value of the covered business of 7.5 percent from £6,861 million to £6,349 million. Within the European and southern African businesses, the aggregate allowance for risk within the EEV and MCEV approaches is broadly aligned and hence relatively minor impacts were experienced on these businesses when moving from an EEV to a MCEV approach. Most of the reduction in Embedded Value was attributable to the United States business which decreased by 57 percent from £1,069 million to £462 million. For this business the aggregate allowance for risk under EEV is not aligned with the requirements under the Principles and a number of factors contribute to the difference in approaches as explained in detail in the supplementary information. However, it should be noted that compared to EEV reporting, MCEV reporting merely changes the timing of recognition of profits and not the ultimate profitability that will emerge on covered business.

Adjusted Group MCEV per share 117.6p

The adjusted Group MCEV per share was 117.6p and adjusted Group MCEV was £6.2 billion at 31 December 2008 (31 December 2007: 166.3p and £9.0 billion respectively). The 48.7p decrease in adjusted Group MCEV per share was driven by the fall in equity markets and the impact of lower global interest rates and higher volatility which increased the cost of policyholder financial options and guarantees.

Return on Group MCEV

Return on Group MCEV declined to 7.8 percent from 13.7 percent at 31 December 2007. The lower adjusted operating MCEV earnings in 2008 were the net effect of higher earnings in the South African and European life businesses driven by positive operating assumption changes and the reduction in the number of shares following the share buy-back programme, offset by lower new business contributions, adverse persistency, higher financial guarantee costs, hedge losses and impairments in the United States, impairments in Nedbank and lower asset based charges in the asset management companies.

GROUP FINANCE DIRECTOR'S STATEMENT continued

		£m 2008		£m 2007
Total net debt at start of period		**(2,420)**		(2,407)
Operational flows				
Operational receipts	**822**		868	
Operational expenses	**(191)**		(152)	
Other expenses	**–**	**631**	(71)	645
Capital flows				
Capital receipts	**316**		69	
Acquisitions	**–**		(66)	
Organic investment	**(565)**	**(249)**	(220)	(217)
Debt and equity movements				
Old Mutual plc dividend paid	**(353)**		(333)	
Share repurchase	**(175)**		(177)	
New equity issuance	**5**		12	
Other non-cash movements	**298**	**(225)**	57	(441)
Total net debt at end of period		**(2,263)**		(2,420)

Capital position

The Group's gearing level remains within our target range, with senior debt gearing at 31 December 2008 of 4.0 percent (2.0 percent at 31 December 2007) and total gearing, including hybrid capital, of 26.7 percent (21.2 percent at 31 December 2007).

Capital requirements are set by the Board, taking into account the need to maintain desired credit ratings and to meet regulatory requirements at both the Group and local business level.

Our share buy-back programme announced at the beginning of October 2007 was completed in May 2008. A total of approximately 239 million shares were repurchased through the London and Johannesburg markets at a total cost of £351 million.

The Group is in compliance with the Financial Groups Directive (FGD) capital requirements, which apply to all EU-based financial conglomerates. Our pro-forma FGD surplus was in excess of £0.7 billion at 31 December 2008. The FSA requirement is to maintain a positive surplus at all times. Sensitivities to market movements, although not linear, are that a one percent fall in South African rand against sterling is broadly equivalent to a £14 million reduction in FGD, a one percent gain in the US dollar against sterling is broadly equivalent to a £4 million fall in FGD and a one percent fall in the JSE is broadly equivalent to a £4 million decline in FGD. The level of defaults, impairments and realised losses in our US corporate bond portfolio also impact on the FGD surplus. We improved the pro-forma FGD sensitivity to the dollar since our Q3 Interim Management Statement as a result of hedging activities undertaken.

Unrealised losses

In our US Life onshore business, as at 31 December 2008, 97 percent of our investment portfolio is cash, government backed or investment grade securities of triple B and higher. Concentration risk is low as the top ten holdings account for 5.5 percent of the portfolio. The portfolio is well-matched since the assets have an average duration of 6.0 years against an average duration of 5.9 years for the liabilities. US Life's net unrealised losses increased over the year to £1.8 billion at 31 December 2008 reflecting the market-wide re-pricing of credit spreads and other risks which do not relate to specific factors within the US Life portfolio. The unrealised losses account for 13 percent of our total portfolio on an IFRS basis. We have the ability and we intend to hold these fixed income securities to maturity, which in economic terms limits the impact of the current market dislocation.

We have adopted the reclassification amendment to IAS 39 and have elected to classify around 150 securities from the "available-for-sale" category to the "loans and receivables" category as at 1 July 2008. This is on the basis that the securities in question are no longer regarded as being traded in the active market. For "available-for-sale" investments, the securities are re-valued and the unrealised losses are accounted for in shareholders' equity whereas for "loans and receivables" no revaluations are recorded.

Holding company net debt

The table (on page 80) shows the net reported debt of the Old Mutual plc holding company and its sub-holding companies.

Total net debt within the holding company at the end of 2008 was £2,263 million. A total of £1,138 million of operational and capital receipts were received from business units during 2008. £565 million was invested in the businesses and £353 million was used to pay the 2007 final and the 2008 interim dividend. In addition, £175 million was spent on repurchasing shares during the year. Other movements of £298 million mainly reflect a positive impact of the marking to market of our debt liabilities.

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.

We have included our view of these principal risks as well as the impact of current economic and business conditions in the Business Review sections of this report. The current economic conditions create uncertainty particularly over the future levels of world equity markets, defaults in corporate bond portfolios, particularly in the United States, currency fluctuations, demand for the Group's products and other economic factors. These uncertainties have been considered individually and in combination in the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and economic conditions in the markets in which the Group operates. The results show that the Group should be able to operate within the level of its available credit facilities and with an adequate level of capital, both at a Group level and within each of its major regulated Group entities. To the extent that changes in trading performance and economic conditions prove to be more severe than thought reasonably possible, the Group has evaluated and concluded on feasible management actions that would be possible in such circumstances so as to ensure adequate levels of liquid and capital resources are maintained.

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 primary existing revolving current facility of £1.25 billion does not mature until September 2012.

The Board of Directors has the 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 financial statements contained with this announcement.

Related party transactions

There have been no related party transactions or changes in the related party transactions described in the Company's latest Annual Report during 2008 that could have a material effect on the financial position or performance of the Group.

Philip Broadley
Group Finance Director
4 March 2009

BOARD OF DIRECTORS

From left to right:
Richard Pym
Christopher Collins
Bongani Nqwababa
Julian Roberts
Nigel Andrews
Philip Broadley
Russell Edey
Reuel Khoza
Rudi Bogni
Lars Otterbeck

Key:
[1] Member of the Group Audit and Risk Committee
[2] Member of the Nomination Committee
[3] Member of the Remuneration Committee

Christopher Collins (69), F.C.A. [2]
Mr Collins has been non-executive Chairman of the Company since May 2005 and a non-executive director since March 1999. He also chairs the Nomination Committee. He was formerly Chairman of Hanson PLC from 1998 until April 2005. He is also Chairman of Forth Ports plc.

Julian Roberts (51), B.A., F.C.A., M.C.T. [2]
Mr Roberts succeeded Jim Sutcliffe as Group Chief Executive in September 2008. He was previously Chief Executive of the Group's Skandia businesses and originally joined the Company as Group Finance Director in August 2000. Prior to joining the Company, he was Group Finance Director of Sun Life & Provincial Holdings plc. Before that, he was a director and Chief Financial Officer of Aon UK Holdings Limited.

Philip Broadley (48), M.A., F.C.A.
Mr Broadley joined the Company as Group Finance Director on 10 November 2008, succeeding Jonathan Nicholls. He was previously Group Finance Director of Prudential plc from 2000 until March 2008. Prior to joining Prudential, he was a Partner of 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.

Nigel Andrews (61), B.Sc., M.B.A. [1, 2, 3]
Mr Andrews has been an independent non-executive director of the Company since June 2002. He is also non-executive Chairman of the Company's principal US holding company, Old Mutual (US) Holdings, Inc. He is a 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.

Rudi Bogni (61), D.Econ. (Bocconi) [1, 2, 3]
Mr Bogni has been senior independent non-executive director since May 2008, having served on the Board since February 2002. He also chairs the Remuneration Committee. Mr Bogni 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.

Russell Edey (66), F.C.A. [1, 2, 3]
Mr Edey 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.

Reuel Khoza (59), Eng.D., M.A.
Mr Khoza has been a non-executive director of the Company since January 2006 and Chairman of Nedbank Group since May 2006. Mr Khoza is Chairman of AKA Capital, which is 25 percent 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 the 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.

Bongani Nqwababa (42), B.Acc., C.A., M.B.A. [1]
Mr Nqwababa 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.

Lars Otterbeck (66), Dr. Econ.
Mr Otterbeck 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.

Richard Pym (59), B.Sc., F.C.A. [1, 2, 3]
Mr Pym has been an independent non-executive director since September 2007. He chairs the Group Audit and Risk Committee. Mr Pym is Chairman of Bradford & Bingley plc. He was Group Chief Executive of Alliance & Leicester plc from 2002 until his retirement in 2007. He is also Chairman of BrightHouse Group Limited and is a former Vice President of the British Bankers Association and former Chairman of Halfords Group plc.

GROUP EXECUTIVE COMMITTEE

From left to right:
Paul Maddox
Julian Roberts
Andrew Birrell
Philip Broadley
Tom Boardman
Paul Hanratty
Tom Turpin
Don Hope

In addition to the Group Chief Executive and the Group Finance Director, there are 7 other positions of the Group Executive. 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.

Julian Roberts (51), B.A., F.C.A., M.C.T. [2]
Group Chief Executive
Julian succeeded Jim Sutcliffe as Group Chief Executive in September 2008. He was previously Chief Executive of the Group's Skandia businesses and originally joined the Company as Group Finance Director in August 2000. Prior to joining the Company, he was Group Finance Director of Sun Life & Provincial Holdings plc. Before that, he was a director and Chief Financial Officer of Aon UK Holdings Limited.

Philip Broadley (48), M.A., F.C.A.
Group Finance Director
Philip joined the Company as Group Finance Director on 10 November 2008, succeeding Jonathan Nicholls. He was previously Group Finance Director of Prudential plc from 2000 until March 2008. Prior to joining Prudential, he was a Partner of 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 (39), B.Bus. Sc (Hons), FASSA, FFA, ASA
Head, Risk and Actuarial
Andrew joined Old Mutual in August 2007, as Chief Risk Officer and was appointed Group Chief Actuary 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, where he held various positions. Andrew is a Fellow of the Faculty of Actuaries, Fellow of the Actuarial Society of South Africa and an Associate of the Society of Actuaries.

Thomas Boardman (59), B.Com, CA(SA)
Chief Executive, Nedbank Group
Tom was appointed Chief Executive of Nedbank Group Limited and Nedbank Limited in October 2003. He was previously Chief Executive and an executive director of BoE Limited. He was the founding shareholder and Managing Director of retail housewares chain Boardmans. Prior to this he was a director of Blaikie Johnson Limited, Managing Director of Sam Newman Limited and worked for the Anglo American Corporation for three years. He is a non-executive director of Mutual & Federal Insurance Company Limited and The Banking Association of South Africa, and serves as a trustee of a number of charitable foundations.

Paul Hanratty (47), B.Bus Sc. (Hons), FIA
Head, Long-Term Savings and Managing Director, Old Mutual South Africa

Paul 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 the Managing Director in 2006.

Don Hope (52)
Head, Strategy Development

Don joined Old Mutual as Group Treasurer in May 1999, with responsibility for developing the Group's international treasury function. He was appointed to the current role of CEO 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 (48), M.A., FSA
Head, 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. From 2002 to 2005, Paul led the trial and rollout of the highly successful Chip & PIN Programme for all of the UK's banks and retailers, and the Home Office. Paul started his career by qualifying as a Chartered Accountant with Deloitte Haskins and Sells.

Tom Turpin (48), 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 as well as Chief Administrative Officer for Institutional Management, Defined Contribution, and Retail Businesses of Putnam Investments. From 1982 to 1993 he held a variety of leadership positions with The Boston Company. He is a member of the board of directors of several affiliated companies and investment fund structures.

The process for appointing a Group Human Resources Director is ongoing. The person appointed will join the Group Executive Committee.

CHAIRMAN'S INTRODUCTION

Highlights

In 2008 we:

- → Completed our first open submission for the Carbon Disclosure Project
- → Held over 100 investor meetings
- → Won 2 customer service awards
- → Invested £7.7 million in local community programmes

Christopher Collins Chairman, Board sponsor of Corporate Responsibility

A difficult year

In 2008, the global economic crisis created extremely difficult market conditions for Old Mutual. With a new senior management team in place, we have begun refocusing our strategic direction and approach to our risks and responsibilities. We have begun a project to strengthen our operating model. This involves revisiting our processes for product approval, our risk appetite and our governance structures.

Establishing new Group benchmarks

As part of this, we are looking afresh at the processes we have in place to embed responsible business practices across our business units. As a Group, we are composed of many companies at different stages of development in their corporate responsibility activities. For example, in most of our businesses in southern Africa and the Nordic regions, our management of social and environmental issues is well developed. But in regions where we are relatively new to the market, there is still scope to improve these structures.

Through their daily decisions and actions, our people have a crucial role to play in making us a truly responsible business. Ensuring that these decisions and actions meet the same high standards in all markets is a considerable challenge as we employ 57,000 people and operate in 40 different countries.

We have a clear set of values that provide us with a good starting point. But what really matters is how we live those values. In 2008 we developed an overall Group Responsible Business Policy, incorporating all of our CR areas. The principles which underpin this policy provide a benchmark for our individual business units, who are responsible for delivering against them at a local level. This section of our Annual Report shows some examples of how the principles are being applied across the Group.

Commitment

To demonstrate our real commitment to manage CR issues we intend during 2009 to establish a forum to provide Group focus on social and environmental impact areas that are material to our business.

Engaging with others

Much of our progress so far has been informed by the stakeholder engagement work that we completed in 2008. This included customer roadshows, employee feedback surveys, supplier workshops and thought leadership conferences.

Our progress in 2008 has been recognised by external audiences. Old Mutual retains its membership of the FTSE4Good Index, while Nedbank and Old Mutual are both included in the JSE's Socially Responsible Investment Index. Nedbank has also been listed on the Dow Jones World Sustainability Index for the fourth year.

2009 and beyond

There is still much for us to do in 2009 and beyond to build up our reputation as a trusted business and corporate citizen. However, the tools we have now put in place should enable us to manage our risks and impacts more effectively into 2009.

Christopher Collins
Chairman

RESPONSIBLE BUSINESS PRINCIPLES

"In 2008 we developed a set of principles that outline our commitment to operating responsibly in all our interactions with stakeholders. Outlined below, these principles form the basis of our report."

Helen Wilson Head of Corporate Responsibility

OUR STAKEHOLDERS AND RESPONSIBLE BUSINESS PRINCIPLES

Employer of choice
- → Developing employee potential
- → Ensuring employee rights
- → Providing a safe and healthy environment

Purchase of choice
- → Providing high level of service
- → Providing sound financial advice
- → Preventing financial crime

Our Stakeholders
Shareholders
Customers
Employees
Local communities
Regulators
Suppliers
NGOs

Supplier of choice
- → Developing strong supplier relationships
- → Influencing environmental and societal responsibility through our supplier relationships

Respectful of environment
- → Minimising environmental impact
- → Managing impact of investments
- → Engaging employees in our efforts

Respected in local communities
- → Supporting development in our communities
- → Promoting financial education and inclusion

CUSTOMERS

Our ability to manage and grow our customers' savings and wealth is the primary source of our value as a business. We do this most effectively when we build long-term relationships that allow us to better understand individuals' or organisations' changing needs and respond to them accordingly.

RESPONSIBLE BUSINESS PRINCIPLES: CUSTOMERS

Our ability to manage and grow our customers' investments is the source of our value as a business. Across our business units we will:

- → Deal with all our customers and clients in a way that is open, honest and respectful
- → Give the best advice that we can, to grow our customers' assets in a way that meets their needs
- → Sell and promote our financial products in a way that is transparent and never misleading
- → Ensure that we provide clear information to customers about how our funds are invested
- → Seek and listen to customer feedback and act on it
- → Rectify any mistakes that affect customers as quickly as possible

Throughout 2008 we continued to invest time and resources in the way we deal with our customers – making sure the products and services we sell are marketed responsibly, ensuring our customers' money is safe from financial crime or simply ensuring that our customers receive a high quality of service whenever they come into contact with us.

In 2008, we faced challenges quite unlike any that we had encountered before. Volatile market conditions made it more important than ever to ensure we met our customers' needs. Below we outline some of the key areas on which we focused our efforts in 2008.

Transparent marketing and selling
As a Group, we market and sell a wide array of different products and services. These range from life assurance and property and casualty insurance to savings and pensions. Ensuring we sell and market these products across the Group in an honest and transparent way is vital to building trust with our customers and retaining their business. This is reflected in our Responsible Business Principle that states that we will:

- → Sell and promote our financial products in a way that is transparent and never misleading.

To ensure this principle is followed, each business unit has its own process for signing-off all external marketing and communications materials. For example, Old Mutual Financial Network in the US has an Advertising Review Committee that must sign-off all written and electronic forms of communication before they can be published. The guidelines it uses require, amongst other things, that all sources are cited, that testimonials are backed up and that details are not hidden in the small print. These sign-off processes at business unit level help us prevent the publication of material that could mislead our customers.

Preventing financial crime
We are committed to protecting our shareholders' funds and our customers' money from all forms of financial crime. The most important issues for us are preventing the Group from involvement in money laundering, fraud or bribery and corruption.

At Group level we have emphasised our commitment to meeting the challenge posed by rising levels of financial crime worldwide by expanding and strengthening our Group risk and forensic policies. In addition, many business units have taken an innovative approach to combating financial crime. For example, to help protect against card fraud, Nedbank provides confirmation of transactions to cardholders on their mobile phones. This contributed to a 26 percent decrease in card fraud in 2008, compared with an increase of 39 percent for the South African card industry over the same period.

To tackle financial crime effectively, our employees are fully informed about their responsibilities and the role they play. Business units across the Group provided training to employees on financial crime issues during 2008. In addition, a conference in November 2008 enabled business unit financial crime experts to share experiences and increase their knowledge with input from industry experts.

Providing high-level customer service

Ensuring customers receive the best possible service from us not only helps retain customers, but also builds their confidence in the business. Below are some examples of initiatives we have taken in 2008 to improve the service our customers receive.

- **Skandia-BSAM (China):** To improve access to our services we set up a centralised customer service hotline, available 24 hours a day, 7 days a week. This enabled customers to obtain assistance whenever they need it
- **Nedbank:** To improve the coverage to our customers, in 2008 we formed a strategic business partnership with Ecobank Transnational Incorporated (ETI), the parent company of the Ecobank Group. This has given our customers access to a combined pan-African banking network covering 30 countries, including South Africa, with over 1,000 branches and banking outlets across the continent
- **Old Mutual Financial Network:** We employed a third-party company to evaluate and help improve customers' satisfaction with our call centres. This enabled us to develop new benchmarks, create an improved set of call scripts and start a new training programme for call centre staff
- **Skandia UK:** We helped improve customer service by enabling our financial advisers (FAs) and customers to learn more about the financial industry and the market. We used channels such as Skandia Magazine for customers, and Informer, a monthly publication for FAs. We also ran seminars and developed a website – informerLive! – targeted at FAs.

Awards won for customer service

Nedbank

Ranked number one for customer service in South Africa for the second year running by the independent Ask Africa Orange Index

Skandia-BSAM

Given the Best Customer Service Award by the China Information Association and China Service Trade Association

Volatile market conditions made it more important than ever to ensure that we met our customer needs.

EMPLOYEES

The success of our business relies on developing relationships with a broad range of stakeholders, from customers and suppliers to government and media. Our employees sustain these relationships and are therefore central to our success.

Kevin Stacey Acting Group HR Director

RESPONSIBLE BUSINESS PRINCIPLES: EMPLOYEES

We want Old Mutual to be an organisation that people are proud to work for. To attract and retain the best people, we work hard to create an environment in which they can fit and flourish. Across our businesses, we will:

- → Recruit and reward employees fairly and according to merit. This principle is balanced against the need to ensure that we advance transformation in the unique context of our southern African operations
- → Promote the health and wellbeing of our employees in a work environment conducive to personal and team growth
- → Provide opportunities for employee dialogue, listen actively and encourage participation in the resolution of issues
- → Invest in employee development to enable each individual to reach his or her full potential and provide opportunities for career and personal advancement, including involvement in community activities
- → Safeguard employee rights, including rights to freedom of association and collective bargaining
- → Embrace and encourage the diversity that exists amongst our employees while respecting each persons special individuality

We work hard to ensure that we attract, engage and develop the best people.

The success of our business rests on our relationships with a broad range of stakeholder groups, from customers and suppliers to government and media. Our employees sustain these relationships and are therefore central to our success. We work hard to ensure that we attract, engage and develop the best people by creating an environment where our employees feel supported, challenged and rewarded.

We believe that our Business Units are best positioned to manage issues relating to their employees, so specific policies for employees are set at local level. But this local flexibility is complemented by a strong Group framework that helps shape the way we relate to our employees. Our Group values and our Responsible Business Principles (see box) provide a broad overview of our approach, while our Group HR Policy sets out in more detail the standards of what we expect from business units. Some of the areas where we made progress in 2008 are detailed below.

- → Skandia-BSAM was recognised as a 'Top 10 Best Employer of the Industry'
- → Skandia UK was highlighted as 'one to watch' in the 2008 Sunday Times '100 Best Companies to Work For' list.

Developing our people

To help employees fulfil their potential, we have a formal process to identify training needs and create individual development plans. As part of this process, in 2008 we continued to roll-out our Career Choices model. This framework helps employees to identify the right career path for them and clarifies the knowledge and skills they will need at different management levels. It also ensures that they know what is expected of them at each level of the business.

To be a successful business, we need managers with the ability to develop the talent of individuals and build strong teams. In 2008, 17,500 employees took part in our ongoing Management Development Programme. Feedback from these courses has been very positive; our employees tell us that they value the opportunity to focus on developing the skills that matter most for their role.

In addition to the programmes and courses on offer around the Group, we are extending access to eLearning programmes. In 2008 we formed a relationship with Harvard University to provide business school eLearning to employees in the UK, southern Africa, the United States and Europe.

Managing succession risk

In an extremely challenging year, voluntary turnover amongst senior management rose to an annual rate of 10 percent (for voluntary leavers) and to 19 percent overall. The loss of key staff can cause significant disruption in any company, and we see this as a key risk to the business.

We have mitigated this risk by strengthening our succession planning and our processes for growing talent within the business. In 2008 we developed the Global Leadership Potential Programme to identify individuals with leadership potential and give them as early as possible the support they need to accelerate their progression. We will roll this programme out globally in 2009.

We carefully monitor the degree to which we have successors for key roles identified and ready over the short, medium and long term. In 2008 we introduced a talent database to help us analyse and measure our succession coverage index, which draws on a variety of indicators from across the business. This enabled us to improve our level of coverage: our strong talent pipeline meant that we were able to fill 65 percent of our leadership vacancies internally.

Increasing diversity

We are committed to increasing diversity throughout the Group: the different backgrounds, experiences and perspectives of our employees are a great asset. Our policies ensure that no employee receives less favourable treatment on grounds of their gender, age, sexual orientation, race, disability, religion or any other factor unrelated to the requirements of their position. In southern Africa, recognising the unique circumstances, we balance these principles against our commitment to address employment equity and transformation issues.

As part of our focus on increasing diversity we closely monitor our employee profile, particularly at higher management levels. In 2008 the proportion of women in the top leadership group rose from 20 percent to 24 percent. We are committed to working towards our goal of 30 percent female representation during 2009.

Employee data

Gender representation

Nearly half of all our employees are women. In the top leadership group the proportion of women rose from 20 percent in 2007 to 24 percent in 2008.

Useful links:

www.nedbank.co.za

EMPLOYEES
continued

In 2008, Nedbank received the African Banker Gender Sensitivity Award in recognition of its commitment to improving gender equality and advancing women in the workplace. Nedbank's host of gender-based initiatives includes the Nedbank Women's Forum: more information on this is given in its sustainability report, available online from April 2009 at www.nedbank.co.za. As a result of these initiatives, women make up more than 60 percent of Nedbank's workforce – and more than 50 percent of middle and senior managers are female.

Engaging our employees
Maintaining high levels of commitment becomes all the more important in difficult times. We measure how well we are engaging our employees through our annual engagement survey. The 2008 survey placed us in the top quartile of our sector for both emotional and rational commitment, and we outperformed the international financial services benchmark overall.

Communication is a key component of employee engagement. We invest significant resources in internal communications tools such as our magazines and newsletters. In 2008, Old Mutual South Africa's internal staff magazine, Amicus, won the Best Internal Magazine trophy and Best Communication Award at the South African Publication Forum.

Having strong company values helps us to develop a motivated and committed team and is the 'glue' which binds employees across the Group. But values only become meaningful when employees can see their relevance in their day-to-day role. At Skandia UK we created a team of Values Champions to focus on exploring what values mean for actual behaviour in the workplace. They were then given the tools and responsibility to start encouraging these behaviours in their own departments. Through our Your Recognition programme, individuals at Skandia UK can nominate any employee, whatever level or department, to be recognised for their contribution to any one of the Old Mutual values. Each quarter, the panel chooses 10-12 employees to be formally acknowledged by the Company and given a special prize in recognition of their efforts.

SUPPLIERS

At both Group and business unit level we work with many different suppliers. It is vital that we show consistency across the Group in the way we manage our relationship with all our suppliers. Here we outline some of the steps we have taken in 2008 to improve our procurement processes.

RESPONSIBLE BUSINESS PRINCIPLES: SUPPLIERS

Developing long-lasting relationship with suppliers is good for our business. We will:

- Treat our suppliers as partners and strive to create long-term relationships
- Act fairly and honestly in all our dealings with suppliers
- Factor the environmental and social impact of our suppliers into our procurement decisions, in accordance with our Group procurement policy

Developing a Group-wide procurement policy

We recognise that our procurement activities have an impact on the environment and the wider community. So it is important that they not only reflect our values as a company but also consider ethical implications, security of supply, future costs, efficiency savings and local legislation.

In 2008, to help us manage all these considerations, we developed our first Group-wide procurement policy. This commits the Group and our employees to:

- Act legally and with integrity at all times to safeguard our employees, resources, and tangible and intangible assets – particularly our reputation
- Create and maintain a trust-based and inclusive internal culture in which bribery and corruption are not tolerated
- Conduct all business relationships in an ethical and lawful manner
- Co-operate fully with law enforcement and regulators locally within the bounds of local legislation.

In addition to these commitments, the policy outlines specific expectations from our suppliers relating to human rights, child and forced labour, environmental impact and ethical standards. In 2009 this Group-wide policy will be used to help ensure we have a consistent approach in all our supplier relationships.

An illustration of the difference we can make through our procurement is the Black Economic Empowerment (BEE) programme. This programme was launched by the South African government in 1994 to redress the inequalities of apartheid by giving disadvantaged groups economic opportunities previously not available to them. BEE is intended to transform the economy so that it better reflects the country's demographic make-up. It includes measures such as employment equity, skills development, ownership, management, socio-economic development and preferential procurement.

In accordance with the South African Financial Sector Charter, our South African businesses are committed to using BEE partners in their procurement. This commitment is set out in a joint procurement policy that covers Old Mutual South Africa, Nedbank and Mutual & Federal. Nedbank, for example, has a dedicated BEE Procurement Management unit in its central Group Procurement area. This unit sets the framework rules for BEE procurement based on Nedbank's agreed Procurement Policy, and engages all parts of the business in achieving its BEE goals and targets.

Developing strong relationships with suppliers

Making sure we have strong relationships with our suppliers is important for us, as it ensures we have a reliable, high-quality and fairly priced source of goods and services. If these relationships benefit our suppliers as well as us they will grow and thrive.

One example of how we do this is Nedbank's regular supplier forums. During 2008 we used these to highlight issues and discuss potential solutions.

As part of our development as a Group we plan in 2009 to introduce more integrated Group-wide processes that foster greater feedback from our supply chain. This will help us improve the way we work with suppliers and increase the overall efficiency of the business.

ENVIRONMENT

It is inevitable that the scale of our global operations has an impact on the environment, both directly and indirectly. As the full extent of the challenge posed by climate change becomes evident, we are taking action to address and mitigate these impacts.

RESPONSIBLE BUSINESS PRINCIPLES: ENVIRONMENT

As a financial services group, we recognise that we have two types of environmental impact: our direct impacts that arise from the running of our offices and branches, and our indirect impacts through the investment decisions that we make.

To minimise our environmental impacts where possible we will:

→ Take measures to reduce our energy and water use and the waste we generate in each of our locations

→ Ensure that employees are trained to understand our impacts and their role in minimising these

→ Consider environmental impacts as part of our investment decision process where possible

Climate change is an issue that we believe requires collaborative action between companies, as well as action by individual companies. That is why we signed the Poznan Communiqué at the end of 2008, and will continue to support it in 2009. This initiative, led by the Prince of Wales and the EU Corporate Leaders Group on Climate Change, calls for a comprehensive, legally binding UN framework to tackle climate change.

As a business we have direct environmental impacts – for example, through our offices and business travel – and indirect impacts, through the investments that we make. In our revised Responsible Business Principles we have tried to reflect both types of impact.

In this section we describe some of the work we have done, and continue to do, to minimise the impact of our operations, manage the impact of our investments and engage our employees in our environmental efforts.

Minimising the impact of our operations
Over the past year we have worked to improve our understanding of our operational impacts and to reduce them where possible. The first step is to be clear about what they are. We have identified our main impacts as energy use, water consumption and waste creation.

During 2008 we started to develop a full set of measurements that will give us a baseline against which to measure performance in the future. We plan to have completed this data collection in 2009 and will use it as a basis for setting targets going forward.

As part of the measurement process in 2008 we undertook our first publicly available Group submission to the Carbon Disclosure Project. This included details of our views on the risks and opportunities climate change presents the business, our greenhouse gas emissions accounting, our strategy to reduce emissions and our corporate governance relating to climate change. In addition to the Group submission, Nedbank completed its own submission. More details about these submissions can be found at www.cdproject.net

To help us manage our direct environmental impact, many of our sites now have their own structured Environmental Management System (EMS) in place. In 2008 over 50 percent of our employees worked in offices covered by an externally recognised EMS. Although each one is site-specific, many of these systems follow the internationally recognised ISO 14001 EMS guidelines.

Managing the impact of investment decisions
As a Group we try, wherever possible, to ensure that we are aware of the environmental impact of our investment decisions. Ensuring this happens can be a complicated process. We offer a range of financial products and the structure of our products means that our teams' investment decisions are governed by a variety of restrictions. For example, many of our fund managers have strict mandates from their customers which limit the flexibility of the investments they can make, whereas for project finance there can be much more autonomy over the investment decision.

In 2008 we took the first step towards formalising the way we manage the environmental impact of our investment decisions as a Group. We developed our first Group Investment Statement to refine the overall product offering provided by Old Mutual companies. While this represents a clear step forward for the Group, we plan to refine the statement further in 2009 to reflect the structure of our business and the changes that we have undergone.

Following our data collection exercise we can now start to demonstrate our environmental impact more clearly.

ELECTRICITY, WATER AND WASTE

Electricity (KWh)	Water (m^3)	Waste (Kg)
Old Mutual plc 9,038,851	Old Mutual plc 30,656	Old Mutual plc 173,960
southern Africa 155,902,225	southern Africa 559,159	southern Africa data unavailable
Europe 18,748,508	Europe 21,010	Europe 216,370
North America 3,065,163	North America 1,371	North America 273,300
Asia Pacific 2,255,859	Asia Pacific 1,605	Asia Pacific 14,826
Total usage (KWh)	**Total usage (m^3)**	**Total waste (Kg)**
189,010,606	613,801	678,456

A good example of how our business units are already taking action in this area is Nedbank's involvement in the Equator Principles. These social and environmental benchmarks enable financial institutions to classify projects according to the level of risk associated with them and then to manage these risks in a structured way. We were the first African bank to sign-up to the Equator Principles in 2003. During 2008 we provided ongoing training on the Principles for key employees and awareness-raising sessions for top management. We also engaged with NGOs through the Nedbank/WWF-SA conservation partnership and continued learning and interaction with other Equator Principles financial institutions. More information on Nedbank's implementation of the Equator Principles can be found at www.nedbankgroup.co.za

Engaging employees in our environmental efforts

We actively encourage our employees to join in our efforts to minimise the environmental impact of our operations. Our aim as a Group is to reduce our environmental impact; but it is often the individual actions taken at a business unit level that help achieve real change. Here are just a few examples of such action in 2008:

- **Skandia Nordic (Sweden):** As part of the building programme for our new head office we carried out a sustainability workshop to help improve our environmental practices within offices
- **Skandia-BSAM:** Throughout the year we ran campaigns to encourage employees to reduce their carbon footprint. These included campaigns to reduce the number of days employees drive to work, and to help employees reduce their energy, water and paper usage in the office
- **Old Mutual plc:** As part of the Group's support for environmental initiatives we supported World Environment Day in June 2008. Talks and information provided during the day showed employees how they could reduce their personal carbon footprint and what they could do at work
- **Skandia UK:** We launched an office-wide recycling programme in 2008, removing all desk bins and replacing them with central recycling facilities.

SOCIETY

Businesses must earn the trust and respect of their stakeholders. We see ourselves as an integral part of the societies in which we operate. Playing a proactive role in society is a key way to build that trust and respect – so we strive to ensure the impacts we have on society are positive ones.

RESPONSIBLE BUSINESS PRINCIPLES: SOCIETY

We recognise that good relations and long-term partnerships with local communities are fundamental to our success. Wherever we operate, we will:

- Consider social impacts as part of our investment decision process where possible
- Give our time and resources to projects that promote education, health and economic development in the communities that we serve
- Use our position as a financial services company to improve levels of financial education and to promote financial inclusion

We do this not only by conducting our core business in a responsible way, but also by taking account of many of the wider impacts that we have as an organisation. For us as a Group this means:

- Making responsible investment decisions
- Promoting financial education and inclusion
- Supporting development in our communities.

Making responsible investment decisions

We are aware that our investments can have a huge consequence for society, both directly (e.g. through financing a project in a community) and indirectly (e.g. through trading shares in a company whose activities subsequently impact on a community). Maximising positive impacts and minimising negative ones, while still ensuring a good return to our customers, is a constant but necessary balancing act.

In 2008 we created our first Group Investment Statement – see this online at www.oldmutual.com/csr. This has been another step in the direction of refining our overall product offering and living up to the Group's new Responsible Business Policy. In 2009 we plan to revisit this statement to reflect any changes to the business, and the marketplace, since its inception.

An important element of our approach is to help our customers make responsible investment decisions, too. Through Skandia UK, for example, we offer our customers a choice of more than 25 ethical and environmental funds.

Promoting financial education and inclusion

Access to basic financial products and advice is essential for people to function fully in society. But it is just as important for people to understand these products, and how they can be used beneficially. These are some examples of initiatives we took in 2008 to help address these issues.

- **Skandia-BSAM:** In China we launched a financial education brand, Skandia-BSAM Wealth Vision, to promote financial education for our customers and the general public. Under this initiative we produced quarterly magazines outlining general investment principles and arranged customer seminars on investment themes in Beijing, Shanghai, Nanjing, Guangzhou and Shenzhen

Maximising positive impacts and minimising negative ones, while still ensuring a good return to our customers, is a constant but necessary balancing act.

- **Old Mutual South Africa:** Poor financial education is a particular challenge in South Africa, where the savings ratio is very low and levels of personal debt are climbing steadily. In response, as part of our Masisizane Fund, we established a Financial Education Trust which provides financial education and advice for individuals
- **Nedbank:** In 2008 we became the first South African bank to open a million Mzansi accounts – designed for people on low incomes who may not previously have had access to financial services
- **Skandia ELAM:** In Colombia we worked with a major national newspaper, El Tiempo, to sponsor a special section with articles about saving, personal finance and financial planning. We also ran similar initiatives in two business newspapers.

Supporting development in our communities

During 2008 we supported a wide range of community projects across the world. Through these we invested in education, health and welfare, local economic development, the environment and the arts. In total we put £7,717,102 into our local communities. These are just a few examples from 2008 – more information on our community investment programmes in each region is available online at www.oldmutual.com/csr

- **Old Mutual plc:** We donated £350,000 to a range of organisations including Thames 21, Kidz, Crisis, the Deaf Children's Society, Willow Foundation, Children with Leukaemia and the Alzheimer's Society
- **Skandia Nordic:** Our 'Ideas for Life' Foundation donated SEK5.7 million to 326 different projects
- **Skandia UK:** We continued to focus on employee volunteering, giving over 500 working hours to community initiatives, including the Bobby Moore Fund for Cancer Research UK and our Saints in the Community partnership with Southampton Football Club
- **Old Mutual Zimbabwe:** Despite another very difficult year in Zimbabwe we continued our support for local community initiatives including Business Council on AIDS, Emerald Hill School for the Deaf and the Harare International Festival of the Arts
- **Skandia ELAM (Colombia):** Employees volunteered to mentor 40 children as part of the Mentoreo Intergenerational Dialogue programme
- **Old Mutual South Africa:** We continued to invest in local communities through the Masisizane Fund and the Old Mutual Foundation. Through the Fund we committed over R21.9m in 2008 to projects focused on developing enterprise, supporting women in business and skills development. More details can be found at www.oldmutual.co.za/about-us/transformation/masisizane.aspx
- **Nedbank:** During 2008 Nedbank contributed R43.5 million to projects through donations and employee volunteering
- **Old Mutual Financial Network:** We matched employee donations to charitable organisations, raising $20,500 for almost 50 initiatives
- **Old Mutual Asset Management:** We donated $193,000 to local community programmes focused on four areas: community, crisis intervention, healthcare and culture
- **Skandia-BSAM:** As part of the relief effort following the huge earthquake in the province of Sichuan, we donated RMB1 million to China Red Cross.

Useful links:

www.cdproject.net

www.nedbankgroup.co.za

www.oldmutual.com/csr

www.oldmutual.co.za/about-us/transformation/masisizane.aspx

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

"Governance is about managing the company effectively and showing that we have a transparent, consistent and effective way of governing ourselves."

Martin Murray, Group Company Secretary

Index to this section of the Report

Introduction and Combined Code compliance

The Group is committed to achieving high standards of corporate governance. The organisation is directed and controlled by its Board of Directors and through systems of delegation and escalation, so as to achieve its business objectives responsibly and in accordance with high standards of accountability and integrity.

The principal governance rules that apply to UK companies listed on the London Stock Exchange are set out in the Combined Code appended to the Listing, Prospectus, Disclosure and Transparency Rules of the Financial Services Authority (the Combined Code). As the Company's primary listing is on the London Stock Exchange, this report mainly addresses the matters covered by 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).

In the year ended 31 December 2008 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, have been reviewed by the Company's auditors, KPMG Audit Plc, in accordance with guidance published by the Auditing Practices Board.

Board of Directors

Membership and directors' interests

The Board currently has 10 members, with two executive and eight non-executive directors. All of the current directors except for Mr P Broadley (who was appointed to the Board in November 2008) served throughout the year ended 31 December 2008. Mr N Broadhurst retired from the Board and as a member of the Group Audit and Risk, Nomination and Remuneration Committees at the end of Annual General Meeting on 8 May 2008. Mr J Sutcliffe resigned as Group Chief Executive and ceased to be a member of the Board and of the Nomination Committee on 9 September 2008, when he was replaced as Group Chief Executive by Mr J Roberts. Mr J Nicholls ceased to be Group Finance Director and resigned from the Board with effect from 10 November 2008, when he was replaced by Mr P Broadley.

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 2008 and 4 March 2009.

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 31 December 2008		
Mr N Andrews	7,000	–
Mr R Bogni	19,000	–
Mr P Broadley	–	–
Mr C Collins	100,000	–
Mr R Edey	25,000	2,604
Mr R Khoza	–	2,062[1]
Mr B Nqwababa	–	–
Mr L Otterbeck	–	–
Mr R Pym	20,000	–
Mr J Roberts	1,089,604[2]	–

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 1 January 2008 (or date of appointment as a director, if later)		
Mr N Andrews	7,000	–
Mr R Bogni	19,000	–
Mr P Broadley	–	–
Mr C Collins	75,000	–
Mr R Edey	25,000	2,604
Mr R Khoza	–	2,062[1]
Mr B Nqwababa	–	–
Mr L Otterbeck	–	–
Mr R Pym	20,000	–
Mr J Roberts	806,546[2]	–
Former directors		
Mr N Broadhurst (at 1 January 2008 and at date of resignation)	2,416	–
Mr J Nicholls (at 1 January 2008)	106,764[2]	–
Mr J Nicholls (at date of resignation)	214,566[2]	–
Mr J Sutcliffe (at 1 January 2008)	1,692,769[2]	–
Mr J Sutcliffe (at date of resignation)	2,130,434[2]	–

[1]This figure does not include shares in the Aka-Nedbank Eyethu Trust, one of Nedbank's Eyethu BEE trusts.
[2]These figures do not include rights to restricted shares that have not yet vested, which are described in the Remuneration Report.

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 45 to the Accounts.

OUR GOVERNANCE FRAMEWORK

What does Governance mean at Old Mutual?

It is the articulation of the way we run the business. Governance is about managing the company effectively, providing accountability to shareholders and showing all our external stakeholders (regulators, shareholders, ratings agencies, analysts) that we have a transparent, consistent and effective way of governing ourselves.

Governance is broader than just thinking about committee structures and manuals; it covers every aspect of the organisation including how we make strategic decisions, how we incentivise people, how we manage our risks and most importantly how we create the culture to build shareholder value. The adjacent diagram illustrates what we see as the key components of a framework. All of these components are interconnected and all are necessary for robust governance and the effective function of Old Mutual's three-lines-of-defence risk governance model.

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 Annual General Meeting 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.

The Nomination Committee considered the candidates who are standing for election or re-election at this year's Annual General Meeting (as referred to in Ordinary Resolutions 2 (i) to (iv) in the Notice of Annual General Meeting) at its meeting in March 2009. In accordance with its findings, it recommends to shareholders the election of Mr P Broadley, and the re-election of Mr R Bogni, Mr R Khoza and Mr J Roberts as directors based on their respective professional qualifications, prior business experience and contribution to the Board. Biographical details of each of the candidates 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 has regard, in making recommendations, to independence of candidates and their suitability and willingness to serve on other Committees of the Board. All of these aspects are currently believed by that Committee to be satisfactory and appropriate for the requirements of the Group's business. While there are currently only two executive directors, 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 the periodic participation in Board meetings and other briefing sessions by those executives.

Mandate, governance and Scheme of Delegated Authority

The Board's role is to provide entrepreneurial leadership to 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, ensures that the necessary financial and human resources are in place for it to meet its objectives and reviews management performance. It regularly reviews strategic issues through the Group Chief Executive's report and also holds one or more strategy sessions each year at which high-level strategic matters are debated. The Board sets the Company's values and standards, and ensures that its obligations to shareholders and others are understood and met.

The Board receives a wide array of information on the Group's businesses on a regular basis. Monthly management accounts are circulated to each member of the Board within three weeks of the month-end. These contain 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 each of the Group's major businesses. Board meetings are held regularly in the principal overseas territories where the Group operates, at which local management makes detailed presentations of business and strategic issues affecting those businesses.

The Board has oversight of the Group's wholly-owned businesses, but also:

- Delegates specific responsibilities for certain matters to its committees (Approvals, Nomination, Remuneration, and Group Audit and Risk), subject to their respective terms of reference, which provide for reports on their activities to be made to 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 relationships with the Group's majority-owned subsidiaries, Nedbank Group Limited and Mutual & Federal Insurance Company Limited, are somewhat different from those that apply to wholly-owned subsidiaries, in recognition of their own governance expectations as separately-listed entities on the JSE Limited and the fact that they each have minority shareholders.

With respect to Nedbank Group, the Company entered into a relationship agreement 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.

The policyholders' funds of the Group's African life assurance operations have holdings representing in aggregate more than 20 percent of the issued share capital of companies listed on the stock exchanges of the countries in which those businesses operate. These are held purely as investments, and the companies concerned are not subject to the governance or control structures of the Group.

The Chairman and Company Secretary are both involved in ensuring good information flows within the Board and its committees and between senior management and the non-executive directors, as well as in facilitating induction and encouraging non-executive directors to attend courses at the Company's expense to update their skills and knowledge.

On appointment, new directors receive induction, including information about matters of immediate importance to the Group, such as the current budget and strategy documents, management accounts, the Scheme of Delegated Authority and details of the Company's directors' and officers' liability policy. They also have a series of meetings with other directors, senior management and external advisers (such as the auditors).

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 directors may 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.

Directors have access to the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

There is an agreed list of matters reserved for the Board's decision. These are set out in the Company's Scheme of Delegated Authority and currently include, among other things, the following:

- Payment or recommendation of dividends
- Approval of results announcements, Annual Reports and any other public statements relating to the Group's financial position likely to have a material impact on the Group's reputation
- Approval of the Group's budgets and the formulation of medium and long-term direction and strategy for the Group
- Establishment of committees of the Board, their constitution and terms of reference
- Monitoring of compliance with the Group's environmental policies
- Approval of the acquisition or disposal of any business or investment for a consideration of £25 million or more
- Approval of capital expenditure by a principal subsidiary exceeding its delegated expenditure authority
- Approval of significant changes to the accounting policies or practices of the Group
- Approval of any proposal as a result of which either Nedbank Group Limited would cease to be a majority-owned subsidiary of the Company
- Approval of appointments to the Board and renewal of non-executive directors' appointments, following prior review by the Nomination Committee
- Approval of any major decision relating to the conduct or settlement of any material litigation involving the Company or its subsidiaries
- Appointment and removal of the Company Secretary
- Appointment or termination of appointment of key professional advisers to the Group
- Any other matters that are likely to have a material effect on the Group's financial position, future strategy or reputation.

Executive and non-executive roles

The executive element of the Board is balanced by a strong independent group of non-executive directors so that no individual or small group of individuals can dominate the Board's decision-making.

The non-executive directors scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. Procedures are in place to enable them 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. The Board as a whole receives and considers regular reports on talent management and succession planning.

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 are designed to ensure that each director is continuing to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and Committee meetings and any other duties). The outputs from these performance evaluations are taken into account by the Nomination Committee in deciding whether to recommend to the Board the extension of engagement of non-executive directors and also whether to recommend to shareholders the re-election of any non-executive directors who are due to retire by rotation at the Annual General Meeting. They would also form the basis, if the need arose, for the Chairman to act to address any weaknesses identified in the Board by seeking the resignation of underperforming directors or proposing, through the Nomination Committee, that additional directors should be appointed.

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 for such purpose from the executive directors.

Where directors have concerns that cannot be resolved about the running of the Company or a proposed action, they are encouraged to make their views known and these are recorded in the minutes of the Board meeting. No written statements on resignation containing matters of concern, such as are referred to in paragraph A.1.4 of the Combined Code, were received by the Chairman during 2008.

The assignment of responsibilities between the Chairman, Mr C Collins, and the Group Chief Executive 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. This, together with the Scheme of Delegated Authority and the matters reserved for decision by the Board, ensures that no single individual has unfettered powers of decision.

The responsibilities of Mr C Collins 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, no non-executive director's three-year cycle of appointment (which is itself subject to re-election and to Companies Act provisions relating to the removal of a director) should be renewed more than twice, i.e. that non-executive directors should serve a maximum of nine years in that role. 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. A particularly searching review is carried out at the end of six years. 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 their maximum three terms of three years and how the extension process has been applied to them.

The Board conducts an annual self-assessment exercise to evaluate the effectiveness of its procedures. In 2008, this process was carried out through a detailed questionnaire, with returns being submitted to the Company Secretary, who collated a report for the Chairman and the Board. The Chairman took these into account in one-to-one meetings with the other directors, to ensure that any concerns about Board processes or capabilities were aired. Various action points were identified, and the Board has agreed processes to address and track progress against these during 2009.

Independence of non-executive directors

Six of the seven current non-executive directors other than the Chairman (Messrs N Andrews, 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 judgement and there being no relationships or circumstances which are likely to affect, or could appear to affect, their judgement. Mr N Broadhurst, who retired during the year, was also considered to be independent. The Board decided in February 2006, following a review by the Nomination Committee, that it was not appropriate to classify Mr R Khoza as independent in view of the business interests between his company, Aka Capital, and the Company's banking subsidiary, Nedbank.

Mr R Bogni succeeded Mr N Broadhurst as the senior independent director in May 2008. 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 Company Secretary (martin.murray@omg.co.uk).

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.

Directors' conflicts of interest

The executive directors are permitted to hold 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.

The Company's procedures for dealing with directors' conflicts of interest have operated effectively during 2008.

2008 operations

Board meetings are held regularly, with scheduled meetings being co-ordinated with the Company's reporting calendar to allow for detailed consideration of interim and preliminary results and quarterly business updates. Sessions are also devoted specifically to strategy and business planning. The Board also meets ad hoc to deal with specific matters requiring its consideration. In all, 17 Board meetings were held during 2008.

The scheduled Board meetings in 2008 included visits to the Group's businesses in South Africa and the USA. These included presentations to the Board by the senior management teams of the local businesses.

Group Executive Committee

The Group Executive Committee is the executive management committee through which the Company exercises its co-ordination and stewardship of the Group.

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 now (following changes announced by Mr Roberts on 4 March 2009), Mr A Birrell (Head of Risk and Actuarial), Mr T Boardman (Chief Executive of Nedbank), Mr P Hanratty (Head of Long-Term Savings), Mr D Hope (Head of Strategy), Mr P Maddox (Head of Strategic Implementation) and Mr T Turpin (Chief Executive of US Asset Management). It is also envisaged that the new Head of Group HR, when appointed, will join this Committee.

Board Committees

The Board has a number of standing committees or sub-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 main standing committees and sub-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 R Bogni (2002), Mr R Edey (2004), Mr B Nqwababa (2007). Other member during part of the year: Mr N Broadhurst (who served as Chairman of the Committee from 1999 to May 2008). Secretary and year of appointment: Mr M Murray (1999).

All members of the Group Audit and Risk 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 formerly 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 Committee:

- Monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements contained in them
- Reviews the Company's internal financial controls
- Monitors and reviews the independence and effectiveness of the Company's internal audit function and its activities. An internal audit charter, reviewed and approved by the Committee, governs internal audit activity within the Group and such activities are conducted in accordance with an annual audit plan. Progress against that plan is reported regularly to the Committee
- Receives and reviews reports on risk and governance matters
- Makes recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to appointment, reappointment and removal of the external auditors and approving their remuneration and terms of engagement

- Reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Develops and implements policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, reporting to the Board any matters where it considers that action or improvement is needed and making recommendations on the steps to be taken
- Reviews the Group's whistleblowing arrangements.

At its meetings during 2008, the Committee received reports covering, among other things:

- The accounting principles, policies and practices adopted in the Group's accounts
- Reports from the external auditors, including their audit plans for the year
- Significant accounting and actuarial issues
- Economic Capital principles that are being adopted by the Group
- Tax, litigation and contingent liabilities affecting the Group
- Any significant findings or control issues arising from internal audits carried out around the Group
- Environmental and corporate responsibility matters
- Significant risks and related risk management practices across the Group.

A number of audit or audit and risk committees operated at subsidiary level during 2008, including at Old Mutual Life Assurance Company (South Africa) Limited, Old Mutual (US) Holdings, Inc., Skandia UK, Skandia Nordic, Skandia Europe & Latin America, Nedbank Group Limited and Mutual & Federal Insurance Company Limited, with terms of reference (in relation to the businesses under their respective remit) broadly equivalent to those of the Committee. The Committee received minutes of the proceedings and reports from subsidiary audit committees on a regular basis and several of their Chairmen were invited to attend meetings of and report to the Committee periodically. A planning meeting was held between the Chairman of the Committee and the Chairmen of the main subsidiary audit committees, the regional heads of internal audit, the Group Risk Director and representatives of the Group's auditors during December 2008, to co-ordinate the audit committees' activities and to review and approve the scope of internal audit plans for 2009. Such planning meetings take place annually.

The Group operates Internal Review Committees through which Group Finance reviews in detail the results of the major businesses half-yearly with their Chief Executives and Finance Directors, including, where applicable, the actuarial aspects of the results of the life businesses around the Group. Findings from these meetings are incorporated into reports to the Group Audit and Risk Committee.

The Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns overall responsibility for monitoring the independence and objectivity of, and compliance with ethical and regulatory requirements by, the external auditors to the Committee and day-to-day responsibility to the Group Finance Director.

The Group's policy on external audit sets out the categories of non-audit services that the external auditors may and may not provide to the Group. Further details of this policy are set out under the heading 'Auditors' later in this report.

To fulfil its responsibility regarding the independence of the external auditors, the Committee reviewed:

- Changes in key external audit staff in the external auditors' plan for the year
- The arrangements for day-to-day management of the audit relationship
- A report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest
- The overall extent of non-audit services provided by the external auditors, in addition to their case-by-case approval of the provision of non-audit services by the external auditors.

To assess the effectiveness of the external auditors, the Committee reviewed:

- The external auditors' fulfilment of the agreed audit plan and variations from the plan
- The robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements.

To fulfil its responsibility for oversight of the external audit process, the Committee reviewed:

- The terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter for the year
- The external auditors' overall work plan for the year
- The external auditors' fee proposal
- Any major issues that arose during the course of the audit and their resolution
- The key accounting and audit judgements
- The levels of errors identified during audit
- Any recommendations made by the external auditors in their management letter and the adequacy of management's response.

Based on its satisfaction with the results of the activities outlined above, the Committee has recommended to the Board that the external auditors should be reappointed for 2009.

The Committee's role in relation to monitoring of risk is explained in more detail in the 'Internal control environment' section of this report.

In relation to internal audit, the Committee reviewed:

- Internal audit's terms of reference, reporting lines and access to the Committee and members of the Board
- Internal audit's plans and resources and its achievement of the activities planned as part of its agreed programme for the year
- The results of key audits and other significant findings, the adequacy of management's responses and the timeliness of resolution
- Statistics on staff numbers, qualifications and experience and timeliness of reporting.

The Group's whistleblowing 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 whistleblowing facility and to help them detect the signs of possible fraudulent or improper activity.

The Committee holds private meetings with the external auditors twice yearly (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.

Remuneration Committee

Members and years of appointment: Mr R Bogni (Chairman) (2005), Mr N Andrews (2002), Mr R Edey (2007), Mr R Pym (2008). Other member during part of the year: Mr N Broadhurst (appointed 1999, ceased May 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.

Nomination Committee

Members and years of appointment: Mr C Collins (1999, became Chairman in May 2005), Mr N Andrews (2005), Mr R Bogni (2003), Mr R Edey (2005), Mr R Pym (2008), Mr J Roberts (2008). Other members during part of the year: Mr N Broadhurst (appointed 1999, ceased May 2008), Mr J Sutcliffe (appointed 2003, ceased September 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 is chaired by the Chairman of the Board, Mr C Collins, and a majority of its members (four out of six) are independent non-executive directors.

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.

Mr J Roberts' appointment as Group Chief Executive in succession to Mr J Sutcliffe (which took effect from 9 September 2008) was recommended by the Committee in line with existing succession-planning arrangements, and having regard to the merits of stability and continuity in the context of the challenges then facing the Group. Mr P Broadley was appointed as Group Finance Director following a search for a candidate with appropriate financial services and accounting experience.

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.

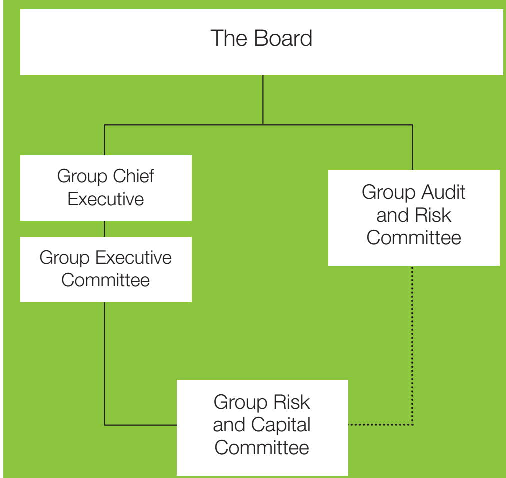
Approvals Committee

Members: Mr P Broadley, Mr J Roberts.

The Approvals Committee (formerly known as the Executive Committee) is a committee of the Board comprising the executive directors of the Company, to which executive control and decision-making are delegated, subject to reservation of matters that require approval by the Board itself. A quorum comprises two of the executive directors. The Committee met 11 times during 2008.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS
continued

Management Committees



Group Risk and Capital Committee

Members and years of appointment: Mrs R Harris (Chairman) (2008), Mr A Birrell (2008), Mr P Broadley (2008), Mr G Cookman (2008), Mr A Darfoor (2008), Mr A Duncan (2008), Mr P Keynes (2008), Mr S Lock (2008). Secretary and year of appointment: Mrs D Loxton (2008).

The Group Risk and Capital Committee (GRCC) was established in July 2008 as part of our work to strengthen risk governance and oversight and to align risk and capital management more closely. The GRCC supports the Group Executive Committee in understanding the exposure and management of risks impacting the Group, having regard to our risk appetite and the allocation of that appetite to the Group's business units. The GRCC is also responsible for the approval and monitoring of the Group's enterprise risk management framework.

The GRCC brings together senior executives across Group functions including risk, finance, actuarial, capital and compliance. The external and internal auditors, as well as the Company Secretary, have standing invitations to these meetings. Other key Group or business unit executives are invited to attend meetings where appropriate. The GRCC receives reports from risk, finance and treasury and provides input to the Group Executive Committee and the Group Audit and Risk Committee. It met four times in 2008.

Group Capital Management Committee

Members and years of appointment: Mr P Broadley (Chairman) (2008), Mr A Birrell (2008), Mr A Duncan (2006), Mrs R Harris (2007), Mr J Roberts (2008). Secretary and year of appointment: Mr J Simpson (2007).

The Group Capital Management Committee is a sub-committee of the Approvals Committee. Its role is to:

- Agree capital allocation up to the delegated authority of the Approvals Committee, or make recommendations to the Board for allocations beyond the Approvals Committee's authority
- Recommend to the Board the most appropriate capital structure for the Group having regard to long-term strategic objectives, the current business plan, risk appetite parameters and target credit ratings
- Sign off a capital plan for the Group as part of the annual business planning process
- Allocate capital in accordance with the business plan
- Approve the overall investment strategy of the Group's shareholders' funds
- Set an appropriate framework for managing capital and issue guidelines and/or recommend targets to ensure the appropriate management of capital
- Receive reports from Group Finance, Group Risk and business units so that it can monitor performance against agreed criteria
- Consider and approve any changes in required capital outside that agreed in the business plan, including the remittance or withdrawal of capital from business units.

Key governance developments during 2008

- Group Risk and Capital Committee established
- New employee share schemes approved at the Annual General Meeting
- Mr R Bogni succeeded Mr N Broadhurst as senior independent director in May
- Mr R Pym appointed as Chairman of the Group Audit and Risk Committee in May
- Executive Remuneration Committee established (see the Remuneration Report).

Terms of reference

The terms of reference of each of the principal committees of the Board are available in the Corporate Governance section of the Company's website.

The membership and chairmanship of the Board's standing committees are regularly reviewed by the Nomination Committee to ensure that they are refreshed and that undue reliance is not placed on particular individuals.

Each of the Group Audit and Risk, Remuneration and Nomination Committees conducted a self-assessment exercise during 2008 to address, among other things, whether their respective terms of reference had been fulfilled satisfactorily during the year, whether the Committees had the necessary skills and resources and were receiving a satisfactory level of information in order to discharge their responsibilities, and whether their processes and methods could be improved. These were each conducted via questionnaires to members of the Committee concerned and other key participants in that Committee's activities (including the external auditors, in the case of the Group Audit and Risk Committee). The results were collated by the Company Secretary and reported to the Committees for consideration.

Attendance record

The table below sets out the number of meetings held and individual directors' attendance at meetings of the Board and its principal standing committees (based on membership of those committees, rather than attendance as an invitee) during 2008.

The Chairman, Group Chief Executive and Group Finance Director attended all 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). Mr C Collins and the Group Chief Executive also attended all 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 2008, fees paid by the Group to KPMG Audit Plc, the Group's auditors, and its associates totalled £11.0 million for statutory audit services (2007: £9.6 million), £0.5 million for other audit and assurance services relating to Old Mutual Market Consistent Embedded Value reporting (2007: £0.4 million), and £4.3 million for tax and other services (2007: £3.9 million). In addition to the above, Nedbank Group paid a further £2.6 million (2007: £2.5 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 non-audit engagement, 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 and its subsidiaries, 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
  - Identify and assess the effectiveness of the available safeguards to eliminate or reduce threats to an acceptable level.

	Board (scheduled and ad hoc)	Group Audit and Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings held	**17**	**6**	**6**	**5**
Mr N Andrews	16/17	5/6	5/6	5/5
Mr R Bogni	16/17	6/6	6/6	5/5
Mr P Broadley	2/2	–	–	–
Mr C Collins	17/17	–	–	5/5
Mr R Edey	14/17	5/6	6/6	5/5
Mr R Khoza	16/17	–	–	–
Mr B Nqwababa	15/17	4/6	–	–
Mr L Otterbeck	17/17	–	–	–
Mr R Pym	16/17	6/6	4/4	4/4
Mr J Roberts	17/17	–	–	1/1
Former directors				
Mr N Broadhurst	4/6	2/2	1/2	2/2
Mr J Nicholls	14/15	–	–	–
Mr J Sutcliffe	8/8	–	–	4/4

- 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
- Reports are tabled quarterly at Group Audit and Risk Committee meetings setting out the details of the non-audit services being provided by the Group's auditors
- 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/director ceased to be associated with the audit.

The following process governs the provision of non-audit services provided by the auditors:

- There is a schedule of non-audit services that 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
- 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 Annual General Meeting (Resolution 3 in the Notice of Annual General Meeting). 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 have been 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 rotation in accordance with recommendations of the Institute of Chartered Accountants in England and Wales. The current lead audit director in the UK, Mr A Barbour, has been in place since 2005.

General Meetings

The Board uses the Annual General Meeting (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 2008.

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.

Results of the Annual General Meeting 2008

The results of the polls on the resolutions at the Annual General Meeting held on 8 May 2008 were as follows:

Ordinary resolutions

Resolution 1

To receive and adopt the directors' Report and Accounts for the year ended 31 December 2007

In favour	Against	% in favour	Votes withheld*
2,648,735,322	3,663,707	99.86	15,970,248

Resolution 2

To declare a final dividend of 4.55 pence per ordinary share

In favour	Against	% in favour	Votes withheld*
2,654,352,414	506,106	99.98	13,510,757

Resolution 3 (i)

Election of Mr R Pym as a director of the Company

In favour	Against	% in favour	Votes withheld*
2,634,737,531	5,684,447	99.78	27,947,299

Resolution 3 (ii)

Re-election of Mr N Andrews as a director of the Company

In favour	Against	% in favour	Votes withheld*
2,633,494,884	6,296,949	99.76	28,577,444

Resolution 3 (iii)

Re-election of Mr R Edey as a director of the Company

In favour	Against	% in favour	Votes withheld*
2,632,716,511	5,579,468	99.79	30,073,298

Resolution 3 (iv)

Re-election of Mr J Sutcliffe as a director of the Company

In favour	Against	% in favour	Votes withheld*
2,629,561,219	18,233,058	99.31	20,575,000

Resolution 4

Reappointment of KPMG Audit Plc as auditors to the Company

In favour	Against	% in favour	Votes withheld*
2,616,824,765	14,464,287	99.45	37,080,225

Resolution 5

Authority to the Group Audit and Risk Committee of the Company to settle the remuneration of the auditors

In favour	Against	% in favour	Votes withheld*
2,637,621,957	5,087,039	99.81	25,658,981

Resolution 6

Approval of the Remuneration Report in the Company's Report and Accounts

In favour	Against	% in favour	Votes withheld*
2,492,057,299	105,813,396	95.93	70,498,581

Resolution 7(i)

Approval of the Old Mutual plc Performance Share Plan

In favour	Against	% in favour	Votes withheld*
2,380,177,848	156,971,157	93.81	131,220,271

Resolution 7(ii)

Approval of the Old Mutual plc Share Reward Plan

In favour	Against	% in favour	Votes withheld*
2,486,491,219	102,053,749	96.06	79,824,308

Resolution 7(iii)

Approval of the Old Mutual plc 2008 Sharesave Plan

In favour	Against	% in favour	Votes withheld*
2,559,361,429	61,813,634	97.64	47,194,214

Resolution 8

Authority to allot relevant securities up to a maximum aggregate nominal amount of £53,262,000

In favour	Against	% in favour	Votes withheld*
2,434,406,236	202,322,809	92.33	31,640,232

Special resolutions

Resolution 9

Authority to allot equity securities up to a maximum nominal aggregate amount of £26,631,000

In favour	Against	% in favour	Votes withheld*
2,513,313,456	119,715,791	95.45	35,340,030

Resolution 10

Authority in accordance with section 166 of the Companies Act 1985 to purchase up to 532,620,000 Ordinary Shares of 10 pence each in the Company by way of market purchase

In favour	Against	% in favour	Votes withheld*
2,632,549,754	5,486,372	99.79	30,333,151

Resolution 11

Approval of contingent purchase contracts to enable shares to be bought back on the overseas stock exchanges where the Company's shares have secondary listings

In favour	Against	% in favour	Votes withheld*
2,610,885,835	24,958,228	99.05	32,525,214

Resolution 12

Adoption of new Articles of Association

In favour	Against	% in favour	Votes withheld*
2,617,637,427	3,258,242	99.88	47,473,608

*A vote withheld is not a vote in law and is therefore not counted in the calculation of votes.

Each of the resolutions at the 2008 AGM was accordingly duly passed.

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
- 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 2008 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 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 Management section of 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. Material control weaknesses in connection with our US life offshore business were highlighted during the year and reported publicly as part of our Interim Results 2008 and Interim Management Statement for Q3 2008.

Within the offshore business (Old Mutual Bermuda), the emergence of earnings volatility in 2008, largely caused by the turbulent economic conditions, highlighted the need for a better hedging process. This issue has led to the creation of additional guarantee reserves and capital injections to support the ongoing capital needs of the Bermudan business. A number of management actions have been taken to limit the exposures including:

- Withdrawal of the Universal Guarantee Option
- Implementation of improved fund-mapping, allowing quantification of our liabilities and improved hedge effectiveness.

Further actions have been taken to strengthen governance and risk management practices and to reduce the risk of similar issues occurring again. They include:

- Senior management changes, including the appointment of a new CEO for Old Mutual Bermuda
- Revised guarantee policies and new product development sign-off procedures
- A review of all product lines, covering their potential and their risks
- The significant re-engineering (which is currently in progress) of our oversight functions and the level of supervision over business units
- An independent review by Group Internal Audit. We are in the process of implementing the recommendations and sharing the lessons learned.

During November 2008, an offer was made to holders of guaranteed products in Old Mutual Bermuda to surrender their guarantees in exchange for their account values being topped up to 85 percent of their initial investment. This offer, which was taken up in relation to approximately 15 percent of the eligible policies, was a further step in the de-risking of the Bermudan book of business.

Other than the issue above, 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 business units. 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 Risk 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 Business Unit Audit Committee meetings and meetings of the Group Risk and Capital Committee.

GIA teams across Old Mutual use a single audit methodology which meets the standards set by the Institute of Internal Auditors (IIA). 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.

An extensive independent review of GIA by external experts was carried out in 2007, which concluded that GIA complied with the requirements of the Standards of Professional Practice of the Institute of Internal Auditors. In 2008, under the leadership of a new GIAD appointed in April 2008, and continuing in 2009, GIA has continued to seek opportunities for enhancing internal audit practices, and an enhanced quality assurance function was established at the beginning of 2009.

Other Directors' Report matters

Relations with shareholders and analysts

The Company places considerable 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. In 2008 the programme included over 100 meetings with investors in the UK, South Africa, North America and Continental Europe. In most cases the meetings involved the Group Chief Executive, Group Finance Director or another member of senior management.

In addition, the Company presented at a number of major investor conferences around the world. It also hosted and webcast two events for institutional investors and analysts: a presentation on the Company's North American businesses, which was given by members of US management, and a presentation by the Chief Economist of Nedbank, who talked about 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.

The Board is updated regularly by the Investor Relations team on issues arising from any shareholder communications and from analyst research. In May 2008, the Company commissioned an independent survey of major investors in the UK, South Africa, the US and Continental Europe in order to obtain a better understanding of their views. The survey findings were reported directly to the Board.

Currently 12 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.

Information on strategy, Group activities, operational and financial performance and outlook are communicated to financial markets through regular reports, regulatory news releases, speeches and presentations. The Company holds two results meetings each year, at the time of its preliminary and interim results, which are hosted and webcast simultaneously in London and Johannesburg. In May and November each year, the Company issues interim management statements in accordance with the requirements of the Disclosure and Transparency Rules. These statements also include an update on sales performance in the previous quarter and are accompanied by a teleconference call for analysts and institutional investors.

The Company's website contains a range of up-to-date information for shareholders as well as useful tools relating to share price and dividend calculations. For individual shareholders, a dedicated shareholder centre within the investor relations section of the site provides information about the Company's registrars, a number of downloadable forms and the facility for shareholders to register for electronic communications. The Company's public announcements, statements and presentations to the investor community are posted on the website in a timely fashion.

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 percent of annual base salary within five years of appointment; the equivalent figure for other executive directors is 100 percent of annual base salary. Further details of the executive directors' shareholdings and interests in awards under the Company's employee share plans are given 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.

All directors of the Company, together with other persons discharging managerial responsibilities in relation to the Company, are restricted persons for the purposes of the Model Code annexed to section LR9 of the Listing Rules of the Financial Services Authority. The Company continues to operate provisions equivalent to those set out in the Model Code for a wider category of employee insiders who hold certain senior positions around the Group, even though the Model Code itself no longer requires this. The Model Code imposes restrictions on the periods when restricted persons may deal in affected securities (which comprise shares and other listed securities of the Company and other quoted entities within the Group). Dealings by restricted persons during open periods must be pre-cleared through the appropriate designated officer of the Company, and any dealings in affected securities by the directors or other persons discharging managerial responsibilities must be publicly announced once they have been notified to the Company.

The lists of persons discharging managerial responsibilities and other employee insiders are regularly reviewed. Currently all members of the Group Executive Committee, together with certain other heads of major businesses, are regarded as persons discharging managerial responsibilities.

Directors' indemnities

Following a change in applicable UK law introduced by the Companies (Audit, Investigations and Community Enterprise) Act 2004, the Company has entered into formal deeds of indemnity in favour of each of the directors. These are dated as follows: Messrs N Andrews, R Bogni, C Collins, R Edey and J Roberts – 19 October 2005; Mr R Khoza – 24 February 2006; Mr L Otterbeck – 15 November 2006; Messrs B Nqwababa and R Pym – 17 December 2008; Mr P Broadley – 10 November 2008. 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, Enterprise and Regulatory Reform 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 2008 amounted to £5,230,801, corresponding to 36 days' payments when averaged over 2008.

Charitable contributions

The Group made a wide range of significant donations to charitable causes and social development projects during 2008, 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 £672,000 during the year (2007: £352,000).

Environmental matters
A description of the Group's environmental impact and management during 2008 is given 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 has determined that, in order to preserve cash and capital during the current period of economic stress, no dividends will be paid by the Company during 2009. It will consider the position for 2010 in the light of prevailing conditions nearer the time. Longer term, the Board will look to pay a dividend based on the Group's capital, cashflow and earnings with a view to maintaining cover of at least two times.

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 2008 was £551,614,136 divided into 5,516,141,360 Ordinary Shares of 10 pence each (2007: £551,027,253.70 divided into 5,510,272,537 Ordinary Shares of 10 pence each). During the year ended 31 December 2008, 5,841,448 shares were issued under the Company's employee share option schemes at an average price of 87.82 pence each.

At 31 December 2008, authorities were in force from the shareholders for 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 532,620,000.

Out of the 5,516,141,360 shares in issue at 31 December 2008:

- 239,434,888 were held by the Company in treasury
- A total of 240,239,413 shares were held by African life subsidiaries of the Company, with 225,928,657 of these shares being 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.

Out of the 239,434,888 shares held in treasury at 31 December 2008, 134,333,829 shares were bought into treasury during 2008. 87,405,685 of these were repurchased on the London Stock Exchange at an average price of £1.35 each and 46,928,144 were repurchased on the JSE at an average price of R18.32 each.

The total number of voting rights in the Company's issued ordinary share capital at 31 December 2008 (which excludes the 239,434,888 shares held in treasury, but includes the shares held by the African life subsidiaries) was 5,276,706,472.

In the period 1 January to 3 March 2009, no further shares were issued by the Company and none were bought back. The Company's issued share capital and the total number of voting rights at 3 March 2009 were accordingly unchanged from the position at 31 December 2008.

Rights and obligations attaching to shares
The following description summarises certain provisions of the Company's current Articles of Association, as adopted by special resolution passed on 8 May 2008 (the Articles), and applicable English law concerning companies (the Companies Act 1985 and the Companies Act 2006, together referred to as the Companies Acts). This is a summary only: for further information please see the relevant provisions of the Companies Acts or the Articles.

Issue of shares
Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution approve or as the directors may decide. Subject to the Articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the Board. At each Annual General Meeting the Company seeks shareholder authority for the directors to allot up to a certain amount of unissued shares, and up to a lower limit for cash. These limits are established in light of the guidelines of the UK Investor Protection Committees.

Voting
Subject to any rights or restrictions attached to any class of shares, every member attending a general meeting or class 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 Companies Acts, 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 or class meeting.

A member may appoint more than one proxy in relation to a general meeting or class 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 or class 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, but if the representatives' votes or other powers conflict, the power is treated by the Company as not having been exercised and the member will be deemed to have abstained. To avoid inappropriate consequences of this rule, the Company adopts the Designated Corporate Representative procedure recommended by the Institute of Corporate Secretaries and Administrators, as explained in more detail in the notes accompanying the Notice of Annual General Meeting.

Restrictions on voting
No member is entitled to vote at any general meeting or class meeting in respect of any shares they hold if any call or other sum they owe on that share remains unpaid. In addition, no member may vote if they have been served with a restriction notice (as defined in the Articles) after failing to give the Company information due under the Companies Acts concerning interests in those shares.

Deadlines for voting rights
Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representative. Under the Companies Acts, the deadline for delivering proxy forms cannot be earlier than 48 hours (excluding non-working days) before the meeting for which the proxy is being appointed. However, the current Articles provide a deadline for submission of not less than 48 hours before the meeting (not excluding non-working days).

Dividends and distributions
Subject to the provisions of the Companies Acts, 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.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with an interest in 0.25 percent or more (in nominal value or in number, calculated exclusive of any shares held as treasury shares) in the Company's share capital if such person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required under the Companies Acts.

Liquidation
Under the Companies Acts, on a liquidation the liquidator may, with the sanction of a special resolution of the Company and any other approvals required by legislation, divide among the members in kind all or part of the assets of the Company.

Variation of rights
Subject to the Companies Acts, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

At every such separate general meeting (except an adjourned meeting) the quorum shall be two people holding or representing by proxy at least one-third in nominal value of the issued shares of the class (excluding treasury shares). The rights conferred on the holders of any shares shall not, unless otherwise expressly provided in the rights attached to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them unless those rights state otherwise.

Transfer of shares
Any shares in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form or with the transfer of shares 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.

Subject to the Articles, 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 and (in the case of a partly-paid share) the transferee. The transferor of a share is deemed to remain the holder until the transferee's name is entered into the register. The Board may also 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.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with an interest in 0.25 percent or more (in nominal value or in number, calculated exclusive of any shares held as treasury shares) in the Company's share capital if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is in connection with an outright sale to an independent third party.

Repurchase of shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts. 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. Further details of the existing authorities that the Company was granted by shareholders at the Annual General Meeting on 8 May 2008 and how these authorities have been used are set out under the heading 'Share capital' earlier in this report. Details of the proposed renewal of those authorities at the Annual General Meeting on 7 May 2009 are set out in the shareholder circular relating to that meeting.

Amendment to the Articles of Association

Any amendments to the Articles of the Company may be made in accordance with the provisions of the Companies Acts by special resolution. The Companies Act 2006 is being implemented in stages and changes effective up to 1 October 2008 are reflected in the new Articles of Association adopted at the Annual General Meeting on 8 May 2008. The remaining changes will be reflected in new Articles of Association that will be proposed for adoption at the Annual General Meeting 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 Annual General Meeting and is then eligible for election by the shareholders. The Board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Acts) and on such terms as it may determine and may revoke or terminate any such appointment.

At every Annual General Meeting, at least one-third of the directors must retire by rotation. The directors to retire by rotation must be those who have been longest in office since their last election or re-election. If there are directors who were last elected or re-elected on the same date, they can agree among themselves who is to retire, but if they do not agree, this will be determined by lot. The Company may by special resolution remove any director before the expiration of his or her term of office. Directors shall vacate their office if:

- Their resignation is requested by all the other directors, numbering at least three
- They deliver a written letter of resignation at a meeting of the directors or to the Company's registered office
- They are or have been suffering from mental ill health and the directors pass a resolution stating that they have ceased to be a director
- They are absent from Board meetings without the Board's permission for six consecutive months and the Board resolves that their office is vacated
- They become bankrupt or make any arrangement or composition with their creditors
- They are prohibited from being or cease to be a director by law or by any powers conferred on the Board or the Company's shareholders by the Articles
- Their appointment as an executive director is terminated or expires and the Board resolves that their office is vacated.

Powers of the directors

Subject to the Company's Memorandum of Association, 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 percent. 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 Acquiror) 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 Acquiror following the change of control.

Substantial interests in voting rights

At 3 March 2009, 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
Public Investment Corporation of the Republic of South Africa	307,212,664	5.82
Legal & General Group Plc	250,395,703	4.75
Old Mutual Life Assurance Company (South Africa) Limited	225,928,657	4.28
Franklin Resources Inc.	164,533,278	3.12

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, notes 47 and 48 to the financial statements include the Group's objectives, policies and processes for managing its capital and set out details of the risks related to financial instruments and insurance risks taken on by the Group.

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available credit facilities. The Company's existing revolving current facility of £1.25 billion does not mature until September 2012.

The current economic conditions create uncertainty particularly over the future levels of world equity markets, defaults in corporate bond portfolios, particularly in the United States, currency fluctuations, demand for the Group's products and other economic factors. These uncertainties have been considered individually and in combination in the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and economic conditions in the markets in which the Group operates. The results show that the Group should be able to operate within the level of its available credit facilities and with an adequate level of capital, both at a Group level and within each of its major regulated Group entities. To the extent that changes in trading performance and economic conditions prove to be more severe than thought reasonably possible, the Group has evaluated and concluded on feasible management actions that would be possible in such circumstances so as to ensure adequate levels of liquid and capital resources are maintained.

After making enquiries, the Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report on Corporate Governance and Other Matters confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Governing law

The Group Chief Executive's Statement, the Risk Management section, 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 C Murray
Group Company Secretary
4 March 2009

REMUNERATION REPORT

This report has been prepared by the Remuneration Committee (referred to in this report as the Committee) and approved by the Board of the Company. The figures included in the sections of this report headed 'Directors' Emoluments for 2007 and 2008' on page 125 and 'Directors' interests under employee share plans' on pages 131 and 132 have been audited by KPMG Audit Plc as required by the Directors' Remuneration Report Regulations 2002. Their audit report is set out on page 110. 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 and monitoring and approving the level and structure of remuneration of senior management who report directly to the Group Chief Executive, together with the Company Secretary
- 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 2008 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 FTSE 100 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 potential maximum rewards conditional on both short-term and long-term performance; these rewards include share-based incentives, to align the executive directors' interests closely with those of shareholders
- To provide an opportunity for overall 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, while the fixed elements of remuneration remain benchmarked at or below appropriate median levels
- 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 account of the FSA's letter of 13 October 2008 relating to remuneration policies at financial services companies, where appropriate.

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 structure of the Company's share incentive arrangements. The Committee Chairman and representatives of Group Human Resources (Group HR) met representatives of UK institutional investors during January 2008 to discuss the 2008 remuneration structure and in February 2009 to discuss the corporate performance targets to be attached to certain share option and restricted share awards to be granted under the Company's share incentive plans in 2009.

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
Mr R Bogni	Chairman	May 2005 to date
Mr N Andrews	Member	November 2002 to date
Mr R Edey	Member	June 2007 to date
Mr R Pym	Member	May 2008 to date
Mr N Broadhurst	Member	March 1999 to May 2008

The Committee continued to retain Mr Alan Judes as its independent adviser through his consultancy Strategic Remuneration during 2008. A copy of his letter of engagement is on the Company's website. Any work that the Company wishes Mr 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. Mr Judes did not provide any other services to the Company during 2008. The Company retained Hewitt New Bridge Street to advise on the implementation of its new share incentive plans, which were approved by shareholders at the 2008 AGM.

Mr 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 2008, the Committee met six times. Mr Andrews was absent from one meeting. Mr Pym attended all four meetings following his appointment to the Committee, while Mr Broadhurst attended one of the two meetings before his retirement. 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), Mr K Stacey, and Mr C Collins, the Chairman of the Board. The Company Secretary, Mr M Murray, acts as Secretary to the Committee.

The Executive Remuneration Committee

During 2008, the Company reinforced its governance structure relating to remuneration by establishing a new Executive Remuneration Committee (ERC), which oversees executive remuneration governance at the tiers immediately below director and Group Executive Committee level. The ERC approves remuneration arrangements and pay-review proposals for this level across the Group, taking responsibility for remuneration decisions previously governed 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 ERC meetings are noted at the Committee and the ERC can escalate matters for decision by the Committee as appropriate. The ERC 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:

- Remuneration must be:
  - Viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour
  - Performance-related, linked to delivery against value-creating objectives
  - Benchmarked to reliable and relevant market data specific to each region and sector
- 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 both short-term and long-term as well as complementary; the objectives they reward should create a sustainable business and long-term value creation 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 (LTI) awards is an acceptable percentage of the economic profit
  - Bonus pools have not been struck above the level at which cost and risk can be allocated
- Risk managers should not be rewarded from the same bonus pool as the managers whose risks they are assessing
- 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 Group's strategy continues to evolve. The new reward structure adopted for executive directors in 2008, as approved by shareholders and disclosed in the 2007 Annual Report, is intended to provide alignment between the senior executives and shareholders notwithstanding incremental or significant shifts in strategy. The incentive structure, in its first cycle from the start of 2008, aligns short-term and long-term goals over a four-year cycle. The full incentive value is therefore only attained if both the short-term hurdles (which determine the amount of short-term incentive (STI) payable) and long-term hurdles (the corporate targets attached to the bonus-matching awards) are achieved. The STI targets, agreed annually by the Committee, comprise a balance of the key financial metrics, focusing on Group profitability, and personal objectives based on business plan priorities. To receive an LTI, a director is required to invest his own funds (from his cash STI) in purchasing Company shares under the bonus-matching arrangement. The bonus-matching arrangement provides a two-for-one share match of performance shares or performance share options on any portion of the post-tax cash STI (grossed up for income tax and employee national insurance contributions) used to buy Company shares, which vest subject to agreed hurdles being attained after three years.

The Group differs from many other organisations in that the full incentive depends on achieving both STI and LTI targets rather than rewarding either one separately. This ensures the alignment of STI and LTI arrangements and focuses executive directors on a full spectrum of financial and personal objectives over both the annual and longer business planning cycle. It also provides a robust incentive structure with the flexibility to deal with changes in strategy as they occur. Apart from recruitment option grants and performance share awards, there are no free-standing awards of LTIs.

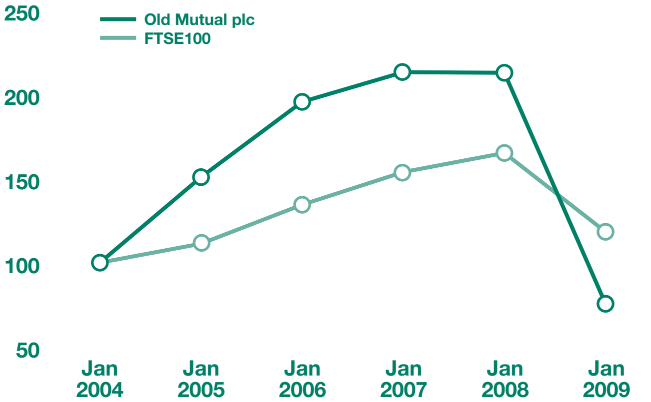
This structure also aligns executive directors with shareholder interests through the full four-year cycle. It ensures they focus on agreed performance criteria in both the first year, when the initial STI award is determined, and over the following three years, when performance must be sustained to attain both the hurdles and the share price growth which determine the final value of the award at vesting.

This structure does not encourage a short-term view. Any significant non-participation in the LTI would result in a total incentive well below market-median levels, because the STI level is capped, and total remuneration is benchmarked to market assuming full bonus-matching. A poor STI outcome may result from extraneous factors, in which case the Committee has the flexibility to rectify the consequently low bonus-match opportunity by offering a match to the target-level STI. In these circumstances the executive would be required to buy (using personal funds) or pledge existing personal shares for the match, further increasing his commitment and alignment with shareholders.

The following graph shows the total shareholder return to 1 January 2009 on £100 invested in shares in Old Mutual plc on 1 January 2004 compared with £100 invested in the FTSE 100 Index. The other points are the comparative returns at the intervening financial year ends.

In the opinion of the directors, the FTSE 100 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 2009



Source: Datastream

Governance

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, Mr J Roberts and Mr P 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 director attains the age of 65 (7 June 2022 for Mr Roberts and 31 January 2026 for Mr Broadley).

Neither Mr Roberts' nor Mr Broadley's contract contains any provisions quantifying compensation payable on early termination.

Executive directors' remuneration during 2008

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 2008 was as follows:

Mr J Roberts, Group Chief Executive

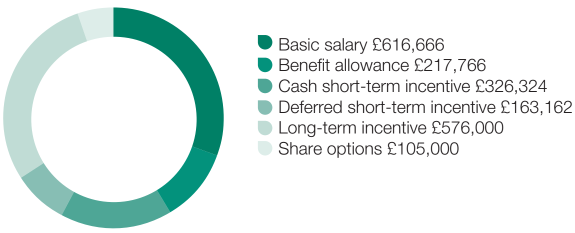
Element	Quantum	Additional information
Basic salary	£616,666	Paid monthly in cash. Reviewed with effect from 1 January each year, taking into account market benchmarks and any changes in role or responsibilities. Mr Roberts' basic salary of £525,000 at 1 January 2008 was increased on 1 September 2008 to £800,000 due to his promotion to Group Chief Executive.
Benefit allowance	£196,114	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.
STI	£489,486	Up to a maximum of 150% of basic salary to be paid two-thirds in cash in March 2009 and one-third in restricted shares under the Share Reward Plan. The STI for 2008 was based on achievement of Group financial targets and, for part of the year, Skandia financial targets, as well as delivery of individually agreed objectives.
LTI (To receive an LTI award, a director has to invest his own funds in Company shares)	£576,000 (based on the expected value of awards after discounting by 40% for the impact of performance targets)	Mr Roberts elected to use 80% of his cash short-term incentive to buy Old Mutual shares and to pledge existing shares for the balance required to secure the maximum bonus-matching awards available, and will receive awards of restricted shares and share options under the Performance Share Plan on a two-for-one basis (grossed up for tax and employee national insurance contributions). For 2008 only, the bonus match was offered against the cash STI that would have been payable assuming on-target performance for both the personal and corporate elements of the STI targets and on Mr Roberts' revised salary as Group Chief Executive. The number of shares to be granted under option will be based on an independent option valuation obtained in February 2009, which determined that, for this purpose, the value of an option was equal to 20% of the face value of the shares under award. Bonus-matching shares and options vest subject to: (a) continued employment with the Group for the three-year vesting period, (b) the achievement of performance targets as described in the section of this report headed 'New targets applicable to share incentives to be granted in 2009', and (c) the retention for the entire three-year period of the personal shares backing the match.
Other benefits	£1,933	Life cover of £1,000,000 and disability cover capped at £140,000 a year.
Restricted share release	£341,226 based on the market value of the shares at date of release	On 9 May 2008, Mr Roberts received a release of 283,058 shares held under the deferred STI and bonus-matching restricted share awards granted in 2005 under the Restricted Share Plan (RSP). He retained all of these shares, paying the associated income tax and employee national insurance costs.
Share option grant	£525,000 (exercise price)	On 3 April 2008, Mr Roberts received an option grant under the Share Option and Deferred Delivery Plan (SOP) over 426,137 shares with an exercise price of £1.232 per share. Vesting of the option is subject to the achievement of an IFRS-EPS based performance target, as set out in the section of this report headed 'Historic performance targets applicable to share incentives'.

Mr P Broadley, Group Finance Director

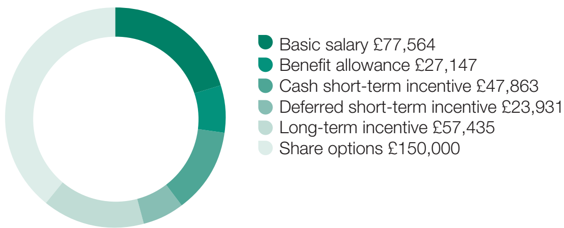
Element	Quantum	Additional information
Basic salary	£77,564	£550,000 a year paid monthly in cash. Reviewed with effect from 1 January each year, taking into account market benchmarks as well as any changes in role or responsibilities.
Benefit allowance	£27,147	Paid monthly in cash – 35% of basic salary.
STI	£71,794	The annual short-term incentive for 2008 was agreed, on appointment, to be equal to the on-target incentive that would have been awarded for the 2008 performance year, pro-rated to reflect the length of service during 2008. This is payable two-thirds in cash and one-third in restricted shares under the Share Reward Plan. The STI is normally up to a maximum of 150% of basic salary, paid two-thirds in cash and one-third in restricted shares under the Share Reward Plan, based on the achievement of Group financial targets as well as delivery of individually agreed objectives.
LTI (To receive an LTI award, a director has to invest his own funds in buying Company shares)	£57,435 (based on the expected value of awards after discounting by 40% for the impact of performance targets)	Mr Broadley elected to use all of his cash STI to buy Old Mutual shares under the bonus-matching plan, and will receive awards of restricted shares and share options under the Performance Share Plan on a two-for-one basis (grossed up for tax and employee national insurance contributions). The number of shares to be granted under option will be based on an independent option valuation obtained in February 2009, which determined that, for this purpose, the value of an option was equal to 20% of the face value of the shares under award. Bonus-matching shares and options vest subject to: (a) continued employment with the Group for the three-year vesting period, (b) the achievement of performance targets as described in the section of this report headed 'New targets applicable to share incentives to be granted in 2009', and (c) the retention for the entire three-year period of the personal shares backing the match.
Other benefits	£323	Life cover of £1,000,000 and disability cover capped at £140,000 a year.
Joining option grant	£750,000 (exercise price)	On 10 November 2008, Mr Broadley received an option grant under the Share Reward Plan over 1,315,789 shares with an exercise price of £0.57 per share. Vesting of the option is not subject to the achievement of performance targets as this award was negotiated as an incentive to join the Group.

The following diagrams show the breakdown of the executive directors' total remuneration arrangements during 2008:

Mr J Roberts



Mr P Broadley



The long-term incentive for Mr Roberts includes full take-up of the two-for-one bonus match for the 2008 performance year, based on on-target STI performance results for financial and personal targets and using an expected value (after discounting for the impact of targets) of 60 percent of the face value of the award.

The long-term incentive for Mr Broadley includes full take-up of the two-for-one bonus match for the 2008 performance year, based on on-target STI performance results for financial and personal targets, pro-rated for length of service in 2008 and using an expected value (after discounting for the impact of targets) of 60 percent of the face value of the award.

Short-term incentive targets for performance year 2008

The payment of STIs 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 Mr Roberts for 2008 are set out in the following table.

Targets applicable to Mr Roberts' STI for performance year 2008

	Skandia CEO		Group CEO		Total	
	Potential	Achieved	Potential	Achieved	Potential	Achieved
Group Targets as % of salary	90	–	–	–	51	–
Personal targets as % of salary	60	54	–	–	34	31
Corporate Milestones as % of salary	–	–	150	113	65	49
Total (as % of salary)	150	54	150	113	150	79
£000 salary for period	350		267		617	
£000 incentive for period	525	189	400	300	925	489
Achieved incentive as % of maximum		36		75		53

On his promotion to Group Chief Executive, existing corporate targets were not attainable and a number of key challenges and goals were agreed for Mr Roberts by the Board to ensure the Group's stability and liquidity in the short term and to address the ability of the Group strategy and operating model to deal with severe market conditions being faced internationally. The specific short-term goals delivered for the balance of 2008 were:

→ Devise and implement a strategy for resolving issues at the Group's US Life operation (including Old Mutual Bermuda)
→ Devise and implement a new strategy by the end of the first quarter of 2009
→ Agree a new operating model
→ Replace incumbents of key positions affected by the restructuring
→ Devise and implement a capital plan with the agreement of the Board
→ Win stakeholders' support for the agreed strategy.

The Chairman and the Committee assessed Mr Roberts' performance against these agreed milestones as a whole, since they had not been allocated individual weightings for this purpose. It was agreed that Mr Roberts had taken on the role in very difficult circumstances and had addressed the challenges purposefully and proactively and had made substantial progress in delivering all the crucial elements of these milestones during his first four months in the role. These included a significant restructuring of Group management structures, which involved a number of senior appointments (both internal and external), significant progress in addressing the problems at US Life (including Old Mutual Bermuda) and agreeing with the Board a new operating model and capital plan. All of these actions put the Group on a stronger footing for 2009. The strategy and operating model implementation will be rolled out during 2009 and so the ultimate impact of these actions will be assessed over that period. The Committee agreed a final score of 75 percent based on its detailed analysis of the maximum attributable to Mr Roberts' performance for this period.

Historic performance targets applicable to share incentives

Historically, the vesting of executive share options and, in certain cases, restricted share awards, was subject to the successful achievement of EPS-based targets. Before 2006, EPS was measured on a UK GAAP basis and, after the introduction of IFRS, on an IFRS basis. As a result of the acquisition of Skandia, existing unvested awards were converted to a European Embedded Value (EEV) EPS basis and the 2006 awards were also based on EEV EPS. Both conversions (from UK GAAP to IFRS and subsequently to EEV EPS) were validated with KPMG Audit Plc and the rationale for the use of EEV EPS targets following the Skandia acquisition was set out in the Notice of an Extraordinary General Meeting containing the related resolution approved by shareholders in November 2005.

During 2008, the Company decided to convert its embedded value accounting standard from EEV to Market Consistent Embedded Value (MCEV). It was therefore necessary to agree an acceptable conversion basis for EEV EPS-based targets (attached to the 2006 share options and bonus-matching restricted share awards), to MCEV EPS. It was clear on the basis of the conversion agreed that targets for the vesting of share options and bonus-matching restricted share awards made during 2006 would not be met under either method and, as a result, the 2006 options and bonus-matching awards lapsed on 4 March 2009.

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.

A summary of the targets attached to the unvested share options and restricted share awards under the SOP, RSP and OMSA Management Incentive Share Plan (MISP) is set out in the table 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

New targets applicable to share incentives to be granted in 2009

For awards under the bonus-matching plan in 2009, a new target of Return on Average Equity (RoAE) will be added to the IFRS EPS measure, which has been amended as shown below, so that targets for long-term incentive awards now 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 both 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 for vesting of bonus-matching share incentives to be granted in 2009 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

*Measured by the growth of the JSE ALSI and FTSE 100 indices.

To reflect the current uncertain outlook for stock market levels (to which the Group's earnings are substantially correlated) the required level of growth in IFRS EPS above UK RPI is dependent on the growth of a composite calculation of the JSE ALSI and FTSE 100 indices between Q4 2008 and Q4 2011. As reflected in the table above, the EPS targets will increase proportionately to the combined market indices where the targets will be UK RPI plus 0 percent, 3 percent and 6 percent over three years for tiers 1, 2 and 3 respectively where there is no growth in stock markets, to a maximum of UK RPI plus 9 percent, 12 percent and 15 percent where the combined market growth is 50 percent or more over the three years. Intermediate levels for these targets relative to stock market growth will be interpolated between the points.

Growth will be calculated by the value of £100 invested as follows:

- → £33.33 in the FTSE 100 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.

Former executive directors under notice at 31 December 2008

The service contracts of the two former executive directors, Mr J Nicholls and Mr J Sutcliffe (dated 1 November 2006 and 6 February 2002 respectively), were terminable by the Company on 12 months' notice.

The following tables set out the remuneration arrangements during 2008 for Mr Sutcliffe, the former Group Chief Executive, who ceased to be a director on 9 September 2008, and Mr Nicholls, the former Group Finance Director, who ceased to be a director on 10 November 2008.

Mr J Sutcliffe, former Group Chief Executive

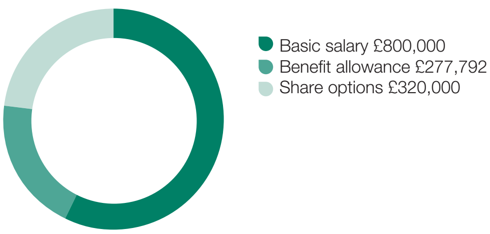
Element	Quantum	Additional information
Basic salary	£800,000	Paid monthly in cash. £552,672 was paid to Mr Sutcliffe while a director. The monthly salary will continue to be paid until the end of Mr Sutcliffe's notice period (8 September 2009 or such earlier date as the parties may agree) less a deduction of £6,247 as a result of Mr Sutcliffe being appointed as a non-executive director of SunLife Financial Inc.
Benefit allowance	£277,792	Paid monthly in cash. £191,910 was paid to Mr Sutcliffe while a director. 35% of basic salary, less £2,208 used to purchase additional life cover. The benefit allowance will continue to be paid until the end of Mr Sutcliffe's notice period or such earlier date as the parties may agree.
STI	n/a	No STI payment was made to Mr Sutcliffe in respect of 2008 performance.
LTI	n/a	No LTI payment was made to Mr Sutcliffe in respect of 2008 performance.
Other benefits	£4,141	Core life cover of £1,000,000, additional life cover of £500,000 and disability cover capped at £140,000 a year. These benefits will remain in force until the end of Mr Sutcliffe's notice period or such earlier date as the parties may agree.
Restricted share release	£572,214	On 9 May 2008, Mr Sutcliffe received a release of 475,441 shares held under the deferred STI and bonus-matching restricted share awards granted in 2005. Mr Sutcliffe sold 195,696 of these shares and retained 279,745 shares.
Share option grant	£1,600,000 (exercise price)	On 3 April 2008, Mr Sutcliffe received an option grant under the SOP over 1,298,702 shares with an exercise price of £1.232 per share. Vesting of the option is subject to the achievement of an IFRS EPS-based performance target, as set out in the section of this report headed 'Historic performance targets applicable to share incentives'.
Share option exercise	£122,136	On 10 September 2008, Mr Sutcliffe exercised his 2003 option under the SOP over 1,124,639 shares with an exercise price of 86.25p per share. Mr Sutcliffe sold all of the shares at a price of 97.11p per share. The market price of Old Mutual plc shares on 10 September 2008 was 97.4p per share. Mr Sutcliffe made a gain of £122,136 on the exercise of share options during 2008.

Mr J Nicholls, former Group Finance Director

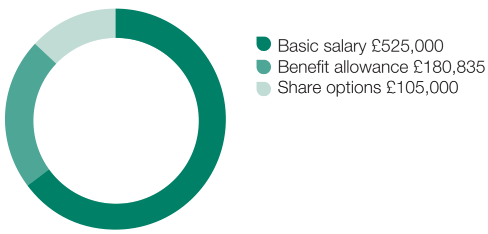
Element	Quantum	Additional information
Basic salary	£525,000	Paid monthly in cash. £450,859 was paid to Mr Nicholls while a director. The monthly salary will continue to be paid until the end of Mr Nicholls' notice period (5 November 2009 or such earlier date as the parties may agree).
Benefit allowance	£180,835	Paid monthly in cash. £155,298 was paid to Mr Nicholls while a director. 35% of basic salary (less £2,915 childcare vouchers). The benefit allowance will continue to be paid until the end of Mr Nicholls' notice period or such earlier date as the parties may agree.
Childcare vouchers	£2,915	Provided in lieu of a cash payment under the benefit allowance under a salary sacrifice arrangement.
STI	n/a	No STI payment was made to Mr Nicholls in respect of 2008 performance.
LTI	n/a	No LTI payment was made to Mr Nicholls in respect of 2008 performance.
Other benefits	£13,534	Life cover of £1,000,000 and disability cover capped at £140,000 a year. These benefits will continue until the end of Mr Nicholls' notice period or such earlier date as the parties may agree. This figure also includes a cash payment for the reimbursement of costs associated with a cancelled holiday and a cash payment in lieu of unused holiday entitlement.
Share option grant	£525,000 (exercise price)	On 3 April 2008, Mr Nicholls received an option grant under the SOP over 426,137 shares with an exercise price of £1.232 per share. This was forfeited on 5 November 2008.
Restricted share release	£212,725	On 1 December 2008, Mr Nicholls received a time pro-rated release of shares from the 2007 and 2008 restricted share awards. In respect of the 2007 award, 383,008 shares were released and 493,376 shares were forfeited and in respect of the 2008 award, 20,262 shares were released and 71,716 shares were forfeited. Mr Nicholls sold 166,513 of the shares at a price of 52.8031p per share and retained 236,757 shares. The market price of Old Mutual plc shares on 1 December 2008 was 54.5p.

The following diagrams show the breakdown of the former executive directors' total remuneration arrangements in 2008, including payments made before and after cessation as directors, with option grants based on a fair value equal to 20% of the face value of the shares under option and option exercises and restricted share releases being excluded:

Mr J Sutcliffe



Mr J Nicholls



No other payments were paid or are due to be paid to Mr Nicholls or Mr Sutcliffe in respect of the termination of their employment with the Group. The treatment of share incentive awards held by Mr Nicholls and Mr Sutcliffe on leaving, is set out in the section of this report entitled 'Directors' interests under employee share plans'.

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 2007) was 1,393.

Mr Roberts is a member of the defined contribution section of the OMSPF and during 2008 the Company contributed a total of £19,719 in lieu of an equivalent cash payment under the agreed 35 percent benefit allowance. The accumulated value of Mr Roberts' funds in the OMSPF was £182,390 at 31 December 2008 (£214,300 at 31 December 2007). Mr Broadley does not participate in any employer-provided pension scheme of the Group.

Mr Sutcliffe, the former Group Chief Executive, is a deferred member of the defined contribution section of the OMSPF. The accumulated value of his funds in the OMSPF was £91,100 at 31 December 2008 (£125,100 at 31 December 2007). Mr Nicholls, the former Group Finance Director, did not participate in any employer-provided pension scheme of the Group, but has a self-invested personal pension with Skandia UK.

Directors' emoluments for 2007 and 2008

Remuneration for the years ended 31 December 2007 and 31 December 2008 – including, in each case, remuneration from offices held with the Company's subsidiaries, Skandia Insurance Company Limited, Livforsäkringsaktiebolaget Skandia (Publ) (Skandia), Old Mutual (US) Holdings, Inc. (OMUSH) and Nedbank Group Limited (Nedbank), where relevant – was as follows:

	Salary and Fees		Bonus		Benefits and benefit allowance		Pension		Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Chairman										
Mr C Collins	**300**	280	**–**	–	**24**[1]	20[1]	**–**	–	**324**	300
Executive directors										
Mr P Broadley	**78**	–	**72**[2]	–	**27**[1]	–	–	–	**177**	–
Mr J Roberts	**617**	500	**489**[2]	344[2]	**196**[1]	205[1,3]	**20**[4]	20[4]	**1,322**	1,069
Non-executive directors										
Mr N Andrews	**104**[5]	93[5]	**–**	–	**7**[1]	13[1]	**–**	–	**111**	106
Mr R Bogni	**79**	68	**–**	–	**12**[1]	11[1]	**–**	–	**91**	79
Mr R Edey	**69**	60	**–**	–	**–**	–	**–**	–	**69**	60
Mr R Khoza	**251**[6]	227[6]	**–**	–	**–**	–	**–**	–	**251**	227
Mr B Nqwababa	**65**	41	**–**	–	**–**	–	**–**	–	**65**	41
Mr L Otterbeck	**174**[7]	138[7]	**–**	–	**11**[1]	8[1]	**–**	–	**185**	146
Mr R Pym	**83**	19	**–**	–	**16**[1]	12[1]	**–**	–	**99**	31
Former executive directors										
Mr J Nicholls	**525**[8]	495[9]	**–**	340[2]	**181**[1,8]	249[1,10]	**–**	–	**706**	1,084
Mr J Sutcliffe	**800**[8]	735	**–**	498[2]	**308**[1,8]	355[1]	**–**	–	**1,108**	1,588
Former non-executive director										
Mr N Broadhurst	**38**	86[11]	**–**	–	**–**	11[1]	**–**	–	**38**	97
Total emoluments	**3,183**	2,742	**561**	1,182	**782**	884	**20**	20	**4,546**[12]	4,828

[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]The total short-term incentive is payable two-thirds in cash and one-third in the form of a restricted share award. The cash element for 2008 (£47,863 for Mr Broadley and £326,324 for Mr Roberts) may be used for the purposes of the bonus-matching arrangement described under the "Executive Directors' remuneration during 2008" section above. Mr Roberts pledged existing shares to the value of £229,000 in order to secure a bonus-matching award for the 2007 performance year. The cash incentives were applied net of tax, as to £332,000 gross (in the case of Mr Sutcliffe) and £227,000 gross (in the case of Mr Nicholls) to purchase shares in the Company under the bonus-matching arrangement.
[3]Includes £33,000 in respect of the cost of providing furnished accommodation for Mr Roberts in Stockholm, an arrangement that has now ended.
[4]The Company made pension contributions in lieu of an equivalent cash payment under Mr Roberts' benefit allowance.
[5]Includes fees of £35,000 (2008) and £32,000 (2007) from OMUSH.
[6]Includes fees of £196,000 (2008) and £177,000 (2007) from Nedbank.
[7]Includes fees of £119,000 (2008) and £88,000 (2007) from Skandia.
[8]Includes payments made during 2008 while a director of the Company plus payments made after cessation as a director. A sum of £734,443 will be paid to Mr Sutcliffe during 2009 on the basis that his notice period ends on 8 September 2009 and a sum of £600,129 will be paid to Mr Nicholls during 2009 on the basis that his notice period ends on 5 November 2009.
[9]Mr Nicholls took unpaid paternity leave during 2007, forgoing base salary of £5,000.
[10]Includes a payment of £62,500 in compensation for loss of fees resulting from Mr Nicholls' resignation as a non-executive director of another FTSE 100 listed financial services group, which was agreed as a condition of employment.
[11]Includes fees of £11,000 (2007) from Skandia.
[12]The prior-year comparative number as published in the Remuneration Report for 2007 was £4,851,000, which included £22,000 paid to non-executive directors who retired during that year.

The executive directors who held office during 2008 were required to waive fees for non-executive directorships held in subsidiary companies totalling £15,000 during the year ended 31 December 2008 in favour of the Company or its subsidiaries. These waivers are expected to remain in force in the future.

Executive directors' remuneration in 2009

There have been no significant changes to the overall remuneration structure for the executive directors from that which applied in 2008. The following are the details of arrangements for 2009.

Mr J Roberts, Group Chief Executive

Element	Maximum amount	Additional information
Basic salary	£830,000 p.a.	Paid monthly in cash. Increased from £800,000 from 1 January 2009 (3.75% increase).
Benefit allowance	£290,500 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Maximum STI	£1,245,000 (maximum)	Maximum of 150% of basic salary payable two-thirds in cash and one-third deferred for three years in restricted shares under the Old Mutual Share Reward Plan. The STI for 2009 will be based on achievement of Group financial targets as well as delivery of individually-agreed objectives.
LTI (To receive an LTI award, a director has to invest his own funds in purchasing Company shares)	£996,000 (based on the expected value of the maximum awards after discounting by 40% for the impact of performance targets)	If Mr Roberts elects to use some or all of his cash STI to buy Old Mutual shares or pledges existing Old Mutual shares, bonus-matching awards of restricted shares and/or share options will be granted under the Performance Share Plan on a two-for-one basis (grossed up for tax and employee national insurance contributions). The number of shares to be granted under option will be based on an independent option valuation to be obtained in February 2010. Both shares and options will be subject to corporate performance targets that will be determined by the Committee in March 2010.
Maximum for 2009	£3,361,500	

Mr P Broadley, Group Finance Director

Element	Maximum amount	Additional information
Basic salary	£550,000 p.a.	Paid monthly in cash – Not increased from that paid in 2008.
Benefit allowance	£192,500 p.a.	Paid either as contributions to agreed benefits or monthly in cash – 35% of basic salary.
Maximum STI	£825,000 (maximum)	Maximum of 150% of basic salary payable two-thirds paid in cash and one-third deferred for three years in restricted shares under the Old Mutual Share Reward Plan. The STI for 2009 will be based on achievement of Group financial targets as well as delivery of individually agreed objectives.
LTI (To receive an LTI award, a director has to invest his own funds in buying Company shares)	£660,000 (based on the expected value of the maximum awards after discounting by 40% for the impact of performance targets)	If Mr Broadley elects to use some or all of his cash STI to buy Old Mutual shares or pledges existing Old Mutual shares, bonus-matching awards of restricted shares and/or share options will be granted under the Performance Share Plan on a two-for-one basis (grossed up for tax and employee national insurance contributions). The number of shares to be granted under option will be based on an independent option valuation to be obtained in February 2010. Both shares and options will be subject to corporate performance targets that will be determined by the Committee in March 2010.
Joining performance share award	£400,000 (face value)	As part of Mr Broadley's joining arrangements, an award of restricted shares under the Old Mutual Performance Share Plan with a face value of £400,000 will be granted in the first open period after the preliminary results. Vesting of the award will be subject to the successful achievement of corporate performance targets over a three-year vesting period.
Maximum for 2009	£2,627,500	

STI targets for performance year 2009

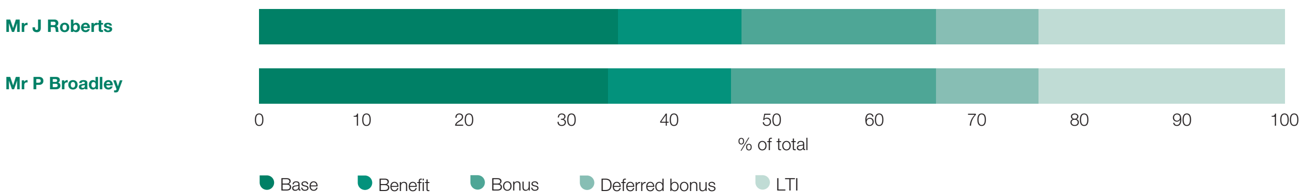
The respective weightings attached to the Group metrics (shown as a percentage of base salary) for the executive directors' STI for 2009 are as follows:

Metric	Mr P Broadley Group %	Mr J Roberts Group %
IFRS earnings (Adjusted Operating Profit) per share	30	45
Return on equity	30	45
MCEV earnings	15	22.5
Subtotal	75	112.5
Personal objectives	75	37.5

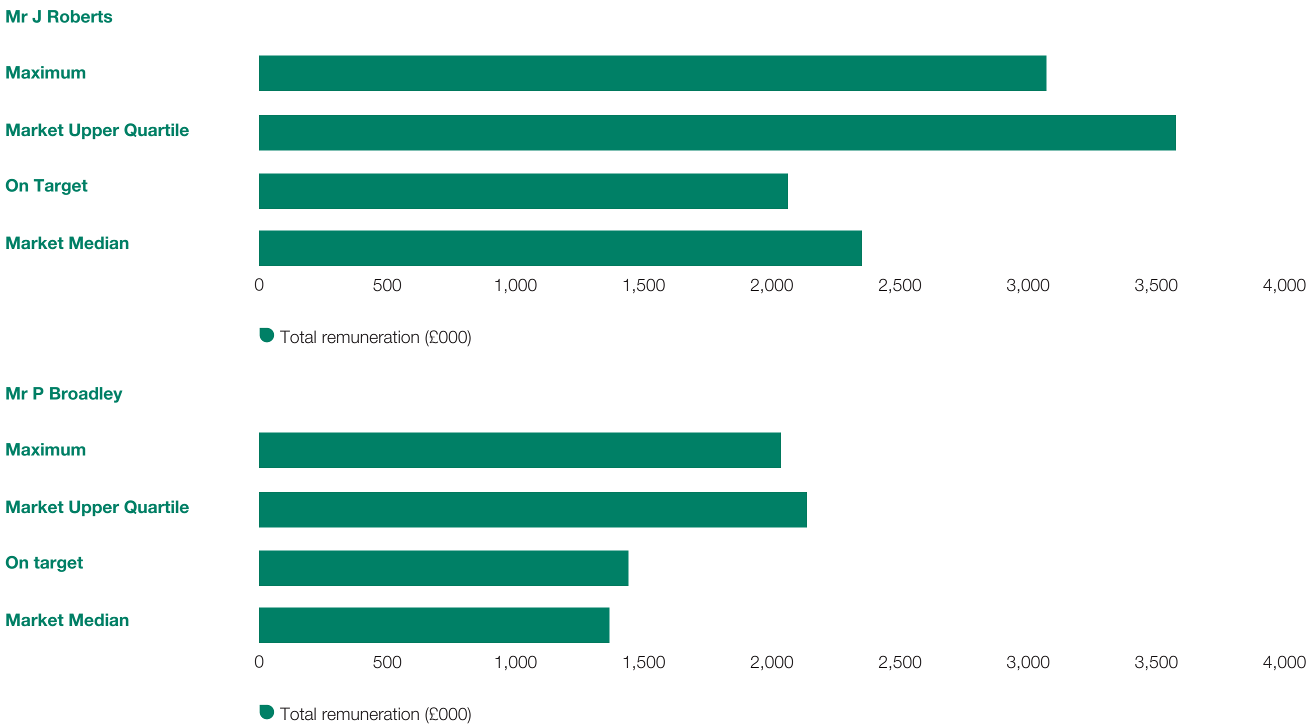
In his role as Group Finance Director, Mr P Broadley is responsible to the Board for all financial matters including management control over the internal audit and risk functions. The Committee therefore agreed that the financial elements of his bonus would have a lower weighting than line management executives and more emphasis would be placed on personal objectives.

The following chart depicts the overall make-up of the executive directors' respective remuneration packages for 2009, assuming on-target (rather than maximum) delivery on STI and an expected value for LTI.

Percentage of total remuneration 2009



Total direct remuneration 2009 – Potential vs market expected values



Total direct remuneration is made up of basic salary, STI and LTI (excluding value of benefits)
Market data used is the Hewitt New Bridge Street FTSE financial sector for 2008

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 2008
Performance Share Plan – share options and restricted shares (PSP)	The purpose of the PSP is to grant share options and/or restricted shares as LTI awards under a bonus-matching arrangement to qualifying senior employees. Grants will be phased annually so that no undue incentive arises in relation to any year of maturity. 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. 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.	Nil
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 will be 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.	1,315,789
2008 Sharesave Plan (SAYE)	The purpose of the SAYE is to provide a savings and investment opportunity for employees of the Group's participating UK businesses, 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.	Nil
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.	38,973,188
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.	16,788,536
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. Sharesave has been replaced for future awards by the new 2008 Sharesave Plan described above. 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.	7,434,016
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 to offer an opportunity of ownership of Old Mutual shares to 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.	5,433,574

Employee share plans continued

Name of Plan	Description	Shares under award or option at 31 December 2008
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.	17,785,998
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 and conditions 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.	47,665,950
Total shares held under award or option at 31 December 2008		**135,397,051**

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 2008, 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	1,063,577
Old Mutual plc Employee Share Trust[2]	Guernsey	13,429,570
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	32,131,364
OMSA Management Incentive Trust[4]	South Africa	83,604,527
OMSA Share Trust[4]	South Africa	28,056,209
Total		**161,424,271**

[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 and those to be granted under the SRP, PSP and SAYE are currently intended to be settled by the issue of new shares rather than using shares held in an employee benefit trust.

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 2008, the Company had 2.41 percent of share capital available under the 5 percent in five years limit applicable to discretionary share incentive schemes and 6.29 percent of share capital available under the 10 percent 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, 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 2008 in favour of the executive directors under the employee share schemes described in the ‘Employee share plans’ section above. Those granted during 2008 are highlighted in bold and those vested, released or exercised during 2008 are shown in italics:

Award type and plan	Performance targets to be met	Grant date	At 1 Jan 08	Granted	Exercised/ released/ lapsed	At 31 Dec 08	Exercise price per share p	Share price at date of exercise/ release p	Gain made on date of exercise or release £	Exercised or released or from which exercisable or releasable	Expiry or vesting date
Mr P Broadley											
Option (SRP)	**No**	**10 Nov 08**	**–**	**1,315,789**	**–**	**1,315,789[1]**	**57.00**	**–**	**–**	**10 Nov 11**	**10 Nov 14**
Mr J Roberts											
Option (SOP)	Vested	26 Feb 03	645,406[2]	–	–	645,406	86.25	–	–	26 Feb 06	26 Feb 09
	Vested	3 Mar 04	661,418	–	–	661,418	95.25	–	–	3 Mar 07	3 Mar 10
	Yes	*26 Apr 05*	*304,348*	–	–	*304,348*	*126.5*	–	–	*26 Apr 08*	*26 Apr 11*
	Yes[3]	29 Mar 06	239,295	–	–	239,295	198.5	–	–	29 Mar 09	29 Mar 12
	Yes[4]	30 Mar 07	307,504	–	–	307,504	162.6	–	–	30 Mar 10	30 Mar 13
	Yes[4]	**3 Apr 08**	**–**	**426,137[5]**	**–**	**426,137**	**123.2**	**–**	**–**	**3 Apr 11**	**3 Apr 14**
Total			**2,157,971**	**426,137**	**–**	**2,584,108**					
Match (RSP)	*Yes*	*27 Apr 05*	*173,538*	–	*173,538[6]*	–	–	*120.55*	*209,200*	*9 May 08*	–
	Yes[3]	29 Mar 06	118,976	–	–	118,976	–	–	–	29 Mar 09	29 Mar 09
	Yes[4]	30 Mar 07	143,766	–	–	143,766	–	–	–	30 Mar 10	30 Mar 10
	Yes[4]	**3 Apr 08**	**–**	**186,661[7]**	**–**	**186,661**	**–**	**–**	**–**	**3 Apr 11**	**3 Apr 11**
Total			**436,280**	**186,661**	**173,538**	**449,403**			**209,200**		
DSTI (RSP)	*Yes*	*27 Apr 05*	*109,520*	–	*109,520[6]*	–	–	*120.55*	*132,026*	*9 May 08*	–
	No	29 Mar 06	75,578	–	–	75,578	–	–	–	29 Mar 09	29 Mar 09
	No	30 Mar 07	90,812	–	–	90,812	–	–	–	30 Mar 10	30 Mar 10
	No	**3 Apr 08**	**–**	**93,104[5]**	**–**	**93,104**	**–**	**–**	**–**	**3 Apr 11**	**3 Apr 11**
Total			**275,910**	**93,104**	**109,520**	**259,494**			**132,026**		
Option (Sharesave)	*No*	*27 May 05*	*9,199*	–	*9,199[8]*	–	*103[9]*	–	–	–	–
Total			**9,199**	**–**	**9,199**	**–**					

[1]Options under the SRP granted on 10 November 2008 were based on the closing middle market price of the Company’s shares on the London Stock Exchange on 9 November 2008, namely 57p.
[2]Unexercised options granted on 26 February 2003 expired on 26 February 2009, six years after the date of grant.
[3]As a result of the EEV EPS-based (converted to MCEV EPS) performance targets not being met, the options and bonus-matching restricted share awards granted on 29 March 2006 lapsed on 4 March 2009.
[4]Subject to the fulfilment of performance targets prescribed by the Committee, under which options and bonus-matching restricted shares granted in 2007 and 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 percent over the three-year vesting period.
[5]Options under the SOP and the deferred STI RSP awards granted on 3 April 2008 were based on the closing middle-market price of the Company’s shares on the London Stock Exchange on 2 April 2008, namely 123.2p. The award under the SOP granted to Mr Roberts was over shares with a market value equal to 100 percent of his base salary at the time of grant.
[6]On 9 May 2008, 283,058 shares were released to Mr Roberts under the 2005 deferred STI and bonus-matching restricted shares awards originally granted in 2005. Mr Roberts retained all 283,058 shares.
[7]The number of shares awarded under the RSP bonus match on 3 April 2008 was calculated by reference to a price of 122.89p per share, being the price at which the matching shares were acquired by the Old Mutual plc Employee Share Trust.
[8]Mr Roberts’ Sharesave option lapsed on 31 December 2008 as a result of not being exercised within six months of the maturity date.
[9]The Sharesave option price was determined as 20 percent below the average of the Company’s share price between 5 and 9 May 2005. The Company’s share price at the date of grant (27 May 2005) was 120p.

The directors in office at 31 December 2008 did not make any gains on the exercise of share options during 2008 (2007: £789,534, including the exercise of options under the SOP and Sharesave by Mr J Sutcliffe).

Under the employee share schemes described in the ‘Employee share plans’ section above, the former executive directors under notice at 31 December 2008 had the following options and rights over shares in the Company outstanding at 1 January 2008 and at 31 December 2008. Options and rights granted during 2008 are highlighted in bold and those vested, released, forfeited or exercised during 2008 are shown in italics:

Award type and plan	Performance targets to be met	Grant date	At 1 Jan 08	Granted	Exercised/ released/ lapsed	At 31 Dec 08	Exercise price per share p	Share price at date of exercise/ release p	Gain made on date of exercise or release £	Exercised or released or from which exercisable or releasable	Expiry or vesting date
Mr J Nicholls											
Option	*Yes*	*30 Mar 07*	*1,183,888*	*–*	*1,183,888*[1]	*–*	*162.6*	*–*	*–*	*–*	*–*
(SOP)	**Yes**	**3 Apr 08**	**–**	**426,137**[2]	**426,137**[1]	**–**	**123.2**	**–**	**–**	**–**	**–**
Total			**1,183,888**	**426,137**	**1,610,025**	**–**					
Match	Yes[3]	30 Mar 07	182,542	–	–	182,542	–	–	–	30 Mar 10	5 Nov 09
(RSP)	**Yes**[3]	**3 Apr 08**	**–**	**184,404**[4]	**–**	**184,404**	**–**	**–**	**–**	**3 Apr 11**	**5 Nov 09**
Total			**182,542**	**184,404**	**–**	**366,946**					
Joining	No	30 Mar 07	876,384	–	876,384[5]	–	–	52.75	202,037	1 Dec 08	–
DSTI	**No**	**3 Apr 08**	**–**	**91,978**[2]	**91,978**[5]	**–**	**–**	**52.75**	**10,688**	**1 Dec 08**	**–**
(RSP)											
Total			**876,384**	**91,978**	**968,362**	**–**	**–**		**212,725**		
Mr J Sutcliffe											
Option	Vested	26 Feb 03	1,124,639	–	1,124,639	–	86.25	97.11	122,136	26 Feb 03	–
(SOP)	Vested	3 Mar 04	944,882	–	–	944,882	95.25	–	–	3 Mar 07	3 Mar 10
	Vested	*26 Apr 05*	*434,783*	*–*	*–*	*434,783*	*126.5*	*–*	*–*	*26 Apr 08*	*8 Sep 10*
	Yes[6]	29 Mar 06	352,645	–	–	352,645	198.5	–	–	29 Mar 09	–
	Yes[3]	30 Mar 07	904,060	–	–	904,060	162.6	–	–	30 Mar 10	8 Sep 09
	Yes[3]	**3 Apr 08**	**–**	**1,298,702**[2]	**–**	**1,298,702**	**123.2**	**–**	**–**	**3 Apr 11**	**8 Sep 09**
Total			**3,761,009**	**1,298,702**	**1,124,639**	**3,935,072**			**122,136**		
Match	*Yes*	*27 Apr 05*	*315,933*	*–*	*315,933*[7]	*–*	*–*	*120.35*	*380,239*	*9 May 08*	*–*
(RSP)	Yes[6]	29 Mar 06	211,003	–	–	211,003	–	–	–	29 Mar 09	29 Mar 09
	Yes[3]	30 Mar 07	221,372	–	–	221,372	–	–	–	30 Mar 10	8 Sep 09
	Yes[3]	**3 Apr 08**	**–**	**270,133**[4]	**–**	**270,133**	**–**	**–**	**–**	**3 Apr 11**	**8 Sep 09**
Total			**748,308**	**270,133**	**315,933**	**702,508**			**380,239**		
DSTI	*Yes*	*27 Apr 05*	*159,508*	*–*	*159,508*[7]	*–*	*–*	*120.35*	*191,975*	*9 May 08*	*–*
(RSP)	No	29 Mar 06	107,230	–	–	107,230	–	–	–	29 Mar 09	29 Mar 09
	No	30 Mar 07	111,877	–	–	111,877	–	–	–	30 Mar 10	8 Sep 09
	No	**3 Apr 08**	**–**	**134,738**[2]	**–**	**134,738**	**–**	**–**	**–**	**3 Apr 11**	**8 Sep 09**
Total			**378,615**	**134,738**	**159,508**	**353,845**			**191,975**		
Option (Sharesave)	No	4 Apr 07	12,500	–	–	12,500	131[8]	–	–	1 June 12	8 Sep 09
Total			**12,500**	**–**	**–**	**12,500**					

[1]Forfeited by Mr Nicholls as a result of his giving notice to the Company.
[2]Options under the SOP and the deferred STI RSP awards granted on 3 April 2008 were based on the closing middle-market price of the Company’s shares on the London Stock Exchange on 2 April 2008, namely 123.2p. The award under the SOP granted to Mr Nicholls was over shares with a market value equal to 100 percent of his base salary at the time of grant and the award under the SOP granted to Mr Sutcliffe was over shares with a market value equal to 200 percent of his base salary at the time of grant.
[3]Subject to the fulfilment of performance targets prescribed by the Committee, under which options and restricted shares granted in 2007 and 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 percent over the three-year vesting period.
[4]The number of shares awarded under the RSP bonus match on 3 April 2008 was calculated by reference to a price of 122.89p per share, being the price at which the matching shares were acquired by the Old Mutual plc Employee Share Trust.
[5]In respect of the award granted in 2007, 383,008 shares were released and 493,376 shares were forfeited and in respect of the award granted in 2008, 20,262 shares were released and 71,716 shares were forfeited.
[6]As a result of the EEV EPS-based (converted to MCEV EPS) performance targets not being met, the options and bonus-matching restricted share awards granted on 29 March 2006 lapsed on 4 March 2009.
[7]On 9 May 2008, Mr Sutcliffe received a release of 475,441 shares held under the deferred short-term incentive and bonus-matching restricted share awards originally granted in 2005. Mr Sutcliffe sold 195,696 of these shares and retained 279,745 shares.
[8]The Sharesave option price was determined as 20 percent below the average of the Company’s share price between 13 and 15 March 2007. The Company’s share price at the date of grant (4 April 2007) was 166.5p.

Treatment of share incentive awards – Mr J Nicholls (former Group Finance Director)

- Mr Nicholls' notice period will expire on 5 November 2009, or such earlier date as the parties may agree
- All share options held by Mr Nicholls were forfeited during 2008
- Bonus-matching restricted share awards that vest during the period of notice will vest as normal. If unvested at the end of the notice period, the awards will be forfeited.

Treatment of share incentive awards – Mr J Sutcliffe (former Group Chief Executive)

- Mr Sutcliffe's notice period will expire on 8 September 2009, or such earlier date as the parties may agree
- Options that have already vested are exercisable at any time until 12 months after the end of the notice period, or until the expiry date of the option, whichever is sooner. Options that have not yet vested, but vest before the end of the notice period, will be exercisable for a period of 12 months from the end of the notice period or until the expiry date of the option, whichever is sooner. Options unvested at the end of the notice period will be forfeited. The 2006 share option award lapsed on 4 March 2009 due to the EPS-based performance target not being met
- Bonus-matching restricted share awards that vest during the period of notice will vest as normal. If unvested at the end of the notice period, the awards will be forfeited. The 2006 bonus-matching award lapsed on 4 March 2009 due to the EPS-based performance target not being met
- Deferred short-term incentive restricted share awards granted in 2006 will vest to Mr Sutcliffe on 30 March 2009. Deferred short-term incentive restricted share awards granted in 2007 and 2008 (for performance years 2006 and 2007) will vest to Mr Sutcliffe at the end of the notice period on a time pro-rated basis between the date of grant and the end of the notice period.

Company share price performance

The market price of the Company's shares was 55p at 31 December 2008 and ranged from a low of 39p to a high of 169.3p during 2008.

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 percent of annual base salary within five years of appointment; the equivalent figure for other executive directors is 100 percent 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 executive directors at 31 December 2008 (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 2008	Date by which holding must be achieved
Mr J Roberts[2]	2,263,636	1,089,604	September 2013
Mr P Broadley	1,000,000	–	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 2008, namely 55p.
[2]The date by which Mr Roberts is required to meet the holding requirement has been extended to take account of his promotion to Group Chief Executive. Mr Roberts had met his obligations in this respect prior to his promotion and increase in salary.

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, but excludes vested and unvested share options (as these were all underwater at 31 December 2008) and restricted share awards that are subject to performance targets, although Mr Roberts and Mr Broadley have further exposure to the Company's share price in this respect.

	Personal shares held	Total value of personal shares £	Total restricted shares held (not subject to performance targets)	Total value of restricted shares £	Total exposure £	Total exposure as a percentage of base salary
Mr J Roberts	1,089,604	599,282	259,494	142,722	742,004	93%
Mr P Broadley	–	–	–	–	–	0%

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

Mr C Collins entered into an engagement letter with the Company in January 2005 setting out the terms applicable to his role as Chairman from May 2005. Under these terms, subject to: (a) 12 months' notice at any time given by either the Company or Mr Collins, (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, Mr Collins' appointment may continue until his 70th birthday (19 January 2010), although he has indicated that he currently intends to retire at the end of 2009.

The other seven 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 be terminated at 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
Mr N Andrews	1 June 2002	1 June 2008	3rd	1 June 2011
Mr R Bogni	1 Feb 2002	1 Feb 2008	3rd	1 Feb 2011
Mr R Edey	24 June 2004	24 June 2007	2nd	24 June 2010
Mr R Khoza	27 Jan 2006	27 Jan 2009	2nd	27 Jan 2012
Mr B Nqwababa	1 April 2007	1 April 2007	1st	1 April 2010
Mr L Otterbeck	14 Nov 2006	14 Nov 2006	1st	14 Nov 2009
Mr R Pym	1 Sep 2007	1 Sep 2007	1st	1 Sep 2010

Mr N Broadhurst retired from the Board (and also ceased to be Chairman of the Group Audit and Risk Committee and a member of the Remuneration and Nomination Committees) at the end of the AGM on 8 May 2008. No compensation was paid to him in connection with his retirement.

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 FTSE 100 Index)
→ Not linked to share price or Company performance.

The annual fees for the Chairman and for other non-executive roles for both 2008 and 2009 are set out in the table below. The Chairman and non-executive directors elected not to receive any increase in their annual fees for 2009.

	£
Chairman	300,000
Non-executive directors	
→ Base fee	55,000
Senior Independent Director	
→ Additional fee	3,000
Additional fees payable for Committees	
Group Audit and Risk Committee	
→ Chairman	30,000
→ Member	10,000
Remuneration Committee	
→ Chairman	12,000
→ Member	4,000

None of the non-executive directors of the Company (including the Chairman) contributed to any Group pension fund during 2008 or had any accrued pension fund benefits in any Group pension fund at 31 December 2008.

Shareholder approval of the Remuneration Report

An advisory vote on the Remuneration Report will be put to shareholders at the AGM on 7 May 2009 in accordance with the Directors' Remuneration Report Regulations 2002.

Rudi Bogni
Chairman of the Remuneration Committee,
On behalf of the Board
4 March 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and Parent Company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

The group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- The directors' report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

4 March 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OLD MUTUAL PLC

For the year ended 31 December 2008

We have audited the group and Parent Company financial statements (the "financial statements") of Old Mutual plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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 138. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 135.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
4 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	Year ended 31 December £m 2008	Year ended 31 December Restated* £m 2007
Revenue			
Gross earned premiums	3(iii)	**5,156**	5,566
Outward reinsurance		**(335)**	(293)
Net earned premiums		**4,821**	5,273
Investment return (non-banking)	8	**(11,578)**	6,318
Banking interest and similar income	9	**4,059**	3,190
Banking trading, investment and similar income	10	**162**	170
Fee and commission income, and income from service activities	11	**2,313**	2,475
Other income		**270**	245
Total revenues		**47**	17,671
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(3,610)**	(7,193)
Reinsurance recoveries		**262**	236
Net claims and benefits incurred		**(3,348)**	(6,957)
Change in investment contract liabilities		**10,051**	(2,618)
Losses on loans and advances		**(319)**	(157)
Finance costs	12	**392**	(50)
Banking interest payable and similar expenses	13	**(2,853)**	(2,053)
Fee and commission expenses, and other acquisition costs	14	**(937)**	(778)
Other operating and administrative expenses	15	**(2,834)**	(2,813)
Goodwill impairment	4(ii)	**(74)**	(3)
Change in third party interest in consolidated funds		**779**	(156)
Amortisation of PVIF and other acquired intangibles	4(ii)	**(361)**	(360)
Total expenses		**496**	(15,945)
Share of associated undertakings' loss after tax	21(ii)	**(1)**	(1)
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	**53**	25
Profit before tax		**595**	1,750
Income tax credit/(expense)	5(i)	**88**	(504)
Profit after tax for the financial year		**683**	1,246
Profit for the financial year attributable to:			
Equity holders of the parent		**441**	972
Minority interests			
Ordinary shares	6(i)	**188**	224
Preferred securities	6(ii)	**54**	50
Profit after tax for the financial year		**683**	1,246
Earnings per share			
Basic earnings per ordinary share (pence)	7(i)	**8.6**	19.2
Diluted earnings per ordinary share (pence)	7(i)	**8.1**	18.1
Weighted average number of shares – millions		**4,755**	4,894

*2007 results have been restated to include Mutual & Federal as a continuing operation.

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO PROFIT AFTER TAX

For the year ended 31 December 2008

Reconciliation of adjusted operating profit to profit after tax

	Notes	Year ended 31 December £m 2008	Year ended 31 December Restated* £m 2007
Europe	3(ii)	**266**	268
South Africa	3(ii)	**1,191**	1,254
United States	3(ii)	**(270)**	260
Other	3(ii)	**(17)**	2
		1,170	1,784
Finance costs		**(140)**	(119)
Other shareholders' expenses		**(31)**	(41)
Adjusted operating profit[2] before tax		**999**	1,624
Adjusting items	4(i)	**(168)**	66
Profit for the financial year before tax (excluding policyholder tax)		**831**	1,690
Income tax attributable to policyholder returns	3(ii)	**(236)**	60
Profit for the financial year before tax		**595**	1,750
Total income tax expense	5(i)	**88**	(504)
Profit after tax for the financial year		**683**	1,246

Adjusted operating profit after tax attributable to ordinary equity holders

	Notes	Year ended 31 December £m 2008	Year ended 31 December Restated* £m 2007
Adjusted operating profit[2] before tax		**999**	1,624
Tax on adjusted operating profit	5(iii)	**(86)**	(418)
Adjusted operating profit[2] after tax		**913**	1,206
Minority interest – ordinary shares	6(iii)	**(218)**	(242)
Minority interest – preferred securities	6(ii)	**(54)**	(50)
Adjusted operating profit[2] after tax attributable to ordinary equity holders		**641**	914
Adjusted weighted average number of shares – (millions)	7(i)	**5,230**	5,411
Adjusted operating earnings per share[3] – (pence)	7(ii)	**12.2**	16.9

Basis of preparation

[1]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.

[2]For long-term business and general insurance businesses, 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 minority 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, and fair value profits/(losses) on certain Group debt movements.

[3]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 minority 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.

*2007 results have been restated to include Mutual & Federal as a continuing operation.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	At 31 December £m 2008	At 31 December £m 2007
Assets			
Goodwill and other intangible assets	16	**5,882**	5,459
Mandatory reserve deposits with Central Banks		**734**	615
Property, plant and equipment	17	**682**	608
Investment property	18	**1,478**	1,479
Deferred tax assets	20	**1,590**	683
Investments in associated undertakings and joint ventures	21	**111**	81
Deferred acquisition costs	22	**3,199**	2,253
Reinsurers' share of long-term business policyholder liabilities	23	**1,148**	1,394
Reinsurers' share of general insurance liabilities	23	**115**	–
Deposits held with reinsurers	23	**164**	213
Loans and advances	24	**35,745**	30,687
Investments and securities	25	**83,522**	89,627
Current tax receivable		**118**	83
Client indebtedness for acceptances		**220**	165
Other assets	26	**3,137**	2,774
Derivative financial instruments – assets	27	**4,633**	1,527
Cash and cash equivalents		**2,862**	3,469
Non-current assets held-for-sale	32	**7**	1,623
Total assets		**145,347**	142,740
Liabilities			
Long-term business policyholder liabilities	23	**81,269**	84,251
General insurance liabilities	23	**344**	–
Third party interests in consolidated funds		**2,591**	3,547
Borrowed funds	33	**2,295**	2,353
Provisions	34	**477**	499
Deferred revenue	35	**598**	462
Deferred tax liabilities	20	**1,452**	1,413
Current tax payable		**219**	320
Other liabilities	36	**3,733**	6,180
Liabilities under acceptances		**220**	165
Amounts owed to bank depositors	37	**38,171**	31,817
Derivative financial instruments – liabilities	27	**4,395**	1,716
Non-current liabilities held-for-sale	32	**6**	420
Total liabilities		**135,770**	133,143
Net assets		**9,577**	9,597
Shareholders' equity			
Equity attributable to equity holders of the parent		**7,737**	7,961
Minority interests			
Ordinary shares	39(i)	**1,147**	933
Preferred securities	39(ii)	**693**	703
Total minority interests		**1,840**	1,636
Total equity		**9,577**	9,597

The consolidated financial statements on pages 111 to 240 were approved by the Board of Directors on 4 March 2009.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

Financials

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Cash flows from operating activities		
Profit before tax	**595**	1,750
Capital losses/(gains) included in investment income	**14,183**	(1,836)
Loss on disposal of property, plant and equipment	**3**	4
Depreciation of property, plant and equipment	**74**	73
Amortisation and impairment of goodwill and other intangible assets	**504**	403
Impairment of loans and receivables	**320**	183
Share-based payment expense	**21**	15
Share of associated undertakings' loss after tax	**1**	(1)
Profit arising on disposal of subsidiaries, associated undertakings and strategic investments	**(53)**	(25)
Other non-cash amounts in profit	**(397)**	29
Non-cash movements in profit before tax	**14,656**	(1,155)
Reinsurers' share of long-term business policyholder liabilities	**486**	(53)
Reinsurers' share of general insurance liabilities	**(49)**	–
Deferred acquisition costs	**(370)**	(482)
Loans and advances	**(5,206)**	(5,339)
Insurance liabilities	**282**	1,962
Investment contracts	**(10,260)**	4,124
Amounts owed to bank depositors	**6,110**	4,647
Other operating assets and liabilities	**(4,242)**	(491)
Changes in working capital	**(13,249)**	4,368
Taxation paid	**(458)**	(563)
Net cash inflow from operating activities	**1,544**	4,400
Cash flows from investing activities		
Net acquisitions of financial investments	**(1,170)**	(3,896)
Net acquisition of investment properties	**(7)**	(26)
Net acquisition of property, plant and equipment	**(110)**	(186)
Net acquisition of intangible assets	**(18)**	(67)
Acquisition of interests in subsidiaries	**(93)**	(278)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**1,138**	106
Net cash outflow from investing activities	**(260)**	(4,347)
Cash flows from financing activities		
Dividends paid to:		
Equity holders of the Company	**(352)**	(333)
Equity minority interests and preferred security interests	**(208)**	(205)
Interest paid (excluding banking interest paid)	**(87)**	(83)
Proceeds from issue of ordinary shares (including by subsidiaries to minority interests)	**31**	70
Net sale of treasury shares	**5**	149
Shares repurchased in buyback programme	**(175)**	(177)
Net receipts from unclaimed shares trust	**–**	95
Issue of subordinated and other debt	**374**	699
Other debt repaid	**(225)**	(356)
Net cash outflow from financing activities	**(637)**	(141)

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Net increase/(decrease) in cash and cash equivalents	**647**	(88)
Effects of exchange rate changes on cash and cash equivalents	**399**	50
Cash and cash equivalents at beginning of the year	**3,596**	3,634
Cash and cash equivalents at end of the year	**4,642**	3,596

Consisting of:

Coins and bank notes	**221**	211
Money at call and short notice	**2,453**	3,169
Balances with Central Banks (other than mandatory reserve deposits)	**188**	121
Cash and cash equivalents from non-current assets held-for-sale	**–**	(32)
Cash and cash equivalents	**2,862**	3,469
Mandatory reserve deposits with Central Banks	**734**	615
Short-term cash balances held in policyholder funds	**2,043**	808
Cash and cash equivalents subject to consolidation of funds	**(997)**	(1,296)
Total	**4,642**	3,596

Other supplementary cash flow disclosures

Interest income received (including banking interest)	**5,370**	4,858
Dividend income received	**493**	388
Interest paid (including banking interest)	**3,064**	2,130

Cash flows presented in this statement include all cash flows relating to policyholders' funds for the long-term business.

Cash and cash equivalents subject to consolidation of funds are not included in the cash flow as they relate to the minority holding in the funds.

Management do not consider that there are material amounts of cash and cash equivalents which are not available for use by the Group.

Mandatory reserve deposits with Central Banks are 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 2008

Year ended 31 December 2008	Notes	Number of shares issued and fully paid Millions	Attributable to equity holders of the parent £m	Total minority interest £m	Total equity £m
Equity holders' funds at beginning of the year		**5,510**	**7,961**	**1,636**	**9,597**
Changes in equity arising in the year					
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
Aggregate tax effect of items taken directly to or transferred from equity		–	366	–	366
Net income recognised directly in equity		–	(136)	101	(35)
Profit after tax for the financial year		–	441	242	683
Total recognised income and expense for the year		–	305	343	648
Dividends for the year	42	–	(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
Fair value of equity settled share options		–	26	–	26
Equity holders' funds at end of the year		**5,516**	**7,737**	**1,840**	**9,577**

Year ended 31 December 2008	Notes	Share capital £m	Share premium £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Perpetual preferred callable securities £m	Total £m
Attributable to equity holders of the parent at beginning of the year		**551**	**757**	**2,908**	**(304)**	**3,361**	**688**	**7,961**
Changes in equity arising in the year:								
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)
Aggregate tax effect of items taken directly to or transferred from equity		–	–	367	(13)	–	12	366
Net income recognised directly in equity		–	–	(804)	690	(34)	12	(136)
Profit for the financial year attributable to equity holders of the parent		–	–	–	–	410	31	441
Total recognised income and expense for the year		–	–	(804)	690	376	43	305
Dividends for the year	42	–	–	–	–	(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
Fair value of equity settled share options		–	–	26	–	–	–	26
Attributable to equity holders of the parent at end of the year		**552**	**766**	**2,130**	**386**	**3,215**	**688**	**7,737**

Other reserves	At 31 December £m 2008
Merger reserve	2,716
Available for sale reserve	(844)
Property revaluation reserve	85
Share-based payments reserve	171
Other reserves	2
Attributable to equity holders of the parent at end of the year	**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.

Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008 continued

Year ended 31 December 2007	Notes	Number of shares issued and fully paid Millions	Attributable to equity holders of the parent £m	Total minority interest £m	Total equity £m
Equity holders' funds at beginning of the year		5,501	7,237	1,526	8,763
Changes in equity arising in the year:					
Fair value gains/(losses):					
Property revaluation		–	95	1	96
Net investment hedge		–	(13)	–	(13)
Available for sale investments:					
Fair value losses		–	(197)	–	(197)
Recycled to the income statement		–	36	–	36
Shadow accounting		–	25	–	25
Currency translation differences/exchange differences on translating foreign operations		–	129	4	133
Other movements		–	(4)	–	(4)
Aggregate tax effect of items taken directly to or transferred from equity		–	34	–	34
Net income recognised directly in equity		–	105	5	110
Profit after tax for the financial year		–	972	274	1,246
Total recognised income and expense for the year		–	1,077	279	1,356
Dividends for the year	42	–	(373)	(165)	(538)
Net sale of treasury shares		–	149	–	149
Shares repurchased in the buyback programme		–	(177)	–	(177)
Issue of ordinary share capital by the Company		–	3	–	3
Change in participation in subsidiaries		–	–	(4)	(4)
Exercise of share options		9	9	–	9
Fair value of equity settled share options		–	36	–	36
Equity holders' funds at end of the year		5,510	7,961	1,636	9,597

Year ended 31 December 2007	Notes	Share capital £m	Share premium £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Perpetual preferred callable securities £m	Total £m
Attributable to equity holders of the parent at beginning of the year		550	746	2,901	(421)	2,773	688	7,237
Changes in equity arising in the year:								
Fair value gains/(losses):								
Property revaluation		–	–	95	–	–	–	95
Net investment hedge		–	–	–	(13)	–	–	(13)
Available for sale investments:								
Fair value losses		–	–	(197)	–	–	–	(197)
Recycled to income statement		–	–	36	–	–	–	36
Shadow accounting		–	–	25	–	–	–	25
Currency translation differences/exchange differences on translating foreign operations		–	–	–	129	–	–	129
Other movements		–	–	(10)	(2)	8	–	(4)
Aggregate tax effect of items taken directly to or transferred from equity		–	–	22	3	–	9	34
Net income recognised directly in equity		–	–	(29)	117	8	9	105
Profit for the financial year attributable to equity holders of the parent		–	–	–	–	941	31	972
Total recognised income and expense for the year		–	–	(29)	117	949	40	1,077
Dividends for the year	42	–	–	–	–	(333)	(40)	(373)
Net sale of treasury shares		–	–	–	–	149	–	149
Shares repurchased in the buyback programme		–	–	–	–	(177)	–	(177)
Issue of ordinary share capital by the Company		–	3	–	–	–	–	3
Exercise of share options		1	8	–	–	–	–	9
Fair value of equity settled share options		–	–	36	–	–	–	36
Attributable to equity holders of the parent at end of the year		551	757	2,908	(304)	3,361	688	7,961

Other reserves	At 31 December £m 2007
Merger reserve	2,716
Available for sale reserve	(30)
Property revaluation reserve	75
Share-based payments reserve	147
Attributable to equity holders of the parent at end of the year	2,908

Retained earnings were reduced by £588 million at 31 December 2007 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

1 Accounting policies

(a) 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 long-term insurance 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 230 of the Companies Act 1985 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.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified 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 1e(xi), 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 1(q).

(b) Foreign currency translation

(i) 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 balance sheet 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 equity when the changes in the fair value of the non-monetary item are recognised in equity, and in the income statement if the changes in fair value of the non-monetary item are recognised in the income statement.

(ii) 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, 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 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.

1 **Accounting policies** continued

(c) Group accounting

(i) Subsidiary undertakings and 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. Entities which the Company controls by virtue of the Company retaining the majority of risks or benefits, are also included in the consolidated financial statements.

The Group financial statements include the assets, liabilities and results of the Company and subsidiary undertakings. This includes consolidated special purpose entities and holdings in mutual funds. 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, 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.

(ii) 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).

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, which are held with a view to subsequent resale are accounted for as non-current assets held-for-sale, and those held by policyholder long-term insurance funds are accounted for as financial assets fair valued through the income statement.

1 **Accounting policies** continued

(d) Insurance and investment contracts

Long-term business

(i) Classification of contracts

Contracts sold as long-term business (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.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

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. 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 are accounted for in the same manner as insurance contracts.

(ii) Premiums on long-term insurance

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 are recorded as deposits and credited directly to investment contract liabilities.

(iii) 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.

(iv) Claims paid on long-term insurance

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 are recorded as deductions from investment contract liabilities.

1 **Accounting policies** continued

(d) Insurance and investment contracts continued

Long-term business continued

(v) 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 (i.e. bonus smoothing reserve) related to these contracts is included as a provision.

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 long-term business, and DAC and PVIF assets in the United States long-term business, 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 long-term business, 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 equity. The shadow accounting adjustment to insurance contract provisions is recognised in equity to the extent that the unrealised gains or losses on owner-occupied property backing insurance contract provisions are also recognised directly in equity.

In respect of the United States long-term business, 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 equity 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 equity 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.

1 Accounting policies continued

(d) Insurance and investment contracts continued

Long-term business continued

(vi) Investment contract liabilities

Investment contract liabilities in respect of the Group's US long-term non-linked business are measured at fair value. Investment contract liabilities for non-linked business in the Group's other territories are measured at fair value, determined by reference to the fair value of the underlying assets.

For linked 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.

Derivatives embedded in investment contracts are separated and measured at fair value, when their risks and characteristics are not closely related to those of the host contract and the host contract liability is calculated on an amortised cost basis.

(vii) 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 balance sheet for the contracts issued in these areas.

For the US life insurance business, an explicit deferred acquisition cost asset is established in the balance sheet. 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.

(viii) 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 business

All classes of general insurance business are accounted for on an annual basis.

(ix) 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 balance sheet 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.

(x) 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 balance sheet 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

(d) Insurance and investment contracts continued

General insurance business continued

(xi) 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.

(xii) 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 balance sheet 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.

(e) Financial instruments

(i) 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 transfers and no longer controls the financial asset, regardless of whether it has retained or transferred substantially all the risks and rewards of ownership.

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.

1 Accounting policies continued

(e) Financial instruments continued

(ii) 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.

Where the transaction price of a financial instrument in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group defers such differences (day-one gains or losses). Day-one gains or losses are amortised on a straight-line basis over the life of the instrument. To the extent that the inputs determining the fair value of the instrument become observable, or when the instrument is de-recognised, day-one gains or losses are recognised immediately in the income statement.

(iii) Derivative financial instruments

Derivative financial instruments are recognised in the balance sheet 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.

(iv) 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 equity.

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 recognised in equity are recognised in the income statement on disposal of the foreign operation.

(v) Embedded derivatives

Certain derivatives embedded in other financial and non-financial instruments (other than investment contracts), 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.

1 **Accounting policies** continued

(e) Financial instruments continued

(vi) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 balance sheet, with the exception of those relating to hedges, which are disclosed in accordance with the income statement effect of the hedged item.

(vii) 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 earned on financial assets carried at fair value through the income statement is presented as part of interest income.

(viii) 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 and the costs associated with the transaction or service can be measured reliably.

(ix) Financial assets

Financial assets (other than derivatives) 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 balance sheet, showing the categorisation of financial assets, together with financial liabilities is set out in note 31.

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 balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet 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.

1 Accounting policies continued

(e) Financial instruments continued

(ix) Financial assets continued

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 using the effective interest method, 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 balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised in equity. 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.

(x) 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 also 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.

(xi) Impairments of financial assets

Loans and advances categorised as loans and receivables

A provision for impairment of loans and advances categorised as loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due from the asset. The amount of the impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate at inception.

The impairment provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the balance sheet date, but these components have not yet been specifically identified. When a loan is uncollectable, it is written off against the related impairment provision. Subsequent recoveries are credited to the income statement.

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.

1 **Accounting policies** continued

(e) Financial instruments continued

(xi) Impairments of financial assets continued

Other financial assets carried at amortised cost, and available for sale financial assets

Other financial assets are deemed to be impaired when there is objective evidence to suggest that one or more events has occurred subsequent to the initial recognition of the asset and that event(s) has an impact on the estimated future cash flows of the asset that can be reliably measured. The amount of the impairment loss for other financial assets carried at amortised cost is calculated as being the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The carrying amount, for assets classified as available for sale and measured at fair value, is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. All such impairments are recognised in the income statement.

Where there is evidence of the reversal of the impairment of a financial asset held at amortised cost, the release of the impairment allowance is credited to the income statement. This is consistent with the initial recognition of impairment charges.

Where there is evidence of a reversal of the impairment of an available for sale financial asset the accounting presentation of the release of the corresponding impairment allowance depends on the type of instrument concerned. 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.

(xii) Financial liabilities (other than investment contracts)

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 balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in other income.

1 Accounting policies continued

(e) Financial instruments continued

(xiii) 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 IAS39 '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 have been reclassified as of that date and based on the fair value at that date. This represents a change of accounting policy in the current financial year. As the amendment applied from 1 July 2008, there were no retrospective changes to the financial statements.

Details of all reclassifications of financial assets in accordance with the above accounting policies are shown in note 31.

(xiv) 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 1(h)).

(f) 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 to equity, in which case it is recognised in equity.

(i) 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. 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 balance sheet date. Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, 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 equity. 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 20 includes further detail of circumstances in which the Group does not recognise temporary differences.

1 **Accounting policies** continued

(g) Intangible assets

(i) Goodwill and goodwill impairment

All business combinations are accounted for by applying the purchase method. At acquisition date, the Group recognises the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria. The cost of a business combination is the fair value of purchase consideration due at date of acquisition plus any directly attributable transaction costs. Contingent purchase consideration is recognised to the extent that it is probable and can be measured reliably. Any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items. Any excess between the cost of the business combination and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. Goodwill is adjusted for any subsequent re-measurement of contingent purchase consideration.

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.

Purchased 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 containing goodwill and intangible assets with indefinite useful lives. Where businesses are acquired as part of the same investment acquisition, these are combined for determining recoverability of the related goodwill. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. However, impairment losses relating to goodwill are not reversed.

(ii) 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 balance sheet 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 long-term 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 balance sheet date and any impairment losses recognised accordingly.

(iii) 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.

1 Accounting policies continued

(g) Intangible assets continued

(iv) 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 balance sheet 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.

(v) 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.

(h) 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.

(i) Property, plant and equipment

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

1 **Accounting policies** continued

(i) Property, plant and equipment continued

(v) 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

(vi) 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. The difference between the gross receivable and unearned finance income is presented in the balance sheet. 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 out under operating leases are included under property, plant and equipment in the balance sheet. 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.

(j) 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 balance sheet 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.

1 Accounting policies continued

(j) Investment properties continued

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.

(k) 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.

(l) 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 balance sheet 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.

(m) 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 balance sheet 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 accounted for using the "corridor method". Actuarial gains and losses 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 percent of the greater of the fair value of the plan assets or 10 percent 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.

1 Accounting policies continued

(n) Share-based payments

(i) 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 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 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.

(ii) 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.

(iii) 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.

(o) 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.

(p) 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.

(q) 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 more detail in note 1(d), and further detail of the key assumptions made in determining insurance contract provisions is included in note 23. Accounting for deferred acquisition cost assets is also discussed in note 1(d).

1 Accounting policies continued

(q) Critical accounting estimates and judgments continued

The fair values of financial assets and liabilities are classified and accounted for in accordance with the policies set out in note 1(e). They are valued on the basis of listed market prices 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 1(g).

Assets are subject to regular impairment reviews as required. Impairments are measured at the difference between the cost (or amortised cost) of a particular asset and the current fair value or recoverable amount. 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 1(g). The policy in respect of investment securities and purchased loans and receivables is described in note 1(e).

The accounting policy for deferred tax is detailed in note 1(f).

The Group does not consolidate its wholly owned mutual life insurance undertaking, Skandia Liv. For more information refer to the Subsidiary Undertakings and Special Purpose Entities Accounting Policy, note 1(c) (i).

(r) Segment reporting

The Group's results are analysed across nine reportable segments. For purposes of presentation these are grouped in geographical areas. This is consistent with the 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. The reported segments are Skandia UK, Nordic and ELAM, Old Mutual South Africa, Nedbank, Mutual & Federal, Rest of Africa, US Life and US Asset Management. Information about other business activities and operating segments is disclosed in the 'other operating segments' category. Other operating segments comprise the Asia Pacific asset management business and Group head office.

There are four principal business activities from which the Group generates revenues. These are long-term business (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 3.

The information reflected in note 3 reflects the measures of profit and loss, assets and liabilities for each 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 reported segment revenues and expenses and the Group's revenues and expenses is shown in note 3.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments 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.

Reallocations of certain comparative segment information have been made following changes in the Group's management reporting structure, effective 1 January 2008. There was no impact on net profit or net assets.

(s) Treasury shares

Upon consolidation, the balance sheet and income statement are adjusted for own shares held by Employee Share Ownership Trusts (ESOPs), policyholder funds of African life companies and those held in Black Economic Empowerment Trusts consolidated within the Group's financial statements.

Own shares are deducted from equity to eliminate the inter-company portion.

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of an entity's own equity instruments is recognised in equity.

Any net income in relation to own shares, both dividends received and unrealised losses on own shares are eliminated before stating the profit for the year.

1 Accounting policies continued

(s) Treasury shares continued

Dividends paid in respect of these shares are also excluded when determining the retained profit for the year.

In calculating the basic earnings per share, the exclusion of income in respect of own shares from the income statement requires the exclusion of treasury shares from the weighted average number of shares.

When calculating the diluted earnings per share, the number of shares included in the weighted average reflects the potential issue in respect of the treasury shares.

(t) 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.

(u) 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.

(v) Balance sheet liquidity analysis

The Group's balance sheet is presented 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 additional balance sheet analyses are given to describe how balance sheet lines are categorised between current and non-current balances, applying the principles laid out in IAS 1.

The following balance sheet captions are generally classified as current – cash and cash equivalents, non-current assets held-for-sale, client indebtedness for acceptances, current tax receivable, 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, third party interests in the consolidation of funds, provisions, deferred revenue and deferred tax liabilities.

The following balances include both current and non-current portions – reinsurers' shares of long-term and general insurance business policyholder liabilities, loans and advances, investments and securities, other assets, derivative financial assets and liabilities, long-term business 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).

(w) Standards, amendments to standards, and interpretations adopted in the 2008 annual financial statements

The following standards, amendments to standards and interpretations which are relevant to the Group, have been adopted in these financial statements:

- The amendments to IAS 39 'Financial Instruments: Recognition and Measurement', issued in October 2008, in respect of the reclassification of financial instruments have been adopted in these financial statements. The amendments extend the ability of preparers to make reclassifications of financial instruments between IAS 39 categories in restricted circumstances. Under the revised reclassification rules an entity has the ability to reclassify financial instruments from the held-for-trading and available for sale financial instrument categories in certain specified rare circumstances. The Group's accounting policies have been amended as shown in note 1(e) (xiii).
- The amendments to IFRS 7 'Financial Instruments: Disclosures', issued in October 2008, in conjunction with the changes to IAS 39, in respect of the reclassification of financial instruments, have also been adopted in these financial statements. The amendments require additional disclosures where reclassifications have been made in respect of the extended reclassifications provisions in IAS 39. See note 31 for the additional disclosures.
- IFRS 2 'Share-based payments' (effective 1 January 2009). Amendment relating to vesting conditions and cancellations. The amendments which have been early adopted in these financial statements, clarify that vesting conditions are performance conditions and service conditions only. Other features of a share-based transaction are not vesting conditions. There were no material impacts arising from the implementation of this amendment.
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective 1 January 2008) clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. This amendment was endorsed by EV on 16 December 2008. There was no material impact on the Group's financial statements from the implementation of this amendment.

1 Accounting policies continued

(x) 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 2007 financial statements. IFRS 8 replaces 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.
- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions' (effective 1 March 2007) was adopted in the 2007 financial statements. IFRIC 11 clarifies the treatment required in group and subsidiary financial statements of certain share-based transactions entered into by holding companies or subsidiaries, principally in respect of accounting for entitlements to equity instruments of the holding company. The principles set out in the interpretation had no impact on the Group's accounting policies on share-based payments and limited impact in the Parent Company's financial statements.

(y) Future standards, amendments to standards, and interpretations not early adopted in the 2008 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 1 'Presentation of Financial Statements – a Revised Presentation' (effective 1 January 2009). The changes include a comprehensive revision of primary statements, and include a requirement to introduce a statement of comprehensive income. There will be some presentational changes as a result of the introduction of this standard but no changes in measurement or recognition. There have also been additional amendments to this standard during 2008 as a consequence of the amendments made to IAS 32 relating to the disclosure of puttable instruments and obligations arising on liquidation (please see below for the amendments made to IAS 32 'Financial Instruments: Presentation').
- IAS 32 'Financial Instruments: Presentation – Puttable Financial Instruments and Obligations arising on liquidation' (effective 1 January 2009). Amendments have been made relating to the balance sheet classification of puttable instruments and obligations arising only on liquidation. As a result of the amendments some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of an entity. The amendments are not expected to have an impact on the Group's financial statements.
- IAS 39 'Financial Instruments: Recognition and Measurement' (effective 1 July 2009). Amendments have been 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 will not have a material impact on the Group's financial statements.
- IFRS 3 'Business Combinations' (effective 1 July 2009, not yet endorsed by EU). The amendments to IFRS 3 introduce a comprehensive revision to the standard, in particular on the application of the acquisition method. The provisions of the standard largely apply to future acquisitions, and in the case of Old Mutual, the standard will be applicable for acquisitions occurring on or after 1 January 2010, the required date of implementation of the standard by the Group. No retrospective application is necessary.
- IAS 27 'Consolidated and Separate Financial Statements' (effective 1 July 2009, not yet endorsed by EU). The amendments to IAS 27 coincide with those made to IFRS 3, and the majority of the significant provisions of the revised standard are only applicable to the Group in 2010.
- IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures' (effective 1 July 2009, not yet endorsed by EU). The amendments coincide with the changes to IFRS 3 and IAS 27.
- IFRIC 13 'Customer Loyalty Programmes' (effective 1 July 2008). These amendments address 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 are anticipated to have a limited impact in the Group's South African banking business.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective 1 October 2008, not yet endorsed by EU). These amendments clarify three particular issues relating to the accounting for hedges of net investments in foreign operations. The interpretation is not anticipated to have any material impact on the Group's financial statements.

2 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)	Balance sheet (closing rate)
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**
31 December 2007		
Rand	14.1109	13.6043
US Dollars	2.0014	1.9827
Swedish Kronor	13.5253	12.8320
Euro	1.4602	1.3596

3 Segment information

(i) Basis of segmentation

The Group's results are analysed across nine reportable segments. For purposes of presentation these are grouped in geographical areas. This is consistent with the 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. The Group generates revenue from four principal business activities: long-term business, asset management, banking and general insurance. The types of products and services from which each reportable segment derives its revenues are as follows:

Europe – Skandia UK – long-term business and asset management
Europe – Nordic – long-term business, asset management and banking
Europe – ELAM – long-term business and asset management
South Africa – OMSA – long-term business and asset management
South Africa – Nedbank – banking and asset management
South Africa – Mutual & Federal – general insurance
South Africa – Rest of Africa – long-term business and asset management (includes Namibia)
United States – US Life – long-term business
United States – USAM – asset management

Information about other business activities and operating segments is disclosed in the 'other operating segments' category. Other operating segments comprise the Asia Pacific asset management business and Group head office.

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 279 to 327.

Comparative segment information has been revised in accordance with the improvements in presentation made in the current financial year.

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.

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2008

	Europe			South Africa	
	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
Revenue					
Gross earned premiums	131	92	92	1,587	–
Outward reinsurance	(78)	(4)	(8)	(45)	–
Net earned premiums	53	88	84	1,542	–
Investment return (non-banking)	(6,165)	(2,317)	(1,436)	(305)	–
Banking interest and similar income	–	266	–	–	3,793
Banking trading, investment and similar income	–	24	–	–	138
Fee and commission income, and income from service activities	667	184	316	185	533
Other income	14	20	2	97	85
Inter-segment revenues	104	104	29	227	19
Total revenues	(5,327)	(1,631)	(1,005)	1,746	4,568
Expenses					
Claims and benefits (including change in insurance contract provisions)	(38)	(68)	(103)	(648)	–
Reinsurance recoveries	34	4	2	41	–
Net claims and benefits incurred	(4)	(64)	(101)	(607)	–
Change in investment contract liabilities	5,991	2,390	1,466	184	–
Losses on loans and advances	–	(4)	–	–	(315)
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(183)	–	–	(2,684)
Fee and commission expenses, and other acquisition costs	(330)	(49)	(151)	(150)	–
Other operating and administrative expenses	(333)	(193)	(166)	(487)	(928)
Goodwill impairment	–	–	–	–	–
Change in third party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	283	(52)	(1)	7	–
Inter-segment expenses	(113)	(126)	(31)	(177)	(71)
Total expenses	5,494	1,719	1,016	(1,230)	(3,998)
Share of associated undertakings' profit/(loss) after tax	–	–	–	6	5
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and minority interests	167	88	11	522	575
Tax expense	(56)	(11)	(14)	(155)	(123)
Minority interests	–	–	–	(5)	(227)
Adjusted operating profit/(loss) after tax and minority interests	111	77	(3)	362	225
Adjusting items net of tax and minority interests	55	(122)	(16)	104	29
Profit/(loss) after tax attributable to equity holders of the parent	166	(45)	(19)	466	254

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2008 continued

		United States						
M & F £m	Rest of Africa £m	US Life £m	USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m	Adjusting items (note 4) £m	Income statement £m
570	85	2,599	–	–	–	5,156	–	5,156
(91)	(2)	(107)	–	–	–	(335)	–	(335)
479	83	2,492	–	–	–	4,821	–	4,821
56	(14)	(332)	(3)	(13)	(713)	(11,242)	(336)	(11,578)
–	–	–	–	–	–	4,059	–	4,059
–	–	–	–	–	–	162	–	162
16	4	–	473	33	(1)	2,410	(97)	2,313
–	–	22	17	–	13	270	–	270
26	3	–	8	66	(586)	–	–	–
577	76	2,182	495	86	(1,287)	480	(433)	47
(401)	(52)	(2,300)	–	–	–	(3,610)	–	(3,610)
72	1	108	–	–	–	262	–	262
(329)	(51)	(2,192)	–	–	–	(3,348)	–	(3,348)
–	16	4	–	–	–	10,051	–	10,051
–	–	–	–	–	–	(319)	–	(319)
–	–	–	–	(140)	–	(140)	532	392
–	–	–	–	–	–	(2,867)	14	(2,853)
(101)	(6)	(264)	(10)	(10)	(44)	(1,115)	178	(937)
(59)	(10)	(84)	(388)	(75)	(34)	(2,757)	(77)	(2,834)
–	–	–	–	–	–	–	(74)	(74)
–	–	–	–	–	779	779	–	779
–	–	–	–	–	–		(361)	(361)
–	(1)	–	–	–	–	236	(236)	–
(12)	(6)	(13)	–	(37)	586	–	–	–
(501)	(58)	(2,549)	(398)	(262)	1,287	520	(24)	496
–	–	–	–	(12)	–	(1)	–	(1)
–	–	–	–	–	–	–	53	53
76	18	(367)	97	(188)	–	999	(404)	595
(17)	(2)	76	2	214	–	(86)	174	88
(19)	–	–	–	(21)	–	(272)	30	(242)
40	16	(291)	99	5	–	641	(200)	441
(49)	(13)	(569)	1	380	–	(200)		
(9)	3	(860)	100	385	–	441		

Financials

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2007

	Europe			South Africa	
	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
Revenue					
Gross earned premiums	129	73	28	1,474	–
Outward reinsurance	(66)	(3)	(3)	(39)	–
Net earned premiums	63	70	25	1,435	–
Investment return (non-banking)	1,565	349	50	3,006	–
Banking interest and similar income	–	211	–	–	2,979
Banking trading, investment and similar income	–	3	–	–	167
Fee and commission income, and income from service activities	706	184	295	209	529
Other income	15	17	1	100	65
Inter-segment revenues	82	92	44	190	39
Total revenues	2,431	926	415	4,940	3,779
Expenses					
Claims and benefits (including change in insurance contract provisions)	(79)	(46)	(26)	(2,842)	–
Reinsurance recoveries	47	1	2	38	–
Net claims and benefits incurred	(32)	(45)	(24)	(2,804)	–
Change in investment contract liabilities	(1,525)	(293)	(33)	(768)	–
Losses on loans and advances	–	(3)	–	–	(154)
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(125)	–	–	(1,928)
Fee and commission expenses, and other acquisition costs	(327)	(35)	(131)	(148)	–
Other operating and administrative expenses	(325)	(223)	(149)	(533)	(977)
Goodwill impairment	–	–	–	–	–
Change in third party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	42	(39)	–	(62)	–
Inter-segment expenses	(91)	(98)	(48)	(139)	(75)
Total expenses	(2,258)	(861)	(385)	(4,454)	(3,134)
Share of associated undertakings' profit/(loss) after tax	–	–	–	11	8
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and minority interests	173	65	30	497	653
Tax expense	(43)	(10)	(15)	(128)	(173)
Minority interests	–	–	(1)	(6)	(252)
Adjusted operating profit/(loss) after tax and minority interests	130	55	14	363	228
Adjusting items net of tax and minority interests	(13)	(69)	(14)	121	23
Profit/(loss) after tax attributable to equity holders of the parent	117	(14)	–	484	251

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2007 continued

			United States						
	M & F £m	Rest of Africa £m	US Life £m	USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m	Adjusting items (note 4) £m	Income statement Restated £m
	625	89	3,148	–	–	–	5,566	–	5,566
	(92)	(2)	(88)	–	–	–	(293)	–	(293)
	533	87	3,060	–	–	–	5,273	–	5,273
	60	77	774	13	8	211	6,113	205	6,318
	–	–	–	–	–	–	3,190	–	3,190
	–	–	–	–	–	–	170	–	170
	18	5	–	570	42	–	2,558	(83)	2,475
	–	–	9	12	3	23	245	–	245
	33	3	–	12	17	(512)	–	–	–
	644	172	3,843	607	70	(278)	17,549	122	17,671
	(390)	(139)	(3,671)	–	–	–	(7,193)	–	(7,193)
	52	1	95	–	–	–	236	–	236
	(338)	(138)	(3,576)	–	–	–	(6,957)	–	(6,957)
	–	1	–	–	–	–	(2,618)	–	(2,618)
	–	–	–	–	–	–	(157)	–	(157)
	–	–	–	–	(119)	–	(119)	69	(50)
	–	–	–	–	–	–	(2,053)	–	(2,053)
	(128)	(5)	(102)	(10)	(11)	(70)	(967)	189	(778)
	(53)	(6)	(54)	(435)	(74)	(8)	(2,837)	24	(2,813)
	–	–	–	–	–	–	–	(3)	(3)
	–	–	–	–	–	(156)	(156)	–	(156)
	–	–	–	–	–	–	–	(360)	(360)
	–	(1)	–	–	–	–	(60)	60	–
	(36)	(8)	(13)	–	(4)	512	–	–	–
	(555)	(157)	(3,745)	(445)	(208)	278	(15,924)	(21)	(15,945)
	–	–	–	–	(20)	–	(1)	–	(1)
	–	–	–	–	–	–	–	25	25
	89	15	98	162	(158)		1,624	126	1,750
	(28)	(1)	(33)	(27)	40		(418)	(86)	(504)
	(20)	–	–	–	(13)		(292)	18	(274)
	41	14	65	135	(131)		914	58	972
	2	1	(49)	8	48		58		
	43	15	16	143	(83)		972		

3 Segment information continued

(iii) Gross earned premiums

Year ended 31 December 2008	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Long-term business – insurance contracts	**131**	**92**	**92**	**1,111**	**–**
Long-term business – investment contracts with discretionary participation features	**–**	**–**	**–**	**476**	**–**
General insurance	**–**	**–**	**–**	**–**	**–**
Gross earned premiums	**131**	**92**	**92**	**1,587**	**–**
Long-term business – other investment contracts recognised as deposits	**4,892**	**976**	**1,052**	**1,358**	**–**

Year ended 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Long-term business – insurance contracts	129	73	28	1,011	–
Long-term business – investment contracts with discretionary participation features	–	–	–	463	–
General insurance	–	–	–	–	–
Gross earned premiums	129	73	28	1,474	–
Long-term business – other investment contracts recognised as deposits	6,335	694	1,421	1,293	–

(iv) Impairments on financial assets

Year ended 31 December 2008	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Impairment losses	**–**	**5**	**–**	**–**	**315**

Year ended 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Impairment losses	–	2	–	5	154

(v) Funds under management

As at 31 December 2008	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Long-term business policyholder funds	**26,889**	**6,605**	**5,297**	**20,048**	**425**
Unit trusts and mutual funds	**7,108**	**1,000**	**4,291**	**3,613**	**2,617**
Third party client funds	**–**	**–**	**–**	**8,613**	**3,375**
Total client funds under management	**33,997**	**7,605**	**9,588**	**32,274**	**6,417**
Shareholder funds	**885**	**418**	**311**	**1,596**	**–**
Total funds under management	**34,882**	**8,023**	**9,899**	**33,870**	**6,417**

As at 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
			Europe		South Africa
Long-term business policyholder funds	31,735	7,595	5,344	21,784	430
Unit trusts and mutual funds	9,211	1,182	4,023	3,918	2,775
Third party client funds	–	–	–	6,945	3,335
Total client funds under management	40,946	8,777	9,367	32,647	6,540
Shareholder funds	915	315	224	1,846	–
Total funds under management	41,861	9,092	9,591	34,493	6,540

3 Segment information continued

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
–	37	2,599	–	–	4,062
–	48	–	–	–	524
570	–	–	–	–	570
570	85	2,599	–	–	5,156
–	33	230	–	–	8,541

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
	37	3,148	–	–	4,426
	52	–	–	–	515
625	–	–	–	–	625
625	89	3,148	–	–	5,566
–	22	177	–	–	9,942

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
–	–	414	–		734

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
–	–	32	–	–	193

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
–	253	2,642	13,623	193	75,975
–	–	–	3,127	1,859	23,615
–	228	–	147,956	1,484	161,656
–	481	2,642	164,706	3,536	261,246
145	36	–	177	–	3,568
145	517	2,642	164,883	3,536	264,814

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other £m	Total £m
–	255	2,368	12,454	122	82,087
–	–	–	5,260	2,535	28,904
–	237	–	149,850	3,833	164,200
–	492	2,368	167,564	6,490	275,191
136	60	–	191	–	3,687
136	552	2,368	167,755	6,490	278,878

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008

At 31 December 2008	Europe UK £m	Europe Nordic £m	Europe ELAM £m	South Africa OMSA £m	South Africa Nedbank £m
Assets					
Goodwill and other intangible assets	1,609	1,183	1,138	28	425
Goodwill	644	222	574	24	308
Present value of acquired in-force business	713	742	375	–	–
Software development	22	1	6	4	117
Other intangibles	230	218	183	–	–
Mandatory reserve deposits with Central Banks	–	–	–	–	734
Property, plant and equipment	23	4	17	254	316
Investment property	2	–	1	1,273	15
Deferred tax assets	166	78	51	65	25
Investments in associated undertakings and joint ventures	–	–	–	26	75
Deferred acquisition costs	639	34	315	102	2
Insurance contracts	24	2	25	–	–
Investment contracts	552	32	282	92	–
Asset management	63	–	8	10	2
Reinsurers' share of long-term business policyholder liabilities	607	13	5	6	9
Insurance contracts	42	10	3	6	9
Unit-Linked investment contracts and similar contracts	551	–	–	–	–
Outstanding claims	14	3	2	–	–
Reinsurers share of general insurance liabilities	–	–	–	–	–
Deposits held with reinsurers	–	121	–	–	–
Loans and advances	116	3,846	25	49	31,634
Policyholder loans	116	–	24	49	–
Other loans and advances	–	3,846	1	–	31,634
Investments and securities	27,167	7,595	5,389	21,700	5,043
Government and government-guaranteed securities	163	214	610	3,631	2,255
Listed other debt securities, preference shares and debentures	2	813	41	1,781	2,172
Unlisted other debt securities, preference shares and debentures	–	–	67	2,106	–
Listed equity securities	1	–	1	6,678	38
Unlisted equity securities	23	12	9	873	152
Listed pooled investments	638	155	11	283	426
Unlisted pooled investments	26,340	6,401	4,650	4,233	–
Short-term funds and securities treated as investments	–	–	–	2,114	–
Other securities	–	–	–	1	–
Current tax receivable	80	–	8	3	25
Client indebtedness for acceptances	–	–	–	–	220
Other assets	178	138	125	433	486
Derivative financial instruments – assets	–	–	–	1,614	1,627
Cash and cash equivalents	202	372	183	97	631
Non-current assets held-for-sale	–	–	–	7	–
Inter-segment assets	163	264	89	1,308	19
Total assets	**30,952**	**13,648**	**7,346**	**26,965**	**41,286**

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

M & F £m	Rest of Africa £m	United States: US Life £m	United States: USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m
29	4	137	1,305	24	–	5,882
10	4	–	1,271	24	–	3,081
–	–	120	–	–	–	1,950
19	–	17	1	–	–	187
–	–	–	33	–	–	664
–	–	–	–	–	–	734
24	13	1	26	4	–	682
–	8	–	–	–	179	1,478
8	–	1,036	158	3	–	1,590
–	–	–	–	10	–	111
15	3	2,041	40	8	–	3,199
15	–	2,041	–	–	–	2,107
–	3	–	–	–	–	961
–	–	–	40	8	–	131
–	–	508	–	–	–	1,148
–	–	480	–	–	–	550
–	–	–	–	–	–	551
–	–	28	–	–	–	47
115	–	–	–	–	–	115
3	–	40	–	–	–	164
2	10	62	–	1	–	35,745
–	10	61	–	–	–	260
2	–	1	–	1	–	35,485
322	626	13,960	177	88	1,455	83,522
–	64	97	–	–	1,942	8,976
1	9	7,555	–	–	1,695	14,069
2	7	2,690	–	–	175	5,047
67	253	–	–	–	7,938	14,976
5	11	118	–	–	–	1,203
36	128	2,093	135	–	1,310	5,215
–	–	18	42	–	(11,853)	29,831
211	150	1,389	–	–	125	3,989
–	4	–	–	88	123	216
–	–	–	–	2	–	118
–	–	–	–	–	–	220
68	10	1,041	139	100	419	3,137
–	–	57	–	226	1,109	4,633
56	4	11	220	89	997	2,862
–	–	–	–	–	–	7
46	14	423	99	1,632	(4,057)	–
688	692	19,317	2,164	2,187	102	145,347

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3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

	Europe			South Africa	
At 31 December 2008	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
Liabilities					
Long-term business policyholder liabilities	27,327	6,884	5,348	22,569	426
Insurance contracts	157	71	700	10,310	–
Unit-linked investment contracts and similar contracts	27,154	6,704	4,641	6,525	–
Other investment contracts	–	–	–	105	426
Discretionary participating investment contracts	–	–	–	5,428	–
Outstanding claims	16	109	7	201	–
General insurance liabilities	–	–	–	–	–
Third party interests in consolidated funds	–	–	–	–	–
Borrowed funds	1	–	–	237	960
Senior debt securities	1	–	–	–	–
Mortgage backed securities	–	–	–	–	104
Subordinated debt securities	–	–	–	237	856
Provisions	22	203	15	126	1
Deferred revenue	401	3	155	22	–
Long-term business	320	3	149	16	–
Asset management	81	–	6	6	–
General insurance	–	–	–	–	–
Deferred tax liabilities	221	93	212	172	162
Current tax payable	26	22	3	96	18
Other liabilities	508	198	173	826	747
Liabilities under acceptances	–	–	–	–	220
Amounts owed to bank depositees	–	4,622	–	–	33,549
Derivative financial instruments – liabilities	1	–	–	1,436	1,731
Non-current liabilities held-for-sale	–	–	–	6	–
Inter-segment liabilities	185	174	406	26	427
Total liabilities	28,692	12,199	6,312	25,516	38,241
Net assets	2,260	1,449	1,034	1,449	3,045
Equity					
Equity attributable to equity holders of the parent	2,260	1,449	1,034	1,441	1,717
Minority interests	–	–	–	8	1,328
Minority interests – ordinary shares	–	–	–	8	1,081
Minority interests – preference shares	–	–	–	–	247
Total equity	2,260	1,449	1,034	1,449	3,045

The net assets of South African businesses are stated after eliminating investments in Group equity and debt instruments of £236 million (2007: £493 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 South Africa debt relates to long-term business. All other debt relates to other shareholders' net assets.

3 **Segment information** continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

		United States				
M & F £m	Rest of Africa £m	US Life £m	USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m
–	593	18,122	–	–	–	81,269
–	238	16,630	–	–	–	28,106
–	137	–	–	–	–	45,161
–	–	1,434	–	–	–	1,965
–	218	–	–	–	–	5,646
–	–	58	–	–	–	391
344	–	–	–	–	–	344
–	–	–	–	–	2,591	2,591
–	–	–	–	1,097	–	2,295
–	–	–	–	556	–	557
–	–	–	–	–	–	104
–	–	–	–	541	–	1,634
21	2	–	3	84	–	477
8	1	–	–	8	–	598
–	1	–	–	–	–	489
–	–	–	–	8	–	101
8	–	–	–	–	–	8
2	–	578	–	12	–	1,452
2	1	4	8	39	–	219
71	5	276	299	165	465	3,733
–	–	–	–	–	–	220
–	–	–	–	–	–	38,171
–	–	–	–	124	1,103	4,395
–	–	–	–	–	–	6
(1)	5	4	1,452	1,379	(4,057)	–
447	607	18,984	1,762	2,908	102	135,770
241	85	333	402	(721)	–	9,577
193	85	333	365	(1,140)	–	7,737
48	–	–	37	419	–	1,840
48	–	–	37	(27)	–	1,147
–	–	–	–	446	–	693
241	85	333	402	(721)	–	9,577

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3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007

	Europe			South Africa	
At 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
Assets					
Goodwill and other intangible assets	1,716	1,180	939	26	420
Goodwill	639	196	436	14	320
Present value of acquired in-force business	794	760	338	–	–
Software development	24	1	4	12	100
Other intangibles	259	223	161	–	–
Mandatory reserve deposits with Central Banks	–	–	–	–	615
Property, plant and equipment	19	5	14	241	291
Investment property	2	–	1	1,096	13
Deferred tax assets	40	74	13	106	12
Investments in associated undertakings and joint ventures	–	–	–	25	62
Deferred acquisition costs	524	15	182	93	1
Insurance contracts	20	1	3	–	–
Investment contracts	439	14	175	86	–
Asset management	65	–	4	7	1
Reinsurers' share of long-term business policyholder liabilities	702	8	4	4	13
Insurance contracts	56	5	2	4	13
Unit-Linked investment contracts and similar contracts	636	–	–	–	–
Outstanding claims	10	3	2	–	–
Deposits held with reinsurers	–	183	–	–	–
Loans and advances	64	3,117	19	83	27,360
Policyholder loans	63	–	15	83	–
Other loans and advances	1	3,117	4	–	27,360
Investments and securities	31,964	7,867	5,426	24,394	4,686
Government and government-guaranteed securities	163	165	44	3,074	1,414
Listed other debt securities, preference shares and debentures	–	105	80	1,969	2,660
Unlisted other debt securities, preference shares and debentures	–	16	3	2,083	–
Listed equity securities	1	1	7	9,402	44
Unlisted equity securities	1	16	3	680	138
Listed pooled investments	2,520	197	11	214	430
Unlisted pooled investments	29,279	7,367	5,278	4,703	–
Short-term funds and securities treated as investments	–	–	–	2,269	–
Other securities	–	–	–	–	–
Current tax receivable	45	5	2	4	4
Client indebtedness for acceptances	–	–	–	–	165
Other assets	161	63	166	513	611
Derivative financial instruments – assets	–	15	–	43	666
Cash and cash equivalents	599	202	125	195	763
Non-current assets held-for-sale	–	1,024	–	2	2
Inter-segment assets	198	549	137	844	102
Total assets	36,034	14,307	7,028	27,669	35,786

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

		United States				
M & F £m	Rest of Africa £m	US Life £m	USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m
–	4	184	959	31	–	5,459
–	4	57	932	31	–	2,629
–	–	116	–	–	–	2,008
–	–	11	10	–	–	162
–	–	–	17	–	–	660
–	–	–	–	–	–	615
–	13	1	17	7	–	608
–	8	–	–	–	359	1,479
–	–	327	106	5	–	683
–	–	–	–	(6)	–	81
–	3	1,398	24	13	–	2,253
–	–	1,398	–	–	–	1,422
–	3	–	–	–	–	717
–	–	–	24	13	–	114
–	1	662	–	–	–	1,394
–	1	646	–	–	–	727
–	–	–	–	–	–	636
–	–	16	–	–	–	31
–	–	30	–	–	–	213
–	–	44	–	–	–	30,687
–	–	43	–	–	–	204
–	–	1	–	–	–	30,483
–	675	11,560	192	155	2,708	89,627
–	80	240	–	–	2,054	7,234
–	15	6,881	–	–	911	12,621
–	–	2,179	–	–	–	4,281
–	320	–	–	–	11,586	21,361
–	10	115	–	–	–	963
–	104	1,656	169	–	897	6,198
–	–	11	23	–	(13,261)	33,400
–	106	478	–	–	489	3,342
–	40	–	–	155	32	227
–	–	–	–	23	–	83
–	–	–	–	–	–	165
–	13	876	182	85	104	2,774
–	–	20	–	72	711	1,527
–	5	3	205	76	1,296	3,469
595	–	–	–	–	–	1,623
52	11	46	–	2,112	(4,051)	–
647	733	15,151	1,685	2,573	1,127	142,740

Financials

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

At 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	Nedbank £m
	Europe			South Africa	
Liabilities					
Long-term business policyholder liabilities	32,311	7,909	5,371	24,632	430
Insurance contracts	188	72	103	11,105	–
Unit-linked investment contracts and similar contracts	32,111	7,738	5,263	6,936	–
Other investment contracts	–	–	–	85	430
Discretionary participating investment contracts	–	–	–	6,194	–
Outstanding claims	12	99	5	312	–
General insurance liabilities	–	–	–	–	–
Third party interests in consolidated funds	–	–	–	–	–
Borrowed funds	22	20	17	238	845
Senior debt securities	22	20	17	–	–
Mortgage backed securities	–	–	–	–	103
Subordinated debt securities	–	–	–	238	742
Provisions	21	180	5	134	18
Deferred revenue	345	1	76	23	3
Long-term business	261	1	72	16	–
Asset management	84	–	4	7	3
Deferred tax liabilities	332	111	155	281	128
Current tax payable	34	15	8	149	29
Other liabilities	618	219	152	772	2,406
Liabilities under acceptances	–	–	–	–	165
Amounts owed to bank depositors	–	3,936	–	–	27,881
Derivative financial instruments – liabilities	–	21	3	115	840
Non-current liabilities held-for-sale	–	22	–	2	–
Inter-segment liabilities	198	579	212	75	379
Total liabilities	**33,881**	**13,013**	**5,999**	**26,421**	**33,124**
Net assets	**2,153**	**1,294**	**1,029**	**1,248**	**2,662**
Equity					
Equity attributable to equity holders of the parent	2,153	1,294	1,024	1,238	1,520
Minority interests	–	–	5	10	1,142
Minority interests – ordinary shares	–	–	5	10	885
Minority interests – preference shares	–	–	–	–	257
Total equity	**2,153**	**1,294**	**1,029**	**1,248**	**2,662**

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

		United States				
M & F £m	Rest of Africa £m	US Life £m	USAM £m	Other operating segments £m	Consolidation adjustments £m	Total reportable segments £m
–	602	12,996	–	–	–	84,251
–	269	11,900	–	–	–	23,637
–	123	–	–	–	–	52,171
–	–	1,059	–	–	–	1,574
–	210	–	–	–	–	6,404
–	–	37	–	–	–	465
–	–	–	–	–	–	–
–	–	–	–	–	3,547	3,547
–	–	–	–	1,211	–	2,353
–	–	–	–	402	–	461
–	–	–	–	–	–	103
–	–	–	–	809	–	1,789
–	3	–	2	136	–	499
–	–	–	–	14	–	462
–	–	–	–	–	–	350
–	–	–	–	14	–	112
–	–	401	–	5	–	1,413
–	1	13	(5)	76	–	320
–	33	555	364	137	924	6,180
–	–	–	–	–	–	165
–	–	–	–	–	–	31,817
–	–	–	–	30	707	1,716
396	–	–	–	–	–	420
4	2	–	1,638	964	(4,051)	–
400	**641**	**13,965**	**1,999**	**2,573**	**1,127**	**133,143**
247	**92**	**1,186**	**(314)**	**–**	**–**	**9,597**
200	92	1,186	(346)	(400)	–	7,961
47	–	–	32	400	–	1,636
47	–	–	32	(46)	–	933
–	–	–	–	446	–	703
247	**92**	**1,186**	**(314)**	**–**	**–**	**9,597**

Financials

4 Operating profit adjusting items

(i) Summary of adjusting items

In determining the adjusted operating profit of the Group 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.

Year ended 31 December 2008	Notes	Europe £m	South Africa £m	United States £m	Other £m	Total £m
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	**(341)**	**–**	**(96)**	**(1)**	**(438)**
Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	**72**	**(20)**	**1**	**–**	**53**
Short-term fluctuations in investment return	4(iv)	**145**	**(239)**	**(476)**	**–**	**(570)**
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	**–**	**234**	**–**	**–**	**234**
Dividends declared to holders of perpetual preferred callable securities	4(vi)	**–**	**–**	**–**	**43**	**43**
US Asset Management equity plans and minority holders	4(viii)	**–**	**–**	**7**	**–**	**7**
Credit-related fair value gains on Group debt instruments	4(ix)	**–**	**14**	**–**	**489**	**503**
Total adjusting items		**(124)**	**(11)**	**(564)**	**531**	**(168)**
Tax on adjusting items	5(iii)	**41**	**45**	**3**	**(151)**	**(62)**
Minority interest in adjusting items	6(iii)	**–**	**37**	**(7)**	**–**	**30**
Total adjusting items after tax and minority interests		**(83)**	**71**	**(568)**	**380**	**(200)**

Year ended 31 December 2007	Notes	Europe £m	South Africa £m	United States £m	Other £m	Total £m
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	(218)	(3)	(24)	–	(245)
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	16	1	8	–	25
Short-term fluctuations in investment return	4(iv)	55	191	(55)	–	191
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	–	14	–	–	14
Dividends declared to holders of perpetual preferred callable securities	4(vi)	–	–	–	40	40
Closure of unclaimed shares trusts	4(vii)	–	13	–	(12)	1
US Asset Management equity plans and minority holders	4(viii)	–	–	11	–	11
Credit-related fair value gains on Group debt instruments	4(ix)	–	–	–	29	29
Total adjusting items		(147)	216	(60)	57	66
Tax on adjusting items	5(iii)	51	(98)	30	(9)	(26)
Minority interest in adjusting items	6(iii)	–	29	(11)	–	18
Total adjusting items after tax and minority interests		(96)	147	(41)	48	58

4 Operating profit adjusting items continued

(ii) Goodwill impairment and impact of acquisition accounting

In applying acquisition accounting in accordance with IFRS deferred acquisition costs and deferred revenue are not recognised. These are reversed in the acquisition balance sheet 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.

Goodwill impairment and acquisition accounting adjustments to adjusted operating profit are summarised below:

Year ended 31 December 2008	**Europe £m**	**South Africa £m**	**United States £m**	**Other £m**	**Total £m**
Amortisation of acquired PVIF					
UK	**(86)**	**–**	**–**	**–**	**(86)**
Nordic	**(105)**	**–**	**–**	**–**	**(105)**
ELAM	**(60)**	**–**	**–**	**–**	**(60)**
US Life	**–**	**–**	**(35)**	**–**	**(35)**
Amortisation of acquired deferred costs and revenue					
UK	**33**	**–**	**–**	**–**	**33**
Nordic	**22**	**–**	**–**	**–**	**22**
ELAM	**26**	**–**	**–**	**–**	**26**
Amortisation of other acquired intangible assets					
UK	**(30)**	**–**	**–**	**–**	**(30)**
Nordic	**(24)**	**–**	**–**	**–**	**(24)**
ELAM	**(21)**	**–**	**–**	**–**	**(21)**
Change in acquisition balance sheet provisions					
UK	**(8)**	**–**	**–**	**–**	**(8)**
Nordic	**(76)**	**–**	**–**	**–**	**(76)**
Goodwill impairment					
Nordic	**(12)**	**–**	**–**	**–**	**(12)**
US Life	**–**	**–**	**(61)**	**–**	**(61)**
Other	**–**	**–**	**–**	**(1)**	**(1)**
	(341)	**–**	**(96)**	**(1)**	**(438)**

Year ended 31 December 2007	Europe £m	South Africa Restated £m	United States £m	Other £m	Total £m
Amortisation of acquired PVIF					
UK	(95)	–	–	–	(95)
Nordic	(92)	–	–	–	(92)
ELAM	(79)	–	–	–	(79)
US Life	–	–	(24)	–	(24)
Amortisation of acquired deferred costs and revenue					
UK	35	–	–	–	35
Nordic	20	–	–	–	20
ELAM	51	–	–	–	51
Amortisation of other acquired intangible assets					
UK	(30)	–	–	–	(30)
Nordic	(22)	–	–	–	(22)
ELAM	(18)	–	–	–	(18)
Change in acquisition balance sheet provisions					
Nordic	12	–	–	–	12
Goodwill impairment					
M & F	–	(3)	–	–	(3)
	(218)	(3)	(24)	–	(245)

4 Operating profit adjusting items continued

(iii) Profit on disposal of subsidiaries, associated undertakings and strategic investments

On 11 June 2008, ELAM 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 during the six months ended 30 June 2008, resulting in a profit on disposal of £55 million.

During 2007, the Nordic segment's banking subsidiary sold its Danish operation. An accounting profit on sale of £16 million was recognised. The US Asset Management business disposed of its interests in certain affiliate asset managers, resulting in a profit on disposal of £8 million in 2007.

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. OMSA realised a profit of £4 million on the sale of its administration business and Nedbank recognised a £1 million profit in the disposal of Bond Choice.

Profits on the disposal of subsidiaries, associated undertakings and strategic investments are analysed below:

Year ended 31 December 2008	**Europe £m**	**South Africa £m**	**United States £m**	**Other £m**	**Total £m**
Nordic	**55**	**–**	**–**	**–**	**55**
ELAM	**17**	**–**	**–**	**–**	**17**
OMSA	**–**	**(11)**	**–**	**–**	**(11)**
Nedbank	**–**	**1**	**–**	**–**	**1**
M & F	**–**	**(10)**	**–**	**–**	**(10)**
USAM	**–**	**–**	**1**	**–**	**1**
	72	**(20)**	**1**	**–**	**53**

Year ended 31 December 2007	Europe £m	South Africa £m	United States £m	Other £m	Total £m
Nordic	16	–	–	–	16
Nedbank	–	1	–	–	1
USAM	–	–	8	–	8
	16	1	8	–	25

(iv) Long-term investment return

Profit before tax includes actual investment returns earned on the shareholder assets of the Group's long-term 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 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 South Africa long-term business, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For US and Europe long-term businesses, the return is applied to average investible assets.

For all businesses mis-matches attributed to the timing of the recognition of policyholder tax and related receipts from policyholders are eliminated with reference to the historic net gains/(losses) in respect of this item.

Long-term investment rates	Year ended 31 December % **2008**	Year ended 31 December % 2007
Europe long-term business	**4.8**	4.9
South Africa long-term business	**16.6**	15.6
United States long-term business	**5.9**	5.7

4 Operating profit adjusting items continued

(iv) Long-term investment return continued

Analysis of short-term fluctuations in investment return

At 31 December 2008	UK £m	Nordic £m	ELAM £m	OMSA £m	M & F £m	Rest of Africa £m	US Life £m	Total £m
Long-term investment return	**65**	**1**	**–**	**230**	**60**	**11**	**754**	**1,121**
Less: Actual shareholder investment return	**205**	**5**	**1**	**76**	**(12)**	**(2)**	**484**	**757**
Short-term fluctuations in investment return	**(140)**	**(4)**	**(1)**	**154**	**72**	**13**	**270**	**364**
Hedge losses on Bermuda guarantees treated as short-term fluctuations	**–**	**–**	**–**	**–**	**–**	**–**	**206**	**206**
Total short–term fluctuations in investment return	**(140)**	**(4)**	**(1)**	**154**	**72**	**13**	**476**	**570**

At 31 December 2007	UK £m	Nordic £m	ELAM £m	OMSA £m	M & F £m	Rest of Africa £m	US Life £m	Total £m
Long-term investment return	6	–	1	212	65	9	582	875
Less: Actual shareholder investment return	60	–	2	406	61	10	527	1,066
Short-term fluctuations in investment return	(54)	–	(1)	(194)	4	(1)	55	(191)
Hedge losses on Bermuda guarantees treated as short-term fluctuations	–	–	–	–	–	–	–	–
Total short–term fluctuations in investment return	(54)	–	(1)	(194)	4	(1)	55	(191)

The actual investment return attributable to shareholders for the US long-term business reflects total investment income, as a distinction is not drawn between shareholder and policyholder funds.

(v) 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 by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of the Group's South Africa banking subsidiary. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2008 the investment return adjustment decreased adjusted operating profit by £234 million (2007: decrease of £14 million).

(vi) Dividends declared to holders of perpetual preferred callable securities

Dividends declared to the holders of the Group's perpetual preferred callable securities were £43 million in the year ended 31 December 2008 (2007: £40 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.

(vii) Closure of unclaimed shares trusts

During 2006 Old Mutual plc announced that the Old Mutual South Africa Unclaimed Shares Trust (UST), together with similar trusts set up in Namibia, Zimbabwe, Malawi and Bermuda, would be closed. Proceeds of sale of the Old Mutual plc shares held by those trusts were remitted to Old Mutual plc in 2006 and 2007. Old Mutual intends to use substantially all of the proceeds realised to discharge late claims in cash for a further period of three years (to 31 August 2009), to fund good causes in the jurisdictions of the trust concerned or to enhance benefits for certain specific groups of policyholders of the Group's South African and Namibian life businesses. Provisions are held in this regard.

During 2007 adjustments were made in respect of the realisation of certain foreign exchange losses (£14 million) and the remeasurement of certain provisions (£13 million). Consistent with the original accounting treatment in 2006, these amounts have been excluded from adjusted operating profit.

4 Operating profit adjusting items continued

(viii) US Asset Management equity plans and minority interests

During 2007, US Asset Management entered into a number of new long-term incentive arrangements with its asset management affiliates.

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to minority interests. However, this is treated as a compensation expense in determining adjusted operating profit. The amount recognised in relation to this in 2008 was £7 million (2007: £11 million).

The Group has issued put options to 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 2008 these instruments were revalued, the impact of which was nil (2007: less than £1 million).

(ix) Credit-related fair value gains on Group debt instruments

The widening of credit spread of the Group's debt instruments in the market price has resulted in gains of £489 million (2007: £29 million gain) at Group head office and £14 million (2007: nil) in Nedbank being recorded in the Group's income statement for those instruments that are recorded at fair value.

In the directors' view, this gain is not reflective of the underlying performance of the Group and will reverse over time. The gain has therefore been excluded from adjusted operating profit.

5 Income tax (credit)/expense

(i) Analysis of total income tax (credit)/expense

	Year ended 31 December £m 2008	Year ended 31 December Restated £m 2007
Current tax		
United Kingdom tax		
Corporation tax	**93**	436
Double tax relief	**(145)**	(399)
Overseas tax		
South Africa	**264**	403
United States	**4**	26
Europe	**68**	73
Secondary Tax on Companies (STC)	**22**	74
Prior year adjustments	**1**	(25)
Total current tax	**307**	588
Deferred tax		
Origination of temporary differences	**(548)**	(66)
Changes in tax rates/bases	**(1)**	(13)
Write down/recognition of deferred tax assets	**154**	(5)
Total deferred tax	**(395)**	(84)
Total income tax (credit)/expense	**(88)**	504

5 Income tax expense continued

(ii) Reconciliation of total income tax (credit)/expense

	Year ended 31 December £m 2008	Year ended 31 December Restated £m 2007
Profit before tax	**595**	1,750
Tax at standard rate of 28.5% (2007: 30%)	**169**	525
Different tax rate or basis on overseas operations	**(23)**	(20)
Untaxed and low taxed income	**(218)**	(166)
Disallowable expenses	**8**	90
Net movement on deferred tax assets not recognised	**123**	(38)
Effect on deferred tax of changes in tax rates	**(5)**	(18)
STC	**53**	57
Income tax attributable to policyholder returns	**(169)**	51
Other	**(26)**	23
Total income tax (credit)/expense	**(88)**	504

(iii) Income tax on adjusted operating profit

	Year ended 31 December £m 2008	Year ended 31 December Restated £m 2007
Income tax (credit)/expense	**(88)**	504
Tax on adjusting items		
Impact of acquisition accounting	**46**	65
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**12**	(10)
Short-term fluctuations in investment return	**35**	(37)
Income tax attributable to policyholders returns	**236**	(60)
Secondary Tax on Companies (STC) on dividends paid	**–**	(35)
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(12)**	(9)
Fair value gains on group debt instruments	**(143)**	–
Income tax on adjusted operating profit	**86**	418

6 Minority interests – Income statement

(i) Minority interests – ordinary shares

The minority interest 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 percent of the ordinary equity. The principal subsidiaries where a minority exists are the Group's banking and general insurance businesses in South Africa. For the year ended 31 December 2008 the minority interest attributable to ordinary shares was £188 million (2007: £224 million).

(ii) Minority interests – preferred securities

	At 31 December £m 2008	At 31 December £m 2007
R2,000 million non-cumulative preference shares	**14**	13
R792 million non-cumulative preference shares	**5**	5
R300 million non-cumulative preference shares	**1**	1
US$750 million cumulative preferred securities	**32**	30
R364 million non-cumulative preference shares	**2**	1
Minority interest – preferred securities	**54**	50

(iii) Minority interests – adjusted operating profit

The following table reconciles minority interests' share of profit for the financial year to minority interests' share of adjusted operating profit:

Reconciliation of minority interests share of profit for the financial year	Year ended 31 December £m 2008	Year ended 31 December £m 2007
The minority interest charge is analysed as follows:		
Minority interest – ordinary shares	**188**	224
Goodwill impairment and impact of acquisition accounting	**–**	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**2**	–
Short-term fluctuations in investment return	**11**	–
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**30**	29
Fair value gains on group debt instruments	**(6)**	
Income attributable to US Asset Management minority holdings	**(7)**	(11)
Minority interest share of adjusted operating profit	**218**	242

The Group uses revised weighted average effective ownership interests when calculating the minority 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 2008 the increase in adjusted operating profit attributable to minority interests as a result of this was £30 million (2007: £29 million).

7 Earnings and earnings per share

(i) 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 2008	Year ended 31 December £m 2007
Profit for the financial year attributable to equity holders of the parent	**441**	972
Dividends declared to holders of perpetual preferred callable securities	**(31)**	(31)
Profit attributable to ordinary equity holders	**410**	941

Total dividends declared to holders of perpetual preferred callable securities of £43 million in 2008 (2007: £40 million) are stated net of tax credits of £12 million (2007: £9 million).

	Year ended 31 December Millions 2008	Year ended 31 December Millions 2007
Weighted average number of ordinary shares in issue	**5,294**	5,492
Shares held in charitable foundations	**(19)**	(20)
Shares held in ESOP trusts	**(45)**	(61)
Adjusted weighted average number of ordinary shares	**5,230**	5,411
Shares held in life funds	**(240)**	(282)
Shares held in Black Economic Empowerment trusts	**(235)**	(235)
Weighted average number of ordinary shares	**4,755**	4,894
Basic earnings per ordinary share (pence)	**8.6**	19.2

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 2008	Year ended 31 December Millions 2007
Weighted average number of ordinary shares	**4,755**	4,894
Adjustments for share options held by ESOP trusts	**61**	63
Adjustments for shares held in Black Economic Empowerment trusts	**235**	235
	5,051	5,192
Diluted earnings per ordinary share (pence)	**8.1**	18.1

7 Earnings and earnings per share continued

(ii) 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 minority interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, income/(expense) from closure of unclaimed shares trusts and fair value gains/(losses) on Group debt instruments.

The reconciliation of profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Profit for the financial year attributable to equity holders of the parent	**441**	972
Adjusting items	**168**	(66)
Tax on adjusting items	**62**	26
Minority interest on adjusting items	**(30)**	(18)
Adjusted operating profit after tax attributable to ordinary equity holders	**641**	914
Adjusted weighted average number of ordinary shares – (millions)	**5,230**	5,411
Adjusted operating earnings per ordinary share – (pence)	**12.2**	16.9

8 Investment return (non-banking)

	Year ended 31 December £m 2008	Year ended 31 December Restated £m 2007
Interest and similar income		
Loans and advances	**34**	10
Investments and securities	**1,918**	1,571
Government and government-guaranteed securities	**253**	323
Other debt securities, preference shares and debentures	**916**	731
Pooled investments	**54**	57
Short-term funds and securities treated as investments	**290**	283
Other	**405**	177
Cash and cash equivalents	**108**	103
Total interest and similar income	**2,060**	1,684
Dividend income – investments and securities	**513**	384
Equity securities	**480**	341
Pooled investments	**33**	43
Fair value gains and losses recognised in income	**(14,207)**	4,187
Investments and securities	**(12,921)**	3,764
Derivatives	**(25)**	(44)
Investment property	**(143)**	277
Other	**(1,118)**	190
Rental income from investment property	**71**	57
Foreign currency (losses)/gains	**(15)**	6
Total investment return recognised in income	**(11,578)**	6,318

8 Investment return (non-banking) continued

	Year ended 31 December £m 2008	Year ended 31 December Restated £m 2007
Total interest income for assets not at fair value through income statement	**851**	620

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:

	2008	2007
Held for trading (including derivatives)	**(26)**	48
Designated at fair value through income statement	**(13,787)**	3,910
Available-for-sale financial assets	**(414)**	(36)
Loans and receivables	**1**	1
	(14,226)	3,923
Investment property	**(143)**	277
Realised fair value gains and losses included in the above	**(2)**	5,928

The fair value gains/(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 £414 million (2007: £32 million) relating to securities held by the Group's US Life business.

9 Banking interest and similar income

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Interest and similar income		
Loans and advances	**3,701**	2,942
Mortgage loans	**1,958**	1,531
Finance lease and instalment debtors	**545**	457
Credit cards	**89**	71
Bills and acceptances	**4**	7
Overdrafts	**149**	122
Term loans and other	**956**	754
Investments and securities	**345**	244
Government and government-guaranteed securities	**210**	137
Other debt securities, preference shares and debentures	**135**	107
Cash and cash equivalents	**13**	4
Total interest and similar income	**4,059**	3,190
Total interest income for assets not at fair value through income statement	**3,779**	2,880
Total interest income on impaired financial assets	**77**	–

10 Banking trading, investment and similar income

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Dividend income – investments and securities	**16**	11
Equity securities	**14**	10
Pooled investments	**2**	1
Rental income from investment property	**3**	4
Exchange and other non-interest income	**43**	62
Derivative income	**49**	45
Exchange	**6**	–
Securities dealing	**(22)**	16
Fair value gains	**10**	1
Net trading income	**100**	93
Foreign exchange	**76**	51
Debt securities	**36**	24
Equities	**(12)**	16
Other	**–**	2
Total banking trading, investment and similar income	**162**	170

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:

	2008	2007
Held-for-trading (including derivatives)	**(61)**	(20)
Designated at fair value through income statement	**85**	20
Loans and receivables	**–**	1
	24	1
Realised fair value gains included in the above	**19**	47

11 Fee and commission income, and income from service activities

Year ended 31 December 2008	**Long-term business £m**	**Asset management £m**	**Banking £m**	**General insurance £m**	**Total £m**
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**
Year ended 31 December 2007					
Fee and commission income	977	1,007	501	18	2,503
Transaction and performance fees	–	132	–	–	132
Change in deferred revenue	(139)	(21)	–	–	(160)
	838	1,118	501	18	2,475

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.

12 Finance costs

	Note	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Interest payable on borrowed funds		**89**	86
Senior debt and term loans		**26**	25
Subordinated debt		**65**	60
Other		**(2)**	1
Fair value gains and losses on borrowed funds		**(474)**	(37)
Borrowed funds		**(434)**	(29)
Derivative instruments		**(40)**	(8)
Foreign currency gains and losses on borrowed funds		**(6)**	–
Reserve movements relating to debt and derivative instruments		**(1)**	1
Total finance costs excluding banking activities		**(392)**	50
Finance costs from banking activities	13	**79**	68
Total interest expense included above for liabilities not at fair value through income statement		**27**	29

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:

	2008	2007
Held for trading (including derivatives)	**(40)**	(8)
Designated at fair value through income statement	**(434)**	(29)
	(474)	(37)
Realised fair value gains and losses included in the above	**–**	–

13 Banking interest payable and similar expense

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Amounts owed to bank depositors	**2,594**	1,854
Deposits and loan accounts	**1,698**	1,216
Current and savings accounts	**267**	203
Negotiable certificates of deposit	**550**	367
Long-term debt instruments	**79**	68
Other liabilities	**259**	199
Total interest payable and similar expenses	**2,853**	2,053
Total interest expense included above for liabilities not at fair value through income statement	**2,038**	1,723

14 Fee and commission expenses, and other acquisition costs

Year ended 31 December 2008	Long-term business £m	Asset management £m	General insurance £m	Total £m
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**
Year ended 31 December 2007				
Fees and commission expenses	846	210	128	1,184
Changes in deferred acquisition costs	(457)	(32)	–	(489)
Other acquisition costs	68	15	–	83
	457	193	128	778

15 Other operating and administrative expenses

(i) Other operating and administrative expenses includes:

	Note	Year ended 31 December £m **2008**	Year ended 31 December £m 2007
Staff costs	15(ii)	**1,463**	1,573
Depreciation	17	**74**	73
Software costs		**24**	29
Operating lease rentals – banking		**44**	41
Operating lease rentals – non-banking		**58**	49
Amortisation of intangibles		**329**	338
Impairment of goodwill and other intangible assets		**100**	5

(ii) Staff costs

	Note	Year ended 31 December £m **2008**	Year ended 31 December £m 2007
Staff costs			
Wages and salaries		**1,011**	971
Social security costs		**60**	52
Retirement obligations			
Defined contribution plans		**37**	45
Defined benefit plans		**(24)**	(3)
Other retirement benefits		**3**	4
Bonus and incentive remuneration		**200**	358
Share-based payments			
Cash settled	41(viii)	**3**	(2)
Equity settled	41(viii)	**21**	38
Termination benefits		**2**	3
Long-term employee benefits		**4**	4
Other		**146**	103
		1,463	1,573

15 Other operating and administrative expenses continued

	Number 2008	Number 2007
The average number of persons employed by the Group during the year was:		
Long-term business	**20,814**	20,188
Banking	**27,257**	26,314
Asset management	**5,506**	5,257
General insurance	**2,703**	3,448
Other	**266**	148
	56,546	55,355

(iii) 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 2008	Year ended 31 December £m 2007
Fees for audit services		
Group	**1.5**	1.3
Subsidiaries	**9.7**	8.4
Pension schemes	**0.3**	0.3
Total audit fees	**11.5**	10.0
Fees for non-audit services		
Taxation	**0.9**	0.3
Information technology	**0.1**	–
Other services pursuant to legislation	**0.4**	–
Valuation and actuarial	**0.2**	0.7
Corporate finance transactions	**–**	0.1
Any other services	**2.7**	2.8
Total non-audit services	**4.3**	3.9
Total Group auditors' remuneration	**15.8**	13.9

In addition to the above, fees of £2.6 million (2007: £2.5 million) were payable to other auditors in respect of joint audit arrangements of Nedbank, the Group's banking subsidiary in South Africa.

16 Goodwill and other intangible assets

At 31 December	Goodwill £m 2008	2007	Present value of acquired in-force business £m 2008	2007	Software development costs £m 2008	2007	Other intangible assets £m 2008	2007	Total £m 2008	2007
Cost										
Balance at beginning of the year	**2,762**	2,559	**2,736**	2,543	**423**	358	**804**	758	**6,725**	6,218
Acquisitions through business combinations	**40**	122	**–**	101	**–**	1	**–**	15	**40**	239
Additions	**–**	–	**–**	–	**82**	90	**–**	4	**82**	94
Foreign exchange and other movements	**496**	127	**393**	92	**12**	3	**114**	27	**1,015**	249
Disposals or retirements	**–**	(26)	**–**	–	**(3)**	(2)	**(2)**	–	**(5)**	(28)
Transfer from/(to) non-current assets held-for-sale	**18**	(20)	**–**	–	**34**	(27)	**–**	–	**52**	(47)
Balance at end of the year	**3,316**	2,762	**3,129**	2,736	**548**	423	**916**	804	**7,909**	6,725
Amortisation and impairment losses										
Balance at beginning of the year	**(133)**	(130)	**(728)**	(431)	**(261)**	(222)	**(144)**	(68)	**(1,266)**	(851)
Amortisation charge for the year	**–**	–	**(286)**	(290)	**(43)**	(48)	**(75)**	(70)	**(404)**	(408)
Impairment losses	**(74)**	–	**–**	–	**(25)**	(1)	**(1)**	(1)	**(100)**	(2)
Foreign exchange and other movements	**(19)**	(10)	**(165)**	(7)	**(17)**	(5)	**(32)**	(5)	**(233)**	(27)
Disposals or retirements	**–**	–	**–**	–	**1**	1	**–**	–	**1**	1
Transfer from/(to) non-current assets held-for-sale	**(9)**	7	**–**	–	**(16)**	14	**–**	–	**(25)**	21
Balance at end of the year	**(235)**	(133)	**(1,179)**	(728)	**(361)**	(261)	**(252)**	(144)	**(2,027)**	(1,266)
Carrying amount										
Balance at beginning of the year	**2,629**	2,429	**2,008**	2,112	**162**	136	**660**	690	**5,459**	5,367
Balance at end of the year	**3,081**	2,629	**1,950**	2,008	**187**	162	**664**	660	**5,882**	5,459

The majority of other intangible assets comprise distribution channels, customer relationships and brands associated with the Skandia business acquired during 2006.

The increase in the goodwill balance arising on acquisitions through business combinations comprises £3 million (2007: £51 million) in respect of various acquisitions by the Group's US Asset Management business, £21 million (2007: £70 million) relating to the purchase of additional interests in Nedbank and £16 million (2007: £1 million) relating to various other small acquisitions.

Impairment tests for goodwill

Goodwill is reviewed for each cash generating unit (CGU) annually and the recoverable amounts are determined as the higher of the value in use or net selling price calculations. A goodwill impairment charge is recognised when the recoverable amount is less than the carrying value.

The CGU groupings utilised in the goodwill impairment testing correspond to the reportable segments reflected in note 3 of the financial statements.

The goodwill balance recognised primarily relates to the European CGUs of Nordic, UK and ELAM, the US Life and US Asset Management units as well as Nedbank. The principles underlying the key assumptions used in the determination of the recoverable amounts are applied consistently and are outlined below for each of the principal lines of business which generate revenue for the Group and which has goodwill allocated to it.

Goodwill impairment and other charges

The goodwill impairment charge recognised in the income statement for the year ended 31 December 2008 was £74 million (2007: £3 million – included within transfer from non-current assets held-for-sale). The component of the charge that relates to impairments based on comparisons to value-in-use calculations amounts to £62 million and relates to the US Life CGU following an assessment of the embedded value of that CGU in the current economic environment. There have been no reversals of impairment charges in the current year (2007: nil). Details of how the impairment loss has been determined are given below.

16 Goodwill and other intangible assets continued

Goodwill impairment and other charges continued

The remaining £12 million expense (2007: nil) relates to an adjustment to the goodwill allocated to the Nordic CGU on the acquisition of Skandia as a result of the recognition, in 2008, of previously unrecognised pre-acquisition tax losses in that business unit, in accordance with the initial accounting requirements contained within IFRS 3.

Key assumptions applied to the value in use calculations

Long-term business

The shareholders' recoverable amount within the long-term business is determined using embedded value methodology plus a value in use calculation for the value of new business (VNB). VNB represents the present value of future profits from expected new business.

Embedded value represents the shareholders' interest in the long-term business and is calculated in accordance with established industry practice. The methodology and significant assumptions underlying the determination of embedded value is disclosed in the supplementary information shown on pages 260 to 270 of the Group embedded value report. The Group adopted Market Consistent Embedded Value (MCEV) methodology in the current year. The differences between the key assumptions applied in the current year and in the prior year are disclosed on pages 295 and 296.

The cash flows included in the value in use calculations are actuarially determined with reference to the embedded value methodology and utilises the inputs from the latest business plans approved by management. Projections beyond the three-year business plan period have been extrapolated using a conservative inflation based growth assumption. The cash flows are discounted at the 10 year government bond/gilt rates relevant to the geographic region in question, which is adjusted to reflect the particular risks and uncertainties which could cause variations in the timing, amount or liquidity of the cash flows derived from the assets.

The key assumptions that affect the value in use calculations are detailed for each of the CGUs below. In the prior year the value of new business component of the long-term business value in use calculation was calculated as a multiple of one year's new business value generation. The multiple was determined by reference to market multiples for similar transactions of similar businesses.

Asset management and banking business

The recoverable amount associated with the asset management and banking business has been determined under the value in use methodology. As for the long-term business, the cash flows are based on the latest three-year business plans approved by management, extrapolations beyond that period used conservative inflation based growth rates. The assumptions underlying the business plans include market share, sales growth and investment performance. The cash flows are discounted at the relevant 10 year government bond / gilt rates, adjusted to reflect the particular risks and uncertainties which could cause variations in the timing, amount or liquidity of the cash flows derived from the assets.

The key assumptions that affect the value in use calculations are detailed for each of the CGUs below.

Results of the impairments tests performed

Europe

The goodwill recognised in the CGUs within the European region relate primarily to the acquisition of Skandia. UK and ELAM generate revenues through their long-term and asset management businesses. Nordic also has a banking business as an additional principal source of revenue. There has been no goodwill impairment recognised in the current financial year (2007: nil) based on the value in use calculations performed for each of these CGUs.

The key assumptions used in the long-term, asset management and banking value in use calculations for the European CGUs are as follows:

- The assumed growth rates used in the extrapolation of the forecasted cash flows beyond the three-year period included in the latest approved business plans – The rate used is a conservative inflation based growth assumption, which varies by CGU. ELAM, which incorporates a number of European countries, uses a weighted average calculation to determine the growth rate of 3.2 percent applied to its long-term business and of 3.6 percent for the mutual fund business. Nordic has applied the Riksbanken inflation target of 2 percent to all principal business lines. UK applied 1.3 percent to the long-term business and 1.6 percent as the growth rate for mutual funds.
- The discount rate – The applied rate uses the relevant 10-year government bond rate as a starting point, which is adjusted for an equity market risk premium and other relevant risk adjustments which are determined using market valuation models and other observable references. The rate is considered to be representative of the cost of equity relevant to the CGU. For the long-term businesses a rate of 11.6 percent has been applied in the UK, 10 percent for Nordic and 10.9 percent for ELAM. A rate of 8.6 percent has been applied to the Nordic banking and mutual funds businesses. A rate of 11.6 percent in the UK and 16.8 percent in ELAM was applied to the asset management businesses.

For Nordic, the banking and asset management cash flows are extrapolated for one year beyond the business plan period, whereas for the other businesses two additional years are added. The embedded value components are projected for the period detailed in the Group's embedded value disclosures.

Management believe that any reasonable change in the assumptions would not cause the recoverable amounts of the Nordic and UK CGUs to fall below the carrying amounts. A reasonable adverse change in the assumptions used in the value in use calculation for ELAM (for example, reducing expected sales growth by 10 percent or increasing the risk discount rate by 3 percent) would be absorbed before the recoverable amounts fall below the carrying amount for this CGU.

16 Goodwill and other intangible assets continued

North America

Goodwill attributable to North America originally related to the acquisition of the US Life business and US Asset Management. The goodwill associated with these businesses was evaluated for impairment using the methodology described above.

The key assumptions used in the value in use calculations for the US Asset Management CGU are the following:

- An assumed growth rate of 7 percent (2007: 6 percent) 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.
- The risk adjusted discount rate applied was 17 percent (2007: 14 percent).

No impairment has been recognised for the US Asset Management business. Management believe that a reasonable adverse change in the assumptions used in the value in use calculation (for example, reducing the terminal growth rate to 5 percent) for that CGU would be absorbed before the recoverable amounts fall below the carrying amounts.

Given the current economic market environment, an external appraisal value was obtained for the US Life CGU. The appraisal, published by Milliman (a firm of consulting actuaries), discounted the embedded value of the in force business at a risk adjusted rate of 15 percent.

Based on the results of the impairment tests, it has been necessary to recognise an impairment of £62 million (2007: nil) for the US Life business, which amounts to the full amount of goodwill that relates to this CGU.

Africa

The goodwill for South Africa primarily relates to Nedbank. The impairment test has been performed using the value in use methodology detailed above. There was no impairment recognised for this CGU in the current financial year (2007: nil). The discount rate applied is approximately 11 percent (2007: 12 percent). A 5 percent growth rate was applied to extrapolate cash flows for an additional two years beyond the three-year business plan period.

Goodwill by cash generating unit

The following table is an analysis of the goodwill, net of amortisation and impairment losses by principal cash generating units:

	At 31 December £m 2008	At 31 December £m 2007
US Asset Management	**1,271**	932
US Life	**–**	57
Nedbank	**308**	318
UK	**644**	639
Nordic	**222**	196
ELAM	**574**	436
Other	**62**	51
Goodwill, net of impairment losses	**3,081**	2,629

Goodwill and other intangible assets by segment

At 31 December 2008	**Europe £m**	**South Africa £m**	**United States £m**	**Other £m**	**Total £m**
Goodwill and intangible assets, net of amortisation and impairment losses	**3,930**	**486**	**1,442**	**24**	**5,882**
Amortisation	**332**	**28**	**44**	**–**	**404**
Impairment losses	**30**	**8**	**62**	**–**	**100**

At 31 December 2007	Europe £m	South Africa £m	United States £m	Other £m	Total £m
Goodwill and intangible assets, net of amortisation and impairment losses	3,839	448	1,141	31	5,459
Amortisation	340	37	31	–	408
Impairment losses	1	1	–	–	2

17 Property, plant and equipment

	Land £m 2008	2007	Buildings £m 2008	2007	Plant and equipment £m 2008	2007	Total £m 2008	2007
Gross carrying amount								
Balance at beginning of the year	**73**	53	**360**	290	**547**	514	**980**	857
Additions	**–**	3	**16**	4	**83**	108	**99**	115
Additions from business combinations	**–**	–	**–**	1	**–**	–	**–**	1
Increase arising from revaluation	**2**	17	**20**	87	**–**	–	**22**	104
Disposals	**–**	–	**–**	(20)	**(36)**	(43)	**(36)**	(63)
Foreign exchange and other movements	**–**	1	**(1)**	5	**32**	2	**31**	8
Transfer from/(to) non-current asset held-for-sale	**1**	(1)	**10**	(7)	**34**	(34)	**45**	(42)
Balance at end of the year	**76**	73	**405**	360	**660**	547	**1,141**	980
Accumulated depreciation and impairment losses								
Balance at beginning of the year	**–**	–	**(10)**	(13)	**(362)**	(345)	**(372)**	(358)
Depreciation charge for the year	**–**	–	**(8)**	(8)	**(66)**	(65)	**(74)**	(73)
Disposals	**–**	–	**–**	4	**28**	30	**28**	34
Foreign exchange and other movements	**–**	–	**6**	6	**(24)**	(4)	**(18)**	2
Transfer from/(to) non-current asset held-for-sale	**–**	–	**(1)**	1	**(22)**	22	**(23)**	23
Balance at end of the year	**–**	–	**(13)**	(10)	**(446)**	(362)	**(459)**	(372)
Carrying amount								
Balance at beginning of the year	**73**	53	**350**	277	**185**	169	**608**	499
Balance at end of the year	**76**	73	**392**	350	**214**	185	**682**	608

The carrying value of property, plant and equipment leased to third parties under operating leases, included in the above is £33 million (2007: £28 million) and comprises land of £5 million (2007: £4 million) and buildings of £28 million (2007: £24 million).

There are no restrictions on property, plant and equipment title as a result of security pledges and no contractual commitments for the acquisition of plant, property and equipment.

The revaluation of land and buildings relates to OMSA, £1 million and £15 million respectively (2007: £2 million and £67 million), Nedbank, £1 million and £5 million respectively (2007: £15 million and £20 million). For OMSA, 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 £19 million (2007: £19 million) and £91 million (2007: £92 million) respectively for OMSA and £12 million (2007: £13 million) and £92 million (2007: £86 million) for Nedbank respectively.

Capital expenditure and depreciation by segment

Year ended 31 December 2008	**South Africa £m**	**United States £m**	**Europe £m**	**Other £m**	**Total £m**
Capital expenditure, net of depreciation	**607**	**27**	**44**	**4**	**682**
Depreciation	**53**	**7**	**11**	**3**	**74**

Year ended 31 December 2007	South Africa £m	United States £m	Europe £m	Other £m	Total £m
Capital expenditure, net of depreciation	544	17	39	8	608
Depreciation	54	6	13	–	73

Financials

18 Investment property

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Balance at beginning of the year	**1,479**	1,149
Additions	**145**	50
Additions from business combinations	**–**	–
Disposals	**(13)**	(12)
Net (loss)/gain from fair value adjustments	**(143)**	277
Foreign exchange and other movements	**10**	15
Balance at end of the year	**1,478**	1,479

In 2008 additions of £144 million (2007: £49 million) related to OMSA and £1 million (2007: £1 million) related to Nedbank. Of the net (loss)/gain arising from fair value adjustments on investment properties, £31 million gain (2007: £263 million gain) related to OMSA, £1 million gain (2007: £1 million gain) related to Nedbank, £5 million gain (2007: nil) related to other African businesses and £180 million loss (2007: £13 million gain) related to UK.

The fair value of investment property leased to third parties under operating leases is as follows:

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Freehold	**1,478**	1,471
Long leaseholds	**–**	–
Short leaseholds	**–**	8
	1,478	1,479
Rental income from investment property	**84**	80
Direct operating expense arising from investment property that generated rental income	**(16)**	(25)
	68	55

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 £1,478 million (2007: £1,479 million), £1,296 million (2007: £1,117 million) is attributable to South Africa and £182 million (2007: £362 million) to Europe.

19 Operating lease arrangements

(i) The Group as lessee

Minimum lease payments under operating leases recognised as an expense in the year	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Banking	**43**	46
Non-banking	**33**	30
Minimum lease payments	**76**	76

Outstanding commitments under non-cancellable operating leases, fall due as follows: Year ended 31 December	Banking £m 2008	Non-banking £m 2008	Total £m 2008	Banking £m 2007	Non-banking £m 2007	Total £m 2007
Within one year	**38**	**36**	**74**	56	32	88
In the second to fifth years inclusive	**117**	**148**	**265**	281	105	386
After five years	**170**	**114**	**284**	262	35	297
	325	**298**	**623**	599	172	771

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

(ii) The Group as lessor

Assets subject to operating leases	At 31 December £m 2008	At 31 December £m 2007
Land	**5**	4
Buildings	**28**	24
Investment property	**1,478**	1,479
	1,511	1,507

Future minimum lease payments of contracts with tenants	At 31 December £m 2008	At 31 December £m 2007
Within one year	**57**	51
In the second to fifth years inclusive	**132**	129
After five years	**27**	41
	216	221

20 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.

(i) Deferred tax assets

The movement on the deferred tax assets account is as follows:

	1 January 2008 £m	Income statement (charge)/ credit £m	(Charged)/ credited to equity £m	Acquisition/ disposals of subsidiaries £m	Foreign exchange and other movements £m	31 December 2008 £m
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**

	1 January 2007 £m	Income statement (charge)/ credit £m	(Charged)/ credited to equity £m	Acquisition/ disposals of subsidiaries £m	Foreign exchange and other movements £m	31 December 2007 £m
Insurance funds	125	(57)	–	–	3	71
Tax losses carried forward	337	(231)	–	–	33	139
Accelerated capital allowances	42	–	–	–	(2)	40
Available for sale securities	–	–	50	–	(3)	47
Other temporary differences	7	322	7	7	13	356
Netted against liabilities	–	(102)	–	–	(21)	(123)
Deferred fee income	–	86	–	–	67	153
	511	18	57	7	90	683

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The amounts for which no deferred tax asset has been recognised comprise:

At 31 December	Gross amount £m 2008	Tax £m 2008	Gross amount £m 2007	Tax £m 2007
Unrelieved tax losses				
Expiring within one year	**54**	**2**	–	–
Expiring in the second to fifth years inclusive	**1,222**	**109**	262	17
Expiring after five years	**1,826**	**541**	825	177
Accelerated capital allowances	**19**	**5**	19	6
Other timing differences	**28**	**8**	207	68
	3,149	**665**	1,313	268

20 Deferred tax assets and liabilities continued

(ii) Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

	1 January 2008 £m	Income statement charge/ (credit) £m	Charged/ (credited) to equity £m	Acquisition/ disposals of subsidiaries £m	Foreign exchange and other movements £m	31 December 2008 £m
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**

	1 January 2007 £m	Income statement (charge)/ credit £m	(Charged)/ credited to equity £m	Acquisition/ disposals of subsidiaries £m	Foreign exchange and other movements £m	31 December 2007 £m
Accelerated tax depreciation	5	15	–	–	5	25
Deferred acquisition costs	338	142	27	–	27	534
Leasing	173	(91)	–	–	(2)	80
PVIF	311	(63)	–	–	8	256
Other acquired intangibles	109	(11)	–	–	5	103
Available for sale securities	4	–	(4)	–	–	–
Other temporary differences	453	91	–	(1)	(114)	429
Policyholder tax	–	(45)	–	–	154	109
Netted against assets	–	(102)	–	–	(21)	(123)
	1,393	(64)	23	(1)	62	1,413

As the Group is able to control the reversal of temporary differences in respect of investments in subsidiaries, branches, associates and JVs 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 £3.2 billion (2007: £2.2 billion).

21 Investments in associated undertakings and joint ventures

(i) 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:

As 31 December 2008	Country of operation	Interest held %	Carrying value £m	Group share of profit/(loss) £m
Clidet No. 638 (Pty) Ltd	**Republic of South Africa**	**49**	**19**	**–**
Kotak Mahindra Old Mutual Life Insurance Ltd	**India**	**26**	**26**	**(3)**
Skandia BSAM	**China**	**50**	**11**	**(3)**
Visigro Investments (Pty) Ltd	**Republic of South Africa**	**30**	**8**	**–**
Odyssey Developments (Pty) Ltd	**Republic of South Africa**	**49**	**8**	**–**
All other associated undertakings			**39**	**5**
			111	**(1)**

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.

As 31 December 2007	Country of operation	Interest held %	Carrying value £m	Group share of profit/(loss) £m
Clidet No. 638 (Pty) Ltd	Republic of South Africa	49	16	–
Kotak Mahindra Old Mutual Life Insurance Ltd	India	26	25	(3)
Skandia BSAM	China	50	11	(3)
Visigro Investments (Pty) Ltd	Republic of South Africa	30	4	–
Odyssey Developments (Pty) Ltd	Republic of South Africa	49	8	–
All other associated undertakings			17	5
			81	(1)

(ii) 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 **2008**	Year ended 31 December £m 2007
Total assets	**476**	428
Total liabilities	**417**	353
Total revenues	**148**	125
Net loss after tax	**(1)**	(1)

21 Investments in associated undertakings continued

(iii) 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 2008	Year ended 31 December £m 2007
Balance at beginning of the year	**81**	83
Net additions of investment in associated undertakings	**18**	8
Share of loss after tax	**(1)**	(1)
Dividends paid	**(8)**	(8)
Foreign exchange and other movements	**21**	(1)
Balance at end of the year	**111**	81

The Group has no significant investments in which it owns less than 20 percent of the ordinary share capital that it accounts for using the equity method.

(iv) Other Group holdings

The above does not include companies whereby the Group has a holding of more than 20 percent, 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.

(v) Contingent liabilities

The Group is severally liable for the contingent liabilities relating to investments in associated undertakings of £1 million (2007: £2 million).

22 Deferred acquisition costs

Year end 31 December 2008	**Insurance contracts £m**	**Investment contracts £m**	**Asset management £m**	**Total £m**
Balance at beginning of the year	**1,422**	**717**	**114**	**2,253**
New business	**234**	**286**	**47**	**567**
Amortisation	**(80)**	**(97)**	**(40)**	**(217)**
Unlocking of deferred acquisition costs	**(159)**	**–**	**–**	**(159)**
Foreign exchange and other movements	**677**	**55**	**10**	**742**
Transfer from assets held-for-sale	**13**	**–**	**–**	**13**
Balance at end of the year	**2,107**	**961**	**131**	**3,199**

Year end 31 December 2007	Insurance contracts £m	Investment contracts £m	Asset management £m	Total £m
Balance at beginning of the year	1,103	401	74	1,578
New business	364	357	67	788
Amortisation	(78)	(58)	(35)	(171)
Unlocking of deferred acquisition costs	(30)	–	–	(30)
Foreign exchange and other movements	70	17	8	95
Transfer to assets held-for-sale	(7)	–	–	(7)
Balance at end of the year	1,422	717	114	2,253

23 Long-term insurance business policyholder and general insurance liabilities

At 31 December	Gross £m 2008	Reinsurance £m 2008	Net £m 2008	Gross £m 2007	Reinsurance £m 2007	Net £m 2007
Long-term business policyholder liabilities						
Insurance contracts	**28,106**	**(550)**	**27,556**	23,637	(727)	22,910
Investment contracts						
Unit-linked investment contracts and similar contracts	**45,161**	**(551)**	**44,610**	52,171	(636)	51,535
Other investment contracts	**1,965**	**–**	**1,965**	1,574	–	1,574
Discretionary participating investment contracts	**5,647**	**–**	**5,647**	6,404	–	6,404
Outstanding claims	**390**	**(47)**	**343**	465	(31)	434
	81,269	**(1,148)**	**80,121**	84,251	(1,394)	82,857
General insurance liabilities						
Claims incurred but not reported	**45**	**(8)**	**37**	–	–	–
Unearned premiums	**79**	**(26)**	**53**	–	–	–
Outstanding claims	**220**	**(81)**	**139**	–	–	–
	344	**(115)**	**229**	**–**	**–**	**–**
Long-term insurance business policyholder and general insurance liabilities	**81,613**	**(1,263)**	**80,350**	84,251	(1,394)	82,857

Of the £1,263 million (2007: £1,394 million) included in reinsurer's share of long-term business policyholder and general insurance liabilities is an amount of £705 million (2007: £682 million) which is classified as current, the remainder being non-current.

Of the £164 million (2007: £213 million) included in deposits held with reinsurers £124 million (2007: £183 million) is classified as current, the remainder being non-current.

Movements in the amounts outstanding in respect of long-term business policyholder liabilities, other than outstanding claims, are set out below.

(i) Insurance contracts

Year ended 31 December	Gross £m 2008	Reinsurance £m 2008	Net £m 2008	Gross £m 2007	Reinsurance £m 2007	Net £m 2007
Balance at beginning of the year	**23,637**	**(727)**	**22,910**	21,877	(717)	21,160
Income						
Premium income	**4,062**	**(152)**	**3,910**	4,107	(128)	3,979
Investment income	**(993)**	**–**	**(993)**	1,805	–	1,805
Other income	**2**	**–**	**2**	13	–	13
Expenses						
Claims and policy benefits	**(3,681)**	**147**	**(3,534)**	(3,479)	111	(3,368)
Operating expenses	**(290)**	**–**	**(290)**	(274)	–	(274)
Currency translation loss/(gain)	**4,320**	**(151)**	**4,169**	(33)	10	(23)
Other charges and transfers	**1,229**	**326**	**1,555**	(160)	(10)	(170)
Taxation	**12**	**–**	**12**	(29)	–	(29)
Transfer from/(to) operating profit	**(192)**	**7**	**(185)**	(190)	7	(183)
Balance at end of the year	**28,106**	**(550)**	**27,556**	23,637	(727)	22,910

23 Long-term insurance business policyholder and general insurance liabilities continued

(ii) Unit-linked investment contracts and similar contracts, and other investment contracts

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Balance at beginning of the year	**53,745**	47,338
New contributions received	**8,616**	9,942
Maturities	**(762)**	(729)
Withdrawals and surrenders	**(5,470)**	(5,305)
Fair value movements	**(10,085)**	455
Foreign exchange and other movements	**1,082**	2,044
Balance at end of the year	**47,126**	53,745

(iii) Discretionary participating investment contracts

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Balance at beginning of the year	**6,404**	5,690
Income		
Premium income	**524**	515
Investment income	**(362)**	818
Currency translation (gains)/losses	**(128)**	54
Other income	**–**	15
	34	1,402
Expenses		
Claims and policy benefits	**(641)**	(535)
Operating expenses	**(59)**	(56)
Other charges and transfers	**(31)**	(31)
Taxation	**3**	(6)
	(728)	(628)
Transfer to operating profit	**(63)**	(60)
Balance at end of the year	**5,647**	6,404

(iv) Maturity analysis

A maturity analysis of long-term and general insurance policyholder liabilities is shown in the following table:

		Undiscounted cash flows				
At 31 December 2008	**Balance sheet amount £m**	**Less than 3 months £m**	**More than 3 months less than 1 year £m**	**Between 1 and 5 years £m**	**More than 5 years £m**	**Total £m**
Long-term business						
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**

23 Long-term insurance business policyholder and general insurance liabilities continued

(iv) Maturity analysis continued

At 31 December 2007	Balance sheet amount £m	Undiscounted cash flows: Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	Total £m
Long-term business						
Insurance contracts	23,637	495	2,489	12,475	29,425	44,884
Investment contracts						
Unit-linked investment contracts and similar contracts	52,171	47,236	364	947	4,069	52,616
Other investment contracts	1,574	433	129	578	1,001	2,141
Discretionary participating investment contracts	6,404	5,638	3	15	42	5,698
Outstanding claims	465	332	47	27	67	473
	84,251	54,134	3,032	14,042	34,604	105,812

(v) Assumptions

Insurance contract provisions 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; plus
- the compulsory margins as set out in the Actuarial Society of South Africa professional guidance notes; plus
- discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25 percent 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 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;
- 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;
- 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;
- 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 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 HIV/AIDS, and for the expected improvement in annuitant mortality.

(v) Assumptions continued

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 % 2008	At 31 December % 2007
Fixed interest securities	**7.5**	8.5
Cash	**5.5**	6.5
Equities	**11.0**	12.0
Properties	**9.0**	10.0
Future expense inflation	**4.5**[1]	5.5[1]

[1] 6.5 percent (2007: 7.5 percent) for Individual Business administered on old platforms and 5.5 percent (2007: 6.5 percent) 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	2006
	Persistency – Greenlight	2001 to 2007
Group Schemes	Mortality	2006
	Persistency	2006 to 2007
Employee Benefits	Annuitant mortality	2000 to 2004
	Group Assurance	Ongoing for the purpose of setting scheme rates
All	Expenses	Reviewed on an annual basis

Various assumption changes have been made which have resulted in a net increase in the value of liabilities of £11 million (2007: £22 million increase) on the Published basis. The reserve for investment guarantees which have been calculated on a market-consistent basis was increased by £27 million (including a discretionary margin), as a result of the reduction in swap yields and increases in volatilities. Lower economic assumptions also led to an increase in underlying policy liabilities of £8 million. The basis for terminations and alterations was strengthened leading to an increase in liabilities of £35 million. Lower expense and mortality assumptions reduced liabilities by £39 million and £13 million respectively. Methodology changes and error corrections reduced liabilities by £6 million.

United States

Insurance contract provisions and Deferred Acquisition Costs (DAC) balances for traditional insurance products with fixed premiums and benefits (measured according to FAS 60 under US GAAP) are calculated using mortality, lapse, expense and discount assumptions as at inception of the contract. These assumptions are determined based on management's best estimate, reflecting actual and expected experience, and also include provision for adverse deviation. The assumptions are locked in as of the date of issue, and are revised only where liability adequacy testing based on current best estimate assumptions results in loss recognition.

For insurance products with flexible premiums or benefits (measured according to FAS 97 under US GAAP), the account value is held as the base insurance contract provision, and the assumptions below are therefore not applicable. DAC balances, and additional reserves held for items including lapse guarantees, persistency bonuses and gains followed by losses, utilise best estimate assumptions as of the valuation date.

Mortality rates vary by gender and issue age; lapse rates vary by issue age and duration.

23 Long-term insurance business policyholder and general insurance liabilities continued

(v) Assumptions continued

Reserves for life contingent payout annuities are accumulated using the effective interest rate, which is the rate that discounts future liability cash flows back to the gross premium less transaction costs. All other FAS 60 products use a discount rate based on best estimate of future yields at policy inception.

Best estimate assumptions as of December 2008 reflect experience as analysed in the following investigations:

Assumption	Period of investigation
Mortality rates – assurance	2005 to 2008
Mortality rates – annuities	2005 to 2008
Lapse rates	2005 to 2008
Expenses	2005

During the year, the operations of the US long-term business have been operationally segregated into on-shore and off-shore which has had certain consequences for liability adequacy testing of certain liabilities together with the calculation of DAC amortisation for certain product lines.

The liability for guarantees on the fixed indexed annuity product was adjusted to include a non-performance risk factor, which reduced the liability by £184 million. 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. In 2007, on-shore actuarial modelling changes related to spread-based crediting on the fixed index annuity business and other assumption changes resulted in a £32 million reduction in DAC. The on-shore shadow DAC asset relating to unrealised losses in the investment portfolio was written down by £540 million due to insufficient estimated gross profits to which shadow DAC relates. Changes in shadow DAC are recorded in equity.

Assumption changes were made in respect of the off-shore guarantee liabilities, in respect of non-performance risk, volatility, correlation and fees, which resulted in a net decrease in the value of those liabilities of £61 million. There were consequential impacts of assumption changes for hedge costs and earned rates that resulted in accelerated DAC amortisation of £92 million.

Europe

Insurance contract provisions for the Group's Europe long-term business 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.

24 Loans and advances

(i) Summary

	Notes	At 31 December £m 2008	At 31 December £m 2007
Home loans		**14,111**	12,082
Commercial mortgages		**5,325**	4,415
Properties in possession		**58**	23
Credit cards		**556**	541
Overdrafts		**895**	990
Policyholder loans		**260**	204
Other loans to clients		**4,443**	4,727
Preference shares and debentures		**1,142**	689
Net finance leases and instalment debtors		**4,474**	3,866
Gross investment		**4,948**	4,267
Unearned finance charges		**(474)**	(401)
Factoring accounts		**29**	36
Trade, other bills and bankers' acceptances		**78**	135
Term loans		**4,746**	2,988
Remittances in transit		**15**	14
Deposits placed under reverse purchase agreements		**192**	429
Gross loans and advances		**36,324**	31,139
Provisions for impairment			
Specific provisions	30	**(407)**	(322)
Portfolio provision	30	**(172)**	(130)
Total net loans and advances		**35,745**	30,687

Non-performing loans included above had a book value less impairment provisions of £868 million (2007: £487 million).

Impairment provisions in respect of loans and advances is established when there is objective evidence that a loan or group of loans is impaired, including observable data that come to the attention of the Group about the following loss events:

- significant financial difficulty of the borrower;
- 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 borrower's financial difficulty, grants to the borrower a concession that the Group would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loan assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual loans, including:
  - adverse changes in the payment status of borrowers in the group of loans; or
  - national or local economic conditions that correlate with defaults on the assets in the group of loans.

Of the loans and advances shown above, £11,268 million (2007: £10,110 million) is receivable within one year of the balance sheet date and is regarded as current. £24,477 million (2007: £20,577 million) is regarded as non-current based on the maturity profile of the assets.

(ii) Finance lease and instalment debtors

Amounts receivable under finance leases

	Minimum lease payments receivable		Present value of minimum lease payments receivable	
	£m	£m	£m	£m
At 31 December	**2008**	2007	**2008**	2007
Within one year	**882**	828	**741**	748
In the second to fifth years inclusive	**3,283**	3,165	**2,954**	2,869
After five years	**783**	274	**779**	249
	4,948	4,267	**4,474**	3,866
Less: unearned finance income	**(474)**	(401)	**–**	–
Present value of minimum lease payments receivable	**4,474**	3,866	**4,474**	3,866

The accumulated allowance for uncollectable minimum lease payments receivable is £117 million (2007: £131 million).

25 Investments and securities

	At 31 December £m 2008	At 31 December £m 2007
Government and government-guaranteed securities	**8,976**	7,234
Other debt securities, preference shares and debentures		
Listed	**14,069**	12,621
Unlisted	**5,047**	4,281
Equity securities		
Listed	**14,976**	21,361
Unlisted	**1,203**	963
Pooled investments		
Listed	**5,215**	6,198
Unlisted	**29,831**	33,400
Short-term funds and securities treated as investments	**3,989**	3,342
Other	**216**	227
Total investments and securities	**83,522**	89,627

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, £40,905 million (2007: £42,754 million) is regarded as current and £42,617 million (2007: £46,873 million) are regarded as non-current.

26 Other assets

	At 31 December £m 2008	At 31 December £m 2007
Debtors arising from direct insurance operations		
Amounts owed by policyholders	**63**	26
Amounts owed by intermediaries	**93**	88
Other	**49**	43
	205	157
Debtors arising from reinsurance operations	**90**	91
Outstanding settlements	**459**	147
Other receivables	**1,531**	1,365
Accrued interest and rent	**508**	444
Trading securities and spot positions	**62**	273
Prepayments and accrued income	**151**	134
Other assets	**131**	163
Total other assets	**3,137**	2,774

Based on the maturity profile of the above assets, £2,693 million (2007: £2,153 million) is regarded as current and £444 million (2007: £621 million) as non-current.

27 Derivative financial instruments – assets and liabilities

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

Foreign currency, interest rate and equity, or equity index, futures are contractual obligations to receive or pay a net amount based on changes in currency rates or underlying equities, or indices or interest rates or buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market (an Exchange). Since futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the Exchange, the credit risk is negligible.

Forward rate agreements are individually negotiated interest rate contracts that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Forward foreign exchange contracts are individually negotiated contracts that require settlement of the pre-agreed currency amounts at a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of both (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored continuously with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency, interest rate and equity, or equity index, options are contractual agreements under which the writer grants the holder the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument or amount of assets determined by reference to an index at a predetermined price. In consideration for the assumption of foreign exchange, interest rate or asset price risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over-the-counter). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, 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.

27 Derivative financial instruments – assets and liabilities continued

At 31 December 2008	Notional principals Positive values £m	Notional principals Negative values £m	Fair values Assets £m	Fair values Liabilities £m
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	1,890	1,835
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	2,183	2,042
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	4,633	4,395

27 Derivative financial instruments – assets and liabilities continued

At 31 December 2007	Notional principals: Positive values £m	Notional principals: Negative values £m	Fair values: Assets £m	Fair values: Liabilities £m
Equity derivatives				
Options written	–	3,515	–	171
Options purchased	3,443	–	68	–
Futures	823	1,831	35	65
	4,266	5,346	103	236
Exchange rate contracts				
Forwards	5,765	6,307	917	952
Swaps	2,576	1,186	96	71
Options purchased	445	–	1	–
Futures	193	58	–	–
Options written	–	319	–	2
	8,979	7,870	1,014	1,025
Interest rate contracts				
Swaps	10,153	11,849	294	380
Forward rate agreements	2,744	3,454	8	7
Options purchased	305	–	2	–
Options written	–	339	–	42
Futures	1,401	1,466	51	25
Caps	487	182	2	1
	15,090	17,290	357	455
Credit derivatives				
Credit linked notes	104	–	32	–
Credit default swaps	–	53	–	
	104	53	32	–
Other derivatives	142	287	21	–
Total	28,581	30,846	1,527	1,716

The contractual maturities of the derivatives held are as follows:

At 31 December 2008	Balance sheet amount £m	Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	No contractual maturity date £m	Total £m
Derivative financial liabilities	**4,395**	**1,262**	**1,194**	**1,609**	**1,920**	**–**	**5,985**

At 31 December 2007	Balance sheet amount £m	Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	No contractual maturity date £m	Total £m
Derivative financial liabilities	1,716	1,620	46	15	–	35	1,716

Financials

28 Hedge accounting

Cash flow hedges

Cash flow hedge accounting is applied by the Parent Company 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 2008 the EUR/GBP swaps had a notional principal of £29 million (€30 million) (2007: £22 million (€30 million)) and a fair value of £7 million (2007: minimal). 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 2008	At 31 December £m 2007
Fair value of derivatives designated as cash flow hedges at the balance sheet date		
Cross currency interest rate swap – €30 million Euro loan borrowing	**7**	–
	7	–
Analysis of movements in cash flow hedge reserve		
Cash flow hedge at beginning of the year	**–**	1
Amount recognised in equity during the year	**2**	–
Amount removed from equity and recognised in income statement during the year		
Finance costs (borrowed funds)	**–**	(1)
Cash flow hedge reserve at end of year	**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 (2007: 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.

	Open positions at year-end			
At 31 December 2008	**EUR £m**	**USD £m**	**ZAR £m**	**SEK £m**
Forward contracts	**–**	**20**	**232**	**86**
Currency swaps[1]	**–**	**356**	**–**	**356**
Debt[2]	**96**	**303**	**–**	**–**
	96	**679**	**232**	**442**

	Open positions at year-end			
At 31 December 2007	EUR £m	USD £m	ZAR £m	SEK £m
Forward contracts	–	38	182	52
Currency swaps[1]	–	262	–	318
Debt[2]	–	106	–	161
	–	406	182	531

[1]Excludes $35 million (2007: $35 million) of currency swaps that do not qualify for hedge accounting.
[2]Excludes $750 million and €500 million (2007: $750 million and €500 million) of financial instruments accounted as minority interests or as equity.

28 Hedge accounting continued

Net investment hedges continued

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 2008	At 31 December £m 2007
Fair value of financial instruments designated as net investment hedges at the balance sheet date		
€30 million cross currency swap – fair value of net investment hedge only	**(2)**	4
SEK forward foreign exchange contracts	**(2)**	(1)
ZAR forward foreign exchange contracts	**(25)**	(5)
£300 million cross currency swap	**(57)**	(16)
€750 million cross currency swap	**(84)**	(2)
	(170)	(20)

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.

There was no ineffectiveness in respect of any of the above net investment hedges during the financial year (2007: nil).

29 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.

The fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quotations from independent third parties or by using standard valuation techniques. For certain derivative instruments, fair values may be determined in whole or in part using techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

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 31, 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.

29 Fair values of financial assets and liabilities continued

Determination of fair value continued

Loans and advances continued

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

The fair values of listed investments and securities are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data (see above).

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 balance sheet, 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 balance sheet 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 are reasonably approximated by the carrying amounts reflected in the balance sheet.

Financial instruments designated as fair value through income statement

Certain items in the Group's balance sheet 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:

		Change in fair value due to change in credit risk	
At 31 December 2008	**Maximum exposure to credit risk £m**	**Current financial year £m**	**Cumulative £m**
Loans and advances	**2,548**	**–**	**1**
Investments and securities	**6,622**	**(9)**	**(13)**
Other assets	**36**	**–**	**–**
	9,206	**(9)**	**(12)**

		Change in fair value due to change in credit risk	
At 31 December 2007	Maximum exposure to credit risk £m	Current financial year £m	Cumulative £m
Loans and advances	1,768	(8)	1
Investments and securities	6,346	(1)	(4)
Other assets	18	–	–
	8,132	(9)	(3)

29 Fair values of financial assets and liabilities continued

Financial instruments designated as fair value through income statement continued

Certain items in the Group's balance sheet 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:

At 31 December 2008	Fair value £m	Change in fair value due to change in credit risk: Current financial year £m	Cumulative £m	Contractual maturity amount £m
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**

At 31 December 2007	Fair value £m	Change in fair value due to change in credit risk: Current financial year £m	Cumulative £m	Contractual maturity amount £m
Borrowed funds	1,676	(61)	(62)	1,718
Amounts owed to bank depositors	4,002	1	1	4,022
	5,678	(60)	(61)	5,740

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.

30 Analysis of movements in impairment account

Movements in provisions for impairment of loans and advances are analysed as follows:

Year ended 31 December	Specific impairment £m 2008	Portfolio impairment £m 2008	Total impairment £m 2008	Specific impairment £m 2007	Portfolio impairment £m 2007	Total impairment £m 2007
Loans and advances						
Balance at beginning of the year	**322**	**130**	**452**	277	105	382
Income statement charge	**279**	**41**	**320**	133	23	156
Amounts written off against the provision	**(215)**	**(2)**	**(217)**	(116)	–	(116)
Recoveries of amounts previously written off	**25**	**–**	**25**	30	–	30
Foreign exchange and other movements	**(4)**	**3**	**(1)**	(2)	2	–
Balance at end of the year	**407**	**172**	**579**	322	130	452

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31 Group balance sheet – 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.

		Fair value through income statement						
At 31 December 2008	**Total £m**	**Held-for-trading £m**	**Designated £m**	**Available for sale financial assets £m**	**Held-to-maturity investments £m**	**Loans and receivables £m**	**Financial liabilities amortised cost £m**	**Non-financial assets and liabilities £m**
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 long-term business policyholder liabilities	**1,148**	–	–	–	–	**37**	–	**1,111**
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	**4,633**	**4,633**	–	–	–	–	–	–
Cash and cash equivalents	**2,862**	–	–	–	–	**2,862**	–	–
Non-current assets held-for-sale	**7**	–	–	–	–	–	–	**7**
	145,347	**6,093**	**70,968**	**11,732**	**1,494**	**40,224**	**–**	**14,836**
Liabilities								
Long-term business policyholder liabilities	**81,269**	–	**53,211**	–	–	–	–	**28,058**
General insurance liabilities	**344**	–	–	–	–	–	–	**344**
Third party interest in consolidation of funds	**2,591**	–	**2,591**	–	–	–	–	–
Borrowed funds	**2,295**	–	**1,460**	–	–	–	**835**	–
Provisions	**477**	–	–	–	–	–	–	**477**
Deferred revenue	**598**	–	–	–	–	–	–	**598**
Deferred tax liabilities	**1,452**	–	–	–	–	–	–	**1,452**
Current tax payable	**219**	–	–	–	–	–	–	**219**
Other liabilities	**3,733**	**271**	**531**	–	–	–	**1,788**	**1,143**
Liabilities under acceptances	**220**	–	–	–	–	–	–	**220**
Amounts owed to bank depositors	**38,171**	**1,431**	**7,164**	–	–	–	**29,576**	–
Derivative financial instruments – liabilities	**4,395**	**4,395**	–	–	–	–	–	–
Non-current liabilities held-for-sale	**6**	–	–	–	–	–	–	**6**
	135,770	**6,097**	**64,957**	**–**	**–**	**–**	**32,199**	**32,517**

31 Group balance sheet – categories of financial instruments continued

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, has 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 2008 of £1,262 million and £972 million respectively. The amount of accumulated unrealised losses on the reclassified securities already recognised in equity as at the date of reclassification was £263 million (31 December 2007: £59 million). The amount of unrealised losses that would have been recognised in equity had the reclassification not taken place would have been £284 million at 31 December 2008. The changes in values between 1 July 2008 and 31 December 2008 are largely attributable to changes in the exchange rate between the USD and GBP.

The overall income statement impact of the reclassifications is nil, as the revised amortised effective interest on the reclassified securities is 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 percent to 15.23 percent 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.

		Fair value through income statement						
At 31 December 2007	Total £m	Held-for-trading £m	Designated £m	Available for sale financial assets £m	Held-to-maturity investments £m	Loans and receivables £m	Financial liabilities amortised cost £m	Non-financial assets and liabilities £m
Assets								
Goodwill and other intangible assets	5,459	–	–	–	–	–	–	5,459
Mandatory reserve deposits with Central Banks	615	–	–	–	–	615	–	–
Property, plant and equipment	608	–	–	–	–	–	–	608
Investment property	1,479	–	–	–	–	–	–	1,479
Deferred tax assets	683	–	–	–	–	–	–	683
Investment in associated undertakings and joint ventures	81	–	–	–	–	–	–	81
Deferred acquisition costs	2,253	–	–	–	–	–	–	2,253
Reinsurers' share of long-term business policyholder liabilities	1,394	–	638	–	–	16	–	740
Deposits held with reinsurers	213	–	184	–	–	29	–	–
Loans and advances	30,687	1,912	1,768	–	–	27,007	–	–
Investments and securities	89,627	1,445	76,828	10,274	650	430	–	–
Current tax receivable	83	–	–	–	–	–	–	83
Client indebtedness for acceptances	165	–	–	–	–	–	–	165
Other assets	2,774	273	659	–	–	1,459	–	383
Derivative financial instruments – assets	1,527	1,527	–	–	–	–	–	–
Cash and cash equivalents	3,469	–	–	1	–	3,468	–	–
Non-current assets held-for-sale	1,623	–	–	–	–	–	–	1,623
	142,740	5,157	80,077	10,275	650	33,024	–	13,557
Liabilities								
Long-term business policyholder liabilities	84,251	–	53,745	–	–	–	–	30,506
Third party interests in consolidation of funds	3,547	–	3,547	–	–	–	–	–
Borrowed funds	2,353	–	1,676	–	–	–	677	–
Provisions	499	–	–	–	–	–	–	499
Deferred revenue	462	–	–	–	–	–	–	462
Deferred tax liabilities	1,413	–	–	–	–	–	–	1,413
Current tax payable	320	–	–	–	–	–	–	320
Other liabilities	6,180	1,955	435	–	–	–	3,184	606
Liabilities under acceptances	165	–	–	–	–	–	–	165
Amounts owed to bank depositors	31,817	1,187	4,002	–	–	–	26,628	–
Derivative financial instruments – liabilities	1,716	1,716	–	–	–	–	–	–
Non-current liabilities held-for-sale	420	–	–	–	–	–	–	420
	133,143	4,858	63,405	–	–	–	30,489	34,391

32 Discontinued operations, assets and liabilities held-for-sale

Non-current assets held-for-sale

	At 31 December £m 2008	At 31 December £m 2007
Loans and advances	–	994
Investments and securities	–	359
Other assets	7	238
Cash and cash equivalents	–	32
	7	1,623

Non-current liabilities held-for-sale

	At 31 December £m 2008	At 31 December £m 2007
General insurance liabilities	–	305
Other liabilities	6	115
	6	420

Europe vehicle finance business

Skandia's Nordic vehicle finance operation, SkandiaBanken Bilfinans, was sold to DnB NOR during the year. The assets and liabilities were classed as held-for-sale as at 31 December 2007.

South Africa general insurance business

At 31 December 2007 Mutual & Federal was presented as a non-current asset held-for-sale on the basis that the business was being actively marketed for sale. On 27 November 2008, the Group announced the termination of the sales process. As a result of the sales termination, Mutual & Federal is no longer held–for–sale and is therefore consolidated on a line–by–line basis in the balance sheet and presented within continuing operations in the income statement.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the income statement for the year ended 2007 has been restated to present the results of Mutual & Federal within continuing operations. The balance sheet classification at 31 December 2007 as Non-current assets and Non-current liabilities held for sale has not been restated, also in accordance with IFRS 5.

33 Borrowed funds

	Notes	At 31 December £m 2008	At 31 December £m 2007
Senior debt securities and term loans	33(i)	557	461
Mortgage backed securities	33(ii)	104	103
Subordinated debt securities	33(iii)	1,634	1,789
Borrowed funds		2,295	2,353

(i) Senior debt securities and term loans

	At 31 December £m 2008	At 31 December £m 2007
Floating rate notes[1]	85	151
Fixed rate notes[2]	152	44
Revolving credit facility[3]	294	161
Term loan and other loans	26	26
Investment fund borrowings	–	79
Total senior debt securities and term loan	557	461

33 Borrowed funds continued

(i) Senior debt securities and term loans continued

The maturities of the senior debt securities and term loans are as follows:

At 31 December 2008	Less than 1 year £m	Greater than 1 year and less than 5 years £m	Greater than 5 years £m	Total £m
Floating rate notes	**16**	**69**	**–**	**85**
Fixed rate notes	**96**	**56**	**–**	**152**
Revolving credit facility	**–**	**294**	**–**	**294**
Term loans and other loans	**26**	**–**	**–**	**26**
Investment fund borrowings	**–**	**–**	**–**	**–**
Total senior debt securities and term loan	**138**	**419**	**–**	**557**

At 31 December 2007				
Floating rate notes	–	75	76	151
Fixed rate notes	–	29	15	44
Revolving credit facility	–	161	–	161
Term loans and other loans	17	9	–	26
Investment fund borrowings	79	–	–	79
Total senior debt securities and term loan	96	274	91	461

Senior debt securities and term loan comprise:

[1]Floating rate notes

- £7 million note repayable in December 2010, with holders having the option to elect for early redemption every 6 months with coupon referenced against 6 month LIBOR less 0.50 percent.
- US$150 million repayable September 2014 at 3 month LIBOR plus 0.63 percent – repaid.
- US$50 million repayable September 2011 at 3 month LIBOR plus 0.50 percent.
- US$10 million repayable September 2009 at 3 month LIBOR plus 0.35 percent.
- SEK100 million repayable March 2009 at 3 month STIBOR plus 0.20 percent.
- €22 million repayable January 2010 at 3 month EURIBOR plus 0.35 percent.
- SEK50 million repayable March 2010 at 3 month STIBOR plus 0.38 percent.

[2]Fixed rate notes

- €30 million Euro bond repayable July 2010, capital and interest swapped into fixed rate US Dollars at 5.28 percent.
- €10 million Euro bond repayable December 2010, capital and interest swapped into floating rate US Dollars at 3 month LIBOR plus 0.95 percent.
- €20 million Euro bond repayable August 2013, capital and interest swapped into floating rate US Dollars at 3 month LIBOR plus 1.30 percent.
- €100 million Euro bond repayable December 2009 at 3.46 percent.

The total fair value of the swap derivatives associated with the Senior notes is £11 million (2007: £8 million). These are recognised as assets and are included within note 27.

[3]Revolving credit facility

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 2008 £826 million (2007: £413 million) of this facility was utilised, £294 million (2007: £161 million) in the form of drawn debt and £532 million (2007: £252 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 2009. At 31 December 2008 this facility was undrawn.

(ii) Mortgage backed securities

	At 31 December £m **2008**	At 31 December £m 2007
R291 million notes (class A1) repayable 18 November 2039 (11.467 percent)[1]	**22**	21
R1.4 billion notes (class A2A) repayable 18 November 2039 (11.817 percent)[1]	**73**	73
R98 million notes (class B note) repayable 18 November 2039 (12.067 percent)[1]	**5**	5
R76 million notes (class C note) repayable 18 November 2039 (13.317 percent)[1]	**4**	4
	104	103

[1]Issued on 10 December 2007 by the Group's South African banking business and are callable on 18 November 2012.

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33 Borrowed funds continued

(iii) Subordinated debt securities

	At 31 December £m 2008	At 31 December £m 2007
Banking		
US$18 million repayable 31 August 2009 (6 month LIBOR less 1.5%)[1]	**12**	9
R1.5 billion repayable 24 April 2016 (7.85%)[2]	**108**	103
R1.8 billion repayable 20 September 2018 (9.84%)[3]	**135**	135
R515 million repayable on 4 December 2008 (13.5%)[4] – Repaid	**–**	39
R500 million repayable on 30 December 2010 (8.38%)[5]	**36**	34
R650 million repayable 8 February 2017 (9.03%)[6]	**49**	47
R1.7 billion repayable 8 February 2019 (8.9%)[7]	**125**	123
R2.0 billion repayable 6 July 2022 (3 month JIBAR plus 0.47%)[8]	**150**	151
R500 million repayable 15 August 2012 (3 month JIBAR plus 0.45%)[9]	**37**	37
R1.0 billion repayable 17 September 2015 (10.54%)[10]	**77**	77
R500 million repayable 14 December 2017 (3 month JIBAR plus 0.70%)[11]	**37**	37
R120 million repayable 14 December 2017 (10.38%)[12]	**9**	9
R487 million repayable 20 November 2018 (15.05%)[13]	**40**	–
R1,265 million repayable 20 November 2018 (JIBAR plus 4.75%)[14]	**94**	–
R300 million repayable on 4 December 2013 (JIBAR + 2.5%)[15]	**11**	–
	920	801
Other		
R3.0 billion repayable 27 October 2020 (8.9%)[16]	**219**	220
£300 million repayable 21 January 2016 (5.0%)[17]	**239**	291
R250 million preference shares repayable 9 June 2011[18]	**18**	18
€750 million repayable 18 January 2017 (4.5%)[19]	**303**	519
	779	1,048
Less: banking subordinated debt securities held by other Group companies	**(65)**	(60)
Total subordinated liabilities	**1,634**	1,789

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.
[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).
[11]This bond issued on 14 December 2007 is a 10 year (non-call 5) floating rate note. After its call date on 14 December 2012 its terms become JIBAR plus 1.70 percent until maturity.
[12]This bond issued on 14 December 2007 is a 10 year (non-call 5) fixed rate note. After its call date its terms become floating 3 month JIBAR plus initial margin over mid swaps plus 1.0 percent 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]These bonds have a maturity date of 27 October 2020 and pay a coupon of 8.92 percent to 27 October 2015 and 3 month JIBAR plus 1.59 percent thereafter. The Group has the option to repay the bonds at par on 27 October 2015 and at 3 monthly intervals thereafter.
[17]These bonds, issued on 20 January 2006, have a maturity date of 21 January 2016 and pay a coupon of 5.0 percent to 21 January 2011 and 6 month LIBOR plus 1.13 percent thereafter. The coupon on the bonds was swapped into floating rate of 6 month STIBOR plus 0.50 percent. The Group has the option to repay the bonds at par on 21 January 2011 and at 6 monthly intervals thereafter.
[18]These preference shares are redeemable on 9 June 2011 and pay a variable cumulative coupon of 61.0 percent 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.
[19]This bond, issued on 16 January 2007, has a maturity date of 18 January 2017 and pays a coupon of 4.5 percent to 17 January 2012 and 6 month EURIBOR plus 0.96 percent 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 percent and 6 month US LIBOR plus 0.31 percent respectively. The Group has the option to repay the bonds at par on 17 January 2012 and at 6 monthly intervals thereafter.

34 Provisions

	At 31 December £m 2008	At 31 December £m 2007
Surplus property	**23**	29
Client compensation	**27**	19
Warranties on sale of business	**111**	87
Liability for long service leave	**38**	34
Provision for donations	**80**	82
Litigation claims	**36**	64
Other provisions	**165**	183
	480	498
Post employment benefits	**(3)**	1
Total	**477**	499

Year ended 31 December 2008	**Surplus property £m**	**Client compen-sation £m**	**Warranties on sale of business £m**	**Liability for long service leave £m**	**Provision for donations £m**	**Litigation claims £m**	**Other £m**	**Total £m**
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**

2008 provisions in relation to surplus property amounted to £23 million (2007: £29 million). These relate to the onerous costs of vacant properties leased by the Group.

Provisions in relation to client compensation were £27 million (2007: £19 million), primarily relating to possible misselling of guarantee contracts in Nordic.

Provisions in relation to warranties on the sale of businesses amounted to £111 million (2007: £87 million). These principally relate to the sale of American Skandia to Prudential Financial, recognised by the Group on acquisition of Skandia in 2006.

The liability for long service leave of £38 million (2007: £34 million) relates to provision for staff payments for long serving employees.

The provision for donations is held by OMSA. 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.

At 31 December 2008 provisions in relation to litigation claims amounted to £36 million (2007: £64 million). During the year £74 million of the provision was utilised, principally in respect of payments made in connection with the outcome of the Skandia Liv arbitration (note 45). The balance of the provision primarily relates to future amounts payable to Skandia Liv in connection with the arbitration ruling.

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 provisions recorded above, £271 million (2007: £420 million) is estimated to be payable after more than one year.

Year ended 31 December 2007	Surplus property £m	Client compen-sation £m	Warranties on sale of business £m	Liability for long service leave £m	Provision for donations £m	Litigation claims £m	Other £m	Total £m
Balance at beginning of the year	41	8	113	30	115	71	151	529
Unused amounts reversed	(3)	(1)	(11)	–	–	(6)	–	(21)
Unwind of discount	2	–	–	–			–	2
Charge to income statement	–	20	–	4	–	–	23	47
Utilised during the year	(8)	(8)	(15)	(2)	(33)	–	–	(66)
Foreign exchange and other movements	(3)	–	–	2	–	(1)	9	7
Balance at end of the year	29	19	87	34	82	64	183	498

35 Deferred revenue

Year ended 31 December 2008	Long-term business £m	Asset management £m	General insurance £m	Total £m
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 from assets held for sale	**–**	**–**	**6**	**6**
Balance at end of the year	**489**	**101**	**8**	**598**

Year ended 31 December 2007	Long-term business £m	Asset management £m	General insurance £m	Total £m
Balance at beginning of the year	201	82	6	289
Fees and commission income deferred	149	52	–	201
Amortisation	(10)	(31)	–	(41)
Foreign exchange and other movements	10	9	–	19
Transfer from assets held for sale	–	–	(6)	(6)
Balance at end of the year	350	112	–	462

36 Other liabilities

	At 31 December £m 2008	At 31 December £m 2007
Amounts payable on direct insurance business		
Funds held under reinsurance business ceded	**15**	325
Amounts owed to policyholders	**535**	708
Amounts owed to intermediaries	**66**	54
Other direct insurance operation creditors	**46**	3
Accounts payable on reinsurance business	**64**	29
Accruals and deferred income	**749**	713
Share-based payments – cash-settled scheme liabilities	**15**	26
Short trading securities and spot positions	**267**	1,952
Trade creditors	**312**	278
Outstanding settlements	**592**	1,078
Total securities sold under agreements to repurchase	**299**	304
Other liabilities	**773**	710
	3,733	6,180

Included in the amounts shown above are £3,094 million (2007: £4,865 million) that are regarded as current, the remainder as non-current.

37 Amounts owed to bank depositors

	At 31 December £m 2008	At 31 December £m 2007
Current accounts	**7,916**	7,303
Savings deposits	**1,043**	1,024
Other deposits and loan accounts		
Call and term deposits	**14,035**	10,568
Fixed deposits	**1,894**	1,792
Cash management deposits	**2,635**	3,081
Other	**2,746**	3,268
Negotiable certificates of deposit	**6,369**	4,129
Deposits received under repurchase agreements	**1,533**	652
	38,171	31,817

37 Amounts owed to bank depositors continued

A contractual maturity analysis of the amounts owed to bank depositors is shown in the following table:

Year ended 31 December 2008	Balance sheet amount £m	Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	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**	**318**	**–**	**–**	**–**	**318**
Amounts owed to bank depositors	**38,171**	**28,856**	**7,532**	**1,477**	**83**	**37,948**

Year ended 31 December 2007	Balance sheet amount £m	Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	Total £m
Amounts owed to bank depositors						
Current accounts	7,303	7,267	19	17	–	7,303
Savings deposits	1,024	1,024	–	–	–	1,024
Other deposits and loan accounts	18,709	15,765	2,389	861	53	19,068
Negotiable certificates of deposit	4,129	1,648	2,555	325	–	4,528
Deposits received under repurchase agreements	652	652	–	–	–	652
Amounts owed to bank depositors	31,817	26,356	4,963	1,203	53	32,575

38 Equity

(i) Share capital

Authorised and issued share capital	At 31 December £m **2008**	At 31 December £m 2007
Authorised ordinary shares of 10p each	**750**	750
Issued ordinary shares of 10p each	**552**	551

(ii) 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 (2007: £688 million) as at 31 December 2008. In accordance with IFRS accounting standards these instruments are classified as equity and disclosed within equity shareholders' funds as shown on page 143.

£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 percent per annum annually in arrears. From 24 March 2020 interest is reset semi-annually at 2.2 percent 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 percent per annum annually in arrears. After this date the interest is reset semi-annually at 2.63 percent 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.

(iii) Share buy back programme

As at 31 December 2008 there have been 161,559,272 shares (2007: 74,153,87 shares) repurchased on the LSE at an average price paid of 149.3p (2007: 165.7p) and 77,875,616 shares (2007: 30,947,472 shares) repurchased on the JSE at an average price paid of Rand 20.23 (2007: Rand 23.14) in accordance with the share buyback programme announced on 3 October 2007. The shares repurchased have not been cancelled and are held by the Company as treasury shares.

39 Minority interests – balance sheet

(i) Ordinary shares

Reconciliation of movements in minority interests	At 31 December £m 2008	At 31 December £m 2007
Balance at beginning of the year	**933**	848
Minority interests' share of profit	**188**	224
Minority interests' share of dividends paid	**(111)**	(115)
Net acquisition of interests	**25**	1
Foreign exchange and other movements	**112**	(25)
Balance at end of the year	**1,147**	933

(ii) Preferred securities

	At 31 December £m 2008	At 31 December £m 2007
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**	22
US$750 million cumulative preferred securities[4]	**458**	458
R364 million non-cumulative preference shares[5]	**25**	25
	706	716
Unamortised issue costs	**(13)**	(13)
Total in issue at 31 December	**693**	703

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 percent 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 percent 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.

40 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.

(i) Liability for defined benefit obligations

	Pension plans		Other post-retirement benefit schemes	
	£m	£m	£m	£m
Year to 31 December	**2008**	2007	**2008**	2007
Changes in projected benefit obligation				
Projected benefit obligation at beginning of the year	**675**	758	**128**	133
Benefits earned during the year	**6**	8	**4**	4
Interest cost on benefit obligation	**41**	38	**10**	10
Actuarial (gain)/loss	**3**	(47)	**–**	(3)
Benefits paid	**(36)**	(34)	**(2)**	(5)
Foreign exchange and other movements	**89**	(48)	**18**	(11)
Projected benefit obligation at end of the year	**778**	675	**158**	128
Change in plan assets				
Plan assets at fair value at beginning of the year	**855**	836	**134**	139
Actual return on plan assets	**(18)**	82	**8**	16
Company contributions	**13**	14	**–**	–
Employee contributions	**1**	1	**–**	–
Benefits paid	**(34)**	(33)	**(2)**	(4)
Foreign exchange and other movements	**11**	(45)	**20**	(17)
Plan assets at fair value at end of the year	**828**	855	**160**	134
Net (asset)/liability recognised in balance sheet				
Funded status of plan	**(50)**	(180)	**(2)**	(6)
Unrecognised assets	**18**	84	**2**	–
Other amounts recognised in balance sheet	**–**	–	**2**	3
Unrecognised actuarial gains	**10**	83	**16**	21
Net amount recognised in balance sheet	**(22)**	(13)	**18**	18

(ii) (Credit)/expense recognised in the income statement

	Pension plans		Other post-retirement benefit schemes	
	£m	£m	£m	£m
Year to 31 December	**2008**	2007	**2008**	2007
Current service costs	**9**	7	**3**	4
Interest cost	**31**	28	**10**	10
Expected return on plan assets	**(51)**	(43)	**(10)**	(10)
Net actuarial (gains)/losses recognised in the year	**(15)**	5	**–**	–
Losses/(gains) on curtailment	**2**	–	**–**	–
Total (included in staff costs)	**(24)**	(3)	**3**	4

40 Post employment benefits continued

(iii) Principal actuarial assumptions

	Year to 31 December % 2008	Year to 31 December % 2007
UK and Guernsey pension schemes		
Discount rate	**5.5-5.8**	5.0
Expected return on plan assets:		
Equities	**6.7-8.8**	7.5-8.0
Debt	**3.7-5.8**	4.5-5.5
Property	**–**	6.0
Cash	**3.8-5.5**	3.0-5.5
Annuities and other	**5.5-8.8**	5.0-8.0
Future salary increases	**4.1-4.9**	4.65
Pensions in payment and deferred pensions inflation	**2.8-3.1**	3.0-4.0
Price inflation	**2.8-3.1**	3.25-3.4
Europe pension schemes		
Discount rate	**3.5**	4.5
Expected return on plan assets:		
Equities	**5.1**	6.7
Debt	**2.1**	3.7
Property	**5.1**	5.5
Annuities and other	**5.1**	5.5
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	**5.8-9.0**	5.0-9.0
Expected return on plan assets:		
Equities	**8.8-11.5**	4.5-9.3
Debt	**5.8-9.0**	8.0-9.0
Property	**9.5**	9.0
Cash	**3.8-6.5**	2.0-6.0
Annuities and other	**8.8-11.5**	4.5-9.3
Future salary increases	**6.25**	6.0
Pensions in payment and deferred pensions inflation	**3.0-3.8**	4.5
Price inflation	**3.0-6.0**	2.6-6.0
African other post retirement schemes		
Discount rate	**7.3-9.0**	8.0-8.5
Expected return on plan assets	**7.3-8.5**	8.0-8.5
Future salary increases	**5.3-9.0**	6.5-8.5
Price inflation	**5.3-9.0**	6.5-8.5
Health cost inflation	**5.3-9.0**	6.3-8.5

40 Post employment benefits continued

(iv) Plan asset allocation

At 31 December	Pension plans % 2008	Pension plans % 2007	Other post-retirement benefit schemes % 2008	Other post-retirement benefit schemes % 2007
Equity securities	**38.4**	45.0	**13.4**	13.2
Debt securities	**37.4**	33.7	**6.2**	0.7
Property	**7**	4.5	**–**	–
Cash	**1**	2.4	**21.6**	31.1
Annuities and other	**16.2**	14.4	**58.8**	55.0
	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 £0.1 million (2007: £0.4 million).

(v) Summary of Group pension plans

Year to 31 December	£m 2008	£m 2007	£m 2006	£m 2005	£m 2004
Present value of defined benefit obligations	**(778)**	(675)	(758)	(497)	(430)
Fair value of plan assets	**828**	855	836	508	428
Surplus	**50**	180	78	11	(2)
Experience losses arising on defined benefit plan liabilities:					
Amount	**2**	(5)	(12)	(16)	–
As a percentage of plan liabilities	**–**	0.7%	1.6%	3.2%	–
Experience gains arising on defined benefit plan assets:					
Amount	**(69)**	39	50	40	(1)
As a percentage of plan assets	**-8.3%**	4.3%	6.0%	7.7%	0.2%

41 Share-based payments

(i) Share-based payment arrangements

During the year ended 31 December 2008, the Group had the following share-based payment arrangements:

	Description of award				Contractual life	Vesting conditions		
Scheme	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	–

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41 Share-based payments continued

(i) Share-based payment arrangements continued

	Description of award				Contractual life	Vesting conditions		
Scheme	Restricted shares	Options	Dividend entitlement	Other	Years	Service (years)	Performance (measure)	Other
Old Mutual plc 2008 Sharesave Plan	–	✔	–	✔[2]	$3\frac{1}{2}$-$5\frac{1}{2}$	3 & 5	–	–
South Africa Share Option and Deferred Delivery Plan	–	✔	–	–	6	3	Target growth in EPS	–
South Africa Restricted Share Plan	✔	–	✔	–	5	3	–	–
OMSA Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[3]
OMSA Senior Black Management Scheme	✔	–	✔	–	4-6	4, 5 & 6[4]	–	–
OMSA Management Scheme	✔	✔	✔	–	3-6	3	Target growth in EPS[5]	–
OMSA Black Business Partners Scheme	✔	–	✔	–	10	–	–	✔[6]
OMSA Client & Distributor Scheme	✔	–	✔	–	10	–	–	✔[7]
OMSA Community Scheme	✔	–	✔	–	10	–	–	✔[7]
Old Mutual Namibia Management Scheme	✔	✔	✔	–	3-6	3	–	–
Old Mutual Namibia Senior Black Management Scheme	✔	–	✔	–	4-6	4, 5 & 6[4]	–	–
Old Mutual Namibia Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[6]
Old Mutual Namibia Education Scheme	✔	–	✔	–	10	–	–	✔[6]
Old Mutual Namibia Distributor Scheme	✔	–	✔	–	10	–	–	✔[6]
Old Mutual Namibia Community Partners Scheme	✔	–	✔	–	10	–	–	✔[6]
Old Mutual Namibia Black Business Partners Scheme	✔	–	✔	–	10	–	–	✔[6]
Old Mutual Namibia Discretionary Scheme	✔	–	–	–	10	–	–	✔[6]
Nedcor Group (1994) Share Option Scheme	–	✔	✔	–	6	3 & 4[8]	Target growth in headline earnings	–
Nedbank Group (2005) Share Option Scheme	–	✔	✔	–	5	3	–	–

41 Share-based payments continued

(i) Share-based payment arrangements continued

Scheme	Description of award: Restricted shares[1]	Options	Dividend entitlement	Other	Contractual life: Years	Vesting conditions: Service (years)	Performance (measure)	Other
Nedbank Group (2005) Matched Share Scheme	✔	–	–	✔[9]	5	3	Various[10]	–
Nedbank Eyethu Non-Executive Directors' Scheme	–	✔	✔	–	6	6	–	✔[11]
Nedbank Eyethu Black Executive Scheme	✔	✔	✔	–	7	4, 5 & 6[4]	–	–
Nedbank Eyethu Black Management Scheme	✔	✔	✔	–	7	4, 5 & 6[4]	–	–
Nedbank Eyethu Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[3]
Nedbank Eyethu Black Business Partner Scheme	–	✔	✔	–	10	–	–	✔[6,11]
Nedbank Eyethu Retail Scheme	✔	–	–	✔[12]	3	–	–	✔[13]
Nedbank Eyethu Corporate Scheme	–	✔	✔	–	6	–	–	✔[14]
Nedbank Namibia Omufima Black Management Scheme	✔	✔	✔	–	7	4, 5 & 6[4]	–	–
Nedbank Namibia Omufima Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[6]
Nedbank Namibia Omufima Black Business Partner Scheme	–	✔	✔	–	10	–	–	✔[6,11]
Nedbank Namibia Omufima Affinity Group Scheme	–	✔	✔	–	10	–	–	✔[6,11]
Nedbank Namibia Omufima Education Scheme	–	✔	✔	–	10	–	–	✔[6,11]
Nedbank UK Long-term Incentive Plan	–	–	–	✔[15]	4	3	Target growth in average RoE	–
Mutual & Federal Share Option Scheme	–	✔	✔	–	6	3	–	–
Mutual & Federal Senior Black Management Scheme	✔	–	✔	–	7	4, 5 & 6[4]	–	–
Mutual & Federal Management Incentive Scheme	✔	✔	✔	–	6	3	–	–
Mutual & Federal Distributor Scheme	✔	✔	✔	–	Indefinite	–	–	✔[7]
Mutual & Federal Community Scheme	✔	–	✔	–	Indefinite	–	–	✔[7]
Mutual & Federal Black Business Partners Scheme	✔	–	–	–	10	–	–	✔[6]

41 **Share-based payments** continued

(i) Share-based payment arrangements continued

Scheme[1]	Description of award: Restricted shares	Options	Dividend entitlement	Other	Contractual life: Years	Vesting conditions: Service (years)	Performance (measure)	Other
Mutual & Federal Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[6]
Mutual & Federal Namibia Share Option Scheme	–	✔	✔	–	6	3	–	–
Mutual & Federal Namibia Senior Black Management Scheme	✔	–	✔	–	7	4, 5 & 6[4]	–	–
Mutual & Federal Namibia Community Scheme	✔	–	✔	–	Indefinite	–	–	✔[7]
Mutual & Federal Namibia Black Business Partners Scheme	✔	–	–	–	10	–	–	✔[6]
Mutual & Federal Namibia Management Incentive Scheme	✔	✔	✔	–	6	3	–	–
Mutual & Federal Namibia Broad-based Employee Scheme	✔	–	✔	–	5	–	–	✔[6]
Mutual & Federal Discretionary Scheme	✔	–	–	–	10	–	–	✔[6]

[1]All share-based payment arrangements are equity settled with the exception of the South Africa Share Option 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 41(v).
[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 percent of their after-tax bonus.
[10]Where performance targets are not met, 50 percent 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.

(ii) Reconciliation of movements in options

The number and weighted average exercise prices of share options is as follows:

Options over shares in Old Mutual plc (London Stock Exchange)	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Year ended 31 December	**2008**	**2008**	2007	2007
Outstanding at beginning of the year	**30,268,067**	**£1.24**	28,763,896	£1.04
Granted during the year	**17,480,275**	**£1.07**	11,642,305	£1.51
Forfeited during the year	**(7,440,893)**	**£1.33**	(873,287)	£1.39
Exercised during the year	**(6,191,349)**	**£0.86**	(9,047,035)	£0.92
Expired during the year	**(894,078)**	**£1.22**	(217,812)	£1.57
Outstanding at end of the year	**33,222,022**	**£1.20**	30,268,067	£1.24
Exercisable at 31 December	**9,765,796**	**£1.07**	11,700,076	£0.93

The options outstanding at 31 December 2008 have an exercise price in the range of £0.60 to £1.99 (2007: £0.60 to £1.99) and a weighted average remaining contractual life of 3.2 years (2007: 3 years). The weighted average share price at date of exercise for options exercised during the year was £1.08 (2007: £1.68).

41 Share-based payments continued

(ii) Reconciliation of movements in options continued

Options over shares in Old Mutual plc (Johannesburg Stock Exchange) Year ended 31 December	Number of options 2008	Weighted average exercise price 2008	Number of options 2007	Weighted average exercise price 2007
Outstanding at beginning of the year	**33,704,154**	**R18.15**	37,090,128	R15.47
Granted during the year	**15,011,301**	**R18.31**	7,565,967	R23.28
Forfeited during the year	**(3,758,982)**	**R20.07**	(688,282)	R14.45
Exercised during the year	**(2,282,921)**	**R14.07**	(10,075,116)	R12.41
Expired during the year	**(50,000)**	**R15.15**	(188,543)	R17.90
Outstanding at end of the year	**42,623,552**	**R18.30**	33,704,154	R18.15
Exercisable at 31 December	**14,441,080**	**R14.28**	16,199,844	R14.08

The options outstanding at 31 December 2008 have an exercise price in the range of R10.80 to R24.78 (2007: R10.80 to R24.78) and a weighted average remaining contractual life of 3.7 years (2007: 3.5 years). The weighted average share price at date of exercise for options exercised during the year was R18.14 (2007: R24.35).

Options over shares in Nedbank Group Ltd Year ended 31 December	Number of options 2008	Weighted average exercise price 2008	Number of options 2007	Weighted average exercise price 2007
Outstanding at beginning of the year	**44,497,984**	**R119.05**	42,641,399	R108.04
Granted during the year	**2,152,253**	**R110.84**	8,101,157	R141.14
Forfeited during the year	**(2,051,134)**	**R114.27**	(2,591,584)	R88.30
Exercised during the year	**(2,089,408)**	**R68.49**	(3,591,323)	R80.82
Expired during the year	**(1,385,621)**	**R113.69**	(61,665)	R74.81
Outstanding at end of the year	**41,124,074**	**R121.61**	44,497,984	R86.94
Exercisable at 31 December	**5,240,727**	**R73.28**	2,197,789	R93.52

The options outstanding at 31 December 2008 have an exercise price in the range of R78 to R282.58 (2007: R45 to R282.58) and a weighted average remaining contractual life of 3.6 years (2007: 2.9 years). The weighted average share price at date of exercise for options exercised during the year was R104.26 (2007: R143.43).

Options over shares in Mutual & Federal Insurance Company Ltd Year ended 31 December	Number of options 2008	Weighted average exercise price 2008	Number of options 2007	Weighted average exercise price 2007
Outstanding at beginning of the year	**6,420,700**	**R14.49**	7,234,000	R18.82
Granted during the year	**1,595,020**	**R22.23**	317,700	R26.04
Forfeited during the year	**(793,580)**	**R17.93**	(305,500)	R19.34
Exercised during the year	**(1,712,050)**	**R9.03**	(825,500)	R8.18
Expired during the year	**(218,930)**	**R19.89**	–	–
Outstanding at end of the year	**5,291,160**	**R17.33**	6,420,700	R14.49
Exercisable at 31 December	**2,248,450**	**R12.03**	1,206,900	R8.55

The options outstanding at 31 December 2008 have an exercise price in the range of R1.50 to R27.98 (2007: R3.50 to R27.99) and a weighted average remaining contractual life of 3.5 years (2007: 3.7 years). The weighted average share price at date of exercise for options exercised during the year was R17.99 (2007: R27.12).

41 Share-based payments continued

(iii) 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.

(iv) Option pricing inputs

The following describes the option pricing inputs used for option 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	**2008**	**7,437,751**	**£0.26**	**£1.17**	**£0.90**	**27.1%**	**3.5yrs**	**5.8%**	**4.0%**
	2007	4,376,651	£0.45	£1.66	£1.31	26.2%	3.7 yrs	4.2%	5.2%
UK Share Option and Deferred Delivery Plan	**2008**	**10,042,524**	**£0.21**	**£1.20**	**£1.20**	**29.5%**	**5.0yrs**	**5.8%**	**4.1%**
	2007	7,265,654	£0.39	£1.64	£1.63	31.6%	5.0 yrs	4.2%	5.1%
Old Mutual plc Share Reward Plan – Share Options	**2008**	**1,315,789**	**£0.08**	**£0.57**	**£0.57**	**43.9%**	**5.0 yrs**	**12.3%**	**3.7%**
	2007	–	–	–	–	–	–	–	–
OMSA Management Scheme	**2008**	**14,713,200**	**R0.77**	**R18.35**	**R18.35**	**37.0%**	**5.4 yrs**	**4.5%**	**7.5%**
	2007	7,473,176	R6.99	R23.28	R23.28	27.1%	5.3 yrs	3.0%	8.9%
Old Mutual Namibia Management Scheme	**2008**	**298,101**	**R0.98**	**R16.24**	**R16.24**	**37.0%**	**5.5 yrs**	**4.5%**	**7.5%**
	2007	92,791	R7.03	R23.22	R23.22	27.2%	5.4 yrs	3.0%	8.9%
Nedbank Group (2005) Share Option Scheme	**2008**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2007	6,377,666	R27.19	R134.78	R143.16	27.0%	4.0 yrs	4.9%	8.6%
Nedbank Eyethu Black Executive Scheme	**2008**	**188,922**	**R20.45**	**R108.63**	**R111.56**	**28.0%**	**6.0yrs**	**7.9%**	**9.7%**
	2007	160,465	R32.93	R134.86	R139.81	28.0%	5.8 yrs	5.1%	9.0%
Nedbank Eyethu Black Management Scheme	**2008**	**1,847,384**	**R20.52**	**R108.79**	**R112.01**	**28.0%**	**6.0yrs**	**7.9%**	**9.7%**
	2007	1,225,244	R33.40	R134.88	R139.13	28.0%	6.0 yrs	5.1%	8.8%
Nedbank Eyethu Corporate Scheme	**2008**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2007	300,282	R63.59	R134.76	R108.06	27.0%	3.9 yrs	–	9.8%
Nedbank UK Long-term Incentive Plan	**2008**	**34,132**	**R19.01**	**R111.03**	**R120.62**	**27.0%**	**4.0yrs**	**8.1%**	**11.9%**
	2007	37,500	R33.50	R135.00	R134.27	28.0%	5.0 yrs	5.3%	9.3%
Mutual & Federal Management Incentive Scheme	**2008**	**1,550,240**	**R6.62**	**R22.22**	**R22.22**	**34.2%**	**3.0yrs**	**4.5%**	**8.9%**
	2007	317,700	R9.15	R26.04	R26.04	34.6%	3.0 yrs	4.5%	8.1%

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.

41 Share-based payments continued

(v) Share-based payment arrangements relating to US Asset Management

During the year ended 31 December 2008, US Asset Management had the following share-based payment arrangements:

OMAM Affiliate Equity Plan

Equity granted during the year to employees of firms participating in the OMAM Affiliate Equity Plan vests 3 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, no sooner than 4 years from the date of purchase (for purchased equity) or 4 years from the date of grant (for granted equity) participating employees can 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.

Acadian Asset Management (AAM)

Class B equity interests in AAM acquired by employees during the year entitle the participating employees to 28.57 percent 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. Fair value was determined based on the discounted projected future cash flows of AAM.

Fair value of instruments granted and purchased during the year		Affiliate share purchases	Affiliate share grants	Total minority share in affiliate
	2008	**–**	**–**	**–**
AAM[1]	2007	28.6%	–	28.6%
	2008	**3.9%**	**2.5%**	**6.4%**
OMAM Affiliate Equity Plan	2007	2.4%	7.3%	9.7%
	2008	**–**	**6**	**6**
Total fair value of instruments ($USm)[2]	2007	17	9	26

[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 2009 in respect of the 2008 financial year has been determined to commence from 1 January 2008.

It is anticipated that instruments with a fair value of US $3.5 million (2007: US$2.8 million) will be granted during 2009 to firms participating in the OMAM Affiliate Equity Plan based on 2008 financial performance.

41 Share-based payments continued

(vi) 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	**2008**	**7,013,741**	**£1.22**
	2007	6,112,787	£1.63
OMSA Senior Black Management Scheme	**2008**	**3,546,385**	**R16.62**
	2007	1,865,075	R22.56
OMSA Management Scheme	**2008**	**10,924,260**	**R18.68**
	2007	4,970,627	R23.39
Old Mutual Namibia Management Scheme	**2008**	**112,596**	**R19.07**
	2007	37,211	R23.31
Old Mutual Namibia Senior Black Management Scheme	**2008**	**456,879**	**R14.69**
	2007	439,854	R23.36
Old Mutual Namibia Broad-based Employee Scheme	**2008**	**–**	**–**
	2007	144,000	R21.33
Nedbank Group (2005) Matched Share Scheme	**2008**	**295,983**	**R95.26**
	2007	179,917	R125.10
Nedbank Eyethu Black Executive Scheme	**2008**	**92,666**	**R108.76**
	2007	72,705	R134.83
Nedbank Eyethu Black Management Scheme	**2008**	**167,864**	**R108.76**
	2007	110,562	R134.88
Nedbank Eyethu Retail Scheme	**2008**	**–**	**–**
	2007	2,137	R118.41
Nedbank Group (2005) Share Option Scheme	**2008**	**2,516,999**	**R111.53**
	2007	–	–
Nedbank Namibia Omufima Black Management Scheme	**2008**	**–**	**–**
	2007	–	–
Nedbank Namibia Omufima Broad-based Employee Scheme	**2008**	**–**	**–**
	2007	–	–
Mutual & Federal Senior Black Management Scheme	**2008**	**167,378**	**R18.85**
	2007	145,770	R25.95
Mutual & Federal Management Incentive Scheme	**2008**	**1,777,790**	**R22.46**
	2007	95,310	R26.04
Mutual & Federal Black Business Partners Scheme	**2008**	**145,090**	**R26.35**
	2007	2,267,136	R27.70
Mutual & Federal Namibia Management Incentive Scheme	**2008**	**53,770**	**R22.50**
	2007	–	–
Mutual & Federal Namibia Black Business Partners Scheme	**2008**		
	2007	35,347	R26.33
Mutual & Federal Namibia Community Scheme	**2008**		
	2007	13,092	R26.33
Mutual & Federal Discretionary Scheme	**2008**		
	2007	15,480	R26.33

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.

41 Share-based payments continued

(vii) 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 10,770,000 options (2007: 6,456,000 options) and 8,420,000 restricted shares (2007: 4,721,500 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 R7.6 (2007: R22.91).

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	Total fair value £m 2008	Vesting period 2008	Total fair value £m 2007	Vesting period 2007
Old Mutual plc performance share plans – restricted shares	**3**	**4.2 years**	5	4.2 years
Old Mutual plc performance share plans – options	**1**	**4.2 years**	1	4.2 years

(viii) Financial impact

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Expense arising from equity settled share and share option plans	**21**	38
Expense arising from cash settled share and share option plans	**3**	(2)
	24	36
Closing balance of liability for cash settled share awards	**15**	26
Total intrinsic value liability for vested benefits	**–**	10

42 Dividends

Dividends paid were as follows:

	Notes	Year ended 31 December £m 2008	Year ended 31 December £m 2007
2006 Final dividend paid – 4.15p per 10p share		**–**	218
2007 Interim dividend paid – 2.3p per 10p share		**–**	115
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**	333
Dividends declared to holders of perpetual preferred callable securities	38(ii)	**43**	40
Dividend payments for the year		**395**	373

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 2008, £23 million and £20 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2007: £22 million and November 2007: £18 million).

43 Contingent liabilities

	At 31 December £m 2008	At 31 December £m 2007
Guarantees and assets pledged as collateral security	**1,839**	1,489
Irrevocable letters of credit	**760**	426
Secured lending	**383**	1,052
Other contingent liabilities	**393**	136

Nedbank structured financing

Historically a number of the Group's South African banking businesses entered into structured finance transactions with third parties using the tax base of these companies. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service (SARS), although the obligation to pay in the first instance rests with the Group's companies. It is only in limited cases where, for example, the credit quality of a client becomes doubtful, or where the client has specifically contracted out of the re-pricing of additional taxes, that the recovery from a client could be less than the liability that could arise on assessment, in which case provisions are made. SARS has examined the tax aspects of some of these types of structures and SARS could assess these structures in a manner different to that initially envisaged by the contracting parties. As a result Group companies could be obliged to pay additional amounts to SARS and recover these from clients under the applicable contractual arrangements.

American Skandia

The sale of American Skandia to Prudential Financial contained customary representations and warranties. The indemnity in respect of this is limited to US$1 billion. Investigations by various US regulators have given rise to potential settlements and claims in relation to market timing. American Skandia's exposure to market timing is part of a wider investigation of the US industry. The exposure is covered by the aforementioned indemnity which also covers the matter of American Skandia's failure to administer the annuitisation provisions contained in certain contracts. This was an administrative error made by the American Skandia business between 1996 and 2003.

American Skandia has been provided for in the acquisition accounting.

44 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 £m 2008	At 31 December £m 2007
Investment property	**–**	3
Property, plant and equipment	**37**	66

Commitments to extend credit to customers

The following table presents the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers.

	At 31 December £m 2008	At 31 December £m 2007
Original term to maturity of one term or less	**2,467**	1,588
Original term to maturity of more than one year	**115**	96
Other commitments, note issuance facilities and revolving underwriting facilities	**441**	237

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 and finance lease arrangements are described in note 19.

45 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.

(i) 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 remuneration and other compensation paid to the Board of Directors are disclosed in the Remuneration Report and details of their shareholdings in the Company are contained in the Directors' Report on Corporate Governance and Other Matters.

(ii) Key management personnel remuneration and other compensation

Year ended 31 December	Number of personnel 2008	Value £000s 2008	Number of personnel 2007	Value £000s 2007
Directors' fees	**8**	**1,124**	9	1,014
Remuneration		**9,924**		13,989
Cash remuneration	**12**	**5,971**	13	8,616
Short-term employee benefits	**17**	**1,285**	20	1,319
Post employment benefits	**8**	**665**	7	281
Other long-term benefits	**4**	**7**	7	45
Share-based payments	**11**	**1,996**	17	3,728
		11,048		15,003

Share options

Year ended 31 December	Number of personnel 2008	Number of options/shares '000s 2008	Number of personnel 2007	Number of options/shares '000s 2007
Outstanding at beginning of the year	**11**	**12,592**	11	15,458
Leavers	**4**	**(7,706)**	–	–
New appointments	**1**	**1,316**	2	1,370
Granted during the year	**9**	**1,525**	8	1,888
Lapsed during the year	**3**	**(191)**	11	(6,110)
Lapsed during the year	**3**	**(143)**	1	(14)
Outstanding at end of the year	**10**	**7,393**	11	12,592

Restricted shares

Year ended 31 December	Number of personnel 2008	Number of options/shares '000s 2008	Number of personnel 2007	Number of options/shares '000s 2007
Outstanding at beginning of the year	**11**	**6,270**	13	4,257
Leavers	**4**	**(4,325)**	–	–
New appointments	**1**	**900**	3	1,333
Granted during the year	**8**	**1,741**	8	1,695
Released during the year	**4**	**(566)**	10	1,015
Outstanding at end of the year	**9**	**4,020**	11	6,270

45 Related parties continued

(iii) 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	Number of personnel 2008	Value £000s 2008	Number of personnel 2007	Value £000s 2007
Current accounts				
Balance at beginning of the year	**6**	**40**	7	2,323
Net movement during the year		**(51)**		(2,283)
Balance at end of the year	**6**	**(11)**	6	40
Credit cards				
Balance at beginning of the year	**5**	**16**	4	12
Net movement during the year		**(4)**		4
Balance at end of the year	**4**	**12**	5	16
Mortgages				
Balance at beginning of the year	**5**	**2,014**	5	1,643
Net movement during the year		**421**		2,201
Interest charged		**194**		210
Less repayments		**(716)**		(2,048)
Foreign exchange movements		**(17)**		8
Balance at end of the year	**4**	**1,896**	5	2,014
General insurance contracts				
Total premium paid during the year	**5**	**25**	7	21
Claims paid during the year	**1**	**18**	2	11
Life insurance products				
Total sum assured/value of investment at end of the year	**12**	**8,397**	7	3,157
Pensions, termination benefits paid				
Value of pension plan as at end of the year	**10**	**9,500**	13	8,404

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.

45 Related parties continued

(iv) 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 twelve months ended 31 December 2008 were as follows:

1 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 £52 million (2007: £86 million) for services rendered under this agreement.
2 Premises – the Group rents office premises from Skandia Liv. The Group paid market rents of £15 million (2007: £14 million) for these premises.
3 Occupational pensions – Skandia Liv provides occupational pensions for the employees of the Group, for which the Group paid £15 million (2007: £14 million).
4 Agreement on IT services – the Group provides IT services to Skandia Liv. The amount charged to Skandia Liv was £9 million (2007: £7 million).
5 In 2002, prior to Skandia being acquired by Old Mutual, it sold its asset management business, Skandia Asset Management. Skandia Liv submitted a claim against Skandia, firstly based upon the proceeds of sale and, secondly based upon the terms of the asset management agreement entered into prior to the sale. Skandia and Skandia Liv agreed to settle the dispute by means of a binding arbitration process. The arbitration board has not accepted Skandia Liv's claim to any part of the purchase price paid, but has ruled that Skandia is obliged to pay Skandia Liv a total sum of £47 million (SEK580 million) (2007: £174 million (SEK2,360 million)) plus interest by way of compensation in relation to fees under the asset management agreement which Skandia Liv deemed to be higher than prevailing market rates. Skandia has paid £74 million (£47 million plus £27 million relating to fees and interest respectively) to Skandia Liv. This ruling means that the last of a number of questions about relations between Skandia Liv and the parent company Skandia is now settled.

The balance outstanding at 31 December 2008 due from Skandia Liv is £13 million (2007: £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 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.

In 2002, prior to its acquisition by Old Mutual, Skandia sold its asset management business, Skandia Asset Management, which principally managed the assets of the Skandia Liv business, to Den Norske Bank for SEK3.2 billion. Following the sale, Skandia Liv submitted a claim against Skandia, firstly based upon the proceeds of sale and, secondly based upon the terms of the asset management agreement entered into prior to the sale. In June 2004, Skandia and Skandia Liv agreed to settle the dispute by means of a binding arbitration process.

The arbitration board made its ruling in October 2008. The board did not accept Skandia Liv's claim to any part of the purchase price paid, but ruled that Skandia was obliged to pay Skandia Liv a sum of £47 million together with interest thereon by way of compensation in relation to fees under the asset management agreement which Skandia Liv deemed to be higher than prevailing market rates.

(v) Aka Capital (Proprietory) Limited

A Group subsidiary, Nedbank Ltd, sold its 20 percent interest in Aka Capital (Proprietary) Limited ("Aka Capital") at arm's length, in August 2006, to the other existing Aka Capital shareholders. These included Mr RJ Khoza, who is a non-executive director of Old Mutual plc, who acquired an additional 4.2 percent of Aka Capital through a special purpose vehicle (SPV) for R11.0 million. Nedbank Ltd's Capital Investment Committee approved this transaction in line with its mandate in the normal course of business. The funding for the acquisition by Mr Khoza's SPV was financed by Nedbank Ltd on arm's length terms, with none (2007: R12.8 million) of such funding being outstanding at year-end.

46 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
Old Mutual Life Assurance Company (South Africa) Ltd	Life assurance	100	Republic of South Africa
Old Mutual Life Assurance Company (Namibia) Ltd	Life assurance	100	Namibia
Old Mutual Investment Group (South Africa) (Pty) Ltd	Asset management	100	Republic of South Africa
Nedbank Group Ltd	Banking	61	Republic of South Africa
Nedbank Ltd	Banking	61	Republic of South Africa
Mutual & Federal Insurance Company Ltd	General insurance	84	Republic of South Africa
Old Mutual (US) Holdings, Inc	Holding company	100	Delaware, USA
Old Mutual U.S. Life Holdings, Inc	Holding company	100	Delaware, USA
OM Financial Life Insurance Company	Life assurance	100	Maryland, USA
Old Mutual (Bermuda) Ltd	Life assurance	100	Bermuda
Dwight Asset Management Company	Asset management	100	Delaware, USA
Acadian Asset Management[1]	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
Försäkringsaktiebolaget Skandia	Life assurance	100	Sweden
SkandiaBanken AB	Banking	100	Sweden
Skandia UK Holdings Limited	Holding company	100	England and Wales
Old Mutual (Netherlands) B.V.	Holding company	100	Netherlands

[1]The Group holds 100 percent Class A shares and 71.43 percent Class B shares in Acadian Asset Management. The remaining 28.57 percent Class B shares are held by the employees as described in note 41(v).

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 capital and reserves are summarised as follows:

	At 31 December £m 2008	At 31 December £m 2007
Capital and Reserves	**25**	25
(Loss)/Profit after tax	**(7)**	2

47 Financial risk

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) Financial Risk Management strategy and policy

(i) Overview

The Old Mutual Group operates an Enterprise Risk Management (ERM) framework containing the following components:

- a robust risk governance structure;
- risk appetites established at Group and subsidiary level;
- Group-wide risk policies; and
- methodologies that focus on risk identification, risk measurement, risk assessment, action plans, monitoring and reporting. Group risk principles have been established for each major risk category to which the Group is exposed. These are designed to provide management teams across the Group with guiding principles within which to manage risks. Business unit risk policies expand on these principles and contain detailed requirements and/or limits for the specific business unit concerned.

Further details regarding the ERM framework and risk governance procedures are contained in the Risk Management section on pages 12 to 20 of this Annual Report.

The Group's exposure to financial risk varies according to the nature of its operations and the location of those operations. Consequently the Group's policy is to manage financial risk separately through its principal operations subject to appropriate central corporate monitoring.
The Group's operations that incur significant financial risk are:

- Old Mutual plc
- OMSA, through its principal operating entity, Old Mutual Life Assurance Company South Africa (OMLAC(SA))
- US Life
- Skandia, through its unit-linked assurance operations
- in UK, Nordic and ELAM, and through its banking operation in Nordic (SkandiaBanken)
- M&F
- Nedbank

The Group's asset management businesses are exposed to financial risk to some extent due to the impact of market fluctuations on revenue levels, which are a function of the value of client portfolios. This exposure is reduced through asset class and product diversification. Investment risk is borne principally by the client. These asset management businesses, together with the long-term insurance operations in the rest of Africa, do not give rise to significant financial risks relative to the Group as a whole, and are therefore not considered further.

(ii) Old Mutual plc

The principal financial risks Old Mutual plc faces, other than those that it is exposed to through its operating entities, relate to credit risk, liquidity risk and currency risk.

Credit risk arises primarily as a result of the exposure to financial institutions with which Old Mutual plc has deposited surplus cash or entered into other financial arrangements, such as forward foreign exchange transactions or interest rate derivatives. The Old Mutual plc Board controls this risk by setting limits on the level of exposure to individual counterparties.

Liquidity risk is the risk that Old Mutual plc may not be able to pay obligations when due, or provide capital to its subsidiaries when required. Old Mutual plc mitigates this risk by ensuring it maintains liquid assets and/or committed finance facilities sufficient to meet its expected needs.

In terms of currency risk, Old Mutual plc's exposure arises from the fact that the impact on the consolidated results of the Group, insofar as its presentational currency is GBP, whilst the functional currencies of its principal operations are South African Rand, US Dollar, Euro and Swedish Krona. Old Mutual plc seeks to reduce it's consolidated exposure to currency fluctuations by hedging a proportion of the currency translation risk of its net investments in its foreign subsidiaries and anticipated cash flows through currency swaps, currency borrowings and forward foreign exchange contracts. The hedging relationships that qualify for hedge accounting are classified as either cash flow hedges or net investment hedges in the consolidated financial statements. Certain transactions undertaken as hedges do not qualify for hedge accounting. Fair value movements for these derivatives are accounted for in the income statement.

(iii) Insurance operations

The principal financial risks faced by the insurance operations are credit risk, market risk and liquidity risk and, to the extent that those operations have overseas operations with different functional currencies, currency risk.

Each of the insurance operations manages their financial risks using asset and liability management (ALM) frameworks aimed at matching assets to the liabilities arising as a result of the various type of benefits payable to policyholders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework.

47 Financial risk continued

(a) Financial Risk Management strategy and policy continued

(iii) Insurance operations continued

The insurance operations retain substantial financial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets and/or policyholders enjoy options embedded in their contracts that are not matched by identical options in their investment portfolios. These exposures include liquidity risk (for example where the durations of assets do not match those of the policyholder liabilities they seek to match), credit risk (where changes in credit quality of asset portfolios or credit losses cannot be passed on to policyholders) and market risk (for example in respect of equity holdings in shareholders' funds).

(iv) Banking operations

The Group's banking operations incur credit, interest rate and liquidity risk by accepting deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by consolidating them and investing in a range of assets, often for longer periods, whilst maintaining sufficient liquidity to meet all claims that might fall due.

Nedbank also incurs credit exposures as a result of entering into guarantees and other commitments such as letters of credit and performance, and other bonds. Nedbank also trades in financial instruments, taking positions in traded and over the counter instruments including derivatives, in order to take advantage of short-term market movements in equity, bond, currency, interest rate and commodity prices.

Each of the banking operations manages their financial risks using an asset and liability management framework, conducted through formal structures appropriate to their individual businesses.

(b) Capital management

(i) Overview

The Group actively manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Group's ability to continue as a going concern while enabling the ability to identify capital strains and ensuring that the return to shareholders is maximised through the optimisation of the debt and equity balance. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts and strategic initiatives. It is critical that the Group's capital management policies are aligned with the Group's overall strategy, business plans and risk appetite.

The Group's Capital Management Committee (GCMC) reviews the capital structure regularly. As part of the review the committee considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the committee, the Group will balance its overall capital structure through the payment of dividends, new share issues, share buybacks as well as the issue of new debt or the redemption of existing debt. Measures that inform the GCMC's views on the appropriate level of capital for the Group includes shareholder performance objectives, regulatory capital requirements, internal economic capital measures, rating agency expectations and general views on maintaining financial flexibility.

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 2008 and throughout the year. As at the date of issue of these financial statements the unaudited pro-forma surplus was estimated to be £0.7 billion. The FGD position will be submitted to the FSA by 30 April 2009.

47 **Financial risk** continued

Capital position statements

(i) Long-term insurance business operations

Each of the Group's long term businesses is capitalised at a sufficiently strong level for their individual circumstances. The regulatory capital position of the Group's long-term insurance operations, based on latest estimates that are not audited, is summarised as follows:

				Restated		
At 31 December (unaudited)	**South Africa £m 2008**	**United States £m 2008**	**Europe £m 2008**	South Africa £m 2007	United States £m 2007	Europe £m 2007
Equity shareholders' funds	**3,455**	**339**	**3,745**	3,984	1,191	3,699
Adjustments to a regulatory basis: Inadmissible assets	**(15)**	**(276)**	**(1,066)**	(22)	(154)	(1,049)
Other adjustments	**(257)**	**232**	**(1,412)**	(565)	(570)	(1,505)
Total available capital resources	**3,183**	**295**	**1,267**	3,397	467	1,145
Total capital requirements – local regulatory basis	**(851)**	**(232)**	**(237)**	(886)	(126)	(211)
Overall excess of capital resources over requirements	**2,332**	**63**	**1,030**	2,511	341	934

				Restated		
At 31 December	**South Africa £m 2008**	**United States £m 2008**	**Europe £m 2008**	South Africa £m 2007	United States £m 2007	Europe £m 2007
Capital position at 1 January	**3,397**	**467**	**1,145**	2,993	409	944
Earnings after tax	**(233)**	**(751)**	**366**	535	19	238
Change in admissible assets and other adjustments and other movements in reserves	**276**	**(239)**	**(327)**	452	62	(75)
New capital/(capital redemptions)		**650**	**–**	–	(19)	3
Dividends	**(209)**	**–**	**(55)**	(613)	–	–
Foreign exchange movements	**(48)**	**168**	**138**	30	(4)	35
Capital position at 31 December	**3,183**	**295**	**1,267**	3,397	467	1,145

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 2008, OMLAC(SA)'s excess assets was 3.8 times (2007: 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 £1,176 million (2007: £1,633 million) and M&F £219 million (2007: £404 million). In addition, £904 million (2007: £516 million) is invested in the Group's loan notes and £335 million (2007: £194 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) (2007: N$4 million (£0.3 million)). This has been determined in accordance with local statutory rules.

United States

In the case of OMUSL, the amounts disclosed above represent the consolidated capital position of the OMUSL group of companies, including Old Mutual Financial Life Insurance Company, Old Mutual Financial Life Insurance Company of New York, Old Mutual (Bermuda) Limited and Old Mutual Reassurance (Ireland) Limited. The calculations have been determined on the basis of local regulatory requirements for the United States, Bermuda and Ireland accordingly.

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.

47 **Financial risk** continued

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.

(iv) Banking operations

The regulatory capital position of the Group's banking operations, based on latest estimates, is summarised as follows:

Banking business (unaudited)	Africa £m 2008	Europe £m 2008	Africa £m 2007	Europe £m 2007
Equity shareholder funds	**1,434**	**218**	1,357	221
Eligible subordinated debt	**482**	**105**	546	94
Inadmissible assets	**–**	**(3)**	–	(2)
Other adjustments	**(18)**	**1**	(20)	11
Total capital resources	**1,898**	**321**	1,883	324
Total capital requirement	**(1,528)**	**(166)**	(1,375)	(194)
Excess of capital resources over capital requirement	**370**	**155**	508	130
Capital position at 1 January	**1,883**	**324**	1,440	259
Earnings after tax and other increases in reserves	**243**	**119**	333	74
Change in admissible assets, other adjustments and other movements in reserves	**(49)**	**(13)**	(35)	(20)
New capital	**–**	**–**	63	–
Net (redemption)/issue of subordinated debt	**(60)**	**–**	169	–
Dividends paid	**(104)**	**(149)**	(94)	–
Foreign exchange movements	**(15)**	**40**	7	11
Capital position at 31 December	**1,898**	**321**	1,883	324

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.

(c) Credit risk

(i) 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 percent 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 long-term business operations cedes significant risk through reinsurance and any loans to policyholders are secured on the surrender value of the relevant policies. The credit risk exposure of the Group's South Africa general insurance business, classified as non-current assets held-for-sale in 2007, is included in the analysis below.

47 **Financial risk** continued

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 balance sheet.

(c) Credit risk continued

	At 31 December £m 2008	At 31 December £m 2007
Mandatory reserve deposits with Central Banks	**734**	615
Reinsurers' share of long-term business policyholder liabilities	**1,148**	1,394
Reinsurers' share of general insurance liabilities	**115**	66
Deposits held with reinsurers	**164**	215
Loans and advances	**35,745**	30,690
Home loans	**14,111**	12,083
Commercial mortgages	**5,325**	4,415
Properties in possession	**58**	23
Credit cards	**556**	541
Overdrafts	**895**	990
Policyholder loans	**260**	204
Other loans to clients	**4,443**	4,729
Net finance lease and instalment debtors	**4,474**	3,866
Preference shares and debentures	**1,142**	689
Factoring accounts	**29**	36
Trade, other bills and bankers' acceptances	**78**	135
Term loans	**4,746**	2,988
Remittances in transit	**15**	14
Deposits placed under reverse repurchase agreements	**192**	429
Less: impairment of loans and advances	**(579)**	(452)
Investments and securities	**32,297**	27,705
Government and government-guaranteed securities	**8,976**	7,234
Other debt securities, preference shares and debentures	**19,116**	16,902
Short-term funds and securities treated as investments	**3,989**	3,342
Other	**216**	227
Other assets	**2,681**	2,330
Derivative financial instruments – assets	**4,633**	1,527
Cash and cash equivalents	**2,862**	3,501
Financial guarantees and other credit related contingent liabilities	**1,989**	1,691
Loan commitments and other credit related commitments	**4,165**	4,683
	86,533	74,417

47 Financial risk continued

(c) Credit risk continued

(ii) 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 2008	At 31 December £m 2007
Neither past due nor impaired	**31,875**	27,448
Impaired instruments	**206**	30
Total debt instruments and similar securities	**32,081**	27,478

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.

At 31 December 2008	**Government and government-related securities £m**	**Other debt securities, preference shares and debentures £m**	**Short-term funds and securities £m**	**Total £m**
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**	**6,170**
	8,976	**19,116**	**3,989**	**32,081**

At 31 December 2007	Government and government-related securities £m	Other debt securities, preference shares and debentures £m	Short-term funds and securities £m	Total £m
Investment grade (AAA to BBB)	5,122	14,229	2,969	22,320
Sub-investment grade (BB and lower)	–	296	–	296
Not rated	2,112	2,377	373	4,862
	7,234	16,902	3,342	27,478

In general, no collateral is taken in respect of the Group's holdings of debt instruments and similar securities.

United States

US Life has incurred impairment losses of £414 million and net unrealised losses of £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.

At 31 December	**Carrying value £m 2008**	**% of total 2008**	Carrying value £m 2007	% of total 2007
1	**6,253**	**62.2**	5,941	63.9
2	**3,526**	**35.1**	3,177	34.2
3	**209**	**2.0**	172	1.8
4	**27**	**0.3**	10	0.1
5	**31**	**0.3**	–	–
6	**5**	**0.1**	–	–
	10,051	**100.0**	9,300	100.0

US Life Securities rating by sector

The following table analyses the securities portfolio by sector and investment rating.

At 31 December 2008	**AAA %**	**AA %**	**A %**	**BBB %**	**BB and below %**	**Total %**
Finance	**0**	**1**	**7**	**5**	**1**	**14**
Banking	**1**	**1**	**7**	**5**	**0**	**14**
Utility	**0**	**0**	**2**	**6**	**0**	**8**
Communications	**0**	**0**	**3**	**4**	**0**	**7**
Insurance	**0**	**0**	**3**	**3**	**0**	**6**
Energy	**0**	**0**	**2**	**3**	**0**	**5**
Manufacturing	**0**	**0**	**1**	**1**	**0**	**2**
Other	**27**	**3**	**4**	**8**	**2**	**44**
Total	**28**	**5**	**29**	**35**	**3**	**100**

At 31 December 2007	AAA %	AA %	A %	BBB %	BB and below %	Total %
Finance	1	2	7	5	0	15
Banking	1	1	6	5	0	13
Utility	0	0	2	5	1	8
Communications	0	0	3	5	0	8
Insurance	0	0	3	3	0	6
Energy	0	0	1	3	0	4
Manufacturing	0	0	1	1	0	2
Other	29	2	4	8	1	44
Total	31	5	27	35	2	100

47 **Financial risk** continued

(c) Credit risk continued

(ii) Debt instruments and similar securities continued

US Life Securities by industry

The following table analyses the securities portfolio by industry

	At 31 December % 2008	At 31 December % 2007
Affiliated	**4**	1
Air transport	**1**	1
Asset backed	**6**	7
Automotive	**1**	1
Banking	**14**	13
Basic industries	**2**	2
CMBS	**10**	11
Communications	**6**	8
Consumer cyclical	**2**	2
Consumer non-cyclical	**2**	2
Energy	**5**	4
Entertainment	**1**	1
Finance	**14**	16
Insurance	**6**	6
International	**1**	3
Manufacturing	**2**	2
Municipal	**1**	–
RMBS	**10**	9
Technology	**1**	1
Transportation	**1**	1
Treasury	**1**	1
Utility	**9**	8
Total	**100**	100

47 Financial risk continued

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 2008	At 31 December £m 2007
Assets fair valued at below book value		
Book value	**9,525**	5,313
Unrealised loss	**(1,935)**	(311)
Fair value (as included in balance sheet)	**7,590**	5,002
Assets fair valued at or above book value		
Book value	**2,326**	4,163
Unrealised gain	**135**	135
Fair value (as included in balance sheet)	**2,461**	4,298
Total		
Book value	**11,851**	9,476
Unrealised loss	**(1,800)**	(176)
Fair value (as included in balance sheet)	**10,051**	9,300

The above takes account of the 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 and aggregate fair value as at 31 December 2008 of £1,262 million and £972 million respectively.

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

At 31 December	**Fair value £m 2008**	**Unrealised loss £m 2008**	Fair value £m 2007	Unrealised loss £m 2007
Sub-prime	**312**	**(141)**	368	(16)
Alt-A	**33**	**(10)**	33	(1)
CMBS	**973**	**(288)**	1,004	(4)
RMBS	**1,036**	**(39)**	768	(4)
Total	**2,354**	**(478)**	2,173	(25)

US Life debt securities in an unrealised loss position

The following tables excludes unrealised gains.

At 31 December 2008	**Fair value £m**	**Unrealised loss £m**
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)**

At 31 December 2007	Fair value £m	Unrealised loss £m
Between 90% and 100%	4,252	(150)
Between 80% and 90%	583	(94)
Below 80%	167	(67)
Total	5,002	(311)

47 **Financial risk** continued

(c) Credit risk continued

(ii) Debt instruments and similar securities continued

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

At 31 December 2008	**Fair value £m**	**Unrealised loss £m**
Between 90% and 100%	**738**	**(34)**
Between 80% and 90%	**232**	**(38)**
Below 80%	**554**	**(428)**
Total	**1,524**	**(500)**

At 31 December 2007	Fair value £m	Unrealised loss £m
Between 90% and 100%	1,139	(25)
Between 80% and 90%	39	(7)
Below 80%	24	(8)
Total	1,202	(40)

Aged analysis of unrealised losses for the time periods indicated

The following table excludes unrealised gains.

At 31 December 2008	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(5)**	**(161)**	**(166)**
6 months to 1 year	**(47)**	**(667)**	**(714)**
Over 1 year	**(49)**	**(1,006)**	**(1,055)**
	(101)	**(1,834)**	**(1,935)**

At 31 December 2007	Non-investment grade	Investment grade	Total
Less than 6 months	(2)	(35)	(37)
6 month to 1 year	(10)	(106)	(116)
Over 1 year	(12)	(146)	(158)
	(24)	(287)	(311)

47 Financial risk continued

(c) Credit risk continued

(iii) Reinsurance assets

An age analysis of the Group's balance sheet exposures to reinsurers is set out below.

	At 31 December £m 2008	At 31 December £m 2007
Neither past due nor impaired	**1,427**	1,656
Sub-investment grade (BB and lower)	**–**	1
Past due but not impaired, greater than 6 months but less than 1 year	**–**	18
Total reinsurance assets	**1,427**	1,675

The following table shows an analysis of the Group's balance sheet exposure to reinsurers according to the individual reinsurers' credit rating (Standard & Poor's or equivalent).

At 31 December 2008	**Reinsurers' share of long-term business policyholder liabilities £m**	**Reinsurers' share of general insurance liabilities £m**	**Deposits held with reinsurers £m**	**Total £m**
Investment grade (AAA to BBB)	**1,131**	**115**	**164**	**1,410**
Sub-investment grade (BB and lower)	**–**	**–**	**–**	**–**
Not rated	**17**	**–**	**–**	**17**
	1,148	**115**	**164**	**1,427**

At 31 December 2007	Reinsurers' share of long-term business policyholder liabilities £m	Reinsurers' share of general insurance liabilities £m	Deposits held with reinsurers £m	Total £m
Investment grade (AAA to BBB)	1,375	66	215	1,656
Sub-investment grade (BB and lower)	1	–	–	1
Not rated	18	–	–	18
	1,394	66	215	1,675

Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances.

47 **Financial risk** continued

(d) 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, 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, 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.

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 287 to 294.

(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.

47 Financial risk continued

(d) Market risk continued

(iii) Banking operations continued

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 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 percent VaR number used by Nedbank represents the overnight loss that has less than 1 percent 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.

Historical VaR (one-day, 99 percent) by risk type	**Average £m**	**Minimum £m**	**Maximum £m**	**Year-end £m**
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**

Historical VaR (one-day, 99 percent) by risk type	Average £m	Minimum £m	Maximum £m	Year-end £m
At 31 December 2007				
Foreign exchange	0.2	–	0.5	0.3
Interest rate	1.0	0.7	1.6	1.0
Equity products	0.9	0.4	2.0	0.5
Diversification	(0.3)	–	–	(0.2)
Total VaR exposure	1.8	1.1	4.1	1.6

47 Financial risk continued

(d) Market risk continued

(iii) Banking operations continued

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 2008 the sensitivity of the banking book to a 1 percent instantaneous reduction in interest rates would have led to a reduction in net interest income and equity of £31 million (2007: £41 million).

The table below shows the repricing profile of Nedbank's banking book balance sheet, which highlights the fact that assets reprice quicker than liabilities following derivative hedging activities.

Interest rate repricing gap	**Up to 3 months £m**	**3<6 months £m**	**6 months < 1 year £m**	**1<5 years £m**	**Over 5 years £m**	**Trading and non-rate £m**	**Total £m**
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**	**–**	**–**

Interest rate repricing gap	Up to 3 months £m	3<6 months £m	6 months < 1 year £m	1<5 years £m	Over 5 years £m	Trading and non-rate £m	Total £m
At 31 December 2007							
Total assets	27,972	343	288	1,699	911	4,720	35,933
Total liabilities and shareholders' funds	21,083	1,348	3,186	1,166	407	8,743	35,933
Interest rate hedging activities	(3,122)	1,777	2,557	(998)	(214)	–	–
Repricing profile	4,166	(128)	(342)	35	291	(4,022)	–
Cumulative repricing profile	4,166	4,038	3,696	3,731	4,022	–	–
Expressed as a % of total assets	11.6	11.2	10.3	10.4	11.2	–	–

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.

47 Financial risk continued

(e) 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 functional currency is GBP, whereas 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.

The table below shows the Group's balance sheet by major currency at 31 December 2008.

At 31 December 2008	ZAR £m	GBP £m	USD £m	Euro £m	SEK £m	Other £m	Total £m
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 long-term business 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	3,184	32	1,210	175	30	2	4,633
Cash and cash equivalents	716	645	657	180	293	371	2,862
Non-current assets held-for-sale	7	–	–	–	–	–	7
	61,106	32,852	27,881	6,526	11,404	5,578	145,347
Liabilities							
Long–term business 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	1,655	842	754	182	180	120	3,733
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	3,135	33	1,128	7	92	–	4,395
Non-current liabilities held-for-sale	6	–	–	–	–	–	6
	61,392	24,269	27,845	7,218	10,434	4,612	135,770

Financials

47 Financial risk continued

(e) Currency risk continued

At 31 December 2007	ZAR £m	GBP £m	USD £m	Euro £m	SEK £m	Other £m	Total £m
Assets							
Goodwill and other intangible assets	446	1,732	1,105	866	1,190	120	5,459
Mandatory reserve deposits with Central Banks	611	–	–	–	–	4	615
Property, plant and equipment	530	24	20	5	3	26	608
Investment property	1,117	361	–	–	–	1	1,479
Deferred tax assets	120	41	431	17	77	(3)	683
Investments in associated undertakings and joint ventures	66	25	–	–	–	(10)	81
Deferred acquisition costs	96	513	1,423	138	13	70	2,253
Reinsurers' share of long-term business policyholder liabilities	17	702	663	1	4	7	1,394
Deposits held with reinsurers	–	–	213	–	–	–	213
Loans and advances	24,831	373	1,610	106	1,309	2,458	30,687
Investments and securities	26,347	28,465	19,660	5,958	7,699	1,498	89,627
Current tax receivable	7	68	–	1	–	7	83
Client indebtedness for acceptances	158	–	4	–	–	3	165
Other assets	1,126	314	1,095	140	40	59	2,774
Derivative financial instruments – assets	700	98	647	66	15	1	1,527
Cash and cash equivalents	861	1,722	371	114	(174)	575	3,469
Non-current assets held-for-sale	542	6	4	6	526	533	1,617
	57,575	34,444	27,246	7,418	10,702	5,349	142,734
Liabilities							
Long-term business policyholder liabilities	25,663	31,347	13,862	2,976	7,773	2,630	84,251
Third party interests in consolidation of funds	488	1,406	147	–	1,506	–	3,547
Borrowed funds	1,076	384	132	580	177	4	2,353
Provisions	155	165	79	4	82	14	499
Deferred revenue	28	340	–	58	–	36	462
Deferred tax liabilities	405	339	399	160	100	10	1,413
Current tax payable	176	119	8	6	4	7	320
Other liabilities	3,187	1,621	938	172	169	93	6,180
Liabilities under acceptances	158	1	4	–	–	2	165
Amounts owed to bank depositors	24,672	696	1,786	138	1,700	2,825	31,817
Derivative financial instruments – liabilities	949	105	621	4	37	–	1,716
Non-current liabilities held-for-sale	358	–	–	6	–	50	414
	57,315	36,523	17,976	4,104	11,548	5,671	133,137

A 10 percent deterioration in the value of the major currencies shown above in relation to GBP would result in a reduction in the Group's consolidated equity holders' funds of £2 million (2007: £1,091 million), and a similar decline in the average exchange rates for the year (as set out in note 2) would have led to a reduction in Adjusted operating profit of £93 million (2007: £146 million).

47 **Financial risk** continued

(f) 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 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 contractual maturities of the Group's financial liabilities are set out in the appropriate notes to the financial statements.

(g) 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 3(v).

48 **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 long-term business 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. The Group's approach to financial risk management has been described in note 47.

(a) Risk management objectives and policies for mitigating insurance risk

The Group's exposure to insurance risk varies depending on the nature of its operations and their location. Consequently the Group's policy is to manage insurance risk separately through its principal operations, subject to appropriate central Corporate supervision and monitoring. The Group's principal operations that incur significant insurance risk are:

- OMLAC (SA) – long-term insurance in South Africa
- Old Mutual US Life – long-term insurance in the United States
- 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.

48 Insurance risk continued

(b) Terms and conditions of long-term insurance business – South Africa and United States

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[1]
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity	Some investment performance and annuity guarantees	Varies[1]
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

[1]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.

48 **Insurance risk** continued

(b) Terms and conditions of long-term insurance business – South Africa and United States continued

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) Annuities	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
Variable Annuities	Accumulation annuities with policyholder investments in separate accounts and a fixed account option	Mortality, investment, hedging	Minimum guaranteed death benefit and minimum guaranteed accumulation benefit which may include a minimum rate of return or waiver of surrender charges	Yes, through separate Accounts and crediting rates are reset at specified intervals

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.

48 Insurance risk continued

(c) Management of insurance risks – long-term business

The table below summarises the variety of risks to which the Group's long-term insurance business is 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.
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.

(d) Sensitivity analysis – long-term business

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with a corresponding 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) through Deferred Acquisition Costs (DAC) amortisation in the case of US business;
- the effect of locked-in assumptions for payout annuities and term insurance under US GAAP accounting, where assumptions underlying the insurance contract liabilities are not changed until liabilities are not adequate after reflecting current best estimates; and
- offset to the bonus stabilisation reserve in the case of mortality assumption changes for with-profit annuity business in South Africa.

The impact on Group equity resulting from a change in insurance contract liabilities or DAC balances at 31 December 2008 for long-term business has been estimated as follows (negative impact shown as positive figure):

Assumption	Change %	South Africa £m	US £m
Mortality and morbidity rates – assurance	+10	187	11
Mortality rates – annuities	-10	41	(3)
Discontinuance rates	+10	(9)	23
Expenses (maintenance)	+10	50	23

The insurance contract liabilities recorded for the South African business are also impacted by the valuation discount rate assumed. Lowering this rate by 1 percent would result in a net increase to the insurance contract liabilities, and decrease to profit, of £66 million (2007: £41 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 (e.g. 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.

(e) Guarantees and options – long-term business

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.

48 Insurance risk continued

(e) Guarantees and options – long-term business continued – South Africa continued

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 percent per annum for life and endowment business and 4.78 percent 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 percent 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 percent of policies are currently in-the-money and being credited the minimum rate. A 300 basis points drop in interest rates would bring 79 percent 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 percent. This equity participation, which is subject to a minimum of 0 percent therefore vests annually.	The minimum surrender values of 17 percent of policies are currently in-the-money. A year of flat equity markets with no equity credits would bring an additional 24 percent in-the-money. Two years of no equity credits would result in 26 percent of the portfolio being in-the-money. The equity exposure is hedged using a hedging strategy.
	The variable annuities offered to off-shore customers through Old Mutual Bermuda can offer minimum death benefit guarantees. Death benefits are subject to a minimum of the sum invested or value at any anniversary date if greater. A minimum guaranteed account value on maturity, and at certain points in time, is also available on most policies (the most common being 5 and 10 year guarantees).	The minimum death benefit on 96.6 percent of policies is currently in-the-money. These risks are hedged. The minimum accumulation benefit on 92.3 percent of policies is currently in-the-money.
	The universal life policies specify a minimum crediting rate to accumulate account balances.	The minimum rate is currently being credited on 77 percent of the block.
Guaranteed annuity options	All deferred annuities offer a guaranteed annuitisation option on maturity. The rates are set conservatively and typically have very low utilisation as customers in the United States value the choice inherent in a lump-sum payment.	The extent to which the policies are currently in-the-money is negligible.
No-lapse guarantees	Certain universal life contracts contain a feature that guarantees that the contract will continue, even if values would otherwise be insufficient, provided the customer has paid at least a stated amount of premium.	17 percent of policies are currently in-the-money. This risk is reinsured.

48 Insurance risk continued

(f) 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 £5 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. (Provisional: This is based on a limit of R75 million for one event at an estimated exchange rate of R15 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; 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 percent in the average cost of claims would require the recognition of an additional loss of £37 million (£32 million net of reinsurance). Similarly, an increase of 10 percent in the ultimate number of claims would result in an additional loss of £37 million (£32 million net of reinsurance).

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 percent of an average year's claim costs.

49 Post balance sheet events

On 2 March 2009 the Group announced the sale, by its group subsidiary, OM Group (UK) Limited, of the Group's interests in the Old Mutual Australia group. The sale is expected to complete on 6 March 2009.

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY BALANCE SHEET

At 31 December 2008

	Notes	At 31 December £m 2008	At 31 December £m 2007
Assets			
Investments in Group subsidiaries	8	**7,595**	4,792
Investments in associated undertakings	9	**26**	25
Investments and securities	1	**39**	45
Other assets (including inter-company)	2	**2,943**	2,943
Derivative financial instruments – assets	3	**197**	72
Cash and cash equivalents		**3**	41
Total assets		**10,803**	7,918
Liabilities			
Borrowed funds	4	**1,037**	1,134
Provisions	5	**20**	23
Other liabilities (including inter-company)	6	**4,679**	1,745
Derivative financial instruments – liabilities	3	**91**	31
Total liabilities		**5,827**	2,933
Net assets		**4,976**	4,985
Shareholders' equity			
Equity attributable to equity holders		**4,976**	4,985

The Company's financial statements on pages 266 to 278 were approved by the Board of Directors on 4 March 2009.

Julian Roberts
Chief Executive

Philip Broadley
Group Finance Director

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY CASH FLOW STATEMENT

At 31 December 2008

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Cash flows from operating activities		
Profit before tax	**411**	423
Capital gains included in investment income	**6**	11
Recognition of impairment losses	**–**	(6)
Fair value movements on derivatives and borrowed funds	**(489)**	(85)
Foreign exchange movements on assets and liabilities	**308**	82
Other non-cash amounts in profit	**1**	1
Non-cash movements in profit before tax	**(174)**	3
Other operating assets and liabilities	**6**	5
Changes in working capital	**6**	5
Net cash inflow from operating activities	**243**	431
Cash flows from investing activities		
Proceeds from sale and maturity of investments	**–**	95
Acquisition of interests in subsidiaries	**(3)**	(100)
Purchase of interest in associates and joint ventures	**(1)**	(6)
Other investing cash flows	**–**	95
Net cash (outflow)/inflow from investing activities	**(4)**	84
Cash flows from financing activities		
External interest received	**91**	63
External interest paid	**(162)**	(112)
Inter-company interest received	**1**	1
Inter-company interest paid	**(33)**	(44)
Dividends paid to:		
Ordinary shareholders of the Company	**(214)**	(228)
Preferred shareholders	**(43)**	(40)
Net proceeds from issue of ordinary shares	**10**	12
Net purchase of treasury shares	**(5)**	(6)
Redemption of own shares	**(175)**	(176)
Other debt issued	**32**	181
Loan financing received from/(paid to) Group companies	**228**	(158)
Net cash (outflow) from financing activities	**(270)**	(507)
Net (decrease)/increase in cash and cash equivalents	**(31)**	8
Effects of exchange rate changes on cash and cash equivalents	**(7)**	(6)
Cash and cash equivalents at beginning of the period	**41**	39
Cash and cash equivalents at end of the year	**3**	41

At 31 December 2008 and 2007 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 £343 million (2007: £470 million), of which only cash dividends from Skandia UK Holdings Limited of £55 million were received during the year ended 31 December 2008 (2007: Nil).

FINANCIAL STATEMENTS OF THE COMPANY
COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

Year ended 31 December 2008	Number of shares issued and fully paid Millions	Share capital £m	Share premium £m	Other reserves £m	Retained earnings[1] £m	Perpetual preferred callable securities £m	Total £m
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 buyback 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**

Year ended 31 December 2007	Number of shares issued and fully paid Millions	Share capital £m	Share premium £m	Other reserves £m	Retained earnings[1] £m	Perpetual preferred callable securities £m	Total £m
Attributable to equity holders of the Company at beginning of the year	5,501	550	746	2,544	430	688	4,958
Profit for the year	–	–	–	–	416	40	456
Total recognised income and expense for the year	–	–	–	–	416	40	456
Dividends for the year	–	–	–	–	(228)	(40)	(268)
Shares repurchased in the buy back programme	–	–	–	–	(176)	–	(176)
Net purchase of treasury shares	–	–	–	–	(7)	–	(7)
Issue of share capital by the Company	–	–	3	–	–	–	3
Exercise of share options	9	1	8	–	–	–	9
Fair value of equity settled share options	–	–	–	10	–	–	10
Attributable to equity holders of the Company at end of the year	5,510	551	757	2,554	435	688	4,985

[1]Included within retained earnings of £409 million (2007: £435 million) are distributable reserves of £158 million (2007: £334 million).

Other reserves	At 31 December £m **2008**	At 31 December £m 2007
Merger reserve	**2,532**	2,532
Share-based payment reserve	**29**	22
Attributable to equity holders of the Company at end of the year	**2,561**	2,554

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2008

1 Investments and securities

	At 31 December £m 2008	At 31 December £m 2007
Unlisted equity security at fair value through income statement	**38**	44
Other	**1**	1
Total investments and securities	**39**	45

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, £38 million (2007: £44 million) are regarded as current and £1 million (2007: £1 million) are regarded as non-current.

2 Other assets

	At 31 December £m 2008	At 31 December £m 2007
Other receivables	**10**	11
Corporation tax	**27**	27
Accrued interest and rent	**65**	52
Other prepayments and accrued income	**2**	2
Amounts owed by Group undertakings:		
Current	**–**	2
Non-current	**2,839**	2,849
Total other assets	**2,943**	2,943

3 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.

	Notional principals		Fair values	
At 31 December 2008	**Positive values £m**	**Negative values £m**	**Assets £m**	**Liabilities £m**
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**

	Notional principals		Fair values	
At 31 December 2007	Positive values £m	Negative values £m	Assets £m	Liabilities £m
Exchange rate contracts				
Swaps	508	318	64	16
Forwards	–	273	–	7
	508	591	64	23
Interest rate contracts				
Swaps	569	300	8	8
Total	1,077	891	72	31

The contractual maturities of the derivatives held are as follows:

At 31 December 2008	**Balance sheet amount £m**	**Less than 3 months £m**	**More than 3 months less than 1 year £m**	**Between 1 and 5 years £m**	**More than 5 years £m**	**No contractual maturity date £m**	**Total £m**
Derivative financial liabilities	**91**	**34**	**–**	**57**	**–**	**–**	**91**

At 31 December 2007	Balance sheet amount £m	Less than 3 months £m	More than 3 months less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	No contractual maturity date £m	Total £m
Derivative financial liabilities	31	1	6	24	–	–	31

4 Borrowed funds

	Notes	At 31 December £m 2008	At 31 December £m 2007
Senior debt securities and term loan	4(i)	**496**	324
Subordinated debt securities	4(ii)	**541**	810
Total borrowed funds		**1,037**	1,134

	At 31 December £m 2008	At 31 December £m 2007
Fair valued through income statement	**884**	1,090
Amortised cost	**153**	44
Total borrowed funds	**1,037**	1,134

(i) Senior debt securities and term loan

	At 31 December £m 2008	At 31 December £m 2007
Floating rate notes	**49**	119
Fixed rate notes	**153**	44
Revolving credit facility	**294**	161
Total senior debt securities and term loan	**496**	324

The contractual maturities of the senior debt securities and term loan are as follows:

At 31 December 2008	Less than 1 year £m	Greater than 1 year and less than 5 years £m	Greater than 5 years £m	Total £m
Floating rate notes	**7**	**42**	**–**	**49**
Fixed rate notes	**96**	**57**	**–**	**153**
Revolving credit facility	**–**	**294**	**–**	**294**
Total senior debt securities and term loan	**103**	**393**	**–**	**496**
At 31 December 2007				
Floating rate notes	–	43	76	119
Fixed rate notes	–	29	15	44
Revolving credit facility	–	161	–	161
Total senior debt securities and term loan	–	233	91	324

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 until September 2012.
At 31 December 2008 £826 million (2007: £413 million) of this facility was utilised, £294 million (2007: £161 million) in the form of drawn debt and £532 million (2007: £252 million) in the form of irrevocable letters of credit.

During the year, the Company repaid a $150 million floating rate note and issued a €100 million Eurobond note.

4 Borrowed funds continued

(ii) Subordinated debt securities

	At 31 December £m 2008	At 31 December £m 2007
£300 million repayable 21 January 2016 (5.0%)[1]	**239**	291
€750 million repayable 18 January 2017 (4.5%)[2]	**302**	519
Total subordinated debt securities	**541**	810

[1]This bond, issued on 20 January 2006, has a maturity date of 21 January 2016 and pays a coupon of 5.0 percent to 21 January 2011 and six month LIBOR plus 1.13 percent thereafter. The coupon on the bonds was swapped into a floating rate of six month STIBOR plus 0.50 percent. 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 percent to 17 January 2012 and six month EURIBOR plus 0.96 percent 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 percent and six month US LIBOR plus 0.31 percent respectively. The Company has the option to repay the bonds at par on 17 January 2012 and at six monthly intervals thereafter.

5 Provisions

	Notes	At 31 December £m 2008	At 31 December £m 2007
Post employment benefits	7	**20**	23

6 Other liabilities

	At 31 December £m 2008	At 31 December £m 2007
Accruals	**98**	87
Amounts owed to Group undertakings:		
Current	**2,012**	26
Non-current	**2,549**	1,610
Other liabilities	**20**	22
Total other liabilities	**4,679**	1,745

7 Post employment benefits

The Company holds a provision in respect of the Old Mutual Staff Pension Fund Defined Benefit pension scheme, which provides benefits based on final pensionable pay for members within the Group. The assets of the scheme are held in separate trustee administered funds. Pension costs and contributions relating to the scheme are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to the scheme, together with existing assets, are adequate to secure members' benefits over the remaining lives of participating employees. The scheme is reviewed on a triennial basis. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. During the year 4 employees (2007: 2) were directly employed by the Company. The costs for these Directors and ex-Directors are disclosed within the Remuneration Report on pages 118 to 134.

Liability for defined benefit obligations

Year to 31 December	Pension plans £m 2008	Pension plans £m 2007
Change in projected benefit obligation		
Projected benefit obligation at beginning of the year	**56**	56
Interest cost on benefit obligation	**3**	3
Actuarial gains	**(4)**	(3)
Projected benefit obligation at end of the year	**55**	56
Change in plan assets		
Plan assets at fair value at beginning of the year	**37**	32
Actual return on plan assets	**(6)**	2
Company contributions	**4**	3
Plan assets at fair value at end of the year	**35**	37
Net liability recognised in balance sheet		
Funded status of plan	**20**	19
Unrecognised actuarial gains	**–**	4
Net amount recognised in balance sheet	**20**	23

Expense recognised in the income statement

Year to 31 December	Pension plans £m 2008	Pension plans £m 2007
Expected return on plan assets	**2**	1
Interest costs	**(3)**	(3)
Total	**(1)**	(2)

Principal actuarial assumptions

Year to 31 December	Pension plans % 2008	Pension plans % 2007
Discount rate	**5.50**	5.50
Future salary increases	**4.10**	4.65
Price inflation	**3.10**	3.40
Pensions in payment and deferred pensions inflation	**3.10**	3.40

Plan asset allocation

Year to 31 December	Pension plans % 2008	Pension plans % 2007
Equity securities	**34**	61
Debt securities	**62**	36
Other investments	**4**	3

8 Principal subsidiaries

	At 31 December £m 2008	At 31 December £m 2007
Balance at beginning of the year	**4,792**	4,682
Acquisitions	**1,844**	100
Additions	**959**	10
Balance at end of the year	**7,595**	4,792

On 27 February 2008, the Company completed the purchase of the entire share capital of Skandia UK Holdings Limited for a total consideration of £1,844 million.

During the year the Company made further cash investments in Skandia Europe and Latin America (Holdings) Limited on 4 April 2008 and 28 May 2008 of SEK 58 million and $USD of 0.3 million.

On 21 October 2008, the Company purchased one Ordinary share valued at £1 in Old Mutual Holdings Limited.

On 27 October 2008, the Company purchased one Ordinary share valued at £26,656 in Sandlord Limited.

On 10 November 2008, the Company purchased 100 Ordinary "B" shares in Pointspirit for a total consideration of £100.

On 12 December 2008, the Company increased its investment in the Ordinary share capital of OM Group (UK) by £950 million 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 reserve (£6 million).

The following companies were dissolved during the year: Old Mutual Properties Limited (6 May 2008); Old Mutual Finance (Cayman Islands) Limited (27 August 2008); and Old Mutual (UK) Nominees Ltd (18 November 2008).

The Company holds the following interests in Group companies:

At 31 December 2008	Country of incorporation	Class of shares	% interest held
Commsale 2000 Ltd	England and Wales	Ordinary	100
Constantia Insurance Company (Guernsey) Limited	Guernsey	Ordinary	100
Försäkringsaktiebolaget Skandia (publ)	Sweden	Ordinary	100
Millpencil Limited	England and Wales	Ordinary	100
OM Group (UK) Ltd	England and Wales	Ordinary	100
Old Mutual Asset Solutions Ltd	England and Wales	Ordinary	100
Old Mutual Capital Funding (Jersey) Limited	Jersey	Ordinary	100
Old Mutual Finance (No.2) Limited	England and Wales	Ordinary	50
Old Mutual Finance (No.4) Limited	England and Wales	Ordinary	100
Old Mutual Holdings Limited	England and Wales	Ordinary	100
Papercoast Limited	England and Wales	Ordinary	100
Sandlord Ltd	England and Wales	Ordinary	100
Selestia Holdings Limited	England and Wales	Ordinary	100
Skandia (London) Ltd	England and Wales	Ordinary	100
Skandia Europe and Latin America (Holdings) Limited	England and Wales	Ordinary	100
Skandia UK Holdings Limited	England and Wales	Ordinary	100

9 Investments in associated undertakings

The company holds the following interest in associated undertakings:

At 31 December 2008 and 31 December 2007	Country of operation	% interest held
Kotak Mahindra Old Mutual Life Insurance Limited	India	26

10 Commitments and guarantees

	At 31 December £m 2008	At 31 December £m 2007
Commitments	**532**	252

The commitments relate to letters of credit issued in support of the operations of a subsidiary company. Any liability arising from these letters of credit would be recovered from the subsidiary company.

In February 2008, the Company issued a guarantee to a third party over a subsidiary's (Old Mutual Bermuda) obligations under the reinsurance contracts relating to the offshore investment products sold by a third party. The maximum payment under this guarantee is $250 million. This guarantee is accounted for as an insurance contract and payments will only arise should Old Mutual Bermuda be unable to meet its obligations under the relevant reinsurance contracts as they fall due.

11 Related parties

Old Mutual plc enters into transactions with its subsidiaries in the normal course of business. These are principally related to funding of the Group's businesses and head office functions. Details of loans, including balances due from/to the Company and terms and conditions thereon are set out below. Disclosures in respect of the key management personnel of the Company are included in the Group related parties disclosures.

There are no transactions entered into by the Company with associated undertakings.

Balance sheet information	Balance due from/(to) £m
At 31 December 2008	
Subsidiaries:	
OM Group (UK) Limited[1]	**2,504**
Primemajor	**4**
Skandia companies[2]	**(1,933)**
Old Mutual International companies[3]	**4**
Global Edge Technologies Pty Limited[4]	**1**
Bermuda Holding companies[5]	**(430)**
Old Mutual (SA) companies[6]	**(922)**
Old Mutual Financial Services companies[7]	**(240)**
Old Mutual Business Services Limited[8]	**(95)**
Old Mutual Capital Funding L.P.[9]	**(501)**
Constantia Insurance Company (Guernsey) Limited	**(2)**
Old Mutual (Netherlands) BV[10]	**(66)**
Pointspirit[11]	**(36)**
Nedbank companies	**–**
OMLA Holdings Limited	**–**
Sandlord Limited	**(10)**
Other related parties:	
Fairbairn Trust Company Limited[12]	**30**

[1] The loan with OM Group (UK) Limited includes loan advances of $2,051 million, £700 million and A$38 million (2007: $2,115 million, £1,184 million and A$32 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 +0.50 percent. The Australian Dollar facility expires 30 November 2011 and interest is charged at 8.60 percent per annum. In addition, the balance also includes a subordinated loan of £350 million (2007: £350 million), with a term agreement of 6.75 percent, switching to floating rate (LIBOR +2.48 percent) 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 percent margin and is due to mature on 27 February 2013. The Company has a term loan agreement with Skandia Insurance Company Ltd where the agreement states that interest is STIBOR + 0.50 percent margin and is due to mature on 30 January 2009. In addition, the balance also includes a £500 million revolving credit facility with Skandia Europe and Latin America (Holdings) Limited, where the agreement states that interest be received at LIBOR +0.15 percent. This facility is due to mature on 7 December 2012.

[3] The balance with Old Mutual International companies includes one contingent loan facility of £4 million (2007: £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 (2007: 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 notes totalling $604 million. Interest charged is USD LIBOR + 0.45 percent margin and USD LIBOR + 8.45 percent on the $82 million note and $522 million note respectively. The notes mature on 28 April 2013 and 1 December 2013 respectively.

[6] The balance with Old Mutual (SA) companies includes two floating rate notes totalling $1,261 million (2007: $1,018 million). Interest charged is USD LIBOR + 0.45 percent margin and USD LIBOR + 2.50 percent margin on the $1,037 million note and $224 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 £197 million, on which interest is charged at the Bank of England base rate and £43 million, on which no interest is charged.

[8] The loan with Old Mutual Business Limited represents a long-term loan advance with no maturity date of £95 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 percent per annum payable quarterly. The notes have no mandatory maturity dates.

[10] The loan with Old Mutual (Netherlands) BV is made up of one discount note totalling £65 million (2007: nil) which matures on 3 April 2009. Interest is charged at LIBOR + 6.50 percent margin.

[11] The loan with Pointspirit is a £500 million revolving credit facility where the agreement states that interest be charged at LIBOR +0.15 percent. This facility is due to mature on 17 May 2009.

[12] This represents amounts paid to the Fairbairn Trust Company Limited in respect of an 'ESOP' for the purchase of the Company's own shares.

11 **Related parties** continued

Balance sheet information	Balance due from/(to) £m
At 31 December 2007	
Subsidiaries:	
OM Group (UK) Limited	2,634
Primemajor	4
Skandia companies	209
Old Mutual International companies	4
Global Edge Technologies Pty Limited	1
Bermuda Holding companies	(306)
Old Mutual (SA) companies	(517)
Old Mutual Financial Services companies	(224)
Old Mutual Business Services Limited	(56)
Old Mutual Capital Funding L.P.	(377)
Constantia Insurance Company (Guernsey) Limited	(1)
Pointspirit[8]	(108)
Nedbank companies	(25)
OMLA Holdings Limited	(22)
Sandlord Limited	(1)
Other related parties:	
Fairbairn Trust Company Limited	25

Income statement information	**Interest received £m**	**Ordinary dividends received £m**	**Other amounts received/ (paid) £m**
2008			
Subsidiaries	**5**	**343**	**(68)**

Income statement information	Interest received £m	Ordinary dividends received £m	Other amounts received/ (paid) £m
2007			
Subsidiaries	97	470	(48)

12 Financial risk

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) 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 47 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.

(b) 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:

At 31 December 2008	GBP £m	ZAR £m	USD £m	Euro £m	SEK £m	Other £m	Reclass-ification £m	Total £m
Assets								
Investments in associated undertakings	26	–	–	–	–	–	–	26
Derivative financial instruments – assets[1]	11	–	13	24	–	–	149	197
Cash and cash equivalents	–	–	–	–	–	3	–	3
Investments and securities	39	–	–	–	–	–	–	39
Other non-financial 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								
Other borrowed funds[2]	76	–	420	153	296	–	92	1,037
Derivative financial instruments – liabilities[3]		25	7	–	2	–	57	91
Other non-financial liabilities	2,530	–	1,847	279	35	8	–	4,699
Total liabilities	2,606	25	2,274	432	333	8	149	5,827

At 31 December 2007	GBP £m	ZAR £m	USD £m	Euro £m	SEK £m	Other £m	Reclass-ification £m	Total £m
Assets								
Investments in associated undertakings	25	–	–	–	–	–	–	25
Derivative financial instruments – assets[1]	29	–	33	4	–	–	6	72
Cash and cash equivalents	18	15	8	–	–	–	–	41
Investments and securities	45	–	–	–	–	–	–	45
Other non-financial assets	5,108	–	1,111	36	1,466	14	–	7,735
Total assets	5,225	15	1,152	40	1,466	14	6	7,918
Liabilities								
Other borrowed funds[2]	272	–	359	43	470	–	(10)	1,134
Derivative financial instruments – liabilities[3]	8	5	1	–	1	–	16	31
Other non-financial liabilities	484	1	1,220	36	27	–	–	1,768
Total liabilities	764	6	1,580	79	498	–	6	2,933

[1]The derivative financial instruments of £149 million (2007: £6 million) represent currency hedges for borrowed funds and so have been reclassified and netted against USD borrowed funds.
[2]The totals of £76 million (GBP) (2007: 272 million), £420 million (USD) (2007: £359 million) and £296 million (SEK) (2007: £470 million) of borrowed funds have been disclosed as net of hedges in derivative financial instruments of £114 million (2007: £6 million), £35 million (2007: nil) and £57 million (2007: £16 million) respectively.
[3]The derivative financial instrument of £57 million (2007: £16 million) represents a currency hedge for borrowed funds and so have been reclassed and netted against SEK borrowed funds.

A 10 percent 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 £23 million (2007: decrease of £46 million).

12 Financial risk continued

(c) 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:

At 31 December 2008	Investment Grade (AAA to BBB) £m	Sub-investment Grade (BB and lower) £m	Not rated £m	Total £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**
At 31 December 2007				
Investments in associated undertakings	–	–	25	25
Derivative financial instruments – assets	72	–	–	72
Investments and securities	–	–	45	45
Other assets (including inter-company)	–	–	2,943	2,943
Cash and cash equivalents	41	–	–	41
Financial assets bearing credit risk	113	–	3,013	3,126

(d) 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 28 (Hedge accounting).

(e) 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 £2,167 million (2007: £12 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE OLD MUTUAL 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 basis. Old Mutual's methodology adopts the Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 by the CFO Forum ('the Principles') as the basis for the methodology. The Principles have been fully complied with at 31 December 2008 for all businesses with the exception of the use of an adjusted risk free rate due to current market conditions for US Life Onshore business as described more fully below and in the basis of preparation. The Principles were fully complied with for all businesses in respect of the 31 December 2007 restated MCEV figures.

In preparing the Old Mutual Market Consistent Embedded Value basis ('Old Mutual 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 284;
- identified and described the business covered by the Old Mutual MCEV methodology;
- applied the Old Mutual 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.

The Principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results. In December 2008 the CFO Forum announced that they are reviewing the Principles and guidance of the application of these Principles to address the notion of market consistency in the current dislocated market conditions. The particular areas under review include implied volatilities, the cost of residual non-hedgeable risks, the use of swap rates as a proxy for risk free reference rates and the effect of liquidity premia.

When the CFO Forum members agreed to the use of the swap curve as the basis for setting risk free reference rates, the additional return due to liquidity premiums, that could be justified was low and at a level where it did not significantly impact the results. However, there are substantial liquidity premiums embedded into corporate bond spreads in the current dislocated market conditions resulting in a liquidity adjustment being applied within the risk free reference rates for Old Mutual's US Life onshore business as at 31 December 2008. Old Mutual believes that such an adjustment is required to maintain consistency with current market prices. Hence, Old Mutual plc does not comply with Principle 14 and Guideline 14.4, in respect of the 31 December 2008 disclosure for the US Life Onshore business, which does not allow any adjustments to be made to the swap yield curve to allow for liquidity premiums. This approach will be reviewed for use in future reporting periods once the CFO Forum has completed its own review on the application of Principle 14. Old Mutual fully complied with all of the Principles in respect of the restatement to MCEV for all of its businesses, at 31 December 2007.

Further detail on the justification and quantum of the liquidity adjustment, being applied within the risk free reference rates for US Life onshore business as at 31 December 2008 is provided in note 3 of the Old Mutual MCEV supplementary information.

INDEPENDENT AUDITORS' REPORT TO OLD MUTUAL PLC ON THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

We have audited the Old Mutual Market Consistent Embedded Value ('Old Mutual MCEV') basis supplementary information ('the supplementary information') of Old Mutual plc ('the Company') on pages 281 to 327 in respect of the year ended 31 December 2008, including conversion of its comparative supplementary information for 2007, previously prepared on the European Embedded Value ('EEV') basis, to an Old Mutual MCEV basis. The supplementary information has been prepared in accordance with the basis of preparation as set out on page 284. The supplementary information should be read in conjunction with the Group financial statements which are on pages 137 to 265.

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 described in the statement of directors' responsibilities on page 279, the directors' responsibilities include preparing the supplementary information in accordance with the basis of preparation set out on page 284. Our responsibilities, as independent auditor, in relation to the supplementary information are established in the United Kingdom by the Auditing Practices Board, by our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to the Company our opinion as to whether the supplementary information has been properly prepared in accordance with the basis of preparation set out on page 284. We also report if we have not received all the information and explanations we require for this audit.

Basis of audit opinion

We conducted our audit having regard to International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the supplementary information, and of whether the accounting policies applied in the preparation of the supplementary information are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the supplementary information.

Opinion

In our opinion, the Old Mutual MCEV basis supplementary information for the year ended 31 December 2008 has been properly prepared in accordance with the basis of preparation set out on page 284.

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB
4 March 2009

OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008

Statement of earnings on a Group Market Consistent Embedded Value basis	At 31 December £m 2008	At 31 December £m 2007
Europe		
Covered business	**505**	372
Asset management	**(13)**	26
Banking	**23**	14
	515	412
South Africa		
Covered business	**463**	359
Asset management	**102**	98
Banking	**545**	622
General insurance	**76**	89
	1,186	1,168
United States		
Covered business	**(644)**	37
Asset management	**97**	162
	(547)	199
Other		
Asset management	**(17)**	2
	(17)	2
Finance costs	**(140)**	(119)
Other shareholders' expenses	**(19)**	(31)
Adjusted operating Group MCEV earnings before tax*	**978**	1,631
Adjusting items**	**(2,037)**	21
Total Group MCEV earnings for the financial year before tax	**(1,059)**	1,652
Income tax attributable to shareholders	**13**	(423)
Total Group MCEV earnings after tax for the financial year	**(1,046)**	1,229
Total Group MCEV earnings for the financial period attributable to:		
Equity holders of the parent	**(1,284)**	952
Minority interests		
Ordinary shares	**184**	227
Preferred securities	**54**	50
Total Group MCEV earnings after tax for the financial year	**(1,046)**	1,229

*For long-term business and general insurance businesses, adjusted operating MCEV earnings is based on short-term and long-term investment returns respectively, 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 minority 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.

**The breakdown of the adjusting items is detailed in note 5.

OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

Total Group MCEV earnings per share	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Basic total Group MCEV earnings per ordinary share	**(25.7)**	18.4
Weighted average number of shares – millions	**4,995**	5,176

Adjusted operating Group MCEV earnings after tax attributable to ordinary equity holders		
Adjusted operating Group MCEV earnings before tax	**978**	1,631
Tax on adjusted operating Group MCEV earnings	**(135)**	(414)
Adjusted operating Group MCEV earnings after tax	**843**	1,217
Minority interests		
Ordinary shares	**(214)**	(245)
Preferred securities	**(54)**	(50)
Adjusted operating Group MCEV earnings after tax attributable to ordinary equity holders	**575**	922

Adjusted operating Group MCEV earnings per share* (pence)	**11.0**	17.0
Adjusted weighted average number of shares – millions	**5,230**	5,411

*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 minority 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.

Reconciliation of movements in Group Market Consistent Embedded Value (Group MCEV) (after tax)

Year ended 31 December	Covered business MCEV £m 2008	Non-covered business IFRS £m 2008	Total Group MCEV £m 2008	Covered business MCEV £m 2007	Non-covered business IFRS £m 2007	Total Group MCEV £m 2007
Opening Group MCEV*	**6,349**	**1,010**	**7,359**	6,145	594	6,739
Adjusted operating MCEV earnings	**133**	**442**	**575**	591	331	922
Non-operating MCEV earnings	**(2,270)**	**411**	**(1,859)**	(77)	107	30
Total Group MCEV earnings	**(2,137)**	**853**	**(1,284)**	514	438	952
Other movements in IFRS net equity	**(29)**	**(784)**	**(813)**	(310)	(22)	(332)
Closing Group MCEV	**4,183**	**1,079**	**5,262**	6,349	1,010	7,359

*The Opening Group MCEV for the year ended 31 December 2007 is gross minority interest of £29m in Skandia. During 2007 all minority interests were purchased.

OLD MUTUAL NOTES TO THE MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008

Components of Group Market Consistent Embedded Value (Group MCEV)

	At 31 December £m 2008	At 31 December £m 2007
Adjusted net worth attributable to ordinary equity holders of the parent	**3,462**	3,431
Equity	**7,737**	7,961
Adjustment to include long-term business on a statutory solvency basis:		
Europe	**(2,749)**	(2,581)
South Africa	**137**	147
United States	**151**	(621)
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds	**173**	428
Adjustment to remove perpetual preferred callable securities and accrued dividends	**(688)**	(688)
Adjustment to exclude acquisition goodwill from the covered business:		
Europe	**(1,299)**	(1,155)
United States	**–**	(60)
Value of in–force business	**1,800**	3,928
Present value of future profits	**2,580**	4,583
Additional time value of financial options and guarantees	**(261)**	(199)
Frictional costs	**(148)**	(192)
Cost of residual non–hedgeable risks	**(371)**	(264)
Group MCEV	**5,262**	7,359
Group MCEV value per share (pence)	**99.7**	136.2
Return on Group MCEV (RoEV) per annum	**7.8%**	13.7%
Number of shares in issue at the end of the period less treasury shares – millions	**5,277**	5,405

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 intercompany loans). For some European territories the value excludes the write-off of deferred acquisition costs which remain part of adjusted net worth for MCEV purposes.

The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and minority interests of £575 million (year ended 31 December 2007: £922 million) divided by the opening Group MCEV.

Components of adjusted Group Market Consistent Embedded Value (Group MCEV)

	At 31 December £m 2008	At 31 December £m 2007
Pro forma adjustments to bring Group investments to market value		
Group MCEV	**5,262**	7,359
Adjustment to bring listed subsidiaries to market value	**68**	1,162
South Africa banking business	**41**	957
South Africa general insurance business	**27**	206
Adjustment for value of own shares in ESOP schemes*	**63**	158
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**169**	191
Adjustment to bring external debt to market value	**645**	120
Adjusted Group MCEV	**6,207**	8,990
Adjusted Group MCEV per share (pence)	**117.6**	166.3
Number of shares in issue at the end of the period less treasury shares – millions	**5,277**	5,405

*Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2007 and 31 December 2008 is due to the reduction in the Old Mutual plc share price over the year.

1 Basis of preparation

The Old Mutual Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 281 to 327 as 'MCEV') adopts Market Consistent Embedded Value Principles issued in June 2008 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information. The Principles have been fully complied with for all businesses as at 31 December 2008, with the exception of the use of an adjusted risk free rate due to current market conditions for US Life Onshore business. The Group has replaced the European Embedded Value ('EEV') basis with the MCEV basis for the covered business and figures for 31 December 2007 have been restated accordingly, and complies fully with all of the Principles.

The Principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results. In December 2008 the CFO Forum announced that they are reviewing the Principles and guidance of the application of these Principles to address the notion of market consistency in the current dislocated market conditions. The particular areas under review include implied volatilities, the cost of residual non-hedgeable risks, the use of swap rates as a proxy for risk free reference rates and the effect of liquidity premia. In respect of the 31 December 2008 disclosure, Old Mutual has made an adjustment to the risk free rate used in determining the value of the US Life Onshore business, to take account of the liquidity component of corporate bond spreads that is evident in the market as at 31 December 2008. The Directors consider this adjustment to be necessary so as to ensure a meaningful basis of reporting the value of the Group's life and related businesses. The 31 December 2008 MCEV disclosure in respect of all other business units complies fully with the Principles.

The detailed methodology and assumptions made in presenting this supplementary information, including the US adjusted risk free rate for 31 December 2008, information are set out in notes 2 and 3.

This supplementary information provides details on the methodology, assumptions and results of the MCEV for the Old Mutual Group and includes conversion of comparative supplementary information for 2007, previously prepared on the EEV basis, to a MCEV basis.

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 and therefore includes the value of all non-covered business at the unadjusted IFRS net asset value detailed in the primary financial statements.
- The adjusted Group MCEV, a measure used by the directors 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 as well as marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market.

The major change in Old Mutual's overall approach for deriving its MCEV compared to the approach adopted for EEV is the allowance for risk. Under MCEV a bottom-up allowance is made for financial risks (in particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and financial options and guarantees are valued using market consistent models calibrated to observable market prices) and an explicit allowance is made for the cost of residual non-hedgeable risks in the covered business. In contrast, under EEV a top-down allowance was made for all risks by means of the risk margin included in the single risk discount rate applicable for each geography and the value placed on the time value of financial options and guarantees. The MCEV methodology therefore makes a more granular allowance for the differences in the risk profile of different blocks of business than the EEV methodology.

Further detailed commentary of the key changes from an EEV to MCEV methodology and the impact of the transition from EEV to MCEV reporting on results for the financial year ended 31 December 2007 are provided in notes 12 to 18.

2 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
  - Required capital to support the covered business
- Value of in-force covered business (VIF)

2 **Methodology** continued

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 minority 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 insurance business. This generally means that covered business includes all product lines where the profits are included in the IFRS long-term business profits in the primary Financial Statements.

For the South African business, healthcare administration business is no longer recognised as part of the VIF or value of new business of covered business as previously reported under EEV.

Some types of business are legally written by a life Company, but under IFRS this business is 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 mutual fund 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 as well as marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market.

Free surplus

Free surplus is the market value of any assets allocated to, but not required to support, the covered in-force business. It is determined as the market value of any excess assets attributed to the covered business but not backing the regulatory liabilities, less the required capital to support the covered business.

Required capital

Required capital is the market value of assets that are attributed to support the covered business, over and above that required to back statutory liabilities for covered business, whose distribution to shareholders is restricted. The following capital measures are considered in determining the required capital held for covered business so that it reflects the level of capital considered by the directors to be appropriate to manage the business:

- Economic capital;
- Regulatory capital (i.e. the level of solvency capital at which the local regulators are empowered to take action) with appropriate deductions being made for any implicit items that are not allowed by local regulators;
- Capital required by rating agencies in respect of our North American business in order to maintain our desired credit rating; and
- Any other required capital definition to meet internal management objectives.

Economic capital for the covered business is based upon our own internal assessment of risks inherent in the underlying business. It measures capital requirements on an economic balance sheet, with MCEV as the available capital, consistent with a 99.93 percent confidence level over a one-year time horizon.

For Europe and South Africa capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whereas in the United States the required capital is based on the amount that management deems necessary to maintain the desired credit rating for the Company. The required capital in respect of the South Africa 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.

	Total £m	Europe £m	South Africa £m	United States £m
31 December 2008				
Required capital[(a)]	**2,025**	**371**	**1,070**	**584**
Regulatory capital[(b)]	**1,293**	**229**	**819**	**245**
Ratio[(a/b)]	**1.6**	**1.6**	**1.3**	**2.4**
31 December 2007				
Required capital[(a)]	1,906	323	1,159	424
Regulatory capital[(b)]	1,257	226	866	165
Ratio[(a/b)]	1.5	1.4	1.3	2.6

2 **Methodology** continued

VIF

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

Projected liabilities and cash flows are calculated net of outward risk reinsurance with allowance for default risk of reinsurance counterparties where material.

PVFP

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 renewals 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 3. Any limitations on distribution of such earnings due to statutory or internal capital requirements are taken into account separately in the calculation of frictional costs of required capital.

PVFP captures the intrinsic and time value of financial options and guarantees on in-force covered business which are included in the local statutory reserves according to local requirements, but excludes any additional allowance for the time value of financial options and guarantees.

Financial options and guarantees

Allowance is made in the MCEV for the potential impact of variability of investment returns (i.e. asymmetric impact) on future shareholder cash flows of policyholder financial options and guarantees within the in-force covered business.

The time value of financial options and guarantees describes that part of the value of financial options and guarantees that arises from the variability of future investment returns on assets to the extent that it is not already included in the statutory reserves. The calculations are based on market consistent stochastic modelling techniques where the actual assets held at the valuation date are used as the starting point for the valuation of such financial options and guarantees. Projected cash flows are valued using economic assumptions such that they are valued in line with the price of similar cash flows that are traded in the capital markets. The time value represents the difference between the average value of shareholder cash flows under many generated economic scenarios and the deterministic shareholder value under the best estimate assumptions for the equivalent business. Closed form solutions are also applied in Europe provided the nature of any guarantees is not complex.

The time value of financial options and guarantees also includes allowance for potential burn-through costs on participating business, i.e. the extent to which shareholders are unable to recover a loan made to participating funds to meet either regulatory or internal capital management requirements or the extent to which reserves are inadequate to cover severely adverse experience.

In the generated economic scenarios allowance is made, where appropriate, for the effect of dynamic management and/or policyholder actions in different circumstances:

- Management has some discretion in managing exposure to financial options and guarantees, particularly within participating business. Such dynamic management actions are reflected in the valuation of financial options and guarantees provided that such discretion is consistent with established and justifiable practice taking into account policyholders' reasonable expectations (e.g. with due consideration of the 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 bonuses where circumstances warrant such action;
  - Dynamic persistency rates for the United States business and dynamic guaranteed annuity option take-up rates for the South African business driven by changes in economic conditions and management actions;
  - Changes in surrender values; and
  - Option take-up rates vary stochastically for the South African business to the extent that the value of those options change in different economic conditions.

In determining the time value of financial options and guarantees at least 1,000 simulations are run to gain comfort that a reasonable degree of convergence of results has has been obtained. Where deemed appropriate, the number of simulations is increased to reduce sampling error.

Financial options and guarantees continued

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.

South Africa

The time value of the financial options and guarantees mainly relates 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 South African businesses as at 31 December 2008 has been valued using a risk-neutral market consistent asset model, and is referred to as an investment guarantee reserve. This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to interest rate movements. This discretionary margin is valued in the VIF.

United States

The time value of the financial options and guarantees mainly relates to minimum crediting (bonus) and growth rates.

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 to partly 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.

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 approach used by capital markets. In addition the modelling of some non-hedgeable non-financial risks is incorporated as part of the calculation of the PVFP (e.g. to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (e.g. dynamic policyholder behaviour such as the interaction of the investment scenario and the persistency rates).

All residual non-financial risks (e.g. liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk) for which no or insufficient allowance is made in the PVFP or time value of financial options and guarantees, together with hedge risk and credit spread risk in the United States, are considered within the allowance for the cost of residual non-hedgeable risks.

An allowance is made in the cost of residual non-hedgeable risks 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 cost of residual non-hedgeable risks is calculated using a cost of capital approach, i.e. it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until run-off of the liabilities. 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 percent 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.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

2 Methodology continued

Cost of residual non-hedgeable risks continued

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.

	Total £m	Europe £m	South Africa £m	United States £m
31 December 2008				
Non-hedgeable risk capital	**2,003**	**720**	**457**	**826**
31 December 2007				
Non-hedgeable risk capital	1,535	714	461	360

A weighted average cost of capital rate of 2.0 percent has been applied to residual symmetric and asymmetric non-hedgeable risks at a business unit level over the life of the contracts. This translates into an equivalent cost of capital rate of approximately 3.25 percent being applied to the Group diversified capital required in respect of such non-hedgeable risks.

Participating business

For participating business in South Africa and the United States, 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 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 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 the United States 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 rate 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 zero percent 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, 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

PVFP and the time value of financial options and guarantees are calculated using assets projected on 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.

2 **Methodology** continued

Defined benefit pension scheme

Where a defined benefit pension scheme within the covered business is in surplus or deficit, the employer pension fund expense assumptions incorporated within the VIF allow appropriately for the expected release of surplus or funding of the deficit.

Look through principle

PVFP and value of new business cash flow projections look through and include the profits/losses of owned service companies, e.g. distribution and administration, related to the management of the covered business. Any profit margins that are included in investment management fees payable by the life assurance companies to the asset management subsidiaries have not been included in the value of in-force business or the value of new business on the grounds of materiality and because a significant proportion of these profits arise from performance-based fees.

Taxation

In valuing shareholders' cash flows, allowance is made in the cash flow projections for taxes in the relevant jurisdiction affecting the covered business. Tax assumptions are based on best estimate assumptions, applying current local corporate tax legislation and practice together with known future changes and taking credit for any deferred tax assets.

No allowance is made for any further additional tax that would be incurred on the remittance of dividends from the life subsidiaries to Old Mutual plc, apart from the South African business where full allowance has been made for Secondary Tax on Companies (STC) at a rate of 10 percent that may be payable in South Africa 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. In Europe tax has been allowed for on dividends to be remitted to Skandia UK from the Isle of Man.

The value of any deferred tax assets is only recognised in the MCEV in so far as those tax assets are expected to be utilised in future by offsetting it against expected tax liabilities that are generated on expected profits emerging from in-force business. Since projected investment returns are based on the risk free reference rates, MCEV may therefore understate the true economic value of such deferred tax 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 increases to existing contracts, during the reporting period after allowance for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risks associated with writing the new business.

VNB includes contractual renewal of premiums and recurring single premiums, where the level of premium is pre-defined and is reasonably predictable, and changes to existing contracts where these are not variations allowed for in the PVFP. Non-contractual increments are treated similarly where the volume of such increments is reasonably predictable or likely (e.g. where premiums are expected to increase in line with salary or price inflation).

Any variations in premiums on renewal of in-force business from that previously anticipated including deviations in non-contractual increases, deviations in recurrent single premiums and re-pricing of premiums for in-force business are treated as experience variances on in-force business and not as new business.

VNB is calculated as follows:

- Using economic assumptions at the start of the reporting period.
- Using demographic and operating assumptions at the end of the reporting period.
- 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 minority 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 percent of single premiums.

PVNBP is calculated at point of sale using premiums before reinsurance and applying a valuation approach that is consistent with the calculation of VNB.

2 Methodology continued

Analysis of MCEV earnings

An analysis of MCEV earnings provides a reconciliation of the MCEV for covered business at the beginning of the reporting period and the MCEV for covered business at the end of the reporting period on a net of taxation basis.

Operating MCEV earnings are generated by the value of new business sold during the reporting period, the expected existing business contribution, operating experience variances, operating assumption changes and other operating variances:

- The value of new business includes the impact of new business strain on free surplus that arises, amongst other things, from the impact of initial expenses and additional required capital that should be 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, i.e. such variances are assessed against opening operating assumptions, and reflects the total impact of in-force and new business variances.
- Operating assumption changes incorporate the impact of changes to operating assumptions from those assumed at the beginning of the reporting period to those assumed at the end of the reporting period. As VNB is calculated using operating assumptions at the end of the reporting period, this impact only relates to the value of in-force business at the end of the reporting period.
- 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.

An analysis of MCEV earnings requires 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 total covered business where the calculations are performed in Sterling.

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.

3 Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (e.g. mortality, persistency and expenses) are determined using best estimate assumptions of each component of future cash flows, are specific to the entity concerned and has regard to past, current and expected future experience (e.g. longevity improvements and AIDS-related claims) as derived from both entity specific and industry data where deemed appropriate. Material assumptions are actively reviewed by means of detailed experience investigations and updated, as deemed appropriate, at least annually.

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period. The only exception is in respect of the United States business which is currently undergoing a major restructuring and cost-cutting exercise. The expense assumption used in the calculation of MCEV takes into account cost reductions already achieved in the first quarter of 2009, but not any of the additional planned cost reductions.

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 life assurance business include 35 percent of the Group holding Company expenses, with 14 percent allocated to South Africa, 4 percent allocated to United States and 17 percent allocated to Europe (31 December 2007: 37 percent of the Group holding Company expenses, with 15 percent allocated to South Africa, 5 percent allocated to United States and 17 percent allocated to Europe). 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 normally only makes provision for future development costs and one-off exceptional expenses (such as those incurred on the integration of businesses following an acquisition and restructuring costs) to the extent that such project costs are known with sufficient certainty. However no such costs are allowed for as at 31 December 2008 (or 31 December 2007).

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. To model this, Skandia Leben has adopted an approach consistent with German market practice. This approach is to set best estimate assumptions for the amount to be shared with policyholders in future years after allowing for the acquisition expenses in relation to the new business expected to be written over the next three years as per their business plan projections.

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 and all the cash flows are discounted using risk free reference rates 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 South African and United States businesses, the swap yield curve is sourced from the 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.

No adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity adjustment to the United States Life onshore business at 31 December 2008. Any other risk premiums are recognised within the MCEV as and when they are earned.

Following a review of a wide range of market data and literature, such as Barrie+Hibbert calibration of US corporate bond spreads at 31 December 2008, it is the directors' view that the significant widening of corporate bond spreads during the recent financial market turmoil is partly a function of an increased liquidity premium rather than only heightened 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 United States onshore business we considered the currency, credit quality and duration of our actual corporate bond portfolio and derived adjusted risk free reference rates at 31 December 2008 by adding 300bps of liquidity premium to swap rates used for setting investment return and discounting assumptions (31 December 2007: no liquidity adjustment was applied as we did not anticipate at that time the extent to which the bond markets would become even further dislocated). This adjustment reflects the liquidity premium component in corporate bond spreads over swap rates that we expect to earn on our portfolio. We believe that the difference between market yields on our United States onshore bond portfolio and the adjusted risk free reference rate still provides an adequate implied margin for defaults.

3 Assumptions continued

Economic assumptions continued

Risk free reference rates and inflation continued

No liquidity adjustment is applied to risk free reference rates for other geographies or for Old Mutual Bermuda because:

- the nature and management of the products sold onshore in the United States is materially different to those sold elsewhere in the Group, with greater opportunity for managing assets in such a manner as to realise liquidity premiums by holding corporate bonds to maturity;
- the widening of corporate bond spreads has been more pronounced in the United States compared to other geographies; and
- it is the only geography with a significant concentration of investments in the corporate bond market.

At those durations where swap yields are not available, e.g. due to a lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation and 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 reasonable spread compared to swap rates. However, where modelling system capabilities are restricted, 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 as life Company expenses for example include a large element of salary related expenses.

The risk free reference spot yields (inclusive of any applicable liquidity adjustments) and expense inflation rates at various terms for each of the significant geographies 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	1 year %	5 years %	10 years %	20 years %
31 December 2008				
GBP	**2.0**	**3.1**	**3.4**	**3.5**
EUR	**2.4**	**3.3**	**3.8**	**3.9**
USD*	**4.3**	**5.1**	**5.6**	**5.8**
ZAR	**9.3**	**8.0**	**7.8**	**6.7**
SEK	**1.8**	**2.9**	**3.2**	**3.2**
31 December 2007				
GBP	5.5	5.1	5.0	4.8
EUR	4.6	4.6	4.7	5.0
USD	4.2	4.2	4.7	4.9
ZAR	11.5	10.1	9.1	8.1
SEK	4.7	4.8	4.9	4.9

Expense inflation	1 year %	5 years %	10 years %	20 years %
31 December 2008				
GBP	**0.1**	**1.5**	**2.8**	**4.1**
EUR	**2.0-3.0**	**2.0-3.0**	**2.0-3.0**	**2.0-3.0**
USD	**3.0**	**3.0**	**3.0**	**3.0**
ZAR	**6.1**	**5.4**	**5.5**	**4.6**
SEK	**0.2**	**1.0**	**1.8**	**2.1**
31 December 2007				
GBP	3.8	3.6	4.1	4.5
EUR	2.5-3.0	2.5-3.0	2.5-3.0	2.5-3.0
USD	3.0	3.0	3.0	3.0
ZAR	7.7	7.1	6.5	5.8
SEK	3.6	3.4	3.5	3.6

*After 300 bps adjustment to the risk free rate to recognise the liquidity premium.

3 Assumptions continued

Economic assumptions continued

Volatilities and correlations

Where cash flows contain financial options and guarantees such that they 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 rate.

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 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 in respect of guarantees that are dependent on changes in equity markets or swaptions in respect of guarantees that are dependent on changes in interest rates) as observed on the valuation date. However, historic implied and historic observed volatilities of the underlying instruments and expert opinion are considered where there are concerns over the depth or liquidity of the market, e.g. volatilities for property returns. Where strict adherence to the above is not possible, for example where markets only exist at short durations such as the equity option market in South Africa, interpolation or extrapolation techniques are used to derive volatility assumptions for the full term structure of the liabilities. Correlation assumptions between asset classes that are used in stochastic models are based on an assessment of historic relationships. Where historic data is used in setting volatility or correlation assumptions, a suitable time period is considered for analysing historic data including consideration of the appropriateness of historical data where economic conditions were materially different to current conditions.

For the South African 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 be invested 50 percent in local equities and 50 percent 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	Option term 1 year %	Option term 5 years %	Option term 10 years %	Option term 20 years %
31 December 2008				
1 year swap	**30.8**	**35.1**	**32.9**	**25.4**
5 year swap	**32.9**	**33.6**	**30.2**	**22.5**
10 year swap	**30.8**	**30.3**	**25.9**	**18.7**
20 year swap	**26.9**	**25.1**	**19.8**	**13.9**
Equity (total return index)*	**37.6**	**31.6**	**29.2**	**28.1**
Property (total return index)	**23.2**	**19.0**	**15.6**	**15.4**
31 December 2007				
1 year swap	14.9	14.5	13.6	13.3
5 year swap	14.5	14.1	13.2	12.9
10 year swap	14.3	13.7	12.8	12.5
20 year swap	14.0	13.1	12.1	11.7
Equity (total return index)*	24.4	24.4	25.4	26.0
Property (total return index)	14.8	13.5	13.7	13.6

*Due to limited liquidity in the ZAR equity option market, the market consistent asset model has been calibrated by extrapolating equity option implied volatility data beyond a term of 3 years.

USD volatilities	Option term 1 year %	Option term 5 years %	Option term 10 years %	Option term 20 years %
31 December 2008*				
1 year swap	**44.9**	**23.9**	**18.3**	**16.1**
5 year swap	**34.1**	**22.8**	**17.9**	**16.0**
10 year swap	**27.7**	**21.2**	**17.1**	**15.4**
20 year swap	**24.7**	**20.1**	**16.3**	**14.5**
31 December 2007				
1 year swap	35.0	26.9	22.2	19.8
5 year swap	20.6	18.7	17.4	15.8
10 year swap	16.1	15.4	14.7	13.3
20 year swap	14.8	14.1	13.5	12.4

*Due to limited liquidity in the USD swap market, the market consistent asset model has been calibrated by reference to volatility data as at 30 September 2008.

3 Assumptions continued

Economic assumptions continued

International equity volatilities (Old Mutual Bermuda)*	Option term 1 year %	Option term 5 years %	Option term 10 years %
31 December 2008			
SPX	**38**	**35**	**27**
RTY	**46**	**45**	**34**
TPX	**41**	**39**	**31**
HSCEI	**57**	**51**	**43**
TWSE	**36**	**34**	**30**
KOSP12	**42**	**43**	**36**
NIFTY	**39**	**33**	**31**
SX5E	**38**	**37**	**31**
UKX	**37**	**36**	**28**
BCAI	**4**	**4**	**4**
31 December 2007			
SPX	22	24	10
RTY	28	10	12
TPX	21	22	10
HSCEI	40	30	10
IBOV	35	28	10
FTSE	21	26	10
SBBIG	4	4	4

*These volatilities refer to price indices. Note that due to improvements in fund mapping during 2008, some different indices are referenced at 31 December 2008 than those referenced at 31 December 2007.

Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in note 2 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. Such 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 geography. Pre-tax real-world economic assumptions are determined as follows:

- The equity risk premium is 3.5 percent for Africa and 3 percent for Europe and the United States.
- The cash return equals the risk free reference rate less a deduction of 2 percent for Africa and 1 percent 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 2.5 percent in Africa and 2 percent in Europe.

Tax

The effective tax rates for Nordic, United Kingdom and the balance of Europe were a range of 2 to 28 percent (2007: 2 to 28 percent), 29 percent (2007: 28 percent) and a range of 8 to 31 percent (2007: 14 to 30 percent) respectively.

The effective tax rate was 33 percent for South Africa (2007: 34 percent) and zero percent for Namibia (2007: zero percent), except for the investment return on capital for which the attributed tax was derived from the primary accounts.

For the United States the effective rate was under 1 percent.

4 (i) Adjusted Group Market Consistent Embedded Value presented per business line

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
MCEV of the covered business	**4,183**	6,349
Adjusted net worth*	**2,383**	2,421
Value of in-force business**	**1,800**	3,928
Adjusted net worth of the asset management businesses	**1,577**	1,637
Europe	**98**	160
South Africa	**292**	232
United States	**1,187**	1,245
Value of the banking business	**1,976**	2,716
Europe (adjusted net worth)	**285**	305
South Africa (market value)	**1,691**	2,411
Market value of the general insurance business		
South Africa	**219**	405
Net other business	**(161)**	(35)
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**169**	191
Adjustment for value of own shares in ESOP schemes* **	**63**	158
Perpetual preferred securities (US$ denominated)	**(203)**	(378)
Perpetual preferred callable securities	**(304)**	(652)
GBP denominated	**(174)**	(328)
Euro denominated	**(130)**	(324)
Debt	**(1,312)**	(1,401)
Rand denominated	**(213)**	(215)
USD denominated	**(537)**	(408)
GBP denominated	**(191)**	(272)
SEK denominated	**(252)**	(506)
Euro denominated	**(119)**	–
Adjusted Group MCEV	**6,207**	8,990

*Adjusted net worth is after the elimination of inter-company loans.
**Net of minority interests.
***Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2007 and 31 December 2008 is due to the reduction in the Old Mutual plc share price.

4 (ii) Adjusted operating MCEV earnings for the covered business

	At 31 December £m 2008	At 31 December £m 2007
Adjusted operating MCEV earnings before tax for the covered business*	**324**	768
UK	**333**	288
Nordic	**164**	83
Europe and Latin America	**8**	1
OMSA	**441**	355
Rest of Africa	**22**	4
United States	**(644)**	37
Tax on adjusted operating MCEV earnings for the covered business	**191**	177
UK	**98**	82
Nordic	**15**	17
Europe and Latin America	**4**	(6)
OMSA	**116**	78
Rest of Africa	**–**	–
United States	**(42)**	6
Adjusted operating MCEV earnings after tax for the covered business	**133**	591
UK	**235**	206
Nordic	**149**	66
Europe and Latin America	**4**	7
OMSA	**325**	277
Rest of Africa	**22**	4
United States	**(602)**	31
Tax on adjusted operating MCEV earnings comprises		
Tax on adjusted operating MCEV earnings for the covered business	**191**	177
Tax on adjusted operating MCEV earnings for other business	**(56)**	237
Tax on adjusted operating MCEV earnings	**135**	414

*Adjusted operating MCEV earnings before tax are derived by grossing up each of the components of the earnings after tax at the expected tax rates.

4 (iii) Components of Market Consistent Embedded Value of the covered business

	At 31 December £m 2008	At 31 December £m 2007
MCEV of the covered business	**4,183**	6,349
Adjusted net worth	**2,383**	2,421
Value of in-force business	**1,800**	3,928
UK		
Adjusted net worth	**278**	276
Free surplus	**121**	89
Required capital	**157**	187
Value of in-force business	**1,393**	1,255
Present value of future profits	**1,439**	1,305
Frictional costs	**(7)**	(10)
Cost of non-hedgeable risks	**(39)**	(40)

4 (iii) Components of Market Consistent Embedded Value of the covered business continued

	At 31 December £m 2008	At 31 December £m 2007
Nordic		
Adjusted net worth	**163**	122
Free surplus	**58**	47
Required capital	**105**	75
Value of in-force business* **	**882**	992
Present value of future profits	**943**	1,058
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(8)**	(9)
Cost of non-hedgeable risks	**(53)**	(57)
Europe and Latin America		
Adjusted net worth	**126**	50
Free surplus	**17**	(11)
Required capital	**109**	61
Value of in-force business	**587**	522
Present value of future profits	**659**	574
Additional time value of financial options and guarantees	**(13)**	(1)
Frictional costs	**(13)**	(10)
Cost of residual non-hedgeable risks	**(46)**	(41)
OMSA		
Adjusted net worth*	**905**	1,392
Free surplus	**(128)**	266
Required capital	**1,033**	1,126
Value of in-force business	**1,040**	1,154
Present value of future profits	**1,228**	1,344
Additional time value of financial options and guarantees	**–**	–
Frictional costs**	**(113)**	(122)
Cost of residual non-hedgeable risks	**(75)**	(68)
Rest of Africa		
Adjusted net worth	**70**	76
Free surplus	**33**	43
Required capital	**37**	33
Value of in-force business	**48**	48
Present value of future profits	**57**	55
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(4)**	(2)
Cost of residual non-hedgeable risks	**(5)**	(5)
United States		
Adjusted net worth	**841**	505
Free surplus	**257**	81
Required capital	**584**	424
Value of in-force business	**(2,150)**	(43)
Present value of future profits	**(1,746)**	246
Additional time value of financial options and guarantees	**(248)**	(198)
Frictional costs	**(3)**	(38)
Cost of residual non-hedgeable risks	**(153)**	(53)

*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 South African business there has been a material change in the asset allocation of assets backing required capital from 31 December 2007 to 31 December 2008. As at 31 December 2008, significantly fewer assets are held in equities and more in cash compared to 31 December 2007.

***The defined benefit plan funds allocated to the Nordic covered business are currently showing an aggregate surplus of £45m on an IAS 19 basis. This amount has not been incorporated within the VIF by allowing for the expected release of surplus, nor has it been allowed within the ANW of the business.

4 (iii) Components of Market Consistent Embedded Value of the covered business continued

For the United States, the material decrease in frictional costs from £38 million as at 31 December 2007 to £3 million as at 31 December 2008 reflects the changed tax position of the business between these two reporting dates on a market consistent basis. The fact that there are greater losses projected on an MCEV basis at 31 December 2008 compared to 31 December 2007 (mainly due to lower risk free reference rates) means that future income on the capital required to back the business is to a large extent not subject to tax as such future income can be offset against current projected losses.

For the United States, the material increase in the cost of residual non-hedgeable risks from £53 million as at 31 December 2007 to £153 million as at 31 December 2008 results mainly from the introduction as at 31 December 2008 of an allowance for hedge risks on the Variable Annuity portfolio. This allowance was not backdated to 31 December 2007 as issues with the effectiveness of the hedging programme, which has improved in the second half of 2008, only emerged during 2008. The position at 31 December 2007 was restated based on the knowledge at the time, which included an expectation that the guarantee hedges would be more effective than actually experienced during 2008.

4 (iv) Analysis of covered business MCEV earnings (after tax)

Total covered business*	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m
Year ended 31 December	**2008**	**2008**	**2008**	**2008**	**2008**	2007	2007	2007	2007	2007
Opening MCEV**	**515**	**1,906**	**2,421**	**3,928**	**6,349**	199	1,903	2,102	4,043	6,145
New business value	**(608)**	**172**	**(436)**	**540**	**104**	(588)	181	(407)	637	230
Expected existing business contribution (reference rate)	**63**	**117**	**180**	**289**	**469**	15	127	142	269	411
Expected existing business contribution (in excess of reference rate)	**4**	**15**	**19**	**81**	**100**	3	19	22	67	89
Transfers from VIF and required capital to free surplus	**939**	**(189)**	**750**	**(750)**	**–**	850	(201)	649	(649)	–
Experience variances	**160**	**(75)**	**85**	**(250)**	**(165)**	132	(29)	103	(119)	(16)
Assumption changes	**(55)**	**–**	**(55)**	**(375)**	**(430)**	26	(1)	25	(226)	(201)
Other operating variance	**172**	**(156)**	**16**	**39**	**55**	102	(121)	(19)	97	78
Operating MCEV earnings	**675**	**(116)**	**559**	**(426)**	**133**	540	(25)	515	76	591
Economic variances	**(722)**	**5**	**(717)**	**(1,485)**	**(2,202)**	190	13	203	(364)	(161)
Other non-operating variance	**(111)**	**43**	**(68)**	**–**	**(68)**	(5)	3	(2)	86	84
Total MCEV earnings	**(158)**	**(68)**	**(226)**	**(1,911)**	**(2,137)**	725	(9)	716	(202)	514
Closing adjustments	**1**	**187**	**188**	**(217)**	**(29)**	(409)	12	(397)	87	(310)
Capital and dividend flows	**(22)**	**–**	**(22)**	**–**	**(22)**	(412)	–	(412)	–	(412)
Foreign exchange variance	**23**	**187**	**210**	**(217)**	**(7)**	3	12	15	87	102
Closing MCEV	**358**	**2,025**	**2,383**	**1,800**	**4,183**	515	1,906	2,421	3,928	6,349
Return on MCEV (RoEV) % per annum					**2.1%**					9.6%

*Note that results for the 'Rest of Africa' are included in the analysis of total covered business MCEV earnings, but that no separate analysis is shown for such business from a materiality perspective.
**The opening MCEV for the year ended 31 December 2007 is gross of minority interest of £29 million in Skandia. During 2007 all the minority shares were purchased.

Return on MCEV for total covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in Sterling.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

UK covered business Year ended 31 December	Free surplus £m 2008	Required capital £m 2008	Adjusted net worth £m 2008	Value of in-force £m 2008	MCEV £m 2008	Free surplus £m 2007	Required capital £m 2007	Adjusted net worth £m 2007	Value of in-force £m 2007	MCEV £m 2007
Opening MCEV	**89**	**187**	**276**	**1,255**	**1,531**	73	162	235	1,090	1,325
New business value	**(189)**	**(1)**	**(190)**	**257**	**67**	(190)	12	(178)	259	81
Expected existing business contribution (reference rate)	**31**	**1**	**32**	**58**	**90**	(2)	15	13	56	69
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**20**	**20**	–	–	–	17	17
Transfers from VIF and required capital to free surplus	**294**	**(15)**	**279**	**(279)**	**–**	225	(5)	220	(220)	–
Experience variances	**26**	**(10)**	**16**	**1**	**17**	25	3	28	3	31
Assumption changes	**(3)**	**–**	**(3)**	**59**	**56**	(8)	(1)	(9)	17	8
Other operating variance	**11**	**–**	**11**	**(26)**	**(15)**	–	–	–	–	–
Operating MCEV earnings	**170**	**(25)**	**145**	**90**	**235**	50	24	74	132	206
Economic variances	**(59)**	**(9)**	**(68)**	**51**	**(17)**	1	–	1	5	6
Other non-operating variance	**8**	**(1)**	**7**	**(10)**	**(3)**	–	–	–	27	27
Total MCEV earnings	**119**	**(35)**	**84**	**131**	**215**	51	24	75	164	239
Closing adjustments	**(87)**	**5**	**(82)**	**7**	**(75)**	(35)	1	(34)	1	(33)
Capital and dividend flows	**(82)**	**–**	**(82)**	**–**	**(82)**	(35)	–	(35)	–	(35)
Foreign exchange variance	**(5)**	**5**	**–**	**7**	**7**	–	1	1	1	2
Closing MCEV	**121**	**157**	**278**	**1,393**	**1,671**	89	187	276	1,255	1,531
Return on MCEV (RoEV) % per annum					**15.3%**					15.5%

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 experience variances were driven by a higher level of fund rebate than that assumed, offset by a write-down of capitalised software costs.

The main operating assumption changes related to an increased recognition of fee income which was partly offset by a strengthening of expense assumptions.

The other operating variances mainly reflect the impact of modelling and methodology improvements.

The capital and dividend flows consist mainly of dividends.

The other non-operating variance is due to the implementation of a new actuarial system.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Sterling.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

Nordic covered business	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m
Year ended 31 December	2008	2008	2008	2008	2008	2007	2007	2007	2007	2007
Opening MCEV	**47**	**75**	**122**	**992**	**1,114**	(154)	46	(108)	971	863
New business value	**(50)**	**3**	**(47)**	**79**	**32**	(36)	2	(34)	57	23
Expected existing business contribution (reference rate)	**2**	**2**	**4**	**50**	**54**	1	1	2	39	41
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**23**	**23**	–	–	–	21	21
Transfers from VIF and required capital to free surplus	**85**	**1**	**86**	**(86)**	**–**	67	2	69	(69)	–
Experience variances	**10**	**18**	**28**	**(17)**	**11**	(4)	20	16	4	20
Assumption changes	**–**	**–**	**–**	**32**	**32**	–	–	–	(39)	(39)
Other operating variance	**(1)**	**–**	**(1)**	**(2)**	**(3)**	(5)	5	–	–	–
Operating MCEV earnings	**46**	**24**	**70**	**79**	**149**	23	30	53	13	66
Economic variances	**9**	**(20)**	**(11)**	**(296)**	**(307)**	10	(5)	5	(35)	(30)
Other non-operating variance	**(85)**	**19**	**(66)**	**(3)**	**(69)**	–	–	–	1	1
Total MCEV earnings	**(30)**	**23**	**(7)**	**(220)**	**(227)**	33	25	58	(21)	37
Closing adjustments	**41**	**7**	**48**	**110**	**158**	168	4	172	42	214
Capital and dividend flows	**31**	**–**	**31**	**–**	**31**	165	–	165	–	165
Foreign exchange variance	**10**	**7**	**17**	**110**	**127**	3	4	7	42	49
Closing MCEV	**58**	**105**	**163**	**882**	**1,045**	47	75	122	992	1,114
Return on MCEV (RoEV) % per annum					**12.9%**					7.6%

The experience variances were largely driven by tax gains, a higher level of fee income than assumed and a contribution from profits from healthcare business which is not valued within the VIF. These were partially offset by one-off persistency effects due to a Swedish legislative change relating to the level of tax deductible savings contributions.

The main operating assumption changes related to a release of reserves set up for costs in the corporate business partially offset by strengthened persistency assumptions.

The other non-operating variance is mainly driven by legacy issues, such as the settlement of the Skandia Liv arbitration and strengthening of various legacy provisions.

The capital and dividend flows mainly represent dividends received, repayment of loans and settlement of the Liv arbitration.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Swedish Krona.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

Europe and Latin America covered business Year ended 31 December	Free surplus £m 2008	Required capital £m 2008	Adjusted net worth £m 2008	Value of in-force £m 2008	MCEV £m 2008	Free surplus £m 2007	Required capital £m 2007	Adjusted net worth £m 2007	Value of in-force £m 2007	MCEV £m 2007
Opening MCEV	**(11)**	**61**	**50**	**522**	**572**	59	56	115	470	585
New business value	**(108)**	**5**	**(103)**	**113**	**10**	(103)	4	(99)	137	38
Expected existing business contribution (reference rate)	**1**	**1**	**2**	**23**	**25**	–	1	1	18	19
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**5**	**5**	–	–	–	5	5
Transfers from VIF and required capital to free surplus	**136**	**–**	**136**	**(136)**	**–**	136	(3)	133	(133)	–
Experience variances	**(5)**	**(6)**	**(11)**	**(10)**	**(21)**	(2)	(4)	(6)	(1)	(7)
Assumption changes	**–**	**–**	**–**	**(22)**	**(22)**	–	–	–	(49)	(49)
Other operating variance	**2**	**–**	**2**	**5**	**7**	(5)	(6)	(11)	12	1
Operating MCEV earnings	**26**	**–**	**26**	**(22)**	**4**	26	(8)	18	(11)	7
Economic variances	**11**	**(17)**	**(6)**	**(54)**	**(60)**	(2)	3	1	(7)	(6)
Other non-operating variance	**(34)**	**25**	**(9)**	**(5)**	**(14)**	(1)	–	(1)	25	24
Total MCEV earnings	**3**	**8**	**11**	**(81)**	**(70)**	23	(5)	18	7	25
Closing adjustments	**25**	**40**	**65**	**146**	**211**	(93)	10	(83)	45	(38)
Capital and dividend flows	**25**	**–**	**25**	**–**	**25**	(88)	–	(88)	–	(88)
Foreign exchange variance	**–**	**40**	**40**	**146**	**186**	(5)	10	5	45	50
Closing MCEV	**17**	**109**	**126**	**587**	**713**	(11)	61	50	522	572
Return on MCEV (RoEV) % per annum					**0.6%**					1.5%

The experience variances are mainly driven by expense overruns offset by positive mortality and morbidity experience.

The main operating assumption changes related to strengthening of retention levels in Austria and revision of expense assumptions in Southern Europe and Italy.

The other non-operating variance is mainly due to legislative changes that have been introduced in Germany in 2008 which specifies the proportion of miscellaneous profits to be shared with policyholders.

The capital and dividend flows mainly represent capital injections into Southern Europe to support new business, dividends and repayments.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Euro.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

OMSA covered business*	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m	Free surplus £m	Required capital £m	Adjusted net worth £m	Value of in-force £m	MCEV £m
Year ended 31 December	**2008**	**2008**	**2008**	**2008**	**2008**	2007	2007	2007	2007	2007
Opening MCEV	**266**	**1,126**	**1,392**	**1,154**	**2,546**	112	1,212	1,324	1,089	2,413
New business value	**(81)**	**68**	**(13)**	**67**	**54**	(75)	63	(12)	62	50
Expected existing business contribution (reference rate)	**23**	**98**	**121**	**142**	**263**	9	92	101	131	232
Expected existing business contribution (in excess of reference rate)	**3**	**14**	**17**	**13**	**30**	2	17	19	8	27
Transfers from VIF and required capital to free surplus	**286**	**(130)**	**156**	**(156)**	**–**	296	(131)	165	(165)	–
Experience variances	**13**	**(18)**	**(5)**	**(17)**	**(22)**	33	(30)	3	(19)	(16)
Assumption changes	**21**	**–**	**21**	**(18)**	**3**	8	–	8	(33)	(25)
Other operating variance	**161**	**(157)**	**4**	**(7)**	**(3)**	95	(120)	(25)	34	9
Operating MCEV earnings	**426**	**(125)**	**301**	**24**	**325**	368	(109)	259	18	277
Economic variances	**(139)**	**51**	**(88)**	**(135)**	**(223)**	201	21	222	8	230
Other non-operating variance	**–**	**–**	**–**	**18**	**18**	(1)	–	(1)	33	32
Total MCEV earnings	**287**	**(74)**	**213**	**(93)**	**120**	568	(88)	480	59	539
Closing adjustments	**(681)**	**(19)**	**(700)**	**(21)**	**(721)**	(414)	2	(412)	6	(406)
Capital and dividend flows	**(640)**	**–**	**(640)**	**–**	**(640)**	(419)	–	(419)	–	(419)
Foreign exchange variance	**(41)**	**(19)**	**(60)**	**(21)**	**(81)**	5	2	7	6	13
Closing MCEV	**(128)**	**1,033**	**905**	**1,040**	**1,945**	266	1,126	1,392	1,154	2,546
Return on MCEV (RoEV) % per annum					**14.4%**					11.7%

*The MCEV for South Africa is presented after the adjustment for market value of life funds' investments in Group equity and debt instruments.

The experience variances were driven by negative persistency experience and one-off and special project costs which were partially offset by favourable mortality and disability experience and positive maintenance expense experience.

The main operating assumption changes related to maintenance expense savings being reflected in the updated assumptions and the positive impact of changes in annuitant mortality assumptions which were offset by the negative impact of changes to persistency assumptions that have been reviewed in light of the recent adverse experience.

The other operating variances mainly include improvements in valuation models and methodology.

The other non-operating variances relate to reduction in the corporate tax rate from 29 percent to 28 percent and the impact of changing the asset allocation backing required capital.

The capital and dividend flows mainly include dividend payments (net of dividends received from Nedbank and Mutual & Federal) and increased investment in Old Mutual plc loan notes and the purchase of additional shares in Nedbank and Mutual & Federal. These capital flows arose from excess capital and did not adversely affect the solvency position of the South African life company.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Rand.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

United States covered business Year ended 31 December	Free surplus £m 2008	Required capital £m 2008	Adjusted net worth £m 2008	Value of in-force £m 2008	MCEV £m 2008	Free surplus £m 2007	Required capital £m 2007	Adjusted net worth £m 2007	Value of in-force £m 2007	MCEV £m 2007
Opening MCEV	**81**	**424**	**505**	**(43)**	**462**	64	390	454	371	825
New business value	**(177)**	**93**	**(84)**	**18**	**(66)**	(181)	96	(85)	116	31
Expected existing business contribution (reference rate)	**2**	**12**	**14**	**10**	**24**	3	15	18	20	38
Expected existing business contribution (in excess of reference rate)	**–**	**1**	**1**	**20**	**21**	–	2	2	16	18
Transfers from VIF and required capital to free surplus	**128**	**(41)**	**87**	**(87)**	**–**	115	(59)	56	(56)	–
Experience variances	**113**	**(58)**	**55**	**(206)**	**(151)**	84	(15)	69	(99)	(30)
Assumption changes	**(74)**	**–**	**(74)**	**(425)**	**(499)**	26	–	26	(123)	(97)
Other operating variance	**–**	**–**	**–**	**69**	**69**	18	–	18	53	71
Operating MCEV earnings	**(8)**	**7**	**(1)**	**(601)**	**(602)**	65	39	104	(73)	31
Economic variances	**(529)**	**–**	**(529)**	**(1,047)**	**(1,576)**	(30)	–	(30)	(333)	(363)
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**(537)**	**7**	**(530)**	**(1,648)**	**(2,178)**	35	39	74	(406)	(332)
Closing adjustments	**713**	**153**	**866**	**(459)**	**407**	(18)	(5)	(23)	(8)	(31)
Capital and dividend flows	**651**	**–**	**651**	**–**	**651**	(18)	–	(18)	–	(18)
Foreign exchange variance	**62**	**153**	**215**	**(459)**	**(244)**	–	(5)	(5)	(8)	(13)
Closing MCEV	**257**	**584**	**841**	**(2,150)**	**(1,309)**	81	424	505	(43)	462
Return on MCEV (RoEV) % per annum					**-121.4%**					4.1%

The segment results of United States include Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States Life Companies, and Old Mutual (Bermuda) Limited.

The negative experience variances were largely driven by higher than expected lapses on the fixed deferred and indexed annuity products and by reinsurance deals which were priced to be broadly cost-neutral on a real-world basis. Other negative experience variances included lighter than expected mortality on the immediate annuity book and an expense overrun. There was an offsetting positive tax variance.

The main operating assumption changes related to a strengthening of mortality assumptions on part of the immediate annuity book, changes to variable annuity reserving and increased expense assumptions.

The capital and dividend flows were mainly due to capital injections from Old Mutual plc during the year.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in US Dollar.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

5 Adjustments applied in determining total Group MCEV earnings before tax

Analysis of adjusting items	Covered business MCEV £m	Non-covered business IFRS £m	Total Group MCEV £m	Covered business MCEV £m	Non-covered business IFRS £m	Total Group MCEV £m
Year ended 31 December	**2008**	**2008**	**2008**	2007	2007	2007
Income/(expense)						
Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting	**–**	**(12)**	**(12)**	–	(11)	(11)
Economic variances	**(2,480)**	**(72)**	**(2,552)**	(114)	(7)	(121)
Other non-operating variances	**(79)**	**–**	**(79)**	48	–	48
Acquired/divested business	**–**	**53**	**53**	(1)	25	24
Closure of unclaimed share trust	**–**	**–**	**–**	–	1	1
Dividends declared to holders of perpetual preferred callable securities	**–**	**43**	**43**	–	40	40
Adjusting items relating to US Asset Management equity plans and minority holders	**–**	**7**	**7**	–	11	11
Fair value gains on Group debt instruments	**–**	**503**	**503**	–	29	29
Adjusting items	**(2,559)**	**522**	**(2,037)**	(67)	88	21

6 Other movements in net equity impacting Group MCEV

Analysis of adjusting items	Covered business MCEV £m	Non-covered business IFRS £m	Total Group MCEV £m	Covered business MCEV £m	Non-covered business IFRS £m	Total Group MCEV £m
Year ended 31 December	**2008**	**2008**	**2008**	2007	2007	2007
Fair value gains/(losses)	**–**	**–**	**–**	–	21	21
Net investment hedge	**–**	**(281)**	**(281)**	–	(13)	(13)
Currency translation differences/exchange differences on translating foreign operations	**(7)**	**59**	**52**	102	18	120
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**(1)**	**(1)**	–	13	13
Other movements	**–**	**(49)**	**(49)**	–	29	29
Net income recognised directly into equity	**(7)**	**(272)**	**(279)**	102	68	170
Dividend for the year	**(22)**	**(373)**	**(395)**	(412)	39	(373)
Share buy back	**–**	**(175)**	**(175)**	–	(177)	(177)
Net issues of ordinary share capital by the Company	**–**	**5**	**5**	–	3	3
Exercise of share options	**–**	**5**	**5**	–	9	9
Fair value of equity settled share options	**–**	**26**	**26**	–	36	36
Other movements in net equity	**(29)**	**(784)**	**(813)**	(310)	(22)	(332)

7 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.

Year ended 31 December	Total £m 2008	UK £m 2008	Nordic £m 2008	ELAM £m 2008	OMSA £m 2008	Rest of Africa £m 2008	United States £m 2008
IFRS net asset value*	**5,907**	**2,064**	**1,323**	**1,228**	**536**	**66**	**690**
Adjustment to include long-term business on a statutory solvency basis	**(2,461)**	**(1,200)**	**(973)**	**(576)**	**133**	**4**	**151**
Adjustment for market value of life funds' investments in Group equity and debt instruments	**236**	**–**	**–**	**–**	**236**	**–**	**–**
Adjustments to exclude acquisition of goodwill from the covered business	**(1,299)**	**(586)**	**(187)**	**(526)**	**–**	**–**	**–**
MCEV adjusted net worth	**2,383**	**278**	**163**	**126**	**905**	**70**	**841**

Year ended 31 December	Total £m 2007	UK £m 2007	Nordic £m 2007	ELAM £m 2007	OMSA £m 2007	Rest of Africa £m 2007	United States £m 2007
IFRS net asset value*	6,199	2,017	1,222	945	757	72	1,186
Adjustment to include long-term business on a statutory solvency basis	(3,055)	(1,160)	(931)	(490)	143	4	(621)
Adjustment for market value of life funds' investments in Group equity and debt instruments	492	–	–	–	492	–	–
Adjustments to exclude acquisition of goodwill from the covered business	(1,215)	(581)	(169)	(405)	–	–	(60)
MCEV adjusted net worth	2,421	276	122	50	1,392	76	505

*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.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

8 Value of new business (after tax)

The tables below set out the geographic 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 percent of single premiums.

As mentioned earlier for the South African business, healthcare administration business is no longer recognised as part of the VNB of covered business as previously reported under EEV. A similar consideration applies to other new business measures such as PVNBP and APE.

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
Annualised recurring premiums		
UK	**202**	186
Nordic	**174**	128
Europe and Latin America	**100**	102
OMSA	**212**	213
Rest of Africa	**11**	11
United States	**33**	39
	732	679
Single premiums		
UK	**3,938**	5,540
Nordic	**384**	193
Europe and Latin America	**679**	879
OMSA	**1,248**	1,073
Rest of Africa	**51**	43
United States	**2,475**	2,962
	8,775	10,690
PVNBP		
UK	**4,902**	6,311
Nordic	**991**	690
Europe and Latin America	**1,238**	1,494
OMSA	**2,317**	2,268
Rest of Africa	**120**	98
United States	**2,694**	3,185
	12,262	14,046
PVNBP capitalisation factors*		
UK	**4.8**	4.3
Nordic	**3.5**	3.9
Europe and Latin America	**5.6**	6.1
OMSA	**5.1**	5.6
Rest of Africa	**6.0**	5.0
United States	**6.7**	5.7

8 Value of new business (after tax) continued

	Year ended 31 December £m 2008	Year ended 31 December £m 2007
APE		
UK	**596**	740
Nordic	**213**	147
Europe and Latin America	**168**	190
OMSA	**336**	321
Rest of Africa	**17**	15
United States	**281**	335
	1,611	1,748
VNB		
UK	**67**	81
Nordic	**32**	23
Europe and Latin America	**10**	38
OMSA	**54**	50
Rest of Africa	**7**	7
United States	**(66)**	31
	104	230
PVNBP margin		
UK	**1.4%**	1.3%
Nordic	**3.3%**	3.3%
Europe and Latin America	**0.8%**	2.6%
OMSA	**2.3%**	2.2%
Rest of Africa	**5.8%**	7.1%
United States	**-2.4%**	1.0%
	0.8%	1.7%
APE margin		
UK	**11.0%**	11.0%
Nordic	**15.0%**	16.0%
Europe and Latin America	**6.0%**	20.0%
OMSA	**16.0%**	15.0%
Rest of Africa	**41.0%**	47.0%
United States	**-23.0%**	9.0%
	6.0%	13.0%

*The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums/annualised recurring premiums).

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the South Africa long-term business, which amounted to £458 million in the year ended 31 December 2008 (year ended 31 December 2007: £435 million), 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 the United Kingdom, the gross premium of which amounted to £239 million for the year ended 31 December 2008 (year ended 31 December 2007: £165 million), is excluded as this is more appropriately classified as mutual fund business.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

9 Product analysis of new covered business premiums

UK Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**202**	**3,938**	186	5,540
Unit-linked assurance	**202**	**3,938**	183	5,540
Life	**–**	**–**	3	–

Nordic Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**174**	**384**	128	193
Unit-linked assurance	**174**	**384**	128	193
Life	**–**	**–**	–	–

Europe and Latin America Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**100**	**679**	102	879
Unit-linked assurance	**94**	**401**	100	873
Life	**6**	**278**	2	6

OMSA Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**212**	**1,248**	213	1,073
Individual business	**199**	**595**	198	617
Savings	**48**	**451**	47	472
Protection	**65**	**–**	74	5
Annuity	**–**	**143**		139
Retail mass market	**86**	**1**	77	1
Group business	**13**	**653**	15	456
Savings	**5**	**423**	5	376
Protection	**8**	**1**	10	1
Annuity	**–**	**229**		79

Rest of Africa Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**11**	**51**	11	43
Individual business	**10**	**27**	10	25
Savings	**3**	**26**	3	23
Protection	**3**	**–**	3	–
Annuity	**–**	**1**		2
Retail mass market	**4**	**–**	4	–
Group business	**1**	**24**	1	18
Savings	**1**	**21**	1	18
Protection	**–**	**–**	–	–
Annuity	**–**	**3**		–

9 Product analysis of new covered business premiums continued

United States Year ended 31 December	Recurring £m 2008	Single £m 2008	Recurring £m 2007	Single £m 2007
Total business	**33**	**2,475**	39	2,962
Fixed deferred annuity	**–**	**327**	–	97
Fixed indexed annuity	**–**	**627**	–	960
Variable annuity	**–**	**1,339**	–	1,757
Life	**33**	**43**	39	18
Immediate annuity	**–**	**139**	–	130

10 Drivers of new business value*

Total covered business** Year ended 31 December	PVNBP Margin % 2008	APE Margin % 2008
Margin at the end of comparative period	**1.7**	**13.5**
Change in volume	**0.1**	**0.2**
Change in product mix	**-0.2**	**-1.8**
Change in country mix	**0.0**	**0.0**
Change in operating assumptions	**-0.3**	**-2.7**
Change in economic assumptions	**-0.3**	**-2.6**
Exchange rate movements	**-0.2**	**-0.5**
Margin at the end of the period	**0.8**	**6.1**

UK covered business***		
Margin at the end of comparative period	**1.3**	**11.1**
Change in volume	**0.0**	**-0.5**
Change in product mix	**0.0**	**0.2**
Change in country mix	**0.0**	**0.0**
Change in operating assumptions	**0.1**	**1.0**
Change in economic assumptions	**0.0**	**-0.5**
Margin at the end of the period	**1.4**	**11.3**

Nordic covered business***		
Margin at the end of comparative period	**3.3**	**15.7**
Change in volume	**0.4**	**2.9**
Change in product mix	**0.2**	**-0.2**
Change in country mix	**0.0**	**0.0**
Change in operating assumptions	**-0.5**	**-2.2**
Change in economic assumptions	**-0.1**	**-0.9**
Margin at the end of the period	**3.3**	**15.3**

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

10 Drivers of new business value* continued

Total covered business** Year ended 31 December	PVNBP Margin % 2008	APE Margin % 2008
ELAM covered business* **		
Margin at the end of comparative period	**2.6**	**20.4**
Change in volume	**-0.7**	**-5.2**
Change in product mix	**-0.3**	**-1.9**
Change in country mix	**0.0**	**-0.3**
Change in operating assumptions	**-0.8**	**-6.8**
Change in economic assumptions	**0.0**	**-0.2**
Margin at the end of the period	**0.8**	**6.0**
OMSA covered business* **		
Margin at the end of comparative period	**2.2**	**15.4**
Change in volume	**0.2**	**1.8**
Change in product mix	**-0.1**	**-0.7**
Change in country mix	**0.0**	**0.0**
Change in operating assumptions	**0.1**	**0.5**
Change in economic assumptions	**-0.1**	**-0.9**
Margin at the end of the period	**2.3**	**16.1**
United States covered business* **		
Margin at the end of comparative period	**1.0**	**9.4**
Change in volume	**-0.2**	**-2.1**
Change in product mix	**-0.7**	**-6.5**
Change in country mix	**0.0**	**0.0**
Change in operating assumptions	**-1.3**	**-12.7**
Change in economic assumptions	**-1.2**	**-11.5**
Margin at the end of the period	**-2.4**	**-23.4**

*Prior year MCEV comparatives of drivers of new business value are not available as no restatement was performed for VNB and PVNBP in 2006. Also note that results for the 'Rest of Africa' are included in the drivers of new business value of total covered business, but that no separate analysis is shown for such business from a materiality perspective.
**The PVNBP and APE percent margin changes are calculated in Sterling.
***The PVNBP and APE percent margin changes are calculated in local currency.

11 Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2008 and the value of new business for the year ended 31 December 2008 to changes in key assumptions. Note that no sensitivity results are shown for the 'Rest of Africa' from a materiality perspective.

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 and an increase/decrease in equity and property market values allow for the change in the time value of financial options and guarantees that form part of the investment guarantee reserves.

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 percent 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.

UK	MCEV £m	Value of in-force business £m	Value of new business £m
31 December	**2008**	**2008**	**2008**
Central assumptions	**1,671**	**1,393**	**67**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,674**	**1,396**	**67**
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,633**	**1,364**	**61**
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,712**	**1,426**	**74**
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**1,720**	**1,442**	**–**
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**1,623**	**1,345**	**–**
10bps contraction on corporate bond spreads	**1,671**	**1,393**	**–**
25 percent multiplicative increase in equity and property implied volatilities	**1,671**	**1,393**	**67**
25 percent multiplicative increase in swaption implied volatilities	**1,671**	**1,393**	**67**
Voluntary discontinuance rates decreasing by 10 percent	**1,742**	**1,464**	**79**
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	**1,703**	**1,425**	**70**
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	**1,672**	**1,394**	**67**
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	**1,671**	**1,393**	**67**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	**–**	**–**	**60**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,676**	**1,398**	**68**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	**1,660**	**1,381**	**66**

11 Sensitivity tests continued

Nordic 31 December	MCEV £m 2008	Value of in-force business £m 2008	Value of new business £m 2008
Central assumptions	**1,045**	**882**	**32**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,045**	**882**	**32**
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,016**	**853**	**31**
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,076**	**914**	**33**
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**1,092**	**929**	**–**
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**998**	**835**	**–**
10bps contraction on corporate bond spreads	**1,045**	**882**	**–**
25 percent multiplicative increase in equity and property implied volatilities	**1,045**	**882**	**32**
25 percent multiplicative increase in swaption implied volatilities	**1,045**	**882**	**32**
Voluntary discontinuance rates decreasing by 10 percent	**1,077**	**914**	**40**
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	**1,081**	**918**	**35**
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	**1,048**	**885**	**33**
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	**1,045**	**882**	**32**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	**–**	**–**	**31**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,057**	**894**	**34**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	**1,032**	**869**	**31**

Europe and Latin America 31 December	MCEV £m 2008	Value of in-force business £m 2008	Value of new business £m 2008
Central assumptions	**713**	**587**	**10**
Effect of:			
Required capital equal to the minimum statutory requirement	**716**	**591**	**10**
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**674**	**549**	**5**
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**755**	**628**	**16**
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**728**	**602**	**–**
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**699**	**574**	**–**
10bps contraction on corporate bond spreads	**713**	**587**	**–**
25 percent multiplicative increase in equity and property implied volatilities	**713**	**587**	**10**
25 percent multiplicative increase in swaption implied volatilities	**707**	**581**	**10**
Voluntary discontinuance rates decreasing by 10 percent	**733**	**607**	**13**
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	**741**	**615**	**13**
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	**716**	**590**	**10**
Mortality assumption for annuities decreasing by 5 percent, with no increase in policy charges	**713**	**587**	**10**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	**–**	**–**	**7**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**715**	**589**	**10**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	**704**	**578**	**10**

11 **Sensitivity tests** continued

OMSA

31 December	MCEV £m 2008	Value of in-force business £m 2008	Value of new business £m 2008
Central assumptions	**1,945**	**1,040**	**54**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,968**	**1,064**	**56**
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,920**	**1,014**	**52**
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**1,967**	**1,064**	**55**
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**2,035**	**1,094**	**–**
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	**1,858**	**990**	**–**
10bps contraction on corporate bond spreads	**1,948**	**1,040**	**–**
25 percent multiplicative increase in equity and property implied volatilities	**1,920**	**1,015**	**54**
25 percent multiplicative increase in swaption implied volatilities	**1,919**	**1,015**	**54**
Voluntary discontinuance rates decreasing by 10 percent	**1,975**	**1,071**	**63**
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	**2,020**	**1,115**	**60**
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	**2,007**	**1,102**	**61**
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges*	**1,932**	**1,027**	**54**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	**–**	**–**	**48**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**1,968**	**1,063**	**56**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	**1,927**	**1,023**	**53**

*No impact on with-profit annuities as the mortality risk is borne by policyholders.

11 **Sensitivity tests** continued

United States 31 December	MCEV £m **2008**	Value of in-force business £m **2008**	Value of new business £m **2008**
Central assumptions	**(1,309)**	**(2,150)**	**(66)**
Effect of:			
Required capital equal to the minimum statutory requirement	**(1,308)**	**(2,148)**	**(66)**
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**(1,177)**	**(2,017)**	**(36)**
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	**(1,494)**	**(2,335)**	**(128)**
Increasing all pre-tax investment and economic assumptions by 3 percent, with credited rates and discount rates changing commensurately	**(883)**	**(1,723)**	**41**
Decreasing all pre-tax investment and economic assumptions by 3 percent, with credited rates and discount rates changing commensurately	**(1,874)**	**(2,715)**	**(274)**
Recognising the present value of an additional 1 percent of credit and liquidity spreads on corporate bonds over and above the risk free reference rate over the lifetime of the liabilities with credited rates and discount rates changing commensurately	**(610)**	**(1,450)**	**(36)**
Equity and property market value increasing by 10 percent, with all pre–tax investment and economic assumptions unchanged	**(1,276)**	**(2,116)**	**–**
Equity and property market value decreasing by 10 percent, with all pre–tax investment and economic assumptions unchanged	**(1,339)**	**(2,180)**	**–**
10bps contraction on corporate bond spreads	**(1,246)**	**(2,087)**	**–**
25 percent multiplicative increase in swaption implied volatilities	**(1,698)**	**(2,539)**	**(87)**
Voluntary discontinuance rates decreasing by 10 percent	**(1,217)**	**(2,058)**	**(62)**
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	**(1,289)**	**(2,129)**	**(63)**
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	**(1,298)**	**(2,139)**	**(64)**
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	**(1,329)**	**(2,169)**	**(66)**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	**–**	**–**	**(72)**
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	**(1,221)**	**(2,062)**	**(51)**
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	**(1,345)**	**(2,186)**	**(71)**

11 **Sensitivity tests** continued

The 2007 tables are as follows:

UK 31 December	MCEV £m 2007	Value of in-force business £m 2007	Value of new business £m 2007
Central assumptions	1,531	1,255	81
Effect of:			
Required capital equal to the minimum statutory requirement	1,536	1,260	81
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	1,497	1,230	75
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	1,566	1,282	89
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	1,575	1,299	–
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	1,488	1,212	–
10bps contraction on corporate bond spreads	1,531	1,255	–
25 percent multiplicative increase in equity and property implied volatilities	1,531	1,255	81
25 percent multiplicative increase in swaption implied volatilities	1,531	1,255	81
Voluntary discontinuance rates decreasing by 10 percent	1,587	1,311	96
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	1,556	1,280	84
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	1,532	1,256	82
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	1,531	1,255	81
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	–	–	72
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	1,543	1,267	84
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	1,510	1,234	77

11 Sensitivity tests continued

Nordic 31 December	MCEV £m 2007	Value of in-force business £m 2007	Value of new business £m 2007
Central assumptions	1,114	992	23
Effect of:			
Required capital equal to the minimum statutory requirement	1,110	988	23
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	1,092	970	22
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	1,137	1,016	24
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	1,183	1,061	–
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	1,045	923	–
10bps contraction on corporate bond spreads	1,114	992	–
25 percent multiplicative increase in equity and property implied volatilities	1,114	992	23
25 percent multiplicative increase in swaption implied volatilities	1,114	992	23
Voluntary discontinuance rates decreasing by 10 percent	1,142	1,020	29
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	1,145	1,023	25
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	1,116	994	23
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	1,114	992	23
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	–	–	22
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	1,131	1,009	24
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	1,100	978	22

Europe and Latin America 31 December	MCEV £m 2007	Value of in-force business £m 2007	Value of new business £m 2007
Central assumptions	572	522	38
Effect of:			
Required capital equal to the minimum statutory requirement	571	521	38
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	546	497	33
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	598	547	43
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	588	538	–
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	556	507	–
10bps contraction on corporate bond spreads	572	522	–
25 percent multiplicative increase in equity and property implied volatilities	572	522	38
25 percent multiplicative increase in swaption implied volatilities	571	521	38
Voluntary discontinuance rates decreasing by 10 percent	591	541	41
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	588	538	41
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	574	524	38
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	572	522	38
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	–	–	36
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	576	526	38
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	562	512	37

11 **Sensitivity tests** continued

OMSA

31 December	MCEV £m 2007	Value of in-force business £m 2007	Value of new business £m 2007
Central assumptions	2,546	1,154	50
Effect of:			
Required capital equal to the minimum statutory requirement	2,575	1,182	52
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	2,522	1,127	48
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	2,568	1,178	50
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	2,693	1,210	–
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	2,398	1,096	–
10bps contraction on corporate bond spreads	2,549	1,154	–
25 percent multiplicative increase in equity and property implied volatilities	2,526	1,134	50
25 percent multiplicative increase in swaption implied volatilities	2,540	1,147	50
Voluntary discontinuance rates decreasing by 10 percent	2,577	1,185	57
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	2,625	1,233	55
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	2,600	1,208	57
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges*	2,537	1,145	49
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	–	–	44
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	2,567	1,175	51
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	2,530	1,138	48

*No impact on with-profit annuities as the mortality risk is borne by policyholders.

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

11 **Sensitivity tests** continued

United States 31 December	MCEV £m 2007	Value of in-force business £m 2007	Value of new business £m 2007
Central assumptions	462	(43)	31
Effect of:			
Required capital equal to the minimum statutory requirement	485	(20)	37
Increasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	253	(252)	52
Decreasing all pre-tax investment and economic assumptions by 1 percent, with credited rates and discount rates changing commensurately	580	75	2
Recognising the present value of an additional 1 percent of credit and liquidity spreads on corporate bonds over and above the risk free reference rate over the lifetime of the liabilities, with credited rates and discount rates changing commensurately	754	(22)	52
Equity and property market value increasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	463	(42)	–
Equity and property market value decreasing by 10 percent, with all pre-tax investment and economic assumptions unchanged	461	(44)	–
10bps contraction on corporate bond spreads	494	(11)	–
25 percent multiplicative increase in swaption implied volatilities	406	(99)	(17)
Voluntary discontinuance rates decreasing by 10 percent	536	31	56
Maintenance expense levels decreasing by 10 percent, with no corresponding increase in policy charges	465	(40)	35
Mortality and morbidity assumptions for assurances decreasing by 5 percent, with no corresponding increase in policy charges	464	(41)	32
Mortality assumption for annuities decreasing by 5 percent, with no corresponding increase in policy charges	447	(58)	23
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 percent, with no corresponding increase in policy charges	–	–	25
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	493	(12)	41
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 percent confidence level which is targeted by an internal economic capital model	449	(56)	27

12 Key changes in MCEV methodology and assumptions

Notes 2 and 3 describe the methodology and assumptions used under the MCEV reporting framework.

The major change in Old Mutual's overall approach for deriving its MCEV compared to the approach adopted for EEV is the allowance for risk. Under MCEV a bottom-up allowance is made for financial risks (in particular asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and financial options and guarantees are valued using market consistent models calibrated to observable market prices) and an explicit allowance is made for the cost of residual non-hedgeable risks in the covered business. In contrast, under EEV a top-down allowance was made for all risks by means of the risk margin included in the single risk discount rate applicable for each geography and the value placed on the time value of financial options and guarantees. The MCEV methodology therefore makes a more granular allowance for the differences in the risk profile of different blocks of business than the EEV methodology.

A summary of the key changes arising in the move from the EEV to MCEV reporting framework previously adopted is set out in the table below.

	EEV	MCEV
Overall allowance for risk	Risk discount rates are calibrated to produce EEV results which are equal to an Embedded Value that is approximated using bottom-up market consistent techniques that were considered acceptable market practice at the time of implementation of the EEV Principles in May 2005.	The aggregate allowance for risk across all businesses under EEV is not aligned with the requirements under the new MCEV Principles.
Economic assumptions	Investment return assumptions are set with reference to real-world assumptions, which include allowance for expected risk premiums on assets such as equities and corporate bonds, without directly adjusting for the risk inherent in these returns. A margin is added to the discount rate to reflect the risks within the business.	Both investment return and discount rate assumptions are set in relation to risk free reference rates, defined as swap yields. As a result of current dislocated markets, adjusted risk free reference rates for US onshore business include a liquidity adjustment at 31 December 2008 to reflect the large liquidity premium inherent in corporate bond spreads at that date. No up-front value is placed on any risk premiums in excess of the adjusted risk free reference rates. Such risk premiums are only recognised in MCEV reporting as and when they are earned.
Treatment of unrealised corporate bond gains/ losses for US business	Any decrease/increase in credit spreads has a limited impact on Embedded Value as only the assets backing the adjusted net worth, which in the past were largely cash assets, are marked to market. For example, an increase in credit spreads would be modelled as follows: → On existing assets the only losses capitalised would be on realised losses on projected sale of assets. → For new bond purchases credit is taken for the increased spread which is recognised as higher expected future income within VIF, offsetting some of the losses on the sale of existing assets.	All assets are marked-to-market. Since investment return assumptions are set with reference to swap rates, any increase in credit spreads will have a direct impact on the Embedded Value to the extent that such losses can not be passed onto policyholders through changes in future bonus /crediting rates (where these are set subject to contractual guarantees and taking into account competitive considerations and consequent lapse activity) over the remaining lifetime of the in-force policies.
Valuation of time value of financial options and guarantees	Not all stochastic models are required to be market consistent with real world stochastic models being used in the US.	MCEV reporting requires the use of market consistent stochastic models with volatility assumptions being set with reference to market implied volatilities, as derived from derivative quotes in the capital markets for the relevant term and instrument type.
Cost of capital vs. frictional costs	EEV includes allowance for the 'cost of required capital'.	MCEV explicitly allows for frictional costs, defined as the tax and investment expenses associated with required capital.
Cost of residual non-hedgeable risks	No explicit allowance is made for such risks, although an implicit allowance is permitted in the risk discount rate for each geography.	Explicit allowance is made for the cost of these risks which represents a charge for the uncertainty arising in the best estimate of shareholder cash flows resulting from such residual non-hedgeable risks.

12 Key changes in MCEV methodology and assumptions continued

	EEV	MCEV
PVNBP	Under EEV the PVNBP is calculated by discounting the projected premiums using single risk discount rate applicable in each geography.	Discounting uses term dependent risk free reference rates. As risk discount rates used under EEV are on average greater than the risk free reference rates used under MCEV, MCEV provides an increase in PVNBP and a corresponding decrease in PVNBP margins (assuming all other things including VNB being equal).
Presentation of earnings	The EEV Principles do not prescribe the format of the presentation of earnings. The expected existing business contribution is calculated as the sum of the unwind of the VIF at the risk discount rate and the expected real world returns on the adjusted net worth.	MCEV Principles prescribe the formats for the presentations of analyses of MCEV earnings and Group MCEV earnings. The following material changes in the presentation of the analyses of MCEV earnings have been adopted: → MCEV calculates the expected existing business contribution 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 for the 1-year period. → Contrary to previous EEV treatment, the impact of changes in local regulations and taxation are excluded from operating MCEV earnings. → Changes and improvement to models and methodology are reflected as other operating variances rather than being included as part of operating assumption changes.
Sensitivities	EEV Principles prescribe less mandatory sensitivities than the MCEV Principles.	Apart from the mandatory sensitivities, a number of additional sensitivities are disclosed in order for users of the supplementary information to better understand the impact of adopting MCEV.
Adjusted Group MCEV	The treatment of all business other than the covered business is the same as in the primary financial statements.	Adjusted Group MCEV includes the impact of marking all Group debt to market value, the market value of the Group's listed banking and general insurance subsidiaries as well as marking the value of deferred consideration due in respect of the Black Economic Empowerment arrangements in South Africa (' the BEE schemes') to market.

13 Restatement of adjusted Group Embedded Value per share

The table below provides a restatement of the adjusted Group Embedded Value per share as at 31 December 2007 from an EEV to MCEV basis.

	At 31 December 2007
Previously published adjusted Group EEV per share	173.3p
Change in Embedded Value of covered business as a consequence of the move to MCEV	-9.4p
Marking the present value of future BEE scheme deferred consideration to market	+0.2p
Adjustment to bring external debt to market value	+2.2p
Total impact	-7.0p
Adjusted Group MCEV per share	166.3p
Percentage impact	-4.2%

The change in the adjusted Group Embedded Value per share from 173.3p on an EEV basis to 166.3p on an MCEV basis is driven mainly by the change in the Embedded Value of the covered business which is analysed in detail in note 15.

14 Restatement of adjusted Group MCEV operating earnings per share

The table below provides a restatement of the adjusted Group operating earnings per share for the year ended 31 December 2007 from an EEV to MCEV basis.

	Year ended 31 December 2007
Previously published adjusted Group EEV operating earnings per share	17.2p
Change in operating earnings of covered business as a consequence of the move to MCEV	-0.2p
Adjusted Group MCEV operating earnings per share	17.0p
Percentage impact	-1.2%

The conversion from EEV to MCEV reporting has no impact on the operating earnings of our non-life business and hence the small change in the adjusted Group operating earnings per share from 17.2p on an EEV basis to 17.0p on an MCEV basis is driven entirely by the change in the operating earnings of the covered business which is analysed in more detail in note 18.

15 Restatement of Embedded Value of covered business

The tables below reconcile the Embedded Value of the covered business as at 31 December 2007 and 31 December 2006 from the previously published EEV basis to the MCEV basis. The transition from the top-down real-world EEV approach to the bottom-up MCEV approach can be broken down into the following key steps:

a. Release of cost of required capital in published EEV – The cost of required capital under the previous EEV approach is released and this component of EEV is replaced by frictional costs (see step c) under the MCEV approach. This step increases the Embedded Value.

b. Economic assumption changes incorporate a combination of the following:
   - → Any risk margins in the single weighted average EEV discount rate for each of the geographies are removed and the EEV discount rates are replaced by term dependent risk free reference rates. This step increases the Embedded Value for profitable business as expected future profits are discounted at lower rates, and gives rise to a greater Embedded Value loss for loss making business, as a result of discounting losses at lower rates.
   - → Any risk margins in real-world EEV investment return assumptions are removed and the real-world EEV investment return assumptions are replaced by term dependent risk free reference rates and thereby removing any capitalisation of investment risk margins. This step decreases the Embedded Value as expected future investment returns are projected at lower rates.
   - → Other related model refinements including updating all stochastic models to be market consistent. For the United States business such model refinements also include a revision of assumptions for dynamic policyholder behaviour within the stochastic models to allow for lower average returns from risk-neutral market consistent scenarios compared to the scenarios in the real-world stochastic model that was used under EEV.

c. Allowance for frictional costs – As mentioned in step (a) above, the cost of required capital under the previous EEV approach is released and replaced by an allowance for frictional costs under the MCEV approach. This step decreases the Embedded Value.

d. Explicit allowance for cost of residual non-hedgeable risks – Previously under the EEV approach an implicit allowance was permitted for such risks in the determination of the risk discount rate for each geography. This step decreases the Embedded Value.

In-force covered business	Total £m	UK £m	Nordic £m	ELAM £m	OMSA £m	Rest of Africa £m	United States £m
31 December	2007	2007	2007	2007	2007	2007	2007
Previously published EEV	**6,861**	**1,451**	**1,084**	**580**	**2,549**	**128**	**1,069**
Release of cost of required capital in published EEV	377	50	27	30	175	4	91
Economic assumption changes	(433)	80	69	13	12	(1)	(607)
Allowance for frictional costs	(192)	(10)	(9)	(10)	(122)	(2)	(38)
Allowance for cost of residual non-hedgeable risks	(264)	(40)	(57)	(41)	(68)	(5)	(53)
Total impact	**(512)**	**80**	**30**	**(8)**	**(3)**	**(4)**	**(607)**
MCEV	**6,349**	**1,531**	**1,114**	**572**	**2,546**	**124**	**462**
Percentage impact	**-7.5%**	**+5.5%**	**+2.8%**	**-1.4%**	**-0.1%**	**-3.1%**	**-56.8%**

MCEV financials

15 Restatement of Embedded Value of covered business continued

In-force covered business 31 December	Total* £m 2006	UK* £m 2006	Nordic* £m 2006	ELAM* £m 2006	OMSA £m 2006	Rest of Africa £m 2006	United States* £m 2006
Previously published EEV	**6,413**	**1,255**	**846**	**600**	**2,433**	**135**	**1,144**
Release of cost of required capital in published EEV	393	69	23	49	179	4	69
Economic assumption changes	(225)	50	56	(8)	–	2	(325)
Allowance for frictional costs	(186)	(14)	(8)	(9)	(129)	(2)	(24)
Allowance for cost of residual non-hedgeable risks	(250)	(35)	(54)	(47)	(70)	(5)	(39)
Total impact	**(268)**	**70**	**17**	**(15)**	**(20)**	**(1)**	**(319)**
MCEV	**6,145**	**1,325**	**863**	**585**	**2,413**	**134**	**825**
Percentage impact	**-4.2%**	**+5.6%**	**+2.0%**	**-2.5%**	**-0.8%**	**-0.7%**	**-27.9%**

*Gross of minority interests.

The impact as at 31 December 2007 of moving from an EEV to an MCEV methodology is a reduction in Embedded Value of the covered business of 7.5 percent (31 December 2006: 4.2 percent) from £6,861 million to £6,349 million (31 December 2006: from £6,413 million to £6,145 million). Most of the reduction in Embedded Value is attributable to the United States business which decreased by -56.8 percent at 31 December 2007 (31 December 2006: -27.9 percent) from £1,069 million to £462 million (31 December 2006: from £1,144 million to £825 million).

The frictional costs calculated under MCEV are significantly less than the cost of required capital under EEV which reflects the difference between the risk discount rate in each geography, inclusive of an explicit risk margin, and the expected post-tax investment return on the assets backing the required capital. Under MCEV risks are modelled explicitly and the risk margin in each geography is not required.

The impact of the transition from EEV to MCEV also varies by product type. Under EEV a weighted average risk discount rate was applied to all products within a specific geography whereas under MCEV separate explicit allowances are made for financial and non-financial risks for each product.

- Risk products, for example term assurance, generally increase in value under MCEV compared to EEV. Product profitability is mainly driven by non-financial pricing margins which are discounted at lower risk free reference rates under MCEV.
- The impact on savings products, for example unit-linked policies, is broadly neutral as the reduced assumed future investment returns which are set in relation to risk free reference rates are largely offset by the increase in value due to the lower discount rates (which are also set in relation to risk free reference rates) that are applied to future cash flows.
- Products with a high proportion of financial risk, for example spread-based contracts such as immediate annuities where profitability relies on achieving a return in excess of the risk free reference rates to support the pricing bases, tend to reduce in value under MCEV. No risk premiums in excess of the risk free reference rates are recognised under MCEV until realised in a particular year, when it emerges as a combination of expected existing business contribution and economic variance in that year. In contrast EEV recognises the capitalised expected profits from taking on financial risk, i.e. capitalises returns on more risky assets, without necessarily making appropriate adjustments at a per product level for the fact that the returns under these assets have a greater degree of inherent risk.

Further commentary on the impact of moving from an EEV to an MCEV methodology for each geography, in particular for United States business, is provided below.

Europe and Africa

Within the European and African businesses, the aggregate allowance for risk within the EEV and MCEV approaches is broadly aligned and hence relatively minor impacts are experienced on these businesses when moving from an EEV to an MCEV approach for valuing the covered business.

United States

The aggregate allowance for risk under EEV was not aligned with the requirements under the new MCEV Principles and the major contributors are discussed below.

- Treatment of unrealised corporate bond losses
  - Under EEV any increase in credit spreads has a limited impact on Embedded Value as only the assets backing the adjusted net worth, which in the past were largely cash assets, are marked to market. This methodology is largely driven by the book-value accounting basis used for statutory reporting in the United States. Therefore on existing assets the only losses capitalised following an increase in credit spreads would be on realised losses on projected sale of assets. The EEV is only reduced to the extent that the losses realised in the projections are not passed on to policyholders by reducing future crediting/bonus rates (subject to contractual guarantees and competitive considerations that impact on policyholder persistency behaviour) over the remaining lifetime of the in-force policies. For new bond purchases credit is taken from the increased spread which is recognised as higher expected future income within VIF, offsetting some of the losses on existing assets.

15 **Restatement of Embedded Value of covered business** continued

– However under MCEV all assets are marked-to-market and any increase in credit spreads will be fully recognised in the value of the asset portfolio. Since investment return assumptions are set with reference to swap rates under MCEV, in the modelling of future liability cash flows such losses can not necessarily be passed onto policyholders through changes in future crediting (bonus) rates, which are subject to contractual guarantees and constrained by competitive considerations, over the remaining lifetime of the in-force policies.

→ Pricing basis vs. MCEV basis

– Many of the United States Life products are priced on the basis that a part of the spread between risk free or swap rates and corporate bonds will be passed onto policyholders in the form of better crediting (bonus) rates. The spread of corporate bond yields over risk free rates is assumed to consist of both a credit default component and a non-credit component. The credit default component compensates the holder of the instrument for the risk that the issuer may default. The non-credit related component, generally referred to as the liquidity premium, compensates the holder of the instrument for the fact that they may not be able to trade out of the instrument at their choosing.

– For many of the products sold by the US business, profitability therefore depends on the spread, over risk free rates, earned on corporate bond assets. For such spread-based business, there is no recognition in the MCEV at 31 December 2007 or 31 December 2006 of any liquidity or credit risk premiums in excess of risk free reference rates until such profits have been realised. The earnings from corporate bond spreads in excess of the risk free reference rates, which had previously been capitalised at point of sale under EEV, are now only recognised as an additional source of earnings in each future time period as the margin over risk free reference rates is earned. Hence the timing of recognition of profits under EEV and MCEV for such business is materially different.

– A similar issue occurs with the deferred tax assets currently held. As earnings are expected to emerge over time, it is anticipated that these assets could be utilised to offset future tax liabilities. However since in the current economic environment taxable profits are not projected in aggregate on an MCEV basis, these deferred tax assets are not recognised in the MCEV. Hence it is expected that the benefit of this asset will emerge over future periods as returns in excess of risk free reference rates are earned.

– It is important to appreciate that the change in reporting basis does not change the underlying profitability of spread-based business, but merely the representation of profitability, particularly early in the life of such contracts.

→ Financial guarantees

– To expand further on why the impact of the move to MCEV reporting is so marked on spread-based business, crediting (bonus) rates are generally set with anticipation of earning some risk premiums over and above the risk free reference rates. However this non-recognition of projected investment risk premiums under MCEV reporting can not necessarily be offset by reduced policyholder crediting rates as, once these crediting rates are locked in or guaranteed over a future period, they must be valued at that level. For example, for annuities in payment claim payments are locked in for the duration of the contract at a level which was priced taking into account the expected future corporate bond spreads to be earned. Hence an initial loss will be shown under MCEV as the annuity payments are larger than can be supported by risk free reference returns on the asset portfolio on a prospective basis, and the Embedded Value valuation assumes that none of these future margins are earned.

– For other spread-based products (such as fixed indexed annuities where there is an accumulation phase), the loss of capitalised risk premiums upfront can be partially offset to the extent that crediting (bonus) rates are not fixed for the full term of the contract and that management can adjust future crediting rates relative to modelled investment returns – generally aiming to target a margin to cover profit and expenses. However future investment returns based on risk free reference rates are much lower than expected real-world returns, which means that any underlying guarantees in the policies (including any crediting rates that have been declared prospectively until the next reset date) are more likely to take effect in risk-neutral market consistent stochastic scenarios. There may thus be a shortfall of projected profits relative to profits that are expected to emerge on a real world pricing basis, which we refer to as 'spread compression'. Additionally some of the deferred annuities still have crediting rates locked in for several years (e.g. Multi-Year Guaranteed Annuities).

– Market volatility assumptions that are used to calculate the time value of financial options and guarantees under MCEV are higher than the long-term expected volatilities assumed under EEV. This has increased the time value of financial options and guarantees under MCEV.

→ Discounting of projected MCEV losses

– Under MCEV reporting the discount rate is set in relation to risk free reference rates which are lower than the risk discount rates used under EEV reporting. In the instance where low risk free projected investment returns under MCEV lead to lower investment income, but overall still reflect profitable products, the discounting effect of using a lower rate tends to offset the removal of the risk premium in investment returns. However in instances where low risk free projected investment returns under MCEV lead to a projected loss on the business, the resulting losses are also discounted at a lower rate, which has the effect of increasing the present value of the projected future losses.

– As a consequence, MCEV results at a time of very low risk free reference rates of return need to be carefully considered:
  - An increase in risk free yields can rapidly turn a market consistent VIF that is negative into a positive VIF if the risk free reference rate starts at a level below guaranteed crediting (bonus) rates and increases to one which leads to a surplus in investment income relative to crediting rates.
  - In the event that an increase in risk free reference rates does not fully cover the required guaranteed crediting rate, the resulting loss will still be smaller than the starting point, and the effect of discounting this at a higher rate could be that the VIF loss reduces substantially.
  - There is hence a severely 'non-linear' outcome when risk free reference rates are close to guaranteed crediting rates, with small changes in risk free rates (up or down) leading to large changes in VIF.

15 Restatement of Embedded Value of covered business continued

Considering the above, the more pronounced impact of the move from EEV to MCEV reporting at 31 December 2007 of -7.5 percent compared to the impact at 31 December 2006 of -4.2 percent results mainly from the following changes in economic conditions:

- A widening of corporate bond spreads and reductions in market values of such assets – marking all assets to market value means that unrealised capital losses are no longer expected to remain largely unrealised even if portfolio cash flow matching means that those assets are held to maturity. Or practically, it is assumed that at 31 December 2007 a larger portion of corporate bond assets will default before maturity than assumed at 31 December 2006.
- Reductions in risk free reference rates and as a consequence all guarantees being in the money to a greater extent.
- An increase in implied market volatilities which are used to assess the time value of financial options and guarantees, relative to the real-world approach of using historic volatilities that was previously adopted under EEV.

In conclusion, compared to EEV reporting, MCEV reporting merely changes the timing of recognition of profits and not the ultimate profitability that will emerge on covered business. Over time it is therefore expected that risk premiums in excess of risk free reference rates will be realised and will contribute to MCEV earnings.

16 Comparison of components of Embedded Value on EEV and MCEV bases

The tables below provide a comparison of the components of Embedded Value of the covered business as at 31 December 2007 and 31 December 2006 between the previously published EEV basis and the MCEV basis. The change in MCEV to a bottom-up evaluation of the risks inherent in the business requires a change in the presentation of the components underlying the MCEV.

In-force covered business	Total £m	UK £m	Nordic £m	ELAM £m	OMSA £m	Rest of Africa £m	United States £m
31 December	2007	2007	2007	2007	2007	2007	2007
Previously published EEV	6,861	1,451	1,084	580	2,549	128	1,069
Adjusted net worth	2,423	276	122	50	1,394	76	505
Free surplus	516	89	47	(12)	268	43	81
Required capital	1,907	187	75	62	1,126	33	424
Value of in-force business	4,438	1,175	962	530	1,155	52	564
Present value of future profits	4,864	1,225	989	561	1,330	56	703
Additional time value of financial options and guarantees	(49)	(0)	–	(1)	–	–	(48)
Cost of required capital	(377)	(50)	(27)	(30)	(175)	(4)	(91)
MCEV	6,349	1,531	1,114	572	2,546	124	462
Adjusted net worth	2,421	276	122	50	1,392	76	505
Free surplus*	515	89	47	(11)	266	43	81
Required capital	1,906	187	75	61	1,126	33	424
Value of in-force business	3,928	1,255	992	522	1,154	48	(43)
Present value of future profits	4,583	1,305	1,059	574	1,344	55	246
Additional time value of financial options and guarantees	(199)	–	–	(1)	(0)	(0)	(198)
Frictional costs	(192)	(10)	(10)	(10)	(122)	(2)	(38)
Cost of residual non-hedgeable risks	(264)	(40)	(57)	(41)	(68)	(5)	(53)

*For the South African business, the value of the asset related to the deferred CGT liability recognised in the adjusted net worth was recalculated on a market consistent basis.

16 Comparison of components of Embedded Value on EEV and MCEV bases continued

In-force covered business 31 December	Total £m 2006	UK* £m 2006	Nordic* £m 2006	ELAM* £m 2006	OMSA** £m 2006	Rest of Africa £m 2006	United States £m 2006
Previously published EEV	6,413	1,255	846	600	2,433	135	1,144
Adjusted net worth	2,104	235	(108)	115	1,326	82	454
Free surplus	202	73	(154)	59	115	45	64
Required capital	1,902	162	46	56	1,211	37	390
Value of in-force business	4,309	1,020	954	485	1,107	53	690
Present value of future profits	4,780	1,089	1,004	538	1,286	57	806
Additional time value of financial options and guarantees	(51)	–	–	(4)	–	–	(47)
Cost of required capital	(420)	(69)	(50)	(49)	(179)	(4)	(69)
MCEV	6,145	1,325	863	585	2,413	134	825
Adjusted net worth	2,102	235	(108)	115	1,324	82	454
Free surplus*	199	73	(154)	59	112	45	64
Required capital	1,903	162	46	56	1,212	37	390
Value of in-force business	4,043	1,090	971	470	1,089	52	371
Present value of future profits	4,644	1,139	1,033	531	1,333	60	548
Additional time value of financial options and guarantees	(165)	–	–	(5)	(45)	(1)	(114)
Frictional costs	(186)	(14)	(8)	(9)	(129)	(2)	(24)
Cost of residual non-hedgeable risks	(250)	(35)	(54)	(47)	(70)	(5)	(39)

*Gross of minority interests.
**For the South African business, the value of the asset related to the deferred CGT liability recognised in the adjusted net worth was recalculated on a market consistent basis.

MCEV financials

NOTES TO THE OLD MUTUAL MARKET CONSISTENT EMBEDDED VALUE BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2008 continued

17 Restatement of value of new business (after tax) of covered business

The table below reconciles the value of new business and new business margins for the year ended 31 December 2007 from the previously published EEV basis to the MCEV basis. The same steps have been applied in the reconciliations as for the total in-force covered business as set out in note 15.

Value of new business	Total £m	UK £m	Nordic £m	ELAM £m	OMSA* £m	Rest of Africa £m	United States £m
31 December	2007	2007	2007	2007	2007	2007	2007
Previously published VNB under EEV basis	**266**	**76**	**19**	**38**	**53**	**8**	**72**
Release of cost of required capital in published EEV basis	32	2	2	3	11	–	14
Economic assumption changes	(9)	10	7	2	–	–	(28)
Allowance for frictional costs	(20)	–	(1)	(2)	(8)	–	(9)
Allowance for cost of residual non-hedgeable risks	(39)	(7)	(4)	(3)	(6)	(1)	(18)
Total impact	**(36)**	**5**	**4**	**1**	**(4)**	**(1)**	**(41)**
VNB on MCEV basis	**230**	**81**	**23**	**38**	**50**	**7**	**31**
Percentage impact %	**-13.6**	**6.6**	**21.1**	**2.7**	**-6.7**	**-10.4**	**-56.9**
EEV PVNBP	13,878	6,297	643	1,465	2,224	99	3,150
EEV APE	1,760	740	147	190	333	15	335
EEV PVNBP margin %	**1.9**	**1.2**	**2.9**	**2.5**	**2.4**	**7.9**	**2.3**
EEV APE margin %	**15**	**10**	**13**	**20**	**16**	**51**	**21**
MCEV PVNBP	14,046	6,311	690	1,494	2,268	98	3,185
MCEV APE	1,748	740	147	190	321	15	335
MCEV PVNBP margin %	**1.7**	**1.3**	**3.3**	**2.6**	**2.2**	**7.1**	**1.0**
MCEV APE margin %	**13**	**11**	**16**	**20**	**15**	**47**	**9**

*Note that OMSA healthcare administration business was included in the EEV basis, but is excluded on an MCEV basis.

The impact on VNB of the covered business written in 2007 due to moving from an EEV to MCEV basis is a decrease of 13.6 percent from £266 million to £230 million. Most of the reduction is attributable to the United States business where VNB decreased by 56.9 percent from £72 million to £31 million.

The EEV risk discount rate for each geography was calibrated for total in-force business and hence the EEV methodology did not make allowance for different levels of risk for different portfolios of asset and liability risks. The MCEV methodology makes a more granular allowance for the differences in the risk profile of different product lines and different generations of policies. The relative impacts on VNB of each of the steps outlined above therefore differ from the impacts on VIF as outlined in note 15 because the risk profiles of new business are different to the risk profiles of in-force business.

Also note that in calculating PVNBP, the projected premiums are discounted with risk free reference rates under MCEV rather the higher risk discount rate which is applicable in each geography under the previous EEV methodology. PVNBP under MCEV reporting is therefore greater than under EEV reporting with a corresponding decrease in PVNBP margins (assuming all other things including VNB being equal).

18 Restatement of Return on Embedded Value of covered business

Return on Embedded Value (RoEV) for covered business is calculated as the operating earnings after tax divided by opening Embedded Value in local currency. The table below provides summaries of the drivers in the change of RoEV for the year ended 2007 from the previously published EEV basis to the MCEV basis. For this purpose the impact on RoEV of the recalibration of risk margins under EEV has been treated as an assumption change.

No results are shown for the 'Rest of Africa' from a materiality perspective.

In-force covered business 31 December	UK % 2007	Nordic % 2007	ELAM % 2007	OMSA % 2007	United States % 2007
Previously published RoEV% on an EEV basis	**17.2**	**4.6**	**6.1**	**11.2**	**3.8**
MCEV RoEV%	**15.5**	**7.6**	**1.5**	**11.7**	**-4.1**
Difference	**-1.7**	**3.0**	**-4.6**	**0.5**	**0.3**
Drivers of change for the covered business:					
New business value	0.0	0.4	0.4	-0.2	-2.5
Expected existing business contribution	0.5	-0.9	-0.3	1.2	0.6
Experience variances	0.5	1.2	0.3	-0.6	-1.5
Assumption changes	-2.7	2.4	-5.2	0.3	-5.2
Other operating variances*	0.0	0.0	0.2	0.4	8.9

*Changes and improvement to models and methodology are reflected as other operating variances under MCEV rather than being included as part of assumption changes as treated under EEV.

The impact on VNB as a result of moving from an EEV to MCEV basis has been outlined in note 17. Other key drivers of the change in RoEV for each geography are discussed below.

UK and ELAM

As mentioned earlier in note 12, contrary to previous EEV treatment, the impact of changes in taxation under MCEV is excluded from operating earnings. Such reallocation of tax changes to non-operating variances is the major reason for the significantly reduced contribution of assumption changes.

Nordic

The contribution from assumptions changes is impacted positively by treating the negative impact of the recalibration of risk margins under EEV as an assumption change. In addition the impact from the introduction of annuitisation of the corporate business is higher under MCEV than under EEV since the MCEV effects are discounted at risk free reference rates rather than the higher risk discount rate under EEV.

South Africa

The major reasons for the change in RoEV from an EEV to MCEV basis is the significantly higher expected existing business contribution. As mentioned earlier in note 3, the expected existing business contribution under MCEV is now derived with reference to the one-year forward risk free reference rate at the start of the reporting period as opposed to the 10-year government bond yield curve. The downwards sloping swap yield curve in South Africa therefore leads to a higher expected existing business contribution under MCEV.

United States

The positive impact of model improvements and changes in methodology on an MCEV basis has been re-classified from assumption changes to other operating variances.

Going forward, rates of return on Embedded Value for the US should be higher than under EEV as the opening MCEV is starting from a much lower base value compared to EEV and, other things being equal, higher actual operating earnings will emerge than projected under MCEV at the valuation date as corporate bond credit spreads are realised and margins (such as the cost of residual non-hedgeable risks) are released.

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 2008 and 2007 were as follows:

	High **2008**	Low **2008**	High 2007	Low 2007
London Stock Exchange	**169.3p**	**39.0p**	187.5p	144.0p
JSE	**R20.15**	**R6.97**	R26.23	R20.94

At 31 December 2008, the geographical analysis and shareholder profile of the Company's share register were as follows:

Register	Total shares	% of whole	Number of holders
UK	3,070,938,252	55.67	12,646
South Africa	2,081,375,567	37.73	29,176[1]
Zimbabwe	103,308,097	1.87	32,328[1]
Namibia	15,762,500	0.29	579[1]
Malawi	5,322,056	0.10	4,826[1]
Treasury shares (UK)	239,434,888	4.34	1
Total	**5,516,141,360**	**100**	**79,558**

Source: Computershare Investor Services

Size of holding	Total shares	% of whole	Number of holders
1-1,000	23,335,254	0.42	66,206
1,001-10,000	31,629,297	0.57	11,232
10,001-100,000	40,516,061	0.74	1,346
100,001-250,000	35,628,331	0.65	222
250,001+	5,145,597,529	93.28	551
Treasury shares (UK)	239,434,888	4.34	1
Total	**5,516,141,360**	**100**	**79,558**

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 1,686,317,256 shares, including 367,627,820 shares held for the Company's sponsored nominee, Old Mutual (South Africa) Nominees (Pty) Limited, for the benefit of 360,643 underlying beneficial owners. The registered shareholdings on the Zimbabwe branch register included Old Mutual Zimbabwe Nominees (Pvt) Limited, which held a total of 779,100 shares as nominee for 3,507 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 5,024,986 shares as nominee for 7,233 underlying beneficial owners. The registered shareholdings on the Malawi branch register included Old Mutual (Blantyre) Nominees Limited, which held a total of 46,200 shares as nominee for 136 underlying beneficial owners.

Registrars

The Company's share register is administered by Computershare Investor Services in conjunction with local representatives in various jurisdictions. The following are the contact details:

UK

Computershare Investor Services PLC
The Pavilions,
Bridgwater Road
Bristol
BS99 6ZY
Tel: +44 (0)870 707 1212
email: web.queries@computershare.co.uk

South Africa

Computershare Investor Services (Pty) Ltd
70 Marshall Street, Johannesburg 2001
(PO Box 61051, Marshalltown 2107)
Tel: 0861 100 940 or +27 (0)11 870 8211

Malawi

Trust Finance Limited
Delamere House
Ground Floor
PO Box 1396
Blantyre
Malawi
Tel: +265 1 823 245
Fax: +265 1 824 494
email: trust@trust.co.mw

Namibia

Transfer Secretaries (Pty) Limited
Kaiserkrone Centre
Shop No. 12, Windhoek
(PO Box 2401, Windhoek)
Tel: +264 (0)61 227 647

Sweden

Euroclear Sweden AB
Box 7822
SE-103 97 Stockholm
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 percent, subject to a minimum charge of £15. In addition, stamp duty, currently 0.5 percent, 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 percent, 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.

Unclaimed demutualisation benefits
Policyholders of the South African Mutual Life Assurance Society (the Society) who qualified for free shares in the Company when the Society demutualised in May 1999, but who did not claim their shares by the closure date of the Unclaimed Shares Trusts (31 August 2006), should contact the Trust Administration and Confirmation Department on 0861 61 9061 (a South African number) or on +27 (0)21 509 8383 between 8.30 a.m. and 4.30 p.m. (South African time) on Mondays to Fridays, excluding public holidays. The Company has indicated that it will continue until 31 August 2009 to settle valid claims to demutualisation benefits on an ex-gratia basis by reference to the cash value at 31 August 2006 of the shares to which the policyholder would have been entitled.

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.

Financial calendar
The Company's financial calendar for the forthcoming year is as follows:

Annual General Meeting and first quarter business update	7 May 2009
Interim results	5 August 2009
Third quarter business update	5 November 2009
Final results for 2009	March 2010

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 2008, 107,500 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.

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.

Annual premium equivalent (APE)
An industry measure of the level of new life, pensions and long term investment business. It enables comparisons between companies with a different mix of single and regular 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.

Covered business
A concept defined in the Market Consistent Embedded Value (MCEV) principles and guidelines. It refers to long-term business which includes traditional life insurance, long-term healthcare and accident insurances, savings, pensions and annuities.

Deferred acquisition costs (DAC)
A method of accounting whereby the acquisition costs on long-term business (eg. sales commissions) are recognised over the life of the contracts rather than up-front at the time of sale. The costs are deferred on the balance sheet as an asset and amortised over the contract life.

Deferred annuity
An annuity due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by the policyholder by payment of a series of regular contributions or by a capital sum.

Demutualisation
The process by which a mutual organisation owned by its members, such as a building society or insurance company, converts to a public limited company owned by its shareholders. Old Mutual demutualised in 1999.

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 main regulatory body of the financial services industry in the UK, covering the savings, insurance and investment businesses.

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 & Casualty insurance
Non-life insurance mainly concerned with protecting the policyholder from loss or damage caused by specific risks. Examples include motor, contents and buildings insurance. Property insurance covers loss or damage through, for example, fire or theft. Casualty insurance covers losses arising from accidents that cause injury to other people or damage to their property.

In force
An insurance policy is said to be "in force" from its start date until the date it is terminated.

Independent financial adviser (IFA)
In the UK an IFA is a person or organisation authorised to give advice on financial matters and to sell the products of all financial services providers. IFAs are regulated by the Financial Services Authority.

Insurance
A contract taken out with an insurer to give financial protection against loss from a perceived risk. The person taking out the insurance is called the insured. Payments for the policy are called premiums.

Jaws ratio
The difference between the year-on-year rate of growth in income and the year-on-year rate of growth in costs. An increase in the ratio signifies increasing profitability.

Lapses/surrenders/withdrawals
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.

Long-term business
Collective term for life insurance, pensions, savings, investments and related business.

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)
MCEV is 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.

Orphan assets/unclaimed assets
Funds held by financial institutions that have been left untouched by their owners for a considerable period of time – eg. dormant bank accounts or forgotten life insurance policies.

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 generally ISAs, 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
The process of deciding which risks an insurance company will cover, the terms of acceptance and the premiums it will charge.

Unit-linked policy
A type of long-term savings plan where premiums are used to buy units in an investment fund, such as a unit trust, and the benefits will be linked to the value of the underlying units rather than being fixed or guaranteed at the start of the plan.

Value of in-force business (VIF)
Part of the embedded value of a life insurance company. It represents the discounted value of the profits expected to arise from the in-force business. VIF is calculated using a set of actuarial, economic and operational assumptions.

Value of new business (VNB)
The discounted value of the future profits expected to arise from all new business sold during a reporting period. VNB is calculated by using actuarial assumptions.

With-profit
A type of investment policy in which extra amounts (bonuses) may be added to the sum assured to reflect profits earned during the course of the contract. Regular bonuses are usually added each year and, once declared, are 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 share holdings, 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.

Forward-looking statements

This Report contains certain forward-looking statements with respect to Old Mutual plc's and its subsidiaries' plans and expectations relating to their financial condition, performance and results. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and general economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and regulations in territories where Old Mutual plc or its subsidiaries operate.

As a result, Old Mutual plc's or its subsidiaries' actual future financial condition, performance and results may differ materially from the plans and expectations set forth in such forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this Report or any other forward-looking statements that it may make.

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